

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2022**

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 1-9700**

**THE CHARLES SCHWAB CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**94-3025021**

(I.R.S. Employer Identification No.)

**3000 Schwab Way, Westlake, TX 76262**

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (817) 859-5000

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u>   | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|--|--------------------------|--|
| Common Stock – \$.01 par value per share   | SCHW                     | New York Stock Exchange                          |
| Depository Shares, each representing a 1/40th ownership interest in a share of 5.95% Non-Cumulative Preferred Stock, Series D  | SCHW PrD                 | New York Stock Exchange                          |
| Depository Shares, each representing a 1/40th ownership interest in a share of 4.450% Non-Cumulative Preferred Stock, Series J | SCHW PrJ                 | New York Stock Exchange                          |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒  
Non-accelerated filer ☐  
Emerging growth company ☐

Accelerated filer ☐  
Smaller reporting company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2022, the aggregate market value of the voting stock held by non-affiliates of the registrant was \$107.7 billion. For purposes of this information, the outstanding shares of Common Stock owned by directors and executive officers of the registrant were deemed to be shares of the voting stock held by affiliates.

As of January 31, 2023, 1,791,448,377 shares of \$.01 par value Common Stock and 50,893,695 shares of \$.01 par value Nonvoting Common Stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this Form 10-K incorporates certain information contained in the registrant's definitive proxy statement for its annual meeting of stockholders, to be held May 18, 2023, by reference to that document.

**THE CHARLES SCHWAB CORPORATION**

**Annual Report On Form 10-K  
For Fiscal Year Ended December 31, 2022**

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## PART I

### Item 1. Business

#### General Corporate Overview

The Charles Schwab Corporation (CSC) is a savings and loan holding company. CSC engages, through its subsidiaries (collectively referred to as Schwab or the Company), in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services. At December 31, 2022, Schwab had \$7.05 trillion in client assets, 33.8 million active brokerage accounts, 2.4 million corporate retirement plan participants, and 1.7 million banking accounts.

Principal business subsidiaries of CSC include the following:

- Charles Schwab & Co., Inc. (CS&Co), incorporated in 1971, a securities broker-dealer;
- TD Ameritrade, Inc., an introducing securities broker-dealer;
- TD Ameritrade Clearing, Inc. (TDAC), a securities broker-dealer that provides trade execution and clearing services to TD Ameritrade, Inc.;
- Charles Schwab Bank, SSB (CSB), our principal banking entity; and
- Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds<sup>®</sup>) and for Schwab's exchange-traded funds (Schwab ETFs<sup>™</sup>).

Unless otherwise indicated, the terms "Schwab," "the Company," "we," "us," or "our" mean CSC together with its consolidated subsidiaries.

Schwab provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage, investment advisory, and banking and trust services to individual investors, and retirement plan services, as well as other corporate brokerage services, to businesses and their employees. The Advisor Services segment provides custodial, trading, banking and trust, and support services, as well as retirement business services, to independent registered investment advisors (RIAs), independent retirement advisors, and recordkeepers. These services are further described in the segment discussion below.

Effective January 1, 2021, CSC changed the designation of its corporate headquarters from San Francisco, California to Westlake, Texas. The Company maintains a nationwide presence across a network of branches and operations centers, as well as several international locations, and our Westlake location provides a centrally located hub for the Company.

#### Business Strategy and Competitive Environment

Schwab was founded on the belief that all Americans deserve access to a better investing experience. Although much has changed in the intervening years, our purpose remains clear – to champion every client's goals with passion and integrity. Guided by this purpose and our vision of creating the most trusted leader in investment services, management has adopted a strategy described as "Through Clients' Eyes."

This strategy emphasizes placing clients' perspectives, needs, and desires at the forefront. Because investing plays a fundamental role in building financial security, we strive to deliver a better investing experience for our clients – individual investors and the people and institutions who serve them – by disrupting longstanding industry practices on their behalf and providing superior service. We also aim to offer a broad range of products and solutions to meet client needs with a focus on transparency, value, and trust. In addition, management works to couple Schwab's scale and resources with ongoing expense discipline to keep costs low and ensure that products and solutions are affordable as well as responsive to client needs. In combination, these are the key elements of our "no trade-offs" approach to serving investors. We believe that following this strategy is the best way to maximize our market valuation and stockholder returns over time.

Management estimates that investable wealth in the United States (U.S.) (consisting of assets in defined contribution, retail wealth management and brokerage, and registered investment advisor channels, along with bank deposits) currently exceeds \$60 trillion, which means the Company's \$7.05 trillion in client assets leaves substantial opportunity for growth. Our strategy is based on the principle that developing trusted relationships will translate into more assets from both new and existing clients, ultimately driving more revenue, and along with expense discipline and thoughtful capital management, will generate earnings growth and build long-term stockholder value.

## THE CHARLES SCHWAB CORPORATION

Within Investor Services, our competition in serving individual investors spans brokerage, wealth management, and asset management firms, as well as banks, trust companies, financial technology companies, and retirement service providers. In the Advisor Services arena, we compete with institutional custodians, wirehouses, regional and independent broker-dealers, banks, and trust companies.

Across both segments, our key competitive advantages are:

- **Scale and Size of the Business** – As one of the largest investment services firms in the U.S., we are able to spread operating costs and amortize new investments over a large base of clients, and harness the resources to evolve capabilities to meet client needs.
- **Operating Efficiency** – Coupled with scale, our operating efficiency and sharing of infrastructure across different businesses creates a cost advantage that enables us to competitively price products and services while profitably serving clients of various sizes across multiple channels.
- **Operating Structure** – Providing bank and asset management services to broker-dealer clients helps serve a wider array of needs, thereby deepening relationships, enhancing the stability of client assets, and enabling diversified revenue streams.
- **Brand and Corporate Reputation** – In an industry dependent on trust, Schwab's reputation and brand across multiple constituents enable us to attract clients and employees while credibly introducing new products to the market.
- **Service Culture** – Delivering a great client experience earns the trust and loyalty of clients and increases the likelihood that those clients will refer others.
- **Willingness to Disrupt** – Management's willingness to challenge the status quo, including our own business practices, to benefit clients fosters innovation and continuous improvement, which helps to attract more clients and assets.

### **Business and Asset Acquisitions**

#### ***Acquisition of TD Ameritrade***

Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade Holding Corporation (TDA Holding) and its consolidated subsidiaries (collectively referred to as "TD Ameritrade" or "TDA"). TD Ameritrade provides securities brokerage services, including trade execution, clearing services, and margin lending; and futures and foreign exchange trade execution services. TD Ameritrade serves individual retail investors and RIAs predominantly through the Internet, a national branch network, and relationships with RIAs. TD Ameritrade's sources of net revenues primarily consist of trading revenue, net interest revenue, bank deposit account fees, and asset management and administration fees.

- TDA's trading revenue includes commissions earned on trades of certain securities and derivatives, as well as order flow revenue.
- TDA's net interest revenue is primarily generated through margin lending, securities lending, and segregated and operating cash and investments. Interest-bearing liabilities primarily consist of payables to brokerage clients and short-term borrowings.
- Bank deposit account fees are earned primarily through an insured deposit account agreement with TD Bank USA, National Association and TD Bank, National Association (together, the TD Depository Institutions) described below.
- TDA's asset management and administration fees includes revenue earned on client assets invested in money market funds, other mutual funds, and certain investment programs. Asset management and administration fees also include referral and asset-based program fees on client assets managed by independent RIAs utilizing TDA's trading and investing platforms.

#### ***Integration Overview***

The acquisition of TD Ameritrade supports the Company's ongoing efforts to enhance the client experience, to provide deeper resources for individual investors and RIAs including more robust trading capabilities, and to continue to improve our operating efficiency. At the time the acquisition closed, TDA had approximately \$1.6 trillion in client assets and approximately 14.5 million brokerage accounts. We continue to combine the respective strengths of Schwab and TD Ameritrade and invest in enhanced client experience capabilities to further our financial success for the benefit of clients, employees, and stockholders.

Based on our current integration plans, the Company expects to complete most client transitions from TD Ameritrade to Schwab across multiple groups over the course of 2023, with the transition of a small client group in the first half of 2024. The first transition of client accounts was completed in February 2023. The Company has made significant progress in its efforts to reduce overlapping or redundant roles across the two firms and has largely completed the rationalization of CS&Co and TD Ameritrade,

## THE CHARLES SCHWAB CORPORATION

Inc. branch locations. Integration activities such as preparation for client transitions and selective role reductions are expected to continue through the remaining integration process. CS&Co, as well as TD Ameritrade, Inc. and TDAC, will continue to operate as separate broker-dealers to serve their respective clients while integration work continues.

The Company is generally adopting Schwab platforms and systems, though we're leveraging certain material advantages in TD Ameritrade's platforms, as exemplified by our retention of TD Ameritrade's thinkorswim<sup>®</sup> and thinkpipes<sup>®</sup> trading platforms, education, and tools into our offerings for retail and RIA clients. We are also retaining TD Ameritrade Institutional's customizable portfolio rebalancing solution, iRebal<sup>®</sup>, as part of our offering for independent advisor clients.

### *IDA Agreement*

Concurrently with the execution of the Agreement and Plan of Merger, dated as of November 24, 2019, as amended (the Merger Agreement), CSC entered into an amended and restated insured deposit account agreement with the TD Depository Institutions (the IDA agreement). In accordance with the IDA agreement, which became effective October 6, 2020, cash held in eligible brokerage client accounts is swept off-balance sheet to deposit accounts at the TD Depository Institutions. Schwab provides recordkeeping and support services to the TD Depository Institutions with respect to the deposit accounts for which Schwab receives an aggregate monthly fee. Under the IDA agreement, the service fee on client cash deposits held at the TD Depository Institutions was reduced, relative to TD Ameritrade's agreement prior to acquisition, by 40%, from 25 basis points to 15 basis points for the life of the agreement, which applies across all designated fixed and floating IDA balances.

See "Part II – Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements" (Item 8) – Note 3 for more information on the TD Ameritrade acquisition. See also "Part II – Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7) – Capital Management" and Item 8 – Note 15 for additional information on the IDA agreement.

### *Acquisition of Assets of USAA's Investment Management Company and Other Acquisitions*

On May 26, 2020, the Company completed its acquisition of the assets of USAA's Investment Management Company (USAA-IMCO). Along with the asset purchase agreement, the companies entered into a long-term referral agreement that makes Schwab the exclusive provider of wealth management and investment brokerage services for USAA members. The USAA-IMCO acquisition has added scale to the Company's operations through the addition of 1.1 million brokerage and managed portfolio accounts with approximately \$80 billion in client assets at the acquisition date. The transaction also provides Schwab the opportunity to further expand our client base by serving USAA's members through the long-term referral agreement. See Item 8 – Note 3 for more information on the USAA-IMCO acquisition.

During 2020, the Company completed its acquisition of technology and intellectual property of Motif, a financial technology company. The Motif assets are helping us build on our existing capabilities and helped accelerate our development of thematic and direct index investing for Schwab's retail investors and RIA clients. Also during 2020, the Company completed its acquisition of Wasmer, Schroeder & Company, LLC (Wasmer Schroeder), which added established strategies and new separately managed account offerings to our fixed income lineup.

### **Products and Services**

Schwab offers a broad range of products and services through intuitive end-to-end solutions, including robust digital capabilities, to address our clients' varying investment and financial needs. Examples of these offerings include the following:

- Brokerage – an array of full-feature brokerage accounts with equity and fixed income trading, margin lending, options trading, futures and forex trading, and cash management capabilities including certificates of deposit;
- Mutual funds – third-party mutual funds through the Mutual Fund Marketplace<sup>®</sup>, including no-transaction-fee (NTF) mutual funds through the Mutual Fund OneSource<sup>®</sup> service, which also includes proprietary mutual funds, plus mutual fund trading and clearing services to broker-dealers;
- Exchange-traded funds (ETFs) – an extensive offering of ETFs, including both proprietary and third-party ETFs;
- Advice solutions – managed portfolios of both proprietary and third-party mutual funds and ETFs, separately managed accounts, customized personal advice for tailored portfolios, specialized planning, and full-time portfolio management;
- Banking – checking and savings accounts, first lien residential real estate mortgage loans (First Mortgages), home equity lines of credit (HELOCs), and pledged asset lines (PALs); and
- Trust – trust custody services, personal trust reporting services, and administrative trustee services.

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These investing products and services are made available through two business segments – Investor Services and Advisor Services. Schwab’s major sources of revenues are generated by both of the reportable segments, based on their respective levels of client assets and activity. Revenue is attributable to a reportable segment based on which segment has the primary responsibility for serving the client. The accounting policies of the reportable segments are the same as those described in Item 8 – Note 2.

### *Investor Services*

Charles Schwab initially founded the Company nearly 50 years ago to provide individual investors with access to the financial markets at a highly competitive cost. The Company has expanded offerings over time in response to client needs, aiming to provide a compelling and often disruptive solution in the marketplace. The Investor Services segment includes the following business units: Retail Investor; Workplace Financial Services, which includes Stock Plan Services, Retirement Plan Services, and Designated Brokerage Services (formerly included in the Compliance Solutions business unit, a portion of which was sold to a third-party in 2022); Mutual Fund Clearing Services; and Off-Platform Sales.

Through the Retail Investor business unit, we offer individual investors access to a broad set of products, tools, education, trading, and advisory solutions. We provide advice and guidance through various relationship models. And we offer award-winning and 24/7 service to all our clients, regardless of asset levels, via a multi-channel service delivery model, which includes online, mobile, telephone, and branch support.

We believe in the power of investing and the importance of planning in helping clients achieve their financial goals. At the core of our offer is our broad set of relationship models that help personalize the investing journey for our clients and offer them the choice of where, when, and how they do business with us. Financial Consultants, Active Trader Financial Consultants, and Wealth Consultants in Schwab’s branches and regional centers focus on building client relationships. We also have a range of roles to support clients with a broad set of specialized needs, including financial planning, managed investing, estate management, equity compensation and lending. Additionally, we have teams focused on supporting the advice and education needs of all our clients irrespective of asset levels at Schwab.

Our advisory solutions span a broad range of discretionary and non-discretionary choices, with minimum investments starting as low as \$5,000, making it accessible to a broad set of investors. Our premier advisory solution, Schwab Wealth Advisory™ (formerly known as Schwab Private Client™), features a personal advice relationship with a dedicated Wealth Advisor, supported by a team of investment professionals who provide individualized service, a customized investment strategy developed in collaboration with the client, and ongoing guidance and execution. We also offer referrals to an independent RIA in the Schwab Advisor Network®. These RIAs provide personalized portfolio management, financial planning, and wealth management solutions. For clients seeking a relationship in which investment decisions are fully delegated to a financial professional, Schwab offers several alternatives. We provide investors access to professional investment management in a diversified account that is invested exclusively in either mutual funds or ETFs through the Schwab Managed Portfolios™ and the Windhaven Investment Management Strategies®, or equity securities and ETFs through the ThomasPartners Investment Management® Strategies. Through our acquisition of Wasmer Schroeder in 2020, more than 20 fixed income strategies and separately managed account offerings have been made available to retail clients beginning in 2021, including two positive impact strategies and a multi-sector income strategy. The positive impact strategies utilize socially responsible investing, or a general investing strategy that considers not only traditional measures of risk and return, but environmental, social, and corporate governance (ESG) factors as well. We also refer investors who want to utilize a specific third-party money manager to direct a portion of their investment assets to the Schwab Managed Account™ program. Schwab Intelligent Portfolios®, available since 2015, is for clients who are looking to have their assets professionally managed via a fully automated online investment advisory service. Schwab Intelligent Portfolios Premium®, a hybrid advisory service, offers clients an advisory service which combines unlimited guidance provided by a CERTIFIED FINANCIAL PLANNER™ and our robo-advice technology to make financial and investment planning more accessible to investors. Schwab Intelligent Income® is a low-cost solution designed to offer a simple, modern way to generate income from existing investment portfolios.

Further, given our belief in the importance of financial planning, we offer a broad set of planning capabilities addressing a variety of planning needs. Our solutions include simple, free digital retirement calculators, our complimentary digital Schwab Plan™ available to all Schwab clients, as well as more complex planning solutions that are delivered by a Schwab representative who takes into account a client’s personal and financial goals to build a tailored financial plan.

To meet the specific needs of trading clients, Schwab offers integrated web-, mobile-, and software-based trading platforms, real-time market data, options trading, premium research, and multi-channel access, as well as sophisticated account and trade management features, risk management tools, and dedicated service support. For example, clients that trade more actively can

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use these channels to access highly competitive pricing, expert tools, and extensive service capabilities – including experienced, knowledgeable teams of trading specialists, and integrated product offerings. TD Ameritrade offers clients the robust thinkorswim® suite of trading platforms designed for the specialized needs of trading clients, content to help clients build knowledge through multiple education options, financial news programming and market insights, in-platform chat functionality that allows trading clients to share ideas, and a full complement of trading products that includes futures and forex.

For U.S. clients wishing to invest in foreign equities, Schwab offers a suite of global investing capabilities, including online access to certain foreign equity markets with the ability to trade in their local currencies. In addition, Schwab serves both foreign investors and non-English-speaking U.S. clients who wish to trade or invest in U.S. dollar-based securities.

We also offer clients a range of self-service education and support tools, providing quick and efficient access to a broad lineup of information, research, tools, and administrative services, which clients can access according to their needs. Educational tools include online and in-person workshops, live and on-demand webcasts, podcasts, interactive courses, and online information about investing. In 2022, we re-launched in-person events to engage with retail and institutional clients after maintaining virtual events during the unprecedented environment seen in 2020 and 2021. Additionally, we provide various online research and analysis tools that are designed to help clients achieve better investment outcomes. As an example of analysis tools available to clients, Schwab Equity Ratings® is a quantitative model-based stock rating system that provides all clients with ratings on approximately 3,000 stocks, assigning each equity a single grade: A, B, C, D, or F. Schwab Equity Ratings International®, an international ranking methodology, covers stocks of approximately 4,000 foreign companies. Another example of expanding access to investing includes Schwab Stock Slices™, a service which enables investors to purchase a single stock slice, or up to 30 different stock slices at once, from the S&P 500®, commission-free through our online channels.

We also offer equity compensation plan sponsors full-service recordkeeping for stock plans, stock options, restricted stock, performance shares, stock appreciation rights, and a full range of participant support services through our Stock Plan Services business unit. Specialized services for executive transactions and reporting, grant acceptance tracking, and other services are offered to employers to meet the needs of administering the reporting and compliance aspects of an equity compensation plan.

Retirement Plan Services offers a bundled 401(k) retirement plan product that provides retirement plan sponsors with extensive investment options, trustee or custodial services, and participant-level recordkeeping. Retirement plan design features, which increase plan efficiency and achieve employer goals, are also offered, such as automatic enrollment, automatic fund mapping at conversion, and automatic contribution increases. In addition to an open architecture investment platform, we offer access to low cost index mutual funds and ETFs. Individuals investing for retirement through 401(k) plans can take advantage of bundled offerings of multiple investment choices, education, and third-party advice. This third-party advice service is delivered online, by phone, or in person, including recommendations based on the core investment fund choices in their retirement plan and specific recommended savings rates. Services also include support for Roth 401(k) accounts, profit sharing, defined benefit plans, non-qualified plans, and Schwab Personal Choice Retirement Account®, a self-directed brokerage offering for retirement plans administered by Retirement Business Services within our Advisor Services segment.

Lastly, Mutual Fund Clearing Services provides open-end mutual fund trading, settlement, and related transactional services to banks, brokerage firms, and trust companies, and Off-Platform Sales offers proprietary mutual funds, ETFs, and collective trust funds (CTFs) outside the Company and not on the Schwab platform. They are included within the Investor Services segment given their leveraging of the products and services offered to individual investors.

### ***Advisor Services***

More than thirty years ago, Schwab supported a small group of entrepreneurial advisors who challenged the industry by creating independent firms. Through the Advisor Services segment, Schwab has become one of the largest providers of custodial, trading, banking, and support services to RIAs and their clients. We also provide retirement business services to independent retirement advisors and recordkeepers. Management believes that we can maintain our market position primarily through the efforts of our sales, support, technology, and business consulting service teams, which are dedicated to helping RIAs grow, compete, and succeed in serving their clients. In addition to focusing on superior service, we utilize technology to provide RIAs with a highly-developed, scalable platform for administering their clients' assets easily and efficiently. Advisor Services sponsors and hosts a variety of national, regional, local, and virtual events designed to help RIAs of all sizes and complexities identify and implement better ways to expand and efficiently manage their practices.

RIAs who custody client accounts at Schwab may use proprietary software that provides them with up-to-date client account information as well as trading capabilities. The Advisor Services website is the core platform for RIAs to conduct daily business activities online with Schwab, including viewing and managing client account information and accessing news and market

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information. The website provides account servicing capabilities for RIAs, including account opening, money movement, transfer of assets, trading, checking status, and communicating with our service team. The site provides multi-year archiving of statements, trade confirms, and tax reports, along with document search capabilities. We also provide access to integrations with third-party platforms, which support a variety of advisor needs including client relationship management, portfolio management systems, trade order management, and financial planning. As an example, we offer Schwab Advisor Portfolio Connect<sup>®</sup>, a simplified portfolio management solution that is available free of charge to advisors to manage Schwab accounts. It delivers core capabilities and features through an intuitive modern experience, without the need to download and reconcile data.

The Advisor Services website also provides interactive tools, educational content, and thought leadership for advisors turning independent. We offer a variety of services to help RIAs grow and manage their practices, including business, technology, and operations consulting on a range of topics critical to an RIA's success, as well as an annual RIA benchmarking study to help firms understand key business metrics relative to peers. We also offer an array of services to help advisors establish their own independent practices through a robust prospect consulting offer. To support them throughout their transition, we offer access to business start-up and transition consultants, technology engineers, and dedicated service teams.

Schwab provides extensive educational materials, programs, and events to RIAs seeking to expand their knowledge of industry issues and trends, as well as sharpen their individual expertise and practice management skills. We conduct industry research on an ongoing basis, and hold a series of events and conferences every year to discuss topics of interest to RIAs, including business strategies and best practices. Schwab sponsors and hosts the annual IMPACT<sup>®</sup> conference, which provides a national forum for the Company, RIAs, and other industry participants to gather and share information and insights, as well as a multitude of smaller events across the country each year.

RIAs and their clients have access to our broad range of products and services, including individual securities, mutual funds, ETFs, fixed income products, managed accounts, cash products, bank lending, and trust services. By functioning as the custodian, Schwab earns revenue associated with the underlying client assets, predominantly through net interest revenue and asset management and administration fees. In this capacity, we do not charge the RIA or end client a custody fee.

For RIAs on the TD Ameritrade Institutional platform, TD Ameritrade's thinkpipes<sup>®</sup> trading platform offers a multitude of features, including real-time charting and efficient trading and allocation. The Company is working to integrate thinkpipes into its ongoing offerings as well as TD Ameritrade Institutional's customizable portfolio rebalancing solution, iRebal<sup>®</sup>, as part of our offering for RIA clients.

The Advisor Services segment also includes the Retirement Business Services business unit. Retirement Business Services provides trust, custody, and retirement business services to independent retirement plan advisors and independent recordkeepers. Retirement plan assets are held at Charles Schwab Trust Bank (Trust Bank) or trustee by a separate, independent trustee. The Company and independent retirement plan providers work together to serve plan sponsors, combining the consulting and administrative expertise of the administrator with our investment, technology, trust, and custodial services. Retirement Business Services also offers the Schwab Personal Choice Retirement Account<sup>®</sup>, a self-directed brokerage offering for retirement plans.

### Sources of Net Revenues

Schwab's largest sources of net revenues are net interest revenue, asset management and administration fees, trading revenue, and bank deposit account fees. These revenue streams are supported by the combination of our bank, broker-dealer, and asset management operating subsidiaries, each of which brings specific capabilities that enable us to provide clients with the products and services they are seeking.

Net interest revenue is the difference between interest generated on interest-earning assets and interest paid on funding sources. Schwab's primary funding source for interest-earning assets is uninvested client cash balances held on our balance sheet as part of clients' overall relationship with the Company. Schwab's interest-earning assets are primarily comprised of high-quality fixed income securities, margin loans, and bank loans.

Asset management and administration fees are primarily earned from proprietary money market mutual funds, proprietary and third-party mutual funds and ETFs, and fee-based advisory solutions.

Trading revenue includes commissions earned for executing trades for clients in certain individual equities, options, futures, fixed income securities, and certain third-party mutual funds and ETFs; order flow revenue; and principal transaction revenue earned primarily from actions to support client trading in fixed income securities.



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Bank deposit account fees are primarily recognized pursuant to the Company's IDA agreement with the TD Depository Institutions. Under this agreement, uninvested cash within eligible brokerage client accounts is swept off-balance sheet to deposit accounts at the TD Depository Institutions. Schwab provides recordkeeping and support services to the TD Depository Institutions for bank deposit account fees.

### **Regulation**

As a participant in the securities, banking and financial services industries, Schwab is subject to extensive regulation under both federal and state laws by governmental agencies, supervisory authorities, and self-regulatory organizations (SROs). We are also subject to oversight by regulatory bodies in other countries in which we operate. These regulations affect our business operations and impose capital, client protection, and market conduct requirements.

#### Holding Company and Bank Regulation

CSC is a savings and loan holding company and is regulated, supervised, and examined by the Board of Governors of the Federal Reserve System (Federal Reserve). On March 16, 2021, CSC's declaration electing to be treated as a Financial Holding Company (FHC) was deemed effective by the Federal Reserve. In addition to the activities that a savings and loan holding company that has not elected to be treated as an FHC is permitted to conduct, the Company may now also engage in activities that are financial in nature or incidental to a financial activity (FHC Activities), including underwriting, dealing and making markets in securities, various insurance underwriting activities, and making merchant banking investments in non-financial companies.

The Federal Reserve has the authority to limit an FHC's ability to conduct otherwise permissible FHC Activities if the FHC or any of its depository institution subsidiaries ceases to meet the applicable eligibility requirements, including requirements that the FHC and each of its depository institution subsidiaries maintain their status as "well-capitalized" and "well-managed." If the Federal Reserve finds that an FHC fails to meet these requirements, the FHC and its subsidiaries may not commence any new FHC Activity, either de novo or through an acquisition, without prior Federal Reserve approval. The Federal Reserve may also impose any additional limitations or conditions on the conduct or activities of the FHC or any of its subsidiaries as it deems appropriate. If the FHC still fails to satisfy the applicable eligibility requirements 180 days after the Federal Reserve's finding, the agency may require divestiture of all of the FHC's depository institution subsidiaries or, alternatively, the FHC may elect to cease all of its FHC Activities. In addition, if any depository institution controlled by an FHC fails to maintain at least a "Satisfactory" rating under the Community Reinvestment Act of 1977 (CRA), the FHC and its subsidiaries are prohibited from engaging in additional FHC Activities. As a result of our election to be treated as an FHC and the election of our depository institution subsidiaries to be deemed savings associations under the Home Owners' Loan Act (HOLA), a statutory prohibition limits those subsidiaries from making loans or other extensions of credit to any affiliate unless that affiliate engages, directly or indirectly, only in activities permissible under section 4(c) of the Bank Holding Company Act (BHC Act).

CSC's three depository institution subsidiaries are CSB, CSC's principal depository institution subsidiary, Charles Schwab Premier Bank, SSB (CSPB), and Trust Bank. On March 20, 2020, CSB and CSPB converted from federal savings associations headquartered in Henderson, Nevada to Texas-chartered savings banks headquartered in Westlake, Texas. Trust Bank is a Nevada-chartered savings bank. Effective September 30, 2022, Trust Bank relocated its main office to Westlake, Texas and became a member of the Federal Reserve system. CSB and CSPB are currently regulated, supervised, and examined by the Federal Reserve, the Texas Department of Savings and Mortgage Lending (TDSML), the Consumer Financial Protection Bureau (CFPB), and the Federal Deposit Insurance Corporation (FDIC). Trust Bank is currently regulated, supervised, and examined by the Federal Reserve, the Nevada Financial Institutions Division, the CFPB, and the FDIC. CSC, CSB, CSPB, and Trust Bank are also subject to regulation and various requirements and restrictions under state and other federal laws.

This regulatory framework is designed to protect depositors and consumers, the safety and soundness of depository institutions and their holding companies, and the stability of the banking system as a whole. This framework affects the activities and investments of CSC and its subsidiaries and gives the regulatory authorities broad discretion in connection with their supervisory, examination and enforcement activities and policies. Below is a discussion of significant regulations.

#### *Regulatory Capital and Liquidity Framework*

Banking organizations are subject to the regulatory capital rules issued by the Federal Reserve and other U.S. banking regulators, including the Office of the Comptroller of the Currency (OCC) and the FDIC. In addition to minimum risk-based capital requirements, banking organizations must hold additional capital, referred to as buffers, to avoid being subject to limits on capital distributions and discretionary bonus payments to executive officers.

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The banking regulators have established four risk-based categories for determining the regulatory capital and liquidity requirements applicable to large U.S. banking organizations with \$100 billion or more in total consolidated assets based on their total assets, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure. CSC is generally subject to the requirements under Category III based on its total consolidated assets of between \$250 billion and less than \$700 billion and having less than \$75 billion in cross-jurisdictional activity. If the average of our total consolidated assets for the four most recent calendar quarters is \$700 billion or more, or the average of our cross-jurisdictional activity for the four most recent calendar quarters is \$75 billion or more, we will move into Category II. As of December 31, 2022, CSC had total consolidated assets of approximately \$552 billion and cross-jurisdictional activity of approximately \$29 billion.

Capital requirements for Category III banking organizations include the generally applicable risk-based capital and Tier 1 leverage ratio requirements (the “standardized approach” framework), the minimum 3.0% supplementary leverage ratio, the countercyclical capital buffer, which is currently 0%, and the stress capital buffer. As discussed below, starting in 2022, CSC, as a large savings and loan holding company became subject to the stress capital buffer requirement, which applies to risk-based capital ratios (CET1, Tier 1 Capital, and Total Capital). Under the revised capital requirements, Category III organizations are not subject to the “advanced approaches” regulatory capital framework and are permitted to opt out of including accumulated other comprehensive income (AOCI) in their regulatory capital calculations. CSC made this opt out election, and commencing with the first quarter of 2020, excludes AOCI from its regulatory capital. Category II organizations are not permitted to opt out of including AOCI in their regulatory capital calculations and have additional requirements for calculating risk-based capital ratios and risk-weighted assets.

As revised by the interagency regulatory capital and liquidity rules, Category III banking organizations with less than \$75 billion in average weighted short-term wholesale funding and their depository institution subsidiaries with \$10 billion or more in total consolidated assets are subject to a reduced liquidity coverage ratio (LCR) rule requiring them to hold high quality liquid assets (HQLA) in an amount equal to at least 85% of their projected net cash outflows over a prospective 30-calendar-day period of acute liquidity stress, calculated on each business day. If an institution’s average weighted short-term wholesale funding over the four most recent quarters is \$75 billion or more, it will be required to comply with the full LCR rule and hold HQLA in an amount equal to 100% of its projected 30-day net cash outflows and will also be subject to daily (instead of monthly) liquidity reporting. We exceeded the \$75 billion threshold as of the quarter ended March 31, 2021, and became subject to daily liquidity reporting on July 1, 2021, and the full LCR rule on October 1, 2021.

In October 2020, the Federal Reserve, OCC, and FDIC jointly adopted a final net stable funding ratio (NSFR) rule to strengthen the resilience of large bank and savings and loan holding companies by requiring them to maintain a minimum level of stable funding based on the liquidity characteristics of the holding company’s assets, commitments, and derivative exposures over a one-year time horizon. The requirement is expressed as a ratio of a banking entity’s available stable funding (ASF) to its required stable funding (RSF). Category III banking organizations with less than \$75 billion in average weighted short-term wholesale funding and their depository institution subsidiaries with \$10 billion or more in total consolidated assets are required to maintain ASF in an amount at least equal to 85% of its RSF on an ongoing, daily basis. The final NSFR rule became effective on July 1, 2021, and banking entities subject to the rule will be required to publicly disclose their quarterly NSFRs on a semi-annual basis beginning with the first and second quarters of 2023. As a result of our average weighted short-term wholesale funding exceeding the \$75 billion threshold, we became subject to daily reporting of the NSFR to the Federal Reserve on July 1, 2021, and became subject to the full (100%) NSFR on October 1, 2021.

Certain banking organizations with trading assets and trading liabilities above certain thresholds or greater than a certain percent of total assets are subject to the Market Risk Rule and must adjust their risk-based capital ratios to reflect a measure of market risk of their trading activities, perform calculations to measure market risk, including back-testing, and make regular quantitative and qualitative public disclosures. CSC recently became subject to the rule and the related Market Risk Rule required disclosures. CSC began incorporating market risk capital for the period ending December 31, 2022. While CSC is now required to make adjustments to its risk-weighted assets related to de minimis positions, those adjustments are not expected to significantly impact our risk-based capital ratios nor have a current impact on CSC’s activities.

### *Capital Stress Testing*

In its final enhanced prudential standards rules, the Federal Reserve revised the capital stress testing regime applicable to savings and loan holding companies and state member banks. Under the Federal Reserve capital stress testing rules, savings and loan holding companies that are Category III banking organizations and state member banks with total consolidated assets over \$250 billion are required to disclose the results of company-run stress tests in even-numbered years. In 2022, CSC and CSB

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conducted company-run stress tests, reported the results of their stress testing to the Federal Reserve, and published a summary of their stress test results.

The Federal Reserve also made Category III savings and loan holding companies subject to an annual supervisory stress testing requirement in which the Federal Reserve conducts its own stress testing analysis to evaluate the ability of a holding company to absorb losses in specified economic and financial conditions over a nine-quarter planning horizon using such analytical techniques as the agency determines are appropriate. This supervisory stress testing requirement went into effect for CSC beginning with the 2022 stress testing cycle.

In January 2021, the Federal Reserve adopted a new rule making savings and loan holding companies with total consolidated assets of \$100 billion or more, including CSC, subject to an annual Comprehensive Capital Analysis and Review (CCAR) process, which requires submission of an annual capital plan to the Federal Reserve. The rule also imposes a stress capital buffer requirement, floored at 2.5 percent of risk-weighted assets, that replaced CSC's 2.5 percent capital conservation buffer. The capital plan requirement became effective for CSC with the 2022 CCAR cycle, and CSC's initial stress capital buffer requirement was based on its 2022 CCAR stress testing results as described below.

### *Results of the Federal Reserve's 2022 Comprehensive Capital Analysis and Review*

In June 2022, the Company received the results of the Federal Reserve's 2022 Comprehensive Capital Analysis and Review. These results included the Federal Reserve's estimate of CSC's minimum capital ratios under the supervisory severely adverse scenario for the nine-quarter horizon beginning December 31, 2021 and ending March 31, 2024. Based on these results, CSC's calculated stress capital buffer was below the 2.5% minimum, resulting in a stress capital buffer at the 2.5% floor. This 2.5% stress capital buffer became applicable on October 1, 2022. See Item 1 – Note 23 for additional information regarding our capital requirements.

### *Additional Enhanced Prudential Standards*

In addition to the revisions to the capital stress testing regime discussed above, the Federal Reserve's enhanced prudential standards rules also extended the applicability of certain additional enhanced prudential standards to large savings and loan holding companies, with the specific requirements tailored based on the same four-category framework utilized in the interagency regulatory capital and liquidity rules. These additional enhanced prudential standards, which have been applicable to large U.S. bank holding companies under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), include: risk management and risk committee requirements; liquidity risk management, stress testing, and buffer requirements; and single counterparty credit limits. CSC was required to comply with the new risk management and risk committee requirements, as well as the new liquidity risk-management, stress testing, and buffer requirements commencing on January 1, 2021. The single counterparty credit limits went into effect for CSC on January 1, 2022.

### *Source of Strength*

The Dodd-Frank Act codified the Federal Reserve's long-held position that a depository institution holding company must serve as a source of financial strength for its subsidiary depository institutions, the so-called "source of strength doctrine." In effect, the holding company may be compelled to commit resources to support the subsidiary depository institution in the event the subsidiary is in financial distress.

### *Insured Depository Institution Resolution Plans*

The FDIC requires insured depository institutions with total consolidated assets of \$50 billion or more to submit to the FDIC periodic plans providing for their resolution by the FDIC in the event of failure (resolution plans or so-called "living wills") under the receivership and liquidation provisions of the Federal Deposit Insurance Act. Under this requirement, CSB has been required to file with the FDIC a periodic resolution plan demonstrating how the bank could be resolved in an orderly and timely manner in the event of receivership such that the FDIC would be able to: ensure that the bank's depositors receive access to their deposits within one business day; maximize the net present value of the bank's assets when disposed of; and minimize losses incurred by the bank's creditors. In April 2019, the FDIC imposed a moratorium on resolution plan submissions. In January 2021, the FDIC announced that it would resume requiring resolution plan submissions for insured depository institutions with total consolidated assets of \$100 billion or more and in June 2021, the FDIC announced a modified resolution plan approach for these insured depository institutions which extends the submission frequency to a three-year cycle, streamlines content requirements, and places enhanced emphasis on engagement with firms. CSB submitted a resolution plan in November 2022.

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As a savings and loan holding company, CSC is not subject to any separate holding company resolution plan requirement.

### *Deposit Insurance Assessments*

The FDIC's Deposit Insurance Fund (DIF) provides insurance coverage for certain deposits, generally up to \$250,000 per depositor per account ownership type, and is funded by quarterly assessments on insured depository institutions. The FDIC uses a risk-based deposit premium assessment system that, for large insured depository institutions with at least \$10 billion in total consolidated assets, uses a scorecard method based on a number of factors, including the institution's regulatory ratings, asset quality and brokered deposits. The deposit insurance assessment base is calculated as average consolidated total assets minus average tangible equity.

### *FDIC Assessment Rate Increase*

In October 2022, the FDIC adopted a final rule to increase the initial base deposit insurance assessment rates by two basis points, beginning with the first quarterly assessment period of 2023. The FDIC has stated that this change is intended to raise the FDIC's DIF reserve ratio to the minimum threshold within the FDIC's established DIF restoration plan, and will remain in effect until the DIF reserve ratio meets the FDIC's long-term goal of 2%. A two basis point increase in the initial base deposit insurance assessment rate may result in an increase, dependent on average asset levels, in regulatory fees and assessments, as well as a corresponding decrease in bank deposit account fee revenue based on IDA balances.

### *Brokered Deposits*

In December 2020, the FDIC adopted amendments to its brokered deposits rule to establish a new framework for determining whether deposits made through arrangements between third parties and depository institutions constitute brokered deposits and more specifically to clarify the circumstances under which broker-dealers that place deposits with depository institutions through brokerage sweep arrangements such as CS&Co and TDAC qualify for the "primary purpose exception" from the definition of a deposit broker. Under the new framework, the FDIC established a new "25 percent" business relationship designated exception where a broker-dealer or other third-party may qualify for the primary purpose exception by filing a notice with the FDIC indicating that less than 25 percent of its customer assets under administration for a particular business line are placed at depository institutions. The FDIC's brokered deposit rule amendments became effective on April 1, 2021. Under the new framework, funds swept by our broker-dealer subsidiaries to CSB and Schwab's other depository institution subsidiaries continue to qualify for the primary purpose exception.

### *Community Reinvestment Act*

The CRA requires the primary federal bank regulatory agency for each of Schwab's depository institution subsidiaries to assess the subsidiary's record in meeting the credit needs of the communities served by the bank, including low- and moderate-income neighborhoods and persons. Institutions are assigned one of four ratings ("outstanding," "satisfactory," "needs to improve," or "substantial noncompliance"). The failure of an institution to receive at least a "satisfactory" rating could inhibit the institution or its holding company from undertaking certain activities, including acquisitions or opening branch offices.

### *Consumer Financial Protection*

The CFPB has broad rulemaking, supervisory and enforcement authority for a wide range of federal consumer protection laws relating to financial products. The CFPB has examination and primary enforcement authority over depository institutions with \$10 billion or more in consolidated total assets.

### *Volcker Rule*

CSC and its subsidiaries are subject to the Volcker Rule, which generally prohibits proprietary trading or acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with hedge funds and private equity funds, subject to certain exemptions, in each case as the applicable terms are defined in the Volcker Rule and the implementing regulations.

### Broker-Dealer, Futures Commission Merchant (FCM), Forex Dealer Member (FDM), and Investment Advisor Regulation

Our principal broker-dealer subsidiaries, CS&Co, TD Ameritrade, Inc., and TDAC, are each registered as a broker-dealer with the U.S. Securities and Exchange Commission (SEC or Commission), the fifty states, the District of Columbia, the U.S. Virgin

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Islands, and the Commonwealth of Puerto Rico. CS&Co, CSIM, and certain of our other subsidiaries are registered as investment advisors with the SEC. Charles Schwab Futures and Forex LLC (CSFF, formerly known as TD Ameritrade Futures & Forex, LLC) is registered as an FCM and FDM with the Commodity Futures Trading Commission (CFTC).

Much of the regulation of broker-dealers has been delegated to SROs. Our principal broker-dealers are each members of the Financial Industry Regulatory Authority, Inc. (FINRA) and the Municipal Securities Rulemaking Board (MSRB). In addition, CS&Co is a member of Nasdaq Stock Market, Cboe EDGX and MEMX, and TDAC is a member of NYSE Arca, Nasdaq Stock Market, Cboe EDGX and MEMX. In addition to the SEC, the primary regulators of our principal broker-dealers are FINRA and, for municipal securities, the MSRB. The National Futures Association (NFA) is the primary regulator for CSFF's futures, commodities, and forex trading activities.

The principal purpose of regulating these entities is the protection of clients and securities markets. The regulations cover all aspects of the securities business, including, among other things, sales and trading practices, publication of research, margin lending, uses and safekeeping of clients' funds and securities, capital adequacy, recordkeeping and reporting, fee arrangements, disclosure to clients, fiduciary duties, and the conduct of directors, officers, and employees.

Our principal broker-dealer entities are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the Uniform Net Capital Rule) and related SRO requirements. The CFTC and NFA also impose net capital requirements. The Uniform Net Capital Rule specifies minimum capital requirements intended to ensure the general financial soundness and liquidity of broker-dealers. CSC itself is not a registered broker-dealer and it is not subject to the Uniform Net Capital Rule.

The Uniform Net Capital Rule prohibits broker-dealers from paying cash dividends, making unsecured advances or loans or repaying subordinated loans if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement.

In addition to net capital requirements, as a self-clearing broker-dealer, CS&Co, and as a clearing broker-dealer, TDAC, are subject to cash deposit and collateral requirements with clearing houses, such as the Depository Trust & Clearing Corporation and Options Clearing Corporation, which may fluctuate significantly from time to time based upon the nature and size of clients' trading activity and market volatility.

As a result of our operations in countries outside the U.S., we are also subject to rules and regulations issued by certain foreign authorities, including the Financial Conduct Authority (FCA) in the United Kingdom, the Securities and Futures Commission (SFC) in Hong Kong, and the Monetary Authority of Singapore (MAS) in Singapore.

### Financial Services Regulation

#### *Bank Secrecy Act of 1970 and USA PATRIOT Act of 2001*

CSC and its subsidiaries that conduct financial services activities are subject to the Bank Secrecy Act of 1970 (BSA), as amended by the USA PATRIOT Act of 2001, which requires financial institutions to develop and implement programs reasonably designed to achieve compliance with these regulations. The BSA and USA PATRIOT Act include a variety of monitoring, recordkeeping and reporting requirements (such as currency transaction reporting and suspicious activity reporting), as well as identity verification and client due diligence requirements which are intended to detect, report and/or prevent money laundering and the financing of terrorism. In addition, CSC and various subsidiaries of the Company are subject to U.S. sanctions programs administered by the Office of Foreign Assets Control.

### **Human Capital**

We believe that hiring people who share our corporate purpose of helping clients achieve their financial goals is an essential element of executing our "Through Clients' Eyes" strategy, and we seek to attract, retain, and motivate the talent Schwab needs to successfully serve our clients and grow our business. As of December 31, 2022, Schwab had full-time, part-time, and temporary employees, and persons employed on a contract basis, that represented the equivalent of approximately 35,300 full-time employees.

Schwab offers a compensation package that rewards both employee and company performance. The package encompasses an array of compensation components in addition to base pay including performance-based incentive pay, equity awards, recognition awards, and a range of health and wellness benefits. We also offer benefits and resources designed to help our employees achieve their financial goals, including a 401(k) plan, an employee stock purchase plan, financial planning

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consultations, and disability and life insurance options. In addition, Schwab offers programs to help with employee career growth including mentorship, development, and leadership programs as well as reimbursement for qualified business-related education and training. We also encourage and empower employees to volunteer in the communities where we live and work, offering paid time off for every employee to volunteer in his or her community.

With COVID-19 restrictions now eased, Schwab completed its return-to-office plan which entails various in-office and remote work options. The Company's flexible work arrangements are designed to balance the importance our employees place on workplace flexibility with the benefits of in-person interactions to train and learn from one another, build human connections, and maintain Schwab's culture as we serve our clients.

We know that through workplace diversity, we gain a wider range of perspectives and experiences, which supports our strategy and helps us better serve our clients. We focus on attracting a diversity of talent by maintaining a strong employer brand and expanding where and how we meet prospective employees. We recruit from underrepresented communities through targeted campus recruiting, scholarship programs, and partnerships with professional organizations. For Schwab employees, we support a number of Employee Resource Groups (ERGs) which are employee-driven and provide support, leadership development opportunities, and connection to our diverse marketplace. Our ERGs are made up of employees who share characteristics or life experiences and are committed to enhancing diversity and inclusion at Schwab. Additionally, our leaders are explicitly responsible for creating an environment where all people can do their best work, and for fostering the development of high-performance teams that recognize the value of diverse perspectives, skills, and backgrounds. We regularly request feedback from our employees through surveys.

### Available Information

Schwab files annual, quarterly, and current reports, proxy statements, and other information with the SEC. The SEC filings are available to the public over the internet on the SEC's website at <https://www.sec.gov>.

On our website, <https://www.aboutschwab.com>, we post the following filings after they are electronically filed with or furnished to the SEC: annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. In addition, the website also includes the Dodd-Frank Act stress test results, our regulatory capital disclosures based on Basel III, and our quarterly average LCR.

All such filings are available free of charge either on our website or by request via email ([investor.relations@schwab.com](mailto:investor.relations@schwab.com)), or mail (Charles Schwab Investor Relations at 211 Main Street, San Francisco, CA 94105).

### Item 1A. Risk Factors

We face a variety of risks that may affect our operations, financial results, or stock price and many of those risks are driven by factors that we cannot control or predict. The following discussion addresses those risks that management believes are the most significant, although there may be other risks that could arise, or may prove to be more significant than expected, that may affect our operations or financial results.

For a discussion of our risk management governance and processes, including operational risk, compliance risk, credit risk, market risk, and liquidity risk, see Risk Management and Capital Management in Part II, Item 7.

#### **Economic and Market Risks**

##### **Developments in the business, economic, and geopolitical environment could negatively impact our business.**

Our business can be adversely affected by the general environment – economic, corporate, securities market, regulatory, and geopolitical developments all play a role in client asset valuations, trading activity, interest rates, and overall investor engagement, and are outside of our control. Deterioration in the housing and credit markets, reduction in interest rates, and decreases in securities valuations negatively impact our results of operations and capital resources.

The monetary policies of the Federal Reserve, which regulates the supply of money and credit in the United States, have a significant effect on our operating results. Actions taken by the Federal Reserve, including changes in its target funds rate and balance sheet management, are difficult to predict and can affect our net interest revenue and bank deposit account fees. These

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policies could also have implications for clients' allocation to cash; higher or lower client cash balances have an impact on our capital requirements as well as liquidity implications if such changes in allocation are sudden.

### **A significant change in client cash allocations could negatively impact our income.**

We rely heavily on client cash balances to generate revenue. Cash awaiting investment in a portion of our client brokerage accounts is swept to our banking subsidiaries and those bank deposits are then used to extend loans to clients and purchase investment securities. We also sweep a portion of such cash to unconsolidated third-party financial institutions, including pursuant to the IDA agreement, through which we earn bank deposit account fees. A significant reduction in our clients' allocation to cash, a change in the allocation of that cash, or a transfer of cash away from the Company, could reduce our income.

### **Significant interest rate changes could affect our profitability.**

The direction and level of interest rates are important factors in our earnings. A decline in interest rates may have a negative impact on our net interest revenue and our bank deposit account fee revenue. A low interest rate environment may also have a negative impact on our asset management and administration fee revenues when we have to waive a portion of our management fees for certain Schwab-sponsored money market mutual funds in order to continue providing a positive return to clients.

Although we believe our net interest revenue will increase in a rising interest rate environment, a rise in interest rates may cause our funding costs to increase if market conditions or the competitive environment induces us to raise our interest rates to avoid losing deposits, or replace deposits with higher cost funding sources without offsetting increases in yields on interest-earning assets which can reduce the benefit to our net interest revenue.

### **The announced phase-out of the London Interbank Offered Rate (LIBOR) could negatively impact our net interest revenue and will continue to require operational work.**

Certain securities in our investment portfolio, the floating rate loans we offered, and a series of our outstanding preferred stock reference LIBOR as the benchmark rate to determine the applicable interest rate, payment amount or floating dividend rates. While we have substantially transitioned our financial models and systems away from LIBOR, in limited circumstances we still use LIBOR. The Federal Reserve adopted a final rule that provides default rules for certain contracts that use LIBOR, with replacement rates based on the Secured Overnight Financing Rate (SOFR). When LIBOR is discontinued as announced, there will be uncertainty or differences in the calculation of the applicable interest rate or payment amount depending on the terms of the governing instruments and the details of any fallback provisions. This could result in different financial performance for previously booked transactions. The calculation of interest rates under the replacement benchmarks could also impact our net interest revenue. LIBOR may also perform differently during the phase-out period than in the past which could result in lower interest payments and a reduction in the value of certain securities in our investment portfolio. In addition, further operational work will be required to transition our legacy loan portfolio to alternate reference rates. See also Part II – Item 7 – Risk Management for additional information regarding the Company's consideration of the phase-out of LIBOR.

## **Compliance Risks**

### **Extensive regulation of our businesses may subject us to significant penalties or limitations on business activities.**

As a participant in the securities, banking, and financial services industries, we are subject to extensive regulation under federal, state, and foreign laws by governmental agencies, supervisory authorities and SROs. The costs and uncertainty related to complying with such regulations continue to increase. These regulations affect our business operations and impose capital, client protection, and market conduct requirements on us as well as restrictions on the activities that we are allowed to conduct. We become subject to increasing regulatory scrutiny as we grow.

Regulators have broad discretion in connection with their supervisory and enforcement activities and examination policies and could prevent us from pursuing our business strategy. Regulators could also limit our ability to grow, including adding assets, launching new products, making acquisitions, and undertaking strategic investments. Our banking regulators could require CSC and/or our banking subsidiaries to hold more capital, increase liquidity, or limit their ability to pay dividends or CSC's ability to repurchase or redeem shares. Despite our efforts to comply with applicable legal requirements, there are a number of risks, particularly in areas where applicable laws or regulations may be unclear or where regulators could revise their previous guidance. Any enforcement actions or other proceedings brought by our regulators against us or our affiliates, officers or employees could result in fines, penalties, cease and desist orders, enforcement actions, suspension, disqualification or expulsion,

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or other disciplinary sanctions, including limitations on our business activities, any of which could harm our reputation and adversely affect our results of operations and financial condition.

While we maintain systems and procedures designed to ensure that we comply with applicable laws and regulations, violations could occur. In addition, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though systems and procedures reasonably designed to prevent violations were in place at the time. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation and our relationships with our regulators and could restrict the ability of institutional investment managers to invest in our securities.

### **Legislation or changes in rules and regulations could negatively affect our business and financial results.**

New legislation, rules, regulations and guidance, or changes in the interpretation or enforcement of existing federal, state, foreign and SRO rules, regulations and guidance, including changes relating to mutual funds, money market funds, standards of conduct with clients, conflicts of interest, regulatory treatment of deposit accounts, CRA, and market structure reform, including order routing practices and order-related revenues, may directly affect our operations and profitability or our specific business lines. Recently, the SEC has proposed or adopted a number of new rules, and these new or proposed rules involve sweeping changes that could require significant shifts in industry operations and practices, thereby increasing uncertainty for markets and investors. Our profitability could also be affected by rules and regulations that impact the business and financial communities generally, including changes to the laws governing taxation, electronic commerce, client privacy and security of client data. In addition, the rules and regulations could result in limitations on the lines of business we conduct, modifications to our business practices, more stringent capital and liquidity requirements, increased deposit insurance assessments or additional costs and could limit our ability to return capital to stockholders. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes to our compliance, risk management, treasury and operations functions.

### **Failure to meet capital adequacy and liquidity guidelines could affect our financial condition.**

CSC, together with its banking, broker-dealer, and FCM/FDM subsidiaries, must meet certain capital and liquidity standards, subject to qualitative judgments by regulators about the adequacy of our capital and our internal assessment of our capital needs. The Uniform Net Capital Rule limits the ability of our broker-dealer entities to transfer capital to CSC and other affiliates. New regulatory capital, liquidity, capital planning, and stress testing requirements may limit or otherwise restrict how we utilize our capital, including paying dividends, stock repurchases, and redemptions, and may require us to increase our capital and/or liquidity or to limit our growth. Failure by either CSC or its banking subsidiaries to meet minimum capital requirements could result in certain mandatory and additional discretionary actions by regulators that, if undertaken, could have a negative impact on us. In addition, failure by CSC or our banking subsidiaries to maintain a sufficient amount of capital to satisfy their stress capital buffer (CSC) or capital conservation buffer (banking subsidiaries) and countercyclical capital buffer requirements would result in restrictions on our ability to make capital distributions and discretionary cash bonus payments to executive officers. Any requirement that we increase our regulatory capital, replace certain capital instruments which presently qualify as Tier 1 Capital, or increase regulatory capital ratios or liquidity, could require us to liquidate assets, deleverage or otherwise change our business and/or investment plans, which may adversely affect our financial results. Issuing additional common stock would dilute the ownership of existing stockholders.

In 2022, CSC became subject to the CCAR process, which requires submission of an annual capital plan, and determination of CSC's stress capital buffer. The plan must include a description of all planned capital actions, including dividends or stock repurchases, over a nine-quarter planning horizon beginning with the first quarter of the calendar year the capital plan is submitted. CSC's risk-based capital ratios must exceed the regulatory minimum plus the stress capital buffer. The stress capital buffer could make us subject to progressively more stringent constraints on capital actions if we approach our minimum ratios. This could lead to restrictions on our ability to pay or increase dividends or otherwise return capital to stockholders.

If the average of CSC's total consolidated assets for four consecutive calendar quarters reaches \$700 billion, or if the average of cross-jurisdictional activity for four consecutive calendar quarters reaches \$75 billion, CSC will become subject to more stringent Category II requirements, including annual stress testing, the advanced approaches framework, and the inability to opt out of including AOCI in regulatory capital calculations. At December 31, 2022, CSC had approximately \$552 billion in total assets and cross-jurisdictional activity of approximately \$29 billion.



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### **We are subject to litigation and regulatory investigations and proceedings and may not be successful in defending against claims or proceedings.**

The financial services industry faces significant litigation and regulatory risks. We are subject to claims and lawsuits in the ordinary course of business, including arbitrations, class actions and other litigation, some of which include claims for substantial or unspecified damages. We are also the subject of inquiries, investigations, and proceedings by regulatory and other governmental agencies.

Litigation and arbitration claims include those brought by our clients and the clients of third-party advisors whose assets are custodied with us. Claims from clients of third-party advisors may allege losses due to investment decisions made by the third-party advisors or the advisors' misconduct. Litigation claims also include claims from third parties alleging infringement of their intellectual property rights (e.g., patents). Such litigation can require the expenditure of significant company resources. If we were found to have infringed on a third-party patent, or other intellectual property rights, we could incur substantial damages, and in some circumstances could be enjoined from using certain technology, or providing certain products or services.

Actions brought against us may result in settlements, awards, injunctions, fines, penalties or other results adverse to us, including reputational harm. Even if we are successful in defending against these actions, the defense of such matters may result in us incurring significant expenses. A substantial judgment, settlement, fine, or penalty could be material to our operating results or cash flows for a particular future period, depending on our results for that period. In market downturns and periods of heightened volatility, the volume of legal claims and amount of damages sought in litigation and regulatory proceedings against financial services companies have historically increased.

### **Operational Risk**

#### **Security breaches of our systems, or those of our clients or third parties, may subject us to significant liability and damage our reputation.**

Our business involves the secure processing, storage, and transmission of confidential information about our clients and us. Information security risks for financial institutions are increasing, in part because of the use of the internet and mobile and cloud technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, activists, hackers and other external parties, including foreign state actors. Our systems and those of other financial institutions have been and will continue to be the target of cyber attacks, malicious code, computer viruses, ransomware, and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential client information), account takeovers, unavailability of service or other events. Despite our efforts to ensure the integrity of our systems, we may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources. Data security breaches may also result from non-technical means, for example, employee misconduct.

Given the high volume of transactions that we process, the large number of clients, counterparties and third-party service providers with which we do business, including cloud service providers, and the increasing sophistication of cyber attacks, a cyber attack could occur and persist for an extended period of time before being detected. The extent of a particular cyber attack and the steps we may need to take to investigate the attack may not be immediately clear, and it may take a significant amount of time before an investigation is completed and full and reliable information about the attack is known. During such time we would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, all or any of which would further increase the costs and consequences of a cyber attack.

Security breaches, including breaches of our security measures or those of our third-party service providers or clients, could result in a violation of applicable privacy and other laws and could subject us to significant liability or loss that may not be covered by insurance, actions by our regulators, damage to our reputation, or a loss of confidence in our security measures which could harm our business. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures.

We also face risk related to external fraud involving the misappropriation and use of clients' user names, passwords or other personal information to gain access to our clients' financial accounts. This could occur from the compromise of clients' personal electronic devices or as a result of a data security breach at an unrelated company where clients' personal information is taken and then made available to fraudsters. Such risk has grown in recent years due to the increased sophistication and activities of organized crime and other external parties, including foreign state-sponsored parties. Losses reimbursed to clients under our

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guarantee against unauthorized account activity could have a negative impact on our business, financial condition and results of operations.

### **Technology and operational failures or errors and other operational risks could subject us to losses, litigation, regulatory actions, and reputational damage.**

We must process, record and monitor a large number of transactions and our operations are highly dependent on the integrity of our technology systems and our ability to make timely enhancements and additions to our systems. System interruptions, errors or downtime can result from a variety of causes, including changes in client use patterns, technological failure, changes to our systems, linkages with third-party systems and power failures and can have a significant impact on our business and operations. Our systems are vulnerable to disruptions from human error, execution errors, errors in models such as those used for asset management, capital planning and management, risk management, stress testing and compliance, employee misconduct, unauthorized trading, external fraud, computer viruses, distributed denial of service attacks, cyber attacks, terrorist attacks, natural disaster, extreme weather, power outage, capacity constraints, software flaws, events impacting key business partners and vendors, and similar events. For example, we and other financial institutions have been the target of various denial of service attacks that have, in certain circumstances, made websites, mobile applications and email unavailable for periods of time. Cloud technologies are critical to the operation of our systems and platforms and our reliance on cloud technologies is growing. Cloud service disruptions may lead to delays in accessing data that is important to our businesses and may hinder our clients' access to our platforms. It could take an extended period of time to restore full functionality to our technology or other operating systems in the event of an unforeseen occurrence, which could affect our ability to process and settle client transactions. Despite our efforts to identify areas of risk, oversee operational areas involving risk, and implement policies and procedures designed to manage these risks, there can be no assurance that we will not suffer unexpected losses, reputational damage or regulatory action due to technology or other operational failures or errors, including those of our vendors or other third parties.

While we devote substantial attention and resources to the reliability, capacity and scalability of our systems, we occasionally experience extraordinary trading volumes, which have caused and could cause our computer systems to operate at unacceptably slow speeds or even fail, affecting our ability to process client transactions and potentially resulting in some clients' orders being executed at prices they did not anticipate. Disruptions in service and slower system response times could result in substantial losses, decreased client satisfaction, reputational damage, and regulatory inquiries. We are also dependent on the integrity and performance of securities exchanges, clearing houses, market makers, dealers, and other intermediaries to which client orders are routed for execution and settlement. System failures and constraints and transaction errors at such intermediaries could result in delays and erroneous or unanticipated execution prices and cancelled orders, cause substantial losses for us and for our clients, and subject us to claims from our clients for damages, and cause reputational harm.

Certain events could increase our client service and processing times due to staffing shortages, remote work or the temporary loss of services from outsourced service providers, such as occurred during the COVID-19 pandemic. We consider service quality to be an important part of the client experience and our failure to meet client expectations could result in decreased client satisfaction.

We take steps to prevent and detect fraud but the ways that fraudulent activity is attempted is continuously evolving. Although we monitor for new types of fraud, there may be a delay in recognizing the fraud is happening. Besides potential losses, shutting down fraudulent activity often requires a balance with client experience. Instances of fraud might negatively impact our reputation and client confidence in the Company, in addition to any direct losses that might result from such instances.

### **Our investment management operations may subject us to fiduciary or other legal liability for client losses.**

Fund and trust management and administration are complex activities and include functions such as recordkeeping and accounting, security pricing, corporate actions, compliance with investment restrictions, daily net asset value computations, account reconciliations, and required distributions to fund shareholders. Failure to properly perform operational tasks, or the misrepresentation of our services and products could subject us to regulatory sanctions, penalties or litigation and result in reputational damage, liability to clients, and the termination of investment management or administration agreements and the withdrawal of assets under our management.

In the management and administration of funds and client accounts, we use quantitative models and other tools and resources to support investment decisions and processes, including those related to risk assessment, portfolio management, trading and hedging activities and product valuations. Errors in the design, function, or underlying assumptions used in these models and

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tools, particularly if we fail to detect the errors over an extended period, could subject us to claims of a breach of fiduciary duty and potentially large liabilities for make-whole payments, litigation, and/or regulatory fines.

### **We rely on outsourced service providers to perform key functions.**

We rely on external service providers to perform certain key technology, cloud infrastructure, processing, servicing, and support functions. These service providers face technology, operating, business, and economic risks, and any significant failures by them, including the improper use or disclosure of our confidential client, employee, or company information, could cause us to incur losses and could harm our reputation. An interruption in or the cessation of service by any external service provider as a result of systems failures, capacity constraints, financial difficulties, natural disasters, extreme weather, power outage, public health crises, political developments, war, international disputes, or for any other reason, and our inability to make alternative arrangements in a timely manner could disrupt our operations, impact our ability to offer certain products and services, and result in financial losses to us. We temporarily lost the services from some of our outsourced service providers during the COVID-19 pandemic which contributed to increased client service response and processing times. Following Russia's invasion of Ukraine, we had to replace certain vendor resources which added incremental complexity in our TD Ameritrade conversion work. Switching to an alternative service provider may require a transition period and result in less efficient operations.

### **We rely on financial intermediaries to execute and settle client orders.**

We rely on market makers, dealers, securities exchanges, clearing houses, and other financial intermediaries to execute and settle our clients' orders. The unwillingness or inability of any of these parties to perform their usual functions coupled with the unavailability of alternative arrangements could result in our clients' orders not getting executed or settled. This may be due to market volatility, uneconomic trading conditions, capacity constraints, financial constraints, system failures, unanticipated trading halts invoked by securities exchanges, market closures, or other reasons. Our inability to get client orders executed or settled because of the unwillingness or inability of these parties to perform their usual functions could result in client dissatisfaction and reputational harm and expose us to client claims for damages.

