Charles Schwab 3Q26 Results
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Q&A Transcript

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KARTIK SHARMA: Hi, good morning, everyone, and welcome to Schwab's 2026 Fall Business Update. This is Kartik Sharma, Head of Investor Relations, and I am joined in Westlake today by our President and CEO, Rick Wurster, and our CFO, Mike Verdeschi.

A few housekeeping items before we get started. The slides for today's business update will be posted to the usual spot on the IR website at the conclusion of the call. Q&A remains at one question. If you have more than one, please simply hop back into the queue, and ask another if time allows. And as always, the IR team is available to assist with any questions following today's update. Finally, please review our forward-looking statements page, and remember that outcomes may differ from expectations. So please stay up to date with our disclosures. And with that, I'll turn it over to Rick.

RICK WURSTER: Thank you, Kartik, and good morning, everyone. Thanks for joining the Fall Business Update.

I hope you've had a chance to review our results, and agree that Schwab is in a position of strength. We're winning today, and uniquely positioned among our peers to continue winning well into the future. There are four overarching messages I hope you take away from the call. One, our through clients' eyes strategy endures the test of time, and is fueling our record performance and growth. Two, we have an unmatched, no trade-offs value proposition that positions us at the center of our clients' financial lives. Three, we have a clear strategy, and we are delivering client-focused capabilities at a fast pace, as a powerful combination of people and artificial intelligence amplifies our advantages. And four, we have a diversified financial model that drives durable earnings growth across market cycles.

We are growing our client base. Clients opened 1.2 million brokerage accounts in the third quarter. We attracted 190 billion in core net new assets in the third quarter, up 38% over last year, and representing an annualized organic growth rate of nearly 6%. We are deepening relationships with clients as they continue turning to Schwab for more of their financial lives. Managed investing net flows reached a quarterly record of 24 billion, and bank lending reached 72 billion, up 35% year-over-year. This translates to another quarter of record financial results, with total net revenues of 7.2 billion, and adjusted earnings per share of $1.69, up 29% over last year.

Most importantly, our through clients' eyes strategy is delighting clients. Client Promoter Scores and Easy Scores continue to climb, and we continue to earn industry recognition. Those measures reinforce what we see in the business every day. Clients value the combination of service, ease, capabilities, and trust that Schwab delivers. We remain the trusted platform of choice for investors and registered investment advisors. We are number one by total client assets, number one by RIA custodial assets, and number one in daily average trades. Year-to-date, clients interacted with us a record 1.8 billion times in the channel of their choice, whether digitally or in our branches. Our firm-wide transfer of assets ratio is approximately 1.8, reflecting continued improvement over time. And notably, clients are actively and intentionally conducting their day-to-day financial lives with us month in and month out, moving nearly 4 trillion in cash every month to invest, trade, pay bills, hold collateral against positions they hold, and otherwise execute the day-to-day cash transactions that make up their financial lives.

We're adding new product solutions and capabilities to help our clients consolidate more of their financial lives at Schwab. We're building, acquiring, and partnering where each approach makes the most sense, and we are delivering at a rapid pace. We've launched single stock futures and binary options related to the financial markets for our trader clients. All clients can now access Schwab Crypto. We are rolling out the ability for clients to transfer their crypto holdings to Schwab, and we are launching access to three new coins by the end of the year. For our RIA clients, we have collaborated with Anthropic, and are proud to be the first RIA custodian included in Claude for Financial Advisors. We just introduced Charley, our new AI-powered conversational assistant that will be available to all clients in the coming months. And we're not slowing down as we continue to innovate across our businesses. I want to spend a moment talking more about our investments in AI.

AI is an opportunity for Schwab. It is attracting more people to investing, while amplifying our strengths. It will help us create more personalized experiences for

our clients, while improving the productivity of the team serving them. Seventy-seven percent of US investors use AI today, and at the same time, more than 90% for human involvement alongside AI technology. That combination of people and technology has always been central to Schwab, and can't be underestimated. It is and has been a key source of our differentiation. If you look at growth across the industry and at Schwab, relationships and trust still matter a lot.