### **Liquidity Risk**

#### **A significant decrease in our liquidity could negatively affect our business as well as reduce client confidence in us.**

Maintaining adequate liquidity is crucial to our business operations, including transaction settlement, custody requirements, and lending commitments, among other liquidity needs. We meet our liquidity needs primarily from working capital and cash generated by client activity as well as external financing. Fluctuations in client cash or deposit balances, as well as market conditions or changes in regulatory treatment of client deposits, may affect our ability to meet our liquidity needs. A reduction in our liquidity position could reduce client confidence in us, which could result in the transfer of client assets and accounts, or could cause us to fail to satisfy our liquidity requirements, including the LCR. In addition, if our broker-dealer or depository institution subsidiaries fail to meet regulatory capital guidelines, or if a depository institution subsidiary is unable to obtain regulatory approval, when required, to declare a dividend, regulators could limit the subsidiaries' ability to upstream funds to CSC or limit their operations, which could reduce CSC's liquidity and adversely affect its ability to repay debt, pay dividends on CSC's preferred stock and common stock, repurchase its shares, or redeem its preferred stock. In addition, CSC may need to provide additional funding to such subsidiaries.

Factors which may adversely affect our liquidity position include CS&Co and TDAC having temporary liquidity demands due to timing differences between brokerage transaction settlements and the availability of segregated cash balances, fluctuations in cash held in banking or brokerage client accounts, a dramatic increase in our lending activities (including margin, mortgage-related, and personal lending), increased capital requirements, changes in regulatory guidance or interpretations, other regulatory changes, or a loss of market or client confidence in us resulting in unanticipated withdrawals of client funds. As a member firm of securities and derivatives clearing houses, we are required to deposit cash, stock and/or government securities for margin requirements and to clearing funds. The margin requirements may fluctuate significantly from time to time based upon the nature and size of clients' trading activity and market volatility, and member firms like us have been required to deposit additional funds. Clearing houses could also require additional funds from member firms if a clearing member defaults on its obligations to the clearing house in an amount larger than its own margin and clearing fund deposits.

When available cash is not sufficient for our liquidity needs, we may be required to seek external financing. During periods of disruptions in the credit and capital markets, potential sources of external financing could be reduced, and borrowing costs could increase. Although CSC, CS&Co, and TDAC maintain uncommitted, unsecured bank credit lines and CSC has a commercial paper issuance program, as well as a universal shelf registration statement filed with the SEC which can be used to sell securities,

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financing may not be available on acceptable terms or at all due to market conditions or disruptions in the credit markets. In addition, a significant downgrade in the Company's credit ratings could increase its borrowing costs and limit its access to the capital markets.

When short-term interest rates rapidly increase, as they did in 2022, the pace at which clients move certain cash balances out of our sweep features and into higher yielding alternatives generally increases. When these outflows outpace excess cash on hand and cash generated by maturities and paydowns on our investment and loan portfolios, as they recently have, our banking subsidiaries may use temporary supplemental funding, such as advances under Federal Home Loan Bank (FHLB) secured credit facilities, borrowings under repurchase agreements with external financial institutions, and issuances of brokered certificates of deposit, which have higher costs. In addition, to access new FHLB advances or roll over existing advances, our banking subsidiaries must maintain positive tangible capital, as defined by the Federal Housing Finance Agency. Larger unrealized losses on our available for sale (AFS) portfolio due to higher market interest rates could negatively impact our tangible capital.

### **Credit Risk**

#### **We may suffer significant losses from our credit exposures.**

Our businesses are subject to the risk that a client, counterparty or issuer will fail to perform its contractual obligations, or that the value of collateral held to secure obligations will prove to be inadequate. While we have policies and procedures designed to manage this risk, the policies and procedures may not be fully effective. Our exposure mainly results from margin lending, clients' options and futures trading, securities lending, mortgage lending, pledged asset lending, our role as a counterparty in financial contracts and investing activities, and indirectly from the investing activities of certain of the proprietary funds we sponsor.

When clients purchase securities on margin, borrow on lines of credit collateralized by securities, or trade options or futures, we are subject to the risk that clients may default on their obligations when the value of the securities and cash in their accounts falls below the amount of clients' indebtedness. Abrupt changes in securities valuations and the failure of clients to meet margin calls could result in substantial losses, especially if there is a lack of liquidity. As a result of our TD Ameritrade acquisition, our margin, options and futures business has materially increased and market liquidity may represent an increased risk.

We have exposure to credit risk associated with our investments. Those investments are subject to price fluctuations. Loss of value of securities can negatively affect earnings if management determines that such loss of value has resulted from a credit loss. The evaluation of whether a credit loss exists is a matter of judgment, which includes the assessment of multiple factors. If management determines that a security's decline in fair value is the result of a credit loss, an allowance for credit losses on the security will be recorded and a corresponding loss will be recognized in current earnings. Even if a decline in fair value of a security is not determined to have resulted from a credit loss, if we were ever forced to sell the security sooner than intended prior to maturity due to liquidity needs, we would have to recognize any unrealized losses at that time.

Our bank loans primarily consist of First Mortgages, HELOCs, and PALs. Increases in delinquency and default rates, housing and stock price declines, increases in the unemployment rate, and other economic factors, can result in increases in allowances for credit losses and related credit loss expense, as well as write downs on such loans.

Heightened credit exposures to specific counterparties or instruments can increase our risk of loss. Examples include:

- Large positions in financial instruments collateralized by assets with similar economic characteristics or in securities of a single issuer or industry;
- Mortgage loans and HELOCs to banking clients which are secured by properties in the same geographic region; and
- Client margins, options or futures, pledged assets, and securities lending activities collateralized by or linked to securities of a single issuer, index, or industry.

We sponsor a number of proprietary money market mutual funds and other proprietary funds. Although we have no obligation to do so, we may decide for competitive or other reasons to provide credit, liquidity or other support to our funds in the event of significant declines in valuation of fund holdings or significant redemption activity that exceeds available liquidity. Such support could cause us to take significant charges, could reduce our liquidity and, in certain situations, could, with respect to proprietary funds other than money market mutual funds, result in us having to consolidate one or more funds in our financial statements. If we choose not to provide credit, liquidity or other support in such a situation, we could suffer reputational damage and its business could be adversely affected.

**Risks Related to Our TD Ameritrade Acquisition**

**We are undertaking one of the largest brokerage account conversions and could experience unanticipated issues.**

As part of our TD Ameritrade integration, we plan to transition the TD Ameritrade brokerage accounts to Schwab in multiple transition groups, as well as several TD Ameritrade platforms, while at the same time adding scale. Doing the conversion in multiple transition groups adds complexity, including maintaining appropriate regulatory capital and liquidity. Although we have undertaken extensive planning and testing, the account transitions are complicated and we could experience issues which cause a transition group to be delayed, or negatively impact the client experience. Such issues could impact client retention, integration-related costs, the timing for realizing synergies, our reputation, and compliance with regulatory requirements. In order to support TD Ameritrade clients through the account transitions, some of which will take place over holiday weekends, we are increasing our client service staffing. If we are not able to add and retain sufficient client service staff or retain other employees working on the account transitions, client service may be unacceptable, leading to higher than anticipated client attrition, or account transitions may not be successful.

**We may fail to realize the anticipated cost savings and other benefits of the TD Ameritrade acquisition, which could adversely affect the value of our stock.**

The success of our TD Ameritrade acquisition will continue to depend, in significant part, on our ability to realize the anticipated cost savings and other benefits from integrating the businesses of Schwab and TD Ameritrade which is subject to certain risks. If we are not able to successfully combine the businesses of Schwab and TD Ameritrade within the anticipated time frame, or at all, the anticipated cost savings and other benefits of the merger may not be realized fully or may take longer to realize than expected, the combined business may not perform as expected and the value of our common stock may be adversely affected.

It is possible that the integration process could result in the loss of key Schwab or TD Ameritrade employees, the loss of clients, the disruption of either company's or both companies' ongoing businesses or in unexpected integration issues, higher than expected integration costs and an overall post-completion integration process that takes longer than originally anticipated.

We will need to continue to hire a significant number of technology personnel and contract staff and rely on a number of critical technology vendors in order to complete the integration work relating to technology platforms and systems within the target timeframe. In addition, we may still experience some delays in acquiring the technology and infrastructure components needed for the integration. We have to make certain assumptions for integration planning and subsequent changes to integration plans impact the timing and cost of the integration. For example, as a result of the higher levels of trading volumes that we recently experienced, we had to increase capacity from the original technology build-out plan. Also, following Russia's invasion of Ukraine, we had to replace certain vendor resources which added incremental complexity in our TD Ameritrade conversion work. In addition, at times the attention of certain members of our management and other resources may be diverted from integration work to critical day-to-day business operations. We may also encounter challenges integrating TD Ameritrade technologies into Schwab platforms. Any of these factors could make timely achievement of integration milestones more challenging, particularly with regard to technology and systems.

**We will continue to incur significant integration costs in connection with the integration of TD Ameritrade.**

We will continue to incur significant non-recurring costs related to formulating and implementing integration plans with respect to combining the operations of Schwab and TD Ameritrade, including technology-related, workforce and facilities consolidation costs. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the integration of the two companies' businesses.

**We may have difficulty attracting, motivating and retaining executives and other employees during the integration of TD Ameritrade.**

Uncertainty about the effect of the TD Ameritrade integration on Schwab and TD Ameritrade employees may impair our ability to attract, retain and motivate personnel. Employee retention may be particularly challenging during the integration process, as employees of Schwab and TD Ameritrade may experience uncertainty about their future roles with the combined business. If employees of Schwab or TD Ameritrade depart, the integration of the companies may be more difficult and the combined business may be harmed. Furthermore, we may have to incur significant costs in identifying, hiring and retaining replacements for departing employees and may lose significant expertise and talent relating to the businesses of Schwab or TD Ameritrade, and our ability to realize the anticipated benefits of the acquisition may be adversely affected. In addition, there could be disruptions to or distractions for the workforce and management associated with integrating employees into Schwab.

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**The TD Ameritrade acquisition may not be accretive to our earnings per share, which may negatively affect the market price of our common stock.**

Based on the anticipated synergies between Schwab and TD Ameritrade, we expect the acquisition to be accretive to our earnings per share in the third year following completion of the merger. However, future events and conditions could reduce or delay the accretion that is currently projected or result in the acquisition being dilutive to our earnings per share, including adverse changes in market conditions, additional transaction and integration related costs and other factors such as the failure to realize some or all of the benefits anticipated in the acquisition. Any dilution of, reduction in, or delay of any accretion to, our earnings per share could cause the price of shares of our common stock to decline or grow at a reduced rate.

### **Other Business Risks**

**Potential strategic transactions could have a negative impact on our financial position.**

We evaluate potential strategic transactions, including business combinations, acquisitions, and dispositions. Any such transaction could have a material impact on our financial position, results of operations, or cash flows. The process of evaluating, negotiating, effecting, and integrating any such strategic transaction may divert management's attention from other business concerns, and might cause the loss of key clients, employees, and business partners. Moreover, integrating businesses and systems may result in unforeseen expenditures as well as numerous risks and uncertainties, including the need to integrate operational, financial, and management information systems and management controls, integrate relationships with clients and business partners, and manage facilities and employees in different geographic areas. The integration process could result in the disruption of ongoing businesses or changes to inconsistent standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with clients, employees, outsourced service providers and vendors. In addition, an acquisition may cause us to assume liabilities or become subject to litigation or regulatory proceedings or require the amortization of a large amount of acquired intangible assets. Further, we may not realize the anticipated benefits from an acquisition in a timely manner or at all (including without limitation the recent acquisition of TD Ameritrade), and any future acquisition could be dilutive to our current stockholders' percentage ownership or to earnings per common share (EPS).

Our acquisitions and dispositions are typically subject to closing conditions, including regulatory approvals and the absence of material adverse changes in the business, operations or financial condition of the entity or part of an entity being acquired or sold. To the extent we enter into an agreement to buy or sell an entity or part of an entity, there can be no guarantee that the transaction will close when expected, or at all. If a material transaction does not close, our stock price could decline.

**Our industry is highly competitive and characterized by aggressive price competition.**

We operate in a highly competitive environment with a broad array of competitors from large integrated banks to venture-capital backed private companies. We continually monitor our pricing in relation to competitors and periodically adjust interest rates on deposits and loans, fees for advisory services, expense ratios on mutual funds and ETFs, trade commission rates, and other pricing and incentives to sustain our competitive position. Increased price competition from other financial services firms to attract clients, such as reduced commissions, higher deposit rates, reduced mutual fund or ETF expense ratios, or the increased use of incentives, could impact our results of operations and financial condition.

**We face competition in hiring and retaining qualified employees.**

The market for qualified personnel in our business is highly competitive. At various times, different functions and roles are in especially high demand in the market, compelling us to pay more to attract talent. Our ability to continue to compete effectively will depend upon our ability to attract new employees and retain existing employees while managing compensation costs.

We need to continue to hire a significant number of technology personnel and contract staff to complete the TD Ameritrade integration work within the target timeframe. Demand for skilled technology professionals is high and we may experience delays in hiring the appropriate skilled resources.

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### **Our stock price has fluctuated historically, and may continue to fluctuate.**

Our stock price can be volatile. Among the factors that may affect the volatility of our stock price are the following:

- Speculation in the investment community or the press about, or actual changes in, our competitive position, organizational structure, executive team, operations, financial condition, financial reporting and results, expense discipline, strategic transactions, progress on achieving the expected benefits from our TD Ameritrade acquisition, or ratings from third parties;
- The announcement of new products, services, acquisitions, or dispositions by us or our competitors;
- Increases or decreases in revenue or earnings, changes in earnings estimates by the investment community, and variations between estimated financial results and actual financial results; and
- Sales of a substantial number of shares of our common stock by large stockholders.

Changes in the stock market generally, or as it concerns our industry, as well as geopolitical, corporate, regulatory, business, and economic factors may also affect our stock price.

### **Future sales of CSC's equity securities may adversely affect the market price of CSC's common stock and result in dilution.**

CSC's certificate of incorporation authorizes CSC's Board of Directors, among other things, to issue additional shares of common or preferred stock or securities convertible or exchangeable into equity securities, without stockholder approval. CSC may issue additional equity or convertible securities to raise additional capital or for other purposes. The issuance of any additional equity or convertible securities could be substantially dilutive to holders of CSC's common stock and may adversely affect the market price of CSC's common stock.

### **Our ongoing relationships with TD Bank and its affiliates could have a negative impact on us.**

Although our acquisition of TD Ameritrade was structured such that completion of the merger would not result in CSC either (i) being deemed to be "controlled" by TD Bank (as that term is interpreted by the Federal Reserve under the BHC Act or HOLA) or (ii) being deemed to be in "control" of any of TD Bank's depository institutions, changes in circumstances could trigger presumptions of control under the Federal Reserve's regulations. This could occur if TD Bank and its affiliates own more than 9.9% of Schwab common stock, as interpreted in accordance with the applicable rules of the Federal Reserve. While the Stockholder Agreement between CSC and TD Bank prohibits TD Bank and its affiliates from exceeding the 9.9% threshold, it could happen unintentionally. This presumption of control could also be triggered if the revenue generated to either us or to any of the TD Bank depository institutions exceeds a certain percentage. The Stockholder Agreement contains provisions to address such situations.

Under the IDA agreement, we are only permitted to reduce the deposit balances swept to the TD Depository Institutions by a set amount during each 12-month period, subject to certain limitations and adjustments including maintaining a minimum \$50 billion IDA sweep balance through June 2031. The bank deposit account fee revenue that we earn related to the IDA agreement may be less than the net interest revenue that we could have earned if the deposit balances were swept to our banking subsidiaries rather than the TD Depository Institutions. When we are permitted to reduce the IDA balances, we can only move the balances to our banking subsidiaries if we have sufficient capital. In addition, in a low rate environment it is possible that the sweep arrangement fee computation could result in a negative amount that we would be required to pay the TD Depository Institutions, resulting in us having an expense rather than revenue.

### **Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

As part of our real estate energy management program, Schwab incorporates sustainable practices and procedures to guide our facilities' design, materials, and building technologies. A summary of Schwab's significant locations is presented in the following table.

| December 31, 2022<br>(amounts in thousands) | Square Footage |       |
|---|----------------|-------|
|   | Leased         | Owned |
| <b>Location</b>                             |                |       |
| Corporate headquarters:                     |                |       |
| Westlake, TX                                | 22             | 795   |
| Service and other office space:             |                |       |
| Phoenix, AZ                                 | 57             | 728   |
| Denver, CO                                  | —              | 767   |
| Omaha, NE                                   | —              | 578   |
| Austin, TX                                  | —              | 561   |
| San Francisco, CA                           | 417            | —     |
| Southlake, TX                               | 13             | 375   |
| St. Louis, MO                               | —              | 331   |
| Chicago, IL                                 | 230            | —     |
| Jersey City, NJ                             | 208            | —     |
| Indianapolis, IN                            | —              | 161   |
| Orlando, FL                                 | 159            | —     |
| Richfield, OH                               | —              | 117   |
| San Diego, CA                               | 111            | —     |
| El Paso, TX                                 | —              | 105   |

The square footage amounts presented in the table above are net of space that has been subleased to third parties. Our corporate headquarters, data centers, offices, and service centers support both of our segments.

The Company's acquisition of TD Ameritrade expanded the Company's branch footprint. As of December 31, 2022, the Company had approximately 400 domestic branch offices in 48 states and the District of Columbia, as well as locations in Puerto Rico, the United Kingdom, Hong Kong, and Singapore. Substantially all branch offices are located in leased premises.

**Item 3. Legal Proceedings**

For a discussion of legal proceedings, see Item 8 – Note 15.

**Item 4. Mine Safety Disclosures**

Not applicable.



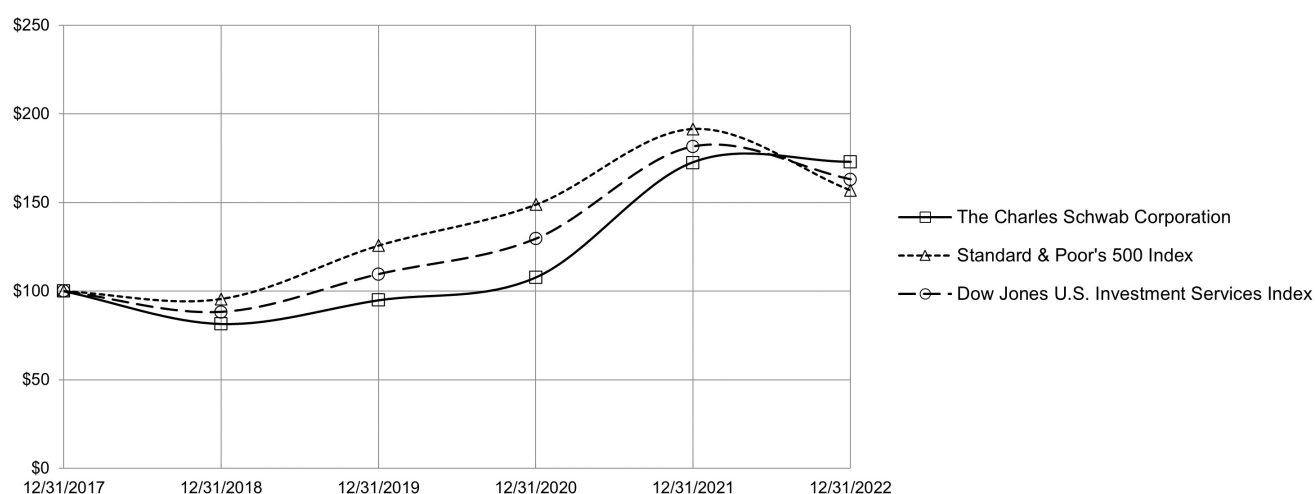
## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

#### Market Information

CSC's common stock is listed on The New York Stock Exchange under the ticker symbol SCHW. The number of common stockholders of record as of January 31, 2023, was 5,255. The closing market price per share on that date was \$77.42.

The following graph shows a five-year comparison of cumulative total returns for CSC's common stock, the Standard & Poor's<sup>®</sup> 500 Index, and the Dow Jones U.S. Investment Services Index, each of which assumes an initial investment of \$100 and reinvestment of dividends.



| December 31,                             | 2017   | 2018  | 2019   | 2020   | 2021   | 2022   |
|--|--------|-------|--------|--------|--------|--------|
| The Charles Schwab Corporation           | \$ 100 | \$ 82 | \$ 95  | \$ 108 | \$ 173 | \$ 173 |
| Standard & Poor's 500 Index              | \$ 100 | \$ 96 | \$ 126 | \$ 149 | \$ 192 | \$ 157 |
| Dow Jones U.S. Investment Services Index | \$ 100 | \$ 88 | \$ 110 | \$ 130 | \$ 182 | \$ 163 |

#### Securities Authorized for Issuance Under Equity Compensation Plans

For information relating to compensation plans under which our equity securities are authorized for issuance, see Item 8 – Note 21 and Part III – Item 12.

## THE CHARLES SCHWAB CORPORATION

### Issuer Purchases of Equity Securities

The following table summarizes purchases made by or on behalf of CSC of its common stock for each calendar month in the fourth quarter of 2022 (in millions, except number of shares, which are in thousands, and per share amounts):

| Month                                   | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Publicly Announced Program |
|---|----------------------------------|------------------------------|--|---|
| October:                                |                                  |                              |  |   |
| Share repurchase program <sup>(1)</sup> | 9,607                            | \$ 73.44                     | 9,607  | \$ 12,794   |
| Employee transactions <sup>(2)</sup>    | 15                               | \$ 70.79                     | N/A  | N/A   |
| November:                               |                                  |                              |  |   |
| Share repurchase program <sup>(1)</sup> | 6,183                            | \$ 78.27                     | 6,183  | \$ 12,310   |
| Employee transactions <sup>(2)</sup>    | 461                              | \$ 79.98                     | N/A  | N/A   |
| December:                               |                                  |                              |  |   |
| Share repurchase program <sup>(1)</sup> | 9,377                            | \$ 79.39                     | 9,377  | \$ 11,565   |
| Employee transactions <sup>(2)</sup>    | 30                               | \$ 79.67                     | N/A  | N/A   |
| Total:                                  |                                  |                              |  |   |
| Share repurchase program <sup>(1)</sup> | 25,167                           | \$ 76.85                     | 25,167   | \$ 11,565   |
| Employee transactions <sup>(2)</sup>    | 506                              | \$ 79.69                     | N/A  | N/A   |

<sup>(1)</sup> All shares were repurchased under an authorization approved by CSC's Board of Directors of up to \$15.0 billion of common stock publicly announced by CSC on July 27, 2022. The authorization does not have an expiration date. This authorization replaced the previous repurchase authorization publicly announced by CSC on January 30, 2019 of up to \$4.0 billion of common stock.

<sup>(2)</sup> Includes restricted shares withheld (under the terms of grants under employee stock incentive plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares. CSC may receive shares delivered or attested to pay the exercise price and/or to satisfy tax withholding obligations by employees who exercise stock options granted under employee stock incentive plans, which are commonly referred to as stock swap exercises.

N/A Not applicable.

### Item 6. Reserved

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**FORWARD-LOOKING STATEMENTS**

In addition to historical information, this Annual Report on Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," "estimate," "appear," "could," "would," "expand," "aim," "maintain," "continue," "seek," and other similar expressions. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances are forward-looking statements.

These forward-looking statements, which reflect management's beliefs, objectives, and expectations as of the date hereof, are estimates based on the best judgment of Schwab's senior management. These statements relate to, among other things:

- Maximizing our market valuation and stockholder returns over time; our belief that developing trusted relationships will translate into more client assets which drives revenue and, along with expense discipline and thoughtful capital management, generates earnings growth and builds stockholder value; maintaining our market position; and the impact from adjustments related to the Market Risk Rule (see Business Strategy and Competitive Environment, Products and Services and Regulation in Part I, Item 1);
- Expected benefits from the TD Ameritrade and other completed acquisitions; and expected timing for the TD Ameritrade client transitions (see Business and Asset Acquisitions in Part I, Item 1; Overview – Business and Asset Acquisitions in Part II, Item 7; Business Acquisitions in Part II, Item 8 – Note 3; and Exit and Other Related Liabilities in Part II, Item 8 – Note 16);
- The impact of legal proceedings and regulatory matters (see Legal Proceedings in Part I, Item 3; and Commitments and Contingencies in Part II, Item 8 – Note 15);
- Investments to support growth in our client base (see Overview in Part II, Item 7);
- Cost estimates and timing related to the TD Ameritrade integration, including acquisition and integration-related costs and capital expenditures, cost synergies, and exit and other related costs (see Overview – Business and Asset Acquisitions in Part II, Item 7; Results of Operations – Total Expenses Excluding Interest; and Exit and Other Related Liabilities in Part II, Item 8 – Note 16);
- The expected impact of proposed rules (see Current Regulatory Environment and other Developments);
- Net interest revenue; and the adjustment of rates paid on client-related liabilities (see Results of Operations – Net Interest Revenue in Part II, Item 7);
- Capital expenditures (see Results of Operations – Total Expenses Excluding Interest in Part II, Item 7);
- The phase-out of the use of LIBOR (see Risk Management – Expected Phase-out of LIBOR in Part II, Item 7);
- Sources and uses of liquidity, capital, and level of dividends; and Tier 1 Leverage Ratio operating objective (see Liquidity Risk, Capital Management, Regulatory Capital Requirements, and Dividends in Part II, Item 7);
- Capital management; the return of capital to stockholders; and the migration of IDA balances to our balance sheet (see Capital Management – Regulatory Capital Requirements in Part II, Item 7; and Commitments and Contingencies in Part II, Item 8 – Note 15);
- The expected impact of new accounting standards not yet adopted (see Summary of Significant Accounting Policies in Part II, Item 8 – Note 2); and
- The likelihood of indemnification and guarantee payment obligations and clients failing to fulfill contractual obligations (see Commitments and Contingencies in Part II, Item 8 – Note 15 and Financial Instruments Subject to Off-Balance Sheet Credit Risk – Client Trade Settlement in Note 17).

Achievement of the expressed beliefs, objectives and expectations described in these statements is subject to certain risks and uncertainties that could cause actual results to differ materially from the expressed beliefs, objectives, and expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K or, in the case of documents incorporated by reference, as of the date of those documents.

Important factors that may cause actual results to differ include, but are not limited to:

- General market conditions, including equity valuations and the level of interest rates;
- The level and mix of client trading activity;
- Our ability to attract and retain clients, develop trusted relationships, and grow client assets;
- Client use of our advisory and lending solutions and other products and services;

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- The level of client assets, including cash balances;
- Competitive pressure on pricing, including deposit rates;
- Client sensitivity to rates;
- Regulatory guidance and adverse impacts from new legislation or rulemaking;
- Capital and liquidity needs and management;
- Our ability to manage expenses;
- Our ability to attract and retain talent;
- Our ability to develop and launch new and enhanced products, services, and capabilities, as well as enhance our infrastructure, in a timely and successful manner;
- Our ability to monetize client assets;
- Our ability to support client activity levels;
- The risk that expected cost synergies and other benefits from the TD Ameritrade acquisition may not be fully realized or may take longer to realize than expected and that integration-related expenses may be higher than expected;
- Increased compensation and other costs due to inflationary pressures;
- The ability to successfully implement integration strategies and plans relating to TD Ameritrade, including client account transitions;
- The timing and scope of integration-related and other technology projects;
- Real estate and workforce decisions;
- Client cash allocations;
- Migrations of bank deposit account balances (BDA balances);
- Balance sheet positioning relative to changes in interest rates;
- Interest earning asset mix and growth;
- Prepayment levels for mortgage-backed securities;
- LIBOR trends;
- Adverse developments in litigation or regulatory matters and any related charges;
- Potential breaches of contractual terms for which we have indemnification and guarantee obligations; and
- Client activity, including daily average trades; margin balances; and balance sheet cash.

Certain of these factors, as well as general risk factors affecting the Company, are discussed in greater detail in Risk Factors in Part I, Item 1A.

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**GLOSSARY OF TERMS**

**Active brokerage accounts:** Brokerage accounts with activity within the preceding 270 days.

**Accumulated Other Comprehensive Income (AOCI):** A component of stockholders' equity which primarily includes unrealized gains and losses on available for sale (AFS) securities.

**Asset-backed securities:** Debt securities backed by financial assets such as loans or receivables.

**Assets receiving ongoing advisory services:** Market value of all client assets custodied at the Company under the guidance of an independent advisor or enrolled in one of Schwab's advice solutions at the end of the reporting period.

**Bank deposit account balances (BDA balances):** Clients' uninvested cash balances held off-balance sheet in deposit accounts at unconsolidated third-party financial institutions, pursuant to the IDA agreement and agreements with other third-party financial institutions. Average BDA balances represent the daily average balance for the reporting period.

**Basel III:** Global regulatory standards on bank capital adequacy and liquidity issued by the Basel Committee on Banking Supervision.

**Basis point:** One basis point equals 1/100<sup>th</sup> of 1%, or 0.01%.

**Client assets:** The market value, as of the end of the reporting period, of all client assets in our custody, BDA balances, and proprietary products, which includes both cash and securities. Average client assets are the daily average client asset balance for the reporting period.

**Client cash as a percentage of client assets:** Calculated as the value, at the end of the reporting period, of all money market fund balances, bank deposits, Schwab One<sup>®</sup> balances, BDA balances, and certain cash equivalents divided by client assets.

**Common Equity Tier 1 (CET1) Capital:** The sum of common stock and related surplus net of treasury stock, retained earnings, AOCI, and qualifying minority interests, less applicable regulatory adjustments and deductions.

**Common Equity Tier 1 Risk-Based Capital Ratio:** The ratio of CET1 Capital to total risk-weighted assets as of the end of the period.

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

**Customer Protection Rule:** Refers to Rule 15c3-3 of the Securities Exchange Act of 1934.

**Daily Average Trades (DATs):** Includes daily average revenue trades by clients, trades by clients in asset-based pricing relationships, and all commission-free trades.

**Delinquency roll rates:** The rates at which loans transition through delinquency stages, ultimately resulting in a loss. Schwab considers a loan to be delinquent if it is 30 days or more past due.

**Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act):** Regulatory reform legislation containing numerous provisions which expanded prudential regulation of large financial services companies.

**Duration:** Duration is typically used to measure the expected change in value of a financial instrument for a 1% change in interest rates, expressed in years.

**First mortgages:** Refers to first lien residential real estate mortgage loans.

**Full-time equivalent employees:** Represents the total number of hours worked divided by a 40-hour work week for the following categories: full-time, part-time, and temporary employees and persons employed on a contract basis.

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**High Quality Liquid Assets (HQLA):** HQLA is defined by the Federal Reserve, but includes assets that are actively traded and readily convertible to cash in times of stress.

**Insured Deposit Account (IDA) Agreement:** The IDA agreement with the TD Depository Institutions.

**Interest-bearing liabilities:** Primarily includes bank deposits, payables to brokerage clients, short-term borrowings, and long-term debt on which Schwab pays interest.

**Interest-earning assets:** Primarily includes cash and cash equivalents, cash and investments segregated, receivables from brokerage clients, investment securities, and bank loans on which Schwab earns interest.

**Investment grade:** Defined as a rating equivalent to a Moody's Investors Service (Moody's) rating of "Baa3" or higher, or a Standard & Poor's Rating Group (Standard & Poor's) or Fitch Ratings, Ltd (Fitch) rating of "BBB-" or higher.

**Liquidity Coverage Ratio (LCR):** The ratio of HQLA to projected net cash outflows during a 30-day stress scenario.

**Loan-To-Value (LTV) ratio:** Calculated as the principal amount of a loan divided by the value of the collateral securing the loan.

**Margin loans:** Money borrowed against the value of certain stocks, bonds, and mutual funds in a client portfolio. The borrowed money can be used to purchase additional securities or to meet short-term financial needs.

**Master netting arrangement:** An agreement between two counterparties that have multiple contracts with each other that provides for net settlement of all contracts through a single cash payment in the event of default or termination of any one contract.

**Mortgage-backed securities:** A type of asset-backed security that is secured by a mortgage or group of mortgages.

**Net interest margin:** Net interest revenue (annualized for interim periods) divided by average interest-earning assets.

**Net new client assets:** Total inflows of client cash and securities to Schwab less client outflows. Inflows include dividends and interest; outflows include commissions and fees. Capital gains distributions are excluded.

**Net Stable Funding Ratio (NSFR):** The ratio of the amount of available stable funding relative to the amount of required stable funding.

**New brokerage accounts:** All brokerage accounts opened during the period, as well as any accounts added via acquisition.

**Nonperforming assets:** The total of nonaccrual loans and other real estate owned.

**Order flow revenue:** Payments received from trade execution venues to which our broker-dealer subsidiaries send equity and option orders.

**Pledged Asset Line® (PAL):** A non-purpose revolving line of credit from a banking subsidiary secured by eligible assets held in a separate pledged brokerage account maintained at CS&Co.

**Return on average common stockholders' equity:** Calculated as net income available to common stockholders (annualized for interim periods) divided by average common stockholders' equity.

**Risk-weighted assets:** Computed by assigning specific risk-weightings to assets and off-balance sheet instruments for capital adequacy calculations.

**Tier 1 Capital:** The sum of CET1 Capital and additional Tier 1 Capital instruments and related surplus, less applicable adjustments and deductions.

**Tier 1 Leverage Ratio:** End-of-period Tier 1 Capital divided by adjusted average total consolidated assets for the period.

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**Trading days:** Days in which the markets/exchanges are open for the buying and selling of securities. Early market closures are counted as half-days.

**U.S. federal banking agencies:** Refers to the Federal Reserve, the OCC, the FDIC, and the CFPB.

**Uniform Net Capital Rule:** Refers to Rule 15c3-1 under the Securities Exchange Act of 1934, which specifies minimum capital requirements that are intended to ensure the general financial soundness and liquidity of broker-dealers at all times.

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**OVERVIEW**

Management focuses on several client activity and financial metrics in evaluating Schwab's financial position and operating performance. We believe that metrics relating to net new and total client assets, as well as client cash levels and utilization of advisory services, offer perspective on our business momentum and client engagement. Data on new and total client brokerage accounts provides additional perspective on our ability to attract and retain new business. Total net revenue growth, pre-tax profit margin, EPS, return on average common stockholders' equity, and the Consolidated Tier 1 Leverage Ratio provide broad indicators of Schwab's overall financial health, operating efficiency, and ability to generate acceptable returns. Total expenses excluding interest as a percentage of average client assets is a measure of operating efficiency.

Our consolidated financial statements include the results of operations and financial condition of TD Ameritrade beginning on October 6, 2020, as discussed below. Results for the years ended December 31, 2022, 2021, and 2020 are as follows:

|   | Growth Rate<br>1-Year<br>2021-2022 | 2022       | 2021       | 2020       |
|---|------------------------------------|------------|------------|------------|
| <b>Client Metrics</b>   |                                    |            |            |            |
| Net new client assets (in billions) <sup>(1)</sup>                    | (21)%                              | \$ 406.9   | \$ 516.2   | \$ 1,952.5 |
| Core net new client assets (in billions)                              | (23)%                              | \$ 427.7   | \$ 558.2   | \$ 281.9   |
| Client assets (in billions, at year end)                              | (13)%                              | \$ 7,049.8 | \$ 8,138.0 | \$ 6,691.7 |
| Average client assets (in billions)                                   | (3)%                               | \$ 7,292.8 | \$ 7,493.8 | \$ 4,579.0 |
| New brokerage accounts (in thousands) <sup>(2)</sup>                  | (45)%                              | 4,044      | 7,306      | 18,627     |
| Active brokerage accounts (in thousands, at year end)                 | 2%                                 | 33,758     | 33,165     | 29,629     |
| Assets receiving ongoing advisory services (in billions, at year end) | (10)%                              | \$ 3,673.2 | \$ 4,064.4 | \$ 3,300.1 |
| Client cash as a percentage of client assets (at year end)            |                                    | 12.3%      | 10.9%      | 12.3%      |
| <b>Company Financial Information and Metrics</b>                      |                                    |            |            |            |
| Total net revenues  | 12%                                | \$ 20,762  | \$ 18,520  | \$ 11,691  |
| Total expenses excluding interest                                     | 5%                                 | 11,374     | 10,807     | 7,391      |
| Income before taxes on income   | 22%                                | 9,388      | 7,713      | 4,300      |
| Taxes on income   | 19%                                | 2,205      | 1,858      | 1,001      |
| Net income  | 23%                                | \$ 7,183   | \$ 5,855   | \$ 3,299   |
| Preferred stock dividends and other                                   | 11%                                | 548        | 495        | 256        |
| Net income available to common stockholders                           | 24%                                | \$ 6,635   | \$ 5,360   | \$ 3,043   |
| Earnings per common share — diluted                                   | 24%                                | \$ 3.50    | \$ 2.83    | \$ 2.12    |
| Net revenue growth from prior year                                    |                                    | 12%        | 58%        | 9%         |
| Pre-tax profit margin   |                                    | 45.2%      | 41.6%      | 36.8%      |
| Return on average common stockholders' equity                         |                                    | 18%        | 11%        | 9%         |
| Expenses excluding interest as a percentage of average client assets  |                                    | 0.16%      | 0.14%      | 0.16%      |
| Consolidated Tier 1 Leverage Ratio (at year end)                      |                                    | 7.2%       | 6.2%       | 6.3%       |
| <b>Non-GAAP Financial Measures</b> <sup>(3)</sup>                     |                                    |            |            |            |
| Adjusted total expenses <sup>(4)</sup>                                |                                    | \$ 10,386  | \$ 9,724   | \$ 6,759   |
| Adjusted diluted EPS  |                                    | \$ 3.90    | \$ 3.25    | \$ 2.45    |
| Return on tangible common equity                                      |                                    | 42%        | 22%        | 15%        |

<sup>(1)</sup> 2022 includes outflows of \$20.8 billion from certain mutual fund clearing services clients. 2021 includes outflows of \$42.0 billion from certain mutual fund clearing services clients. 2020 includes inflows of \$1.6 trillion related to the acquisition of TD Ameritrade, \$79.9 billion related to the acquisition of the assets of USAA-IMCO, \$8.5 billion related to the acquisition of Wasmer Schroeder, and \$10.9 billion from a mutual fund clearing services client.

<sup>(2)</sup> 2020 includes 14.5 million new brokerage accounts related to the acquisition of TD Ameritrade and 1.1 million new brokerage accounts related to the acquisition of assets from USAA-IMCO.

<sup>(3)</sup> See Non-GAAP Financial Measures for further details and a reconciliation of such measures to GAAP reported results.

<sup>(4)</sup> Adjusted total expenses is a non-GAAP financial measure adjusting total expenses excluding interest. See Non-GAAP Financial Measures.



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## **2022 Compared to 2021**

Schwab's 2022 financial results reflected strong performance against a challenging economic backdrop. Our clients faced a very difficult environment throughout the year, encountering inflation and global economic concerns, with Russia's invasion of Ukraine exacerbating the impact. Equity markets suffered their worst year since 2008, with the S&P 500<sup>®</sup> and NASDAQ Composite<sup>®</sup> contracting 19% and 33%, respectively, in 2022, while investor sentiment remained bearish throughout the year. At the same time, the Federal Reserve raised short-term rates at the fastest pace in 40 years, ultimately increasing the Fed Funds rate seven times to reach an upper bound of 4.50% in December. Additionally, uncertainty around future macroeconomic growth increased in the second half of the year, weighing on longer-term rates and leading to an inverted yield curve.

Through these challenges, clients continued to turn to Schwab for help in achieving their financial goals. Core net new assets in 2022 totaled \$427.7 billion, representing an organic growth rate of 5%, which included significant tax-related outflows in April. Total client assets were \$7.05 trillion at December 31, 2022, down 13% from year-end 2021, as market value declines of approximately \$1.5 trillion in client assets more than offset the Company's continued asset gathering during the year. DATs in 2022 were 5.9 million, down 9% from the prior year, as trading volume subsided from the extraordinary levels seen in 2021. New brokerage accounts were also down from the prior year, as clients opened 4.0 million new brokerage accounts in 2022; active brokerage accounts totaled 33.8 million at December 31, 2022, up 2% from year-end 2021.

Schwab's financial performance in 2022 reflected the resiliency of our diversified financial model in a challenging macroeconomic environment and impacts from higher market interest rates. Net income totaled \$7.2 billion in 2022 and diluted EPS was \$3.50, representing year-over-year growth of 23% and 24%, respectively. Adjusted diluted EPS<sup>(1)</sup>, which excludes acquisition and integration-related costs, amortization of acquired intangible assets, and related income tax effects, was \$3.90 in 2022, up from \$3.25 in 2021.

Total net revenues rose 12% year-over-year to \$20.8 billion in 2022. Net interest revenue increased to \$10.7 billion, rising 33% from 2021 as significantly higher market rates more than offset the impact of balance sheet contraction due to client cash allocation decisions. Asset management and administration fees totaled \$4.2 billion in 2022, down 1% year-over-year as lower market valuations throughout the year offset the benefit of lower money market fund fee waivers. Trading revenue declined by 12% to \$3.7 billion in 2022, due to lower DATs relative to the extraordinary trading volume seen in 2021 and changes in mix of client trading activity. Bank deposit account fee revenue was \$1.4 billion in 2022, up 7% from 2021 as higher average net yields more than offset lower average BDA balances. BDA balances totaled \$126.6 billion at December 31, 2022, down 20% from year-end 2021, reflecting client cash allocation decisions and migrations to our balance sheet.

Total expenses excluding interest amounted to \$11.4 billion in 2022, increasing 5% from 2021, and adjusted total expenses<sup>(1)</sup> were \$10.4 billion, up 7% from the prior year. These increases reflected higher compensation and benefits expense and higher occupancy and equipment expense, as we continued to invest in our people and technology to support ongoing growth in our client base. These increases were partially offset by lower other expense, which included a charge of approximately \$200 million in 2021 (see Item 8 – Note 15). Acquisition and integration-related costs and amortization of acquired intangibles were \$392 million and \$596 million, respectively, in 2022, compared with \$468 million and \$615 million, respectively, in 2021.

Return on average common stockholders' equity grew to 18% in 2022 from 11% in 2021, while return on tangible common equity<sup>(1)</sup> (ROTCE) increased to 42% in 2022 compared with 22% in 2021. The increases in both return on average common stockholders' equity and ROTCE were due primarily to lower stockholders' equity and growth in net income. Stockholders' equity declined in 2022 primarily due to a significant decrease in AOCI, as higher market interest rates resulted in larger unrealized losses on our AFS investment securities portfolio. In January and November 2022, the Company transferred \$108.8 billion and \$79.8 billion, respectively, of investment securities from the AFS category to the held to maturity (HTM) category (see Capital Management and Item 8 – Note 6).

The Company continued its diligent approach to balance sheet management in 2022, maintaining appropriate capital and liquidity to support client activity and returning excess capital to stockholders. As market rates rose from near-zero levels at the beginning of the year, clients allocated a growing portion of their assets to higher yielding cash and fixed income alternatives. Total balance sheet assets decreased 17% year-over-year to \$551.8 billion at December 31, 2022 as a result of these client cash allocation decisions and unrealized losses on AFS securities, both resulting primarily from higher market interest rates. To facilitate these client cash movements, we took steps to enhance our liquidity by limiting new portfolio investments to help build available cash and utilizing short-term funding sources including FHLB advances and retail certificates of deposit.

<sup>(1)</sup> Adjusted diluted EPS, adjusted total expenses, and return on tangible common equity are non-GAAP financial measures. Please see Non-GAAP Financial Measures for further details and a reconciliation of such measures to GAAP reported results.

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We increased our common stock dividend by 22% during 2022, and implemented a \$15 billion share repurchase authorization in July. Repurchases under this new authorization totaled 47 million shares for \$3.4 billion in 2022. The Company issued \$750 million in preferred stock in the first quarter of 2022, and redeemed a total of \$1.0 billion of preferred stock during the second half of the year. Inclusive of these actions, the Company's Tier 1 Leverage Ratio finished the year at 7.2%, above our operating objective of 6.50%-6.75%.

## **2021 Compared to 2020**

Schwab delivered strong growth and financial performance in 2021, consistently executing on our "Through Clients' Eyes" strategy throughout a fluctuating macroeconomic environment. Early in 2021 we saw strengthened investor optimism, fueled by an advancing economic recovery and signs of improvement in the COVID-19 pandemic. As the year progressed, debates increased over the pace of economic growth, the path of inflation, and the ultimate impact of multiple global market disruptions. After major equity indices rose throughout the first half of 2021, they were essentially flat during the summer months before ending the year at near-record levels. While short-term interest rates remained near zero throughout 2021, longer-term rates began to rise initially, then eased and rose again as the 10-year Treasury yield finally ended 2021 at 1.52%, up 59 basis points from year-end 2020.

Investors were actively engaged with the markets throughout 2021, including extraordinary trading volume in the first quarter, and client activity throughout the remainder of the year also generally exceeded the fourth quarter of 2020 when we included TD Ameritrade in our results for the first time. Asset gathering was strong throughout 2021, as core net new assets totaled \$558.2 billion, representing an 8% annual organic growth rate from year-end 2020. We ended 2021 with \$8.14 trillion in client assets and 33.2 million brokerage accounts, representing increases of 22% and 12%, respectively, from December 31, 2020. Even as we worked to support heightened levels of client activity during 2021, the Company continued to drive progress across our key strategic priorities of scale and efficiency, win-win monetization, and segmentation. We also made significant progress in 2021 on our integration of TD Ameritrade.

Schwab produced strong financial performance during 2021, reflecting consistent execution of our strategy, strong client engagement, and a generally supportive macroeconomic backdrop. Net income totaled \$5.9 billion during 2021, increasing 77% from 2020, while diluted EPS amounted to \$2.83, increasing 33% from the prior year. Adjusted diluted EPS <sup>(1)</sup> amounted to \$3.25, increasing 33% from 2020. Comparisons of our financial results in 2021 with those of 2020 were significantly impacted by the first full-year inclusion of TD Ameritrade in 2021.

Total net revenues increased 58% from 2020 to reach \$18.5 billion in 2021, supported by growth across all of our major revenue streams. Net interest revenue totaled \$8.0 billion in 2021, increasing 31% from 2020 primarily due to the inclusion of TD Ameritrade as well as significant growth in interest-earning assets, including rising investment portfolio balances and increased utilization of our range of lending products, partially offset by lower average yields. Asset management and administration fees grew 23% over the prior year to reach \$4.3 billion due to the inclusion of TD Ameritrade as well as rising balances in advice solutions and both proprietary and third-party mutual funds and ETFs, partially offset by lower revenue on money market funds.

Trading revenue was \$4.2 billion in 2021, nearly three times the prior year total of \$1.4 billion, as the full-year inclusion of TD Ameritrade and the overall strong trading environment drove a significant increase in DATs. Trading revenue was also helped in 2021 by a higher proportion of derivatives trades, which contributed to higher revenue per trade. A full year of bank deposit account fees totaled \$1.3 billion in 2021. BDA balances totaled \$158.6 billion at December 31, 2021, down 3% from the year-end 2020 balance of \$163.5 billion, reflecting migrations to Schwab's balance sheet during 2021.

Total expenses excluding interest were \$10.8 billion in 2021, increasing 46% from 2020 due to the full-year inclusion of TD Ameritrade's results as well as higher compensation and benefits expense, which was driven by additional headcount to support our expanding client base and a higher bonus accrual, as well as merit increases and a 5% employee salary increase we implemented at the end of the third quarter of 2021. During 2021, acquisition and integration-related costs were \$468 million, increasing from \$442 million in 2020, and amortization of acquired intangible assets totaled \$615 million, rising from \$190 million in 2020. Exclusive of these items, adjusted total expenses <sup>(1)</sup> were \$9.7 billion in 2021, increasing 44% from 2020.

Return on average common stockholders' equity was 11% in 2021, growing from 9% in 2020, and ROTCE <sup>(1)</sup> was 22% in 2021, up from 15% in 2020. The increases in both return on average common stockholders' equity and ROTCE were primarily a result of significantly higher net income in 2021.

<sup>(1)</sup> Adjusted diluted EPS, adjusted total expenses, and return on tangible common equity are non-GAAP financial measures. Please see Non-GAAP Financial Measures for further details and a reconciliation of such measures to GAAP reported results.

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The Company continued its consistent approach to balance sheet management in 2021, supporting overall growth and liquidity. Total balance sheet assets rose to \$667.3 billion at December 31, 2021, increasing 22% from year-end 2020, driven primarily by client asset flows, as well as \$10.6 billion in BDA balance migrations. We also added a net \$10.2 billion to outstanding short-term borrowings and long-term debt for liquidity management purposes, and increased preferred stock by a net \$2.3 billion to help support continued business growth. The Company's Tier 1 Leverage Ratio was 6.2% at year-end 2021.

Though significantly heightened client activity levels during the first quarter of 2021 impacted our service quality at times, we took multiple actions to better deliver the service experience our clients deserve and rely on, including enhancing online self-service capabilities, streamlining our call-routing processes, and increasing hiring. Our efforts began yielding results early in 2021, with significant improvement in client service levels by the end of the first quarter of 2021, and our service levels continued to be improved throughout the remainder of 2021 as client activity moderated.

### **Business and Asset Acquisitions**

#### *TD Ameritrade*

Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade. TD Ameritrade provides securities brokerage services, including trade execution, clearing services, and margin lending; and futures and foreign exchange trade execution services. The Company revalued and recorded TD Ameritrade's assets and liabilities at their estimated fair value as of the date of acquisition.

The Company expects to continue to incur significant acquisition and integration-related costs and integration-related capital expenditures throughout the remaining integration process. Such costs have included, and are expected to continue to include, professional fees, such as legal, advisory, and accounting fees, compensation and benefits expenses for employees and contractors involved in the integration work, and costs for technology enhancements. The Company has also incurred exit and other related costs to attain anticipated synergies, which are primarily comprised of employee compensation and benefits such as severance pay, other termination benefits, and retention costs, as well as costs related to facility closures such as accelerated amortization and depreciation or impairments of assets in those locations. As a result of the significant growth seen beginning in late 2020 and early 2021 across key client volume metrics, including the number of active brokerage accounts, DATs, and peak daily trades, the Company determined in 2021 to increase the scope of technology work related to the integration, and commenced greater technology build-out to support the expanded volumes of our combined client base.

Based on our current integration plans, the Company expects to complete most client transitions from TD Ameritrade to Schwab across multiple groups over the course of 2023, with the transition of a small client group in the first half of 2024. The first transition of client accounts was completed in February 2023. We expect to incur total acquisition and integration-related costs and capital expenditures of between \$2.4 billion and \$2.5 billion, which reflects increased costs resulting from incremental complexity in transition work, due in part to the replacement of certain vendor resources following Russia's invasion of Ukraine, as well as overall inflationary pressures.

The Company's estimates of the nature, amounts, and timing of recognition of acquisition and integration-related costs remain subject to change based on a number of factors, including the expected duration and complexity of the integration process and the continued uncertainty of the economic environment. More specifically, factors that could cause variability in our expected acquisition and integration-related costs include the level of employee attrition and availability of third-party labor, workforce redeployment from eliminated positions into open roles, changes in the levels of client activity, as well as changes in the scope and cost of technology and real estate-related exit cost variability due to the effects of changes in remote working trends.

Acquisition and integration-related costs, which are inclusive of related exit costs, totaled \$392 million, \$468 million, and \$442 million in 2022, 2021, and 2020, respectively, and the Company expects to incur acquisition and integration-related costs of approximately \$450-\$550 million in 2023. Over the course of the integration, we continue to expect to realize annualized cost synergies of between \$1.8 billion and \$2.0 billion, and, through December 31, 2022, we have achieved over 65% of this amount on an annualized run-rate basis. The Company expects to achieve the vast majority of the remaining estimated cost synergies by the end of 2024, with anticipated full year synergy realization beginning in 2025. Estimated timing and amounts of synergy realization are subject to change as we progress in the integration. See also Results of Operations – Total Expenses Excluding Interest, Non-GAAP Financial Measures, and Item 8 – Notes 3 and 16.

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**CURRENT REGULATORY ENVIRONMENT AND OTHER DEVELOPMENTS**

In December 2022, the SEC proposed a set of four related equity market structure rules that would make significant changes to how national market system (NMS) stock orders are priced, executed and reported. The four proposed rules are described below.

- The “Order Competition Rule” would require that, before most individual investors’ orders could be executed internally by a trading center (like wholesaler market makers), those orders must first be exposed to a qualifying order-by-order auction in which both market makers and institutional investors can participate.
- “Regulation Best Execution” would establish an SEC-level best execution standard (in addition to the existing FINRA and MSRB best execution rules) for broker-dealers and require them to establish, maintain, and enforce written policies and procedures addressing how the broker-dealer will comply with the best execution standard and make routing or execution decisions for customer orders. Regulation Best Execution would apply not only to equities, but to all securities.
- Amendments to Rule 605 of Regulation NMS requiring enhanced disclosures of order execution quality for large brokers that handle retail orders.
- A rule to (i) amend minimum pricing increments (or tick sizes) that would apply to both the quoting and trading of NMS stocks, (ii) reduce the exchange access fee caps, and (iii) require transparency of odd-lots.

The comment periods for the proposed rules end on March 31, 2023 and the impact to Schwab cannot be assessed until the final rules are released.

In November 2022, the SEC proposed a rule that would require substantial changes to the liquidity risk management programs for open-end mutual funds other than money market funds (funds) and require them to implement “swing pricing” and impose a “hard close” on the acceptance of purchase and redemption orders. Swing pricing would require funds to adjust the fund’s current net asset value (NAV) per share by a “swing factor” if the fund has either (i) net redemptions (no threshold) or (ii) net purchases that exceed a specified threshold (2% of the fund’s net assets). To implement the swing pricing requirements, the proposed rule also would require that a fund, its transfer agent, or a registered clearing agency receive purchase and redemption orders prior to the time the fund has established for determining the NAV, typically market close, in order to receive a given day’s NAV (a “hard close”). Current practices permit fund orders received by a financial intermediary prior to the fund cut-off time to be transmitted to the fund after the fund cut-off time and for the order to receive that day’s NAV. Under the proposed rule, orders received by the fund, its transfer agent or registered clearing agency after the fund cut-off time would receive the next day’s NAV. The comment period for the proposed rule ended on February 14, 2023 and the impact to Schwab cannot be assessed until the final rule is released.

In May 2022, the federal banking agencies issued a joint notice of proposed rulemaking that would substantially revise how an insured depository institution’s CRA performance is evaluated. The proposed rule includes revisions relating to the delineation of assessment areas, the overall evaluation framework and performance standards and metrics, the definition of community development activities and data collection and reporting. The comment period for the proposed rule ended on August 5, 2022 and the impact to Schwab cannot be assessed until the final rule is released.

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**RESULTS OF OPERATIONS**

**Total Net Revenues**

Total net revenues of \$20.8 billion and \$18.5 billion for the years ended December 31, 2022 and 2021, respectively, represented growth of 12% and 58% from the prior periods.

| Year Ended December 31,                               |                          | 2022      |                               | 2021      |                               | 2020      |                               |
|---|--------------------------|-----------|-------------------------------|-----------|-------------------------------|-----------|-------------------------------|
|   | Growth Rate<br>2021-2022 | Amount    | % of<br>Total Net<br>Revenues | Amount    | % of<br>Total Net<br>Revenues | Amount    | % of<br>Total Net<br>Revenues |
| Net interest revenue                                  |                          |           |                               |           |                               |           |                               |
| Interest revenue                                      | 44%                      | \$ 12,227 | 59%                           | \$ 8,506  | 46%                           | \$ 6,531  | 56%                           |
| Interest expense                                      | N/M                      | (1,545)   | (8)%                          | (476)     | (3)%                          | (418)     | (4)%                          |
| Net interest revenue                                  | 33%                      | 10,682    | 51%                           | 8,030     | 43%                           | 6,113     | 52%                           |
| Asset management and administration fees              |                          |           |                               |           |                               |           |                               |
| Mutual funds, ETFs, and collective trust funds (CTFs) | 5%                       | 2,055     | 10%                           | 1,961     | 11%                           | 1,770     | 15%                           |
| Advice solutions                                      | (7)%                     | 1,854     | 9%                            | 1,993     | 11%                           | 1,443     | 12%                           |
| Other   | (4)%                     | 307       | 1%                            | 320       | 1%                            | 262       | 3%                            |
| Asset management and administration fees              | (1)%                     | 4,216     | 20%                           | 4,274     | 23%                           | 3,475     | 30%                           |
| Trading revenue                                       |                          |           |                               |           |                               |           |                               |
| Commissions   | (13)%                    | 1,787     | 9%                            | 2,050     | 11%                           | 739       | 6%                            |
| Order flow revenue                                    | (15)%                    | 1,738     | 8%                            | 2,053     | 11%                           | 621       | 6%                            |
| Principal transactions                                | N/M                      | 148       | 1%                            | 49        | —                             | 56        | —                             |
| Trading revenue                                       | (12)%                    | 3,673     | 18%                           | 4,152     | 22%                           | 1,416     | 12%                           |
| Bank deposit account fees                             | 7%                       | 1,409     | 7%                            | 1,315     | 7%                            | 355       | 3%                            |
| Other   | 4%                       | 782       | 4%                            | 749       | 5%                            | 332       | 3%                            |
| Total net revenues                                    | 12%                      | \$ 20,762 | 100%                          | \$ 18,520 | 100%                          | \$ 11,691 | 100%                          |

N/M Not meaningful. Percentage changes greater than 200% are presented as not meaningful.

**Net Interest Revenue**

Schwab's primary interest-earning assets include cash and cash equivalents; cash and investments segregated; margin loans, which constitute the majority of receivables from brokerage clients; investment securities; and bank loans. Fees earned and expenses incurred on securities lending and borrowing activities are conducted by our broker-dealer subsidiaries using assets held in client brokerage accounts. Schwab's interest-bearing liabilities are comprised of bank deposits, which include brokered certificates of deposit beginning in the fourth quarter of 2022; payables to brokerage clients; short-term borrowings (e.g., FHLB advances, commercial paper, secured borrowings by our broker-dealer subsidiaries, or repurchase agreements); and long-term debt. Schwab deploys the funds from these sources into the assets outlined above.

As Schwab builds its client base, we attract new client sweep cash, which is a primary driver of funding balance sheet growth. We do not use short-term, wholesale borrowings to support our long-term investment activity, but may use such funding for short-term liquidity purposes or to provide temporary funding. Non-interest-bearing funding sources include stockholders' equity, certain client cash balances, and other miscellaneous liabilities.

The Company's investment strategy is designed to produce an increase in net interest revenue when interest rates rise while attempting to moderate the decrease in net interest revenue when interest rates fall. In order to keep interest-rate sensitivity within established limits, management actively monitors and adjusts interest-rate sensitivity through changes in the balance sheet, primarily by adjusting the composition of our banking subsidiaries' investment portfolios.

Revenue on interest-earning assets is affected by various factors, such as the composition of assets, prevailing interest rates and spreads at the time of origination or purchase, changes in interest rates on floating-rate securities and loans, and changes in prepayment levels for mortgage-backed and other asset-backed securities and loans. Schwab establishes the rates paid on client-

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related liabilities, and management expects that it will generally adjust the rates paid on these liabilities at some fraction of any movement in short-term rates. Interest expense on long-term debt, short-term borrowings, and other funding sources is impacted by market interest rates at the time of borrowing and changes in interest rates on floating-rate liabilities. See also Risk Management – Interest Rate Risk Simulations.

Interest rates increased significantly from year-end 2021 through year-end 2022. Short-term rates were near zero until the Federal Reserve began its aggressive tightening cycle in March 2022 in response to rising inflation, ultimately increasing the federal funds target overnight rate seven times between March and December for a total increase of 425 basis points. Long-term interest rates increased throughout 2022, though at a less rapid pace, leading to an inverted yield curve.

Schwab continued to see strength in net new client assets during 2022, which, along with transfers of BDA balances to the Company's balance sheet (see Bank Deposit Account Fees), drove growth in Schwab's average interest-earning assets in 2022 relative to 2021. Partially offsetting this growth, we experienced significant seasonal tax outflows in the second quarter, and, due to the rapid increases to the federal funds overnight rate, changes in client cash allocations increased in the second half of 2022 which resulted in a total decrease in bank deposits and payables to brokerage clients of 18% since year-end 2021. During 2022, the Company increased its cash holdings and reduced the duration of incremental investment securities purchases, which has provided flexibility to support such changes in client cash allocations associated with higher short-term interest rates.

During 2021, interest rates remained historically low. Short-term rates remained near zero throughout 2021; longer-term interest rates began to rise early in the year, then remained largely unchanged before rising again in the fourth quarter. Elevated levels of prepayments on mortgage-backed securities persisted throughout the continued low interest rate environment in 2021 and resulted in accelerated reinvestment of the AFS portfolio; purchases of AFS securities totaled \$171.7 billion in 2021. Schwab saw consistent strength in new client brokerage accounts and net new client assets throughout 2021, driving growth in Schwab's interest-earning assets. At the same time, client engagement in the equity markets increased and clients were net buyers of equity securities and other investment products, resulting in outflows of client cash and partially offsetting the growth in interest-earning assets in 2021 relative to 2020.

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The following table presents net interest revenue information corresponding to interest-earning assets and funding sources on the consolidated balance sheets:

| Year Ended December 31,                        | 2022            |                          |                    | 2021            |                          |                    | 2020            |                          |                    |
|--|-----------------|--------------------------|--------------------|-----------------|--------------------------|--------------------|-----------------|--------------------------|--------------------|
|  | Average Balance | Interest Revenue/Expense | Average Yield/Rate | Average Balance | Interest Revenue/Expense | Average Yield/Rate | Average Balance | Interest Revenue/Expense | Average Yield/Rate |
| <b>Interest-earning assets</b>                 |                 |                          |                    |                 |                          |                    |                 |                          |                    |
| Cash and cash equivalents                      | \$ 57,163       | \$ 812                   | 1.40%              | \$ 40,325       | \$ 40                    | 0.10%              | \$ 39,052       | \$ 120                   | 0.30%              |
| Cash and investments segregated                | 49,430          | 691                      | 1.38%              | 43,942          | 24                       | 0.05%              | 34,100          | 141                      | 0.41%              |
| Receivables from brokerage clients             | 75,614          | 3,321                    | 4.33%              | 77,768          | 2,455                    | 3.11%              | 28,058          | 848                      | 2.97%              |
| Available for sale securities <sup>(1,2)</sup> | 260,392         | 4,139                    | 1.58%              | 357,122         | 4,641                    | 1.30%              | 253,555         | 4,537                    | 1.78%              |
| Held to maturity securities <sup>(1,2)</sup>   | 112,357         | 1,688                    | 1.50%              | —               | —                        | —                  | —               | —                        | —                  |
| Bank loans                                     | 38,816          | 1,083                    | 2.79%              | 28,789          | 620                      | 2.15%              | 20,932          | 545                      | 2.60%              |
| Total interest-earning assets                  | 593,772         | 11,734                   | 1.96%              | 547,946         | 7,780                    | 1.41%              | 375,697         | 6,191                    | 1.64%              |
| Securities lending revenue                     |                 | 471                      |                    |                 | 720                      |                    |                 | 334                      |                    |
| Other interest revenue                         |                 | 22                       |                    |                 | 6                        |                    |                 | 6                        |                    |
| Total interest-earning assets                  | \$ 593,772      | \$ 12,227                | 2.04%              | \$ 547,946      | \$ 8,506                 | 1.54%              | \$ 375,697      | \$ 6,531                 | 1.73%              |
| <b>Funding sources</b>                         |                 |                          |                    |                 |                          |                    |                 |                          |                    |
| Bank deposits                                  | \$ 424,168      | \$ 723                   | 0.17%              | \$ 381,549      | \$ 54                    | 0.01%              | \$ 291,206      | \$ 93                    | 0.03%              |
| Payables to brokerage clients                  | 97,825          | 123                      | 0.13%              | 91,667          | 9                        | 0.01%              | 46,347          | 12                       | 0.02%              |
| Short-term borrowings <sup>(3)</sup>           | 4,993           | 154                      | 3.07%              | 3,040           | 9                        | 0.30%              | 89              | —                        | 0.20%              |
| Long-term debt                                 | 20,714          | 498                      | 2.40%              | 17,704          | 384                      | 2.17%              | 8,992           | 289                      | 3.22%              |
| Total interest-bearing liabilities             | 547,700         | 1,498                    | 0.27%              | 493,960         | 456                      | 0.09%              | 346,634         | 394                      | 0.11%              |
| Non-interest-bearing funding sources           | 46,072          |                          |                    | 53,986          |                          |                    | 29,063          |                          |                    |
| Securities lending expense                     |                 | 48                       |                    |                 | 24                       |                    |                 | 33                       |                    |
| Other interest expense                         |                 | (1)                      |                    |                 | (4)                      |                    |                 | (9)                      |                    |
| Total funding sources                          | \$ 593,772      | \$ 1,545                 | 0.26%              | \$ 547,946      | \$ 476                   | 0.09%              | \$ 375,697      | \$ 418                   | 0.11%              |
| Net interest revenue                           |                 | \$ 10,682                | 1.78%              |                 | \$ 8,030                 | 1.45%              |                 | \$ 6,113                 | 1.62%              |

<sup>(1)</sup> Amounts have been calculated based on amortized cost. Interest revenue on investment securities is presented net of related premium amortization.

<sup>(2)</sup> In January 2022 and November 2022, the Company transferred a portion of its investment securities designated as AFS to the HTM category, as described in Item 8 – Note 6.

<sup>(3)</sup> Interest revenue or expense was less than \$500 thousand in the period or periods presented.

Net interest revenue increased \$2.7 billion or 33%, in 2022 from 2021 primarily due to higher average yields on interest-earning assets as a result of higher market interest rates. Net premium amortization of investment securities decreased to \$1.4 billion from \$2.3 billion in 2021. These benefits were partially offset by higher rates paid on funding sources, higher average short-term borrowings and long-term debt outstanding, and lower balances of margin loans and lower securities lending revenue due to decreased market demand.

Average interest-earning assets for 2022 were higher by 8%, compared to 2021. This increase was primarily due to higher average balances of bank deposits and payables to brokerage clients, which resulted from net new client asset inflows as well as transfers of BDA balances to our balance sheet during 2022. These year-over-year increases in average balances were offset by client cash allocation decisions in response to higher short-term market interest rates during 2022, as clients moved certain cash balances out of bank deposits and payables to brokerage clients.

Net interest margin increased to 1.78% in 2022, from 1.45% in 2021. Higher market interest rates improved yields on interest-earning assets, which more than offset the higher rates paid across interest-bearing funding sources.

Net interest revenue increased \$1.9 billion, or 31%, in 2021 from 2020, primarily due to the inclusion of TD Ameritrade as well as significant growth in overall interest-earning assets, including higher investment portfolio balances and margin lending, as well as growth in securities lending revenue and bank loans, partially offset by lower average yields. Accelerated premium amortization stemming from elevated prepayments of mortgage-related debt securities in the AFS portfolio continued in 2021 and partially offset the growth in net interest revenue. Net premium amortization of investment securities totaled \$2.3 billion in

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2021 and \$1.6 billion in 2020. TD Ameritrade contributed total net interest revenue of \$1.9 billion during the year ended December 31, 2021 and \$443 million in 2020 from October 6, through December 31, 2020.

Average interest-earning assets for 2021 were higher by 46%, compared to 2020. This increase was largely due to higher bank deposits and payables to brokerage clients, which resulted from strong net new client asset inflows, continued heightened client cash allocations driven by the low interest rate environment in 2021, BDA balance migrations, and the inclusion of TD Ameritrade for all of 2021.

Our net interest margin declined to 1.45% in 2021, from 1.62% in 2020. This decrease was driven primarily by lower overall yields received on interest-earning assets, in part due to purchases of investment securities in 2020 and 2021 at rates below the average yield on the AFS portfolio. This more than offset the benefit of increased securities lending revenue and higher margin utilization in 2021, which comprised 39% of net interest revenue during 2021, growing from 19% of net interest revenue in 2020.

***Asset Management and Administration Fees***

Asset management and administration fees include mutual fund, ETF, and CTF service fees and fees for other asset-based financial services provided to individual and institutional clients. Schwab earns mutual fund, ETF, and CTF service fees for shareholder services, administration, and investment management provided to its proprietary funds, and recordkeeping and shareholder services provided to third-party funds. Asset management and administration fees are based upon the daily balances of client assets invested in these funds and do not include securities lending revenues earned by proprietary mutual funds, ETFs, and CTFs, as those amounts, net of program fees, are credited to the fund shareholders. Proprietary CTFs may, but generally do not, directly participate in securities lending. The fair values of client assets included in proprietary and third-party mutual funds, ETFs, and CTFs are based on quoted market prices and other observable market data.

We also earn asset management fees for advice solutions, which include managed portfolios, specialized strategies, and customized investment advice. Other asset management and administration fees include various asset-based fees such as trust fees, 401(k) recordkeeping fees, mutual fund clearing fees, and non-balance based service and transaction fees.

Asset management and administration fees vary with changes in the balances of client assets due to market fluctuations and client activity.



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The following table presents asset management and administration fees, average client assets, and average fee yields:

| Year Ended December 31,  | 2022                  |         |             | 2021                  |         |             | 2020                  |         |             |
|--|-----------------------|---------|-------------|-----------------------|---------|-------------|-----------------------|---------|-------------|
|  | Average Client Assets | Revenue | Average Fee | Average Client Assets | Revenue | Average Fee | Average Client Assets | Revenue | Average Fee |
| Schwab money market funds before fee waivers   | \$ 179,791            | \$ 499  | 0.28%       | \$ 155,821            | \$ 457  | 0.29%       | \$ 200,119            | \$ 605  | 0.30%       |
| Fee waivers  |                       | (57)    |             |                       | (326)   |             |                       | (127)   |             |
| Schwab money market funds  | 179,791               | 442     | 0.25%       | 155,821               | 131     | 0.08%       | 200,119               | 478     | 0.24%       |
| Schwab equity and bond funds, ETFs, and CTFs   | 433,005               | 364     | 0.08%       | 423,999               | 380     | 0.09%       | 301,598               | 300     | 0.10%       |
| Mutual Fund OneSource <sup>®</sup> and other no-transaction-fee funds <sup>(1)</sup> | 202,015               | 602     | 0.30%       | 229,342               | 724     | 0.32%       | 192,464               | 599     | 0.31%       |
| Other third-party mutual funds and ETFs <sup>(1,2)</sup>                             | 768,871               | 647     | 0.08%       | 898,248               | 726     | 0.08%       | 525,379               | 393     | 0.07%       |
| Total mutual funds, ETFs, and CTFs <sup>(3)</sup>                                    | \$ 1,583,682          | 2,055   | 0.13%       | \$ 1,707,410          | 1,961   | 0.11%       | \$ 1,219,560          | 1,770   | 0.15%       |
| Advice solutions <sup>(3)</sup>  |                       |         |             |                       |         |             |                       |         |             |
| Fee-based  | \$ 441,336            | 1,854   | 0.42%       | \$ 452,503            | 1,993   | 0.44%       | \$ 306,010            | 1,443   | 0.47%       |
| Non-fee-based  | 89,525                | —       | —           | 89,911                | —       | —           | 73,161                | —       | —           |
| Total advice solutions   | \$ 530,861            | 1,854   | 0.35%       | \$ 542,414            | 1,993   | 0.37%       | \$ 379,171            | 1,443   | 0.38%       |
| Other balance-based fees <sup>(4)</sup>  | 561,416               | 244     | 0.04%       | 614,787               | 259     | 0.04%       | 451,350               | 208     | 0.05%       |
| Other <sup>(5)</sup>   |                       | 63      |             |                       | 61      |             |                       | 54      |             |
| Total asset management and administration fees                                       | \$ 4,216              |         |             | \$ 4,274              |         |             | \$ 3,475              |         |             |

<sup>(1)</sup> In 2022, includes transfers from other third-party mutual funds and ETFs to Mutual Fund OneSource<sup>®</sup> and other NTF funds.

<sup>(2)</sup> Beginning in the fourth quarter of 2020, includes third-party money funds related to the acquisition of TD Ameritrade.

<sup>(3)</sup> Average client assets for advice solutions may also include the asset balances contained in the mutual fund and/or ETF categories listed above.

<sup>(4)</sup> Includes various asset-related fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees.

<sup>(5)</sup> Includes miscellaneous service and transaction fees relating to mutual funds and ETFs that are not balance-based.

Asset management and administration fees declined by \$58 million, or 1%, in 2022 from 2021, due to lower balances in Mutual Fund OneSource<sup>®</sup> and other third-party mutual funds, as well as advice solutions, relative to 2021. Balances declined primarily due to equity market weakness during 2022, which negatively impacted client asset valuations. These decreases offset the benefit of lower money market fund fee waivers, which were eliminated during the second quarter of 2022 as a result of the Federal Reserve's increases to the federal funds target overnight rate.

Asset management and administration fees increased by \$799 million, or 23%, in 2021 from 2020, due to the acquisition of TD Ameritrade, as well as additional growth in advice solutions and proprietary and third-party mutual funds and ETFs, which were due in part to strength in net new client assets and equity markets in 2021. These increases were partially offset by the effect of money market fund fee waivers due to lower portfolio yields as well as lower money market fund balances. Asset management and administration fees attributable to TD Ameritrade were \$598 million in 2021 and \$131 million from October 6, through December 31, 2020.

The following table presents a roll forward of client assets for the Schwab money market funds, Schwab equity and bond funds, ETFs, and CTFs, and Mutual Fund OneSource<sup>®</sup> and other NTF funds. The following funds generated 33%, 29%, and 40% of the asset management and administration fees earned during 2022, 2021, and 2020, respectively:

| Year Ended December 31,                            | Schwab Money Market Funds |           |           | Schwab Equity and Bond Funds, ETFs, and CTFs |           |           | Mutual Fund OneSource <sup>®</sup> and Other NTF Funds |           |           |
|--|---------------------------|-----------|-----------|--|-----------|-----------|--|-----------|-----------|
|  | 2022                      | 2021      | 2020      | 2022   | 2021      | 2020      | 2022   | 2021      | 2020      |
| Balance at beginning of period                     | \$146,509                 | \$176,089 | \$200,826 | \$454,864                                    | \$341,689 | \$286,275 | \$234,940  | \$223,857 | \$202,068 |
| Net inflows (outflows)                             | 130,483                   | (29,621)  | (25,894)  | 35,156                                       | 48,291    | 17,200    | (43,851)   | (15,760)  | (20,246)  |
| Net market gains (losses) and other <sup>(1)</sup> | 1,934                     | 41        | 1,157     | (77,078)                                     | 64,884    | 38,214    | 44,649   | 26,843    | 42,035    |
| Balance at end of period                           | \$278,926                 | \$146,509 | \$176,089 | \$412,942                                    | \$454,864 | \$341,689 | \$235,738  | \$234,940 | \$223,857 |

<sup>(1)</sup> Includes \$77.7 billion of transfers from other third-party mutual funds and ETFs to Mutual Fund OneSource<sup>®</sup> and Other NTF Funds in 2022.

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**Trading Revenue**

Trading revenue includes commissions, order flow revenue, and principal transaction revenues. Commission revenue is affected by volume and mix of trades executed. Order flow revenue is comprised of payments received from trade execution venues to which our broker-dealer subsidiaries send equity and option orders. Order flow revenue is affected by volume and mix of client trades, as well as pricing received from trade execution venues. Principal transaction revenue is recognized primarily as a result of accommodating clients' fixed income trading activity, and includes adjustments to the fair value of securities positions held to facilitate such client trading activity. Principal transaction revenue also includes unrealized gains and losses on cash and investments segregated for regulatory purposes.

The following tables present trading revenue, trade details, and related information:

| Year Ended December 31,      | Growth Rate<br>2021-2022 | 2022            | 2021            | 2020            |
|------------------------------|--------------------------|-----------------|-----------------|-----------------|
| Commissions                  | (13)%                    | \$ 1,787        | \$ 2,050        | \$ 739          |
| Order flow revenue           |                          |                 |                 |                 |
| Options                      | (11)%                    | 1,170           | 1,320           | 360             |
| Equities                     | (23)%                    | 568             | 733             | 261             |
| Total order flow revenue     | (15)%                    | 1,738           | 2,053           | 621             |
| Principal transactions       | N/M                      | 148             | 49              | 56              |
| <b>Total trading revenue</b> | <b>(12)%</b>             | <b>\$ 3,673</b> | <b>\$ 4,152</b> | <b>\$ 1,416</b> |

N/M Not meaningful. Percentage changes greater than 200% are presented as not meaningful.

| Year Ended December 31,                             | Growth Rate<br>2021-2022 | 2022    | 2021    | 2020    |
|---|--------------------------|---------|---------|---------|
| Clients' daily average trades (DATs) (in thousands) | (9)%                     | 5,925   | 6,507   | 2,603   |
| Product as a percentage of DATs                     |                          |         |         |         |
| Equities  |                          | 50%     | 61%     | 57%     |
| Derivatives   |                          | 23%     | 21%     | 16%     |
| ETFs  |                          | 21%     | 13%     | 17%     |
| Mutual funds  |                          | 5%      | 4%      | 9%      |
| Fixed income  |                          | 1%      | 1%      | 1%      |
| Number of trading days                              | —                        | 250.5   | 251.5   | 252.0   |
| Revenue per trade <sup>(1)</sup>                    | (3)%                     | \$ 2.47 | \$ 2.54 | \$ 2.16 |

<sup>(1)</sup> Revenue per trade is calculated as trading revenue divided by DATs multiplied by the number of trading days.

Trading revenue decreased \$479 million, or 12%, in 2022 compared to 2021, primarily due to lower client trading activity in 2022 relative to 2021, driven by the extraordinary trading volume experienced during the first quarter of 2021, as well as changes in the mix of client trading activity toward more ETFs and fewer single stocks, and toward more index options and futures and fewer single stock options. These factors drove lower commissions and order flow revenue in 2022 relative to 2021. Partially offsetting these decreases, principal transactions revenue increased as a result of higher volume in clients' fixed income trading and higher market interest rates.

Trading revenue increased \$2.7 billion, or 193%, in 2021 compared to 2020, primarily due to the acquisition of TD Ameritrade and heightened client engagement, which drove significantly higher DATs throughout 2021. This increased trading activity and a higher percentage of derivatives trades drove significant growth in commissions and order flow revenue. Overall, TD Ameritrade contributed \$3.3 billion of trading revenue during the year ended December 31, 2021, compared with \$667 million of trading revenue from October 6, 2020 through December 31, 2020.

**Bank Deposit Account Fees**

The Company earns bank deposit account fee revenue pursuant to the IDA agreement with the TD Depository Institutions and arrangements with other third-party banks. Bank deposit account fees are primarily affected by average BDA balances and the fixed- and floating-rate reference yields. Fees earned under the IDA agreement are affected by changes in interest rates and the composition of balances designated as fixed- and floating-rate.

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The following table presents bank deposit account fee revenue, average BDA balances, average net yield, and average balances earning fixed- and floating-rate yields:

|   | Year Ended<br>December 31, |            | Percent<br>Change |
|---|----------------------------|------------|-------------------|
|   | 2022                       | 2021       |                   |
| Bank deposit account fees                         | \$ 1,409                   | \$ 1,315   | 7%                |
| Average BDA balances                              | \$ 147,273                 | \$ 158,434 | (7)%              |
| Average net yield                                 | 0.96%                      | 0.83%      |                   |
| Percentage of average BDA balances designated as: |                            |            |                   |
| Fixed-rate balances                               | 79%                        | 79%        |                   |
| Floating-rate balances                            | 21%                        | 21%        |                   |

In connection with our acquisition of TD Ameritrade, the Company began earning bank deposit account fee revenue beginning in the fourth quarter of 2020. Bank deposit account fees totaled \$355 million from October 6, 2020 through December 31, 2020. During the same period, the total average BDA balance was \$161.3 billion, of which 79% was designated as fixed-rate obligation amounts and 21% as floating-rate obligation amounts.

Bank deposit account fees increased \$94 million, or 7%, in 2022 compared to 2021. This was primarily due to higher market interest rates, which helped to increase the average net yield in 2022. The Company transferred net amounts of \$21.0 billion and \$10.6 billion of BDA balances to its balance sheet from the TD Depository Institutions and other third-party banks during 2022 and 2021, respectively. The transfer of these balances to our balance sheet, as well as client cash allocation decisions in response to higher short-term market interest rates in 2022, led to the decrease in average BDA balances in 2022 compared to 2021. The percentages of BDA balances designated as fixed-rate and floating-rate obligations as of December 31, 2022 were 87% and 13%, respectively.

Subsequent to December 31, 2022, the Company ended its arrangements with the other third-party banks to simplify bank sweep operations ahead of the first TD Ameritrade client transition group in February 2023. As a result of ending these arrangements, the Company incurred breakage fees of \$97 million in January 2023, recognized as a reduction to bank deposit account fee revenue. The BDA balances previously held at these other third-party banks were moved to the TD Depository Institutions. In addition, the FDIC implemented a 2-basis-point increase to the initial base deposit insurance assessment rate, which became effective for the first quarterly assessment period in 2023. This increase in the FDIC's deposit insurance assessment will result in a decrease to bank deposit account fees revenue in 2023, which will be dependent on BDA balance levels. See Item 1 – Regulation for additional information.

Transfers of BDA balances to Schwab's balance sheet result in lower balances upon which bank deposit account fee revenue is earned but provide a source of funding to invest in interest-earning assets to increase net interest revenue. See also Capital Management and Item 8 – Note 15 for discussion of the IDA agreement and the potential to move IDA balances to Schwab's balance sheet.

### **Other Revenue**

Other revenue includes exchange processing fees, certain service fees, other gains and losses from the sale of assets, and the provision for credit losses on bank loans.

Other revenue increased \$33 million, or 4%, in 2022 compared to 2021 primarily due to higher exchange processing fees, partially offset by a higher provision for credit losses on bank loans, certain lower service fees due to lower trading volume, and net losses on sales of AFS securities in 2022. Exchange processing fees increased as a result of an SEC fee rate increase which became effective in the second quarter of 2022, and the provision for credit losses on bank loans increased as a result of higher loan loss factors driven primarily by higher forecasted interest rates and growth of the loan portfolio. In addition, other revenue in 2022 included \$46 million in gains on the sale of Schwab Compliance Technologies, Inc. and certain investments. Other revenue increased \$417 million, or 126%, in 2021 compared to 2020 primarily due to the full-year inclusion of TD Ameritrade's results in 2021. Other revenue attributable to TD Ameritrade totaled \$462 million and \$110 million in 2021 and 2020, respectively.

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Subsequent to year-end 2022, the SEC announced it would decrease its fee rates effective February 27, 2023 by approximately 65% from the rate in effect since May 2022. This change will result in lower exchange processing fees per security transaction in other revenue and a corresponding decrease in other expense, resulting in no impact to net income.

***Total Expenses Excluding Interest***

The following table shows a comparison of total expenses excluding interest:

|  | Growth<br>Rate<br>2021-2022 | 2022      | 2021      | 2020     |
|--|-----------------------------|-----------|-----------|----------|
| Compensation and benefits                      |                             |           |           |          |
| Salaries and wages                             | 12%                         | \$ 3,527  | \$ 3,161  | \$ 2,416 |
| Incentive compensation                         | 1%                          | 1,458     | 1,443     | 932      |
| Employee benefits and other                    | 12%                         | 951       | 846       | 606      |
| Total compensation and benefits                | 9%                          | \$ 5,936  | \$ 5,450  | \$ 3,954 |
| Professional services                          | 4%                          | 1,032     | 994       | 843      |
| Occupancy and equipment                        | 20%                         | 1,175     | 976       | 703      |
| Advertising and market development             | (14)%                       | 419       | 485       | 326      |
| Communications                                 | —                           | 588       | 587       | 353      |
| Depreciation and amortization                  | 19%                         | 652       | 549       | 414      |
| Amortization of acquired intangible assets     | (3)%                        | 596       | 615       | 190      |
| Regulatory fees and assessments                | (5)%                        | 262       | 275       | 163      |
| Other  | (18)%                       | 714       | 876       | 445      |
| Total expenses excluding interest              | 5%                          | \$ 11,374 | \$ 10,807 | \$ 7,391 |
| Expenses as a percentage of total net revenues |                             |           |           |          |
| Compensation and benefits                      |                             | 29%       | 29%       | 34%      |
| Advertising and market development             |                             | 2%        | 3%        | 3%       |
| Full-time equivalent employees (in thousands)  |                             |           |           |          |
| At year end                                    | 6%                          | 35.3      | 33.4      | 32.0     |
| Average  | 7%                          | 34.7      | 32.5      | 23.9     |

Total expenses excluding interest increased \$567 million, or 5%, in 2022 from 2021, and \$3.4 billion, or 46%, in 2021 from 2020. Adjusted total expenses, which excludes acquisition and integration-related costs and amortization of acquired intangible assets, increased \$662 million, or 7%, in 2022 from 2021 and \$3.0 billion, or 44%, in 2021 from 2020. See Non-GAAP Financial Measures for further details and a reconciliation of such measures to GAAP reported results.

Total compensation and benefits increased in 2022 from 2021 due to growth in employee headcount to support our expanding client base, annual merit increases, as well as a 5% employee salary increase and other targeted compensation adjustments that went into effect in late 2021. The 2021 increase reflected TDA's full-year contribution of \$1.2 billion of compensation and benefits expense compared with \$453 million in 2020. The increase in 2021 was also due to additional headcount to support our expanding client base and service levels amidst heightened client engagement, a higher bonus accrual, annual merit increases, as well as a 5% employee salary increase and other targeted compensation adjustments that went into effect in late 2021. Compensation and benefits included acquisition and integration-related costs of \$220 million, \$283 million, and \$235 million in 2022, 2021, and 2020, respectively. In support of upcoming TDA client account transitions, we anticipate hiring additional headcount in 2023 to temporarily expand our client service capacity, which will result in higher compensation and benefits expense in 2023.

Professional services expense increased in 2022 from 2021, primarily due to increased utilization of technology-related and other professional services to support overall growth of the business and enhancement to technological infrastructure to support our expanding client base, as well as the integration of TD Ameritrade. The increase in 2021 from 2020 was primarily due to the inclusion of TDA's results of operations and overall growth in the business. Professional services included acquisition and integration-related costs of \$140 million, \$132 million, and \$158 million in 2022, 2021, and 2020, respectively. In support of

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upcoming TDA client account transitions, we anticipate additional integration-related professional services costs in 2023, which will result in higher professional services expense in 2023.

Occupancy and equipment expense increased in 2022 from 2021, primarily due to an increase in software maintenance and other agreements as well as other technology equipment costs to support growth of the business and the integration of TD Ameritrade. The increase in 2021 from 2020 was primarily due to the inclusion of TDA's results of operations, costs related to the integration of TD Ameritrade, and overall growth in the business. Occupancy and equipment included acquisition and integration-related costs of \$21 million and \$39 million in 2022 and 2021, respectively.

Advertising and market development expense decreased in 2022 from 2021, primarily as a result of decreases in spending for marketing communications for TD Ameritrade. The increase in 2021 from 2020 was primarily due the inclusion of TDA's results of operations.

Communications expense was flat in 2022 compared to 2021. The increase in 2021 from 2020 was primarily due to the inclusion of TDA's results of operations, as well as higher communications expense due to higher customer trade volumes and overall growth of the business.

Depreciation and amortization expense increased in 2022 from 2021, primarily as a result of higher amortization of purchased and internally developed software and higher depreciation of hardware, driven by capital expenditures in 2021 and 2022 to support the TDA integration and enhance our technological infrastructure to support growth of the business. The growth in depreciation and amortization in 2021 from 2020 was primarily due to growth in fixed assets from the TDA acquisition, and also reflected higher amortization of purchased and internally developed software and higher depreciation of hardware, as well as higher depreciation of buildings. Capital expenditures in 2022 and anticipated for 2023 as described below are expected to result in higher depreciation and amortization expense in 2023.

Amortization of acquired intangible assets decreased slightly in 2022 from 2021, as certain assets from the TDA acquisition were fully amortized by the beginning of the fourth quarter of 2022. The increase in 2021 from 2020 was a result of our 2020 acquisitions.

Regulatory fees and assessments decreased in 2022 from 2021, primarily as a result of lower client trading activity, partially offset by higher FDIC assessments and other regulatory assessments due to year-over-year average asset growth and overall growth of the business. The increase in 2021 from 2020 was primarily due to the inclusion of TDA's results of operations and overall growth in the business, including higher FDIC assessments due to asset growth. The FDIC implemented a 2-basis-point increase to the initial base deposit insurance assessment rate, which became effective for the first quarterly assessment period in 2023. Dependent on average asset levels, this increase in the FDIC's deposit insurance assessment may result in an increase in regulatory fees and assessments in 2023. See Item 1 – Regulation for additional information.

Other expense decreased in 2022 from 2021, primarily due to the recognition of a charge of approximately \$200 million for a now-settled regulatory matter in 2021 (see Item 8 – Note 15), partially offset by higher exchange processing fees as a result of fee rate increases beginning in the second quarter of 2022 and also higher clearing charges. The increase in 2021 from 2020 was primarily due to inclusion of TDA's results of operations and the charge of the regulatory matter, partially offset by lower clearing charges and exchange fees. Subsequent to year-end 2022, the SEC announced it would decrease its fee rates effective February 27, 2023 by approximately 65% from the rate in effect since May 2022. This change will result in lower exchange processing fees per security transaction in other expense and a corresponding decrease in other revenue, resulting in no impact to net income.

Capital expenditures primarily include capitalized software costs, information technology and telecommunications equipment, and buildings. Total capital expenditures were \$952 million, \$1,041 million, and \$741 million in 2022, 2021, and 2020, respectively. Capital expenditures decreased 9% in 2022 compared to 2021, as higher capitalized software costs were offset by lower building expansion and capitalized information technology equipment. Extensive work continued in 2022 on the integration of TDA and enhancement of our technological infrastructure to support greater capacity for our expanding client base. Capital expenditures increased in 2021 compared to 2020 primarily due to higher information technology and telecommunications equipment and higher capitalized software costs reflecting investments made to support our TDA integration efforts and an expanding client base, partially offset by lower building expansion. Capitalized software costs totaled \$614 million, \$559 million, and \$453 million in 2022, 2021, and 2020, respectively. Investments in information technology and telecommunications equipment were \$280 million, \$340 million, and \$60 million in 2022, 2021, and 2020, respectively. Investments in buildings were \$22 million, \$102 million, and \$173 million in 2022, 2021, and 2020, respectively.

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Capital expenditures were 5% of total net revenues in 2022, within our estimated range for the year. In 2023, we will continue to invest to support the TDA integration and greater capacity for our expanding client base, and we anticipate capital expenditures in 2023 will be approximately 3-4% of total net revenues. Our longer term expectation for capital expenditures remains in the range of 3-5% of total net revenues.

***Taxes on Income***

Schwab's effective income tax rate on income before taxes was 23.5% in 2022, 24.1% in 2021, and 23.3% in 2020. The decrease in the effective tax rate in 2022 from 2021 was primarily related to the reversal of tax reserves in 2022 due to the resolution of certain state tax matters and tax benefits recognized on the portion of the 2021 regulatory matter charge (see Item 8 – Note 15) that was determined upon final settlement to be deductible. Partially offsetting the decreases in the effective tax rate from these items was a decrease in equity compensation tax deduction benefits, higher state income tax rates, and an increase in non-deductible compensation in 2022. The increase in the effective tax rate in 2021 from 2020 was primarily related to non-recurring federal tax benefits recognized in 2020, including settlement of the IRS examination for tax years 2011-2014, the tax impact of the 2021 regulatory matter charge, and additional income tax expense from the filing of 2020 tax returns during 2021. Partially offsetting the increases in the effective tax rate from these items was an increase in equity compensation tax deduction benefits during 2021.

**Segment Information**

Revenues and expenses are attributed to the two segments based on which segment services the client. Management evaluates the performance of the segments on a pre-tax basis. Segment assets and liabilities are not used for evaluating segment performance or in deciding how to allocate resources to segments. Net revenues in both segments are generated from the underlying client assets and trading activity; differences in the composition of net revenues between the segments are based on the composition of client assets, client trading frequency, and pricing unique to each. While both segments leverage the scale and efficiency of our platforms, segment expenses reflect the dynamics of serving millions of clients in Investor Services versus the thousands of RIAs on the Advisor Services platform.

The Company integrated its business and asset acquisitions during 2020 into its two existing reportable segments. Revenues and expenses from our acquisition of USAA-IMCO are allocated to Investor Services only; revenues and expenses from TD Ameritrade and our other 2020 acquisitions are attributed to both Investor Services and Advisor Services based on which segment services the client. See Item 8 – Note 3 for more information regarding business acquisitions.

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Financial information for our segments is presented in the following table:

| Year Ended December 31,                                | Investor Services        |          |          |            | Advisor Services         |          |          |          | Total                    |           |          |            |
|--|--------------------------|----------|----------|------------|--------------------------|----------|----------|----------|--------------------------|-----------|----------|------------|
|  | Growth Rate<br>2021-2022 | 2022     | 2021     | 2020       | Growth Rate<br>2021-2022 | 2022     | 2021     | 2020     | Growth Rate<br>2021-2022 | 2022      | 2021     | 2020       |
| <b>Net Revenues</b>                                    |                          |          |          |            |                          |          |          |          |                          |           |          |            |
| Net interest revenue                                   | 29%                      | \$ 7,819 | \$ 6,052 | \$ 4,391   | 45%                      | \$ 2,863 | \$ 1,978 | \$ 1,722 | 33%                      | \$ 10,682 | \$ 8,030 | \$ 6,113   |
| Asset management and administration fees               | (3)%                     | 3,049    | 3,130    | 2,544      | 2%                       | 1,167    | 1,144    | 931      | (1)%                     | 4,216     | 4,274    | 3,475      |
| Trading revenue  | (15)%                    | 3,181    | 3,753    | 1,156      | 23%                      | 492      | 399      | 260      | (12)%                    | 3,673     | 4,152    | 1,416      |
| Bank deposit account fees                              | (5)%                     | 916      | 964      | 255        | 40%                      | 493      | 351      | 100      | 7%                       | 1,409     | 1,315    | 355        |
| Other  | 8%                       | 605      | 562      | 262        | (5)%                     | 177      | 187      | 70       | 4%                       | 782       | 749      | 332        |
| Total net revenues                                     | 8%                       | 15,570   | 14,461   | 8,608      | 28%                      | 5,192    | 4,059    | 3,083    | 12%                      | 20,762    | 18,520   | 11,691     |
| <b>Expenses Excluding Interest</b>                     | 3%                       | 8,514    | 8,289    | 5,529      | 14%                      | 2,860    | 2,518    | 1,862    | 5%                       | 11,374    | 10,807   | 7,391      |
| <b>Income before taxes on income</b>                   | 14%                      | \$ 7,056 | \$ 6,172 | \$ 3,079   | 51%                      | \$ 2,332 | \$ 1,541 | \$ 1,221 | 22%                      | \$ 9,388  | \$ 7,713 | \$ 4,300   |
| Net new client assets (in billions) <sup>(1,2,3)</sup> | (9)%                     | \$ 182.8 | \$ 200.9 | \$ 1,106.4 | (29)%                    | \$ 224.1 | \$ 315.3 | \$ 846.1 | (21)%                    | \$ 406.9  | \$ 516.2 | \$ 1,952.5 |

<sup>(1)</sup> In 2022 and 2021, Investor Services includes outflows of \$20.8 billion and \$42.0 billion, respectively, from mutual fund clearing services clients. In 2020, Investor Services includes inflows of \$10.9 billion from mutual fund clearing services clients.

<sup>(2)</sup> In 2020, Investor Services includes inflows of \$890.7 billion related to the acquisition of TD Ameritrade and \$79.9 billion related to the acquisition of assets of USAA-IMCO.

<sup>(3)</sup> In 2020, Advisor Services includes inflows of \$680.6 billion related to the acquisition of TD Ameritrade and \$8.5 billion related to the acquisition of Wasmer Schroeder.

### *Segment Net Revenues*

Investor Services and Advisor Services total net revenues increased by 8% and 28%, respectively, in 2022 compared to 2021. Investor Services growth was primarily driven by increases in net interest revenue as described above, partially offset by decreases in trading revenue due to lower client trading activity and changes in the mix of trading activity, resulting in lower commissions and order flow revenue, and a decrease in bank deposit account fees. Advisor Services growth was primarily driven by increases in net interest revenue as described above, as well as increases in trading revenue primarily due to higher trading volume amid market volatility and bank deposit account fees primarily due to a rising interest rate environment. Asset management and administration fees were essentially flat for Advisor Services, while declining slightly for Investor Services as equity market weakness during 2022 weighed on client asset valuations, partially offset by the elimination of money market fund fee waivers. Other revenues increased for Investor Services in 2022 from 2021 due to higher exchange processing fees, partially offset by a higher provision for credit losses on bank loans, certain lower service fees, and lower net gains on sales of AFS securities.

Investor Services and Advisor Services total net revenues increased by 68% and 32%, respectively, in 2021 compared to 2020. Both segments experienced growth in all revenue line items, primarily due to the full-year inclusion of TD Ameritrade's results in 2021. In addition, net interest revenue increased for Advisor Services due to growth in interest-earning assets, partially offset by lower average yields. Growth in asset management and administration fees in Investor Services was supported by growth in advice solutions, and asset management and administration fees increased in both segments due to rising balances in proprietary and third-party mutual funds and ETFs, partially offset by money market fund fee waivers and lower money market fund balances. The increase in trading revenue for Investor Services was supported by heightened client trading activity. Bank deposit account fee revenue was earned at both segments for the full year in 2021 compared to only the fourth quarter of 2020, following the October 6, 2020 TD Ameritrade acquisition.

### *Segment Expenses Excluding Interest*

Investor Services and Advisor Services total expenses excluding interest increased by 3% and 14%, respectively, in 2022 compared to 2021. Both segments saw higher compensation and benefits expenses due to increases in headcount to support our expanding client base, annual merit increases, as well as a 5% employee salary increase and other targeted compensation adjustments that went into effect in late 2021. Occupancy and equipment expenses increased in both segments, primarily due to an increase in software maintenance and other agreements as well as other technology equipment costs to support growth of the business and the integration of TD Ameritrade. In addition, depreciation and amortization increased for both segments primarily



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due to higher amortization of purchased and internally developed software and higher depreciation of hardware, driven by capital expenditures in 2021 and 2022 to enhance our technological infrastructure to support growth of the business. For Investor Services, these increases were partially offset by lower other expenses due to a charge of approximately \$200 million in 2021 for a now-settled regulatory matter (see Item 8 – Note 15), partially offset by higher exchange fees and clearing charges, and lower advertising and market development expense due to reduced spending for marketing communications for TD Ameritrade.

Investor Services and Advisor Services total expenses excluding interest increased by 50% and 35%, respectively, in 2021 compared to 2020, primarily due to the inclusion of a full year of TD Ameritrade's results of operations. In addition, both segments saw higher compensation and benefits expenses due to additional headcount increases to support our expanding client base and service levels amidst heightened client engagement, higher bonus accrual, as well as annual merit increases and a 5% employee salary increase that went into effect late in the third quarter of 2021. For Investor Services, total expenses excluding interest also increased due to a charge of approximately \$200 million in 2021 for a regulatory matter (see Item 8 – Note 15).

## **RISK MANAGEMENT**

Schwab's business activities expose it to a variety of risks, including operational, compliance, credit, market, and liquidity risks. The Company has a comprehensive risk management program to identify and manage these risks and their associated potential for financial and reputational impact. Despite our efforts to identify areas of risk and implement risk management policies and procedures, there can be no assurance that Schwab will not suffer unexpected losses due to these risks.

Our risk management process is comprised of risk identification and assessment, risk response, risk measurement and monitoring, and risk reporting and escalation; we use periodic risk and control self-assessments, control testing programs, and internal audit reviews to evaluate the effectiveness of these internal controls. The activities and governance that comprise the risk management process are described below.

As part of our ongoing integration of TD Ameritrade, the Company has aligned TD Ameritrade's risk management practices with Schwab's risk appetite. Our integration work included evaluating new or changed risks impacting the combined company, and taking action through various means. Though integration work continues, the Company's operations, inclusive of TD Ameritrade, remain consistent with our Enterprise Risk Management (ERM) framework.

### **Culture**

The Board of Directors has approved an ERM framework that incorporates our purpose, vision, and values, which form the bedrock of our corporate culture and set the tone for the organization.

We designed the ERM Framework to enable a comprehensive approach to managing risks encountered by Schwab in its business activities. The framework incorporates key concepts commensurate with the size, risk profile, complexity, and continuing growth of the Company. Risk appetite, which is defined as the amount of risk the Company is willing to accept in pursuit of its corporate strategy, is developed by executive management and approved by the Board of Directors.

### **Risk Governance**

Senior management takes an active role in the risk management process and has developed policies and procedures under which specific business and control units are responsible for identifying, measuring, and controlling risks.

The Global Risk Committee, which is comprised of senior executives from each major business and control function, is responsible for the oversight of risk management. This includes identifying emerging risks, assessing risk management practices and the control environment, reinforcing business accountability for risk management, supervisory controls and regulatory compliance, supporting resource prioritization across the organization, and escalating significant issues to the Board of Directors.

We have established risk metrics and reporting that enable measurement of the impact of strategy execution against risk appetite. The risk metrics, with risk limits and tolerance levels, are established for key risk categories by the Global Risk Committee and its functional risk sub-committees.

The Chief Risk Officer regularly reports activities of the Global Risk Committee to the Risk Committee of the Board of Directors. The Board Risk Committee in turn assists the Board of Directors in fulfilling its oversight responsibilities with respect



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to our risk management program, including approving risk appetite statements and related key risk appetite metrics and reviewing reports relating to risk issues from functional areas of corporate risk management, legal, and internal audit.

Functional risk sub-committees focusing on specific areas of risk report to the Global Risk Committee. These sub-committees include the:

- Operational Risk Oversight Committee – provides oversight of and approves operational risk management policies, risk tolerance levels, and operational risk governance processes, and includes sub-committees covering Information Security, Technology, Fraud, Third-Party Risk, Data, and Model Governance;
- Compliance Risk Committee – provides oversight of compliance risk management programs (inclusive of Anti-Money Laundering/Sanctions, Conduct, Fiduciary, and Privacy), policies, and risk tolerance levels providing an aggregate view of compliance risk exposure and employee conduct, including subcommittees covering Fiduciary and Conflicts of Interest Risk;
- Financial Risk Oversight Committee – provides oversight of and approves credit, market, liquidity, and capital risk policies, limits, and exposures and includes the Liquidity and Capital Subcommittee; and
- New Products and Services Risk Oversight Committee – provides oversight of, and approves corporate policy and procedures relating to, the risk governance of new products and services.

Senior management has also created an Incentive Compensation Risk Oversight Committee, which establishes policy and reviews and approves the Annual Risk Assessment of incentive compensation plans, and reports directly to the Compensation Committee of the Board of Directors.

The Company's finance, internal audit, legal, and corporate risk management departments assist management and the various risk committees in evaluating, testing, and monitoring risk management.

In addition, the Disclosure Committee is responsible for monitoring and evaluating the effectiveness of our disclosure controls and procedures and internal control over financial reporting as of the end of each fiscal quarter. The Disclosure Committee reports on this evaluation to the CEO and CFO prior to their certification required by Sections 302 and 906 of the Sarbanes Oxley Act of 2002.

### **Operational Risk**

Operational risk arises due to potential inadequacies or failures related to internal processes, people, and systems, or from external events or relationships impacting the Company and/or any of its key business partners and vendors. While operational risk is inherent in all business activities, we rely on a system of internal controls and risk management practices designed to keep operational risk and operational losses within the Company's risk appetite. We have specific policies and procedures to identify and manage operational risk, and use control testing programs, and internal audit reviews to evaluate the effectiveness of these internal controls. Where appropriate, we manage the impact of operational loss and litigation expense through the purchase of insurance. The insurance program is specifically designed to address our key operational risks and to maintain compliance with local laws and regulation.

Schwab's operations are highly dependent on the integrity and resilience of our critical business functions and technology systems. To the extent Schwab experiences business or system interruptions, errors or downtime (which could result from a variety of causes, including natural disasters, terrorist attacks, technological failure, cyber attacks, changes to systems, linkages with third-party systems, extreme weather, and power failures), our business and operations could be negatively impacted. To minimize business interruptions and ensure the capacity to continue operations during an incident regardless of duration, Schwab maintains a backup and recovery infrastructure which includes facilities for backup and communications, a geographically dispersed workforce, and routine testing of business continuity and disaster recovery plans and a well-established incident management program.

Information Security risk is the risk of unauthorized access, use, disclosure, disruption, modification, recording or destruction of the firm's information or systems. We have designed and implemented an information security program that knits together complementary tools, controls and technologies to protect systems, client accounts and data. We continuously monitor the systems and work collaboratively with government agencies, law enforcement and other financial institutions to address potential threats. We use advanced monitoring systems to identify suspicious activity and deter unauthorized access by internal or external actors. We also maintain policies and procedures, which apply to employees, contractors, and third parties, regarding the standard of care expected with all data, whether the data is internal company information, employee information, or non-

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public client information. This includes limiting the number of employees who have access to clients' personal information and internal authentication measures enforced to protect against the unauthorized use of employee credentials. All employees who handle sensitive information are trained in privacy and security. Schwab's conduct and cybersecurity teams monitor activity looking for suspicious behavior. These capabilities allow us to identify and quickly act on attempted intrusions.

Fraud risk arises from attempted or actual theft of financial assets or other property of any client or the Company. Schwab is committed to protecting the Company's and its clients' assets from fraud and complying with all applicable laws and regulations to prevent, detect and report fraudulent activity. Schwab manages fraud risk through policies, procedures and controls. We also take affirmative steps to prevent and detect fraud and report, to appropriate authorities, any known or suspected acts of fraud in accordance with existing laws and requirements.

Schwab also faces operational risk when we employ the services of various third parties, including domestic and international outsourcing of certain technology, processing, servicing, and support functions. We manage the exposure to third-party risk and promote a culture of resiliency through internal policies, procedures and controls, and contractual provisions, control standards, ongoing monitoring of third-party performance, and appropriate testing with third-party service providers.

Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Models are owned by several business units throughout the organization, and are used for a variety of purposes. Model use includes, but is not limited to, calculating capital requirements for hypothetical stressful environments, estimating interest and credit risk for loans and other balance sheet assets, and providing guidance in the management of client portfolios. We have established a policy that aligns with regulatory guidance to describe the roles and responsibilities of all key stakeholders in model development, management, and use. All models are registered in a centralized database and classified into different risk ratings depending on their potential financial, reputational, or regulatory impact to the Company. The model risk rating determines the scope of model governance activities.

### **Compliance Risk**

Schwab faces compliance risk which is the potential exposure to legal or regulatory sanctions, fines or penalties, financial loss, or damage to reputation resulting from the failure to comply with laws, regulations, rules, or other regulatory requirements. Among other things, compliance risks relate to the suitability of client investments, conflicts of interest, disclosure obligations and performance expectations for products and services, supervision of employees, and the adequacy of our controls. The Company and its affiliates are subject to extensive regulation by federal, state and foreign regulatory authorities, including SROs.

We manage compliance risk through policies, procedures and controls reasonably designed to achieve and/or monitor compliance with applicable legal and regulatory requirements. These procedures address issues such as conduct and ethics, sales and trading practices, marketing and communications, extension of credit, client funds and securities, books and records, anti-money laundering, privacy, and employment policies.

Privacy risk is the risk of unauthorized collection, use, storage, or sharing of personal information, including data incidents and other mismanagement of personal information. We manage privacy risk through policies, procedures, and controls reasonably designed to achieve and/or monitor compliance with these laws and regulations.

Anti-money laundering/Sanctions risk is the risk of legal or regulatory sanctions, fines or penalties, financial loss, or damage to reputation resulting from the failure to comply with the Bank Secrecy Act/Anti-Money Laundering (BSA/AML) and Office of Foreign Assets Control (OFAC)/global sanctions (collectively, "AML") laws, regulations, rules, or other regulatory requirements. Schwab manages this risk through daily monitoring, a system of internal controls, education and training for appropriate personnel, and developing risk-based procedures for conducting ongoing customer due diligence and complying with beneficial ownership requirements for legal entity customers.

Conduct risk arises from inappropriate, unethical, or unlawful behavior of the Company, its employees or third parties acting on the Company's behalf that may result in detriment to the Company's clients, financial markets, the Company, and/or the Company's employees. We manage this risk through policies, procedures, a system of internal controls, including personnel monitoring and surveillance. Conduct-related matters are escalated through appropriate channels by the Corporate Responsibility Officer.

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Fiduciary risk is the potential for financial or reputational loss through breach of fiduciary duties to a client. Fiduciary activities include, but are not limited to, individual and institutional trust, investment management, custody, and cash and securities processing. We manage this risk by establishing policy and procedures to ensure that obligations to clients are discharged faithfully and in compliance with applicable legal and regulatory requirements. Business units have the primary responsibility for adherence to the policy and procedures applicable to their business. Guidance and control are provided through the creation, approval, and ongoing review of applicable policies by business units and various risk committees.

Incentive Compensation risk is the potential for adverse consequences resulting from compensation plans that do not balance the execution of our strategy with risk and financial rewards, potentially encouraging imprudent risk-taking by employees. We have implemented risk management processes, including a policy, to identify, evaluate, assess, and manage risks associated with incentive compensation plans and the activities of certain employees, defined as Covered Employees, who have the authority to expose the Company to material amounts of risk.

### **Credit Risk**

Credit risk is the potential for loss due to a borrower, counterparty, or issuer failing to perform its contractual obligations. Our exposure to credit risk mainly results from investing activities in our liquidity and investment portfolios, mortgage lending, margin lending and client option and futures activities, pledged asset lending, securities lending activities, and our role as a counterparty in other financial contracts. To manage the risks of such losses, we have established policies and procedures, which include setting and reviewing credit limits, monitoring of credit limits and quality of counterparties, and adjusting margin, PAL, option, and futures requirements for certain securities and instruments.

#### *Liquidity and Investment Portfolios*

Schwab has exposure to credit risk associated with its investment portfolios, which include U.S. agency and non-agency mortgage-backed securities, asset-backed securities, corporate debt securities, U.S. agency notes, U.S. Treasury securities, certificates of deposit, U.S. state and municipal securities, commercial paper, and foreign government agency securities.

At December 31, 2022, substantially all securities in the investment portfolios were rated investment grade. U.S. agency mortgage-backed securities do not have explicit credit ratings; however, management considers these to be of the highest credit quality and rating given the guarantee of principal and interest by the U.S. government or U.S. government-sponsored enterprises.

#### *Mortgage Lending Portfolio*

The bank loan portfolio includes First Mortgages, HELOCs, PALs (discussed below), and other loans. The credit risk exposure related to loans is actively managed through individual loan and portfolio reviews. Management regularly reviews asset quality, including concentrations, delinquencies, nonaccrual loans, charge-offs, and recoveries. All are factors in the determination of an appropriate allowance for credit losses.

Our residential loan underwriting guidelines include maximum LTV ratios, cash out limits, and minimum Fair Isaac Corporation (FICO) credit scores. The specific guidelines are dependent on the individual characteristics of a loan (for example, whether the property is a primary or secondary residence, whether the loan is for investment property, whether the loan is for an initial purchase of a home or refinance of an existing home, and whether the loan size is conforming or jumbo).

Schwab does not originate or purchase residential loans that allow for negative amortization and does not originate or purchase subprime loans (generally defined as extensions of credit to borrowers with a FICO score of less than 620 at origination), unless the borrower has compensating credit factors. For more information on credit quality indicators relating to Schwab's bank loans, see Item 8 – Note 7.

#### *Securities and Instrument-Based Lending Portfolios*

Collateral arrangements relating to margin loans, PALs, option and futures positions, securities lending agreements, and securities purchased under agreements to resell (resale agreements) include provisions that require additional collateral in the event of market fluctuations. Additionally, for margin loans, PALs, options and futures positions, and securities lending agreements, collateral arrangements require that the fair value of such collateral sufficiently exceeds the credit exposure in order to maintain a fully secured position.

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*Other Counterparty Exposures*

Schwab performs clearing services for all securities transactions in its client accounts. Schwab has exposure to credit risk due to its obligation to settle transactions with clearing corporations, mutual funds, and other financial institutions even if Schwab's clients or a counterparty fail to meet their obligations to the Company.

**Market Risk**

Market risk is the potential for changes in earnings or the value of financial instruments held by Schwab as a result of fluctuations in interest rates, equity prices, or market conditions. Schwab is exposed to market risk primarily from changes in interest rates within our interest-earning assets relative to changes in the costs of funding sources that finance these assets.

To manage interest rate risk, we have established policies and procedures, which include setting limits on net interest revenue risk and economic value of equity (EVE) risk. To remain within these limits, we manage the maturity, repricing, and cash flow characteristics of the investment portfolios. We may also utilize derivative instruments such as interest rate swaps to assist with managing interest rate risk. Management monitors established guidelines to stay within the Company's risk appetite.

Our measurement of interest rate risk involves assumptions that are inherently uncertain and, as a result, cannot precisely estimate the impact of changes in interest rates on net interest revenue, bank deposit account fees, or EVE. Actual results may differ from simulated results due to balance growth or decline and the timing, magnitude, and frequency of interest rate changes, as well as changes in market conditions and management strategies, including changes in asset and liability mix. Financial instruments are also subject to the risk that valuations will be negatively affected by changes in demand and the underlying market for a financial instrument.

We are indirectly exposed to option, futures, and equity market fluctuations in connection with client option and futures accounts, securities collateralizing margin loans to brokerage customers, and client securities loaned out as part of the brokerage securities lending activities. Equity market valuations may also affect the level of brokerage client trading activity, margin borrowing, and overall client engagement with Schwab. Additionally, we earn mutual fund and ETF service fees and asset management fees based upon daily balances of certain client assets. Fluctuations in these client asset balances caused by changes in equity valuations directly impact the amount of fee revenue we earn.

Our market risk related to financial instruments held for trading is not material.

*Interest Rate Risk Simulations*

*Net Interest Revenue Simulation*

For our net interest revenue sensitivity analysis, we use net interest revenue simulation modeling techniques to evaluate and manage the effect of changing interest rates. The simulations include all balance sheet interest rate-sensitive assets and liabilities. Key assumptions include the projection of interest rate scenarios with rate floors, prepayment speeds of mortgage-related investments, repricing of financial instruments, and reinvestment of matured or paid-down securities and loans.

Net interest revenue is affected by various factors, such as the distribution and composition of interest-earning assets and interest-bearing liabilities, the spread between yields earned on interest-earning assets and rates paid on interest-bearing liabilities, which may reprice at different times or by different amounts, and the spread between short- and long-term interest rates. Interest-earning assets include investment securities, margin loans, bank loans, and cash and cash equivalents. These assets are sensitive to changes in interest rates and changes in prepayment levels that tend to increase in a declining rate environment and decrease in a rising rate environment. Because we establish the rates paid on certain brokerage client cash balances and bank deposits and the rates charged on certain margin and bank loans, and control the composition of our investment securities, we have some ability to manage our net interest spread, depending on competitive factors and market conditions.

Net interest revenue sensitivity analysis assumes the asset and liability structure of the consolidated balance sheet would not be changed as a result of the simulated changes in interest rates. As we actively manage the consolidated balance sheet and interest rate exposure, in all likelihood we would take steps to manage additional interest rate exposure that could result from changes in the interest rate environment.

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Higher short-term interest rates would positively impact net interest margin as yields on interest-earning assets are expected to rise faster than the cost of funding sources. A decline in short-term interest rates could negatively impact the yield on the Company's investment and loan portfolios to a greater degree than any offsetting reduction in interest expense from funding sources, compressing net interest margin.

The following table shows the simulated change to net interest revenue over the next 12 months beginning December 31, 2022 and 2021 of a gradual 100 basis point increase or decrease in market interest rates relative to prevailing market rates at the end of each reporting period:

| December 31,                 | 2022   | 2021   |
|------------------------------|--------|--------|
| Increase of 100 basis points | 3.6%   | 14.1%  |
| Decrease of 100 basis points | (3.2)% | (4.5)% |

The Company's simulated increase of 100 basis points in market interest rates had a lower impact on net interest revenue at year-end 2022 compared with year-end 2021 primarily due to an increased sensitivity to the Company's higher projected client deposit rates, lower special reserve and margin loan balances at the Company's broker-dealer subsidiaries, and reduced cash and adjustable-rate balances across the Company's banking entities. A simulated decrease of 100 basis points in market interest rates had a lower impact on net interest revenue at year-end 2022 compared to the prior year-end primarily due to higher starting client deposit rates which, relative to the December 31, 2021 simulation, provide greater responsiveness to lower simulated interest rates.

In addition to measuring the effect of a gradual 100 basis point parallel increase or decrease in current interest rates, we regularly simulate the effects of larger parallel- and non-parallel shifts in interest rates on net interest revenue.

#### *Bank Deposit Account Fees Simulation*

Consistent with the presentation on the consolidated statement of income, the sensitivity of bank deposit account fee revenue to interest rate changes is assessed separately from the net interest revenue simulation described above. As of December 31, 2022 and 2021, simulated changes in bank deposit account fee revenue from gradual 100 basis point changes in market interest rates relative to prevailing market rates did not have a significant impact on the Company's total net revenues.

#### *Economic Value of Equity Simulation*

Management also uses EVE simulations to measure interest rate risk. EVE sensitivity measures the long-term impact of interest rate changes on the net present value of assets and liabilities. EVE is calculated by subjecting the balance sheet to hypothetical instantaneous shifts in the level of interest rates. This analysis is highly dependent upon asset and liability assumptions based on historical behaviors as well as our expectations of the economic environment. Key assumptions in our EVE calculation include projection of interest rate scenarios with rate floors, prepayment speeds of mortgage-related investments, term structure models of interest rates, non-maturity deposit behavior, and pricing assumptions. Our net interest revenue, bank deposit account fee revenue, and EVE simulations reflect the assumption of non-negative investment yields.

#### Phase-out of LIBOR

The Company continues to prepare for the phasing-out of LIBOR with efforts coordinated by its firm-wide transition team. The LIBOR transition team is overseen by executive leadership and has organized its work to address both client-impacting and non-client-impacting workstreams. From a client perspective, the Company has established pages on the client-facing websites for CS&Co and TD Ameritrade, Inc. to provide information for our clients to help them understand how they may be impacted by LIBOR's discontinuation. In addition, we maintain internal informational resources for our client-facing employees' awareness regarding LIBOR's phase-out.

The Company's largest exposures to LIBOR are certain investment securities and loans. In purchasing new investment securities, we ensure that appropriate fallback language is in place in the event that LIBOR becomes unavailable or is deemed unreliable, and we have sold certain securities lacking appropriate fallback language. Additionally, in accordance with regulatory feedback, we are limiting our purchases of LIBOR-based securities, and we ensure that any new purchases of LIBOR-based securities were issued prior to January 1, 2022. As of December 31, 2022, substantially all of the Company's remaining investment securities with exposure to LIBOR provide for appropriate fallback in the event LIBOR is no longer available. Consistent with guidance from the Alternative Reference Rate Committee, a group of private-market participants jointly

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convened by the Federal Reserve Board and the Federal Reserve Bank of New York to help ensure a successful transition from LIBOR, beginning in 2022, the Company no longer uses LIBOR as a reference rate in new loans, and the Company's portfolio of legacy loans have fallback language if LIBOR is no longer available.

Certain of the Company's technology systems and financial models have historically utilized LIBOR, and we have now substantially transitioned our financial models and systems to alternative reference rates. In addition, we have transitioned the Company's IDA agreement and certain intercompany lending agreements that previously were tied to LIBOR to other appropriate reference rates.

On March 15, 2022, President Biden signed the Consolidated Appropriations Act of 2022 into law, which includes the Adjustable Interest Rate (LIBOR) Act, containing legislation related to the transition away from LIBOR. This legislation is intended to establish a uniform process for replacing LIBOR in existing contracts and securities that continue after the cessation of LIBOR and do not contain clearly defined or practicable fallback provisions.

On December 16, 2022, the Federal Reserve Board adopted the final rule that implements the LIBOR Act. The final rule provides default rules for certain contracts that use LIBOR, which would implement the LIBOR Act with replacement rates based on SOFR. The Company believes the LIBOR Act and the Federal Reserve Board's final regulation help provide clarity for the transition of our legacy LIBOR contracts, including investment securities and loans to alternative reference rates in an orderly manner.

Additional transition efforts to prepare for the phasing-out of LIBOR are ongoing. In 2022, Schwab redeemed Series A and Series E preferred stock; both of which referenced LIBOR for dividend payments. In addition, operational work is underway to transition our legacy loan portfolio, in accordance with regulatory guidance, to alternate reference rates by the first rate reset after LIBOR's cessation.

### **Liquidity Risk**

Liquidity risk is the potential that Schwab will be unable to sell assets or meet cash flow obligations when they come due without incurring unacceptable losses.

Due to its role as a source of financial strength, CSC's liquidity needs are primarily driven by the liquidity and capital needs of: CS&Co, TD Ameritrade, Inc., and TDAC, our principal broker-dealer subsidiaries; the capital needs of the banking subsidiaries; principal and interest due on corporate debt; dividend payments on CSC's preferred stock; and returns of capital to common stockholders. The liquidity needs of our broker-dealer subsidiaries are primarily driven by client activity including trading and margin lending activities and capital expenditures. The capital needs of the banking subsidiaries are primarily driven by client deposit levels. We have established liquidity policies to support the successful execution of business strategies, while ensuring ongoing and sufficient liquidity to meet operational needs and satisfy applicable regulatory requirements under both normal and stressed conditions. We seek to maintain client confidence in the balance sheet and the safety of client assets by maintaining liquidity and diversity of funding sources to allow the Company to meet its obligations. To this end, we have established limits and contingency funding plans to support liquidity levels during both business as usual and stressed conditions.

We employ a variety of metrics to monitor and manage liquidity. We conduct regular liquidity stress testing to develop a view of liquidity risk exposures and to ensure our ability to maintain sufficient liquidity during market-related or company-specific liquidity stress events. Liquidity sources are also tested periodically and results are reported to the Financial Risk Oversight Committee. A number of early warning indicators are monitored to help identify emerging liquidity stresses in the market or within the organization and are reviewed with management as appropriate.

#### *Primary Funding Sources*

Schwab's primary source of funds is cash generated by client activity which includes bank deposits and cash balances in client brokerage accounts. These funds are used to purchase investment securities and extend loans to clients.

Other sources of funds may include cash flows from operations, maturities and sales of investment securities, repayments on loans, securities lending of assets held in client brokerage accounts, repurchase agreements, and cash provided by external financing including securities issuances by CSC in the capital markets.

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To meet daily funding needs, we maintain liquidity in the form of overnight cash deposits and short-term investments. For unanticipated liquidity needs, we also maintain a buffer of highly liquid investments, including U.S. Treasury securities.

*Additional Funding Sources*

In addition to internal sources of liquidity, Schwab has access to external funding. The need for short-term borrowings from external debt facilities arises primarily from timing differences between cash flow requirements, scheduled liquidation of interest-earning investments, movements of cash to meet regulatory brokerage client cash segregation requirements, and general corporate purposes. We maintain policies and procedures necessary to access funding and test discount window borrowing procedures on a periodic basis.

The following table describes external debt facilities available at December 31, 2022:

| Description  | Borrower             | Outstanding | Available        | Maturity of Amounts Outstanding | Weighted-Average Interest Rate on Amounts Outstanding |
|--|----------------------|-------------|------------------|---------------------------------|---|
| Federal Home Loan Bank (FHLB) secured credit facilities            | Banking subsidiaries | \$ 12,400   | \$ 68,562        | June 2023 - November 2023       | 4.88%   |
| Federal Reserve discount window                                    | Banking subsidiaries | —           | 7,783            | N/A                             | —   |
| Repurchase agreements  | Banking subsidiaries | 4,402       | — <sup>(1)</sup> | August 2023 - September 2023    | 4.99%   |
| Uncommitted, unsecured lines of credit with various external banks | CSC, CS&Co           | —           | 1,607            | N/A                             | —   |
| Unsecured commercial paper   | CSC                  | 250         | 4,750            | March 2023                      | 4.67%   |
| Secured uncommitted lines of credit with various external banks    | TDAC                 | —           | — <sup>(2)</sup> | N/A                             | —   |

<sup>(1)</sup> Secured borrowing capacity is made available based on the banking subsidiaries' ability to provide collateral deemed acceptable by each respective counterparty. See Item 8 – Note 17 for additional information.

<sup>(2)</sup> Secured borrowing capacity is made available based on TDAC's ability to provide acceptable collateral to the lenders as determined by the credit agreements.

Our banking subsidiaries maintain secured credit facilities with the FHLB. Amounts available under these facilities are dependent on the value of our First Mortgages, HELOCs, and the fair value of certain of our investment securities that are pledged as collateral. These credit facilities are also available as backup financing in the event the outflow of client cash from the banking subsidiaries' respective balance sheets is greater than maturities and paydowns on investment securities and bank loans. CSC's banking subsidiaries must each maintain positive tangible capital, as defined by the Federal Housing Finance Agency, in order to place new draws upon these credit facilities, and the Company manages capital with consideration of minimum tangible capital ratios at our banking subsidiaries. Tangible capital pursuant to the requirements of the FHLB borrowing facilities for our banking subsidiaries is common equity less goodwill and intangible assets.

Our banking subsidiaries also have access to short-term secured funding through the Federal Reserve discount window. Amounts available under the Federal Reserve discount window are dependent on the fair value of certain investment securities that are pledged as collateral. Our banking subsidiaries may also engage with external financial institutions in repurchase agreements collateralized by investment securities as another source of short-term liquidity. Our banking subsidiaries are also counterparties to the standing repo facility with the Federal Reserve Bank of New York.

CSC has a commercial paper program of which proceeds are used for general corporate purposes. The maturities of the Commercial Paper Notes may vary, but are not to exceed 270 days from the date of issue. CSC's ratings for these short-term borrowings were P1 by Moody's, A1 by Standard & Poor's, and F1 by Fitch at December 31, 2022 and 2021. CSC also has a universal automatic shelf registration statement on file with the SEC, which enables it to issue debt, equity, and other securities.

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CS&Co maintains uncommitted, unsecured bank credit lines with a group of banks as a source of short-term liquidity, which can also be accessed by CSC. TDAC maintains secured uncommitted lines of credit, under which TDAC borrows on either a demand or short-term basis and pledges client margin securities as collateral.

The following table provides information about retail brokered certificates of deposit issued at CSB in the fourth quarter of 2022 and outstanding as of December 31, 2022:

|   | Amount Outstanding | Maturity                       | Weighted-Average Interest Rate |
|---|--------------------|--------------------------------|--------------------------------|
| Retail brokered certificates of deposit | \$ 6,047           | September 2023 - December 2023 | 4.75%                          |

As a result of rapidly increasing short-term interest rates in 2022, the Company saw an increase in the pace at which clients moved certain cash balances out of our sweep features and into higher yielding alternatives. As these outflows have continued, they have outpaced excess cash on hand and cash generated by maturities and paydowns on our investment portfolios. In the fourth quarter of 2022, our banking subsidiaries began to raise temporary supplemental term funding via a variety of sources, including both fixed- and floating-rate FHLB advances, repurchase agreements, and the issuance of retail brokered certificates of deposit. The Company expects to use these types of temporary supplemental funding, until the Company's primary sources of liquidity are again greater than any outflows associated with client cash allocation decisions.

Subsequent to December 31, 2022, the Company's banking entities had drawn an additional \$13.0 billion of FHLB advances. The current average interest rate on these advances was 5.12%, with the earliest maturity occurring in June 2023. Our banking subsidiaries also borrowed an additional \$3.4 billion under repurchase agreements with external financial institutions subsequent to December 31, 2022. The current average interest rate on these repurchase borrowings was 4.91% with the earliest maturity occurring in March 2023. The Company also issued \$9.4 billion of retail brokered certificates of deposit subsequent to December 31, 2022 at a weighted average interest rate of 4.71%, with the earliest maturity occurring in July 2023.

#### *Liquidity Coverage Ratio*

Schwab is subject to the full LCR rule, which requires the Company to hold HQLA in an amount equal to at least 100% of the Company's projected net cash outflows over a prospective 30-calendar-day period of acute liquidity stress, calculated on each business day. See Item 1 – Regulation for additional information. The Company was in compliance with the LCR rule at December 31, 2022, and the table below presents information about our average daily LCR:

|                     | Average for the Three Months Ended December 31, 2022 |
|---------------------|--|
| Total eligible HQLA | \$ 93,986  |
| Net cash outflows   | \$ 76,754  |
| LCR                 | 123%   |

To support growth in margin loan balances at our broker-dealer subsidiaries while meeting our LCR requirements, the Company may issue commercial paper or draw on secured lines of credit, in addition to capital markets issuances.