While there's no question AI is going to make our clients' financial lives easier, it has to be safe and secure, which is why we will bring AI to our clients in the following ways.

First, we are blocking unauthorized agents to try to log in on behalf of clients. It is not a safe way for our clients to access Schwab, and we are blocking it to protect clients and our firm.

Second, we are bringing the power of AI to our clients through Charley. For our retail clients, Charley combines best of third-party LLMs with Schwab's trusted data and security. Charley uses a constellation of underlying LLM models, and is designed to select the one most appropriate for the task at hand. Today, Charley is primarily a source of information and synthesis, and can take action on a client's behalf for some administrative tasks, like changing an address or naming a trusted contact. Over time, Charley will do a lot more, ultimately becoming an important front door to Schwab.

Third, we will also allow clients to use their LLMs to connect to our MCP servers. Claude for Financial Advisors, which I mentioned earlier, is just one example of how we are using an MCP layer to bring the power of AI to our clients. We are also using it with our retail trading clients, as we can secure authentication and control or limit access to the riskiest actions like moving money.

Enhancing the client experience is only part of the AI equation. We're using AI internally to help our developers and professionals work more effectively and efficiently. We've already seen developer productivity increase by about 25%. That is the future we are building, our people and AI working together to deliver better outcomes for clients.

As investors consolidate their financial lives and our clients increasingly want to do more with their trusted Schwab relationship, we are uniquely positioned at the center of the investing ecosystem to meet their needs. Our breadth across investing, wealth, trading, banking, and lending allows us to simplify clients' financial lives, and serve them in the ways they prefer. By combining our people, technology, scale, and value, we're creating a differentiated experience today,

while building the platform clients will need tomorrow. That is a powerful advantage, and one that is very difficult to replicate.

We have a clear strategy, and we are delivering for clients at a rapid pace. I'll spend the next few minutes highlighting some of the opportunities we have ahead, and how we are positioned to continue driving diversified and durable earnings growth through the cycle.

We have two equally powerful growth opportunities in front of us, serving more clients, and deepening the relationships that we already have, and we are delivering on both. Core net new assets have grown significantly over the past several years, reaching record levels in 2026, supported by strong momentum from both individual investors and RIAs. More clients are choosing Schwab. More clients are bringing us a greater share of their financial lives, and we are building deeper, longer-lasting relationships over time.

We have built our advisor business around helping independent advisors grow, compete, and succeed. Today, we serve more than 16,000 firms representing 5.8 trillion in assets, with a platform that brings together custody, trading, banking, and lending capabilities, technology, and dedicated service and support. This business requires scale, trust, operational excellence, outstanding service, and the breadth to support advisors as their businesses and their clients' needs become more complex. That is why we win. Advisors of all sizes are turning to Schwab when they start their firms, and they're relying on us as they grow, move up market, and serve increasingly sophisticated clients. Last year, more than 1,100 advisory firms added Schwab as a custodian, more than three times the number of the next closest provider. We are continuing to invest in this business to meet advisors' needs.

Turning to our retail business, we are serving individual investors who span the investor spectrum. Our retail business is built to win across generations, wealth tiers, investing styles, and engagement preferences. We're attracting younger clients. Approximately 70% of new-to-firm retail households are Gen Z and Millennials. At the same time, investors of all wealth levels continue to turn to us for more of their financial lives. Roughly 80% of retail assets are held by ultra-high net worth and high net worth households, and we are well positioned to continue serving future generations when that wealth is passed on. Our retention rate around wealth transfers is extremely high, and we are winning assets with all generations. Retail clients who have a dedicated financial consultant generate approximately three times the household NNA, five times the managed investing net flows of comparable unassigned households, and three times the transfer of assets ratio. Relationships continue to matter. That is why we're investing in both

people and technology so we can continue building, deepening, and retaining those trusted relationships now and for the decades to come.