#### *Long-Term Borrowings*

The Company's long-term debt is primarily comprised of Senior Notes and totaled \$20.8 billion and \$18.9 billion at December 31, 2022 and 2021, respectively.

The following table provides information about our Senior Notes outstanding as of December 31, 2022:

|                          | Par Outstanding | Maturity  | Weighted-Average Interest Rate | Moody's | Standard & Poor's | Fitch |
|--------------------------|-----------------|-----------|--------------------------------|---------|-------------------|-------|
| CSC Senior Notes         | \$ 20,512       | 2023-2032 | 2.44%                          | A2      | A                 | A     |
| TDA Holding Senior Notes | \$ 213          | 2024-2029 | 3.47%                          | A2      | A                 | —     |



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All long-term debt issuances in 2022, 2021, and 2020 were senior unsecured obligations. Additional details of these debt issuances are as follows:

| Issuance Date     | Issuance Amount | Maturity Date | Interest Rate | Interest Payable |
|-------------------|-----------------|---------------|---------------|------------------|
| March 24, 2020    | \$ 600          | 3/24/2025     | 4.200%        | Semi-annually    |
| March 24, 2020    | \$ 500          | 3/22/2030     | 4.625%        | Semi-annually    |
| December 11, 2020 | \$ 1,250        | 3/11/2026     | 0.900%        | Semi-annually    |
| December 11, 2020 | \$ 750          | 3/11/2031     | 1.650%        | Semi-annually    |
| March 18, 2021    | \$ 1,250        | 3/18/2024     | SOFR + 0.500% | Quarterly        |
| March 18, 2021    | \$ 1,500        | 3/18/2024     | 0.750%        | Semi-annually    |
| March 18, 2021    | \$ 1,250        | 3/20/2028     | 2.000%        | Semi-annually    |
| May 13, 2021      | \$ 500          | 5/13/2026     | SOFR + 0.520% | Quarterly        |
| May 13, 2021      | \$ 1,000        | 5/13/2026     | 1.150%        | Semi-annually    |
| May 13, 2021      | \$ 750          | 5/13/2031     | 2.300%        | Semi-annually    |
| August 26, 2021   | \$ 850          | 12/1/2031     | 1.950%        | Semi-annually    |
| March 3, 2022     | \$ 500          | 3/3/2027      | SOFR + 1.050% | Quarterly        |
| March 3, 2022     | \$ 1,500        | 3/3/2027      | 2.450%        | Semi-annually    |
| March 3, 2022     | \$ 1,000        | 3/3/2032      | 2.900%        | Semi-annually    |

During the third quarter of 2021, we completed a debt exchange offer related to certain senior notes issued by TDA Holding for an equivalent amount of senior notes issued by CSC. For further discussion of the exchange, see Item 8 – Note 13.

*Equity Issuances and Redemptions*

CSC's preferred stock issued and net proceeds for 2022, 2021, and 2020 are shown below:

|          | Date Issued and Sold | Net Proceeds |
|----------|----------------------|--------------|
| Series G | April 30, 2020       | \$ 2,470     |
| Series H | December 11, 2020    | \$ 2,470     |
| Series I | March 18, 2021       | \$ 2,222     |
| Series J | March 30, 2021       | \$ 584       |
| Series K | March 4, 2022        | \$ 740       |

On June 1, 2021, the Company redeemed all of the outstanding shares of its 6.00% Non-Cumulative Perpetual Preferred Stock, Series C, and the corresponding depositary shares. The depositary shares were redeemed at a redemption price of \$25 per depositary share for a total of \$600 million. The redemption was funded with the net proceeds from the Series J preferred stock offering. On November 1, 2022, the Company redeemed all of the outstanding shares of its Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A at a redemption price of \$1,000 per share for a total of \$400 million. On December 1, 2022, the Company redeemed all of the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, and the corresponding depositary shares. The depositary shares were redeemed at a redemption price of \$1,000 per depositary share for a total of \$600 million.

For further discussion, see Item 8 – Note 13 for the Company's outstanding debt and borrowing facilities and Item 8 – Note 19 for equity outstanding balances, issuances, and redemptions.

**Contractual Obligations**

Schwab's principal contractual obligations as of December 31, 2022 include credit-related financial instruments, representing our banking subsidiaries' commitments to extend credit to banking clients, purchase mortgage loans, and fund CRA investments; payments on short-term borrowings and long-term debt; purchase obligations for services such as advertising and marketing, telecommunications, hardware- and software-related agreements, and professional services; and lease payments including legally-binding minimum lease payments for leases signed but not yet commenced. For information on our contractual

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obligations for credit-related financial instruments, short-term borrowings and long-term debt, and leases, see Part II, Item 8 – Notes 15, 13, and 14, respectively. As of December 31, 2022, the Company had total short-term purchase obligations of \$562 million and total long-term purchase obligations of \$510 million.

Schwab also enters into guarantees and other similar arrangements in the ordinary course of business. For information on these arrangements, see Item 8 – Notes 7, 11, 13, 15, and 17. Pursuant to the IDA agreement, certain brokerage client deposits are required to be swept off-balance sheet to the TD Depository Institutions. See Item 8 – Note 15 for additional information on the IDA agreement.

## **CAPITAL MANAGEMENT**

Schwab seeks to manage capital to a level and composition sufficient to support execution of our business strategy, including anticipated balance sheet growth inclusive of migration of IDA balances (see further discussion below), providing financial support to our subsidiaries, and sustained access to the capital markets, while at the same time meeting our regulatory capital requirements and serving as a source of financial strength to our banking subsidiaries. Schwab also seeks to return excess capital to stockholders. We may return excess capital through such activities as dividends, repurchases of common shares, preferred stock redemptions, and repurchases of our preferred stock represented by depository shares. Schwab's primary sources of capital are funds generated by the operations of subsidiaries and securities issuances by CSC in the capital markets.

To ensure that Schwab has sufficient capital to absorb unanticipated losses or declines in asset values, we have adopted a policy to remain well capitalized even in stressed scenarios. Internal guidelines are set, for both CSC and its regulated subsidiaries, to ensure capital levels are in line with our strategy and regulatory requirements. Capital forecasts are reviewed monthly at Asset-Liability Management and Pricing Committee and Financial Risk Oversight Committee meetings. A number of early warning indicators are monitored to help identify potential problems that could impact capital. In addition, we monitor the subsidiaries' capital levels and requirements. Subject to regulatory capital requirements and any required approvals, any excess capital held by subsidiaries is transferred to CSC in the form of dividends and returns of capital. At the banking subsidiaries, dividends and returns of capital are managed with consideration of minimum tangible common equity levels and sufficient capital above regulatory capital requirements. When subsidiaries have need of additional capital, funds are provided by CSC as equity investments and also as subordinated loans. The details and method used for each cash infusion are based on an analysis of the particular entity's needs and financing alternatives. The amounts and structure of infusions take into consideration maintenance of regulatory capital requirements, debt/equity ratios, and equity double leverage ratios.

Schwab conducts regular capital stress testing to assess the potential financial impacts of various adverse macroeconomic and company-specific events to which the Company could be subjected. The objective of the capital stress testing is (1) to explore various potential outcomes – including rare and extreme events and (2) to assess impacts of potential stressful outcomes on both capital and liquidity. Additionally, we have a comprehensive Capital Contingency Plan to provide action plans for certain low probability/high impact capital events that the Company might face. The Capital Contingency Plan is issued under the authority of the Financial Risk Oversight Committee and provides guidelines for sustained capital events. It does not specifically address every contingency, but is designed to provide a framework for responding to any capital stress. The results of the stress testing indicate there are two scenarios which could stress the Company's capital: (1) inflows of balance sheet cash during a period of very low interest rates and (2) outflows of balance sheet cash when other sources of financing are not available and the Company is required to sell assets to fund the flows at a loss. The Capital Contingency Plan is reviewed annually and updated as appropriate.

For additional information, see Business – Regulation in Part I, Item 1.

## **Regulatory Capital Requirements**

CSC is subject to capital requirements set by the Federal Reserve and is required to serve as a source of strength for our banking subsidiaries and to provide financial assistance if our banking subsidiaries experience financial distress. Schwab is required to maintain a Tier 1 Leverage Ratio for CSC of at least 4%, and we have a long-term operating objective. In the third quarter of 2022, the Company lowered its long-term operating objective for the consolidated Tier 1 Leverage Ratio down 25 basis points from 6.75%-7.00% to 6.50%-6.75%. Due to the relatively low risk of our balance sheet assets and risk-based capital ratios at CSC and CSB that are well in excess of regulatory requirements, the Tier 1 Leverage Ratio is the most restrictive capital constraint on CSC's asset growth.

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Our banking subsidiaries are subject to capital requirements set by their regulators that are substantially similar to those imposed on CSC by the Federal Reserve. Our banking subsidiaries' failure to remain well capitalized could result in certain mandatory and possibly additional discretionary actions by the regulators that could have a direct material effect on the banks. Schwab's principal banking subsidiary, CSB, is required to maintain a Tier 1 Leverage Ratio of at least 5% to be well capitalized, but seeks to maintain a ratio of at least 6.25%. Based on its regulatory capital ratios at December 31, 2022, CSB is considered well capitalized.

Our banking subsidiaries are required to provide notice to, and may be required to obtain approval from, the Federal Reserve and the banking subsidiaries' state regulators in order to declare and pay dividends to CSC. In 2023, we expect to be required to obtain approval from the Federal Reserve for our banking subsidiaries to declare and pay dividends in excess of the amount of recent net income and retained earnings.

As broker-dealers, CS&Co, TDAC, and TD Ameritrade, Inc., are subject to regulatory requirements of the Uniform Net Capital Rule, which is intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit the broker-dealer subsidiaries from paying cash dividends, making unsecured advances and loans to CSC and employees, and repaying subordinated borrowings from CSC if such payment would result in a net capital amount below prescribed thresholds. At December 31, 2022, CS&Co, TDAC, and TD Ameritrade, Inc. were in compliance with their respective net capital requirements.

In addition to the capital requirements above, Schwab's subsidiaries are subject to other regulatory requirements intended to ensure financial soundness and liquidity. See Item 8 – Note 23 for additional information on the components of stockholders' equity and information on the capital requirements of significant subsidiaries.

The following table details the capital ratios for CSC consolidated and CSB:

| December 31,  | 2022      |           | 2021      |           |
|---|-----------|-----------|-----------|-----------|
|   | CSC       | CSB       | CSC       | CSB       |
| <b>Total stockholders' equity</b>   | \$ 36,608 | \$ 7,664  | \$ 56,261 | \$ 27,035 |
| Less:   |           |           |           |           |
| Preferred stock   | 9,706     | —         | 9,954     | —         |
| Common Equity Tier 1 Capital before regulatory adjustments                    | \$ 26,902 | \$ 7,664  | \$ 46,307 | \$ 27,035 |
| Less:   |           |           |           |           |
| Goodwill, net of associated deferred tax liabilities                          | \$ 11,816 | \$ 13     | \$ 11,857 | \$ 13     |
| Other intangible assets, net of associated deferred tax liabilities           | 7,079     | —         | 7,579     | —         |
| Deferred tax assets, net of valuation allowances and deferred tax liabilities | 37        | 35        | 13        | 12        |
| AOCI adjustment <sup>(1)</sup>  | (22,620)  | (19,680)  | (1,109)   | (1,004)   |
| Common Equity Tier 1 Capital  | \$ 30,590 | \$ 27,296 | \$ 27,967 | \$ 28,014 |
| Tier 1 Capital  | \$ 40,296 | \$ 27,296 | \$ 37,921 | \$ 28,014 |
| Total Capital   | 40,376    | 27,370    | 37,950    | 28,033    |
| Risk-Weighted Assets  | 139,657   | 99,631    | 141,969   | 104,409   |
| Total Leverage Exposure   | 566,809   | 375,846   | 614,466   | 400,532   |
| Common Equity Tier 1 Capital/Risk-Weighted Assets                             | 21.9%     | 27.4%     | 19.7%     | 26.8%     |
| Tier 1 Capital/Risk-Weighted Assets   | 28.9%     | 27.4%     | 26.7%     | 26.8%     |
| Total Capital/Risk-Weighted Assets  | 28.9%     | 27.5%     | 26.7%     | 26.8%     |
| Tier 1 Leverage Ratio   | 7.2%      | 7.3%      | 6.2%      | 7.1%      |
| Supplementary Leverage Ratio  | 7.1%      | 7.3%      | 6.2%      | 7.0%      |

<sup>(1)</sup> Changes in market interest rates can result in unrealized gains or losses on AFS securities, which are included in AOCI. As a Category III banking organization, CSC has elected to exclude AOCI from regulatory capital.

The Company's consolidated Tier 1 Leverage Ratio increased to 7.2% at December 31, 2022 from 6.2% at year-end 2021. This increase resulted primarily from lower bank deposits and payables to brokerage clients, which decreased by a total of \$105.3 billion, or 18%, in 2022 due to client cash allocation decisions resulting from the rising interest rate environment; strength in earnings in 2022; and our March 2022 issuance of Series K preferred stock. Partially offsetting these factors were

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common stock repurchases of \$3.4 billion and \$1.0 billion in preferred stock redemptions. CSB's Tier 1 Leverage Ratio also increased from year-end 2021, ending 2022 at 7.3%.

In January and November of 2022, the Company transferred investment securities from the AFS category to the HTM category, with aggregate fair values of \$108.8 billion and \$79.8 billion, respectively, and net unrealized losses at the time of transfer of \$2.4 billion and \$15.8 billion, respectively. The transfer of these securities to the HTM category reduces the Company's exposure to fluctuations in AOCI that can result from unrealized gains and losses on AFS securities due to changes in market interest rates. The unrealized loss at the time of transfer is amortized over the remaining life of the security, offsetting the amortization of the security's premium or discount, and resulting in no impact to net income.

#### *IDA Agreement*

Certain brokerage client deposits are swept off-balance sheet to the TD Depository Institutions pursuant to the IDA agreement. During 2022 and 2021, Schwab moved net amounts of \$13.7 billion and \$10.1 billion, respectively, of IDA balances to its balance sheet. The Company's overall capital management strategy includes supporting migration of IDA balances in future periods as available pursuant to the terms of the IDA agreement. The Company's ability to migrate these balances to its balance sheet is dependent upon multiple factors including having sufficient capital levels to sustain these incremental deposits. See Item 8 – Note 15 for further information on the IDA agreement.

#### *Dividends*

Since the initial dividend in 1989, and as of December 31, 2022, CSC has paid 135 consecutive quarterly dividends and has increased the quarterly dividend rate 27 times, resulting in a 20% compounded annual growth rate, excluding the special cash dividend of \$1.00 per common share in 2007. While the payment and amount of dividends are at the discretion of the Board of Directors, subject to certain regulatory and other restrictions, CSC currently targets its common and nonvoting common stock cash dividend at approximately 20% to 30% of net income.

The Board of Directors of the Company declared quarterly cash dividend increases per common share during 2022 as shown below:

| Date of Declaration | Quarterly Cash Increase Per Common Share | % Increase | New Quarterly Dividend Per Common Share |
|---------------------|--|------------|---|
| January 26, 2022    | \$ .02                                   | 11%        | \$ .20                                  |
| July 27, 2022       | .02                                      | 10%        | .22                                     |

In addition, on January 26, 2023, the Board of Directors of the Company declared a three cent, or 14%, increase in the quarterly cash dividend to \$.25 per common share.

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The following table details CSC's cash dividends paid and per share amounts:

| Year Ended December 31,           | 2022      |                  | 2021      |                  |
|-----------------------------------|-----------|------------------|-----------|------------------|
|                                   | Cash Paid | Per Share Amount | Cash Paid | Per Share Amount |
| Common and Nonvoting Common Stock | \$ 1,591  | \$ .84           | \$ 1,366  | \$ .72           |
| Preferred Stock:                  |           |                  |           |                  |
| Series A <sup>(1)</sup>           | 33        | 82.73            | 28        | 70.00            |
| Series C <sup>(2)</sup>           | N/A       | N/A              | 18        | 30.00            |
| Series D <sup>(3)</sup>           | 45        | 59.52            | 45        | 59.52            |
| Series E <sup>(4)</sup>           | 37        | 6,161.42         | 28        | 4,625.00         |
| Series F <sup>(5)</sup>           | 25        | 5,000.00         | 25        | 5,000.00         |
| Series G <sup>(3)</sup>           | 134       | 5,375.00         | 134       | 5,375.00         |
| Series H <sup>(6)</sup>           | 100       | 4,000.00         | 97        | 3,888.89         |
| Series I <sup>(7)</sup>           | 90        | 4,000.00         | 63        | 2,811.11         |
| Series J <sup>(8)</sup>           | 27        | 44.52            | 18        | 29.80            |
| Series K <sup>(9)</sup>           | 28        | 3,708.33         | N/A       | N/A              |

<sup>(1)</sup> Series A was redeemed on November 1, 2022. Prior to redemption, dividends were paid semi-annually until February 1, 2022 and quarterly thereafter. The final dividend was paid on November 1, 2022.

<sup>(2)</sup> Series C was redeemed on June 1, 2021. Prior to redemption, dividends were paid quarterly and the final dividend was paid on June 1, 2021.

<sup>(3)</sup> Dividends paid quarterly.

<sup>(4)</sup> Series E was redeemed on December 1, 2022. Prior to redemption, dividends were paid semi-annually until March 1, 2022 and quarterly thereafter. The final dividend was paid on December 1, 2022.

<sup>(5)</sup> Dividends paid semi-annually until December 1, 2027 and quarterly thereafter.

<sup>(6)</sup> Series H was issued on December 11, 2020. Dividends are paid quarterly, and the first dividend was paid on March 1, 2021.

<sup>(7)</sup> Series I was issued on March 18, 2021. Dividends are paid quarterly, and the first dividend was paid on June 1, 2021.

<sup>(8)</sup> Series J was issued on March 30, 2021. Dividends are paid quarterly, and the first dividend was paid on June 1, 2021.

<sup>(9)</sup> Series K was issued on March 4, 2022. Dividends are paid quarterly, and the first dividend was paid on June 1, 2022.

N/A Not applicable.

### **Share Repurchases**

On July 27, 2022, CSC publicly announced that its Board of Directors terminated the existing share repurchase authorization of up to \$4.0 billion of common stock and replaced it with a new authorization to repurchase up to \$15.0 billion of common stock. The new share repurchase authorization does not have an expiration date. On August 1, 2022, CSC purchased, directly from an affiliate of TD Bank, 15 million shares of nonvoting common stock for a total of \$1.0 billion, or approximately \$66.53 per share. The shares of nonvoting common stock automatically converted into common stock and were purchased under CSC's new share repurchase authorization. The purchase price paid by CSC was equal to the lowest price per share that the affiliate of TD Bank received in a contemporaneous share sale facilitated by a third-party market maker, which resulted in a purchase price lower than the closing price on August 1, 2022. CSC repurchased an additional 32 million shares of its common stock under the new authorization for \$2.4 billion during the year ended December 31, 2022. There were no repurchases of CSC's common stock under the terminated authorization during the years ended December 31, 2022 and 2021.

As of December 31, 2022, \$11.6 billion remained on the new authorization. Beginning in 2023, share repurchases, net of issuances, are subject to a nondeductible 1% excise tax which we expect to recognize as a direct and incremental cost associated with these transactions. For repurchases of common stock, we expect the tax will be recorded as part of the cost basis of the treasury stock repurchased, resulting in no income statement impact.

### **FOREIGN EXPOSURE**

At December 31, 2022, Schwab had exposure to non-sovereign financial and non-financial institutions in foreign countries, as well as agencies of foreign governments. At December 31, 2022, the fair value of these holdings totaled \$16.4 billion, with the top three exposures being to issuers and counterparties domiciled in France at \$5.1 billion, the United Kingdom at \$4.8 billion, and Canada at \$1.7 billion. At December 31, 2021, the fair value of these holdings totaled \$12.5 billion, with the top three exposures being to issuers and counterparties domiciled in the United Kingdom at \$5.2 billion, France at \$3.9 billion, and Sweden at \$754 million. In addition, Schwab had outstanding margin loans to foreign residents of \$2.5 billion and \$3.3 billion at December 31, 2022 and 2021, respectively.

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**FAIR VALUE OF FINANCIAL INSTRUMENTS**

Schwab uses the market approach to determine the fair value of certain financial assets and liabilities recorded at fair value, and to determine fair value disclosures. See Item 8 – Notes 2 and 18 for more information on our assets and liabilities recorded at fair value.

**CRITICAL ACCOUNTING ESTIMATES**

The consolidated financial statements of Schwab have been prepared in accordance with GAAP. Item 8 – Note 2 contains more information on our significant accounting policies made in applying these accounting principles.

While the majority of the revenues, expenses, assets, and liabilities are not based on estimates, there are certain accounting principles that require management to make estimates regarding matters that are uncertain and susceptible to change where such change may result in a material adverse impact on Schwab's financial position and financial results. These critical accounting estimates are described below. Management regularly reviews the estimates and assumptions used in the preparation of the financial statements for reasonableness and adequacy.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of the Board of Directors. Additionally, management has reviewed with the Audit Committee the Company's significant estimates discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Income Taxes**

Schwab estimates income tax expense based on amounts expected to be owed to the various tax jurisdictions in which we operate, including federal, state and local domestic jurisdictions, and immaterial amounts owed to several foreign jurisdictions. The estimated income tax expense is reported in the consolidated statements of income in taxes on income. Accrued taxes are reported in other assets or accrued expenses and other liabilities on the consolidated balance sheets and represent the net estimated amount due to or to be received from taxing jurisdictions either currently or deferred to future periods. Deferred taxes arise from differences between assets and liabilities measured for financial reporting purposes versus income tax reporting purposes. Deferred tax assets are recognized if, in management's judgment, their realizability is determined to be more likely than not. Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit management believes is more likely than not to be realized upon settlement. In estimating accrued taxes, we assess the relative merits and risks of the appropriate tax treatment considering statutory, judicial and regulatory guidance in the context of the tax position. Because of the complexity of tax laws and regulations, interpretation can be difficult and subject to legal judgment given specific facts and circumstances.

Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by various taxing authorities, and newly enacted statutory, judicial, and regulatory guidance that impacts the relative merits and risks of tax positions. These changes, when they occur, affect accrued taxes and can be significant to the operating results of the Company. See Item 8 – Note 22 for more information on the Company's income taxes.

**Legal and Regulatory Reserves**

Reserves for legal and regulatory claims and proceedings reflect an estimate of probable losses for each matter, after considering, among other factors, the progress of the case, prior experience and the experience of others in similar cases, available defenses, and the opinions and views of legal counsel. In many cases, including most class action lawsuits, it is not possible to determine whether a loss will be incurred, or to estimate the range of that loss, until the matter is close to resolution, in which case no accrual is made until that time. Reserves are adjusted as more information becomes available. Significant judgment is required in making these estimates, and the actual cost of resolving a matter may ultimately differ materially from the amount reserved. See Item 8 – Note 15 for more information on the Company's contingencies related to legal and regulatory reserves.

**Business Combinations**

We have accounted for our acquisitions using the acquisition method of accounting. The acquisition method requires us to make significant estimates and assumptions, especially at the acquisition date as we allocate the purchase price to the estimated fair values of acquired tangible and intangible assets and the liabilities assumed. We also use our best estimates to determine the

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useful lives of the tangible and definite-lived intangible assets, which impact the periods over which depreciation and amortization of those assets are recognized. These best estimates and assumptions are inherently uncertain as they pertain to forward looking views of our businesses, client behavior, and market conditions. In our acquisitions, we have also recognized goodwill at the amount by which the purchase price paid exceeds the fair value of the net assets acquired. See Item 8 – Notes 2 and 3 for more information on our valuation methods and the results of applying the acquisition method of accounting, including the estimated fair values of the assets acquired and liabilities assumed, and, where relevant, the estimated remaining useful lives.

Our ongoing accounting for goodwill and the tangible and intangible assets acquired requires us to make significant estimates and assumptions as we exercise judgement to evaluate these assets for impairment. Our processes and accounting policies for evaluating impairments are further described in Item 8 – Note 2. One of our reporting units has an immaterial amount of goodwill. The results of the 2022 annual goodwill impairment testing for our other two reporting units indicated that the estimated fair values substantially exceeded their carrying amounts.

**NON-GAAP FINANCIAL MEASURES**

In addition to disclosing financial results in accordance with generally accepted accounting principles in the U.S. (GAAP), Management's Discussion and Analysis of Financial Condition and Results of Operations contains references to the non-GAAP financial measures described below. We believe these non-GAAP financial measures provide useful supplemental information about the financial performance of the Company, and facilitate meaningful comparison of Schwab's results in the current period to both historic and future results. These non-GAAP measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and may not be comparable to non-GAAP financial measures presented by other companies.

Schwab's use of non-GAAP measures is reflective of certain adjustments made to GAAP financial measures as described below.

| <b>Non-GAAP Adjustment or Measure</b>  | <b>Definition</b>   | <b>Usefulness to Investors and Uses by Management</b>   |
|--|---|---|
| Acquisition and integration-related costs and amortization of acquired intangible assets | <p>Schwab adjusts certain GAAP financial measures to exclude the impact of acquisition and integration-related costs incurred as a result of the Company's acquisitions, amortization of acquired intangible assets, and, where applicable, the income tax effect of these expenses.</p> <p>Adjustments made to exclude amortization of acquired intangible assets are reflective of all acquired intangible assets, which were recorded as part of purchase accounting. These acquired intangible assets contribute to the Company's revenue generation. Amortization of acquired intangible assets will continue in future periods over their remaining useful lives.</p> | <p>We exclude acquisition and integration-related costs and amortization of acquired intangible assets for the purpose of calculating certain non-GAAP measures because we believe doing so provides additional transparency of Schwab's ongoing operations, and is useful in both evaluating the operating performance of the business and facilitating comparison of results with prior and future periods.</p> <p>Acquisition and integration-related costs fluctuate based on the timing of acquisitions and integration activities, thereby limiting comparability of results among periods, and are not representative of the costs of running the Company's ongoing business. Amortization of acquired intangible assets is excluded because management does not believe it is indicative of the Company's underlying operating performance.</p> |
| Return on tangible common equity   | <p>Return on tangible common equity represents annualized adjusted net income available to common stockholders as a percentage of average tangible common equity. Tangible common equity represents common equity less goodwill, acquired intangible assets – net, and related deferred tax liabilities.</p>  | <p>Acquisitions typically result in the recognition of significant amounts of goodwill and acquired intangible assets. We believe return on tangible common equity may be useful to investors as a supplemental measure to facilitate assessing capital efficiency and returns relative to the composition of Schwab's balance sheet.</p>   |

The Company also uses adjusted diluted EPS and return on tangible common equity as components of performance criteria for employee bonus and certain executive management incentive compensation arrangements. The Compensation Committee of CSC's Board of Directors maintains discretion in evaluating performance against these criteria.

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The following tables present reconciliations of GAAP measures to non-GAAP measures:

|  | Year Ended December 31, |           |          |
|--|-------------------------|-----------|----------|
|  | 2022                    | 2021      | 2020     |
| <b>Total expenses excluding interest (GAAP)</b>          | \$ 11,374               | \$ 10,807 | \$ 7,391 |
| Acquisition and integration-related costs <sup>(1)</sup> | (392)                   | (468)     | (442)    |
| Amortization of acquired intangible assets               | (596)                   | (615)     | (190)    |
| <b>Adjusted total expenses (non-GAAP)</b>                | \$ 10,386               | \$ 9,724  | \$ 6,759 |

<sup>(1)</sup> Acquisition and integration-related costs for 2022 primarily consist of \$220 million of compensation and benefits, \$140 million of professional services, and \$21 million of occupancy and equipment. Acquisition and integration-related costs for 2021 primarily consist of \$283 million of compensation and benefits, \$132 million of professional services, and \$39 million of occupancy and equipment. Acquisition and integration-related costs for 2020 primarily consist of \$235 million of compensation and benefits, \$158 million of professional services, and \$30 million of other expense.

|   | Year Ended December 31, |         |          |         |          |         |
|---|-------------------------|---------|----------|---------|----------|---------|
|   | 2022                    | Diluted | 2021     | Diluted | 2020     | Diluted |
|   | Amount                  | EPS     | Amount   | EPS     | Amount   | EPS     |
| <b>Net income available to common stockholders (GAAP), Earnings per common share — diluted (GAAP)</b>   | \$ 6,635                | \$ 3.50 | \$ 5,360 | \$ 2.83 | \$ 3,043 | \$ 2.12 |
| Acquisition and integration-related costs   | 392                     | .21     | 468      | .25     | 442      | .31     |
| Amortization of acquired intangible assets  | 596                     | .31     | 615      | .32     | 190      | .13     |
| Income tax effects <sup>(1)</sup>   | (237)                   | (.12)   | (268)    | (.15)   | (154)    | (.11)   |
| <b>Adjusted net income available to common stockholders (non-GAAP), Adjusted diluted EPS (non-GAAP)</b> | \$ 7,386                | \$ 3.90 | \$ 6,175 | \$ 3.25 | \$ 3,521 | \$ 2.45 |

<sup>(1)</sup> The income tax effects of the non-GAAP adjustments are determined using an effective tax rate reflecting the exclusion of non-deductible acquisition costs and are used to present the acquisition and integration-related costs and amortization of acquired intangible assets on an after-tax basis.

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2022                    | 2021      | 2020      |
| <b>Return on average common stockholders' equity (GAAP)</b>                                     | 18%                     | 11%       | 9%        |
| Average common stockholders' equity   | \$ 36,605               | \$ 47,318 | \$ 33,640 |
| Less: Average goodwill  | (11,952)                | (11,952)  | (6,590)   |
| Less: Average acquired intangible assets — net  | (9,084)                 | (9,685)   | (5,059)   |
| Plus: Average deferred tax liabilities related to goodwill and acquired intangible assets — net | 1,870                   | 1,919     | 1,005     |
| Average tangible common equity  | \$ 17,439               | \$ 27,600 | \$ 22,996 |
| Adjusted net income available to common stockholders <sup>(1)</sup>                             | \$ 7,386                | \$ 6,175  | \$ 3,521  |
| <b>Return on tangible common equity (non-GAAP)</b>  | 42%                     | 22%       | 15%       |

<sup>(1)</sup> See table above for the reconciliation of net income available to common stockholders to adjusted net income available to common stockholders (non-GAAP).

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see Risk Management in Part II, Item 7.



**Item 8. Financial Statements and Supplementary Data**

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# THE CHARLES SCHWAB CORPORATION

## Consolidated Statements of Income

(In Millions, Except Per Share Amounts)

| Year Ended December 31,                                       | 2022      | 2021     | 2020     |
|---|-----------|----------|----------|
| <b>Net Revenues</b>   |           |          |          |
| Interest revenue  | \$ 12,227 | \$ 8,506 | \$ 6,531 |
| Interest expense  | (1,545)   | (476)    | (418)    |
| Net interest revenue  | 10,682    | 8,030    | 6,113    |
| Asset management and administration fees <sup>(1)</sup>       | 4,216     | 4,274    | 3,475    |
| Trading revenue   | 3,673     | 4,152    | 1,416    |
| Bank deposit account fees                                     | 1,409     | 1,315    | 355      |
| Other   | 782       | 749      | 332      |
| Total net revenues  | 20,762    | 18,520   | 11,691   |
| <b>Expenses Excluding Interest</b>                            |           |          |          |
| Compensation and benefits                                     | 5,936     | 5,450    | 3,954    |
| Professional services   | 1,032     | 994      | 843      |
| Occupancy and equipment                                       | 1,175     | 976      | 703      |
| Advertising and market development                            | 419       | 485      | 326      |
| Communications  | 588       | 587      | 353      |
| Depreciation and amortization                                 | 652       | 549      | 414      |
| Amortization of acquired intangible assets                    | 596       | 615      | 190      |
| Regulatory fees and assessments                               | 262       | 275      | 163      |
| Other   | 714       | 876      | 445      |
| Total expenses excluding interest                             | 11,374    | 10,807   | 7,391    |
| Income before taxes on income                                 | 9,388     | 7,713    | 4,300    |
| Taxes on income   | 2,205     | 1,858    | 1,001    |
| <b>Net Income</b>   | 7,183     | 5,855    | 3,299    |
| Preferred stock dividends and other                           | 548       | 495      | 256      |
| <b>Net Income Available to Common Stockholders</b>            | \$ 6,635  | \$ 5,360 | \$ 3,043 |
| <b>Weighted-Average Common Shares Outstanding:</b>            |           |          |          |
| Basic   | 1,885     | 1,887    | 1,429    |
| Diluted   | 1,894     | 1,897    | 1,435    |
| <b>Earnings Per Common Shares Outstanding <sup>(2)</sup>:</b> |           |          |          |
| Basic   | \$ 3.52   | \$ 2.84  | \$ 2.13  |
| Diluted   | \$ 3.50   | \$ 2.83  | \$ 2.12  |

<sup>(1)</sup> Includes fee waivers of \$57 million, \$326 million, and \$127 million for the years ended December 31, 2022, 2021, and 2020, respectively.

<sup>(2)</sup> The Company has voting and nonvoting common stock outstanding. As the participation rights, including dividend and liquidation rights, are identical between the voting and nonvoting stock classes, basic and diluted earnings per share are the same for each class. See Notes 19 and 25 for additional information.

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

**Consolidated Statements of Comprehensive Income**

(In Millions)

| Year Ended December 31,   | 2022               | 2021            | 2020            |
|---|--------------------|-----------------|-----------------|
| Net income  | \$ 7,183           | \$ 5,855        | \$ 3,299        |
| Other comprehensive income (loss), before tax:  |                    |                 |                 |
| Change in net unrealized gain (loss) on available for sale securities:                                |                    |                 |                 |
| Net unrealized gain (loss) excluding transfers to held to maturity                                    | (29,100)           | (8,521)         | 6,961           |
| Reclassification of net unrealized loss transferred to held to maturity                               | 18,228             | —               | —               |
| Other reclassifications included in other revenue   | 9                  | (4)             | (4)             |
| Change in net unrealized gain (loss) on held to maturity securities:                                  |                    |                 |                 |
| Reclassification of net unrealized loss transferred from available for sale                           | (18,228)           | —               | —               |
| Amortization of amounts previously recorded upon transfer to held to maturity from available for sale | 707                | —               | —               |
| Other   | 60                 | (11)            | 8               |
| <b>Other comprehensive income (loss), before tax</b>  | <b>(28,324)</b>    | <b>(8,536)</b>  | <b>6,965</b>    |
| Income tax effect   | 6,812              | 2,033           | (1,659)         |
| <b>Other comprehensive income (loss), net of tax</b>  | <b>(21,512)</b>    | <b>(6,503)</b>  | <b>5,306</b>    |
| <b>Comprehensive Income (Loss)</b>  | <b>\$ (14,329)</b> | <b>\$ (648)</b> | <b>\$ 8,605</b> |

See Notes to Consolidated Financial Statements.

# THE CHARLES SCHWAB CORPORATION

## Consolidated Balance Sheets

(In Millions, Except Per Share and Share Amounts)

| December 31,   | 2022              | 2021              |
|--|-------------------|-------------------|
| <b>Assets</b>  |                   |                   |
| Cash and cash equivalents  | \$ 40,195         | \$ 62,975         |
| Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of \$12,159 and \$13,096 at December 31, 2022 and 2021, respectively)    | 42,983            | 53,949            |
| Receivables from brokerage clients — net   | 66,591            | 90,565            |
| Available for sale securities (amortized cost of \$160,162 and \$391,482 at December 31, 2022 and 2021, respectively; including assets pledged of \$41 at December 31, 2022) | 147,871           | 390,054           |
| Held to maturity securities (including assets pledged of \$4,522 at December 31, 2022)   | 173,074           | —                 |
| Bank loans — net   | 40,505            | 34,636            |
| Equipment, office facilities, and property — net   | 3,714             | 3,442             |
| Goodwill   | 11,951            | 11,952            |
| Acquired intangible assets — net   | 8,789             | 9,379             |
| Other assets   | 16,099            | 10,318            |
| <b>Total assets</b>  | <b>\$ 551,772</b> | <b>\$ 667,270</b> |
| <b>Liabilities and Stockholders' Equity</b>  |                   |                   |
| Bank deposits  | \$ 366,724        | \$ 443,778        |
| Payables to brokerage clients  | 97,438            | 125,671           |
| Accrued expenses and other liabilities   | 13,124            | 17,791            |
| Short-term borrowings  | 17,050            | 4,855             |
| Long-term debt   | 20,828            | 18,914            |
| Total liabilities  | 515,164           | 611,009           |
| Stockholders' equity:  |                   |                   |
| Preferred stock — \$.01 par value per share; aggregate liquidation preference of \$9,850 and \$10,100 at December 31, 2022 and 2021, respectively                            | 9,706             | 9,954             |
| Common stock — 3 billion shares authorized; \$.01 par value per share; 2,023,295,180 and 1,994,895,180 shares issued at December 31, 2022 and 2021, respectively             | 20                | 20                |
| Nonvoting common stock — 300 million shares authorized; \$.01 par value per share; 50,893,695 and 79,293,695 shares issued at December 31, 2022 and 2021, respectively       | 1                 | 1                 |
| Additional paid-in capital   | 27,075            | 26,741            |
| Retained earnings  | 31,066            | 25,992            |
| Treasury stock, at cost — 221,033,042 and 180,959,274 shares at December 31, 2022 and 2021, respectively   | (8,639)           | (5,338)           |
| Accumulated other comprehensive income (loss)  | (22,621)          | (1,109)           |
| Total stockholders' equity   | 36,608            | 56,261            |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 551,772</b> | <b>\$ 667,270</b> |

See Notes to Consolidated Financial Statements.

# THE CHARLES SCHWAB CORPORATION

## Consolidated Statements of Stockholders' Equity

(In Millions)

|  | Preferred<br>Stock | Common Stock<br>Shares | Amount | Nonvoting<br>Common Stock<br>Shares | Amount | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Treasury<br>Stock,<br>at cost | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total     |
|--|--------------------|------------------------|--------|-------------------------------------|--------|----------------------------------|----------------------|-------------------------------|--|-----------|
| Balance at December 31, 2019                         | \$ 2,793           | 1,488                  | \$ 15  | —                                   | \$ —   | \$ 4,656                         | \$ 19,960            | \$ (5,767)                    | \$ 88  | \$ 21,745 |
| Net income   | —                  | —                      | —      | —                                   | —      | —                                | 3,299                | —                             | —  | 3,299     |
| Other comprehensive income (loss), net of tax        | —                  | —                      | —      | —                                   | —      | —                                | —                    | —                             | 5,306  | 5,306     |
| Acquisition of TD Ameritrade                         | —                  | 509                    | 5      | 77                                  | 1      | 21,757                           | —                    | (5)                           | —  | 21,758    |
| Issuance of preferred stock, net                     | 4,940              | —                      | —      | —                                   | —      | —                                | —                    | —                             | —  | 4,940     |
| Dividends declared on preferred stock                | —                  | —                      | —      | —                                   | —      | —                                | (240)                | —                             | —  | (240)     |
| Dividends declared on common stock — \$.72 per share | —                  | —                      | —      | —                                   | —      | —                                | (1,040)              | —                             | —  | (1,040)   |
| Stock option exercises and other                     | —                  | —                      | —      | —                                   | —      | (121)                            | —                    | 200                           | —  | 79        |
| Share-based compensation                             | —                  | —                      | —      | —                                   | —      | 192                              | —                    | —                             | —  | 192       |
| Other  | —                  | (2)                    | —      | 2                                   | —      | 31                               | (4)                  | (6)                           | —  | 21        |
| Balance at December 31, 2020                         | 7,733              | 1,995                  | 20     | 79                                  | 1      | 26,515                           | 21,975               | (5,578)                       | 5,394  | 56,060    |
| Net income   | —                  | —                      | —      | —                                   | —      | —                                | 5,855                | —                             | —  | 5,855     |
| Other comprehensive income (loss), net of tax        | —                  | —                      | —      | —                                   | —      | —                                | —                    | —                             | (6,503)  | (6,503)   |
| Issuance of preferred stock, net                     | 2,806              | —                      | —      | —                                   | —      | —                                | —                    | —                             | —  | 2,806     |
| Redemption of preferred stock                        | (585)              | —                      | —      | —                                   | —      | —                                | (15)                 | —                             | —  | (600)     |
| Dividends declared on preferred stock                | —                  | —                      | —      | —                                   | —      | —                                | (456)                | —                             | —  | (456)     |
| Dividends declared on common stock — \$.72 per share | —                  | —                      | —      | —                                   | —      | —                                | (1,367)              | —                             | —  | (1,367)   |
| Stock option exercises and other                     | —                  | —                      | —      | —                                   | —      | (84)                             | —                    | 305                           | —  | 221       |
| Share-based compensation                             | —                  | —                      | —      | —                                   | —      | 229                              | —                    | —                             | —  | 229       |
| Other  | —                  | —                      | —      | —                                   | —      | 81                               | —                    | (65)                          | —  | 16        |
| Balance at December 31, 2021                         | 9,954              | 1,995                  | 20     | 79                                  | 1      | 26,741                           | 25,992               | (5,338)                       | (1,109)  | 56,261    |
| Net income   | —                  | —                      | —      | —                                   | —      | —                                | 7,183                | —                             | —  | 7,183     |
| Other comprehensive income (loss), net of tax        | —                  | —                      | —      | —                                   | —      | —                                | —                    | —                             | (21,512)   | (21,512)  |
| Issuance of preferred stock, net                     | 740                | —                      | —      | —                                   | —      | —                                | —                    | —                             | —  | 740       |
| Redemption of preferred stock                        | (988)              | —                      | —      | —                                   | —      | —                                | (12)                 | —                             | —  | (1,000)   |
| Dividends declared on preferred stock                | —                  | —                      | —      | —                                   | —      | —                                | (505)                | —                             | —  | (505)     |
| Dividends declared on common stock — \$.84 per share | —                  | —                      | —      | —                                   | —      | —                                | (1,592)              | —                             | —  | (1,592)   |
| Repurchase of common stock                           | —                  | —                      | —      | —                                   | —      | —                                | —                    | (2,435)                       | —  | (2,435)   |
| Repurchase of nonvoting common stock                 | —                  | 15                     | —      | (15)                                | —      | —                                | —                    | (1,000)                       | —  | (1,000)   |
| Conversion of nonvoting common stock to common stock | —                  | 13                     | —      | (13)                                | —      | —                                | —                    | —                             | —  | —         |
| Stock option exercises and other                     | —                  | —                      | —      | —                                   | —      | (124)                            | —                    | 188                           | —  | 64        |
| Share-based compensation                             | —                  | —                      | —      | —                                   | —      | 348                              | —                    | —                             | —  | 348       |
| Other  | —                  | —                      | —      | —                                   | —      | 110                              | —                    | (54)                          | —  | 56        |
| Balance at December 31, 2022                         | \$ 9,706           | 2,023                  | \$ 20  | 51                                  | \$ 1   | \$ 27,075                        | \$ 31,066            | \$ (8,639)                    | \$ (22,621)  | \$ 36,608 |

See Notes to Consolidated Financial Statements.

# THE CHARLES SCHWAB CORPORATION

## Consolidated Statements of Cash Flows

(In Millions)

| Year Ended December 31,  | 2022             | 2021             | 2020             |
|--|------------------|------------------|------------------|
| <b>Cash Flows from Operating Activities</b>  |                  |                  |                  |
| Net income   | \$ 7,183         | \$ 5,855         | \$ 3,299         |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: |                  |                  |                  |
| Share-based compensation   | 366              | 254              | 204              |
| Depreciation and amortization  | 652              | 549              | 414              |
| Amortization of acquired intangible assets   | 596              | 615              | 190              |
| Provision (benefit) for deferred income taxes  | (18)             | 53               | (138)            |
| Premium amortization, net, on available for sale and held to maturity securities             | 1,375            | 2,346            | 1,586            |
| Other  | 490              | 372              | 349              |
| Net change in:   |                  |                  |                  |
| Investments segregated and on deposit for regulatory purposes                                | (874)            | (3,398)          | (10,208)         |
| Receivables from brokerage clients   | 23,947           | (26,168)         | (14,609)         |
| Other assets   | 99               | (1,152)          | 4                |
| Payables to brokerage clients  | (28,233)         | 21,470           | 22,909           |
| Accrued expenses and other liabilities   | (3,526)          | 1,322            | 2,852            |
| Net cash provided by (used for) operating activities   | 2,057            | 2,118            | 6,852            |
| <b>Cash Flows from Investing Activities</b>  |                  |                  |                  |
| Purchases of available for sale securities   | (51,009)         | (171,732)        | (202,171)        |
| Proceeds from sales of available for sale securities   | 24,704           | 13,306           | 4,801            |
| Principal payments on available for sale securities  | 49,944           | 94,912           | 63,247           |
| Principal payments on held to maturity securities  | 15,712           | —                | —                |
| Net change in bank loans   | (5,788)          | (10,845)         | (5,675)          |
| Cash acquired in acquisitions, net of cash paid  | —                | —                | 14,748           |
| Purchases of equipment, office facilities, and property                                      | (971)            | (916)            | (631)            |
| Purchases of Federal Home Loan Bank stock  | (518)            | —                | (26)             |
| Proceeds from sales of Federal Home Loan Bank stock  | 19               | —                | 32               |
| Purchases of Federal Reserve stock   | (106)            | (245)            | (191)            |
| Proceeds from sales of Federal Reserve stock   | 197              | —                | —                |
| Other investing activities   | (136)            | (143)            | 15               |
| Net cash provided by (used for) investing activities   | 32,048           | (75,663)         | (125,851)        |
| <b>Cash Flows from Financing Activities</b>  |                  |                  |                  |
| Net change in bank deposits  | (77,054)         | 85,756           | 137,928          |
| Proceeds from commercial paper and secured lines of credit                                   | 1,900            | 11,107           | 1,234            |
| Repayments of commercial paper and secured lines of credit                                   | (6,511)          | (6,255)          | (1,234)          |
| Net change in other short-term borrowings  | 16,802           | —                | —                |
| Issuances of long-term debt  | 2,971            | 7,036            | 3,070            |
| Repayments of long-term debt   | (1,036)          | (1,822)          | (700)            |
| Repurchases of common stock and nonvoting common stock                                       | (3,395)          | —                | —                |
| Net proceeds from preferred stock offerings  | 740              | 2,806            | 4,940            |
| Redemption of preferred stock  | (1,000)          | (600)            | —                |
| Dividends paid   | (2,110)          | (1,822)          | (1,280)          |
| Proceeds from stock options exercised  | 64               | 221              | 79               |
| Other financing activities   | (94)             | (104)            | (55)             |
| Net cash provided by (used for) financing activities   | (68,723)         | 96,323           | 143,982          |
| <b>Increase (Decrease) in Cash and Cash Equivalents, including Amounts Restricted</b>        | <b>(34,618)</b>  | <b>22,778</b>    | <b>24,983</b>    |
| <b>Cash and Cash Equivalents, including Amounts Restricted at Beginning of Year</b>          | <b>93,338</b>    | <b>70,560</b>    | <b>45,577</b>    |
| <b>Cash and Cash Equivalents, including Amounts Restricted at End of Year</b>                | <b>\$ 58,720</b> | <b>\$ 93,338</b> | <b>\$ 70,560</b> |

Continued on following page.

# THE CHARLES SCHWAB CORPORATION

Continued from previous page.

| Year Ended December 31,   | 2022             | 2021             | 2020             |
|---|------------------|------------------|------------------|
| <b>Supplemental Cash Flow Information</b>   |                  |                  |                  |
| Non-cash investing activity:  |                  |                  |                  |
| Securities transferred from held to maturity to available for sale, at fair value   | \$ —             | \$ —             | \$ 136,099       |
| Securities transferred from available for sale to held to maturity, at fair value   | \$ 188,555       | \$ —             | \$ —             |
| Changes in accrued equipment, office facilities, and property purchases   | \$ (19)          | \$ 125           | \$ 110           |
| Acquisition of TD Ameritrade  | \$ —             | \$ —             | \$ 21,758        |
| Non-cash financing activity:  |                  |                  |                  |
| Common stock repurchased during the period but settled after period end   | \$ 40            | \$ —             | \$ —             |
| Other Supplemental Cash Flow Information  |                  |                  |                  |
| Cash paid during the period for:  |                  |                  |                  |
| Interest  | \$ 1,355         | \$ 501           | \$ 434           |
| Income taxes  | \$ 2,130         | \$ 2,053         | \$ 803           |
| Amounts included in the measurement of lease liabilities  | \$ 228           | \$ 212           | \$ 163           |
| Leased assets obtained in exchange for new operating lease liabilities  | \$ 274           | \$ 89            | \$ 160           |
| Leased assets obtained in exchange for new finance lease liabilities  | \$ 4             | \$ 109           | \$ —             |
|   |                  |                  |                  |
| December 31,  | 2022             | 2021             | 2020             |
| <b>Reconciliation of cash, cash equivalents and amounts reported within the balance sheet <sup>(1)</sup></b>                    |                  |                  |                  |
| Cash and cash equivalents   | \$ 40,195        | \$ 62,975        | \$ 40,348        |
| Restricted cash and cash equivalents amounts included in cash and investments segregated and on deposit for regulatory purposes | 18,525           | 30,363           | 30,212           |
| <b>Total cash and cash equivalents, including amounts restricted shown in the statement of cash flows</b>                       | <b>\$ 58,720</b> | <b>\$ 93,338</b> | <b>\$ 70,560</b> |

<sup>(1)</sup> For more information on the nature of restrictions on restricted cash and cash equivalents, see Note 23.

See Notes to Consolidated Financial Statements.

# THE CHARLES SCHWAB CORPORATION

## Notes to Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

### 1. Introduction and Basis of Presentation

The Charles Schwab Corporation (CSC) is a savings and loan holding company. CSC engages, through its subsidiaries (collectively referred to as Schwab or the Company), in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services.

Principal business subsidiaries of CSC include the following:

- Charles Schwab & Co., Inc. (CS&Co), incorporated in 1971, a securities broker-dealer;
- TD Ameritrade, Inc., an introducing securities broker-dealer;
- TD Ameritrade Clearing, Inc. (TDAC), a securities broker-dealer that provides trade execution and clearing services to TD Ameritrade, Inc.;
- Charles Schwab Bank, SSB (CSB), our principal banking entity; and
- Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds<sup>®</sup>) and for Schwab's exchange-traded funds (Schwab ETFs<sup>™</sup>).

Schwab's securities broker-dealers have approximately 400 domestic branch offices in 48 states and the District of Columbia, as well as locations in Puerto Rico, the United Kingdom, Hong Kong, and Singapore.

Unless otherwise indicated, the terms "Schwab," "the Company," "we," "us," or "our" mean CSC together with its consolidated subsidiaries.

The accompanying consolidated financial statements include CSC and its subsidiaries. Intercompany balances and transactions have been eliminated. These consolidated financial statements have been prepared in conformity with GAAP, which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying financial statements and in the related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. Certain estimates relate to taxes on income, legal and regulatory reserves, and fair values of assets acquired and liabilities assumed, as well as goodwill recognized, in business combinations.

Effective October 6, 2020, the Company completed its acquisition of TDA Holding and its consolidated subsidiaries (collectively referred to as "TD Ameritrade" or "TDA"). Our consolidated financial statements include the results of operations and financial condition of TD Ameritrade beginning on October 6, 2020. See Note 3 for additional information on our acquisition of TD Ameritrade.

### Principles of Consolidation

Schwab evaluates all entities in which it has financial interests for consolidation, except for money market funds, which are specifically excluded from consolidation guidance. When an entity is evaluated for consolidation, Schwab determines whether its interest in the entity constitutes a controlling financial interest under either the variable interest entity (VIE) model or the voting interest entity (VOE) model. In evaluating whether Schwab's interest in a VIE is a controlling financial interest, we consider whether our involvement in the context of the design, purpose, and risks of the VIE, as well as any involvement of related parties, provides us with (i) the power to direct the most significant activities of the VIE, and (ii) the obligation to absorb losses or receive benefits that are significant to the VIE. If both of these conditions exist, then Schwab would be the primary beneficiary of that VIE and consolidate it. Based upon the assessments for all of our interests in VIEs, there are no cases where the Company is the primary beneficiary; therefore, we are not required to consolidate any VIEs. See Note 11 for further information about VIEs. Schwab consolidates all VOEs in which it has majority-voting interests.

Investments in entities in which Schwab does not have a controlling financial interest are accounted for under the equity method of accounting when we have the ability to exercise significant influence over operating and financing decisions of the entity or by accounting policy for investments in certain types of limited liability entities. Investments in entities for which Schwab does not apply the equity method are generally carried at cost and adjusted for impairment and observable price changes of the identical or similar investments of the same issuer (adjusted cost method), except for certain investments in qualified affordable housing projects which are accounted for under the proportional amortization method. All equity method, adjusted cost method, and proportional amortization method investments are included in other assets on the consolidated balance sheets.



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## 2. Summary of Significant Accounting Policies

### Revenue recognition

#### *Net interest revenue*

Net interest revenue is not within the scope of Accounting Standards Codification (ASC) 606 *Revenue From Contracts With Customers* (ASC 606), because it is generated from financial instruments covered by various other areas of GAAP. Net interest revenue is the difference between interest generated on interest-earning assets and interest paid on funding sources. Our primary interest-earning assets include cash and cash equivalents; segregated cash and investments; margin loans; investment securities; and bank loans. Fees earned and incurred on securities borrowing and lending activities, which are conducted by the Company's broker-dealer subsidiaries on assets held in client brokerage accounts, are also included in interest revenue and expense.

#### *Asset management and administration fees*

The majority of asset management and administration fees are generated through our proprietary and third-party mutual fund and ETF offerings, as well as fee-based advisory solutions. Mutual fund and ETF service fees are charged for investment management, shareholder, and administration services provided to Schwab Funds<sup>®</sup> and Schwab ETFs<sup>™</sup>, as well as recordkeeping, shareholder, and administration services provided to third-party funds. Advice solutions fees are charged for brokerage and asset management services provided to advice solutions clients. Both mutual fund and ETF service fees and advice solutions fees are earned and recognized over time. Fees are generally based on a percentage of the daily value of assets under management and are collected on a monthly or quarterly basis.

#### *Trading revenue*

Trading revenue is primarily generated through commissions earned for executing trades for clients in individual equities, options, fixed income securities, and certain third-party mutual funds and ETFs, as well as order flow revenue. Commissions revenue is earned when the trades are executed and collected when the trades are settled. Order flow revenue is comprised of payments received from trade execution venues to which our broker-dealer subsidiaries send equity and option orders. Order flow revenue is recognized when the trades are executed and is collected on a monthly or quarterly basis.

#### *Bank deposit account fees*

Bank deposit account fees consist of revenues resulting from sweep programs offered to certain clients whereby uninvested client cash is swept off-balance sheet to FDIC-insured (up to specified limits) accounts at the TD Depository Institutions and other third-party depository institutions. The Company provides marketing, recordkeeping, and support services related to these sweep programs to the TD Depository Institutions and other third-party depository institutions in exchange for bank deposit account fees. These revenues are based on floating and fixed yields as elected by the Company subject to certain requirements, less interest paid to clients and other applicable fees. Bank deposit account fees are earned and recognized over time and collected on a monthly basis.

#### *Other revenue*

Other revenue includes exchange processing fees, service fees, and other gains and losses from the sale of assets. Generally, the most significant portion of other revenue is exchange processing fees, which are comprised of fees the Company's broker-dealer subsidiaries charge clients to offset the exchange processing fees imposed on us by third-parties. Exchange processing fees are earned and collected when the trade is executed and are recognized gross of amounts remitted to the third-parties, which are included in other expenses.

#### *Unsatisfied performance obligations*

We do not have any unsatisfied performance obligations other than those that are subject to an elective practical expedient under ASC 606. The practical expedient applies to and is elected for contracts where we recognize revenue at the amount to which we have the right to invoice for services performed.

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#### Cash and cash equivalents

Schwab considers all highly liquid investments that mature in three months or less from the time of acquisition and that are not segregated and on deposit for regulatory purposes to be cash and cash equivalents. Cash and cash equivalents include money market funds, deposits with banks, certificates of deposit, commercial paper, and U.S. Treasury securities. Cash and cash equivalents also include balances that our banking subsidiaries maintain at the Federal Reserve.

#### Cash and investments segregated and on deposit for regulatory purposes

Pursuant to the Customer Protection Rule and other applicable regulations, Schwab maintains cash or qualified securities in segregated reserve accounts for the exclusive benefit of clients. Cash and investments segregated and on deposit for regulatory purposes include resale agreements, certificates of deposit, and U.S. Government securities. See Resale and repurchase agreements below in this Note 2 for further information on the resale agreements. Certificates of deposit and U.S. Government securities are recorded at fair value and unrealized gains and losses are included in earnings.

#### Receivables from brokerage clients

Receivables from brokerage clients include margin loans and other trading receivables from brokerage clients. Margin loans are collateralized by client securities and are carried at the amount receivable, net of an allowance for credit losses. Collateral is required to be maintained at specified minimum levels at all times. The Company monitors margin levels and requires clients to provide additional collateral, or reduce margin positions, to meet minimum collateral requirements if the fair value of the collateral changes. Schwab applies the practical expedient based on collateral maintenance provisions under ASC 326 *Financial Instruments – Credit Losses* (ASC 326), in estimating an allowance for credit losses for margin loans. This practical expedient can be applied for financial assets with collateral maintenance provisions requiring the borrower to continually adjust the amount of the collateral securing the financial assets as a result of fair value changes in the collateral. In accordance with the practical expedient, when the Company reasonably expects that borrowers (or counterparties, as applicable) will replenish the collateral as required, there is no expectation of credit losses when the collateral's fair value is greater than the amortized cost of the financial asset. If the amortized cost exceeds the fair value of collateral, then credit losses are estimated only on the unsecured portion. An allowance for credit losses on unsecured or partially secured receivables from brokerage clients is estimated based on the aging of those receivables. Unsecured balances due to confirmed fraud are reserved immediately. The Company's policy is to charge off any unsecured margin loans, including the accrued interest on such loans, no later than at 90 days past due. Accrued interest charged off is recognized as credit loss expense and is included in other expenses in the consolidated statements of income. Clients with margin loans have agreed to allow Schwab to pledge collateralized securities in accordance with federal regulations. The collateral is not reflected in the consolidated financial statements.

#### Other securities owned at fair value

Other securities owned are included in other assets on the consolidated balance sheets and recorded at fair value based on quoted market prices or other observable market data. Unrealized gains and losses are included in earnings. Client-held fractional shares are included in other securities owned for client positions for which off-balance sheet treatment pursuant to ASC 940 *Financial Services – Brokers and Dealers* is not applicable and the derecognition criteria in ASC 860 *Transfers and Servicing*, are not met. These client-held fractional shares have related repurchase liabilities that are accounted for at fair value with unrealized gains and losses included in earnings. See Fair values of assets and liabilities below in this Note 2 for further information on these repurchase liabilities.

#### Investment securities

AFS investment securities are recorded at fair value and unrealized gains and losses, other than losses related to credit factors, are reported, net of taxes, in AOCI included in stockholders' equity. HTM investment securities are recorded at amortized cost, net of any allowance for credit losses, based on the Company's positive intent and ability to hold these securities to maturity. Realized gains and losses from sales of AFS investment securities are determined using the specific-identification method and are included in other revenue. Interest income on investment securities is recognized using the effective interest method based on the contractual terms of the security. Where applicable, prepayments are accounted for as they occur (i.e., prepayments are not estimated). Accrued interest receivable for AFS and HTM investment securities are included in other assets in the Company's consolidated balance sheets.

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An AFS investment security is impaired if the fair value of the security is less than its amortized cost basis. Management evaluates AFS investment securities with unrealized losses to determine whether the security's impairment has resulted from a credit loss or other factors. This evaluation is performed quarterly on an individual security basis.

The evaluation of whether the AFS security impairment has resulted from a credit loss is inherently judgmental. This evaluation considers multiple factors including: the financial condition of the issuer; the payment structure of the security; external credit ratings; our internal credit ratings; the security's market implied credit spread; for asset-backed securities, the amount of credit support provided by the structure of the security to absorb credit losses on the underlying collateral; recent events specific to the issuer and the issuer's industry; and whether all scheduled principal and interest payments have been received.

If management determines that the impairment of an AFS investment security (or a portion of the impairment) is related to credit losses, an allowance for credit losses is recorded for that security through a charge to earnings. The allowance for credit losses on AFS investment securities is measured as the difference between the amortized cost and the present value of expected cash flows and is limited to the difference between amortized cost and the fair value of the security. The Company estimates credit losses on a discounted cash flow basis using the security's effective interest rate. If it is determined that the Company intends to sell the impaired security or if it is more likely than not that the Company will be required to sell the security before any anticipated recovery of the amortized cost basis, any allowance for credit losses of that security will be written off and the amortized cost basis of the security will be written down to fair value with any incremental impairment recorded through earnings.

The Company separately evaluates its HTM investment securities for any expected credit losses. If HTM investment securities share risk characteristics, management evaluates those securities on a collective basis. An allowance for credit losses is recorded through a charge to earnings based on an estimate of current expected credit losses over the remaining expected lives of the HTM investment securities. Management reviews the allowance for credit losses quarterly, taking into consideration current conditions, reasonable and supportable forecasts, past events, and historical experience that affect the expected collectability of the reported amounts.

For the purposes of identifying and measuring impairment of AFS investment securities and for the purposes of estimating the allowance for credit losses on all investment securities, the Company excludes accrued interest from the amortized cost basis and when applicable, the fair value, of investment securities. Changes in the allowance for credit losses on investment securities are recorded through earnings in the period of the change.

For some of the AFS and HTM investment securities the Company has an expectation that nonpayment of the amortized cost basis is zero based on a long history with no credit losses and considering current conditions and reasonable and supportable forecasts. This applies to a limited set of securities that are guaranteed by the U.S. Treasury, U.S. government agencies, and sovereign entities of high credit quality. The expectation that nonpayment of the amortized cost basis is zero is continually reevaluated.

AFS and HTM investment securities are placed on nonaccrual status on a timely basis and any accrued interest receivable is reversed through interest income.

#### **Resale and repurchase agreements**

Resale and repurchase agreements are accounted for as collateralized financing transactions with a receivable or payable recorded at their contractual amounts plus accrued interest. Schwab's resale agreements are typically collateralized by U.S. Government and agency securities and the receivable is included in cash and investments segregated and on deposit for regulatory purposes in the consolidated balance sheets. Securities received under resale agreements are not recorded on the consolidated balance sheets. Securities transferred to counterparties under repurchase agreements continue to be recognized on the Company's consolidated balance sheets in the respective financial statement line item and at the respective measurement basis. Payables for repurchase agreements are included in short-term borrowings on the consolidated balance sheets. The Company monitors its collateral requirements under these agreements daily and collateral is adjusted to ensure full collateralization. Interest received or paid is recorded in interest revenue or interest expense, respectively. Schwab applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for resale agreements.

#### **Securities borrowed and securities loaned**

Securities borrowing and lending transactions are accounted for as collateralized financing transactions. Securities borrowed transactions require Schwab to deliver cash to the lender in exchange for securities; the receivables from these transactions are

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included in other assets on the consolidated balance sheets. For securities loaned, Schwab receives collateral in the form of cash in an amount equal to or greater than the market value of securities loaned; the payables from these transactions are included in accrued expenses and other liabilities on the consolidated balance sheets. The market value of securities borrowed and loaned is monitored and collateral is adjusted to ensure full collateralization. Fees received or paid are recorded in interest revenue or interest expense. Schwab applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for securities borrowed receivables.

#### **Bank loans and related allowance for loan losses**

Bank loans held for investments are recorded at amortized cost, which is comprised of the contractual principal amounts adjusted for unamortized direct origination costs or net purchase discounts or premiums. Direct origination costs and premiums and discounts are recognized in interest revenue using the effective interest method over the contractual life of the loan and are adjusted for actual prepayments. Additionally, management estimates an allowance for credit losses, which is deducted from the amortized cost basis of loans to arrive at the amount expected to be collected. The bank loan portfolio includes three portfolio segments: residential real estate, PALs, and other loans. We use these segments when developing and documenting our methodology for determining the allowance for credit losses. The residential real estate portfolio segment is divided into two classes of financing receivables for purposes of monitoring and assessing credit risk: First Mortgages and HELOCs.

Schwab records an allowance for credit losses through a charge to earnings based on our estimate of current expected credit losses for the existing portfolio. We review the allowance for credit losses quarterly, taking into consideration current economic conditions, reasonable and supportable forecasts, the composition of the existing loan portfolio, past loss experience, and any other risks inherent in the portfolio to ensure that the allowance for credit losses is maintained at an appropriate level.

PALs are collateralized by marketable securities with liquid markets. Credit lines are over-collateralized and borrowers are required to maintain collateral at specified levels at all times. The required collateral levels are determined based on the type of security pledged. Additionally, collateral market value is monitored on a daily basis and a borrower's credit line may be reduced or collateral may be liquidated if the collateral is in danger of falling below specified levels. As such, the credit loss inherent within this portfolio is limited. Schwab applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for PALs.

The methodology to establish an allowance for credit losses for the residential real estate portfolio segment utilizes statistical models that estimate prepayments, defaults, and expected losses for this portfolio segment based on predicted behavior of individual loans within the segment. The methodology also evaluates concentrations in the classes of financing receivables, including loan products within those classes, year of origination, and geographical distribution of collateral.

Expected credit losses are forecast using a loan-level simulation of the delinquency status of the loans over the term of the loans. The simulation starts with the current relevant risk indicators, including the current delinquent status of each loan, the estimated current LTV ratio of each loan, the term and structure of each loan, borrower FICO scores, and current key interest rates including U.S. Treasury, SOFR, and LIBOR rates. The more significant variables in the simulation include delinquency roll rates, loss severity, housing prices, interest rates, and the unemployment rate. Delinquency roll rates (i.e., the rates at which loans transition through delinquency stages and ultimately result in a loss) are estimated from our historical loss experience adjusted for current trends and market information, which includes current and forecasted conditions. Loss severity (i.e., loss given default) estimates are based on our historical loss experience and market trends, both current and forecasted. Housing price trends are derived from historical home price indices and econometric forecasts of future home values. Factors affecting the home price index include housing inventory, unemployment, interest rates, and inflation expectations. Interest rate projections are based on the current term structure of interest rates and historical volatilities to project various possible future interest rate paths. The unemployment rate forecast is typically based on the recent consensus of regularly published economic surveys. Linear interpolation is applied to revert to long-term trends after the reasonable and supportable forecast period.

The methodology described above results in loss factors that are applied to the amortized cost basis of loans, exclusive of accrued interest receivable, to determine the allowance for credit losses for First Mortgages and HELOCs.

Management also estimates a liability for expected credit losses on the Company's commitments to extend credit related to unused HELOCs and commitments to purchase first mortgages. See Note 15 for additional information on these commitments. The liability is calculated by applying the loss factors described above to the commitments expected to be funded and is included in accrued expenses and other liabilities on the consolidated balance sheets. The liability for expected credit losses on these commitments and related activity were immaterial for all periods presented.

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#### ***Nonaccrual, nonperforming and impaired loans***

First Mortgages, HELOCs, PALs, and other loans are placed on nonaccrual status upon becoming 90 days past due as to interest or principal (unless the loans are well-secured and in the process of collection), or when the full timely collection of interest or principal becomes uncertain, including loans to borrowers who have filed for bankruptcy. HELOC loans secured by a second lien are placed on non-accrual status if the associated first lien is 90 days or more delinquent, regardless of the payment status of the HELOC. When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is reversed and the loan is accounted for on the cash or cost recovery method until qualifying for return to accrual status. Generally, a nonaccrual loan may be returned to accrual status when all delinquent interest and principal is repaid and the borrower demonstrates a sustained period of performance, or when the loan is both well-secured and in the process of collection and collectability is no longer doubtful. Loans on nonaccrual status and other real estate owned are considered nonperforming assets.

#### ***Loan charge-offs***

The Company charges off a loan in the period that it is deemed uncollectible and records a reduction in the allowance for credit losses and the loan balance. Our charge-off policy for First Mortgage and HELOC loans is to assess the value of the property when the loan has been delinquent for 180 days or has been discharged in bankruptcy proceedings, regardless of whether the property is in foreclosure, and charge off the amount of the loan balance in excess of the estimated current value of the underlying property less estimated costs to sell. The Company's policy for PALs is to charge off any unsecured balances no later than at 90 days past due.

#### **Equipment, office facilities, and property**

Equipment, office facilities, and property are recorded at cost net of accumulated depreciation and amortization, except for land, which is recorded at cost. Equipment, office facilities, and property include certain capitalized costs of acquired or internally developed software. Costs for internally developed software are capitalized when the costs relate to development of approved projects for our internal needs that result in additional functionality. Costs related to preliminary project and post-project activities are expensed as incurred. Equipment, office facilities, and property (other than land) are depreciated on a straight-line basis over their estimated useful lives. Estimated useful lives are as follows:

|                                   |                                     |
|-----------------------------------|-------------------------------------|
| All equipment types and furniture | 3 to 10 years                       |
| Buildings                         | 40 years                            |
| Building and land improvements    | 20 years                            |
| Software                          | 3 to 10 years <sup>(1)</sup>        |
| Leasehold improvements            | Lesser of useful life or lease term |

<sup>(1)</sup> Amortized over contractual term if less than three years.

Equipment, office facilities, and property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Equipment, office facilities, and property acquired in a business combination are recognized at their estimated fair values as of the date of acquisition. The fair values of real property, personal property, construction in progress, and land acquired are estimated using a sales comparison and cost approach, including consideration of functional and economic obsolescence. The Company determined the weighted-average useful lives of the assets based on the current condition and expected future use of the assets as of the date of acquisition.

#### **Goodwill**

Goodwill is not amortized but is tested for impairment annually or whenever indications of impairment exist. Impairment exists when the carrying amount of a reporting unit exceeds its estimated fair value, resulting in an impairment charge for this excess, with the maximum charge limited to the carrying value of goodwill allocated to that reporting unit. Our annual impairment testing date is April 1<sup>st</sup>. Schwab can elect to qualitatively assess goodwill for impairment if it is more likely than not that the fair value of a reporting unit exceeds its carrying value. A qualitative assessment considers macroeconomic and other industry-specific factors, such as trends in short-term and long-term interest rates and the ability to access capital, and Company specific factors such as market capitalization in excess of net assets, trends in revenue generating activities, and merger or acquisition activity.

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If the Company elects to bypass qualitatively assessing goodwill, or it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, management estimates the fair values of each of the Company's reporting units (defined as the Company's businesses for which financial information is available and reviewed regularly by management) and compares it to their carrying values. The estimated fair values of the reporting units are established using an income approach based on a discounted cash flow model that includes significant assumptions about the future operating results and cash flows of each reporting unit, a market approach which compares each reporting unit to comparable companies in their respective industries, as well as a market capitalization analysis.

#### Intangible assets

Finite-lived intangible assets are amortized over their useful lives in a manner that best reflects their economic benefit. All intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Intangible assets acquired in a business combination are recognized at their estimated fair values as of the date of acquisition. The fair values of the intangible assets acquired in the TD Ameritrade and USAA-IMCO acquisitions were determined using the following valuation methods:

| Acquired intangible asset    | Acquisition              | Method                       |
|------------------------------|--------------------------|------------------------------|
| Client relationships         | TD Ameritrade, USAA-IMCO | Multi-period excess earnings |
| Trade names                  | TD Ameritrade            | Relief from royalty          |
| Royalty-free license         | USAA-IMCO                | Relief from royalty          |
| Brokerage referral agreement | USAA-IMCO                | With-and-without             |
| Existing technology          | TD Ameritrade            | Cost                         |

The multi-period excess earnings method starts with a forecast of all of the expected future net cash flows associated with the asset and the relief from royalty method starts with a forecast of the royalties saved by the Company because it owns the asset. The with-and-without method quantifies the difference between forecasted cash flows with the asset and without the asset. The forecasts are then adjusted to present value by applying an appropriate discount rate that reflects the risks associated with the cash flow streams. The cost approach uses replacement cost as an indicator of fair value.

#### Low-income housing tax credit (LIHTC) investments

We account for investments in qualified affordable housing projects using the proportional amortization method if the applicable requirements are met. The proportional amortization method amortizes the cost of the investment over the period in which the investor expects to receive tax credits and other tax benefits, and the resulting amortization is recognized as a component of taxes on income. The carrying value of LIHTC investments is included in other assets on the consolidated balance sheets. Unfunded commitments related to LIHTC investments are included in accrued expenses and other liabilities on the consolidated balance sheets.

#### Leases

Leases primarily consist of operating leases for corporate offices, branch locations, and server equipment. We determine if an arrangement is a lease at inception. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. The Company has also elected to not record leases acquired in a business combination on the balance sheet if the remaining term as of the acquisition date is 12 months or less. Right-of-use (ROU) assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. At the commencement date, we determine classification as either an operating lease or finance lease and the ROU asset and lease liability is recognized based on the present value of lease payments over the lease term. The lease liability may include payments that depend on a rate or index (such as the Consumer Price Index), measured using the rate or index at the commencement date. Payments that vary because of changes in facts or circumstances occurring after the commencement date are considered variable. These payments are not recognized as part of the lease liability and are expensed in the period incurred. Lease expense for operating leases is recognized on a straight-line basis over the lease term. The amortization of finance lease ROU assets and the interest expense on finance lease liabilities are recognized over the lease term. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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We have lease agreements with lease and non-lease components. For the majority of our leases (real estate leases), the Company has elected the practical expedient to account for the lease and non-lease components as a single lease component. We have not elected the practical expedient for equipment leases and account for lease and non-lease components separately for that class of leases.

As the rates implicit in our leases are not readily determinable, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our lease terms may include periods covered by options to extend when it is reasonably certain that we will exercise those options. The lease terms may also include periods covered by options to terminate when it is reasonably certain that we will not exercise that option.

#### **Advertising and market development**

Advertising and market development activities include the cost to produce and distribute marketing campaigns as well as client incentives and discounts. Where it applies to these costs, the Company's accounting policy is to expense when incurred.

#### **Income taxes**

Schwab provides for income taxes on all transactions that have been recognized in the consolidated financial statements. Accordingly, deferred tax assets are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax assets and deferred tax liabilities, as well as other changes in income tax laws, are recorded in earnings in the period such changes are enacted. Uncertain tax positions are evaluated to determine whether they are more likely than not to be sustained upon examination. When tax positions are more likely than not to be sustained upon examination the difference between positions taken on tax return filings and estimated potential tax settlement outcomes are recognized in accrued expenses and other liabilities. If a position is not more likely than not to be sustained, then none of the tax benefit is recognized in Schwab's financial statements. Accrued interest and penalties relating to unrecognized tax benefits are recorded in taxes on income. Schwab records amounts within AOCI net of taxes. Income tax effects are released from AOCI using the specific-identification method.

#### **Share-based compensation**

Share-based compensation includes employee and board of director stock options and restricted stock units. Schwab measures compensation expense for these share-based payment arrangements based on their estimated fair values as of the grant date. The grant date fair value is amortized to compensation expense on a straight-line basis over the requisite service period. Share-based compensation expense is based on options or units expected to vest and therefore is reduced for estimated forfeitures. Per the Company's accounting policy election, forfeitures are estimated at the time of grant and reviewed annually based on the Company's historical forfeiture experience. Share-based compensation expense is adjusted in subsequent periods if actual forfeitures differ from estimated forfeitures. For share-based payment awards with performance conditions, management assesses and estimates their expected level of achievement. Share-based compensation expense is recognized based on the level of achievement deemed probable and changes in the estimated outcome are reflected as a cumulative adjustment to expense in the period of the change in estimate. The excess tax benefits or deficiencies from the exercise of stock options and the vesting of restricted stock units are recorded in taxes on income.

#### **Fair values of assets and liabilities**

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement accounting guidance describes the fair value hierarchy for disclosing assets and liabilities measured at fair value based on the inputs used to value them. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are based on market pricing data obtained from third-party sources independent of the Company. A quoted price in an active market provides the most reliable evidence of fair value and is generally used to measure fair value whenever available.

Unobservable inputs reflect management's judgment about the assumptions market participants would use in pricing the asset or liability. Where inputs used to measure fair value of an asset or liability are from different levels of the hierarchy, the asset or liability is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing

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the significance of a particular input requires judgment. The fair value hierarchy includes three levels based on the objectivity of the inputs as follows:

- Level 1 inputs are quoted prices in active markets as of the measurement date for identical assets or liabilities that the Company has the ability to access.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates, benchmark yields, issuer spreads, new issue data, and collateral performance.
- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

#### *Assets and liabilities measured at fair value on a recurring basis*

Schwab's assets and liabilities measured at fair value on a recurring basis include: certain cash equivalents, certain investments segregated and on deposit for regulatory purposes, AFS securities, certain other assets, and accrued expenses and other liabilities. The Company uses the market approach to determine the fair value of assets and liabilities. When available, the Company uses quoted prices in active markets to measure the fair value of assets and liabilities. Quoted prices for investments in exchange-traded securities represent end-of-day close prices published by exchanges. Quoted prices for money market funds and other mutual funds represent reported net asset values. When utilizing market data and bid-ask spread, the Company uses the price within the bid-ask spread that best represents fair value. When quoted prices in active markets do not exist, the Company uses prices obtained from independent third-party pricing services to measure the fair value of investment assets, and we generally obtain prices from three independent third-party pricing sources for such assets recorded at fair value.

Our primary independent pricing service provides prices for our fixed income investments such as commercial paper; certificates of deposits; U.S. government and agency securities; state and municipal securities; corporate debt securities; asset-backed securities; foreign government agency securities; and non-agency commercial mortgage-backed securities. Such prices are based on observable trades, broker/dealer quotes, and discounted cash flows that incorporate observable information such as yields for similar types of securities (a benchmark interest rate plus observable spreads) and weighted-average maturity for the same or similar "to-be-issued" securities. We compare the prices obtained from the primary independent pricing service to the prices obtained from the additional independent pricing services to determine if the price obtained from the primary independent pricing service is reasonable. Schwab does not adjust the prices received from independent third-party pricing services unless such prices are inconsistent with the definition of fair value and result in material differences in the amounts recorded.

Liabilities measured at fair value on a recurring basis include repurchase liabilities related to client-held fractional shares of equities, ETFs, and other securities. See Other securities owned at fair value above in this Note 2 for the treatment of client-held fractional shares. The Company has elected the fair value option pursuant to ASC 825 *Financial Instruments* for the repurchase liabilities to match the measurement and accounting of the related client-held fractional shares. The fair values of the repurchase liabilities are based on quoted market prices or other observable market data consistent with the related client-held fractional shares. Unrealized gains and losses on client-held fractional shares offset the unrealized gains and losses on the corresponding repurchase liabilities, resulting in no impact to the consolidated statements of income. The Company's liabilities to repurchase client-held fractional shares do not have credit risk, and, as a result, the Company has not recognized any gains or losses in the consolidated statements of income or comprehensive income attributable to instrument-specific credit risk for these repurchase liabilities. The repurchase liabilities are included in accrued expenses and other liabilities on the consolidated balance sheet.



# THE CHARLES SCHWAB CORPORATION

## Notes to Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

### New Accounting Standards

#### Adoption of New Accounting Standards

No new accounting standards that are material to the Company were adopted during the year ended December 31, 2022.

#### New Accounting Standards Not Yet Adopted

| Standard   | Description  | Required Date of Adoption | Effects on the Financial Statements or Other Significant Matters  |
|--|--|---------------------------|---|
| Accounting Standards Update (ASU) 2022-02, "Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" | <p><b>Troubled Debt Restructurings (TDRs)</b><br/>Eliminates the accounting guidance for TDRs. Rather than applying the specific guidance for TDRs, creditors will apply the recognition and measurement guidance for loan refinancings and restructurings to determine whether a modification results in a new loan or a continuation of an existing loan. The guidance requires enhanced disclosures for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.</p> <p><b>Vintage Disclosures</b><br/>Requires that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.</p> <p>Adoption provides for prospective application, with an option to apply the modified retrospective transition method for the change in recognition and measurement of TDRs.</p> | January 1, 2023           | The Company adopted this guidance prospectively on January 1, 2023. As such, there was no impact to the Company's consolidated financial statements upon initial adoption. Adopting this guidance changed the Company's accounting treatment for the loan modifications in scope of ASU 2022-02 prospectively from the adoption date. The Company's vintage disclosures in Note 7, Bank Loans and Related Allowance for Credit Losses, will be updated prospectively to include gross write offs. |

### 3. Business Acquisitions

#### TD Ameritrade

On October 6, 2020, Schwab completed its acquisition of TD Ameritrade for \$21.8 billion in stock. As a result of the acquisition, TDA Holding became a wholly-owned subsidiary of CSC. TD Ameritrade provides securities brokerage services, including trade execution, clearing services, and margin lending; and futures and foreign exchange trade execution services.

In exchange for each share of TD Ameritrade common stock, TD Ameritrade stockholders received 1.0837 shares of CSC common stock, except for TD Bank and its affiliates which received a portion in nonvoting common stock. In connection with the transaction, Schwab issued approximately 586 million common shares to TD Ameritrade stockholders consisting of approximately 509 million shares of common stock and approximately 77 million shares of nonvoting common stock. For further details on nonvoting common stock, see Note 19.

The fair value of the purchase price transferred upon completion of the acquisition includes the fair value of CSC common stock and nonvoting common stock that was issued to TD Ameritrade stockholders, as well as the fair value of assumed TD Ameritrade equity awards attributable to pre-combination services.

The purchase price was calculated as follows:

|  |           |               |
|--|-----------|---------------|
| Fair value of consideration for TD Ameritrade outstanding common stock                                     | \$        | 21,664        |
| Fair value of replaced TD Ameritrade equity awards attributable to pre-combination services <sup>(1)</sup> |           | 94            |
| <b>Purchase price</b>  | <b>\$</b> | <b>21,758</b> |

<sup>(1)</sup> Share-based awards held by TD Ameritrade employees prior to the acquisition date were assumed by Schwab and converted into share-based awards with respect to CSC common stock, after giving effect to the exchange ratio of 1.0837. Such share-based awards are otherwise subject to the same terms and conditions as were applicable immediately before the merger, except for performance-based restricted stock units which were converted into time-based restricted stock units. The portion of the fair value of the share-based awards that relates to services performed by the employees prior to the acquisition date is included in the purchase price.

# THE CHARLES SCHWAB CORPORATION

## Notes to Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

The Company accounted for the TD Ameritrade acquisition as a business combination under GAAP and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their fair values, except for certain exceptions to the recognition principle of acquisition accounting, such as leases, share-based payments, and income taxes, as of the date of acquisition. Information regarding the acquisition is final and there were no adjustments to the provisional purchase price and fair value estimates presented in the 2020 Form 10-K.

The following table summarizes the purchase price, fair values of the assets acquired and liabilities assumed, and resulting goodwill as of the October 6, 2020 acquisition date:

|  |    |        |
|--|----|--------|
| <b>Purchase price</b>  | \$ | 21,758 |
| <b>Fair value of assets acquired:</b>                                  |    |        |
| Cash and cash equivalents  |    | 3,484  |
| Cash and investments segregated and on deposit for regulatory purposes |    | 14,236 |
| Receivables from brokerage clients                                     |    | 28,009 |
| Available for sale securities  |    | 1,779  |
| Acquired intangible assets   |    | 8,880  |
| Equipment, office facilities, and property                             |    | 470    |
| Other assets   |    | 3,088  |
| Total assets acquired  |    | 59,946 |
| <b>Fair value of liabilities assumed:</b>                              |    |        |
| Payables to brokerage clients  |    | 37,599 |
| Accrued expenses and other liabilities                                 |    | 6,975  |
| Long-term debt   |    | 3,829  |
| Total liabilities assumed  |    | 48,403 |
| <b>Fair value of net identifiable assets acquired</b>                  |    | 11,543 |
| <b>Goodwill</b>  | \$ | 10,215 |

The identifiable tangible and intangible assets of \$470 million and \$8.9 billion, respectively, are subject to depreciation and amortization. The following table summarizes the major classes of tangible and intangible assets and their respective fair values and weighted-average useful lives:

|   | Fair Value | Weighted-Average Useful Life (Years) |
|---|------------|--------------------------------------|
| <b>Equipment, office facilities, and property</b> |            |                                      |
| Real property <sup>(1)</sup>                      | \$ 226     | 37                                   |
| Personal property <sup>(2)</sup>                  | 162        | 2                                    |
| Construction in progress                          | 49         | N/A                                  |
| Land  | 33         | N/A                                  |
| Total equipment, office facilities, and property  | \$ 470     |                                      |
| <b>Acquired intangible assets</b>                 |            |                                      |
| Client relationships                              | \$ 8,700   | 20                                   |
| Existing technology                               | 165        | 2                                    |
| Trade names                                       | 15         | 2                                    |
| Total acquired intangible assets                  | \$ 8,880   |                                      |

<sup>(1)</sup> Consists primarily of buildings.

<sup>(2)</sup> Consists primarily of equipment and leasehold improvements.

N/A Not applicable.

Goodwill of \$10.2 billion is primarily attributable to the scale, skill sets, operations, and synergies that can be leveraged to enable the combined company to build a stronger enterprise and will not be deductible for tax purposes. The goodwill assigned to the Investor Services and Advisor Services segments were \$6.4 billion and \$3.8 billion, respectively.

# THE CHARLES SCHWAB CORPORATION

## Notes to Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

The Company's consolidated statements of income include total net revenues and net income attributable to the TD Ameritrade acquisition of \$1.7 billion and \$583 million, respectively, for the period October 6, 2020 through December 31, 2020.

In connection with the TD Ameritrade acquisition, the Company incurred various professional fees and other costs such as advisory, legal, and accounting fees. In total, the Company incurred acquisition costs of \$56 million for the year ended December 31, 2020, which are primarily included in professional services on the consolidated statement of income.

### USAA-IMCO

On May 26, 2020, the Company completed its acquisition of the assets of USAA-IMCO for \$1.6 billion in cash. Along with the asset purchase agreement, the companies entered into a long-term referral agreement that makes Schwab the exclusive provider of wealth management and investment brokerage services for USAA members. The USAA-IMCO acquisition has added scale to the Company's operations through the addition of over one million brokerage and managed portfolio accounts with approximately \$80 billion in client assets at the acquisition date. The transaction also provides Schwab the opportunity to further expand our client base by serving USAA's members through the long-term referral agreement.

The Company accounted for the USAA-IMCO acquisition as a business combination under GAAP and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their fair values as of the date of acquisition. During the three months ended September 30, 2020, we made a \$43 million post-closing adjustment to the purchase price resulting in reductions of \$9 million and \$34 million to our initial estimates of the fair value of the intangible assets acquired and goodwill, respectively. The Company finalized the valuation of assets and liabilities during the three months ended December 31, 2020, resulting in no additional adjustments to the estimated fair values as of the date of acquisition.

The following table summarizes the purchase price, fair values of the assets acquired and liabilities assumed, and resulting goodwill as of the May 26, 2020 acquisition date, adjusted for the post-closing adjustments described above:

|  |    |       |
|--|----|-------|
| <b>Purchase price</b>                                  | \$ | 1,581 |
| <b>Fair value of assets acquired:</b>                  |    |       |
| Cash segregated and on deposit for regulatory purposes |    | 4,392 |
| Receivables from brokerage clients                     |    | 80    |
| Acquired intangible assets                             |    | 1,109 |
| Total assets acquired                                  |    | 5,581 |
| <b>Fair value of liabilities assumed:</b>              |    |       |
| Payables to brokerage clients                          |    | 4,472 |
| Total liabilities assumed                              |    | 4,472 |
| <b>Fair value of net identifiable assets acquired</b>  |    | 1,109 |
| <b>Goodwill</b>  | \$ | 472   |

The identifiable intangible assets of \$1.1 billion are subject to amortization. The following table summarizes the major classes of intangible assets acquired and their respective fair values and weighted-average useful lives:

|   | Fair Value | Weighted-Average Useful Life (Years) |
|---|------------|--------------------------------------|
| Customer relationships                      | \$ 962     | 18                                   |
| Brokerage referral agreement <sup>(1)</sup> | 142        | 20                                   |
| Royalty-free license                        | 5          | 7                                    |
| Total acquired intangible assets            | \$ 1,109   |                                      |

<sup>(1)</sup> The brokerage referral agreement has an initial term of 5 years and is automatically renewable for one-year increments thereafter.

Goodwill of \$472 million, primarily attributable to the additional scale and anticipated synergies from the USAA-IMCO acquisition, was assigned to the Investor Services segment and is deductible for tax purposes.

The Company's consolidated statements of income include total net revenues and net loss attributable to the USAA-IMCO acquisition of \$235 million and \$51 million, respectively, for the period May 26, 2020 through December 31, 2020.

**THE CHARLES SCHWAB CORPORATION****Notes to Consolidated Financial Statements**

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

In connection with the acquisition, the Company agreed to reimburse USAA for certain contract termination and other fees and severance costs incurred by USAA. These costs totaled \$21 million for the year ended December 31, 2020 and are included in other expense on the consolidated statements of income. Additionally, the Company incurred various professional fees and other costs related to the USAA-IMCO acquisition, such as advisory, legal, and accounting fees. In total, the Company incurred acquisition costs of \$54 million for the year ended December 31, 2020, which are primarily included in professional services, other expense, and compensation and benefits on the consolidated statement of income.

***Pro Forma Financial Information (Unaudited)***

The following table presents unaudited pro forma financial information as if the TD Ameritrade and USAA-IMCO acquisitions had occurred on January 1, 2019. The unaudited pro forma results reflect after-tax adjustments for acquisition costs, amortization and depreciation of acquired intangible and tangible assets, the impact of the amended IDA agreement which reduced the service fee on client cash deposits held at the TD Depository Institutions to 15 basis points from the 25 basis points paid by TD Ameritrade under its previous IDA agreement, and other immaterial adjustments for the effects of purchase accounting, and do not reflect potential revenue growth or cost savings that may be realized as a result of the acquisitions. In accordance with ASC 805 *Business Combinations*, pro forma net income for the year ended December 31, 2020 excludes after-tax acquisition costs for both Schwab and the acquirees of \$156 million.

The unaudited pro forma financial information is presented for informational purposes only, and is not necessarily indicative of future operations or results had the TD Ameritrade and USAA-IMCO acquisitions been completed as of January 1, 2019.

|   | Year Ended<br>December 31, |
|---|----------------------------|
|   | 2020                       |
| Total net revenues                          | \$ 16,617                  |
| Net income available to common stockholders | 4,617                      |

**THE CHARLES SCHWAB CORPORATION**

**Notes to Consolidated Financial Statements**

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

**4. Revenue Recognition**

***Disaggregated Revenue***

Disaggregation of Schwab's revenue by major source is as follows:

| Year Ended December 31,                         | 2022      | 2021      | 2020      |
|---|-----------|-----------|-----------|
| <b>Net interest revenue</b>                     |           |           |           |
| Cash and cash equivalents                       | \$ 812    | \$ 40     | \$ 120    |
| Cash and investments segregated                 | 691       | 24        | 141       |
| Receivables from brokerage clients              | 3,321     | 2,455     | 848       |
| Available for sale securities                   | 4,139     | 4,641     | 4,537     |
| Held to maturity securities                     | 1,688     | —         | —         |
| Bank loans                                      | 1,083     | 620       | 545       |
| Securities lending revenue                      | 471       | 720       | 334       |
| Other interest revenue                          | 22        | 6         | 6         |
| Interest revenue                                | 12,227    | 8,506     | 6,531     |
| Bank deposits                                   | (723)     | (54)      | (93)      |
| Payables to brokerage clients                   | (123)     | (9)       | (12)      |
| Short-term borrowings                           | (154)     | (9)       | —         |
| Long-term debt                                  | (498)     | (384)     | (289)     |
| Securities lending expense                      | (48)      | (24)      | (33)      |
| Other interest expense                          | 1         | 4         | 9         |
| Interest expense                                | (1,545)   | (476)     | (418)     |
| Net interest revenue                            | 10,682    | 8,030     | 6,113     |
| <b>Asset management and administration fees</b> |           |           |           |
| Mutual funds, ETFs, and CTFs                    | 2,055     | 1,961     | 1,770     |
| Advice solutions                                | 1,854     | 1,993     | 1,443     |
| Other   | 307       | 320       | 262       |
| Asset management and administration fees        | 4,216     | 4,274     | 3,475     |
| <b>Trading revenue</b>                          |           |           |           |
| Commissions                                     | 1,787     | 2,050     | 739       |
| Order flow revenue                              | 1,738     | 2,053     | 621       |
| Principal transactions                          | 148       | 49        | 56        |
| Trading revenue                                 | 3,673     | 4,152     | 1,416     |
| Bank deposit account fees                       | 1,409     | 1,315     | 355       |
| Other   | 782       | 749       | 332       |
| Total net revenues                              | \$ 20,762 | \$ 18,520 | \$ 11,691 |

For a summary of revenue provided by our reportable segments, see Note 24. The recognition of revenue is not impacted by the operating segment in which revenue is generated.

**THE CHARLES SCHWAB CORPORATION**

**Notes to Consolidated Financial Statements**

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

**5. Receivables from and Payables to Brokerage Clients**

Receivables from and payables to brokerage clients are detailed below:

| December 31,  | 2022      | 2021       |
|---|-----------|------------|
| <b>Receivables</b>                                      |           |            |
| Margin loans  | \$ 63,065 | \$ 87,365  |
| Other brokerage receivables                             | 3,526     | 3,200      |
| Receivables from brokerage clients — net <sup>(1)</sup> | \$ 66,591 | \$ 90,565  |
| <b>Payables</b>   |           |            |
| Interest-bearing payables                               | \$ 81,583 | \$ 107,551 |
| Non-interest-bearing payables                           | 15,855    | 18,120     |
| Payables to brokerage clients                           | \$ 97,438 | \$ 125,671 |

<sup>(1)</sup> The allowance for credit losses for receivables from brokerage clients and related activity was immaterial for all periods presented.

At December 31, 2022 and 2021, approximately 17% of total CS&Co and TD Ameritrade, Inc. client accounts were located in California.

# THE CHARLES SCHWAB CORPORATION

## Notes to Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

### 6. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's AFS and HTM investment securities are as follows:

| December 31, 2022                                  | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|----------------|------------------------|-------------------------|------------|
| <b>Available for sale securities</b>               |                |                        |                         |            |
| U.S. agency mortgage-backed securities             | \$ 85,994      | \$ —                   | \$ 8,306                | \$ 77,688  |
| U.S. Treasury securities                           | 41,879         | —                      | 1,877                   | 40,002     |
| Asset-backed securities <sup>(1)</sup>             | 13,672         | —                      | 649                     | 13,023     |
| Corporate debt securities <sup>(2)</sup>           | 13,830         | —                      | 1,275                   | 12,555     |
| Certificates of deposit                            | 2,245          | —                      | 14                      | 2,231      |
| Foreign government agency securities               | 1,033          | —                      | 64                      | 969        |
| U.S. state and municipal securities                | 713            | —                      | 75                      | 638        |
| Non-agency commercial mortgage-backed securities   | 473            | —                      | 23                      | 450        |
| Other  | 323            | —                      | 8                       | 315        |
| Total available for sale securities <sup>(3)</sup> | \$ 160,162     | \$ —                   | \$ 12,291               | \$ 147,871 |
| <b>Held to maturity securities</b>                 |                |                        |                         |            |
| U.S. agency mortgage-backed securities             | \$ 173,074     | \$ 1,442               | \$ 15,580               | \$ 158,936 |
| Total held to maturity securities                  | \$ 173,074     | \$ 1,442               | \$ 15,580               | \$ 158,936 |

December 31, 2021

|  |            |          |          |            |
|--|------------|----------|----------|------------|
| <b>Available for sale securities</b>             |            |          |          |            |
| U.S. agency mortgage-backed securities           | \$ 335,803 | \$ 3,141 | \$ 4,589 | \$ 334,355 |
| U.S. Treasury securities                         | 21,394     | 13       | 125      | 21,282     |
| Asset-backed securities <sup>(1)</sup>           | 17,547     | 79       | 80       | 17,546     |
| Corporate debt securities <sup>(2)</sup>         | 12,310     | 143      | 109      | 12,344     |
| U.S. state and municipal securities              | 1,611      | 81       | 5        | 1,687      |
| Non-agency commercial mortgage-backed securities | 1,170      | 20       | —        | 1,190      |
| Certificates of deposit                          | 1,000      | —        | 1        | 999        |
| Foreign government agency securities             | 425        | —        | —        | 425        |
| Commercial paper                                 | 200        | —        | —        | 200        |
| Other  | 22         | 4        | —        | 26         |
| Total available for sale securities              | \$ 391,482 | \$ 3,481 | \$ 4,909 | \$ 390,054 |

<sup>(1)</sup> Approximately 57% and 58% of asset-backed securities held as of December 31, 2022 and 2021, respectively, were Federal Family Education Loan Program Asset-Backed Securities. Asset-backed securities collateralized by credit card receivables represented approximately 18% and 30% of the asset-backed securities held as of December 31, 2022 and 2021, respectively.

<sup>(2)</sup> As of December 31, 2022 and 2021, approximately 37% and 31%, respectively, of the total AFS corporate debt securities were issued by institutions in the financial services industry.

<sup>(3)</sup> Included in cash and cash equivalents on the condensed consolidated balance sheets, but excluded from this table, is \$48 million of AFS commercial paper as of December 31, 2022 (none as of December 31, 2021). These holdings have maturities of three months or less at the time of acquisition, and an aggregate market value equal to amortized cost.

In January and November 2022, the Company transferred \$108.8 billion and \$79.8 billion, respectively, of U.S. agency mortgage-backed securities with a total net unrealized loss at the time of transfer of \$2.4 billion and \$15.8 billion, respectively, from the AFS category to the HTM category.

At December 31, 2022, our banking subsidiaries had pledged securities with a fair value of \$63.1 billion as collateral to secure borrowing capacity on secured credit facilities with the FHLB (see Note 13). Our banking subsidiaries also pledge investment securities as collateral to secure borrowing capacity at the Federal Reserve discount window, and had pledged securities with a

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fair value of \$7.8 billion as collateral for this facility at December 31, 2022. The Company also pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was \$1.3 billion at December 31, 2022.

At December 31, 2022, our banking subsidiaries had pledged HTM and AFS securities as collateral under repurchase agreements with external financial institutions. HTM securities pledged were U.S. agency mortgage-backed securities with an aggregate amortized cost of \$4.5 billion, and AFS securities pledged were U.S. Treasury securities with an aggregate fair value of \$41 million. Securities pledged as collateral under these repurchase agreements may be sold, replugged, or otherwise used by the counterparties. See Notes 2, 13, and 17 for additional information on these repurchase agreements.

Securities with unrealized losses, aggregated by category and period of continuous unrealized loss, of AFS investment securities are as follows:

|  | Less than<br>12 months |                      | 12 months<br>or longer |                      | Total         |                      |
|--|------------------------|----------------------|------------------------|----------------------|---------------|----------------------|
|  | Fair<br>Value          | Unrealized<br>Losses | Fair<br>Value          | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| December 31, 2022                                |                        |                      |                        |                      |               |                      |
| <b>Available for sale securities</b>             |                        |                      |                        |                      |               |                      |
| U.S. agency mortgage-backed securities           | \$ 34,938              | \$ 2,025             | \$ 42,558              | \$ 6,281             | \$ 77,496     | \$ 8,306             |
| U.S. Treasury securities                         | 27,063                 | 716                  | 12,519                 | 1,161                | 39,582        | 1,877                |
| Asset-backed securities                          | 6,717                  | 217                  | 6,299                  | 432                  | 13,016        | 649                  |
| Corporate debt securities                        | 8,552                  | 542                  | 3,998                  | 733                  | 12,550        | 1,275                |
| Certificates of deposit                          | 2,033                  | 10                   | 196                    | 4                    | 2,229         | 14                   |
| Foreign government agency securities             | 756                    | 50                   | 214                    | 14                   | 970           | 64                   |
| U.S. state and municipal securities              | 482                    | 31                   | 157                    | 44                   | 639           | 75                   |
| Non-agency commercial mortgage-backed securities | 443                    | 23                   | —                      | —                    | 443           | 23                   |
| Other  | 315                    | 8                    | —                      | —                    | 315           | 8                    |
| Total  | \$ 81,299              | \$ 3,622             | \$ 65,941              | \$ 8,669             | \$ 147,240    | \$ 12,291            |

December 31, 2021

|  |            |          |           |          |            |          |
|--|------------|----------|-----------|----------|------------|----------|
| <b>Available for sale securities</b>   |            |          |           |          |            |          |
| U.S. agency mortgage-backed securities | \$ 186,955 | \$ 3,216 | \$ 38,007 | \$ 1,373 | \$ 224,962 | \$ 4,589 |
| U.S. Treasury securities               | 16,658     | 125      | 21        | —        | 16,679     | 125      |
| Asset-backed securities                | 6,093      | 58       | 2,708     | 22       | 8,801      | 80       |
| Corporate debt securities              | 4,713      | 99       | 197       | 10       | 4,910      | 109      |
| Certificates of deposit                | 799        | 1        | —         | —        | 799        | 1        |
| U.S. state and municipal securities    | 191        | 4        | 5         | 1        | 196        | 5        |
| Total                                  | \$ 215,409 | \$ 3,503 | \$ 40,938 | \$ 1,406 | \$ 256,347 | \$ 4,909 |

At December 31, 2022, substantially all rated securities in the investment portfolios were investment grade. U.S. agency mortgage-backed securities do not have explicit credit ratings; however, management considers these to be of the highest credit quality and rating given the guarantee of principal and interest by the U.S. government or U.S. government-sponsored enterprises.

For a description of management's quarterly evaluation of AFS securities in unrealized loss positions, see Note 2. No amounts were recognized as credit loss expense and no securities were written down to fair value through earnings for the years ended December 31, 2022 and 2021. None of the Company's AFS securities held as of December 31, 2022 and 2021 had an allowance for credit losses. All HTM securities as of December 31, 2022 were U.S. agency mortgage-backed securities and therefore had no allowance for credit losses because expected nonpayment of the amortized cost basis is zero.

The Company had \$685 million of accrued interest receivable for AFS and HTM securities as of December 31, 2022 and \$683 million of accrued interest receivable for AFS securities as of December 31, 2021. These amounts are excluded from the amortized cost basis and fair market value of AFS and HTM securities and included in other assets on the consolidated balance



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sheets. There were no write-offs of accrued interest receivable on AFS and HTM securities during the year ended December 31, 2022, or for AFS securities for the year ended December 31, 2021.

In the table below, mortgage-backed securities and other asset-backed securities have been allocated to maturity groupings based on final contractual maturities. As borrowers may have the right to call or prepay certain obligations underlying our investment securities, actual maturities may differ from the scheduled contractual maturities presented below.

The maturities of AFS and HTM investment securities are as follows:

| December 31, 2022                                | Within<br>1 year | After 1 year<br>through<br>5 years | After 5 years<br>through<br>10 years | After<br>10 years | Total      |
|--|------------------|------------------------------------|--------------------------------------|-------------------|------------|
| <b>Available for sale securities</b>             |                  |                                    |                                      |                   |            |
| U.S. agency mortgage-backed securities           | \$ 1,202         | \$ 14,515                          | \$ 14,721                            | \$ 47,250         | \$ 77,688  |
| U.S. Treasury securities                         | 21,210           | 18,075                             | 717                                  | —                 | 40,002     |
| Asset-backed securities                          | —                | 4,198                              | 1,714                                | 7,111             | 13,023     |
| Corporate debt securities                        | 382              | 9,138                              | 3,035                                | —                 | 12,555     |
| Certificates of deposit                          | 2,134            | 97                                 | —                                    | —                 | 2,231      |
| Foreign government agency securities             | —                | 969                                | —                                    | —                 | 969        |
| U.S. state and municipal securities              | 37               | 30                                 | 417                                  | 154               | 638        |
| Non-agency commercial mortgage-backed securities | —                | —                                  | —                                    | 450               | 450        |
| Other  | 295              | —                                  | —                                    | 20                | 315        |
| Total fair value                                 | \$ 25,260        | \$ 47,022                          | \$ 20,604                            | \$ 54,985         | \$ 147,871 |
| Total amortized cost                             | \$ 25,580        | \$ 50,074                          | \$ 23,237                            | \$ 61,271         | \$ 160,162 |
| Weighted-average yield <sup>(1)</sup>            | 2.27%            | 1.94%                              | 1.99%                                | 2.29%             | 2.13%      |
| <b>Held to maturity securities</b>               |                  |                                    |                                      |                   |            |
| U.S. agency mortgage-backed securities           | \$ 409           | \$ 5,441                           | \$ 38,888                            | \$ 114,198        | \$ 158,936 |
| Total fair value                                 | \$ 409           | \$ 5,441                           | \$ 38,888                            | \$ 114,198        | \$ 158,936 |
| Total amortized cost                             | \$ 420           | \$ 5,839                           | \$ 42,235                            | \$ 124,580        | \$ 173,074 |
| Weighted-average yield <sup>(1)</sup>            | 2.51%            | 2.39%                              | 1.72%                                | 1.71%             | 1.74%      |

<sup>(1)</sup> The weighted-average yield is computed using the amortized cost at December 31, 2022.

Proceeds and gross realized gains and losses from sales of AFS investment securities are as follows:

| Year Ended December 31, | 2022      | 2021      | 2020     |
|-------------------------|-----------|-----------|----------|
| Proceeds                | \$ 24,704 | \$ 13,306 | \$ 4,801 |
| Gross realized gains    | 157       | 40        | 5        |
| Gross realized losses   | 166       | 36        | 1        |

# THE CHARLES SCHWAB CORPORATION

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(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

### 7. Bank Loans and Related Allowance for Credit Losses

The composition of bank loans and delinquency analysis by portfolio segment and class of financing receivable is as follows:

| December 31, 2022                | Current   | 30-59 days<br>past due | 60-89 days<br>past due | ≥90 days<br>past<br>due and<br>other<br>nonaccrual<br>loans <sup>(3)</sup> | Total past<br>due and<br>other<br>nonaccrual<br>loans | Total<br>loans | Allowance<br>for credit<br>losses | Total<br>bank<br>loans – net |
|----------------------------------|-----------|------------------------|------------------------|--|---|----------------|-----------------------------------|------------------------------|
| Residential real estate:         |           |                        |                        |  |   |                |                                   |                              |
| First Mortgages <sup>(1,2)</sup> | \$ 25,157 | \$ 25                  | \$ 2                   | \$ 14  | \$ 41   | \$ 25,198      | \$ 66                             | \$ 25,132                    |
| HELOCs <sup>(1,2)</sup>          | 590       | 2                      | —                      | 5  | 7   | 597            | 4                                 | 593                          |
| Total residential real estate    | 25,747    | 27                     | 2                      | 19   | 48  | 25,795         | 70                                | 25,725                       |
| Pledged asset lines              | 14,584    | 4                      | —                      | 4  | 8   | 14,592         | —                                 | 14,592                       |
| Other                            | 191       | —                      | —                      | —  | —   | 191            | 3                                 | 188                          |
| Total bank loans                 | \$ 40,522 | \$ 31                  | \$ 2                   | \$ 23  | \$ 56   | \$ 40,578      | \$ 73                             | \$ 40,505                    |
| December 31, 2021                |           |                        |                        |  |   |                |                                   |                              |
| Residential real estate:         |           |                        |                        |  |   |                |                                   |                              |
| First Mortgages <sup>(1,2)</sup> | \$ 21,022 | \$ 41                  | \$ 1                   | \$ 26  | \$ 68   | \$ 21,090      | \$ 13                             | \$ 21,077                    |
| HELOCs <sup>(1,2)</sup>          | 637       | 2                      | —                      | 9  | 11  | 648            | 2                                 | 646                          |
| Total residential real estate    | 21,659    | 43                     | 1                      | 35   | 79  | 21,738         | 15                                | 21,723                       |
| Pledged asset lines              | 12,698    | 3                      | 8                      | —  | 11  | 12,709         | —                                 | 12,709                       |
| Other                            | 207       | —                      | —                      | —  | —   | 207            | 3                                 | 204                          |
| Total bank loans                 | \$ 34,564 | \$ 46                  | \$ 9                   | \$ 35  | \$ 90   | \$ 34,654      | \$ 18                             | \$ 34,636                    |

<sup>(1)</sup> First Mortgages and HELOCs include unamortized premiums and discounts and direct origination costs of \$98 million and \$91 million at December 31, 2022 and 2021, respectively.

<sup>(2)</sup> At December 31, 2022 and 2021, 43% and 46%, respectively, of the First Mortgage and HELOC portfolios were concentrated in California. These loans have performed in a manner consistent with the portfolio as a whole.

<sup>(3)</sup> There were no loans accruing interest that were contractually 90 days or more past due at December 31, 2022 or 2021.

At December 31, 2022, CSB had pledged the full balance of First Mortgages and HELOCs pursuant to a blanket lien status collateral arrangement to secure borrowing capacity on a secured credit facility with the FHLB (see Note 13).

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(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

Changes in the allowance for credit losses on bank loans were as follows:

| December 31, 2022            | First Mortgages | HELOCs | Total residential real estate | Pledged asset lines | Other | Total |
|------------------------------|-----------------|--------|-------------------------------|---------------------|-------|-------|
| Balance at beginning of year | \$ 13           | \$ 2   | \$ 15                         | \$ —                | \$ 3  | \$ 18 |
| Charge-offs                  | —               | —      | —                             | (4)                 | —     | (4)   |
| Recoveries                   | —               | 1      | 1                             | —                   | —     | 1     |
| Provision for credit losses  | 53              | 1      | 54                            | 4                   | —     | 58    |
| Balance at end of year       | \$ 66           | \$ 4   | \$ 70                         | \$ —                | \$ 3  | \$ 73 |

| December 31, 2021            | First Mortgages | HELOCs | Total residential real estate | Pledged asset lines | Other | Total |
|------------------------------|-----------------|--------|-------------------------------|---------------------|-------|-------|
| Balance at beginning of year | \$ 22           | \$ 5   | \$ 27                         | \$ —                | \$ 3  | \$ 30 |
| Charge-offs                  | —               | —      | —                             | —                   | (1)   | (1)   |
| Recoveries                   | —               | 1      | 1                             | —                   | —     | 1     |
| Provision for credit losses  | (9)             | (4)    | (13)                          | —                   | 1     | (12)  |
| Balance at end of year       | \$ 13           | \$ 2   | \$ 15                         | \$ —                | \$ 3  | \$ 18 |

| December 31, 2020            | First Mortgages | HELOCs | Total residential real estate | Pledged asset lines | Other | Total |
|------------------------------|-----------------|--------|-------------------------------|---------------------|-------|-------|
| Balance at beginning of year | \$ 11           | \$ 4   | \$ 15                         | \$ —                | \$ 3  | \$ 18 |
| Adoption of ASU 2016-13      | 1               | —      | 1                             | —                   | —     | 1     |
| Recoveries                   | 1               | —      | 1                             | —                   | —     | 1     |
| Provision for credit losses  | 9               | 1      | 10                            | —                   | —     | 10    |
| Balance at end of year       | \$ 22           | \$ 5   | \$ 27                         | \$ —                | \$ 3  | \$ 30 |

As discussed in Note 2, the Company charges off any unsecured PAL balances no later than 90-days past due. PALs are also subject to the collateral maintenance practical expedient under ASC 326 *Financial Instruments — Credit Losses*. All PALs were fully collateralized by securities with fair values in excess of borrowings as of December 31, 2022 and 2021, respectively. Therefore, no allowance for credit losses for PALs as of those dates was required.

The U.S. economy continues to be challenged by elevated inflation, tightening monetary policy, and geopolitical unrest. Management's macroeconomic outlook reflects a near-term home price depreciation, which combined with increases in Treasury yields and mortgage rates, have extended the expected life of the portfolio and reduced borrower affordability. These changes to the macroeconomic outlook resulted in higher modeled projections of loss rates at December 31, 2022, compared to December 31, 2021, even as credit quality metrics continued to be strong in the Company's bank loans portfolio.

A summary of bank loan-related nonperforming assets and troubled debt restructurings is as follows:

| December 31,  | 2022  | 2021  |
|---|-------|-------|
| Nonaccrual loans <sup>(1)</sup>                             | \$ 23 | \$ 35 |
| Other real estate owned <sup>(2)</sup>                      | 2     | 1     |
| Total nonperforming assets                                  | 25    | 36    |
| Troubled debt restructurings                                | —     | —     |
| Total nonperforming assets and troubled debt restructurings | \$ 25 | \$ 36 |

<sup>(1)</sup> Nonaccrual loans include nonaccrual troubled debt restructurings.

<sup>(2)</sup> Included in other assets on the consolidated balance sheets.

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(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

### Credit Quality

In addition to monitoring delinquency, Schwab monitors the credit quality of First Mortgages and HELOCs by stratifying the portfolios by the following:

- Year of origination;
- Borrower FICO scores at origination (Origination FICO);
- Updated borrower FICO scores (Updated FICO);
- Loan-to-value (LTV) ratios at origination (Origination LTV); and
- Estimated Current LTV ratios (Estimated Current LTV).

Borrowers' FICO scores are provided by an independent third-party credit reporting service and generally updated quarterly. The Origination LTV and Estimated Current LTV for a HELOC include any first lien mortgage outstanding on the same property at the time of the HELOC's origination. The Estimated Current LTV for each loan is updated on a monthly basis by reference to a home price appreciation index.

The credit quality indicators of the Company's First Mortgages and HELOCs are detailed below:

|                                       | First Mortgages Amortized Cost Basis by Origination Year |          |         |        |        |          |                          | Revolving<br>HELOCs<br>amortized<br>cost basis | HELOCs<br>converted<br>to term<br>loans | Total<br>HELOCs |
|---------------------------------------|--|----------|---------|--------|--------|----------|--------------------------|--|---|-----------------|
| December 31, 2022                     | 2022   | 2021     | 2020    | 2019   | 2018   | pre-2018 | Total First<br>Mortgages |  |   |                 |
| Origination FICO                      |  |          |         |        |        |          |                          |  |   |                 |
| <620                                  | \$ 3   | \$ 1     | \$ —    | \$ —   | \$ —   | \$ 1     | \$ 5                     | \$ —   | \$ —                                    | \$ —            |
| 620 – 679                             | 28   | 31       | 21      | 2      | 1      | 14       | 97                       | —  | 2                                       | 2               |
| 680 – 739                             | 820  | 1,224    | 430     | 116    | 30     | 213      | 2,833                    | 59   | 47                                      | 106             |
| ≥740                                  | 5,593  | 11,037   | 3,819   | 811    | 112    | 891      | 22,263                   | 323  | 166                                     | 489             |
| Total                                 | \$ 6,444   | \$12,293 | \$4,270 | \$ 929 | \$ 143 | \$1,119  | \$25,198                 | \$ 382   | \$ 215                                  | \$ 597          |
| Origination LTV                       |  |          |         |        |        |          |                          |  |   |                 |
| ≤70%                                  | \$ 4,771   | \$10,641 | \$3,549 | \$ 749 | \$ 111 | \$ 829   | \$20,650                 | \$ 332   | \$ 153                                  | \$ 485          |
| >70% – ≤90%                           | 1,673  | 1,652    | 721     | 180    | 32     | 288      | 4,546                    | 50   | 61                                      | 111             |
| >90% – ≤100%                          | —  | —        | —       | —      | —      | 2        | 2                        | —  | 1                                       | 1               |
| Total                                 | \$ 6,444   | \$12,293 | \$4,270 | \$ 929 | \$ 143 | \$1,119  | \$25,198                 | \$ 382   | \$ 215                                  | \$ 597          |
| Updated FICO                          |  |          |         |        |        |          |                          |  |   |                 |
| <620                                  | \$ 11  | \$ 12    | \$ 7    | \$ 2   | \$ 2   | \$ 11    | \$ 45                    | \$ 2   | \$ 5                                    | \$ 7            |
| 620 – 679                             | 87   | 127      | 42      | 10     | 6      | 37       | 309                      | 6  | 10                                      | 16              |
| 680 – 739                             | 711  | 1,079    | 378     | 89     | 21     | 140      | 2,418                    | 52   | 35                                      | 87              |
| ≥740                                  | 5,635  | 11,075   | 3,843   | 828    | 114    | 931      | 22,426                   | 322  | 165                                     | 487             |
| Total                                 | \$ 6,444   | \$12,293 | \$4,270 | \$ 929 | \$ 143 | \$1,119  | \$25,198                 | \$ 382   | \$ 215                                  | \$ 597          |
| Estimated Current LTV <sup>(1)</sup>  |  |          |         |        |        |          |                          |  |   |                 |
| ≤70%                                  | \$ 4,574   | \$11,751 | \$4,255 | \$ 928 | \$ 143 | \$1,114  | \$22,765                 | \$ 380   | \$ 214                                  | \$ 594          |
| >70% – ≤90%                           | 1,845  | 542      | 15      | 1      | —      | 5        | 2,408                    | 2  | 1                                       | 3               |
| >90% – ≤100%                          | 25   | —        | —       | —      | —      | —        | 25                       | —  | —                                       | —               |
| >100%                                 | —  | —        | —       | —      | —      | —        | —                        | —  | —                                       | —               |
| Total                                 | \$ 6,444   | \$12,293 | \$4,270 | \$ 929 | \$ 143 | \$1,119  | \$25,198                 | \$ 382   | \$ 215                                  | \$ 597          |
| Percent of Loans on Nonaccrual Status |  |          |         |        |        |          |                          |  |   |                 |
|                                       | 0.02%  | 0.03%    | 0.09%   | 0.02%  | 0.02%  | 0.48%    | 0.06%                    | 0.34%  | 1.90%                                   | 0.84%           |

<sup>(1)</sup> Represents the LTV for the full line of credit (drawn and undrawn) for revolving HELOCs.

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(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

| First Mortgages Amortized Cost Basis by Origination Year |           |          |          |        |          |                       |                                       |                                |              |
|--|-----------|----------|----------|--------|----------|-----------------------|---------------------------------------|--------------------------------|--------------|
| December 31, 2021  | 2021      | 2020     | 2019     | 2018   | pre-2018 | Total First Mortgages | Revolving HELOCs amortized cost basis | HELOCs converted to term loans | Total HELOCs |
| Origination FICO   |           |          |          |        |          |                       |                                       |                                |              |
| <620   | \$ 1      | \$ 1     | \$ —     | \$ —   | \$ 1     | \$ 3                  | \$ —                                  | \$ —                           | \$ —         |
| 620 – 679  | 34        | 25       | 5        | 1      | 25       | 90                    | —                                     | 2                              | 2            |
| 680 – 739  | 1,306     | 524      | 146      | 41     | 313      | 2,330                 | 61                                    | 60                             | 121          |
| ≥740   | 11,649    | 4,454    | 1,049    | 165    | 1,350    | 18,667                | 308                                   | 217                            | 525          |
| Total  | \$ 12,990 | \$ 5,004 | \$ 1,200 | \$ 207 | \$ 1,689 | \$ 21,090             | \$ 369                                | \$ 279                         | \$ 648       |
| Origination LTV  |           |          |          |        |          |                       |                                       |                                |              |
| ≤70%   | \$ 11,234 | \$ 4,159 | \$ 948   | \$ 160 | \$ 1,260 | \$ 17,761             | \$ 305                                | \$ 199                         | \$ 504       |
| >70% – ≤90%  | 1,756     | 845      | 252      | 47     | 426      | 3,326                 | 64                                    | 78                             | 142          |
| >90% – ≤100%   | —         | —        | —        | —      | 3        | 3                     | —                                     | 2                              | 2            |
| Total  | \$ 12,990 | \$ 5,004 | \$ 1,200 | \$ 207 | \$ 1,689 | \$ 21,090             | \$ 369                                | \$ 279                         | \$ 648       |
| Updated FICO   |           |          |          |        |          |                       |                                       |                                |              |
| <620   | \$ 5      | \$ 2     | \$ 1     | \$ —   | \$ 14    | \$ 22                 | \$ 2                                  | \$ 6                           | \$ 8         |
| 620 – 679  | 96        | 69       | 19       | 7      | 38       | 229                   | 6                                     | 14                             | 20           |
| 680 – 739  | 1,265     | 421      | 115      | 24     | 202      | 2,027                 | 51                                    | 39                             | 90           |
| ≥740   | 11,624    | 4,512    | 1,065    | 176    | 1,435    | 18,812                | 310                                   | 220                            | 530          |
| Total  | \$ 12,990 | \$ 5,004 | \$ 1,200 | \$ 207 | \$ 1,689 | \$ 21,090             | \$ 369                                | \$ 279                         | \$ 648       |
| Estimated Current LTV <sup>(1)</sup>                     |           |          |          |        |          |                       |                                       |                                |              |
| ≤70%   | \$ 11,707 | \$ 4,961 | \$ 1,196 | \$ 206 | \$ 1,684 | \$ 19,754             | \$ 368                                | \$ 277                         | \$ 645       |
| >70% – ≤90%  | 1,283     | 43       | 4        | 1      | 5        | 1,336                 | 1                                     | 2                              | 3            |
| >90% – ≤100%   | —         | —        | —        | —      | —        | —                     | —                                     | —                              | —            |
| >100%  | —         | —        | —        | —      | —        | —                     | —                                     | —                              | —            |
| Total  | \$ 12,990 | \$ 5,004 | \$ 1,200 | \$ 207 | \$ 1,689 | \$ 21,090             | \$ 369                                | \$ 279                         | \$ 648       |
| Percent of Loans on Nonaccrual Status                    | 0.03%     | 0.10%    | 0.03%    | 0.03%  | 1.03%    | 0.12%                 | 0.64%                                 | 2.33%                          | 1.39%        |

<sup>(1)</sup> Represents the LTV for the full line of credit (drawn and undrawn) for revolving HELOCs.

At December 31, 2022, First Mortgage loans of \$20.5 billion had adjustable interest rates. Substantially all of these mortgages have initial fixed interest rates for three to ten years and interest rates that adjust annually thereafter. Approximately 28% of the balance of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 92% of the balance of these interest-only loans are not scheduled to reset for three or more years. Schwab's mortgage loans do not include interest terms described as temporary introductory rates below current market rates.

At December 31, 2022 and 2021, Schwab had \$134 million and \$57 million, respectively, of accrued interest on bank loans, which is excluded from the amortized cost basis of bank loans and is included in other assets on the consolidated balance sheets.

The HELOC product has a 30-year loan term with an initial draw period of ten years from the date of origination. After the initial draw period, the balance outstanding at such time is converted to a 20-year amortizing loan. The interest rate during the initial draw period and the 20-year amortizing period is a floating rate based on the prime rate plus a margin.

The following table presents HELOCs converted to amortizing loans during each period presented:

| December 31,                         | 2022  | 2021  |
|--------------------------------------|-------|-------|
| HELOCs converted to amortizing loans | \$ 13 | \$ 19 |

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The following table presents when current outstanding HELOCs will convert to amortizing loans:

| December 31, 2022                             | Balance |
|---|---------|
| Converted to an amortizing loan by period end | \$ 215  |
| Within 1 year                                 | 35      |
| > 1 year – 3 years                            | 46      |
| > 3 years – 5 years                           | 61      |
| > 5 years                                     | 240     |
| Total   | \$ 597  |

At December 31, 2022, \$460 million of the HELOC portfolio was secured by second liens on the associated properties. Second lien mortgage loans typically possess a higher degree of credit risk given the subordination to the first lien holder in the event of default. In addition to the credit monitoring activities described previously, Schwab also monitors credit risk by reviewing the delinquency status of the first lien loan on the associated property. At December 31, 2022, the borrowers on approximately 57% of HELOC loan balances outstanding only paid the minimum amount due.

**8. Equipment, Office Facilities, and Property**

Equipment, office facilities, and property are detailed below:

| December 31,  | 2022     | 2021     |
|---|----------|----------|
| Software  | \$ 2,940 | \$ 2,524 |
| Buildings   | 1,693    | 1,640    |
| Information technology and telecommunications equipment | 1,008    | 679      |
| Leasehold improvements                                  | 472      | 462      |
| Construction in progress                                | 274      | 429      |
| Land  | 209      | 208      |
| Other   | 351      | 388      |
| Total equipment, office facilities, and property        | 6,947    | 6,330    |
| Accumulated depreciation and amortization               | (3,233)  | (2,888)  |
| Total equipment, office facilities, and property — net  | \$ 3,714 | \$ 3,442 |

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**9. Goodwill and Acquired Intangible Assets**

Acquired intangible assets and goodwill are detailed below:

|                                  | December 31, 2022    |                          |                    | December 31, 2021    |                          |                    |
|----------------------------------|----------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
|                                  | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Client relationships             | \$ 10,085            | \$ (1,422)               | \$ 8,663           | \$ 10,089            | \$ (908)                 | \$ 9,181           |
| Technology                       | 299                  | (261)                    | 38                 | 305                  | (197)                    | 108                |
| Trade names                      | 120                  | (32)                     | 88                 | 116                  | (26)                     | 90                 |
| Total acquired intangible assets | \$ 10,504            | \$ (1,715)               | \$ 8,789           | \$ 10,510            | \$ (1,131)               | \$ 9,379           |

Estimated future annual amortization expense for acquired intangible assets as of December 31, 2022 is as follows:

|            |          |
|------------|----------|
| 2023       | \$ 534   |
| 2024       | 518      |
| 2025       | 512      |
| 2026       | 508      |
| 2027       | 507      |
| Thereafter | 6,124    |
| Total      | \$ 8,703 |

Note: The above schedule excludes indefinite-lived intangible assets of \$86 million.

The changes in the carrying amount of goodwill, as allocated to our reportable segments, are presented in the following table:

|   | Investor Services | Advisor Services | Total     |
|---|-------------------|------------------|-----------|
| Balance at December 31, 2020                          | \$ 7,970          | \$ 3,982         | \$ 11,952 |
| Goodwill acquired and other changes during the period | —                 | —                | —         |
| December 31, 2021                                     | 7,970             | 3,982            | 11,952    |
| Goodwill acquired and other changes during the period | (1)               | —                | (1)       |
| Balance at December 31, 2022                          | \$ 7,969          | \$ 3,982         | \$ 11,951 |

See Note 3 for additional information on the Company's acquisitions.

We performed an assessment of each of the Company's reporting units as of our annual testing date. Based on this analysis, we concluded that goodwill was not impaired. There were no indicators that goodwill was impaired after our annual testing date. Schwab did not recognize any goodwill impairment in any of the years presented.

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### 10. Other Assets

The components of other assets are as follows:

| December 31,  | 2022      | 2021      |
|---|-----------|-----------|
| Deferred tax assets <sup>(1)</sup>                                  | \$ 5,370  | \$ —      |
| Other receivables from brokers, dealers, and clearing organizations | 2,171     | 2,475     |
| Other investments <sup>(2)</sup>                                    | 2,130     | 1,526     |
| Receivables — interest, dividends, and other                        | 1,919     | 1,615     |
| Other securities owned at fair value <sup>(3)</sup>                 | 1,432     | 1,584     |
| Operating lease ROU assets  | 894       | 842       |
| Securities borrowed   | 705       | 582       |
| Customer contract receivables <sup>(4)</sup>                        | 560       | 637       |
| Capitalized contract costs  | 379       | 344       |
| Other   | 539       | 713       |
| Total other assets  | \$ 16,099 | \$ 10,318 |

<sup>(1)</sup> At December 31, 2021, the Company had deferred tax liabilities of \$1.5 billion (see Note 22), which are included in accrued expenses and other liabilities on the consolidated balance sheet.

<sup>(2)</sup> Includes LIHTC investments and certain other CRA-related investments (see Note 11). This item also includes investments in FHLB stock of \$528 million and \$29 million at December 31, 2022 and 2021, respectively, which are required to be held as a condition of borrowing with the FHLB (see Note 13) and can only be sold to the issuer at its par value. Any cash dividends received from investments in FHLB stock are recognized as interest revenue in the consolidated statements of income. CSB, CSPB, and Trust Bank are members of the Federal Reserve and as a condition of membership, are required to hold Federal Reserve stock. Other investments also includes investments in FRB stock of \$345 million and \$436 million at December 31, 2022 and 2021, respectively.