Our second growth lever is deepening existing client relationships, and helping clients conduct more of their financial lives here at Schwab. Today, I will highlight two of our opportunities, wealth and trading.

Client demand for advice is accelerating. Managed investing net flows reached another record of 24 billion in the third quarter of 22% from last year. Within that total, Schwab Wealth Advisory net flows increased 55% as we continue to delight these clients who have given us a Client Promoter Score of 84 in the third quarter. Our opportunity in wealth remains compelling. Schwab has approximately 2% of the 37 trillion US advice market. While only about 5% of Schwab retail households currently use an advice solution, 31% say they are willing to pay for advice.

Trading is another area where our leadership position creates meaningful opportunity. We remain the industry leader in trading, supported by a world-class trading platform, more than 1,200 expert trading specialists in research, education, coaching, and service for traders at every level of sophistication. Traders value what we deliver. Trader Client Promoter Scores increased seven points year-over-year. Traders are also highly engaged. Trader households generate approximately seven times NNA, and two times the revenue on client assets of the retail average. A subset of traders are already using AI to support their trading goals, connecting their LLMs to Schwab via our APIs and our MCP server. As an interesting aside, this group actually holds more cash than other active traders because they are focused on finding their next great investment. As we look ahead, we are rolling out an AI-powered thinkorswim assistant, and have started a pilot for traders to safely and securely connect to our MCP layer via the LLM of their choice. We've started the pilot with Claude, and will expand to additional clients and LLMs in the coming months.

Finally, we remain focused on continuing to enhance our scale and efficiency. We have several goals with our scale and efficiency efforts to drive productivity, make Schwab easier to work with, and keep our structural cost advantage, all of which allow us to reinvest in new capabilities and growth. We are simplifying and automating work so the powerful combination of our people and technology can support more clients. That is the power of our model. Efficiency makes it easier for clients to do business with us, helps our people serve them more effectively, keeps our cost to serve low, and creates capacity to reinvest in the technology and capabilities that help our clients achieve better outcomes in their financial lives.

Given our position at the trusted center of the investing ecosystem, we are confident in Schwab's ability to continue driving diversified and durable earnings growth through the cycle. We are serving a growing number of clients. We are deepening existing relationships. We are enhancing scale and efficiency. And I'll turn to Mike to talk about how we are pairing that operating momentum with disciplined financial management and capital return to generate record financial results.

MIKE VERDESCHI: Thank you, Rick. Good morning, everyone. During my time today, I'll discuss how our sustained business momentum and strong client engagement translated into another quarter of record financial results. I'll also cover how we continue to deploy financial resources to support the evolving needs of our clients as they engaged across the range of investment solutions, while maintaining strong capital levels and executing against our capital management framework. Finally, I'll provide some additional perspectives on the financial scenario we provided last quarter, and share some initial considerations as we look ahead to 2027.

With that, let's begin with the third quarter financial results. Third quarter revenue increased 17% year-over-year to a record 7.2 billion. Net interest revenue grew 14% year-over-year to nearly 3.5 billion, reflecting sustained interest in our secured lending programs, including margin loans and the bank's pledged asset line. Asset management and administration fees increased 14% versus the prior year, to a record 1.9 billion due to a combination of equity market appreciation, strong organic growth, and continued client adoption of Schwab's wealth and asset management solutions. Trading revenue totaled 1.2 billion, up 16% versus 3Q25 as client engagement across our industry-leading retail trading platform remained robust, with daily average trades of 10.7 million. Bank deposit account fees were up 40% year-over-year due to continued improvement in the net yield.

Turning to expenses, adjusted expenses were approximately 3.2 billion, up 9% from 3Q25. The year-over-year increase reflected strong client engagement across the Schwab platform, which contributed to higher volume-related costs, including performance-based compensation, while underlying expenses were slightly better due to efficiency, and we intend to reinvest some of those savings.

Putting the revenue and expense performance together, we delivered an adjusted pre-tax profit margin of 54.8% for the third quarter, which is an expansion of approximately 350 basis points versus 3Q25. Third quarter adjusted earnings per share increased 29% year-over-year to a record $1.69.

Moving to the balance sheet, demand for our secured lending solutions remained strong. Total margin balances ended the quarter at 187.9 billion, including continued growth in long-short-related activity. Total bank loan balances grew to 72.3 billion, up 35% from 3Q25, driven primarily by demand for pledged asset line loans. Transactional sweep cash balances finished the quarter at 492.8 billion, up 7.1 billion quarter-over-quarter, reflecting an increase in the long-short strategy and organic growth, partially offset by clients reinvesting in markets given improving sentiment. Given the growth of our secured lending programs, we utilized our diverse funding sources to support this client activity. As we look forward, we expect to see continued cash build through net new assets and the normal seasonal inflow through year end.

Capital levels remain strong, with our adjusted tier-one leverage ratio finishing at the upper end of our 6.75- to 7% range. The adjusted ratio ended at 7%, as we allowed capital to build to support continued strong client activity against a backdrop of volatile rates where yields moved meaningfully higher in the quarter. Through the first nine months of 2026, we have increased our common dividend, redeemed preferred stock, and repurchased almost 4 billion of common shares. Looking ahead, our capital management framework remains unchanged. Our first priority is maintaining capital levels that support ongoing business growth, and the evolving needs of our clients across a range of environments. And beyond those priorities, we will seek to opportunistically return capital across multiple forms.

Our third quarter results continue to demonstrate the strength of Schwab's model, and our ability to support clients while delivering strong financial outcomes.

Looking ahead to the remainder of 2026, the strength we are seeing across these client and business metrics gives us confidence as we look to the remainder of the year. We expect many of the positive trends to continue in the fourth quarter, driven by strong client engagement and growth across the platform, including in lending and trading. Given the robust pace of lending this year, loan growth has outpaced deposit growth, which has resulted in greater utilization of our diversified funding sources. With these dynamics, we continue to expect strong full-year revenue growth and NIM expansion, and with just one quarter remaining in the year, we would expect revenue and full-year NIM to grow towards the lower end of the ranges that we provided at the Summer Business Update. At the same time, we expect expenses to come in at the low end of the range as well, reflecting our continued progress on efficiency, while maintaining and adding investments in strategic initiatives to support long-term growth. Putting it all

together, we expect to deliver strong business and financial performance for the year, including approximately 800 basis points of positive operating leverage, roughly double what we expected at the beginning of the year.

Regarding 2027, we expect to enter the year with strong business momentum. As always, the operating environment will be shaped by a range of factors, including the macroeconomic backdrop, interest rates, equity markets, and client engagement levels. We expect to continue investing in growth and other key strategic initiatives, while leveraging our scale and emerging capabilities, including artificial intelligence to drive greater efficiency. We remain focused on balancing these priorities in a way that supports clients, advances the long-term growth of the franchise, and positions us to deliver positive operating leverage across a range of environments. We look forward to providing more detailed 2027 financial scenario at our Winter Business Update in January.

In closing, our third quarter performance further demonstrated the strength of Schwab's model. We continue to attract new clients and assets while deepening existing client relationships, and that sustained business momentum helped deliver record financial results. At the same time, we continue to invest in the products, services, and capabilities that support the needs of our clients, while leveraging our scale to enhance efficiency, and maintaining disciplined approach to financial management. These are the same elements that underpin the financial framework we outlined at Investor Day to deliver mid-teens earnings growth through the cycle.

And with that, let's move on to Q&A. Kartik?

KARTIK: Thank you, Mike. Operator, please open the queue for questions.