<sup>(3)</sup> Includes fractional shares held in client brokerage accounts. Corresponding repurchase liabilities in an equal amount for these client-held fractional shares are included in accrued expenses and other liabilities on the consolidated balance sheet. See also Notes 2 and 18.

<sup>(4)</sup> Represents substantially all receivables from contracts with customers within the scope of ASC 606. Schwab did not have any other significant contract assets or contract liability balances as of December 31, 2022 or 2021.

### Capitalized contract costs

Capitalized contract costs relate to incremental costs of obtaining a contract with a customer, including sales commissions paid to employees for obtaining contracts with clients, and are presented in the table above. These costs are amortized to expense on a straight-line basis over a period that is consistent with how the related revenue is recognized. Amortization expense related to capitalized contract costs was \$77 million, \$69 million, and \$63 million during the years ended December 31, 2022, 2021, and 2020, respectively, which was recorded in compensation and benefits expense on the consolidated statements of income.

### 11. Variable Interest Entities

As of December 31, 2022 and 2021, substantially all of Schwab's involvement with VIEs is through CSB's CRA-related investments and most of these are related to LIHTC investments. As part of CSB's community reinvestment initiatives, CSB invests in funds that make equity investments in multifamily affordable housing properties and receives tax credits and other tax benefits for these investments. During 2022, 2021, and 2020, CSB recorded amortization of \$96 million, \$71 million, and \$56 million, respectively, and recognized tax credits and other tax benefits of \$121 million, \$90 million, and \$69 million, respectively, associated with these investments. The amortization, as well as the tax credits and other tax benefits, are included in taxes on income.



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### Aggregate assets, liabilities, and maximum exposure to loss

The aggregate assets, liabilities, and maximum exposure to loss from those VIEs in which Schwab holds a variable interest, but is not the primary beneficiary, are summarized in the table below:

|                                  | December 31, 2022 |                       |                          | December 31, 2021 |                       |                          |
|----------------------------------|-------------------|-----------------------|--------------------------|-------------------|-----------------------|--------------------------|
|                                  | Aggregate assets  | Aggregate liabilities | Maximum exposure to loss | Aggregate assets  | Aggregate liabilities | Maximum exposure to loss |
| LIHTC investments <sup>(1)</sup> | \$ 1,094          | \$ 619                | \$ 1,094                 | \$ 915            | \$ 530                | \$ 915                   |
| Other investments <sup>(2)</sup> | 167               | —                     | 215                      | 161               | —                     | 211                      |
| <b>Total</b>                     | <b>\$ 1,261</b>   | <b>\$ 619</b>         | <b>\$ 1,309</b>          | <b>\$ 1,076</b>   | <b>\$ 530</b>         | <b>\$ 1,126</b>          |

<sup>(1)</sup> Aggregate assets and aggregate liabilities are included in other assets and accrued expenses and other liabilities, respectively, on the consolidated balance sheets.

<sup>(2)</sup> Other investments include non-LIHTC CRA investments that are accounted for as loans at amortized cost, equity method investments, AFS securities, or using the adjusted cost method. Aggregate assets are included in AFS securities, bank loans – net, or other assets on the consolidated balance sheets.

Schwab's maximum exposure to loss would result from the loss of the investments, including any committed amounts. Schwab's funding of these remaining commitments is dependent upon the occurrence of certain conditions, and Schwab expects to pay substantially all of these commitments between 2023 and 2026. During the years ended December 31, 2022, 2021, and 2020, Schwab did not provide or intend to provide financial or other support to the VIEs that it was not contractually required to provide.

## 12. Bank Deposits

Bank deposits consist of interest-bearing and non-interest-bearing deposits as follows:

| December 31,                                | 2022              | 2021              |
|---|-------------------|-------------------|
| Interest-bearing deposits:                  |                   |                   |
| Deposits swept from brokerage accounts      | \$ 333,754        | \$ 412,287        |
| Checking                                    | 19,719            | 22,786            |
| Time certificates of deposit <sup>(1)</sup> | 6,047             | —                 |
| Savings and other                           | 6,098             | 7,234             |
| <b>Total interest-bearing deposits</b>      | <b>365,618</b>    | <b>442,307</b>    |
| Non-interest-bearing deposits               | 1,106             | 1,471             |
| <b>Total bank deposits</b>                  | <b>\$ 366,724</b> | <b>\$ 443,778</b> |

<sup>(1)</sup> As of December 31, 2022, the full amount of time certificates of deposit were brokered certificates of deposit for which underlying individual balances are assumed to be less than \$250,000.

Subsequent to December 31, 2022, the Company issued \$9.4 billion of retail brokered certificates of deposit.

## 13. Borrowings

### CSC Senior Notes

CSC's Senior Notes are unsecured obligations. CSC may redeem some or all of the Senior Notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances. Interest is payable semi-annually for the fixed-rate Senior Notes and quarterly for the floating-rate Senior Notes.

### TDA Holding Senior Notes

TDA Holding's Senior Notes are unsecured obligations. TDA Holding may redeem some or all of the Senior Notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances. Interest is payable semi-annually for the fixed-rate Senior Notes.

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The following table lists long-term debt by instrument outstanding as of December 31, 2022 and 2021:

|   | Date of<br>Issuance | Principal Amount Outstanding |           |
|---|---------------------|------------------------------|-----------|
|   |                     | 2022                         | 2021      |
| CSC Fixed-rate Senior Notes:              |                     |                              |           |
| 3.225% due September 1, 2022              | 08/29/12            | \$ —                         | \$ 256    |
| 2.650% due January 25, 2023               | 12/07/17            | 800                          | 800       |
| 3.550% due February 1, 2024               | 10/31/18            | 500                          | 500       |
| 0.750% due March 18, 2024                 | 03/18/21            | 1,500                        | 1,500     |
| 3.750% due April 1, 2024 <sup>(1)</sup>   | 09/24/21            | 350                          | 350       |
| 3.000% due March 10, 2025                 | 03/10/15            | 375                          | 375       |
| 4.200% due March 24, 2025                 | 03/24/20            | 600                          | 600       |
| 3.625% due April 1, 2025 <sup>(1)</sup>   | 09/24/21            | 418                          | 418       |
| 3.850% due May 21, 2025                   | 05/22/18            | 750                          | 750       |
| 3.450% due February 13, 2026              | 11/13/15            | 350                          | 350       |
| 0.900% due March 11, 2026                 | 12/11/20            | 1,250                        | 1,250     |
| 1.150% due May 13, 2026                   | 05/13/21            | 1,000                        | 1,000     |
| 3.200% due March 2, 2027                  | 03/02/17            | 650                          | 650       |
| 2.450% due March 3, 2027                  | 03/03/22            | 1,500                        | —         |
| 3.300% due April 1, 2027 <sup>(1)</sup>   | 09/24/21            | 744                          | 744       |
| 3.200% due January 25, 2028               | 12/07/17            | 700                          | 700       |
| 2.000% due March 20, 2028                 | 03/18/21            | 1,250                        | 1,250     |
| 4.000% due February 1, 2029               | 10/31/18            | 600                          | 600       |
| 3.250% due May 22, 2029                   | 05/22/19            | 600                          | 600       |
| 2.750% due October 1, 2029 <sup>(1)</sup> | 09/24/21            | 475                          | 475       |
| 4.625% due March 22, 2030                 | 03/24/20            | 500                          | 500       |
| 1.650% due March 11, 2031                 | 12/11/20            | 750                          | 750       |
| 2.300% due May 13, 2031                   | 05/13/21            | 750                          | 750       |
| 1.950% due December 1, 2031               | 08/26/21            | 850                          | 850       |
| 2.900% due March 3, 2032                  | 03/03/22            | 1,000                        | —         |
| CSC Floating-rate Senior Notes:           |                     |                              |           |
| SOFR + 0.500% due March 18, 2024          | 03/18/21            | 1,250                        | 1,250     |
| SOFR + 0.520% due May 13, 2026            | 05/13/21            | 500                          | 500       |
| SOFR + 1.050% due March 3, 2027           | 03/03/22            | 500                          | —         |
| Total CSC Senior Notes                    |                     | 20,512                       | 17,768    |
| TDA Holding Fixed-rate Senior Notes:      |                     |                              |           |
| 2.950% due April 1, 2022                  | 03/09/15            | —                            | 750       |
| 3.750% due April 1, 2024 <sup>(1)</sup>   | 11/01/18            | 50                           | 50        |
| 3.625% due April 1, 2025 <sup>(1)</sup>   | 10/22/14            | 82                           | 82        |
| 3.300% due April 1, 2027 <sup>(1)</sup>   | 04/27/17            | 56                           | 56        |
| 2.750% due October 1, 2029 <sup>(1)</sup> | 08/16/19            | 25                           | 25        |
| Total TDA Holding Senior Notes            |                     | 213                          | 963       |
| Finance lease liabilities                 |                     | 68                           | 94        |
| Unamortized premium — net                 |                     | 129                          | 180       |
| Debt issuance costs                       |                     | (94)                         | (91)      |
| Total long-term debt                      |                     | \$ 20,828                    | \$ 18,914 |

<sup>(1)</sup> During 2021, we completed an offer to exchange certain senior notes issued by TDA Holding for senior notes issued by CSC. Of the approximately \$2.2 billion in aggregate principal amount of TDA Holding's senior notes offered in the exchange, 90%, or approximately \$2.0 billion, were tendered and accepted. The new senior notes issued by CSC have the same interest rates and maturity dates as the TDA Holding senior notes. At December 31, 2022, \$213 million not exchanged remained outstanding across four series of senior notes issued by TDA Holding. The debt exchange was treated as a debt modification for accounting purposes.

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Annual maturities on all long-term debt outstanding at December 31, 2022, are as follows:

|                           | Maturities |
|---------------------------|------------|
| 2023                      | \$ 831     |
| 2024                      | 3,675      |
| 2025                      | 2,237      |
| 2026                      | 3,100      |
| 2027                      | 3,450      |
| Thereafter                | 7,500      |
| Total maturities          | 20,793     |
| Unamortized premium — net | 129        |
| Debt issuance costs       | (94)       |
| Total long-term debt      | \$ 20,828  |

*Short-term borrowings:* Total short-term borrowings outstanding at December 31, 2022 and 2021 were \$17.1 billion and \$4.9 billion, respectively, and had a weighted-average interest rate of 4.90% and 0.27%, respectively. Additional information regarding our short-term borrowings facilities is described below.

CSC has the ability to issue up to \$5.0 billion of commercial paper notes with maturities of up to 270 days. CSC had \$250 million and \$3.0 billion of commercial paper notes outstanding at December 31, 2022 and 2021, respectively. CSC and CS&Co also have access to uncommitted lines of credit with external banks with total borrowing capacity of \$1.6 billion; no amounts were outstanding as of December 31, 2022 or 2021.

Our banking subsidiaries maintain secured credit facilities with the FHLB. Amounts available under these facilities are dependent on the amount of bank loans and the fair value of certain investment securities that are pledged as collateral. As of December 31, 2022 and 2021, the collateral pledged provided a total borrowing capacity of \$68.6 billion and \$63.5 billion, respectively. There was \$12.4 billion outstanding under the secured credit facilities as of December 31, 2022 and no balance outstanding as of December 31, 2021.

Our banking subsidiaries have access to funding through the Federal Reserve discount window. Amounts available are dependent upon the fair value of certain investment securities that are pledged as collateral. As of December 31, 2022 and 2021, our collateral pledged provided total borrowing capacity of \$7.8 billion and \$12.0 billion, respectively, of which no amounts were outstanding at the end of either year.

Our banking subsidiaries may engage with external financial institutions in repurchase agreements collateralized by investment securities as another source of short-term liquidity. The Company had \$4.4 billion outstanding at December 31, 2022 and no borrowings outstanding at December 31, 2021 pursuant to such repurchase agreements. Repurchase agreements outstanding at December 31, 2022 mature between August 2023 to September 2023.

TDAC maintains secured uncommitted lines of credit, under which TDAC borrows on either a demand or short-term basis and pledges client margin securities as collateral. There was no balance outstanding at December 31, 2022 and \$1.9 billion outstanding under the secured uncommitted lines of credit as of and December 31, 2021. See Note 17 for additional information.

TDAC maintained one senior unsecured committed revolving credit facility as of December 31, 2021 with an aggregate borrowing capacity of \$600 million which matured in April 2022 and was not renewed. There were no borrowings outstanding under the TDAC senior revolving facility as of December 31, 2021.

Subsequent to December 31, 2022, the Company's banking subsidiaries had drawn an additional \$13.0 billion of FHLB advances, and borrowed an additional \$3.4 billion under repurchase agreements with external financial institutions.

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### 14. Leases

The following table details the amounts and locations of lease assets and liabilities on the consolidated balance sheet:

| December 31,                |  | 2022   | 2021   |
|-----------------------------|--|--------|--------|
| Lease assets:               | Balance Sheet Classification                     |        |        |
| Operating lease ROU assets  | Other assets                                     | \$ 894 | \$ 842 |
| Finance lease ROU assets    | Equipment, office facilities, and property — net | 66     | 93     |
| Lease liabilities:          |  |        |        |
| Operating lease liabilities | Accrued expenses and other liabilities           | \$ 994 | \$ 932 |
| Finance lease liabilities   | Long-term debt                                   | 68     | 94     |

The components of lease expense are as follows:

| Year Ended December 31,             | 2022   | 2021   | 2020   |
|-------------------------------------|--------|--------|--------|
| <b>Lease Cost</b>                   |        |        |        |
| Operating lease cost <sup>(1)</sup> | \$ 242 | \$ 220 | \$ 166 |
| Variable lease cost <sup>(2)</sup>  | 50     | 48     | 34     |

<sup>(1)</sup> Includes short-term lease cost, which is immaterial.

<sup>(2)</sup> Includes payments that are entirely variable and amounts that represent the difference between payments based on an index or rate that is reflected in the lease liability and amounts actually incurred.

The Company had immaterial finance lease cost and sublease income for the years ended December 31, 2022, 2021, and 2020.

The following tables present supplemental operating lease information:

| December 31,                                  | 2022  | 2021  |
|---|-------|-------|
| <b>Lease Term and Discount Rate</b>           |       |       |
| Weighted-average remaining lease term (years) | 5.94  | 6.63  |
| Weighted-average discount rate                | 3.00% | 2.48% |

| <b>Maturity of Lease Liabilities</b> | <b>Operating Leases</b> |
|--------------------------------------|-------------------------|
| 2023                                 | \$ 232                  |
| 2024                                 | 219                     |
| 2025                                 | 196                     |
| 2026                                 | 123                     |
| 2027                                 | 93                      |
| Thereafter                           | 226                     |
| Total lease payments <sup>(1)</sup>  | 1,089                   |
| Less: Interest                       | 95                      |
| Present value of lease liabilities   | \$ 994                  |

<sup>(1)</sup> Lease payments exclude \$45 million of legally binding minimum lease payments for leases signed, but not yet commenced. These leases will commence between 2023 and 2024 with lease terms of five years to 15 years.

### 15. Commitments and Contingencies

**Loan Portfolio:** CSB provides a co-branded loan origination program for CSB clients (the Program) with Rocket Mortgage, LLC (Rocket Mortgage®). Pursuant to the Program, Rocket Mortgage originates and services First Mortgages and HELOCs for CSB clients. Under the Program, CSB purchases certain First Mortgages and HELOCs that are originated by Rocket Mortgage. CSB purchased First Mortgages of \$6.9 billion and \$14.0 billion during 2022 and 2021, respectively. CSB purchased HELOCs with commitments of \$315 million and \$418 million during 2022 and 2021, respectively.

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The Company's commitments to extend credit on lines of credit and to purchase First Mortgages are as follows:

| December 31,   | 2022     | 2021     |
|--|----------|----------|
| Commitments to extend credit related to unused HELOCs, PALs, and other lines of credit | \$ 4,533 | \$ 6,193 |
| Commitments to purchase First Mortgage loans   | 492      | 1,824    |
| Total  | \$ 5,025 | \$ 8,017 |

*Guarantees and indemnifications:* Schwab has clients that sell (i.e., write) listed option contracts that are cleared by the Options Clearing Corporation – a clearing house that establishes margin requirements on these transactions. We satisfy the margin requirements of these transactions through the pledging of certain client securities. For additional information on these pledged securities refer to Note 17. In connection with its securities lending activities, Schwab is required to provide collateral to certain brokerage clients. The Company satisfies the collateral requirements by providing cash as collateral.

The Company also provides guarantees to securities clearing houses and exchanges under standard membership agreements, which require members to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing houses and exchanges, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and may exceed the amounts it has posted as collateral. The Company also engages third-party firms to clear clients' futures and options on futures transactions and to facilitate clients' foreign exchange trading, and has agreed to indemnify these firms for any losses that they may incur from the client transactions introduced to them by the Company. The potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these guarantees.

*IDA agreement:* The Company's IDA agreement with the TD Depository Institutions became effective on October 6, 2020. The IDA agreement creates responsibilities of the Company and certain contingent obligations. Pursuant to the IDA agreement, uninvested cash within eligible brokerage client accounts is swept off-balance sheet to deposit accounts at the TD Depository Institutions. Schwab provides recordkeeping and support services to the TD Depository Institutions with respect to the deposit accounts for which Schwab receives an aggregate monthly fee. Though unlikely, in the event the sweep arrangement fee computation were to result in a negative amount in any given month, Schwab would be required to pay the TD Depository Institutions.

The IDA agreement provides that, as of July 1, 2021, Schwab has the option to migrate up to \$10 billion of IDA balances every 12 months to Schwab's balance sheet, subject to certain limitations and adjustments. The Company's ability to migrate these balances to its balance sheet is dependent upon multiple factors including having sufficient capital levels to sustain these incremental deposits and certain binding limitations specified in the IDA agreement. In addition, Schwab also must maintain a minimum \$50 billion IDA balance through June 2031, and at least 80% of the IDA balances must be designated as fixed-rate obligations through June 2026. If IDA balances were to decline below the required IDA balance minimum, Schwab could be required to direct additional sweep cash from its balance sheet to the IDA program.

Schwab moved net amounts of \$13.7 billion and \$10.1 billion of IDA balances to its balance sheet during 2022 and 2021, respectively. As of December 31, 2022, the total ending IDA balance was \$122.6 billion, of which \$108.5 billion was fixed-rate obligation amounts and \$14.1 billion was floating-rate obligation amounts. As of December 31, 2021, the total ending IDA balance was \$147.2 billion, of which \$117.4 billion was fixed-rate obligation amounts and \$29.9 billion was floating-rate obligation amounts. The total ending IDA balances include the impact of client cash allocation decisions and Schwab's movement of balances.

*Legal contingencies:* Schwab is subject to claims and lawsuits in the ordinary course of business, including arbitrations, class actions and other litigation, some of which include claims for substantial or unspecified damages. The Company is also the subject of inquiries, investigations, and proceedings by regulatory and other governmental agencies.

Predicting the outcome of a litigation or regulatory matter is inherently difficult, requiring significant judgment and evaluation of various factors, including the procedural status of the matter and any recent developments; prior experience and the experience of others in similar cases; available defenses, including potential opportunities to dispose of a case on the merits or procedural grounds before trial (e.g., motions to dismiss or for summary judgment); the progress of fact discovery; the opinions of counsel and experts regarding potential damages; and potential opportunities for settlement and the status of any settlement discussions. It may not be reasonably possible to estimate a range of potential liability until the matter is closer to resolution – pending, for example, further proceedings, the outcome of key motions or appeals, or discussions among the parties. Numerous issues may have to be developed, such as discovery of important factual matters and determination of threshold legal issues, which may

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include novel or unsettled questions of law. Reserves are established or adjusted or further disclosure and estimates of potential loss are provided as the matter progresses and more information becomes available.

Schwab believes it has strong defenses in all significant matters currently pending and is contesting liability and any damages claimed. Nevertheless, some of these matters may result in adverse judgments or awards, including penalties, injunctions or other relief, and the Company may also determine to settle a matter because of the uncertainty and risks of litigation. Described below are matters in which there is a reasonable possibility that a material loss could be incurred or where the matter may otherwise be of significant interest to stockholders. Unless otherwise noted, the Company is unable to provide a reasonable estimate of any potential liability given the stage of proceedings in the matter. With respect to all other pending matters, based on current information and consultation with counsel, it does not appear reasonably possible that the outcome of any such matter would be material to the financial condition, operating results, or cash flows of the Company.

**Corrente Antitrust Litigation:** On June 6, 2022, the Company was sued in the U.S. District Court for the Eastern District of Texas on behalf of a putative class of customers who purchased or sold securities through CS&Co or TD Ameritrade, Inc. from October 26, 2020 to the present. The lawsuit alleges that the Company's acquisition of TD Ameritrade violated Section 7 of the Clayton Act because it has resulted in an anticompetitive market for the execution of retail customer orders. Plaintiffs seek unspecified damages, as well as injunctive and other relief. The Company is vigorously contesting the lawsuit and on August 29, 2022 filed a motion to dismiss the complaint, which remains pending.

**Schwab Intelligent Portfolios® SEC Investigation:** As disclosed on July 1, 2021, Schwab's second quarter 2021 financial results included a liability and related charge of approximately \$200 million in connection with a tentative agreement reached with SEC staff to resolve an enforcement investigation into past disclosures for the Schwab Intelligent Portfolios digital advisory solution. On June 13, 2022, the SEC announced the settlement under which CS&Co, Charles Schwab Investment Advisory, Inc., and Schwab Wealth Investment Advisory, Inc., without admitting or denying the SEC's findings, resolved the matter and agreed to pay \$186.5 million for deposit into a Fair Fund account for distribution to affected investors.

**TD Ameritrade Acquisition Litigation:** As disclosed previously, on May 12, 2020, a putative class action lawsuit related to the acquisition was filed in the Delaware Court of Chancery (Hawkes v. Bettino et al.) on behalf of a proposed class of TD Ameritrade's stockholders, excluding, among others, TD Bank. On February 5, 2021, plaintiff filed an amended complaint naming an officer and certain directors of TD Ameritrade at the time the acquisition was approved, as well as TD Bank, certain TD Bank related entities, and Schwab. The amended complaint asserts separate claims for breach of fiduciary duty by the TD Ameritrade officer, certain members of the TD Ameritrade board and TD Bank, and against Schwab for aiding and abetting such breaches, the allegation being that the amendment of the IDA agreement TD Bank negotiated directly with Schwab allowed TD Bank to divert merger consideration from TD Ameritrade's minority public stockholders. Plaintiff seeks to recover monetary damages, costs and attorneys' fees. Schwab and the other defendants consider the allegations to be entirely without merit and on April 29, 2021, the defendants filed motions to dismiss the amended complaint. On March 25, 2022, the parties filed a joint stipulation proposing a settlement of the lawsuit on a class basis. On September 21, 2022, the court entered final judgment and approved the terms of the settlement, under which Schwab is paying an immaterial amount on behalf of the former TD Ameritrade officer and director defendants pursuant to indemnification obligations.

**Crago Order Routing Litigation:** On July 13, 2016, a securities class action lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of a putative class of customers executing equity orders through CS&Co. The lawsuit names CS&Co and CSC as defendants and alleges that an agreement under which CS&Co routed orders to UBS Securities LLC between July 13, 2011 and December 31, 2014 violated CS&Co's duty to seek best execution. Plaintiffs seek unspecified damages, interest, injunctive and equitable relief, and attorneys' fees and costs. Defendants consider the allegations to be entirely without merit and have been vigorously contesting the lawsuit. After a first amended complaint was dismissed with leave to amend, plaintiffs filed a second amended complaint on August 14, 2017. Defendants again moved to dismiss, and in a decision issued December 5, 2017, the court denied the motion. Plaintiffs filed a motion for class certification on April 30, 2021, and in a decision on October 27, 2021, the court denied the motion and held that certification of a class action is inappropriate. Plaintiffs sought review of the order denying class certification by the Ninth Circuit Court of Appeals, which was denied. On September 23, 2022, plaintiffs filed a renewed motion for class certification and defendants moved to compel plaintiffs' case to arbitration. On February 2, 2023, the court granted defendants' motion, stayed the case pending the outcome of arbitration, and denied plaintiffs' renewed motion for class certification as moot.

**Ford Order Routing Litigation:** On September 15, 2014, TDA Holding, TD Ameritrade, Inc. and its former CEO, Frederick J. Tomczyk, were sued in the U.S. District Court for the District of Nebraska on behalf of a putative class of TD Ameritrade, Inc. clients alleging that defendants failed to seek best execution and made misrepresentations and omissions regarding its order

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routing practices. Plaintiffs seek unspecified damages and injunctive and other relief. Defendants consider the allegations to be entirely without merit and have been vigorously contesting the lawsuit. On September 14, 2018, the District Court granted plaintiffs' motion for class certification, and defendants petitioned for an immediate appeal of the District Court's class certification decision. On April 23, 2021, the U.S. Court of Appeals, 8th Circuit, issued a decision reversing the District Court's certification of a class and remanding the case back to the District Court for further proceedings. Plaintiff renewed his motion for class certification, which the District Court granted on September 20, 2022. On October 26, 2022, the U.S. Court of Appeals, 8th Circuit, granted defendants' petition for an immediate appeal of the District Court's ruling.

#### 16. Exit and Other Related Liabilities

The Company completed its acquisition of TD Ameritrade effective October 6, 2020 and integration work continued during the year ended December 31, 2022. Based on our current integration plans, the Company expects to complete most client transitions from TD Ameritrade to Schwab across multiple groups over the course of 2023, with the transition of a small client group in the first half of 2024.

The Company expects to continue to incur significant acquisition and integration-related costs and integration-related capital expenditures throughout the remaining integration process. Such costs have included, and are expected to continue to include, professional fees, such as legal, advisory, and accounting fees, compensation and benefits expenses for employees and contractors involved in the integration work, and costs for technology enhancements. The Company has also incurred exit and other related costs to attain anticipated synergies, which are primarily comprised of employee compensation and benefits such as severance pay, other termination benefits, and retention costs, as well as costs related to facility closures, such as accelerated amortization and depreciation or impairments of assets in those locations. Exit and other related costs are a component of the Company's overall acquisition and integration-related spending, and support the Company's ability to achieve integration objectives including expected synergies.

Our estimates of the nature, amounts, and timing of recognition of acquisition and integration-related costs remain subject to change based on a number of factors, including the expected duration and complexity of the integration process and the continued uncertainty of the economic environment. More specifically, factors that could cause variability in our expected acquisition and integration-related costs include the level of employee attrition and availability of third-party labor, workforce redeployment from eliminated positions into open roles, changes in the levels of client activity, as well as changes in the scope and cost of technology and real estate-related exit cost variability due to the effects of changes in remote working trends.

Inclusive of costs recognized through December 31, 2022, Schwab currently expects to incur total exit and other related costs for the integration of TD Ameritrade ranging from \$500 million to \$700 million, consisting of employee compensation and benefits, facility exit costs, and certain other costs. During each of the years ended December 31, 2022, 2021, and 2020, the Company recognized \$34 million, \$108 million, and \$186 million of acquisition-related exit costs, respectively. The Company expects that remaining exit and other related costs will be incurred and charged to expense over the next 24 months, with some costs expected to be incurred after client transition to decommission duplicative platforms and complete integration work. In addition to ASC 420 *Exit or Disposal Cost Obligations*, certain of the costs associated with these activities are accounted for in accordance with ASC 360 *Property, Plant and Equipment*, ASC 712 *Compensation – Nonretirement Post Employment Benefits*, ASC 718 *Compensation – Stock Compensation*, and ASC 842 *Leases*.

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The following is a summary of the activity in the Company's exit and other related liabilities for the years ended December 31, 2022 and 2021:

|  | Investor Services<br>Employee Compensation<br>and Benefits |       | Advisor Services<br>Employee Compensation<br>and Benefits |      | Total  |
|--|--|-------|---|------|--------|
| Balance at December 31, 2020 <sup>(1)</sup>  | \$   | 86    | \$  | 24   | \$ 110 |
| Amounts recognized in expense <sup>(2)</sup> |  | 66    |   | 17   | 83     |
| Costs paid or otherwise settled              |  | (124) |   | (34) | (158)  |
| Balance at December 31, 2021 <sup>(1)</sup>  | \$   | 28    | \$  | 7    | \$ 35  |
| Amounts recognized in expense <sup>(2)</sup> |  | 19    |   | 6    | 25     |
| Costs paid or otherwise settled              |  | (11)  |   | (3)  | (14)   |
| Balance at December 31, 2022 <sup>(1)</sup>  | \$   | 36    | \$  | 10   | \$ 46  |

<sup>(1)</sup> Included in accrued expenses and other liabilities on the consolidated balance sheets.

<sup>(2)</sup> Amounts recognized in expense for severance pay and other termination benefits, as well as retention costs, are primarily included in compensation and benefits on the consolidated statements of income. The year ended December 31, 2021 includes a reduction of the liability resulting from changes in estimates of \$9 million and \$2 million in Investor Services and Advisor Services, respectively.

The following table summarizes the exit and other related costs recognized in expense for the year ended December 31, 2022:

|                           | Investor Services                        |                                       |                               | Advisor Services                         |                                       |                              | Total |
|---------------------------|--|---------------------------------------|-------------------------------|--|---------------------------------------|------------------------------|-------|
|                           | Employee<br>Compensation<br>and Benefits | Facility Exit<br>Costs <sup>(1)</sup> | Investor<br>Services<br>Total | Employee<br>Compensation<br>and Benefits | Facility Exit<br>Costs <sup>(1)</sup> | Advisor<br>Services<br>Total |       |
| Compensation and benefits | \$ 19                                    | \$ —                                  | \$ 19                         | \$ 6                                     | \$ —                                  | \$ 6                         | \$ 25 |
| Occupancy and equipment   | —  | 7                                     | 7                             | —  | 2                                     | 2                            | 9     |
| Total                     | \$ 19                                    | \$ 7                                  | \$ 26                         | \$ 6                                     | \$ 2                                  | \$ 8                         | \$ 34 |

<sup>(1)</sup> Costs related to facility closures. These costs, which are primarily comprised of accelerated amortization of ROU assets, relate to the impact of abandoning leased and other properties.

The following table summarizes the exit and other related costs recognized in expense for the year ended December 31, 2021:

|                           | Investor Services                        |                                       |                               | Advisor Services                         |                                       |                              | Total  |
|---------------------------|--|---------------------------------------|-------------------------------|--|---------------------------------------|------------------------------|--------|
|                           | Employee<br>Compensation<br>and Benefits | Facility Exit<br>Costs <sup>(1)</sup> | Investor<br>Services<br>Total | Employee<br>Compensation<br>and Benefits | Facility Exit<br>Costs <sup>(1)</sup> | Advisor<br>Services<br>Total |        |
| Compensation and benefits | \$ 66                                    | \$ —                                  | \$ 66                         | \$ 17                                    | \$ —                                  | \$ 17                        | \$ 83  |
| Occupancy and equipment   | —  | 18                                    | 18                            | —  | 4                                     | 4                            | 22     |
| Professional services     | —  | 1                                     | 1                             | —  | —                                     | —                            | 1      |
| Other                     | —  | 2                                     | 2                             | —  | —                                     | —                            | 2      |
| Total                     | \$ 66                                    | \$ 21                                 | \$ 87                         | \$ 17                                    | \$ 4                                  | \$ 21                        | \$ 108 |

<sup>(1)</sup> Costs related to facility closures. These costs, which are primarily comprised of accelerated amortization of ROU assets, relate to the impact of abandoning leased and other properties.

The following table summarizes the exit and other related costs recognized in expense for the year ended December 31, 2020:

|                               | Investor Services                        |                                       |                               | Advisor Services                         |                                       |                              | Total  |
|-------------------------------|--|---------------------------------------|-------------------------------|--|---------------------------------------|------------------------------|--------|
|                               | Employee<br>Compensation<br>and Benefits | Facility Exit<br>Costs <sup>(1)</sup> | Investor<br>Services<br>Total | Employee<br>Compensation<br>and Benefits | Facility Exit<br>Costs <sup>(1)</sup> | Advisor<br>Services<br>Total |        |
| Compensation and benefits     | \$ 138                                   | \$ —                                  | \$ 138                        | \$ 38                                    | \$ —                                  | \$ 38                        | \$ 176 |
| Occupancy and equipment       | —  | 6                                     | 6                             | —  | 1                                     | 1                            | 7      |
| Depreciation and amortization | —  | 2                                     | 2                             | —  | 1                                     | 1                            | 3      |
| Total                         | \$ 138                                   | \$ 8                                  | \$ 146                        | \$ 38                                    | \$ 2                                  | \$ 40                        | \$ 186 |

<sup>(1)</sup> Costs related to facility closures. These costs, which are comprised of accelerated amortization of ROU assets and accelerated depreciation of fixed assets, relate to the impact of abandoning leased and other properties.



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The following table summarizes the exit and other related costs incurred from October 6, 2020 through December 31, 2022:

|                               | Investor Services                  |                                    |                         | Advisor Services                   |                                    |                        | Total  |
|-------------------------------|------------------------------------|------------------------------------|-------------------------|------------------------------------|------------------------------------|------------------------|--------|
|                               | Employee Compensation and Benefits | Facility Exit Costs <sup>(1)</sup> | Investor Services Total | Employee Compensation and Benefits | Facility Exit Costs <sup>(1)</sup> | Advisor Services Total |        |
| Compensation and benefits     | \$ 223                             | \$ —                               | \$ 223                  | \$ 61                              | \$ —                               | \$ 61                  | \$ 284 |
| Occupancy and equipment       | —                                  | 31                                 | 31                      | —                                  | 7                                  | 7                      | 38     |
| Depreciation and amortization | —                                  | 2                                  | 2                       | —                                  | 1                                  | 1                      | 3      |
| Professional services         | —                                  | 1                                  | 1                       | —                                  | —                                  | —                      | 1      |
| Other                         | —                                  | 2                                  | 2                       | —                                  | —                                  | —                      | 2      |
| Total                         | \$ 223                             | \$ 36                              | \$ 259                  | \$ 61                              | \$ 8                               | \$ 69                  | \$ 328 |

<sup>(1)</sup> Costs related to facility closures. These costs, which are primarily comprised of accelerated amortization of ROU assets and accelerated depreciation of fixed assets, relate to the impact of abandoning leased and other properties.

### 17. Financial Instruments Subject to Off-Balance Sheet Credit Risk

**Resale agreements:** Schwab enters into collateralized resale agreements principally with other broker-dealers, which could result in losses in the event the counterparty fails to purchase the securities held as collateral for the cash advanced and the fair value of the securities declines. To mitigate this risk, Schwab requires that the counterparty deliver securities to a custodian, to be held as collateral, with a fair value at or in excess of the resale price. Schwab also sets standards for the credit quality of the counterparty, monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest, and requires additional collateral where deemed appropriate. The collateral provided under these resale agreements is utilized to meet obligations under broker-dealer client protection rules, which place limitations on our ability to access such segregated securities. For Schwab to repledge or sell this collateral, we would be required to deposit cash and/or securities of an equal amount into our segregated reserve bank accounts in order to meet our segregated cash and investments requirement. Schwab's resale agreements as of December 31, 2022 and 2021 were not subject to master netting arrangements.

**Securities lending:** Schwab loans brokerage client securities temporarily to other brokers and clearing houses in connection with its securities lending activities and receives cash as collateral for the securities loaned. Increases in security prices may cause the fair value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities or provide additional cash collateral, we may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy our client obligations. Schwab mitigates this risk by requiring credit approvals for counterparties, monitoring the fair value of securities loaned, and requiring additional cash as collateral when necessary. In addition, most of our securities lending transactions are through a program with a clearing organization, which guarantees the return of cash to us. We also borrow securities from other broker-dealers to fulfill short sales by brokerage clients and deliver cash to the lender in exchange for the securities. The fair value of these borrowed securities was \$685 million and \$566 million at December 31, 2022 and 2021, respectively. Our securities lending transactions are subject to enforceable master netting arrangements with other broker-dealers; however, we do not net securities lending transactions. Therefore, the securities loaned and securities borrowed are presented gross in the consolidated balance sheets.

**Repurchase agreements:** Schwab enters into collateralized repurchase agreements with external financial institutions in which the Company's banking subsidiaries sell securities and agree to repurchase these securities on a specified future date at a stated repurchase price. These repurchase agreements are collateralized by investment securities with a fair value equal to or in excess of the secured borrowing liability. Decreases in security prices posted as collateral for repurchase agreements may require Schwab to transfer cash or additional securities deemed acceptable by the counterparty. To mitigate this risk, Schwab monitors the fair value of underlying securities pledged as collateral compared to the related liability. Our collateralized repurchase agreements with each external financial institution are considered to be enforceable master netting arrangements. However, we do not net these arrangements. As such, the secured short-term borrowings associated with these collateralized repurchase agreements are presented gross in the consolidated balance sheets.

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(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

The following table presents information about our resale agreements, securities lending, and other activity depicting the potential effect of rights of setoff between these recognized assets and recognized liabilities.

|  | Gross<br>Assets/<br>Liabilities | Gross Amounts<br>Offset in the<br>Consolidated<br>Balance Sheets | Net Amounts<br>Presented in the<br>Consolidated<br>Balance Sheets | Gross Amounts Not Offset in the<br>Consolidated Balance Sheets |                            | Net<br>Amount |
|--|---------------------------------|--|---|--|----------------------------|---------------|
|  |                                 |  |   | Counterparty<br>Offsetting                                     | Collateral                 |               |
| December 31, 2022                            |                                 |  |   |  |                            |               |
| <b>Assets</b>                                |                                 |  |   |  |                            |               |
| Resale agreements <sup>(1)</sup>             | \$ 12,159                       | \$ —   | \$ 12,159   | \$ —   | \$ (12,159) <sup>(2)</sup> | \$ —          |
| Securities borrowed <sup>(3)</sup>           | 705                             | —  | 705   | (331)  | (366)                      | 8             |
| <b>Total</b>                                 | <b>\$ 12,864</b>                | <b>\$ —</b>  | <b>\$ 12,864</b>  | <b>\$ (331)</b>  | <b>\$ (12,525)</b>         | <b>\$ 8</b>   |
| <b>Liabilities</b>                           |                                 |  |   |  |                            |               |
| Securities loaned <sup>(4,5)</sup>           | \$ 4,200                        | \$ —   | \$ 4,200  | \$ (331)   | \$ (3,313)                 | \$ 556        |
| Repurchase agreements <sup>(6)</sup>         | 4,402                           | —  | 4,402   | —  | (4,402)                    | —             |
| <b>Total</b>                                 | <b>\$ 8,602</b>                 | <b>\$ —</b>  | <b>\$ 8,602</b>   | <b>\$ (331)</b>  | <b>\$ (7,715)</b>          | <b>\$ 556</b> |
| December 31, 2021                            |                                 |  |   |  |                            |               |
| <b>Assets</b>                                |                                 |  |   |  |                            |               |
| Resale agreements <sup>(1)</sup>             | \$ 13,096                       | \$ —   | \$ 13,096   | \$ —   | \$ (13,096) <sup>(2)</sup> | \$ —          |
| Securities borrowed <sup>(3)</sup>           | 582                             | —  | 582   | (383)  | (195)                      | 4             |
| <b>Total</b>                                 | <b>\$ 13,678</b>                | <b>\$ —</b>  | <b>\$ 13,678</b>  | <b>\$ (383)</b>  | <b>\$ (13,291)</b>         | <b>\$ 4</b>   |
| <b>Liabilities</b>                           |                                 |  |   |  |                            |               |
| Securities loaned <sup>(4,5)</sup>           | \$ 7,158                        | \$ —   | \$ 7,158  | \$ (383)   | \$ (6,015)                 | \$ 760        |
| Secured short-term borrowings <sup>(7)</sup> | 1,850                           | —  | 1,850   | —  | (1,850)                    | —             |
| <b>Total</b>                                 | <b>\$ 9,008</b>                 | <b>\$ —</b>  | <b>\$ 9,008</b>   | <b>\$ (383)</b>  | <b>\$ (7,865)</b>          | <b>\$ 760</b> |

<sup>(1)</sup> Included in cash and investments segregated and on deposit for regulatory purposes in the consolidated balance sheets.

<sup>(2)</sup> Actual collateral was greater than or equal to the value of the related assets. At December 31, 2022 and 2021, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was \$12.3 billion and \$13.4 billion, respectively.

<sup>(3)</sup> Included in other assets in the consolidated balance sheets.

<sup>(4)</sup> Included in accrued expenses and other liabilities in the consolidated balance sheets. The cash collateral received from counterparties under securities lending transactions was equal to or greater than the market value of the securities loaned at December 31, 2022 and 2021.

<sup>(5)</sup> Securities loaned are predominantly comprised of equity securities held in client brokerage accounts with overnight and continuous remaining contractual maturities.

<sup>(6)</sup> Included in short-term borrowings in the consolidated balance sheets. Actual collateral value was greater than or equal to the value of the related liabilities. At December 31, 2022, the fair value of collateral pledged in connection with repurchase agreements was \$4.6 billion. See Note 13 for additional information.

<sup>(7)</sup> Included in short-term borrowings in the consolidated balance sheets. See below for collateral pledged and Note 13 for additional information.

**Client trade settlement:** Schwab is obligated to settle transactions with brokers and other financial institutions even if our clients fail to meet their obligations to us. Clients are required to complete their transactions on settlement date, generally two business days after the trade date. If clients do not fulfill their contractual obligations, we may incur losses. We have established procedures to reduce this risk by requiring deposits from clients in excess of amounts prescribed by regulatory requirements for certain types of trades, and therefore the potential to make payments under these client transactions is remote. Accordingly, no liability has been recognized for these transactions.

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*Margin lending:* Clients with margin loans have agreed to allow Schwab to pledge collateralized securities in their brokerage accounts in accordance with federal regulations. The following table summarizes the fair value of client securities that were available, under such regulations, that could have been used as collateral, as well as the fair value of securities that we had pledged to third parties under such regulations and from securities borrowed transactions:

| December 31,   | 2022      | 2021       |
|--|-----------|------------|
| Fair value of client securities available to be pledged                          | \$ 86,775 | \$ 120,306 |
| Fair value of securities pledged for:  |           |            |
| Fulfillment of requirements with the Options Clearing Corporation <sup>(1)</sup> | \$ 11,717 | \$ 16,829  |
| Fulfillment of client short sales  | 4,750     | 5,934      |
| Securities lending to other broker-dealers                                       | 3,472     | 6,269      |
| Collateral for secured short-term borrowings                                     | —         | 2,390      |
| Total collateral pledged to third parties  | \$ 19,939 | \$ 31,422  |

Note: Excludes amounts available and pledged for securities lending from fully-paid client securities. The fair value of fully-paid client securities available and pledged was \$160 million as of December 31, 2022 and \$118 million as of December 31, 2021.

<sup>(1)</sup> Securities pledged to fulfill client margin requirements for open option contracts established with the Options Clearing Corporation.

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(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

**18. Fair Values of Assets and Liabilities**

For a description of the fair value hierarchy and Schwab's fair value methodologies, including the use of independent third-party pricing services, see Note 2. The Company did not adjust prices received from the primary independent third-party pricing service at December 31, 2022 or 2021.

***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

The following tables present the fair value hierarchy for assets and liabilities measured at fair value on a recurring basis:

| December 31, 2022   | Level 1   | Level 2    | Level 3 | Balance at Fair Value |
|---|-----------|------------|---------|-----------------------|
| Cash equivalents:   |           |            |         |                       |
| Money market funds  | \$ 14,007 | \$ —       | \$ —    | \$ 14,007             |
| Commercial paper  | —         | 48         | —       | 48                    |
| Total cash equivalents  | 14,007    | 48         | —       | 14,055                |
| Investments segregated and on deposit for regulatory purposes:      |           |            |         |                       |
| U.S. Government securities  | —         | 23,645     | —       | 23,645                |
| Certificates of deposit   | —         | 1,000      | —       | 1,000                 |
| Total investments segregated and on deposit for regulatory purposes | —         | 24,645     | —       | 24,645                |
| Available for sale securities:                                      |           |            |         |                       |
| U.S. agency mortgage-backed securities                              | —         | 77,688     | —       | 77,688                |
| U.S. Treasury securities  | —         | 40,002     | —       | 40,002                |
| Asset-backed securities   | —         | 13,023     | —       | 13,023                |
| Corporate debt securities   | —         | 12,555     | —       | 12,555                |
| Certificates of deposit   | —         | 2,231      | —       | 2,231                 |
| Foreign government agency securities                                | —         | 969        | —       | 969                   |
| U.S. state and municipal securities                                 | —         | 638        | —       | 638                   |
| Non-agency commercial mortgage-backed securities                    | —         | 450        | —       | 450                   |
| Other   | —         | 315        | —       | 315                   |
| Total available for sale securities                                 | —         | 147,871    | —       | 147,871               |
| Other assets:   |           |            |         |                       |
| Equity, corporate debt, and other securities                        | 755       | 55         | —       | 810                   |
| Mutual funds and ETFs   | 596       | —          | —       | 596                   |
| State and municipal debt obligations                                | —         | 25         | —       | 25                    |
| U.S. Government securities  | —         | 1          | —       | 1                     |
| Total other assets  | 1,351     | 81         | —       | 1,432                 |
| Total assets  | \$ 15,358 | \$ 172,645 | \$ —    | \$ 188,003            |
| Accrued expenses and other liabilities                              |           |            |         |                       |
|   | \$ 1,218  | \$ 43      | \$ —    | \$ 1,261              |
| Total liabilities   | \$ 1,218  | \$ 43      | \$ —    | \$ 1,261              |

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(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

| December 31, 2021   | Level 1   | Level 2    | Level 3 | Balance at<br>Fair Value |
|---|-----------|------------|---------|--------------------------|
| Cash equivalents:   |           |            |         |                          |
| Money market funds  | \$ 11,719 | \$ —       | \$ —    | \$ 11,719                |
| Total cash equivalents  | 11,719    | —          | —       | 11,719                   |
| Investments segregated and on deposit for regulatory purposes:      |           |            |         |                          |
| Certificates of deposit   | —         | 350        | —       | 350                      |
| U.S. Government securities  | —         | 36,349     | —       | 36,349                   |
| Total investments segregated and on deposit for regulatory purposes | —         | 36,699     | —       | 36,699                   |
| Available for sale securities:                                      |           |            |         |                          |
| U.S. agency mortgage-backed securities                              | —         | 334,355    | —       | 334,355                  |
| U.S. Treasury securities  | —         | 21,282     | —       | 21,282                   |
| Asset-backed securities   | —         | 17,546     | —       | 17,546                   |
| Corporate debt securities   | —         | 12,344     | —       | 12,344                   |
| U.S. state and municipal securities                                 | —         | 1,687      | —       | 1,687                    |
| Non-agency commercial mortgage-backed securities                    | —         | 1,190      | —       | 1,190                    |
| Certificates of deposit   | —         | 999        | —       | 999                      |
| Foreign government agency securities                                | —         | 425        | —       | 425                      |
| Commercial paper  | —         | 200        | —       | 200                      |
| Other   | —         | 26         | —       | 26                       |
| Total available for sale securities                                 | —         | 390,054    | —       | 390,054                  |
| Other assets:   |           |            |         |                          |
| Equity, corporate debt, and other securities                        | 854       | 59         | —       | 913                      |
| Mutual funds and ETFs   | 636       | —          | —       | 636                      |
| State and municipal debt obligations                                | —         | 32         | —       | 32                       |
| U.S. Government securities  | —         | 3          | —       | 3                        |
| Total other assets  | 1,490     | 94         | —       | 1,584                    |
| Total assets  | \$ 13,209 | \$ 426,847 | \$ —    | \$ 440,056               |
| Accrued expenses and other liabilities                              | \$ 1,354  | \$ 45      | \$ —    | \$ 1,399                 |
| Total liabilities   | \$ 1,354  | \$ 45      | \$ —    | \$ 1,399                 |

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***Fair Value of Other Financial Instruments***

The following tables present the fair value hierarchy for other financial instruments:

| December 31, 2022  | Carrying<br>Amount | Level 1   | Level 2    | Level 3 | Balance at<br>Fair Value |
|--|--------------------|-----------|------------|---------|--------------------------|
| <b>Assets</b>  |                    |           |            |         |                          |
| Cash and cash equivalents  | \$ 26,140          | \$ 26,140 | \$ —       | \$ —    | \$ 26,140                |
| Cash and investments segregated and on deposit for regulatory purposes | 18,288             | 6,156     | 12,132     | —       | 18,288                   |
| Receivables from brokerage clients — net                               | 66,573             | —         | 66,573     | —       | 66,573                   |
| Held to maturity securities:   |                    |           |            |         |                          |
| U.S. agency mortgage-backed securities                                 | 173,074            | —         | 158,936    | —       | 158,936                  |
| Total held to maturity securities                                      | 173,074            | —         | 158,936    | —       | 158,936                  |
| Bank loans — net:  |                    |           |            |         |                          |
| First Mortgages  | 25,132             | —         | 22,201     | —       | 22,201                   |
| HELOCs   | 593                | —         | 657        | —       | 657                      |
| Pledged asset lines  | 14,592             | —         | 14,592     | —       | 14,592                   |
| Other  | 188                | —         | 188        | —       | 188                      |
| Total bank loans — net   | 40,505             | —         | 37,638     | —       | 37,638                   |
| Other assets   | 3,788              | —         | 3,788      | —       | 3,788                    |
| <b>Liabilities</b>   |                    |           |            |         |                          |
| Bank deposits  | \$ 366,724         | \$ —      | \$ 366,724 | \$ —    | \$ 366,724               |
| Payables to brokerage clients  | 97,438             | —         | 97,438     | —       | 97,438                   |
| Accrued expenses and other liabilities                                 | 5,584              | —         | 5,584      | —       | 5,584                    |
| Short-term borrowings  | 17,050             | —         | 17,050     | —       | 17,050                   |
| Long-term debt   | 20,760             | —         | 19,108     | —       | 19,108                   |

| December 31, 2021  | Carrying<br>Amount | Level 1   | Level 2    | Level 3 | Balance at<br>Fair Value |
|--|--------------------|-----------|------------|---------|--------------------------|
| <b>Assets</b>  |                    |           |            |         |                          |
| Cash and cash equivalents  | \$ 51,256          | \$ 51,256 | \$ —       | \$ —    | \$ 51,256                |
| Cash and investments segregated and on deposit for regulatory purposes | 17,246             | 4,151     | 13,095     | —       | 17,246                   |
| Receivables from brokerage clients — net                               | 90,560             | —         | 90,560     | —       | 90,560                   |
| Bank loans — net:  |                    |           |            |         |                          |
| First Mortgages  | 21,077             | —         | 21,027     | —       | 21,027                   |
| HELOCs   | 646                | —         | 668        | —       | 668                      |
| Pledged asset lines  | 12,709             | —         | 12,709     | —       | 12,709                   |
| Other  | 204                | —         | 204        | —       | 204                      |
| Total bank loans — net   | 34,636             | —         | 34,608     | —       | 34,608                   |
| Other assets   | 3,561              | —         | 3,561      | —       | 3,561                    |
| <b>Liabilities</b>   |                    |           |            |         |                          |
| Bank deposits  | \$ 443,778         | \$ —      | \$ 443,778 | \$ —    | \$ 443,778               |
| Payables to brokerage clients  | 125,671            | —         | 125,671    | —       | 125,671                  |
| Accrued expenses and other liabilities                                 | 8,327              | —         | 8,327      | —       | 8,327                    |
| Short-term borrowings  | 4,855              | —         | 4,855      | —       | 4,855                    |
| Long-term debt   | 18,820             | —         | 19,383     | —       | 19,383                   |

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#### 19. Stockholders' Equity

Except in connection with the 2020 acquisition of TD Ameritrade as described below, CSC did not issue common shares through external offerings during the years ended December 31, 2022, 2021 or 2020.

##### *TD Ameritrade Acquisition*

On October 6, 2020, the Company completed its acquisition of TD Ameritrade. In conjunction with the acquisition, the Company issued shares of CSC common stock and a new, nonvoting class of CSC common stock. Immediately prior to the acquisition, on October 6, 2020, the Company amended its certificate of incorporation to create the nonvoting class of common stock with 300 million shares authorized for issuance and to increase the number of authorized shares of capital stock by the same amount. Each share of nonvoting common stock has identical rights to common stock, including liquidation and dividend rights, except that holders of nonvoting common stock have no voting rights other than over matters that significantly and adversely affect the rights or preferences of the nonvoting common stock, or as required by applicable law. Holders of nonvoting common stock are restricted from transferring shares except for permitted inside or outside transfers, as defined in the certificate of incorporation. Shares of nonvoting common stock transferred in a permitted outside transfer are automatically converted to shares of common stock.

Pursuant to the Merger Agreement, CSC issued approximately 177 million shares of common stock and approximately 77 million shares of nonvoting common stock to TD Bank and its affiliates on October 6, 2020. Those shares of common stock and nonvoting common stock were issued in reliance upon an exemption from registration afforded by Section 4(a)(2) of the Securities Act. Following this issuance, TD Bank exchanged an aggregate of approximately 2 million shares of CSC common stock for an equal number of shares of CSC nonvoting common stock and held approximately 79 million shares of nonvoting common stock as of December 31, 2021. TD Bank and its affiliates are not permitted to own more than 9.9% of CSC common stock. This limit is interpreted in accordance with the applicable rules of the Federal Reserve and includes shares of CSC common stock deemed to be beneficially owned directly or indirectly by TD Bank and its affiliates.

On August 1, 2022, an affiliate of TD Bank executed a permitted outside transfer of 13 million shares of CSC nonvoting common stock, upon which the shares of nonvoting common stock automatically converted to shares of common stock. Following this transfer and CSC's repurchase of nonvoting common stock described below, TD Bank and its affiliates held approximately 51 million shares of nonvoting common stock as of December 31, 2022.

##### *Share Repurchase Program*

On January 30, 2019, CSC publicly announced that its Board of Directors authorized a share repurchase program to repurchase up to \$4.0 billion of common stock. The share repurchase authorization does not have an expiration date. There were no repurchases of CSC's common stock under this authorization during the years ended December 31, 2020, 2021, and 2022.

On July 27, 2022, CSC publicly announced that its Board of Directors terminated the existing share repurchase authorization and replaced it with a new authorization to repurchase up to \$15.0 billion of common stock. The new share repurchase authorization does not have an expiration date.

On August 1, 2022, CSC purchased, directly from an affiliate of TD Bank, 15 million shares of nonvoting common stock for a total of \$1.0 billion, or approximately \$66.53 per share. The shares of nonvoting common stock automatically converted into common stock and were purchased under CSC's new share repurchase authorization. The purchase price paid by CSC was equal to the lowest price per share that the affiliate of TD Bank received in a contemporaneous share sale facilitated by a third-party market maker, which resulted in a purchase price lower than the closing price on August 1, 2022.

CSC repurchased an additional 32 million shares of its common stock under the new authorization for \$2.4 billion during the year ended December 31, 2022. As of December 31, 2022, \$11.6 billion remained on the new authorization.

##### *Preferred Stock*

On March 18, 2021, the Company issued and sold 2,250,000 depositary shares, each representing a 1/100th ownership interest in a share of 4.000% fixed-rate reset non-cumulative perpetual preferred stock, Series I, \$.01 par value per share, with a liquidation preference of \$100,000 per share (equivalent of \$1,000 per Depositary Share). The net proceeds of the offering were \$2.2 billion, after deducting the underwriting discount and offering expenses.

# THE CHARLES SCHWAB CORPORATION

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On March 30, 2021, the Company issued and sold 24,000,000 depositary shares, each representing a 1/40th ownership interest in a share of 4.450% fixed-rate non-cumulative perpetual preferred stock, Series J, \$.01 par value, with a liquidation preference of \$1,000 per share (equivalent of \$25 per depositary share). The net proceeds of the offering were \$584 million, after deducting the underwriting discount and offering expenses.

On June 1, 2021, the Company redeemed all of the 600,000 outstanding shares of its 6.00% non-cumulative perpetual preferred stock, Series C, and the corresponding 24,000,000 depositary shares, each representing a 1/40th interest in a share of the Series C preferred stock. The depositary shares were redeemed at a redemption price of \$25 per depositary share for a total of \$600 million.

On March 4, 2022, the Company issued and sold 750,000 depositary shares, each representing a 1/100th ownership interest in a share of 5.000% fixed-rate reset non-cumulative perpetual preferred stock, Series K, \$.01 par value, with a liquidation preference of \$100,000 per share (equivalent of \$1,000 per depositary share). The net proceeds of the offering were \$740 million, after deducting the underwriting discount and offering expenses.

On November 1, 2022, the Company redeemed all of the 400,000 outstanding share of its fixed-to-floating rate non-cumulative perpetual preferred stock, Series A at a redemption price of \$1,000 per share for a total of \$400 million.

On December 1, 2022, the Company redeemed all of the 6,000 outstanding shares of its fixed-to-floating rate non-cumulative perpetual preferred stock, Series E, and the corresponding 600,000 depositary shares, each representing a 1/100th interest in a share of the Series E preferred stock. The depositary shares were redeemed at a redemption price of \$1,000 per depositary share for a total of \$600 million.

CSC was authorized to issue 9,940,000 shares of preferred stock, \$.01 par value, at December 31, 2022 and 2021. The following is a summary of CSC's non-cumulative perpetual preferred stock outstanding as of such dates:

|  | Shares Issued and Outstanding (in ones) at December 31, |                     | Liquidation Preference Per Share | Carrying Value at December 31, |       | Issue Date | Dividend Rate in Effect at December 31, 2022 | Earliest Redemption Date | Date at Which Dividend Rate Resets or Becomes Floating | Reset / Floating Rate | Margin Over Reset / Floating Rate |
|--|---|---------------------|----------------------------------|--------------------------------|-------|------------|--|--------------------------|--|-----------------------|-----------------------------------|
|  | 2022 <sup>(1)</sup>                                     | 2021 <sup>(1)</sup> |                                  | 2022                           | 2021  |            |  |                          |  |                       |                                   |
| Fixed-rate:                              |   |                     |                                  |                                |       |            |  |                          |  |                       |                                   |
| Series D                                 | 750,000   | 750,000             | 1,000                            | 728                            | 728   | 03/07/16   | 5.950%                                       | 06/01/21                 | N/A  | N/A                   | N/A                               |
| Series J                                 | 600,000   | 600,000             | 1,000                            | 584                            | 584   | 03/30/21   | 4.450%                                       | 06/01/26                 | N/A  | N/A                   | N/A                               |
| Fixed-to-floating-rate/Fixed-rate reset: |   |                     |                                  |                                |       |            |  |                          |  |                       |                                   |
| Series A <sup>(2)</sup>                  | —   | 400,000             | —                                | —                              | 397   | 01/26/12   | —  | —                        | —  | —                     | —                                 |
| Series E <sup>(2)</sup>                  | —   | 6,000               | —                                | —                              | 591   | 10/31/16   | —  | —                        | —  | —                     | —                                 |
| Series F                                 | 5,000   | 5,000               | 100,000                          | 492                            | 492   | 10/31/17   | 5.000%                                       | 12/01/27                 | 12/01/27   | 3M LIBOR              | 2.575%                            |
| Series G <sup>(3)</sup>                  | 25,000  | 25,000              | 100,000                          | 2,470                          | 2,470 | 04/30/20   | 5.375%                                       | 06/01/25                 | 06/01/25   | 5-Year Treasury       | 4.971%                            |
| Series H <sup>(4)</sup>                  | 25,000  | 25,000              | 100,000                          | 2,470                          | 2,470 | 12/11/20   | 4.000%                                       | 12/01/30                 | 12/01/30   | 10-Year Treasury      | 3.079%                            |
| Series I <sup>(3)</sup>                  | 22,500  | 22,500              | 100,000                          | 2,222                          | 2,222 | 03/18/21   | 4.000 %                                      | 06/01/26                 | 06/01/26   | 5-Year Treasury       | 3.168 %                           |
| Series K <sup>(5)</sup>                  | 7,500   | —                   | 100,000                          | 740                            | —     | 03/04/22   | 5.000 %                                      | 06/01/27                 | 06/01/27   | 5-Year Treasury       | 3.256 %                           |
| Total preferred stock                    | 1,435,000   | 1,833,500           |                                  | 9,706                          | 9,954 |            |  |                          |  |                       |                                   |

<sup>(1)</sup> Represented by depositary shares, except for Series A.

<sup>(2)</sup> Series A and Series E were redeemed on November 1, 2022 and December 1, 2022, respectively.

<sup>(3)</sup> The dividend rate for Series G and Series I resets on each five-year anniversary from the first reset date.

<sup>(4)</sup> The dividend rate for Series H resets on each ten-year anniversary from the first reset date.

<sup>(5)</sup> The dividend rate for Series K resets on each five-year anniversary beginning on June 1, 2027 based on a five-year Treasury rate, representing the average of the yields on actively traded U.S. Treasury securities adjusted to constant maturity for five-year maturities. Series K is only redeemable on dividend payment dates on or after the first reset date.

N/A Not applicable.



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Dividends declared on the Company's preferred stock are as follows:

| Year Ended December 31, | 2022                            |                  | 2021                            |                  | 2020                            |                  |
|-------------------------|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|------------------|
|                         | Total Declared<br>(in millions) | Per Share Amount | Total Declared<br>(in millions) | Per Share Amount | Total Declared<br>(in millions) | Per Share Amount |
| Series A <sup>(1)</sup> | \$ 19.1                         | \$ 47.73         | \$ 28.0                         | \$ 70.00         | \$ 28.0                         | \$ 70.00         |
| Series C <sup>(2)</sup> | N/A                             | N/A              | 18.0                            | 30.00            | 36.0                            | 60.00            |
| Series D                | 44.6                            | 59.52            | 44.6                            | 59.52            | 44.6                            | 59.52            |
| Series E <sup>(3)</sup> | 37.0                            | 6,161.42         | 27.8                            | 4,625.00         | 27.8                            | 4,625.00         |
| Series F                | 25.0                            | 5,000.00         | 25.0                            | 5,000.00         | 25.0                            | 5,000.00         |
| Series G <sup>(4)</sup> | 134.4                           | 5,375.00         | 134.4                           | 5,375.00         | 78.8                            | 3,150.35         |
| Series H <sup>(5)</sup> | 100.0                           | 4,000.00         | 97.2                            | 3,888.89         | N/A                             | N/A              |
| Series I <sup>(6)</sup> | 90.0                            | 4,000.00         | 63.2                            | 2,811.11         | N/A                             | N/A              |
| Series J <sup>(7)</sup> | 26.7                            | 44.52            | 17.9                            | 29.80            | N/A                             | N/A              |
| Series K <sup>(8)</sup> | 27.8                            | 3,708.33         | N/A                             | N/A              | N/A                             | N/A              |
| Total                   | \$ 504.6                        |                  | \$ 456.1                        |                  | \$ 240.2                        |                  |

<sup>(1)</sup> Series A was redeemed on November 1, 2022. Prior to redemption, dividends were paid semi-annually until February 1, 2022 and quarterly thereafter. The final dividend was paid on November 1, 2022.

<sup>(2)</sup> Series C was redeemed on June 1, 2021. Prior to redemption, dividends were paid quarterly and the final dividend was paid on June 1, 2021.

<sup>(3)</sup> Series E was redeemed on December 1, 2022. Prior to redemption, dividends were paid semi-annually until March 1, 2022 and quarterly thereafter. The final dividend was paid on December 1, 2022.

<sup>(4)</sup> Series G was issued on April 30, 2020. Dividends are paid quarterly, and the first dividend was paid on September 1, 2020.

<sup>(5)</sup> Series H was issued on December 11, 2020. Dividends are paid quarterly, and the first dividend was paid on March 1, 2021.

<sup>(6)</sup> Series I was issued on March 18, 2021. Dividends are paid quarterly, and the first dividend was paid on June 1, 2021.

<sup>(7)</sup> Series J was issued on March 30, 2021. Dividends are paid quarterly, and the first dividend was paid on June 1, 2021.

<sup>(8)</sup> Series K was issued on March 4, 2022. Dividends are paid quarterly, and the first dividend was paid on June 1, 2022.

N/A Not applicable.