OPERATOR: Thank you. We will now begin our question-and-answer session. If you would like to ask a question, please press star-1. Please press star-2 if you would like to withdraw your question. Again, that's star-1 to ask a question.

Our first question will come from Ken Worthington with JP Morgan. Your line is open.

QUESTION: Hi, good morning, everybody, and thanks for taking the question. Rick, I'd like to dig a little deeper into your AI comments. So maybe first, do you see revenue opportunities coming from AI, either directly or indirectly, and what are the nature of those revenue opportunities? And then two, you highlighted, I think two or three times during the call that Schwab is allowing clients and traders the ability to connect LLMs to the Schwab MCP servers. Is this about

analytics or are you enabling the execution of investing and trading strategies with these connections?

RICK: Thanks for the question, Ken. Let me start on the first part around where we see opportunity in AI. Number one, I think the opportunity is to differentiate ourselves with a combination of one technology the way we always have as a company, and I see that continuing.

The second thing I'd highlight is that I think AI is already driving part of our revenue gains, and I'd highlight a couple things. Number one, I believe client engagement is up because of AI, and that is fueling some of our continued DAT strength. And if you look at when LLM started and when DAT started to increase, there is some correlation there. So we think that's already happening.

The other place we're already seeing benefit is in our wealth business, where we're bringing AI to deliver tax insights, and trust and estate insights to our clients, and that's helping us engage them more in wealth conversations, which is, in part, fueling our record growth in our wealth business, which is a great business for our clients because it's the highest Client Promoter Score of anything we do, and it's great business for us from an economic standpoint.

So I think AI is already happening. At the same time, I think relationships still matter. And if you look at the growth of our advisor business, if you look at the growth of our business when we have an FC relationship, those are all elevated relative to purely technology-driven clients. So I do think relationships still matter even though AI is fueling our growth.

The last point I'd make before diving into the LLMs is we've already armed our client-facing professionals with tools to help them serve more clients, and to serve them more effectively. And I think that is also part of what's driving our NNA, part of what's allowing us to have richer conversations about their wealth, and driving some of the growth in our wealth and lending capabilities.

In terms of LLMs, we want to deliver AI to clients in a safe and secure way. And there's one way we think is not safe, and that's just an agent coming to our site and trying to log in on behalf of a client. We are not going to allow that. We are already blocking it. And by the way, I think not many people want to use an agent in that way, and I don't think the agents and the companies want clients using it in that way. I get a report everyday tracking how many times we've had to block one of the different agents, and it's not many because I think people aren't using it in that way in their financial life. We are blocking it because we want to have control over authentication and the experience.

And so we have two opportunities, whether it's coming in through an LLM or... your own LLM or coming in through Charley. Charley will over time give you the full range of things you can do on schwab.com, and be able to do anything through a conversation via either text or voice, and I expect over time it'll be the primary way people connect to AI at Schwab. We are allowing LLMs to connect, but we are controlling the experience. And so we control the authentication experience. We control when they do when they can come in. So we don't allow them to move money because we think there's too much risk there to the client and to the firm. We do have clients that are trading through LLMs and APIs, as I described earlier. That is growing. It's doubled in about the last six months. As I shared earlier, that higher level of engagement actually leads to more cash held by those clients. I know one of the fears in the market about us is that as AI takes off, it will impact cash levels. We're actually seeing the opposite impact, that the more people use AI, the more cash they hold because they're more active in buying stocks.

Finally, the last opportunity for AI has been on the efficiency front, and there we're seeing all kinds of wins. And part of the reason Mike highlighted, our ability to both reinvest in our growth at the same time as underrun our core expenses is because we're seeing lots of efficiency benefits from AI. Our technologists are 25% more productive this year than they were last year. We're handling more calls into our call center on the first call than we ever have in the history of the firm. We're getting fewer calls per client because they're using AI to have their questions answered. We've realized plenty of efficiencies to-date, which has fueled our ability to reinvest in our business, and fueled the long list of innovative things that we've done this year that I highlighted earlier.

So in short, Ken, I think AI has been an enormous accelerant for the company, and I think our ability to bring AI and people to our clients to help them live their best financial life is what is going to power us in the future. I feel great about our positioning there because no one can match that combination. We're moving really fast with AI, and are still backed by, I think, the industry's best people, and that combination is a winner.

OPERATOR: Thank you. Our next question comes from Alex Blostein with Goldman Sachs. Your line is open.

QUESTION: Hey, good morning, guys. Thank you for taking the question. A couple questions around just NII and the balance sheet. So appreciate the seasonality in deposits, but as we look at your deposit trends, they've generally trended down over the course of the year despite pretty strong NNA growth. So

can you maybe help connect the two, and as you think about bridging from NIM, up 304 in the third quarter, maybe just help us pencil out where Q4 NIM will look like relative to your, I think, 325 to 330 was the prior guide. Thanks.

MIKE: Hi, Alex. Thank you for the question. Maybe just starting with the NIM, and then we'll unpack that cash point. We're in a favorable environment for NIM expansion. Rates are higher. We remain asset-sensitive, so we feel good about that NIM expansion. We'll expand NIM in the fourth quarter, and we expect to continue to expand NIM in 2027.

In terms of the fourth quarter, and comparing that to 4Q25, I would expect roughly 25 to 30 basis points of NIM expansion that year-over-year, 4Q25 to 4Q26. And so, again, as I mentioned, and then heading into 2027, further expansion from there. So to me, it's more about timing of NIM expansion as you're asking the question about 4Q.

Let's unpack cash a bit. So what we saw in the third quarter, with client sentiment improving more consistently through the third quarter, we saw cash go back into the market, and part of that was fueled by the activity in IPOs as well. If you go back to the first half of the year, normally you see cash go back into the market in that first quarter, but in the first quarter you tend to see cash remain on the sidelines. That was a function of geopolitical dynamics. Second quarter, even with tax payments, you ended up the year-to-date through June pretty flattish in cash. What you then saw is a good amount going into the market in 3Q due to that pickup in sentiment and IPO activity. Taking a step back, we do continue to see organic cash build, but again, that... you know, quarter-to-quarter, you're going to see dynamics of seasonality, you're going to see sentiment play a role, and of course, as we head into the fourth quarter, we'll have that seasonal pickup that tends to be the mid-November onwards. So we feel good about cash when we look at cash on balance sheet and money market funds as a percentage of total client assets. It's consistent. So we feel good about where we're heading into the fourth quarter.

In terms of NIM, I feel good about the NIM expansion. As I think about the asset side, we now have lending balances have exceeded the securities portfolio. That's a good fact. It means our clients are engaged, we're meeting their needs, and of course they're deepening their relationships with us through those lending programs. At the same time, those lending programs are far more favorable in terms of the economics relative to securities where we would otherwise be deploying that cash. So very favorable spreads. That is going to be supportive of NIM. And then of course I mentioned securities, we still have 190 billion roughly of securities that are yielding sub 2%. And given where rates are today, as that

portfolio continues to roll down, that cash will either be deployed into our lending activity, again, where we're seeing good demand, and we expect that to continue, but of course, even if we deployed it into securities relative to where those yields are today, that would be enormously accretive as well.

So I do think about net interest margin as Fed Funds-plus, again, for those reasons, because we're making loans, clients continue to engage in that activity, and those are at very favorable spreads, and we continue to expect to pick up that good growth rate of organic cash coming from the very strong NNA levels that we've been experiencing.

Thanks for the question.

OPERATOR: Thank you. Our next question that comes from Bill Katz with TD Cowan. Your line is open.