Dividends on CSC's preferred stock are not cumulative and will only be paid on a series of preferred stock for a dividend period if declared by CSC's Board of Directors. Under the terms of each series of preferred stock, CSC's ability to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the series of preferred stock, is subject to restrictions in the event that CSC does not declare and either pay or set aside a sum sufficient for payment of dividends on the series of preferred stock for the immediately preceding dividend period.

Dividends on fixed-rate and fixed-rate reset preferred stock are payable quarterly. Dividends on fixed-to-floating-rate preferred stock are payable semi-annually while at a fixed rate and will become payable quarterly after converting to a floating rate.

### Redemption Rights

Each series of CSC's preferred stock, except for Series G, may be redeemed at CSC's option on any dividend payment date on or after the earliest redemption date for that series. Series G preferred stock may be redeemed at CSC's option on any reset date on or after the earliest redemption date for the series. All outstanding preferred stock series may also be redeemed following a "capital treatment event," as described in the terms of each series set forth in the relevant certificate of designations. Any redemption of CSC's preferred stock is subject to approval from the Federal Reserve.

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### 20. Accumulated Other Comprehensive Income

AOCI represents cumulative gains and losses that are not reflected in earnings. AOCI balances and the components of other comprehensive income (loss) are as follows:

|  | Total AOCI  |
|--|-------------|
| Balance at December 31, 2019   | \$ 88       |
| Available for sale securities:   |             |
| Net unrealized gain (loss), excluding transfers to available for sale from held to maturity, net of tax expense (benefit) of \$1,322 | 4,246       |
| Net unrealized gain on securities transferred to available for sale from held to maturity, net of tax expense (benefit) of \$336     | 1,057       |
| Other reclassifications included in other revenue, net of tax expense (benefit) of \$(1)   | (3)         |
| Other, net of tax expense (benefit) of \$2   | 6           |
| Balance at December 31, 2020   | \$ 5,394    |
| Available for sale securities:   |             |
| Net unrealized gain (loss), net of tax expense (benefit) of \$(2,029)  | (6,492)     |
| Other reclassifications included in other revenue, net of tax expense (benefit) of \$(1)   | (3)         |
| Other, net of tax expense (benefit) of \$(3)   | (8)         |
| Balance at December 31, 2021   | \$ (1,109)  |
| Available for sale securities:   |             |
| Net unrealized gain (loss), excluding transfers to held to maturity, net of tax expense (benefit) of \$(6,994)                       | (22,106)    |
| Net unrealized loss on securities transferred to held to maturity, net of tax benefit of \$4,377                                     | 13,851      |
| Other reclassifications included in other revenue, net of tax expense (benefit) of \$2   | 7           |
| Held to maturity securities:   |             |
| Net unrealized loss on securities transferred from available for sale, net of tax benefit of \$4,377                                 | (13,851)    |
| Amortization of amounts previously recorded upon transfer from available for sale, net of tax expense (benefit) of \$165             | 542         |
| Other, net of tax expense (benefit) of \$15  | 45          |
| Balance at December 31, 2022   | \$ (22,621) |

In October 2019, the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC jointly adopted a final rule which became effective on December 31, 2019, that revised the regulatory capital and liquidity requirements for large U.S. banking organizations with \$100 billion or more in total consolidated assets. With total consolidated assets of \$294.0 billion at December 31, 2019, CSC was designated as a Category III firm pursuant to the framework established by the final rules. Accordingly, the Company opted to exclude AOCI from its regulatory capital as permitted by the regulatory capital and liquidity rule beginning January 1, 2020. In accordance with ASC 320 *Investment – Debt Securities* and as of January 1, 2020, the Company transferred all of its investment securities designated as HTM to the AFS category without tainting our intent to hold other debt securities to maturity. At the date of transfer, these securities had a total amortized cost of \$134.7 billion and a total net unrealized gain of \$1.4 billion. The transfer resulted in a net of tax increase to AOCI of \$1.1 billion.

In January and November 2022, the Company transferred a portion of its AFS securities to the HTM category. See Note 6 for additional discussion on the transfers of AFS securities to HTM.

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### 21. Employee Incentive, Retirement, Deferred Compensation, and Career Achievement Plans

Schwab's share-based incentive plans provide for granting options and restricted stock units to employees and non-employee directors. In addition, we offer retirement and employee stock purchase plans to eligible employees and sponsor deferred compensation plans for eligible officers and non-employee directors.

A summary of share-based compensation expense and related income tax benefit is as follows:

| Year Ended December 31,   | 2022    | 2021    | 2020    |
|---|---------|---------|---------|
| Stock option expense  | \$ 30   | \$ 36   | \$ 36   |
| Restricted stock unit expense   | 311     | 200     | 156     |
| Employee stock purchase plan expense                                  | 25      | 18      | 12      |
| Total share-based compensation expense                                | \$ 366  | \$ 254  | \$ 204  |
| Income tax benefit on share-based compensation expense <sup>(1)</sup> | \$ (88) | \$ (60) | \$ (49) |

<sup>(1)</sup> Excludes income tax benefits from stock options exercised and restricted stock units vested of \$51 million, \$93 million, and \$14 million in 2022, 2021, and 2020, respectively.

The Company issues shares for stock options and restricted stock units from treasury stock. On May 17, 2022, stockholders approved the 2022 Stock Incentive Plan which, among other things, increased the number of shares of common stock available for issuance to 113 million, plus up to 150 million shares from outstanding awards from predecessor stock incentive plans that expire, are forfeited or cancelled, or that are reacquired by the Company after May 17, 2022. At December 31, 2022, the Company was authorized to grant up to 114 million common shares under its existing stock incentive plans. Additionally, at December 31, 2022, the Company had 28 million shares reserved for future issuance under its employee stock purchase plan.

As of December 31, 2022, there was \$332 million of total unrecognized compensation cost related to outstanding stock options and restricted stock units, which is expected to be recognized through 2026 with a remaining weighted-average service period of 0.6 years for stock options, 1.8 years for restricted stock units without performance conditions, and 0.4 years for performance-based restricted stock units.

*Acquisition of TD Ameritrade:* Upon the completion of the TD Ameritrade acquisition on October 6, 2020, TD Ameritrade's equity awards, whether vested or unvested, were assumed by the Company and converted into equity awards based on CSC common stock taking into account the defined exchange ratio of 1.0837. Otherwise, these share-based awards are subject to the same terms and conditions that were applicable immediately before the merger, except for performance-based restricted stock units which were converted into time-based restricted stock units. The fair value of the stock options assumed by the Company was determined using an option pricing model. The portion of the fair value of the replacement awards related to services provided prior to the acquisition was \$94 million and was accounted for as consideration transferred. The remaining portion of the fair value of \$73 million is associated with future services and had a remaining weighted-average service period of 1.9 years on the acquisition date. A change in the actual or estimated forfeiture rate from the amount originally or subsequently estimated will result in an adjustment to compensation expense based on the full acquisition-date fair value of awards not expected to vest, regardless of whether those awards were treated as consideration transferred or stock-based compensation for future services.

### Stock Option Plan

Options are granted for the purchase of shares of common stock at an exercise price not less than market value on the date of grant, and expire ten years from the date of grant. Options generally vest annually over a one- to four-year period from the date of grant.

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Stock option activity is summarized below:

|  | Number<br>of Options<br>(in millions) | Weighted-<br>Average<br>Exercise Price<br>per Share | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life (in years) | Aggregate<br>Intrinsic<br>Value |
|--|---------------------------------------|---|---|---------------------------------|
| Outstanding at December 31, 2021                 | 17                                    | \$ 39.11  | 5.38  | \$ 782                          |
| Granted  | 1                                     | 76.89   |   |                                 |
| Exercised  | (2)                                   | 29.64   |   |                                 |
| Forfeited <sup>(1)</sup>                         | —                                     | 46.84   |   |                                 |
| Expired <sup>(1)</sup>                           | —                                     | 41.30   |   |                                 |
| Outstanding at December 31, 2022                 | 16                                    | \$ 42.98  | 4.95  | \$ 646                          |
| Vested and expected to vest at December 31, 2022 | 16                                    | \$ 42.98  | 4.95  | \$ 646                          |
| Vested and exercisable at December 31, 2022      | 13                                    | \$ 38.08  | 4.15  | \$ 579                          |

<sup>(1)</sup> Number of options was less than 500 thousand.

The aggregate intrinsic value in the table above represents the difference between CSC's closing stock price and the exercise price of each in-the-money option on the last trading day of the period presented.

Information on stock options granted and exercised is presented below:

| Year Ended December 31,                                  | 2022     | 2021     | 2020     |
|--|----------|----------|----------|
| Weighted-average fair value of options granted per share | \$ 22.09 | \$ 19.51 | \$ 11.56 |
| Cash received from options exercised                     | 64       | 221      | 79       |
| Tax benefit realized on options exercised                | 22       | 61       | 11       |
| Aggregate intrinsic value of options exercised           | 113      | 322      | 71       |

We use an option pricing model to estimate the fair value of options granted. The model takes into account the contractual term of the stock option, expected volatility, dividend yield, and the risk-free interest rate. Expected volatility is based on the implied volatility of publicly-traded options on CSC's stock. Dividend yield is based on the average historical CSC dividend yield. The risk-free interest rate is based on the yield of a U.S. Treasury zero-coupon issue with a remaining term similar to the contractual term of the option. We use historical option exercise data, which includes employee termination data, to estimate the probability of future option exercises. The assumptions used to value the options granted during the years presented and their expected lives were as follows:

| Year Ended December 31,                  | 2022      | 2021      | 2020      |
|--|-----------|-----------|-----------|
| Weighted-average expected dividend yield | 1.18%     | 1.36%     | 2.08%     |
| Weighted-average expected volatility     | 33%       | 37%       | 36%       |
| Weighted-average risk-free interest rate | 1.8%      | 0.8%      | 1.0%      |
| Expected life (in years)                 | 4.1 - 5.2 | 4.2 - 5.4 | 4.3 - 5.9 |

### Restricted Stock Units

Restricted stock units are awards that entitle the holder to receive shares of CSC's common stock following a vesting period and are restricted from transfer or sale until vested. Restricted stock units without performance conditions generally vest annually over a one- to four-year period, while performance-based restricted stock units generally cliff vest over a three-year period and also require the Company to achieve certain financial or other measures prior to vesting. The fair value of restricted stock units is based on the market price of the Company's stock on the date of grant. The fair value of the restricted stock units that vested during each of the years 2022, 2021, and 2020 was \$282 million, \$317 million, and \$175 million, respectively.

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The Company's restricted stock units activity is summarized below:

|                                  | Restricted Stock Units Without Performance Conditions (in millions) | Performance-Based Restricted Stock Units (in millions) | Total Number of Restricted Stock Units (in millions) | Weighted-Average Grant Date Fair Value per Unit |
|----------------------------------|---|--|--|---|
| Outstanding at December 31, 2021 | 7   | 2  | 9  | \$ 49.69  |
| Granted                          | 3   | 2  | 5  | 72.96   |
| Vested <sup>(1)</sup>            | (3)   | —  | (3)  | 46.43   |
| Forfeited <sup>(1)</sup>         | —   | —  | —  | 55.60   |
| Outstanding at December 31, 2022 | 7   | 4  | 11   | \$ 62.12  |

<sup>(1)</sup> Number of units was less than 500 thousand.

### Retirement and Deferred Compensation Plans

Employees can participate in Schwab's qualified retirement plan, the SchwabPlan Retirement Savings and Investment Plan. The Company may match certain employee contributions or make additional contributions to this plan at its discretion. The Company's total expense was \$217 million, \$187 million, and \$136 million in 2022, 2021, and 2020, respectively.

Schwab's deferred compensation plan for officers permits participants to defer the receipt of certain cash compensation. The deferred compensation plan for non-employee directors permits participants to defer receipt of all or a portion of their director fees and to receive either a grant of stock options, or upon ceasing service as a director, the number of shares of CSC's common stock that would have resulted from investing the deferred fee amount into CSC's common stock. The deferred compensation liability was \$175 million and \$194 million at December 31, 2022 and 2021, respectively.

Effective upon the completion of the TD Ameritrade acquisition on October 6, 2020, TD Ameritrade's 401(k) and deferred profit-sharing plan was terminated and all unvested balances in the plan became fully vested. TD Ameritrade employees employed immediately prior to the acquisition who continued as employees of TDA Holding, CSC, or any of their subsidiaries after completion of the acquisition became eligible to participate in the SchwabPlan Retirement Savings and Investment Plan and make rollover contributions from their TD Ameritrade plan balances to the SchwabPlan Retirement Savings and Investment Plan.

### Financial Consultant Career Achievement Plan

The financial consultant career achievement plan is a noncontributory, unfunded, nonqualified plan for eligible financial consultants. A financial consultant is eligible for earned cash payments after retirement contingent upon meeting certain performance levels, tenure, age, and client transitioning requirements. Allocations to the plan are calculated annually based on performance levels achieved and eligible compensation, and are subject to general creditors of the Company. Full vesting occurs when a financial consultant reaches 60 years of age and has at least ten years of service with the Company.

The following table presents the changes in projected benefit obligation:

| December 31,   | 2022   | 2021   |
|--|--------|--------|
| Projected benefit obligation at beginning of year          | \$ 119 | \$ 92  |
| Benefit cost <sup>(1)</sup>                                | 19     | 16     |
| Actuarial (gain)/loss <sup>(2)</sup>                       | (60)   | 11     |
| Projected benefit obligation at end of year <sup>(3)</sup> | \$ 78  | \$ 119 |

<sup>(1)</sup> Includes service cost and interest cost, which are recognized in compensation and benefits expense and other expense, respectively, in the consolidated statements of income.

<sup>(2)</sup> Actuarial gain/loss is reflected in the consolidated statements of comprehensive income and is included in AOCI on the consolidated balance sheets and amortized over the participants' expected remaining service period.

<sup>(3)</sup> This amount is recognized as a liability in accrued expenses and other liabilities on the consolidated balance sheets.

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### 22. Taxes on Income

The components of taxes on income are as follows:

| Year Ended December 31, | 2022     | 2021     | 2020     |
|-------------------------|----------|----------|----------|
| Current:                |          |          |          |
| Federal                 | \$ 1,889 | \$ 1,507 | \$ 967   |
| State                   | 334      | 298      | 172      |
| Total current           | 2,223    | 1,805    | 1,139    |
| Deferred:               |          |          |          |
| Federal                 | (26)     | 38       | (113)    |
| State                   | 8        | 15       | (25)     |
| Total deferred          | (18)     | 53       | (138)    |
| Taxes on income         | \$ 2,205 | \$ 1,858 | \$ 1,001 |

The temporary differences that created deferred tax assets and liabilities are detailed below:

| December 31,   | 2022     | 2021       |
|--|----------|------------|
| Deferred tax assets:                                 |          |            |
| Net unrealized loss on available for sale securities | \$ 7,159 | \$ 347     |
| Employee compensation, severance, and benefits       | 251      | 237        |
| Operating lease liabilities                          | 242      | 225        |
| Reserves and allowances                              | 69       | 74         |
| Net operating loss carryforwards                     | 9        | 8          |
| Other  | 185      | 87         |
| Total deferred tax assets                            | 7,915    | 978        |
| Valuation allowance                                  | (9)      | (8)        |
| Deferred tax assets — net of valuation allowance     | 7,906    | 970        |
| Deferred tax liabilities:                            |          |            |
| Amortization of acquired intangible assets           | (1,837)  | (1,888)    |
| Operating lease ROU assets                           | (224)    | (210)      |
| Capitalized internal-use software development costs  | (187)    | (142)      |
| Equipment, office facilities, and property           | (151)    | (91)       |
| Other  | (137)    | (121)      |
| Total deferred tax liabilities                       | (2,536)  | (2,452)    |
| Deferred tax asset (liability) — net <sup>(1)</sup>  | \$ 5,370 | \$ (1,482) |

<sup>(1)</sup> Amounts are included in other assets on the consolidated balance sheet at December 31, 2022 and in accrued expenses and other liabilities on the consolidated balance sheet at December 31, 2021.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

| Year Ended December 31,                        | 2022  | 2021  | 2020  |
|--|-------|-------|-------|
| Federal statutory income tax rate              | 21.0% | 21.0% | 21.0% |
| State income taxes, net of federal tax benefit | 3.5   | 3.4   | 3.2   |
| Equity compensation benefit                    | (0.5) | (1.2) | (0.3) |
| Other  | (0.5) | 0.9   | (0.6) |
| Effective income tax rate                      | 23.5% | 24.1% | 23.3% |

# THE CHARLES SCHWAB CORPORATION

## Notes to Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| December 31,  | 2022   | 2021   |
|---|--------|--------|
| Balance at beginning of year                            | \$ 271 | \$ 248 |
| Additions for tax positions related to the current year | 36     | 34     |
| Additions for tax positions related to prior years      | 12     | 15     |
| Reductions for tax positions related to prior years     | (59)   | (15)   |
| Reductions due to lapse of statute of limitations       | (13)   | (8)    |
| Reductions for settlements with tax authorities         | (42)   | (3)    |
| Balance at end of year                                  | \$ 205 | \$ 271 |

Unrecognized tax benefits totaled \$205 million and \$271 million as of December 31, 2022 and 2021, respectively, \$165 million and \$221 million of which if recognized, would affect the annual effective tax rate.

Interest and penalties were accrued related to unrecognized tax benefits in tax expense. At December 31, 2022 and 2021, we had accrued approximately \$41 million and \$68 million, respectively, for the payment of interest and penalties.

The Company and its subsidiaries are subject to routine examinations by the respective federal, state, and applicable local jurisdictions' taxing authorities. Federal returns for 2017 through 2021 remain subject to examination. The years open to examination by state and local governments vary by jurisdiction.

### 23. Regulatory Requirements

CSC is a savings and loan holding company and is subject to examination, supervision, and regulation by the Federal Reserve. CSB, CSC's primary depository institution subsidiary, is a Texas-chartered state savings bank and is a member of the Federal Reserve system. CSB is subject to examination, supervision, and regulation by the Federal Reserve, the TDSML, the CFPB, and the FDIC as its deposit insurer. CSC is required to serve as a source of strength for CSB.

CSB is subject to various requirements and restrictions under federal and state laws, including regulatory capital requirements and requirements that restrict and govern the terms of affiliate transactions, such as extensions of credit to, or asset purchases from CSC or its other subsidiaries by CSB. In addition, our banking subsidiaries are required to provide notice to, and are required to obtain approval from, the Federal Reserve and the banking subsidiaries' state regulators in order to declare and pay dividends to CSC in excess of the amount of recent net income and retained earnings. The federal banking agencies have broad powers to enforce regulations, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. Under the prompt corrective action provisions of the Federal Deposit Insurance Act, CSB could be subject to restrictive actions if it were to fall within one of the lowest three of five capital categories. CSC and CSB are required to maintain minimum capital levels as specified in federal banking regulations. Failure to meet the minimum levels could result in certain mandatory, and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on CSC and CSB. At December 31, 2022, both CSC and CSB met all of their respective capital requirements.



# THE CHARLES SCHWAB CORPORATION

## Notes to Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

The regulatory capital and ratios for CSC (consolidated) and CSB are as follows:

|   | Actual    |       | Minimum to be Well Capitalized |       | Minimum Capital Requirement |                      |
|---|-----------|-------|--------------------------------|-------|-----------------------------|----------------------|
|   | Amount    | Ratio | Amount                         | Ratio | Amount                      | Ratio <sup>(1)</sup> |
| December 31, 2022                       |           |       |                                |       |                             |                      |
| <b>CSC</b>                              |           |       |                                |       |                             |                      |
| Common Equity Tier 1 Risk-Based Capital | \$ 30,590 | 21.9% | N/A                            |       | \$ 6,285                    | 4.5%                 |
| Tier 1 Risk-Based Capital               | 40,296    | 28.9% | N/A                            |       | 8,379                       | 6.0%                 |
| Total Risk-Based Capital                | 40,376    | 28.9% | N/A                            |       | 11,173                      | 8.0%                 |
| Tier 1 Leverage                         | 40,296    | 7.2%  | N/A                            |       | 22,512                      | 4.0%                 |
| Supplementary Leverage Ratio            | 40,296    | 7.1%  | N/A                            |       | 17,004                      | 3.0%                 |
| <b>CSB</b>                              |           |       |                                |       |                             |                      |
| Common Equity Tier 1 Risk-Based Capital | \$ 27,296 | 27.4% | \$ 6,476                       | 6.5%  | \$ 4,483                    | 4.5%                 |
| Tier 1 Risk-Based Capital               | 27,296    | 27.4% | 7,970                          | 8.0%  | 5,978                       | 6.0%                 |
| Total Risk-Based Capital                | 27,370    | 27.5% | 9,963                          | 10.0% | 7,970                       | 8.0%                 |
| Tier 1 Leverage                         | 27,296    | 7.3%  | 18,640                         | 5.0%  | 14,912                      | 4.0%                 |
| Supplementary Leverage Ratio            | 27,296    | 7.3%  | N/A                            |       | 11,275                      | 3.0%                 |
| December 31, 2021                       |           |       |                                |       |                             |                      |
| <b>CSC</b>                              |           |       |                                |       |                             |                      |
| Common Equity Tier 1 Risk-Based Capital | \$ 27,967 | 19.7% | N/A                            |       | \$ 6,389                    | 4.5%                 |
| Tier 1 Risk-Based Capital               | 37,921    | 26.7% | N/A                            |       | 8,518                       | 6.0%                 |
| Total Risk-Based Capital                | 37,950    | 26.7% | N/A                            |       | 11,358                      | 8.0%                 |
| Tier 1 Leverage                         | 37,921    | 6.2%  | N/A                            |       | 24,346                      | 4.0%                 |
| Supplementary Leverage Ratio            | 37,921    | 6.2%  | N/A                            |       | 18,434                      | 3.0%                 |
| <b>CSB</b>                              |           |       |                                |       |                             |                      |
| Common Equity Tier 1 Risk-Based Capital | \$ 28,014 | 26.8% | \$ 6,787                       | 6.5%  | \$ 4,698                    | 4.5%                 |
| Tier 1 Risk-Based Capital               | 28,014    | 26.8% | 8,353                          | 8.0%  | 6,265                       | 6.0%                 |
| Total Risk-Based Capital                | 28,033    | 26.8% | 10,441                         | 10.0% | 8,353                       | 8.0%                 |
| Tier 1 Leverage                         | 28,014    | 7.1%  | 19,790                         | 5.0%  | 15,832                      | 4.0%                 |
| Supplementary Leverage Ratio            | 28,014    | 7.0%  | N/A                            |       | 12,016                      | 3.0%                 |

<sup>(1)</sup> Under risk-based capital rules, CSC and CSB are also required to maintain additional capital buffers above the regulatory minimum risk-based capital ratios. As of December 31, 2022, CSC was subject to a stress capital buffer of 2.5%. In June 2022, CSC received its 2022 stress capital buffer requirement from the Federal Reserve of 2.5%, which became effective beginning October 1, 2022. In addition, CSB is required to maintain a capital conservation buffer of 2.5%. CSC and CSB are also required to maintain a countercyclical capital buffer above the regulatory minimum risk-based capital ratios, which was zero for both periods presented. If a buffer falls below the minimum requirement, CSC and CSB would be subject to increasingly strict limits on capital distributions and discretionary bonus payments to executive officers. At December 31, 2022, the minimum capital ratio requirements for both CSC and CSB, inclusive of their respective buffers, were 7.0%, 8.5%, and 10.5% for Common Equity Tier 1 Risk-Based Capital, Tier 1 Risk-Based Capital, and Total Risk-Based Capital, respectively.

N/A Not applicable.

Based on its regulatory capital ratios at December 31, 2022 and 2021, CSB is considered well capitalized (the highest category) under its respective regulatory capital rules. There are no conditions or events since December 31, 2022 that management believes have changed CSB's capital category.

CSC's other banking subsidiaries are Charles Schwab Premier Bank, SSB (CSPB) and Charles Schwab Trust Bank (Trust Bank). CSPB is a Texas-chartered state savings bank that provides banking and custody services, and Trust Bank is a Nevada-state chartered savings bank that provides trust and custody services. At December 31, 2022 and 2021, the balance sheets of CSPB and Trust Bank primarily consisted of investment securities. At December 31, 2022 and 2021, CSPB held total assets of \$31.5 billion and \$39.2 billion, respectively, and Trust Bank held total assets of \$13.0 billion and \$15.9 billion, respectively. Based on their regulatory capital ratios at December 31, 2022 and 2021, CSPB and Trust Bank are considered well capitalized under their respective regulatory capital rules.



# THE CHARLES SCHWAB CORPORATION

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(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

As securities broker-dealers, CS&Co, TDAC, and TD Ameritrade, Inc. are subject to the SEC's Uniform Net Capital Rule. CS&Co, TDAC, and TD Ameritrade, Inc. each compute net capital under the alternative method permitted by the Uniform Net Capital Rule, which requires the maintenance of minimum net capital, as defined, of the greater of 2% of aggregate debit balances arising from client transactions or a minimum dollar requirement, which is based on the type of business conducted by the broker-dealer. Under the alternative method, a broker-dealer may not repay subordinated borrowings, pay cash dividends, or make any unsecured advances or loans if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement.

Net capital and net capital requirements for CS&Co, TDAC, and TD Ameritrade, Inc., are as follows:

| December 31,                                  | 2022     | 2021     |
|---|----------|----------|
| <b>CS&amp;Co</b>                              |          |          |
| Net capital                                   | \$ 5,386 | \$ 5,231 |
| Minimum dollar requirement <sup>(1)</sup>     | 0.250    | 0.250    |
| 2% of aggregate debit balances                | 778      | 941      |
| Net capital in excess of required net capital | \$ 4,608 | \$ 4,290 |
| <b>TDAC</b>                                   |          |          |
| Net capital                                   | \$ 5,291 | \$ 5,337 |
| Minimum dollar requirement                    | 1.500    | 1.500    |
| 2% of aggregate debit balances                | 626      | 1,007    |
| Net capital in excess of required net capital | \$ 4,665 | \$ 4,330 |
| <b>TD Ameritrade, Inc.</b>                    |          |          |
| Net capital                                   | \$ 806   | \$ 711   |
| Minimum dollar requirement                    | 0.250    | 0.250    |
| 2% of aggregate debit balances                | —        | —        |
| Net capital in excess of required net capital | \$ 806   | \$ 711   |

<sup>(1)</sup> During 2021, CS&Co transferred its futures business to Charles Schwab Futures and Forex LLC, a wholly-owned subsidiary of CSC. This transfer was accounted for as a common control transaction and did not have an impact on the consolidated financial statements. CS&Co subsequently deregistered prior to December 31, 2021 as an FCM with the CFTC, and, therefore, is no longer subject to net capital requirements under CFTC Regulation 1.17 under the Commodity Exchange Act.

Pursuant to the SEC's Customer Protection Rule and other applicable regulations, Schwab had cash and investments segregated for the exclusive benefit of clients at December 31, 2022. The SEC's Customer Protection Rule requires broker-dealers to segregate client fully-paid securities and cash balances not collateralizing margin positions and not swept to money market funds or bank deposit accounts. Amounts included in cash and investments segregated and on deposit for regulatory purposes represent actual balances on deposit, whereas cash and investments required to be segregated and on deposit for regulatory purposes at December 31, 2022 for CS&Co totaled \$22.7 billion and for TDAC totaled \$19.9 billion. As of January 4, 2023, CS&Co had deposited \$986 million of cash and qualified securities into its segregated reserve accounts. As of January 3, 2023, TDAC had deposited \$72 million of cash and qualified securities into its segregated reserve accounts. Cash and investments required to be segregated and on deposit for regulatory purposes at December 31, 2021 for CS&Co totaled \$38.4 billion and for TDAC totaled \$15.9 billion. Cash and cash equivalents included in cash and investments segregated and on deposit for regulatory purposes are presented as part of Schwab's cash balances in the consolidated statements of cash flows.

## 24. Segment Information

Schwab's two reportable segments are Investor Services and Advisor Services. Schwab structures the operating segments according to its clients and the services provided to those clients. The Investor Services segment provides retail brokerage, investment advisory, and banking and trust services to individual investors, and retirement plan services, as well as other corporate brokerage services, to businesses and their employees. The Advisor Services segment provides custodial, trading, banking and trust, and support services, as well as retirement business services, to independent RIAs, independent retirement advisors, and recordkeepers. Revenues and expenses are attributed to the two segments based on which segment services the client.

# THE CHARLES SCHWAB CORPORATION

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(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

The Company integrated its business and asset acquisitions during 2020 into its two existing reportable segments. Revenues and expenses from our acquisition of USAA-IMCO are allocated to Investor Services only; revenues and expenses from TD Ameritrade and our other 2020 acquisitions are attributed to Investor Services and Advisor Services based on which segment services the client. See Note 3 for more information regarding business acquisitions.

The accounting policies of the segments are the same as those described in Note 2. For the computation of its segment information, Schwab utilizes an activity-based costing model to allocate traditional income statement line item expenses (e.g., compensation and benefits, depreciation and amortization, and professional services) to the business activities driving segment expenses (e.g., client service, opening new accounts, or business development) and a funds transfer pricing methodology to allocate certain revenues.

Management evaluates the performance of the segments on a pre-tax basis. Segment assets and liabilities are not used for evaluating segment performance or in deciding how to allocate resources to segments. There are no revenues from transactions between the segments.

Financial information for the segments is presented in the following table:

| Year Ended December 31,                    | Investor Services |          |          | Advisor Services |          |          | Total     |          |          |
|--|-------------------|----------|----------|------------------|----------|----------|-----------|----------|----------|
|  | 2022              | 2021     | 2020     | 2022             | 2021     | 2020     | 2022      | 2021     | 2020     |
| <b>Net Revenues</b>                        |                   |          |          |                  |          |          |           |          |          |
| Net interest revenue                       | \$ 7,819          | \$ 6,052 | \$ 4,391 | \$ 2,863         | \$ 1,978 | \$ 1,722 | \$ 10,682 | \$ 8,030 | \$ 6,113 |
| Asset management and administration fees   | 3,049             | 3,130    | 2,544    | 1,167            | 1,144    | 931      | 4,216     | 4,274    | 3,475    |
| Trading revenue                            | 3,181             | 3,753    | 1,156    | 492              | 399      | 260      | 3,673     | 4,152    | 1,416    |
| Bank deposit account fees                  | 916               | 964      | 255      | 493              | 351      | 100      | 1,409     | 1,315    | 355      |
| Other                                      | 605               | 562      | 262      | 177              | 187      | 70       | 782       | 749      | 332      |
| Total net revenues                         | 15,570            | 14,461   | 8,608    | 5,192            | 4,059    | 3,083    | 20,762    | 18,520   | 11,691   |
| <b>Expenses Excluding Interest</b>         | 8,514             | 8,289    | 5,529    | 2,860            | 2,518    | 1,862    | 11,374    | 10,807   | 7,391    |
| <b>Income before taxes on income</b>       | \$ 7,056          | \$ 6,172 | \$ 3,079 | \$ 2,332         | \$ 1,541 | \$ 1,221 | \$ 9,388  | \$ 7,713 | \$ 4,300 |
| Capital expenditures                       | \$ 702            | \$ 771   | \$ 535   | \$ 250           | \$ 270   | \$ 206   | \$ 952    | \$ 1,041 | \$ 741   |
| Depreciation and amortization              | \$ 471            | \$ 399   | \$ 288   | \$ 181           | \$ 150   | \$ 126   | \$ 652    | \$ 549   | \$ 414   |
| Amortization of acquired intangible assets | \$ 479            | \$ 499   | \$ 149   | \$ 117           | \$ 116   | \$ 41    | \$ 596    | \$ 615   | \$ 190   |

## 25. Earnings Per Common Share

EPS is computed using the two-class method. Preferred stock dividends, and undistributed earnings and dividends allocated to participating securities are subtracted from net income in determining net income available to common stockholders. Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted EPS is calculated similar to basic EPS except that the numerator and denominator are adjusted as necessary for any effects of dilutive potential common shares, which include, if dilutive, outstanding stock options and non-vested restricted stock units.

For the years ended December 31, 2022 and 2021, the Company had voting and nonvoting common stock outstanding. Since the rights of the voting and nonvoting common stock are identical, except with respect to voting, the net income of the Company has been allocated on a proportionate basis to the two classes. Diluted earnings per share is calculated using the treasury stock method for outstanding stock options and non-vested restricted stock units and the if-converted method for nonvoting common stock. The if-converted method assumes conversion of all nonvoting common stock to common stock.

# THE CHARLES SCHWAB CORPORATION

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(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

EPS under the basic and diluted computations for both common stock and nonvoting common stock are as follows:

| Year Ended December 31,   | 2022         |                        | 2021         |                        | 2020         |                        |
|---|--------------|------------------------|--------------|------------------------|--------------|------------------------|
|   | Common Stock | Nonvoting Common Stock | Common Stock | Nonvoting Common Stock | Common Stock | Nonvoting Common Stock |
| Basic earnings per share:   |              |                        |              |                        |              |                        |
| Numerator   |              |                        |              |                        |              |                        |
| Net income  | \$ 6,926     | \$ 257                 | \$ 5,610     | \$ 245                 | \$ 3,255     | \$ 44                  |
| Preferred stock dividends and other <sup>(1)</sup>  | (528)        | (20)                   | (474)        | (21)                   | (253)        | (3)                    |
| Net income available to common stockholders   | \$ 6,398     | \$ 237                 | \$ 5,136     | \$ 224                 | \$ 3,002     | \$ 41                  |
| Denominator   |              |                        |              |                        |              |                        |
| Weighted-average common shares outstanding — basic  | 1,818        | 67                     | 1,808        | 79                     | 1,410        | 19                     |
| Basic earnings per share  | \$ 3.52      | \$ 3.52                | \$ 2.84      | \$ 2.84                | \$ 2.13      | \$ 2.13                |
| Diluted earnings per share:   |              |                        |              |                        |              |                        |
| Numerator   |              |                        |              |                        |              |                        |
| Net income available to common stockholders   | \$ 6,398     | \$ 237                 | \$ 5,136     | \$ 224                 | \$ 3,002     | \$ 41                  |
| Reallocation of net income available to common stockholders as a result of conversion of nonvoting to voting shares | 237          | —                      | 224          | —                      | 41           | —                      |
| Allocation of net income available to common stockholders:  | \$ 6,635     | \$ 237                 | \$ 5,360     | \$ 224                 | \$ 3,043     | \$ 41                  |
| Denominator   |              |                        |              |                        |              |                        |
| Weighted-average common shares outstanding — basic  | 1,818        | 67                     | 1,808        | 79                     | 1,410        | 19                     |
| Conversion of nonvoting shares to voting shares   | 67           | —                      | 79           | —                      | 19           | —                      |
| Common stock equivalent shares related to stock incentive plans   | 9            | —                      | 10           | —                      | 6            | —                      |
| Weighted-average common shares outstanding — diluted <sup>(2)</sup>   | 1,894        | 67                     | 1,897        | 79                     | 1,435        | 19                     |
| Diluted earnings per share  | \$ 3.50      | \$ 3.50                | \$ 2.83      | \$ 2.83                | \$ 2.12      | \$ 2.12                |

<sup>(1)</sup> Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

<sup>(2)</sup> Antidilutive stock options and restricted stock units excluded from the calculation of diluted EPS totaled 15 million, 16 million, and 22 million in 2022, 2021, and 2020, respectively.

**THE CHARLES SCHWAB CORPORATION**

**Notes to Consolidated Financial Statements**

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

**26. The Charles Schwab Corporation – Parent Company Only Financial Statements**

**Condensed Statements of Income**

| Year Ended December 31,  | 2022            | 2021            | 2020            |
|--|-----------------|-----------------|-----------------|
| Interest revenue   | \$ 183          | \$ 11           | \$ 38           |
| Interest expense   | (501)           | (355)           | (273)           |
| Net interest expense   | (318)           | (344)           | (235)           |
| Trading revenue  | —               | —               | 1               |
| Other revenue  | (2)             | (2)             | (1)             |
| Expenses Excluding Interest:   |                 |                 |                 |
| Compensation and benefits  | (73)            | (87)            | (62)            |
| Regulatory fees and assessments  | (21)            | (20)            | (14)            |
| Professional services  | (16)            | (17)            | (68)            |
| Other expenses excluding interest  | (108)           | (18)            | (9)             |
| Loss before income tax benefit and equity in net income of subsidiaries                    | (538)           | (488)           | (388)           |
| Income tax benefit (expense)   | 32              | 32              | 45              |
| Loss before equity in net income of subsidiaries   | (506)           | (456)           | (343)           |
| Equity in net income of subsidiaries:  |                 |                 |                 |
| Equity in undistributed net income (distributions in excess of net income) of subsidiaries | (2,432)         | 3,361           | 2,476           |
| Dividends from bank subsidiaries   | 6,670           | —               | —               |
| Dividends from non-bank subsidiaries   | 3,451           | 2,950           | 1,166           |
| <b>Net Income</b>  | <b>7,183</b>    | <b>5,855</b>    | <b>3,299</b>    |
| Preferred stock dividends and other <sup>(1)</sup>   | 548             | 495             | 256             |
| <b>Net Income Available to Common Stockholders</b>   | <b>\$ 6,635</b> | <b>\$ 5,360</b> | <b>\$ 3,043</b> |

<sup>(1)</sup> Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

**Condensed Balance Sheets**

| December 31,                                      | 2022             | 2021             |
|---|------------------|------------------|
| <b>Assets</b>                                     |                  |                  |
| Cash and cash equivalents                         | \$ 8,800         | \$ 6,839         |
| Receivables from subsidiaries                     | 1,266            | 1,288            |
| Available for sale securities                     | 4,112            | 4,218            |
| Investment in non-bank subsidiaries               | 35,025           | 34,377           |
| Investment in bank subsidiaries                   | 8,245            | 30,720           |
| Other assets                                      | 581              | 357              |
| <b>Total assets</b>                               | <b>\$ 58,029</b> | <b>\$ 77,799</b> |
| <b>Liabilities and Stockholders' Equity</b>       |                  |                  |
| Accrued expenses and other liabilities            | \$ 584           | \$ 618           |
| Payables to subsidiaries                          | 54               | 80               |
| Short-term borrowings                             | 248              | 3,005            |
| Long-term debt                                    | 20,535           | 17,835           |
| <b>Total liabilities</b>                          | <b>21,421</b>    | <b>21,538</b>    |
| Stockholders' equity                              | 36,608           | 56,261           |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 58,029</b> | <b>\$ 77,799</b> |

**THE CHARLES SCHWAB CORPORATION**

**Notes to Consolidated Financial Statements**

(Tabular Amounts in Millions, Except Per Share Data, Option Price Amounts, Ratios, or as Noted)

**Condensed Statements of Cash Flows**

| Year Ended December 31,  | 2022            | 2021            | 2020            |
|--|-----------------|-----------------|-----------------|
| <b>Cash Flows from Operating Activities</b>  |                 |                 |                 |
| Net income   | \$ 7,183        | \$ 5,855        | \$ 3,299        |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: |                 |                 |                 |
| Dividends in excess of (equity in undistributed) earnings of subsidiaries                    | 2,432           | (3,361)         | (2,476)         |
| Other  | 53              | 21              | 41              |
| Net change in:   |                 |                 |                 |
| Other assets   | (230)           | 76              | (65)            |
| Accrued expenses and other liabilities   | (5)             | 112             | 34              |
| Net cash provided by (used for) operating activities   | 9,433           | 2,703           | 833             |
| <b>Cash Flows from Investing Activities</b>  |                 |                 |                 |
| Due from (to) subsidiaries — net   | 333             | 211             | 46              |
| Increase in investments in subsidiaries  | (2,139)         | (10,926)        | (2,172)         |
| Purchases of available for sale securities   | (5,699)         | (8,002)         | (5,397)         |
| Proceeds from sales of available for sale securities   | 2               | 2               | 2               |
| Principal payments on available for sale securities  | 5,803           | 8,754           | 2,395           |
| Other investing activities   | (25)            | —               | —               |
| Net cash provided by (used for) investing activities   | (1,725)         | (9,961)         | (5,126)         |
| <b>Cash Flows from Financing Activities</b>  |                 |                 |                 |
| Issuance of long-term debt   | 2,971           | 7,036           | 3,070           |
| Repayment of long-term debt  | (256)           | (1,200)         | (700)           |
| Issuance of commercial paper   | 1,895           | 8,253           | 1,234           |
| Repayments of commercial paper   | (4,656)         | (5,250)         | (1,234)         |
| Repurchases of common stock and nonvoting common stock                                       | (3,395)         | —               | —               |
| Net proceeds from preferred stock offerings  | 740             | 2,806           | 4,940           |
| Redemption of preferred stock  | (1,000)         | (600)           | —               |
| Dividends paid   | (2,110)         | (1,822)         | (1,280)         |
| Proceeds from stock options exercised and other  | 64              | 220             | 79              |
| Other financing activities   | —               | —               | (1)             |
| Net cash provided by (used for) financing activities   | (5,747)         | 9,443           | 6,108           |
| Increase (Decrease) in Cash and Cash Equivalents   | 1,961           | 2,185           | 1,815           |
| <b>Cash and Cash Equivalents at Beginning of Year</b>  | <b>6,839</b>    | <b>4,654</b>    | <b>2,839</b>    |
| <b>Cash and Cash Equivalents at End of Year</b>  | <b>\$ 8,800</b> | <b>\$ 6,839</b> | <b>\$ 4,654</b> |
| <b>Supplemental Cash Flow Information</b>  |                 |                 |                 |
| <b>Non-Cash Investing and Financing Activity</b>   |                 |                 |                 |
| Exchange of TDA Holding-issued senior notes for CSC-issued senior notes                      | \$ —            | \$ 1,987        | \$ —            |
| Common stock repurchased during the period but settled after period end                      | \$ 40           | \$ —            | \$ —            |

# THE CHARLES SCHWAB CORPORATION

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of The Charles Schwab Corporation

### Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Charles Schwab Corporation and subsidiaries (the “Company”) as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

### Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

**Asset Management and Administration Fees (AMAF) and Trading Revenue – Refer to Note 4 to the financial statements**

*Critical Audit Matter Description*

Net revenues from asset management and administrative fees (AMAF) are generated through proprietary, third-party mutual fund and exchange-traded funds (ETF) offerings, as well as fee-based advisory solutions. Trading revenue is generated through commissions earned for executing trades for clients in individual equities, options, and certain third-party mutual funds and ETFs. Both AMAF and trading revenues are made up of a significant volume of low-dollar transactions, and use automated systems to process and record these transactions based on underlying information sourced from multiple systems and contractual terms with individual investors and third-party mutual funds.

Given that the Company's process to record revenue is highly automated and involves multiple systems and databases, auditing these revenue streams was complex and challenging due to the extent of audit effort required and involvement of professionals with expertise in information technology (IT) necessary for us to identify, test, and evaluate the Company's systems, software applications, and automated controls.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the Company's systems to process the AMAF and trading revenue transactions included the following, among others:

- With the assistance of our IT specialists, we:
  - Identified the significant systems used to process revenue transactions and, using a risk-based approach, tested the relevant general IT controls over each of these systems.
  - Performed testing of automated business controls and system interface controls (including batch processing) within the relevant revenue streams.
- We tested internal controls within the relevant revenue business processes, including those in place to reconcile the various systems to the Company's general ledger.
- We created data visualizations to evaluate recorded revenue and evaluate trends in the revenue data.
- For a sample of revenue transactions, we performed detail transaction testing by agreeing the amounts recognized to contractual agreements and testing the mathematical accuracy of the recorded revenue.
- For a sample of accounts, we tested the accuracy and completeness of assets under management by obtaining independent pricing support and reconciling total positions to third-party statements.

/s/ DELOITTE & TOUCHE LLP

Dallas, TX  
February 24, 2023

We have served as the Company's auditor since 1976.

## THE CHARLES SCHWAB CORPORATION

### Management's Report on Internal Control Over Financial Reporting

Management of The Charles Schwab Corporation, together with its subsidiaries (the Company), is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of and effected by the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2022, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2022.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

The Company's internal control over financial reporting as of December 31, 2022, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing on the previous pages.



**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

*Evaluation of disclosure controls and procedures:* The management of the Company, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2022. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2022.

*Changes in internal control over financial reporting:* No change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) was identified during the quarter ended December 31, 2022, that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm are included in Item 8.

**Item 9B. Other Information**

None.

**Item 9C. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers, and Corporate Governance**

The information relating to directors of CSC required to be furnished pursuant to this item is incorporated by reference from portions of the Company's definitive proxy statement for its annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A by April 30, 2023 (the Proxy Statement). The Company's Code of Conduct and Business Ethics, applicable to directors and all employees, including senior financial officers, is available on the Company's website at <https://www.aboutschwab.com/governance>. If the Company makes any amendments to or grants any waivers from its Code of Conduct and Business Ethics, which are required to be disclosed pursuant to the Securities Exchange Act of 1934, the Company will make such disclosures on this website.

## THE CHARLES SCHWAB CORPORATION

### Schwab Executive Officers of the Registrant

The following table provides certain information about each of the Company's executive officers as of December 31, 2022.

| <b>Executive Officers of the Registrant</b> |                   |  |
|---|-------------------|--|
| <b><u>Name</u></b>                          | <b><u>Age</u></b> | <b><u>Title</u></b>                                      |
| Charles R. Schwab                           | 85                | Co-Chairman of the Board                                 |
| Walter W. Bettinger II                      | 62                | Co-Chairman of the Board and Chief Executive Officer     |
| Richard A. Wurster                          | 49                | President  |
| Bernard J. Clark                            | 64                | Managing Director, Head of Advisor Services              |
| Jonathan M. Craig                           | 51                | Managing Director, Head of Investor Services & Marketing |
| Peter B. Crawford                           | 54                | Managing Director, Chief Financial Officer               |
| Joseph R. Martinetto                        | 60                | Managing Director, Chief Operating Officer               |
| Peter J. Morgan III                         | 58                | Managing Director, General Counsel                       |
| Nigel J. Murtagh                            | 59                | Managing Director, Chief Risk Officer                    |

**Mr. Schwab** has been a director of CSC since its incorporation in 1986. He served as Chairman of the Board from 1986 to 2022 and has served as Co-Chairman of the Board since 2022. He also served as Chief Executive Officer of CSC from 1986 to 1997 and as Co-Chief Executive Officer from 1998 until 2003. He was re-appointed Chief Executive Officer in 2004 and served in that role until 2008. He served as Chairman of the Board and a director of CS&Co until 2018.

**Mr. Bettinger** has been Chief Executive Officer and a director of CSC since 2008 and has been Co-Chairman of the Board since 2022. He serves as Co-Chairman of the Board of CSB, and is a director of TD Ameritrade Holding Corporation. He also serves as Chairman and trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, and Schwab Strategic Trust, all registered investment companies and affiliates of CSC. Mr. Bettinger served as Director, President and Chief Executive Officer of CS&Co from 2008 until 2021. Mr. Bettinger served as President of CSC from 2007 to 2021, CSC Chief Operating Officer from 2007 until 2008, and as Executive Vice President and President – Schwab Investor Services of CSC and CS&Co from 2005 to 2007. Mr. Bettinger joined Schwab in 1995.

**Mr. Wurster** has been President of CSC since 2021 and has served as President and director of CS&Co since 2021. He served as CEO of Charles Schwab Investment Management, Inc. from 2019 to 2021 and has been a director since 2021. He was CEO of Charles Schwab Investment Advisory, Inc. from 2018 to 2021. Mr. Wurster was CEO of ThomasPartners, Inc. and Windhaven Investment Management, Inc., subsidiaries of CSC, from 2016 to 2018. Mr. Wurster joined Schwab in 2016.

**Mr. Clark** has been Managing Director, Head of Advisor Services since 2022 and was Executive Vice President – Advisor Services of CSC from 2012 to 2022. Mr. Clark has served as Managing Director, Head of Advisor Services of CS&Co since 2022 and was Executive Vice President – Advisor Services of CS&Co from 2010 to 2022. From 2006 until 2010, Mr. Clark served as Senior Vice President – Schwab Institutional Sales of CS&Co. Mr. Clark joined Schwab in 1998.

**Mr. Craig** has been Managing Director, Head of Investor Services and Marketing of CSC and CS&Co since 2022. Prior to that he served as Senior Executive Vice President of CSC and CS&Co from 2018 to 2021, Executive Vice President – Client and Marketing Solutions of CSC and CS&Co from 2017 until 2018 and Executive Vice President and Chief Marketing Officer of CSC and CS&Co from 2012 until 2018. Mr. Craig joined Schwab in 2000.

**Mr. Crawford** has been Managing Director of CSC and CS&Co since 2022, Executive Vice President from 2017 to 2022 of CSC and CS&Co and Chief Financial Officer of CSC and CS&Co since 2017. Prior to his appointment as Chief Financial Officer, Mr. Crawford was Executive Vice President of Finance of CS&Co from 2015 to 2017. He served as Senior Vice President of Schwab's asset management and client solutions organization from 2008 to 2015. He joined the Board of Directors of TD Ameritrade Holding Corporation in 2020, and has served on the Board of Directors of CS&Co since 2018. Mr. Crawford joined Schwab in 2001.

**Mr. Martinetto** has been Managing Director since 2022 of CSC and CS&Co, Senior Executive Vice President of CSC and CS&Co from 2015 to 2022, and Chief Operating Officer of CSC and CS&Co since 2018. He served as Chief Financial Officer of CSC and CS&Co from 2007 until 2017, and Executive Vice President of CSC and CS&Co from 2007 until 2015. He also serves on the Board of Directors of CS&Co and TD Ameritrade Holding Corporation and serves as Co-Chairman of CSB. From 2016 to 2022 Mr. Martinetto was a trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, and Schwab Strategic Trust. Mr. Martinetto joined Schwab in 1997.

## THE CHARLES SCHWAB CORPORATION

**Mr. Morgan** has been Managing Director of CSC and CS&Co since 2022, Executive Vice President of CSC from 2019 to 2022, General Counsel and Corporate Secretary of CSC since 2019, and Executive Vice President and Corporate Secretary of CS&Co from 2020 to 2022. He was Senior Vice President and Deputy General Counsel of CS&Co from 2009 to 2020. He has served as General Counsel of CSB since 2009, including as Executive Vice President and General Counsel of CSB since 2019, and as Senior Vice President and General Counsel from 2015 to 2019. Mr. Morgan joined Schwab in 1999.

**Mr. Murtagh** has been Managing Director and Chief Risk Officer of CSC and CS&Co since 2022, and was Executive Vice President and Chief Risk Officer of CSC and CS&Co from 2012 to 2022. He served as Senior Vice President and Chief Credit Officer of CS&Co from 2002 until 2012 and of CSC from 2008 until 2012 when he was also Head of Fixed Income Research for Charles Schwab Investment Management. Mr. Murtagh also serves as Managing Director and Chief Risk Officer of CSB. Mr. Murtagh joined Schwab in 2000.

### **Item 11. Executive Compensation**

The information required to be furnished pursuant to this item is incorporated by reference from portions of the Proxy Statement. In addition, the information from a portion of the Proxy Statement under “Compensation Committee Report,” is incorporated by reference from the Proxy Statement and furnished on this Form 10-K, and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required to be furnished pursuant to this item is incorporated by reference from portions of the Proxy Statement.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required to be furnished pursuant to this item is incorporated by reference from portions of the Proxy Statement.

### **Item 14. Principal Accountant Fees and Services**

The information required to be furnished pursuant to this item is incorporated by reference from a portion of the Proxy Statement.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

(a) Documents filed as part of this Report

1. Financial Statements

The financial statements and independent auditors' report are included in Item 8 and are listed below:

- Consolidated Statements of Income
- Consolidated Statements of Comprehensive Income
- Consolidated Balance Sheets
- Consolidated Statements of Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements
- Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules

Other financial statement schedules required pursuant to this Item are omitted because of the absence of conditions under which they are required or because the information is included in the Company's consolidated financial statements and notes in Item 8.

# THE CHARLES SCHWAB CORPORATION

## (b) Exhibits

The exhibits listed below are filed as part of this annual report on Form 10-K.

| Exhibit Number | Exhibit   |
|----------------|---|
| 2.1            | Agreement and Plan of Merger, dated as of November 24, 2019, by and among the Registrant, Americano Acquisition Corp., and TD Ameritrade Holding Corporation, filed as Exhibit 2.1 to the Registrant's Form 8-K dated November 24, 2019, and incorporated herein by reference.*                           |
| 2.2            | Amendment No. 1 to Agreement and Plan of Merger, dated as of May 14, 2020, by and among the Registrant, Americano Acquisition Corp., and TD Ameritrade Holding Corporation, filed as Exhibit 2.2 to the Registrant's Form 8-K dated May 14, 2020, and incorporated herein by reference.                   |
| 3.11           | Fifth Restated Certificate of Incorporation, effective May 7, 2001, of the Registrant, filed as Exhibit 3.11 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.  |
| 3.11(i)        | Amendment to Fifth Restated Certificate of Incorporation of the Registrant, effective October 6, 2020, filed as Exhibit 3.1 to the Registrant's Form 8-K dated October 2, 2020, and incorporated herein by reference.   |
| 3.18           | Certificate of Designations of 5.95% Non-Cumulative Perpetual Preferred Stock, Series D, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated March 7, 2016, and incorporated herein by reference.  |
| 3.20           | Certificate of Designations of 5.00% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated October 31, 2017, and incorporated herein by reference.  |
| 3.21           | Certificate of Designations of 5.375% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series G, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated April 30, 2020, and incorporated herein by reference.   |
| 3.22           | Certificate of Designations of 4.000% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series H, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated December 8, 2020, and incorporated herein by reference.   |
| 3.23           | Certificate of Designations of 4.000% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series I, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated March 15, 2021, and incorporated herein by reference.   |
| 3.24           | Certificate of Designations of 4.450% Non-Cumulative Perpetual Preferred Stock, Series J, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated March 29, 2021, and incorporated herein by reference.  |
| 3.26           | Certificate of Designations of 5.000% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series K, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated March 3, 2022, and incorporated herein by reference.  |
| 3.28           | Certificate of Elimination of the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated November 1, 2022, and incorporated herein by reference.  |
| 3.29           | Certificate of Elimination of the 4.625% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated December 1, 2022, and incorporated herein by reference.                                     |
| 3.30           | Amended and Restated Bylaws of The Charles Schwab Corporation, effective January 26, 2023, filed as Exhibit 3.1 to the Registrant's Form 8-K dated January 26, 2023, and incorporated herein by reference.  |
| 4.3            | Deposit Agreement, dated March 7, 2016, between the Company and Wells Fargo Bank, N.A., as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant's Form 8-K dated March 7, 2016, and incorporated herein by reference.        |
| 4.5            | Deposit Agreement, dated October 31, 2017, between the Company and Wells Fargo Bank, N.A., as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant's Form 8-K dated October 31, 2017, and incorporated herein by reference.  |
| 4.6            | Deposit Agreement, dated April 30, 2020, between the Company and Equiniti Trust Company, as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant's Form 8-K dated April 30, 2020, and incorporated herein by reference.      |
| 4.7            | Deposit Agreement, dated December 11, 2020, between the Company and Equiniti Trust Company, as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant's Form 8-K dated December 8, 2020, and incorporated herein by reference. |

**THE CHARLES SCHWAB CORPORATION**

| <b>Exhibit Number</b> | <b>Exhibit</b>  |     |
|-----------------------|---|-----|
| 4.8                   | Deposit Agreement, dated March 18, 2021, between the Company and Equiniti Trust Company, as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant's Form 8-K dated March 15, 2021, and incorporated herein by reference.  |     |
| 4.9                   | Deposit Agreement, dated March 30, 2021, between the Company and Equiniti Trust Company, as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant's Form 8-K dated March 29, 2021, and incorporated herein by reference.  |     |
| 4.10                  | Deposit Agreement, dated March 4, 2022, between the Company and Equiniti Trust Company, as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant's Form 8-K dated March 3, 2022, and incorporated herein by reference.  |     |
| 4.11                  | Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.   |     |
| 4.12                  | Neither the Registrant nor its subsidiaries are parties to any instrument with respect to long-term debt for which securities authorized thereunder exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. Copies of instruments with respect to long-term debt of lesser amounts will be provided to the SEC upon request. |     |
| 10.4                  | Form of Release Agreement dated as of March 31, 1987 among BAC, Registrant, Schwab Holdings, Inc., Charles Schwab & Co., Inc., and former shareholders of Schwab Holdings, Inc., filed as the identically-numbered exhibit to Registrant's Registration Statement No. 33-16192 on Form S-1 and incorporated herein by reference.                                    |     |
| 10.57                 | Registration Rights and Stock Restriction Agreement, dated as of March 31, 1987, between the Registrant and the holders of the Common Stock, filed as Exhibit 4.23 to Registrant's Registration Statement No. 33-16192 on Form S-1 and incorporated herein by reference.  |     |
| 10.72                 | Restatement of Assignment and License, as amended January 25, 1988, among Charles Schwab & Co., Inc., Charles R. Schwab and the Registrant, filed as Exhibit 10.72 to the Registrant's Form 10-K for the year ended December 31, 2014, and incorporated herein by reference.  |     |
| 10.267                | Form of Notice and Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.267 to the Registrant's Form 10-K for the year ended December 31, 2004, and incorporated herein by reference.  | (2) |
| 10.271                | The Charles Schwab Corporation Directors' Deferred Compensation Plan, as amended through December 8, 2004, filed as Exhibit 10.271 to the Registrant's Form 10-K for the year ended December 31, 2014, and incorporated herein by reference.  | (2) |
| 10.272                | The Charles Schwab Corporation Deferred Compensation Plan, as amended through December 8, 2004, filed as Exhibit 10.272 to the Registrant's Form 10-K for the year ended December 31, 2014, and incorporated herein by reference.   | (2) |
| 10.314                | Employment Agreement dated as of March 13, 2008, between the Registrant and Charles R. Schwab, filed as Exhibit 10.314 to the Registrant's Form 10-K for the year ended December 31, 2018, and incorporated herein by reference.  | (2) |
| 10.319                | Form of Notice and Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.319 to the Registrant's Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.  | (2) |
| 10.338                | The Charles Schwab Corporation 2004 Stock Incentive Plan, as approved at the Annual Meeting of Stockholders on May 17, 2011, filed as Exhibit 10.338 to the Registrant's Form 10-Q for the quarter ended June 30, 2016, and incorporated herein by reference.   | (2) |
| 10.341                | Form of Notice and Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.341 to the Registrant's Form 10-K for the year ended December 31, 2011, and incorporated herein by reference.  | (2) |
| 10.354                | Form of Notice and Nonqualified Stock Option Agreement under The Charles Schwab Corporation 2004 Stock Incentive Plan and successor plans, filed as Exhibit 10.354 to the Registrant's Form 8-K dated January 24, 2013, and incorporated herein by reference.   | (2) |
| 10.356                | Form of Notice and Retainer Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation 2004 Stock Incentive Plan and successor plans, filed as Exhibit 10.356 to the Registrant's Form 8-K dated January 24, 2013, and incorporated herein by reference.  | (2) |
| 10.358                | Form of Notice and Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.373 to the Registrant's Form 8-K dated January 24, 2013, and incorporated herein by reference.  | (2) |

**THE CHARLES SCHWAB CORPORATION**

| <b>Exhibit Number</b> | <b>Exhibit</b>   |     |
|-----------------------|--|-----|
| 10.359                | Form of Notice and Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.359 to the Registrant's Form 8-K dated January 24, 2013, and incorporated herein by reference.  | (2) |
| 10.370                | Form of Notice and Nonqualified Stock Option Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.370 to the Registrant's Form 10-Q for the quarter ended September 30, 2016, and incorporated herein by reference.   | (2) |
| 10.372                | Form of Notice and Retainer Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.372 to the Registrant's Form 10-Q for the quarter ended September 30, 2016, and incorporated herein by reference.  | (2) |
| 10.374                | Form of Notice and Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.373 to the Registrant's Form 10-Q for the quarter ended September 30, 2016, incorporated herein by reference.  | (2) |
| 10.375                | Form of Notice and Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.375 to the Registrant's Form 10-Q for the quarter ended September 30, 2016, incorporated herein by reference.                               | (2) |
| 10.379                | Form of Notice and Nonqualified Stock Option Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.379 to the Registrant's Form 10-Q for the quarter ended September 30, 2017, and incorporated herein by reference.   | (2) |
| 10.381                | Form of Notice and Retainer Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.381 to the Registrant's Form 10-Q for the quarter ended September 30, 2017, and incorporated herein by reference.  | (2) |
| 10.383                | Form of Notice and Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.383 to the Registrant's Form 10-Q for the quarter ended September 30, 2017, and incorporated herein by reference.                                    | (2) |
| 10.384                | Form of Notice and Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.384 to the Registrant's Form 10-Q for the quarter ended September 30, 2017, and incorporated herein by reference.                           | (2) |
| 10.387                | Form of Notice and Nonqualified Stock Option Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.387 to the Registrant's Form 10-K for the year ended December 31, 2017, and incorporated herein by reference.   | (2) |
| 10.389                | The Charles Schwab Corporation Corporate Executive Bonus Plan, restated to include amendments approved at the Annual Meeting of Stockholders on May 13, 2015, as amended and restated as of December 13, 2017, filed as Exhibit 10.389 to the Registrant's Form 10-K for the year ended December 31, 2017, and incorporated herein by reference. | (2) |
| 10.393                | Form of Notice and Nonqualified Stock Option Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.393 to the Registrant's Form 10-K for the year ended December 31, 2018, and incorporated herein by reference.   | (2) |
| 10.394                | Form of Notice and Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.394 to the Registrant's Form 10-K for the year ended December 31, 2018, and incorporated herein by reference.   | (2) |
| 10.396                | Form of Notice and Restricted Stock Unit Agreement (no accelerating vesting for retirement) under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.396 to the Registrants' Form 10-Q for the quarter ended June 30, 2019, and incorporated herein by reference.                                 | (2) |
| 10.397                | Form of Notice and Retainer Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.397 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.  | (2) |
| 10.398                | Form of Notice and Retainer Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.398 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.                                 | (2) |

**THE CHARLES SCHWAB CORPORATION**

| <b>Exhibit Number</b> | <b>Exhibit</b>   |     |
|-----------------------|--|-----|
| 10.399                | Form of Notice and Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.399 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.  | (2) |
| 10.401                | Form of Notice and Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.401 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.   | (2) |
| 10.402                | Form of Notice and Nonqualified Stock Option Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.402 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.   | (2) |
| 10.403                | Form of Notice and Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.403 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.   | (2) |
| 10.404                | Form of Notice and Restricted Stock Unit Agreement (no accelerating vesting for retirement) under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.404 to the Registrants' Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.  | (2) |
| 10.405                | Stockholder Agreement, dated as of November 24, 2019, by and between the Registrant and the Toronto-Dominion Bank, filed as Exhibit 10.1 to the Registrant's Form 8-K dated November 24, 2019, and incorporated herein by reference.   |     |
| 10.406                | Registration Rights Agreement by and among the Registrant, Charles R. Schwab, The Toronto-Dominion Bank, and certain other stockholders, filed as Exhibit 10.5 to the Registrant's Form 8-K dated November 24, 2019, and incorporated herein by reference.   |     |
| 10.407                | Amended and Restated Insured Deposit Account Agreement by and among TD Bank USA, National Association, TD Bank, National Association, and the Registrant, filed as Exhibit 10.6 to the Registrant's Form 8-K dated November 24, 2019, and incorporated herein by reference.**  |     |
| 10.407(i)             | Consent, Agreement and Joinder to the Amended and Restated IDA Agreement, dated as of October 6, 2020, by and among Charles Schwab & Co., Inc., TD Ameritrade, Inc., TD Ameritrade Clearing, Inc. and TD Ameritrade Trust Company, filed as Exhibit 10.1 to TD Ameritrade Holding Corporation's Form 8-K dated October 6, 2020, and incorporated herein by reference.  |     |
| 10.407(ii)            | Amendment to Amended and Restated Insured Deposit Agreement, dated as of November 24, 2021, by and among TD Bank USA, National Association, TD Bank, National Association, and The Charles Schwab Corporation, TD Ameritrade, Inc., TD Ameritrade Clearing, Inc., TD Ameritrade Trust Company, and Charles Schwab & Co., Inc., filed as Exhibit 10.407(ii) to the Registrant's Form 10-K for the year ended December 31, 2021, and incorporated herein by reference.** |     |
| 10.407(iii)           | Second Amendment to Amended and Restated Insured Deposit Agreement, dated February 14, 2023, by and among TD Bank USA, National Association, TD Bank, National Association, and The Charles Schwab Corporation, TD Ameritrade, Inc., TD Ameritrade Clearing, Inc., Charles Schwab Trust Bank, as successor to TD Ameritrade Trust Company, and Charles Schwab & Co., Inc.  |     |
| 10.408                | Form of Notice and Performance-Based Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.408 to the Registrant's Form 10-K for the year ended December 31, 2019, and incorporated herein by reference.   | (2) |
| 10.410                | 2013 Stock Incentive Plan, as amended and restated, filed as Exhibit 10.410 to the Registrant's Form 8-K dated May 12, 2020, and incorporated herein by reference.   | (2) |
| 10.412                | Form of Notice and Retainer Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.412 to the Registrant's Form 10-Q for the quarter ended September, 30, 2020, and incorporated herein by reference.   | (2) |
| 10.413                | Form of Notice and Retainer Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.413 to the Registrant's Form 10-Q for the quarter ended September, 30, 2020, and incorporated herein by reference.  | (2) |
| 10.414                | Form of Notice and Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.414 to the Registrant's Form 10-Q for the quarter ended September, 30, 2020, and incorporated herein by reference.   | (2) |



**THE CHARLES SCHWAB CORPORATION**

| <b>Exhibit Number</b> | <b>Exhibit</b>  |     |
|-----------------------|---|-----|
| 10.415                | Form of Notice and Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.415 to the Registrant's Form 10-Q for the quarter ended September, 30, 2020, and incorporated herein by reference.   | (2) |
| 10.423                | The Charles Schwab Corporation Deferred Compensation Plan II, as amended and restated as of December 8, 2020, filed as Exhibit 10.423 to the Registrant's Form 10-K for the year ended December 31, 2020, and incorporated herein by reference.   | (2) |
| 10.424                | The Charles Schwab Severance Pay Plan, as Amended and Restated Effective June 21, 2021, filed as Exhibit 10.424 to the Registrant's Form 10-Q for the quarter ended June 30, 2021, and incorporated herein by reference.  | (2) |
| 10.426                | Form of Notice and Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.426 to the Registrant's Form 10-K for the year ended December 31, 2021, and incorporated by reference.   | (2) |
| 10.427                | Form of Notice and Restricted Stock Unit Agreement (no accelerating vesting for retirement) under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.427 to the Registrant's Form 10-K for the year ended December 31, 2021, and incorporated by reference.  | (2) |
| 10.428                | Summary of Non-Employee Director Compensation, filed as Exhibit 10.428 to the Registrant's Form 10-K for the year ended December 31, 2021, and incorporated herein by reference.  | (2) |
| 10.429                | The Charles Schwab Corporation 2022 Stock Incentive Plan, filed as Exhibit 10.1 to the Registrant's Form 8-K, dated May 17, 2022, and incorporated herein by reference.   | (2) |
| 10.430                | Repurchase Agreement between The Charles Schwab Corporation and TD Luxembourg International Holdings SARL, filed as Exhibit 10.1 to the Registrant's 8-K, dated July 31, 2022, and incorporated herein by reference.  |     |
| 21.1                  | Subsidiaries of the Registrant.   |     |
| 23.1                  | Independent Registered Public Accounting Firm's Consent.  |     |
| 31.1                  | Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.   |     |
| 31.2                  | Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.   |     |
| 32.1                  | Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.   | (1) |
| 32.2                  | Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.   | (1) |
| 101.INS               | Inline XBRL Instance Document   | (3) |
| 101.SCH               | Inline XBRL Taxonomy Extension Schema   | (3) |
| 101.CAL               | Inline XBRL Taxonomy Extension Calculation  | (3) |
| 101.DEF               | Inline XBRL Extension Definition  | (3) |
| 101.LAB               | Inline XBRL Taxonomy Extension Label  | (3) |
| 104                   | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)  |     |
| (1)                   | <i>Furnished as an exhibit to this annual report on Form 10-K.</i>  |     |
| (2)                   | <i>Management contract or compensatory plan.</i>  |     |
| (3)                   | <i>Attached as Exhibit 101 to this Annual Report on Form 10-K for the annual period ended December 31, 2022, are the following materials formatted in XBRL (Extensible Business Reporting Language) (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity, and (vi) Notes to Consolidated Financial Statements.</i> |     |

\* The schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Schwab agrees to furnish supplementally a copy of such schedules and exhibits, or any section thereof, to the SEC upon request.