QUESTION: Okay. Thank you very much. Maybe Mike, sticking with you, just given the puts and takes of your NIM guide, and the puts and takes on the earning asset outlook, it seems like there's an opportunity here to drive a mix shift toward loans, more lucrative earning assets, but perhaps limit the growth of earning assets overall, and yet you're generating significant ROE. So how do you think about maybe the pace of repurchase from this point forward, particularly since it seems like more limited growth in earning assets? Thank you.

MIKE: Thanks for the question. So we are seeing good growth in the lending portfolios you mentioned. As I highlighted, it's an activity that is meeting the client need. It's further demonstrable of them engaging across the platform. So we're going to continue to support that growth. That is going to be important. The capital, first and foremost, is going to be there to support clients. And as you highlighted as well, it's not just the loan onto itself. It is, again, the broader engagement of these clients in loans, in trading, seeking advice. It's how the platform is coming together. We're seeing further evidence of clients engaging across that platform. You're seeing it in a very healthy revenue growth overall, but also you're seeing healthy revenue growth in terms of mix as well. So you're seeing drivers across all those line items.

In terms of capital, we ended the quarter very favorably, top end of that range. Of course, the combination of being at the top end of that range, as well as the strong earnings momentum that we have gives us a lot of flexibility to continue to support the growth of the franchise. That is the first priority, but also, it puts us in very good shape to be flexible about how we're returning capital to shareholders as well. So again, we see that activity very accretive when clients are coming onto

the platform. We're going to continue to support that, but we will have flexibility to return capital as well.

OPERATOR: Thank you. Our next question comes from Dan Fannon with Jefferies. Your line is open.

QUESTION: Thanks. Good morning. Rick, I was hoping you could talk to your confidence on the sustainability of organic growth and NNA that you've seen across your channels. And then also if you could talk to the contribution from some of the long-short strategies, which you've seen significant growth year-to-date in terms of how that's shown up in NNA.

RICK: Absolutely. Thanks for the question. I feel great about the momentum in our NNA because it's coming from every one of our three client-facing businesses, and every demographic within each of the businesses. And the momentum continues to accelerate.

Starting with retail coming out of tax season in April, every month gets a little bit stronger. I think for the quarter we were up 39-ish percent NNA over the prior third quarter. It's at an all-time third quarter high for retail NNA, and it was strength really across the board. And we continue to see strength where we have client-facing relationships through FCs, which was the fastest growing area of retail NNA, which is why we continue to invest in new branches and adding client-facing professionals. With all the technology out there, more and more people want to come in and talk to a client to confirm the direction of the planning of their big financial decisions. So great about retail NNA growth.

On the advisor front, I see strength across the board. There's no question the long-short program helped drive some of the NNA and some consolidation to Schwab. At the same time, as we look to October, where we have changed the minimums for long-short, and throttled growth to some extent, the growth has in no way slowed at all in terms of AS NNA. I feel great about our position there. Our Client Promoter Scores have never been higher. The intent to bring new assets to Schwab that we survey among our advisor clients has never been higher. The ease of doing business for advisors at Schwab has never been higher. The breadth of what we can offer... we offer so much more than just long-short, which is why we are the preferred custodian for most RIAs in the industry. So I feel great about our positioning in the advisor space, and with or without the long-short program.

And then our workplace business has been strong as well, both in the stock plan side where we've added new capabilities through our private stock plan

administration capability that we launched earlier in the year. We've already seen some nice wins there, and we're seeing actually increased momentum in our retirement plan business.

So I couldn't be more thrilled about the momentum we're seeing in NNA. I do see it continuing. And at the same time, there is certainly some of the AS NNA that's been driven by long-short. But the breadth and the strength of our NNA across our businesses, I think will help fuel continued NNA growth.

OPERATOR: Thank you. Our next question comes from Steven Chubak with Wolfe Research. Your line is open.