\*\* Certain confidential information contained in this agreement has been omitted because it is not material and would be competitively harmful if publicly disclosed.

**Item 16. Form 10-K Summary**

None.

THE CHARLES SCHWAB CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 24, 2023.

THE CHARLES SCHWAB CORPORATION

(Registrant)

BY: /s/ Walter W. Bettinger II

Walter W. Bettinger II

Co-Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on February 24, 2023.

**Signature / Title**

**Signature / Title**

/s/ Walter W. Bettinger II

Walter W. Bettinger II,

Co-Chairman of the Board and Chief Executive Officer  
(principal executive officer)

/s/ Peter Crawford

Peter Crawford,

Managing Director and Chief Financial Officer  
(principal financial and accounting officer)

/s/ Charles R. Schwab

Charles R. Schwab, Co-Chairman of the Board

/s/ John K. Adams, Jr.

John K. Adams, Jr., Director

/s/ Marianne C. Brown

Marianne C. Brown, Director

/s/ Joan T. Dea

Joan T. Dea, Director

/s/ Christopher V. Dodds

Christopher V. Dodds, Director

/s/ Stephen A. Ellis

Stephen A. Ellis, Director

/s/ Mark A. Goldfarb

Mark A. Goldfarb, Director

/s/ William S. Haraf

William S. Haraf, Director

/s/ Frank C. Herring

Frank C. Herring, Director

/s/ Brian M. Levitt

Brian M. Levitt, Director

/s/ Gerri K. Martin-Flickinger

Gerri K. Martin-Flickinger, Director

/s/ Bharat B. Masrani

Bharat B. Masrani, Director

/s/ Todd M. Ricketts

Todd M. Ricketts, Director

/s/ Charles A. Ruffel

Charles A. Ruffel, Director

/s/ Arun Sarin

Arun Sarin, Director

/s/ Carrie Schwab-Pomerantz

Carrie Schwab-Pomerantz, Director

/s/ Paula A. Sneed

Paula A. Sneed, Director

## SUPPLEMENTAL INFORMATION

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**THE CHARLES SCHWAB CORPORATION**  
**Supplemental Financial Data (Unaudited)**  
(Dollars in Millions)

As a savings and loan holding company, the Company provides the following supplemental information pursuant to Subpart 1400 of Regulation S-K. Other information required by Subpart 1400 of Regulation S-K is presented throughout this Annual Report on Form 10-K.

**1. Average Balance Sheets and Net Interest Revenue**

| For the Year Ended December 31,                   | 2022               |          |                 | 2021               |          |                 | 2020               |          |                 |
|---|--------------------|----------|-----------------|--------------------|----------|-----------------|--------------------|----------|-----------------|
|   | Average<br>Balance | Interest | Average<br>Rate | Average<br>Balance | Interest | Average<br>Rate | Average<br>Balance | Interest | Average<br>Rate |
| <b>Assets:</b>                                    |                    |          |                 |                    |          |                 |                    |          |                 |
| Cash and cash equivalents                         | \$ 57,163          | \$ 812   | 1.40%           | \$ 40,325          | \$ 40    | 0.10%           | \$ 39,052          | \$ 120   | 0.30%           |
| Cash and investments segregated                   | 49,430             | 691      | 1.38%           | 43,942             | 24       | 0.05%           | 34,100             | 141      | 0.41%           |
| Receivables from brokerage clients                | 75,614             | 3,321    | 4.33%           | 77,768             | 2,455    | 3.11%           | 28,058             | 848      | 2.97%           |
| Available for sale securities <sup>(1,2)</sup>    | 260,392            | 4,139    | 1.58%           | 357,122            | 4,641    | 1.30%           | 253,555            | 4,537    | 1.78%           |
| Held to maturity securities <sup>(1,2)</sup>      | 112,357            | 1,688    | 1.50 %          | —                  | —        | —               | —                  | —        | —               |
| Bank loans <sup>(3)</sup>                         | 38,816             | 1,083    | 2.79%           | 28,789             | 620      | 2.15%           | 20,932             | 545      | 2.60%           |
| Total interest-earning assets                     | 593,772            | 11,734   | 1.96%           | 547,946            | 7,780    | 1.41%           | 375,697            | 6,191    | 1.64%           |
| Securities lending revenue                        |                    | 471      |                 |                    | 720      |                 |                    | 334      |                 |
| Other interest revenue                            |                    | 22       |                 |                    | 6        |                 |                    | 6        |                 |
| Total interest-earning assets                     | 593,772            | 12,227   | 2.04%           | 547,946            | 8,506    | 1.54%           | 375,697            | 6,531    | 1.73%           |
| Non-interest-earning assets <sup>(4,5)</sup>      | 24,962             |          |                 | 41,930             |          |                 | 38,608             |          |                 |
| Total assets                                      | \$ 618,734         |          |                 | \$ 589,876         |          |                 | \$ 414,305         |          |                 |
| <b>Liabilities and Stockholders' Equity:</b>      |                    |          |                 |                    |          |                 |                    |          |                 |
| Bank deposits                                     | \$ 424,168         | \$ 723   | 0.17%           | \$ 381,549         | \$ 54    | 0.01%           | \$ 291,206         | \$ 93    | 0.03%           |
| Payables to brokerage clients                     | 97,825             | 123      | 0.13%           | 91,667             | 9        | 0.01%           | 46,347             | 12       | 0.02%           |
| Short-term borrowings <sup>(6)</sup>              | 4,993              | 154      | 3.07%           | 3,040              | 9        | 0.30%           | 89                 | —        | 0.20%           |
| Long-term debt                                    | 20,714             | 498      | 2.40%           | 17,704             | 384      | 2.17%           | 8,992              | 289      | 3.22%           |
| Total interest-bearing liabilities                | 547,700            | 1,498    | 0.27%           | 493,960            | 456      | 0.09%           | 346,634            | 394      | 0.11%           |
| Securities lending expense                        |                    | 48       |                 |                    | 24       |                 |                    | 33       |                 |
| Other interest expense                            |                    | (1)      |                 |                    | (4)      |                 |                    | (9)      |                 |
| Non-interest-bearing liabilities <sup>(4,7)</sup> | 27,596             |          |                 | 39,182             |          |                 | 32,486             |          |                 |
| Total liabilities <sup>(8)</sup>                  | 575,296            | 1,545    | 0.26%           | 533,142            | 476      | 0.09%           | 379,120            | 418      | 0.11%           |
| Stockholders' equity <sup>(4)</sup>               | 43,438             |          |                 | 56,734             |          |                 | 35,185             |          |                 |
| Total liabilities and stockholders' equity        | \$ 618,734         |          |                 | \$ 589,876         |          |                 | \$ 414,305         |          |                 |
| Net interest revenue                              | \$ 10,682          |          |                 | \$ 8,030           |          |                 | \$ 6,113           |          |                 |
| Net yield on interest-earning assets              | 1.78%              |          |                 | 1.45%              |          |                 | 1.62%              |          |                 |

<sup>(1)</sup> Amounts calculated based on amortized cost.

<sup>(2)</sup> In January 2022 and November 2022, the Company transferred a portion of its investment securities designated as AFS to the HTM category, as described in Item 8 – Note 6.

<sup>(3)</sup> Includes average principal balances of nonaccrual loans.

<sup>(4)</sup> Average balance calculation based on month end balances.

<sup>(5)</sup> Non-interest-earning assets include equipment, office facilities, and property – net, goodwill, acquired intangible assets – net, and other assets that do not generate interest income.

<sup>(6)</sup> Interest revenue or expense was less than \$500 thousand in the period or periods presented.

<sup>(7)</sup> Non-interest-bearing liabilities consist of other liabilities that do not generate interest expense.

<sup>(8)</sup> Average rate calculation based on total funding sources.

**THE CHARLES SCHWAB CORPORATION**

**Supplemental Financial Data (Unaudited)**

(Dollars in Millions)

**2. Analysis of Changes in Net Interest Revenue**

An analysis of the year-to-year changes in the categories of interest revenue and interest expense resulting from changes in volume and rate is as follows:

|  | 2022 Compared to 2021<br>Increase (Decrease) Due to<br>Change in: |                 |          | 2021 Compared to 2020<br>Increase (Decrease) Due to<br>Change in: |                 |          |
|--|---|-----------------|----------|---|-----------------|----------|
|  | Average<br>Volume   | Average<br>Rate | Total    | Average<br>Volume   | Average<br>Rate | Total    |
| <b>Interest-earning assets:</b>                |   |                 |          |   |                 |          |
| Cash and cash equivalents <sup>(1)</sup>       | \$ 17   | \$ 755          | \$ 772   | \$ 4  | \$ (84)         | \$ (80)  |
| Cash and investments segregated                | 3   | 664             | 667      | 40  | (157)           | (117)    |
| Receivables from brokerage clients             | (67)  | 933             | 866      | 1,476   | 131             | 1,607    |
| Available for sale securities <sup>(2,3)</sup> | (2,945)   | 2,443           | (502)    | 1,843   | (1,739)         | 104      |
| Held to maturity securities <sup>(2,3)</sup>   | 1,688   | —               | 1,688    | —   | —               | —        |
| Bank loans <sup>(4)</sup>                      | 216   | 247             | 463      | 204   | (129)           | 75       |
| Securities lending revenue                     | —   | (249)           | (249)    | —   | 386             | 386      |
| Other interest revenue                         | —   | 16              | 16       | —   | —               | —        |
| Total interest-earning assets                  | \$ (1,088)  | \$ 4,809        | \$ 3,721 | \$ 3,567  | \$ (1,592)      | \$ 1,975 |
| <b>Interest-bearing sources of funds:</b>      |   |                 |          |   |                 |          |
| Bank deposits                                  | \$ 4  | \$ 665          | \$ 669   | \$ 27   | \$ (66)         | \$ (39)  |
| Payables to brokerage clients                  | 1   | 113             | 114      | 9   | (12)            | (3)      |
| Short-term borrowings                          | 6   | 139             | 145      | 6   | 3               | 9        |
| Long-term debt                                 | 65  | 49              | 114      | 281   | (186)           | 95       |
| Securities lending expense                     | —   | 24              | 24       | —   | (9)             | (9)      |
| Other interest expense                         | —   | 3               | 3        | —   | 5               | 5        |
| Total sources on which interest is paid        | 76  | 993             | 1,069    | 323   | (265)           | 58       |
| Change in net interest revenue                 | \$ (1,164)  | \$ 3,816        | \$ 2,652 | \$ 3,244  | \$ (1,327)      | \$ 1,917 |

Note: Changes that are not due solely to volume or rate have been allocated to rate.

<sup>(1)</sup> Includes deposits with banks and short-term investments.

<sup>(2)</sup> Amounts have been calculated based on amortized cost.

<sup>(3)</sup> In January 2022 and November 2022, the Company transferred a portion of its investment securities designated as AFS to the HTM category, as described in Item 8 - Note 6.

<sup>(4)</sup> Includes average principal balances of nonaccrual loans.

**THE CHARLES SCHWAB CORPORATION**  
**Supplemental Financial Data (Unaudited)**  
(Dollars in Millions)

**3. Bank Loan Portfolio**

The maturities of the bank loan portfolio are described below:

| December 31, 2022               | Within<br>1 year | After 1 year<br>through<br>5 years | After<br>5 years through<br>15 years | After 15 years   | Total            |
|---------------------------------|------------------|------------------------------------|--------------------------------------|------------------|------------------|
| <b>Residential real estate:</b> |                  |                                    |                                      |                  |                  |
| First Mortgages                 | \$ —             | \$ 15                              | \$ 1,500                             | \$ 23,683        | \$ 25,198        |
| HELOCs                          | —                | —                                  | 82                                   | 515              | 597              |
| Total residential real estate   | —                | 15                                 | 1,582                                | 24,198           | 25,795           |
| Pledged asset lines             | 13,934           | 658                                | —                                    | —                | 14,592           |
| Other                           | 6                | 183                                | 2                                    | —                | 191              |
| <b>Total</b>                    | <b>\$ 13,940</b> | <b>\$ 856</b>                      | <b>\$ 1,584</b>                      | <b>\$ 24,198</b> | <b>\$ 40,578</b> |

Note: Maturities in the above table are based upon the contractual terms of the loans. The maturities for HELOCs are based on 30-year loan terms, with an initial draw period of ten years, followed by a 20-year amortizing period.

The interest sensitivity of loans with contractual maturities in excess of one year is as follows:

| December 31, 2022                                       | After 1 year<br>through<br>5 years | After<br>5 years through<br>15 years | After 15 years   |
|---|------------------------------------|--------------------------------------|------------------|
| <b>Loans with floating or adjustable interest rates</b> |                                    |                                      |                  |
| <b>Residential real estate:</b>                         |                                    |                                      |                  |
| First Mortgages   | \$ —                               | \$ 36                                | \$ 20,425        |
| HELOCs  | —                                  | 82                                   | 515              |
| Total residential real estate                           | —                                  | 118                                  | 20,940           |
| Pledged asset lines                                     | 658                                | —                                    | —                |
| Other   | 1                                  | —                                    | —                |
| Total loans with floating or adjustable interest rates  | 659                                | 118                                  | 20,940           |
| <b>Loans with predetermined interest rates</b>          |                                    |                                      |                  |
| <b>Residential real estate:</b>                         |                                    |                                      |                  |
| First Mortgages   | \$ 15                              | \$ 1,464                             | \$ 3,258         |
| HELOCs  | —                                  | —                                    | —                |
| Total residential real estate                           | 15                                 | 1,464                                | 3,258            |
| Pledged asset lines                                     | —                                  | —                                    | —                |
| Other   | 182                                | 2                                    | —                |
| Total loans with predetermined interest rates           | 197                                | 1,466                                | 3,258            |
| <b>Total</b>  | <b>\$ 856</b>                      | <b>\$ 1,584</b>                      | <b>\$ 24,198</b> |

Note: Maturities in the above table are based upon the contractual terms of the loans. The maturities for HELOCs are based on 30-year loan terms, with an initial draw period of ten years, followed by a 20-year amortizing period.

**THE CHARLES SCHWAB CORPORATION**  
**Supplemental Financial Data (Unaudited)**  
(Dollars in Millions)

**4. Allowance for Credit Losses on Bank Loans**

The following table presents several credit ratios related to the Company's bank loans portfolio. See Item 8 – Note 7 for the values underlying these ratios:

| December 31,   | 2022  | 2021  |
|--|-------|-------|
| Allowance for credit losses to total year-end loans            | 0.18% | 0.05% |
| Nonaccrual loans to total year-end loans                       | 0.06% | 0.10% |
| Allowance for credit losses to total nonaccrual year-end loans | 317%  | 51%   |

The following table presents information regarding average loans outstanding during the period and the ratio of net charge-offs (recoveries) during the period to average loans outstanding:

| Year Ended December 31,       | 2022          |   | 2021          |   | 2020          |   |
|-------------------------------|---------------|---|---------------|---|---------------|---|
|                               | Average loans | Net charge-offs (recoveries) to average loans | Average loans | Net charge-offs (recoveries) to average loans | Average loans | Net charge-offs (recoveries) to average loans |
| Residential real estate:      |               |   |               |   |               |   |
| First Mortgages               | \$ 23,639     | —   | \$ 17,673     | —   | \$ 13,635     | (.01)%  |
| HELOCs                        | 617           | (.16)%  | 731           | (.14)%  | 981           | —   |
| Total residential real estate | 24,256        | —   | 18,404        | (.01)%  | 14,616        | (.01)%  |
| Pledged asset lines           | 14,360        | .03%  | 10,201        | —   | 6,125         | —   |
| Other                         | 200           | —   | 184           | .54%  | 191           | —   |
| Total                         | \$ 38,816     | .01%  | \$ 28,789     | —   | \$ 20,932     | —   |

The increase in the Company's average loan portfolio in the periods presented has been driven by growth in First Mortgages and PALs. Growth in these loan types is due in large part to overall growth in Schwab's client base and net new client assets during the periods presented, as well as the low interest rate environment observed from 2020 through early 2022. The increase in the ratios of the allowance for credit losses to year-end loans and nonaccrual loans is primarily due to an increase in the allowance for credit losses due to higher modeled projections of loss rates as a result of macroeconomic factors as discussed in Item 8 – Note 7 and lower nonaccrual First Mortgages outstanding.

The following table presents the allocation of the allowance for credit losses for bank loans and loans by category as a percentage of total bank loans:

| December 31,                  | 2022                        |                                 | 2021                        |                                 |
|-------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
|                               | Allowance for Credit Losses | Percent of loans to total loans | Allowance for Credit Losses | Percent of loans to total loans |
| Residential real estate:      |                             |                                 |                             |                                 |
| First Mortgages               | \$ 66                       | 63%                             | \$ 13                       | 60%                             |
| HELOCs                        | 4                           | 1%                              | 2                           | 2%                              |
| Total residential real estate | 70                          | 64%                             | 15                          | 62%                             |
| Pledged asset lines           | —                           | 36%                             | —                           | 37%                             |
| Other                         | 3                           | —                               | 3                           | 1%                              |
| Total                         | \$ 73                       | 100%                            | \$ 18                       | 100%                            |

**THE CHARLES SCHWAB CORPORATION**  
**Supplemental Financial Data (Unaudited)**  
(Dollars in Millions)

**5. Bank Deposits**

The following table presents the average amount of and the average rate paid on deposit categories that are in excess of ten percent of average total bank deposits:

| Year Ended December 31,                         | 2022              |       | 2021              |       |
|---|-------------------|-------|-------------------|-------|
|   | Amount            | Rate  | Amount            | Rate  |
| Analysis of average daily deposits:             |                   |       |                   |       |
| Money market and other savings deposits         | \$ 367,426        | 0.17% | \$ 349,665        | 0.01% |
| Interest-bearing demand deposits <sup>(1)</sup> | 56,306            | 0.15% |                   |       |
| <b>Total</b>                                    | <b>\$ 423,732</b> |       | <b>\$ 349,665</b> |       |

<sup>(1)</sup> Interest-bearing demand deposits did not exceed ten percent of average total bank deposits for the year ended December 31, 2021.

As of December 31, 2022 and 2021, uninsured bank deposits totaled approximately \$68.9 billion and \$134.8 billion, respectively. As of December 31, 2022, the Company's bank deposits did not include any time deposits that were in excess of FDIC insurance limits or were otherwise uninsured.



## Subsidiaries of the Registrant

*Pursuant to Item 601 (b)(21)(ii) of Regulation S-K, certain subsidiaries of the Registrant have been omitted which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary (as defined in Rule 1-02(w) of Regulation S-X) as of December 31, 2022.*

**Charles Schwab & Co., Inc.**, a California corporation

**Charles Schwab Bank, SSB**, a Texas-chartered state savings bank

**Charles Schwab Futures and Forex LLC**, a Delaware limited liability company

**Charles Schwab Investment Advisory, Inc.**, a Delaware corporation

**Charles Schwab Investment Management, Inc.**, a Delaware corporation

**Charles Schwab Premier Bank, SSB**, a Texas-chartered state savings bank

**Charles Schwab Trust Bank**, a Nevada-chartered state savings bank

**Schwab Holdings, Inc.**, a Delaware corporation

**Schwab Retirement Plan Services, Inc.**, an Ohio corporation

**Schwab Wealth Advisory, Inc.**, a Delaware corporation

**TD Ameritrade Clearing, Inc.**, a Nebraska corporation

**TD Ameritrade Holding Corporation**, a Delaware corporation

**TD Ameritrade, Inc.**, a New York corporation

**TD Ameritrade Investment Management, LLC**, a Delaware limited liability company

**TD Ameritrade Online Holdings Corp.**, a Delaware corporation

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the following Registration Statements of our report dated February 24, 2023, relating to the consolidated financial statements of The Charles Schwab Corporation, and the effectiveness of The Charles Schwab Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of The Charles Schwab Corporation for the year ended December 31, 2022:

**Filed on Form S-3:**

|                                       |   |
|---------------------------------------|---|
| Registration Statement No. 333-251156 | (Debt Securities, Preferred Stock, Depositary Shares, Common Stock, Purchase Contracts, Warrants, and Units Consisting of Two or More Securities) |
|---------------------------------------|---|

**Filed on Form S-8:**

|                                       |   |
|---------------------------------------|---|
| Registration Statement No. 333-268836 | (The Charles Schwab Corporation Deferred Compensation Plan II)  |
| Registration Statement No. 333-265063 | (The Charles Schwab Corporation 2022 Stock Incentive Plan and The Charles Schwab Corporation 2013 Stock Incentive Plan) |
| Registration Statement No. 333-237064 | (TD Ameritrade Holding Corporation Long-Term Incentive Plan)  |
| Registration Statement No. 333-205862 | (The Charles Schwab Corporation 2013 Stock Incentive Plan)  |
| Registration Statement No. 333-192893 | (The Charles Schwab Corporation Financial Consultant Career Achievement Award Program)                                  |
| Registration Statement No. 333-189553 | (The Charles Schwab Corporation 2013 Stock Incentive Plan)  |
| Registration Statement No. 333-175862 | (The Charles Schwab Corporation 2004 Stock Incentive Plan)  |
| Registration Statement No. 333-144303 | (The Charles Schwab Corporation Employee Stock Purchase Plan)   |
| Registration Statement No. 333-131502 | (The Charles Schwab Corporation Deferred Compensation Plan II)  |
| Registration Statement No. 333-101992 | (The Charles Schwab Corporation 2004 Stock Incentive Plan)  |
| Registration Statement No. 333-71322  | (The SchwabPlan Retirement Savings and Investment Plan)   |
| Registration Statement No. 333-63448  | (The Charles Schwab Corporation 2004 Stock Incentive Plan)  |
| Registration Statement No. 333-47107  | (The Charles Schwab Corporation 2004 Stock Incentive Plan)  |
| Registration Statement No. 333-44793  | (The Charles Schwab Profit Sharing and Employee Stock Ownership Plan)   |

/s/ Deloitte & Touche LLP

Dallas, Texas

February 24, 2023

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Walter W. Bettinger II, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Charles Schwab Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2023

/s/ Walter W. Bettinger II

Walter W. Bettinger II

Co-Chairman of the Board and Chief Executive Officer

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Peter Crawford, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Charles Schwab Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2023

/s/ Peter Crawford

Peter Crawford

Managing Director and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of The Charles Schwab Corporation (the Company) on Form 10-K for the year ended December 31, 2022 (the Report), I, Walter W. Bettinger II, Co-Chairman of the Board and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

/s/ Walter W. Bettinger II

Date: February 24, 2023

Walter W. Bettinger II

Co-Chairman of the Board and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to The Charles Schwab Corporation and will be retained by The Charles Schwab Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of The Charles Schwab Corporation (the Company) on Form 10-K for the year ended December 31, 2022 (the Report), I, Peter Crawford, Managing Director and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

/s/ Peter Crawford

Date: February 24, 2023

Peter Crawford

Managing Director and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to The Charles Schwab Corporation and will be retained by The Charles Schwab Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**THE CHARLES SCHWAB CORPORATION**  
**DESCRIPTION OF SECURITIES REGISTERED PURSUANT TO**  
**SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2022, The Charles Schwab Corporation (“CSC, we, us, and our”) had three classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: (1) our common stock, (2) our Depositary Shares, Each Representing a 1/40<sup>th</sup> Interest in a Share of 5.95% Non-Cumulative Perpetual Preferred Stock, Series D, and (3) our Depositary Shares, Each Representing a 1/40<sup>th</sup> Interest in a Share of 4.450% Non-Cumulative Perpetual Preferred Stock, Series J.

**DESCRIPTION OF COMMON STOCK**

*The following description of our common stock does not purport to be complete and is qualified by our Fifth Restated Certificate of Incorporation, as amended (“Certificate of Incorporation”), and Amended and Restated Bylaws (“Bylaws”) which are filed as exhibits to the Annual Report on Form 10-K of which this exhibit is a part. Additionally, the General Corporation Law of Delaware (“Delaware Law”), as amended, may also affect the terms of our common stock.*

**General**

We have 3,000,000,000 shares of authorized common stock, \$0.01 par value per share. Holders of our common stock, together with the holders of our nonvoting common stock, are entitled to receive dividends when, as and if declared by our board of directors out of any funds legally available for dividends. Holders of our common stock and holders of our nonvoting common stock are also entitled to share equally, upon our liquidation, and after claims of creditors and any class or series of preferred stock outstanding at the time of liquidation, to receive a *pro rata* distribution of our net assets. We pay dividends on our common stock and nonvoting common stock only if we have paid or provided for all dividends on any outstanding series of preferred stock, for the then current period and, in the case of any cumulative preferred stock, all prior periods. Our nonvoting common stock has the same rights and privileges as, ranks equally and shares proportionately with, and is identical in all respects as to all matters to, the common stock, except that the nonvoting common stock has no voting rights other than those voting rights required by law.

Our preferred stock will have preference over our common stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation or dissolution. Our preferred stock also will have such other preferences as may be fixed by our board of directors.

Holders of our common stock are entitled to one vote for each share that they hold and are vested with all of the voting power of our capital stock, except as our board of directors has provided, or may provide in the future, with respect to our preferred stock. Our Certificate of Incorporation provides for a classified board but does not provide for cumulative voting. Shares of our common stock are not redeemable, and have no subscription, conversion or preemptive rights.

Our common stock is listed on the New York Stock Exchange. Outstanding shares of our common stock are fully paid and non-assessable.

## **Restrictions on Ownership**

Under the Home Owners' Loan Act ("HOLA"), any "savings and loan holding company," as defined in HOLA, is required to obtain the approval of the Federal Reserve prior to the acquisition of more than 5% of our common stock. Under the Bank Holding Company Act, a bank holding company is required to receive the Federal Reserve's approval prior to acquiring more than 5% of our common stock. Any other person, other than a saving and loan holding company and bank holding company, is required to obtain prior non-objection of the Federal Reserve to acquire 10% or more of our common stock. Any company holding more than 25% of our common stock or total equity, or that otherwise exercises a "controlling influence" over us, is subject to regulation as a savings and loan holding company under HOLA.

## **Business Combination Statute**

Under Delaware law, a corporation is prohibited from engaging in any business combination with any interested stockholder, defined as the beneficial owner of 15% or more of the voting power of the corporation, for a period of three years following the date that such stockholder became an interested stockholder, unless:

- prior to that date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation; or
- on or subsequent to that date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

Under Delaware law, a corporation has the option to opt-out of the above business combination statute. Neither our Certificate of Incorporation nor our Bylaws excludes us from the restrictions imposed by this provision.

## **Supermajority Vote Requirement**

Our Certificate of Incorporation requires the approval of a supermajority of our stockholders for some business combinations with interested stockholders. Our Certificate of Incorporation defines an interested stockholder as a person, partnership or group which directly or indirectly beneficially owns more than 15% of the voting power of our outstanding shares, or an affiliate or associate of a 15% owner. Notwithstanding any lesser percentage permitted by law, under our Certificate of Incorporation, 80% of the voting power of our stockholders, voting together as a single class, must approve any of the following business combinations:



- a merger of CSC or any of our subsidiaries with an interested stockholder or an affiliate or associate of an interested stockholder;
- any sale to an interested stockholder of assets of CSC or one of our subsidiaries, if those assets have a fair market value of \$5,000,000 or more;
- any sale to CSC or any of our subsidiaries of assets of the interested stockholder, if those assets have a fair market value of \$5,000,000 or more;
- the issuance or transfer by CSC or any of our subsidiaries of any of our securities or any securities of our subsidiaries to an interested stockholder, unless the fair market value of the property received has a fair market value of less than \$5,000,000;
- any reclassification of our securities, our merger or consolidation with any of our subsidiaries, or any similar transaction which has the effect of increasing the proportionate amount of the outstanding shares of any class of equity securities of CSC or any of our subsidiaries which is directly or indirectly owned by any interested shareholder or its affiliate or associate; or
- the adoption of any plan or proposal for the liquidation or dissolution of CSC.

The supermajority vote requirement does not apply to business combinations approved by a majority of disinterested directors. A disinterested director is any member of our board who:

- is not an interested stockholder;
- is not an affiliate or a representative of an interested shareholder;
- is not a party to an agreement or arrangement with an interested stockholder to act in concert with that interested stockholder to direct our management or policies; and
- either was a member of our board before the interested stockholder became an interested stockholder or was nominated to succeed a disinterested director by a majority of the disinterested directors; provided that, this requirement does not apply if the business combination involves a party that was an interested stockholder of CSC on July 30, 1987.

The supermajority requirement does not apply to business combinations meeting fair price and procedural requirements set forth in our Certificate of Incorporation.

## **DESCRIPTION OF PREFERRED STOCK AND DEPOSITARY SHARES**

*The following description of the terms of our 5.95% Non-Cumulative Perpetual Preferred Stock, Series D (“Series D Preferred Stock”) and our 4.450% Non-Cumulative Perpetual Preferred Stock, Series J (“Series J Preferred Stock”) and, together with the Series D Preferred Stock, “Preferred Stock”) does not purport to be complete and is qualified by our Certificates of Designations of the Series D Preferred Stock and Series J Preferred Stock, which are filed as exhibits to the Annual Report on Form 10-K of which this exhibit is a part.*

The depositary is the sole holder of the Preferred Stock, as described under “Description of Depositary Shares” below, and all references in this description to the holders of the Preferred Stock shall mean the depositary. However, the holders of depositary shares are entitled, through the depositary, to exercise the rights and preferences of the holder of the Preferred Stock, as described under “Description of Depositary Shares.”

Our authorized capital stock includes 9,940,000 shares of preferred stock, par value \$0.01 per share as reflected in our certificate of incorporation. Our board of directors is authorized without further stockholder action:

- to fix or alter the voting rights, powers, preferences and privileges, and the relative, participating, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, of any wholly unissued series of preferred stock;
- to fix the number of shares constituting any such series and the designation thereof; and
- to increase or decrease the number of shares of any series of preferred stock (but not below the number of shares thereof then outstanding).

The Series D Preferred Stock and the Series J Preferred Stock are each single series of our authorized preferred stock and are fully paid and nonassessable.

The Preferred Stock is not convertible into, or exchangeable for, shares of any other class or series of stock or other securities of CSC. The Preferred Stock does not have any maturity date and is not subject to any sinking fund or other obligation of CSC to redeem or repurchase the Preferred Stock.

Shares of Preferred Stock that are redeemed, purchased or otherwise acquired by CSC shall be cancelled and shall revert to authorized but unissued shares of preferred stock undesignated as to series.

### **Additional Shares of Preferred Stock and Additional Depositary Shares**

We may in the future from time to time, without notice to or consent of the holder of Preferred Stock or the holders of the depositary shares, issue additional shares of the Preferred Stock; *provided*, that any such additional shares of Preferred Stock are not treated as “disqualified preferred stock” within the meaning of Section 1059(f)(2) of the Internal Revenue Code and such additional shares are otherwise treated as fungible with the outstanding Preferred Stock for U.S. federal income tax purposes. In the event that we issue additional Preferred Stock, dividends on such additional shares may accrue from the date of initial issuance or any other date we specify at the time such additional shares are issued. In the event we issue additional shares of Preferred Stock, we will issue a corresponding number of additional depositary shares.

## **Ranking**

Shares of the Preferred Stock rank:

- senior to our junior stock;
- equally with each other series of parity stock, including the Series F Preferred Stock, the Series G Preferred Stock, the Series H Preferred Stock, the Series I Preferred Stock, the Series K Preferred Stock, and any other series of Preferred Stock we may issue in the future; and
- junior to any series of stock we may issue in the future that ranks senior to the Preferred Stock in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of CSC, and to all of our existing and future debt obligations.

As used herein, “junior stock” means our common stock, nonvoting common stock and any other class or series of stock of CSC hereafter authorized over which the Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of CSC.

As used in this description, “parity stock” means any other class or series of stock of CSC that ranks on parity with the Preferred Stock in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of CSC.

## **Dividends**

Dividends on the Preferred Stock are not cumulative. If our board of directors or a duly authorized committee of our board of directors does not declare a dividend on the Preferred Stock in respect of a dividend period, then no dividend shall be deemed to have accrued for such dividend period, be payable on the applicable dividend payment date, or be cumulative, and we will have no obligation to pay any dividend for that dividend period to the holder of Preferred Stock, including the holders of the depositary shares, and no related distribution will be made on the depositary shares, whether or not our board of directors or a duly authorized committee of our board of directors declares a dividend on the Preferred Stock for any future dividend period.

The holder of Preferred Stock will be entitled to receive, when, as, and if declared by our board of directors or a duly authorized committee of our board of directors, out of assets legally available for the payment of dividends under Delaware law, non-cumulative cash dividends based on the liquidation preference of the Preferred Stock which for the Series D Preferred Stock is at a rate equal to 5.95% per annum for each quarterly dividend period and for the Series J Preferred Stock is at a rate equal to 4.450% per annum for each quarterly dividend period.

If declared by our board of directors or a duly authorized committee of our board of directors, we will pay dividends on the Preferred Stock, in arrears, on March 1, June 1, September 1 and December 1 of each year, each such date referred to as a dividend payment date.

If any date on which dividends would otherwise be payable is not a business day, then the dividend payment date will be the next business day without any adjustment to the amount of dividends paid. A “business day” means any day other than (i) a Saturday or Sunday or (ii) a day on which banking institutions in San Francisco, California or New York, New York are authorized or obligated by law or executive order to close.

Dividends will be payable to holders of record of Preferred Stock as they appear on our stock register at 5:00 p.m., New York City time, on the applicable record date, which shall be the 15th calendar day before the applicable dividend payment date, or such other record date, not exceeding 30 days before the applicable dividend payment date, as shall be fixed by our board of directors or a duly authorized committee of our board of directors. See “Description of Depositary Shares – Dividends and Other Distributions.”

A dividend period is the period from, and including, a dividend payment date to, but excluding, the next dividend payment date. Dividends payable on the Preferred Stock will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dollar amounts resulting from that calculation will be rounded to the nearest cent, with one-half cent being rounded upwards. Dividends on the Preferred Stock will cease to accrue on the redemption date, if any, as described below under “– Redemption,” unless we default in the payment of the redemption price of the shares of the Preferred Stock called for redemption.

We generally will be able to pay dividends and distributions upon liquidation, dissolution or winding up only out of assets legally available for such payment (after satisfaction of all claims for indebtedness and other non-equity claims). See “Description of Depositary Shares – Dividends and Other Distributions” for information about dividends on the depositary shares representing the Preferred Stock.

Additionally, dividends on the Preferred Stock will be subject to our receipt of required prior approval by the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency), if any, and to the satisfaction of conditions set forth in the capital adequacy guidelines or regulations of the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency) applicable to dividends on the Preferred Stock, if any.

### ***Dividend Stopper***

During each dividend period while the Preferred Stock is outstanding, unless the full dividends for the immediately preceding dividend period on all outstanding shares of preferred stock have been declared and paid or declared and a sum sufficient for the payment thereof has been set aside:

- no dividend will be declared or paid or set aside for payment and no distribution will be declared or made or set aside for payment on any junior stock, other than:
  - a dividend payable solely in the junior stock, or
  - any dividend in connection with the implementation of a stockholders’ rights plan, or the redemption or repurchase of any rights under any such plan; and

- no shares of junior stock shall be repurchased, redeemed or otherwise acquired for consideration by us, directly or indirectly (nor shall any monies be paid to or made available for a sinking fund for the redemption of any such securities by us) other than:
  - as a result of a reclassification of junior stock for or into other junior stock;
  - the exchange or conversion of one share of junior stock for or into another share of junior stock;
  - through the use of the proceeds of a substantially contemporaneous sale of other shares of junior stock;
  - purchases, redemptions or other acquisitions of shares of the junior stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or consultants;
  - purchases of shares of junior stock pursuant to a contractually binding requirement to buy junior stock existing prior to the preceding dividend period, including under a contractually binding stock repurchase plan; or
  - the purchase of fractional interests in shares of junior stock pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged; and
- no shares of parity stock shall be repurchased, redeemed or otherwise acquired for consideration by CSC otherwise than pursuant to pro rata offers to purchase all, or a pro rata portion, of the Preferred Stock and such parity stock, unless such parity stock is repurchased, redeemed or acquired for consideration by CSC in connection with any of the following:
  - as a result of a reclassification of parity stock for or into other parity stock or junior stock;
  - the exchange or conversion of one share of parity stock for or into another share of parity stock or junior stock; or
  - through the use of the proceeds of a substantially contemporaneous sale of other shares of parity stock or junior stock.

When dividends are not paid in full upon the shares of Preferred Stock and any parity stock, all dividends declared upon shares of Preferred Stock and any parity stock will be declared on a proportional basis so that the amount of dividends declared per share will bear to each other the same ratio that accrued dividends for the then-current dividend period per share on Preferred Stock, and accrued dividends, including any accumulations, on any parity stock, bear to each other.

Subject to the restrictions described above, dividends (payable in cash, stock or otherwise), as may be determined by our board of directors or a duly authorized committee of our board of directors, may be declared and paid on our common stock, nonvoting common stock, and any other stock ranking equally with or junior to the Preferred Stock from time to time out of any assets legally available for such payment, and the holder of Preferred Stock shall not be entitled to participate in any such dividend.

## **Redemption**

The Preferred Stock is not subject to any mandatory redemption, sinking fund or other similar provisions. Neither the holder of Preferred Stock nor holders of depositary shares have the right to require the redemption or repurchase of the Preferred Stock.

### ***Optional Redemption***

We may redeem the Preferred Stock at our option, in whole or in part, from time to time, on any dividend payment date for the Series D Preferred Stock, and on any dividend payment date on or after June 1, 2026 for the Series J Preferred Stock, at a redemption price equal to \$1,000 per share (equivalent to \$25 per depositary share), plus any declared and unpaid dividends, without accumulation of any undeclared dividends.

### ***Redemption Following a Regulatory Capital Treatment Event***

We may redeem shares of the Preferred Stock at any time within 90 days following a regulatory capital treatment event (defined below), in whole but not part, at a redemption price equal to \$1,000 per share (equivalent to \$25 per depositary share), plus any declared and unpaid dividends, without accumulation of any undeclared dividends.

A “regulatory capital treatment event” means the good faith determination by CSC that, as a result of:

- any amendment to, or change in, the laws or regulations of the United States or any political subdivision of or in the United States that is enacted or becomes effective after the initial issuance of the Preferred Stock;
- any proposed change in those laws or regulations that is announced after the initial issuance of any share of Preferred Stock; or
- any official administrative decision or judicial decision or administrative action or other official pronouncement interpreting or applying those laws or regulations that is announced after the initial issuance of any share of Preferred Stock,

there is more than an insubstantial risk that CSC will not be entitled to treat the full liquidation preference of the shares of Preferred Stock then outstanding as “additional Tier 1 Capital” (or its equivalent) for purposes of the capital adequacy guidelines or regulations of the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency), as then in effect and applicable, for as long as any share of Preferred Stock is outstanding.

### ***Redemption Procedures***

If shares of the Preferred Stock are to be redeemed pursuant to the terms described above under “–Optional Redemption” or “–Redemption Following a Regulatory Capital Treatment Event,” the notice of redemption shall be given by first class mail to the holder of record of the Preferred Stock to be redeemed, mailed not less than 30 days nor more than 60 days prior to the date fixed for redemption thereof (provided that, if the holder of record is DTC, notice may be given in any manner permitted by DTC). Each notice of redemption will include a statement setting forth:

- the redemption date;

- the number of shares of each series of Preferred Stock to be redeemed and, if less than all the shares held by the holder are to be redeemed, the number of shares of each series of Preferred Stock to be redeemed from the holder;
- the redemption price;
- the place or places where the certificates evidencing shares of Preferred Stock are to be surrendered for payment of the redemption price; and
- that dividends on the shares to be redeemed will cease to accrue on the redemption date.

If notice of redemption of any shares of Preferred Stock has been duly given and if the funds necessary for such redemption have been set aside by us for the benefit of the holders of any shares of a series of Preferred Stock so called for redemption, then, on and after the redemption date, dividends will cease to accrue on such shares of that series of Preferred Stock, such shares of that series of Preferred Stock shall no longer be deemed outstanding, and all rights of the holders of such shares will terminate, except the right to receive the redemption price, plus any declared and unpaid dividends, without accumulation of any undeclared dividends. See “Description of Depositary Shares — Redemption of Depositary Shares” for information about redemption of the depositary shares representing the Preferred Stock.

In case of any redemption of only part of the shares of a series of Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either pro rata or by lot. Subject to the provisions hereof, our board of directors shall have full power and authority to prescribe the terms and conditions upon which shares of Preferred Stock shall be redeemed from time to time.

Any redemption of Preferred Stock will be subject to our receipt of required prior approval by the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency), if any, and to the satisfaction of conditions set forth in the capital adequacy guidelines or regulations of the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency) applicable to redemption of the Preferred Stock, if any.

### **Liquidation Rights**

In the event we liquidate, dissolve or wind-up our business and affairs, either voluntarily or involuntarily, holders of the Preferred Stock are entitled to receive a liquidation distribution of \$1,000 per share (equivalent to \$25 per depositary share), plus any declared and unpaid dividends, without accumulation of any undeclared dividends, before we make any distribution of assets to the holders of our common stock, nonvoting common stock, or any other class or series of stock ranking junior to the Preferred Stock as to that distribution. The holder of the Preferred Stock will not be entitled to any other amounts from us after it has received its full liquidation distribution.

In any such distribution, if the assets of CSC are not sufficient to pay the liquidation distribution described above in full to the holder of the Preferred Stock and all holders of any class or series of stock ranking on parity with the Preferred Stock as to such distribution, the amounts paid to the holder of Preferred Stock and all holders of such parity stock will be paid pro rata in accordance with the respective aggregate liquidation distribution owed to those holders. If the liquidation distribution described above has been paid in full to the holder of Preferred Stock and the holders of such parity stock, the holders of any other class or series of stock ranking junior to the Preferred Stock as to such distribution shall be entitled to receive all remaining assets of CSC according to their respective rights and preferences.

For purposes of this section, the sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of CSC shall not be deemed a voluntary or involuntary dissolution, liquidation or winding up of the affairs of CSC, nor shall the merger, consolidation or any other business combination of any other corporation or person into or with CSC be deemed to be a voluntary or involuntary dissolution, liquidation or winding up of the affairs of CSC.

Because we are a holding company, our rights and the rights of our creditors and our stockholders, including the holder of the Preferred Stock, to participate in the assets of any of our subsidiaries upon that subsidiary's liquidation or recapitalization may be subject to the prior claims of that subsidiary's creditors, except to the extent that we are a creditor with recognized claims against that subsidiary.

### **Voting Rights**

The holder of the Preferred Stock will have no voting rights, except as provided below or as required by law.

#### ***Right to Elect Two Directors upon Nonpayment***

Whenever dividends payable on the shares of Preferred Stock have not been paid for six quarterly dividend periods, whether or not consecutive, then the holder of the Preferred Stock will have the right, with holders of any other equally ranked series of preferred stock that have similar voting rights and on which dividends likewise have not been paid (the "Voting Parity Securities"), voting together as a class, at a special meeting called at the request of the holders of at least 20% of the voting power of Preferred Stock and any Voting Parity Securities (unless such request for a special meeting is received less than 90 calendar days before the date fixed for the next annual or special meeting of our stockholders, in which event such election shall be held only at such next annual or special meeting of our stockholders) or at our next annual or special meeting of our stockholders, to elect two additional directors to our board of directors; *provided*, that the election of any such director does not cause us to violate the applicable corporate governance requirements of the exchange or trading market where our common stock is then listed or quoted, as the case may be. At any meeting held for the purpose of electing such directors, the presence in person or by proxy of the holders of shares representing at least a majority of the voting power of the Preferred Stock and any Voting Parity Securities, voting together as a class, shall be required to constitute a quorum of such shares. The affirmative vote of the holders of the Preferred Stock and the holders of any Voting Parity Securities, voting together as a class, representing a majority of the voting power of such shares present at such meeting, in person or by proxy, shall be sufficient to elect any such director.



Immediately prior to the election of any such directors, the number of directors that comprise our board of directors shall be increased by two. Such voting rights and the term of the additional directors so elected will continue until:

- continuous non-cumulative dividends for at least four consecutive quarterly dividend periods; and
- cumulative dividends, if any, payable for all past dividend periods,

shall have been paid, or declared and set aside for payment, in full, on all outstanding shares of Preferred Stock or the Voting Parity Securities entitled thereto. At that point, the right to elect additional directors terminates and the terms of office of the two additional directors so elected will terminate immediately, and the number of directors shall be reduced by two and such voting rights of the holders of the Preferred Stock and any Voting Parity Securities will cease, subject to any increase in the number of directors as described above due to the revesting of such voting rights in the event of each and every additional failure in the payment of dividends for six quarterly dividend periods, whether or not consecutive, as described above.

The holder of Preferred Stock, together with holders of any Voting Parity Securities, voting together as a class, may remove any director they elected. Any vacancy created by the removal of any such director may be filled only by the vote of the holders of the Preferred Stock and any Voting Parity Securities, voting together as a class. If the office of either such director becomes vacant for any reason other than removal, the remaining director may choose a successor who will hold office for the unexpired term of the vacant office. In the event that both offices are vacant, the holder of Preferred Stock and the holders of any Voting Parity Securities may, as set forth above, call a special meeting and elect such directors at such special meeting, or elect such directors at our next annual or special meeting of our stockholders.

The number of votes that each share of Preferred Stock and any stock ranking equally with the Preferred Stock participating in the votes described above will be in proportion to the liquidation preference of such share.

Under regulations adopted by the Federal Reserve, if the holders of any series of preferred stock are or become entitled to vote for the election of directors, such series will be deemed a “class of voting securities” and a company holding 25% or more of the series, or 10% or more if it otherwise exercises a “controlling influence” over us, may then be subject to regulation as a savings and loan holding company in accordance with the Home Owners’ Loan Act of 1933, as amended. In addition, at the time the series is deemed a class of voting securities,

- any other savings and loan holding company may be required to obtain the approval of the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency) to acquire or retain more than 5% of that series; and
- any other persons other than a savings and loan holding company may be required to obtain the non-objection of the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency) to acquire or retain 10% or more of that series.

## ***Other Voting Rights***

So long as any shares of a series of Preferred Stock remain outstanding, the affirmative vote or consent of the holders of at least two-thirds of all outstanding shares of the series of Preferred Stock voting separately as a class, shall be required to:

- amend, alter or repeal the provisions of CSC’s certificate of incorporation (including the certificate of designation creating that series of Preferred Stock), or CSC’s bylaws, whether by merger, consolidation or otherwise, so as to adversely affect the powers, preferences, privileges or special rights of the series of Preferred Stock; *provided*, that any of the following will not be deemed to adversely affect such powers, preferences, privileges or special rights:
  - increases in the amount of the authorized common stock, nonvoting common stock, or, except as provided below, preferred stock;
  - increases or decreases in the number of shares of any series of preferred stock ranking equally with or junior to the Preferred Stock; or
  - the authorization, creation and issuance of other classes or series of capital stock (or securities convertible or exchangeable into such capital stock) ranking equally with or junior to the Preferred Stock;
- amend or alter CSC’s certificate of incorporation to authorize or increase the authorized amount of or issue shares of any class or series of senior stock, or reclassify any of our authorized capital stock into any such shares of senior stock or issue any obligation or security convertible into or evidencing the right to purchase any such shares of senior stock; or
- consummate a binding share exchange, a reclassification involving the series of Preferred Stock or a merger or consolidation of us with or into another entity; provided, however, that the holder of Preferred Stock will have no right to vote under this provision or otherwise under Delaware law if in each case:
  - the series of Preferred Stock remains outstanding or, in the case of any such merger or consolidation with respect to which we are not the surviving or resulting entity, is converted into or exchanged for preferred securities of the surviving or resulting entity (or its ultimate parent) that is an entity organized and existing under the laws of the United States, any state thereof or the District of Columbia; and
  - the series of Preferred Stock remaining outstanding or the new preferred securities, as the case may be, have such powers, preferences and special rights as are not materially less favorable to the holders thereof than the powers, preferences and special rights of the series of Preferred Stock.

As used above under “Description of Preferred Stock — Voting Rights”, “senior stock” means any other class or series of stock of CSC ranking senior to the Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up of CSC. As of December 31, 2022, there was no existing senior stock.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of the series of Preferred Stock shall have been redeemed or called for redemption in accordance with the provisions described above upon proper notice and sufficient funds shall have been set aside by us for the benefit of the holder of the series of Preferred Stock to effect such redemption.

See “Description of Depositary Shares – Voting the Preferred Stock” for information about voting of the depositary shares representing the Preferred Stock.

## **DESCRIPTION OF DEPOSITARY SHARES**

In this description, references to “holders” of depositary shares mean those who own depositary shares registered in their own names, on the books that we or the depositary maintain for this purpose, and not indirect holders who own beneficial interests in depositary shares registered in street name or issued in book-entry form through DTC.

We have issued fractional interests in shares of the Preferred Stock in the form of depositary shares. Each such depositary share represents a 1/40th ownership interest in a share of the Series D Preferred Stock or Series J Preferred Stock, and is evidenced by a depositary receipt. The shares of Series D Preferred Stock and Series J Preferred Stock represented by depositary shares were each deposited under a separate deposit agreement among CSC, Equiniti Trust Company, and the holders from time to time of the depositary receipts evidencing the depositary shares. Subject to the terms of the deposit agreements, each holder of a depositary share is entitled, through the depositary, in proportion to the applicable fraction of a share of Preferred Stock represented by such depositary share, to all the rights and preferences of the Preferred Stock represented thereby (including dividend, redemption, liquidation and voting rights).

### **Dividends and Other Distributions**

The depositary will distribute any cash dividends or other cash distributions received in respect of the deposited Preferred Stock to the record holders of depositary shares representing the Preferred Stock represented thereby in proportion to the number of depositary shares held by the holders. The depositary will distribute any property received by it other than cash to the record holders of depositary shares entitled to those distributions, unless it determines that the distribution cannot be made proportionally among those holders or that it is not feasible to make a distribution (including any requirement that CSC or the depositary withhold an amount on account of taxes). In that event, the depositary may, with CSC’s approval, adopt a method as it deems equitable and practicable for purposes of effecting the distribution, including selling the property (at a public or private sale) and distributing the net proceeds from the sale to the holders of the depositary shares in proportion to the number of depositary shares they hold.

Record dates for the payment of dividends and other matters relating to the depositary shares will be the same as the corresponding record dates for the Preferred Stock.

The amounts distributed to holders of depositary shares will be reduced by any amounts required to be withheld by the depositary or by CSC on account of taxes or other governmental charges.

## **Redemption of Depositary Shares**

If we redeem the Preferred Stock represented by the depositary shares, the depositary shares will be redeemed from the proceeds received by the depositary resulting from the redemption of the Preferred Stock held by the depositary. The redemption price per depositary share will be equal to 1/40th of the redemption price per share payable with respect to the Preferred Stock (or \$25 per depositary share), plus any declared and unpaid dividends, without accumulation of any undeclared dividends. Whenever we redeem shares of Preferred Stock held by the depositary, the depositary will redeem, as of the same redemption date, the number of depositary shares representing shares of Preferred Stock so redeemed.

In case of any redemption of less than all of the outstanding depositary shares, the depositary shares to be redeemed will be selected by the depositary pro rata or by lot. In any such case, the depositary will redeem depositary shares only in increments of 40 shares and any multiple thereof.

## **Liquidation Preference**

In the event that we liquidate, dissolve or wind-up our business and affairs, either voluntarily or involuntarily, each holder of a depositary share will be entitled to receive a liquidation distribution of \$25 per depositary share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends, before we make any distribution of assets to the holders of our common stock, nonvoting common stock, or any other class or series of stock ranking junior to the Preferred Stock as to that distribution.

## **Voting the Preferred Stock**

When the depositary receives notice of any meeting at which the holders of the Preferred Stock are entitled to vote, the depositary will mail (or otherwise transmit by an authorized method) the information contained in the notice to the record holders of the depositary shares representing the Preferred Stock. Each record holder of the depositary shares on the record date, which will be the same date as the record date for the Preferred Stock, may instruct the depositary to vote the amount of the Preferred Stock represented by the holder's depositary shares. To the extent possible, the depositary will vote the amount of the Preferred Stock represented by depositary shares in accordance with the instructions it receives. CSC will agree to take all reasonable actions that the depositary determines are necessary to enable the depositary to vote as instructed. If the depositary does not receive specific instructions from the holders of any depositary shares representing the Preferred Stock, it will vote all depositary shares of that series held by it proportionately with instructions received.

## SECOND AMENDMENT TO AMENDED AND RESTATED INSURED DEPOSIT ACCOUNT AGREEMENT

This SECOND AMENDMENT (this “Second Amendment”), dated February 14, 2023 to the Amended and Restated Insured Deposit Account Agreement (the “IDA Agreement”), dated as of November 24, 2019, by and among TD Bank USA, TD Bank, The Charles Schwab Corporation and, pursuant to the Consent, Agreement and Joinder, dated as of October 5, 2020, TD Ameritrade Inc., TD Ameritrade Clearing, Inc., Charles Schwab Trust Bank, as successor to TD Ameritrade Trust Company and Charles Schwab & Co. (“CS&Co.” and together with The Charles Schwab Corporation, “Schwab”), as amended by the Amendment to the Amended and Restated Insured Deposit Account Agreement (the “Prior Amendment”), dated as of November 24, 2021, is entered into in accordance with Section 31 of the IDA Agreement.

NOW, THEREFORE, the parties hereto amend the IDA Agreement and Prior Amendment as follows:

1. **Section 4 of the IDA Agreement.** Section 4 of the IDA Agreement is hereby amended and restated as follows:

“The Depository Institutions, TD Ameritrade Inc., Charles Schwab Trust Bank, as successor to TD Ameritrade Trust Company, TD Ameritrade Clearing, Inc., and Schwab agree to the following process for setting the interest rate on deposits:

(a) Subject to the last sentence of this clause (a), the interest rate payable by the Depository Institutions on the Master Accounts for credit to the Customer Accounts during any day shall be such rates(s) as determined by Charles Schwab Bank, SSB, Charles Schwab Premier Bank, SSB, and Charles Schwab Trust Bank (together, the “Schwab Banks”) for the deposit sweep program operated by the Broker-Dealers, as such interest rate is applied below to calculate accrued interest to be credited to the Master Accounts. The interest rate to be paid on funds in the Customer Accounts may vary depending on the value of the Customer’s assets, including funds on deposit in such Customer’s Customer Account. The Depository Institutions shall have no responsibility for setting or for disclosing or monitoring the pass-through of interest rates accrued or paid in the Master Accounts to Customer Accounts. The Broker-Dealers shall notify the Depository Institutions of the accrued interest to be credited to the Master Accounts by e-mail, on each Business Day, no later than such time on such Business Day as agreed by the parties in writing, or at such other time or in such other manner as the parties may otherwise mutually agree in writing. If a Broker-Dealer does not timely provide such notification, no interest shall be credited to the Master Accounts for the applicable Business Day; provided that on or before the last Business Day of any calendar month in which there were one or more Business Days for which no such interest was credited, the Broker-Dealer may provide notice to the Depository Institutions of the amount of interest to be credited for such applicable Business Days and the Depository Institutions shall have a reasonable opportunity to apply such credit.<sup>1</sup> For clarity, no interest shall be credited on a day that is not a Business Day and the Broker-Dealers shall have sole responsibility for crediting to the

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<sup>1</sup> Given Exhibit A is calculated for each calendar month, the amounts credited to the Master Account for each day in such month needs to be known by the end of the month.

respective Customer Accounts of their Customers all such interest amounts credited by the Depository Institutions to the Master Accounts, and for withdrawing such amounts from the Master Accounts for payment to or on behalf of their Customers. Notwithstanding anything in this clause (a) to the contrary, in no event shall the interest rate be set by the Schwab Banks that would require the Depository Institutions to pay (and in no event shall the Depository Institutions be otherwise required to pay), during any calendar month, interest on the Master Accounts that exceeds the amount computed in accordance with Exhibit A with respect to the aggregate balances in the Master Accounts during such calendar month.

(b) All interest amounts credited to the Master Accounts in accordance with instructions provided by the Broker-Dealers to the Depository Institutions pursuant to Section 4(a) shall, upon crediting to the Master Accounts, be deemed to be “actual interest paid by the Depository Institutions” as of the Business Day of such crediting for purposes of Section 5(e)(ii).

(c) Notwithstanding Sections 4(a) and 4(b), in respect of the Trust Master Account, Sections 4(a) and 4(b) of the IDA Agreement as it existed immediately prior to this Second Amendment becoming effective, will apply and parties’ existing procedures and procedures in respect of such Trust Master Account will continue to apply unless and until otherwise agreed by the parties in writing. "Trust Master Account" means the Master Account number XXXXXXXXXXXX.

2. **Section 5(g) of the IDA Agreement.** Section 5(g) of the IDA Agreement is hereby amended and restated as follows:

“(g) The mechanics of the payment of the Sweep Arrangement Fee may vary from time to time as agreed to in writing by the parties. The parties hereto agree that no portion of the Sweep Arrangement Fee shall compensate the Broker-Dealers, or reimburse the Broker-Dealers for expenses incurred, in connection with acting as messenger for their respective Customers. The Sweep Arrangement Fee shall be allocated between the Depository Institutions as may be determined by the Depository Institutions in their sole discretion. For avoidance of any doubt, the Sweep Arrangement Fee reflects the elements of the various services and interests paid and does not constitute a derivative contract. If, notwithstanding Section 4(a), the amount of interest accrued on the Master Accounts for a calendar month exceeds the amount calculated pursuant to Exhibit A for such month, the Broker-Dealers shall hold the Depository Institutions harmless for an amount equal to the difference of such accrued interest minus the amount calculated pursuant to Exhibit A for the same period and shall pay the Depository Institutions such amount by wire transfer of immediately available funds within two (2) Business Days after the applicable amount pursuant to Exhibit A shall have been determined by the Depository Institutions.”

3. **References to the IDA Agreement.** After giving effect to this Second Amendment, each reference in the IDA Agreement to “this Agreement”, “hereof”, “hereunder”, “herein” or words of like import referring to the IDA Agreement shall refer to the IDA Agreement as amended, including as amended by this Second Amendment.

4. **Amendment.** Except as expressly amended by this Second Amendment and the Prior Amendment, the terms of the IDA Agreement shall remain unchanged and continue in full force and effect.

5. **Counterparts.** This Second Amendment may be executed in a number of counterparts, including by facsimile and electronic mail, each of which when so executed and delivered shall constitute an original, but such counterparts together shall constitute one and the same Second Amendment.

*[Remainder of page intentionally left blank.]*

The undersigned have duly executed this Second Amendment as of the date first written above.

**TD BANK USA, NATIONAL  
ASSOCIATION**

By: /s/ Xihao Hu  
\_\_\_\_\_  
Name: Xihao Hu  
Title: EVP and Chief Financial Officer

**TD AMERITRADE CLEARING, INC.**

By: /s/ Michael Asmus  
\_\_\_\_\_  
Name: Michael Asmus  
Title: Treasurer

**TD BANK, NATIONAL ASSOCIATION**

By: /s/ Xihao Hu  
\_\_\_\_\_  
Name: Xihao Hu  
Title: EVP and Chief Financial Officer

**TD AMERITRADE, INC.**

By: /s/ Michael Asmus  
\_\_\_\_\_  
Name: Michael Asmus  
Title: Treasurer

**THE CHARLES SCHWAB  
CORPORATION**

By: /s/ Peter Crawford  
\_\_\_\_\_  
Name: Peter Crawford  
Title: Managing Director and Chief Financial  
Officer

**CHARLES SCHWAB TRUST BANK, as  
successor to TD AMERITRADE TRUST  
COMPANY**

By: /s/ Clint Smith  
\_\_\_\_\_  
Name: Clint Smith  
Title: Managing Director

**CHARLES SCHWAB & CO., INC.**

By: /s/ Peter Crawford  
\_\_\_\_\_  
Name: Peter Crawford  
Title: Managing Director and Chief Financial  
Officer