QUESTION: Hi, good morning, Rick and Mike, and thanks so much for taking my question. So I wanted to ask a follow-up on the cash outlook amid higher rates. We saw the decline in September cash balances. Mike, you attributed that to an uptick in client buying activity. We saw a similar trend elsewhere. But it also coincided with the recent Fed rate hike. And with the markets currently pricing in three additional hikes through '27, was hoping you could speak to how your scenario planning for different cash growth outcomes or potentially contraction amid further hikes, and how does this inform your outlook for both deposit betas, as well as the changes in liability or funding mix?

MIKE: Hi, Steven. Thank you for the question. So in terms of cash, just to be clear, even with those higher rates, this is not cash sorting in any way. Keep in mind, those short-term rates, it's just this time last year where we were at those similar rates, and we know that our clients are pretty well allocated in terms of their allocations between what they keep on balance sheet versus money funds. And so what we're seeing here, again, is cash going back into the market given that pickup in sentiment.

And regarding the outlook for rates, again, as we've said, we've been back at these rate levels just this time last year. We expect to continue to pick up cash organically. Again, good NNA growth, and we will see that seasonal inflow in the fourth quarter that we're expecting as well. Over time, as the rate market continues to evolve, we do expect that to be a favorable environment for us overall for our financials, and we know that because clients have been allocating their cash already. From here, the increase in rates is not going to have that much more of an impact simply because you're not moving rates from 1- or 2% anymore. You're already at rates, which has meant clients have allocated the way they had wished to allocate.

So from here, again, favorable environments for us, for our financials. We maintain a lot of flexibility around our different funding programs. We built these wholesale programs exactly for the reason to give us flexibility to meet the dynamic needs of clients. We've seen strong engagement in areas like margin lending. But those programs will give us flexibility to continue to meet client needs, and provides us the flexibility to generate good financial returns as well.

OPERATOR: Thank you. Our next question comes from Ben Budish with Barclays. Your line is open.

QUESTION: Hi, good morning, and thanks for taking my question. Mike, you gave a lot of color on the moving parts for NIM going into '27. Maybe just one more question on that. So outside of the maybe changing balances and interest-earning assets outlook, could you maybe talk about the current level of rate sensitivity? And I think you guys put on some rate hedges earlier in the year. And so as we are thinking about changing rate expectations, how do we think about flow through the timing it takes for that benefit to kind of make its way into your NIM? Any color around that would be helpful. Thank you.

MIKE: Ben, thanks for the question. So again, we remain asset-sensitive. So this higher rate environment is favorable for us. We do include those sensitivities. So that 250 to 300 million sensitivity that we include in our materials is still the level of sensitivity. And again, the idea of those hedges against the loan book is a far more efficient way to deploy our resources. The lending activity that we're doing with clients, again, it's meeting their need. They're engaging in the platform. Those loans are floating rate. In the past, we would have otherwise just purchased fixed rate securities. So because we're seeing good engagement in those lending programs with clients, it allows us to meet the client need. The economics are far more favorable. And because they're floating rate, we use some portion of that to convert those floating rate loans into fixed to match up with our deposits the way we've always matched up before. And again, that sensitivity remains favorable to us in that higher rate environment. So this is a good outcome. We're going to continue to support that strong loan growth, and it's a much more efficient way to manage the ALM aspect as well.

OPERATOR: Thank you. Our next question comes from Brennan Hawkin with BMO Capital Markets. Your line is open.

QUESTION: Good morning. Thanks for taking my question. I was curious about the long-short program that you have. You guys changed the limit here recently, and I was curious about whether or not you've seen any behavior or take-up

changes since that happened, and what impact you would think around the growth in that program going forward. Thanks.

RICK: A couple thoughts. First, it's clear there is demand for long-short strategies in the marketplace, and that saving money on taxes is something our clients love to do, and is likely going to be something for which demand will continue. Our goal is to find sustainable ways to meet that demand here at Schwab. The program did grow exceptionally quickly this year. One of our big competitors that we respect had less availability to support this program, and so our growth accelerated at a path we likely didn't anticipate at the beginning of the year, but that we were able to support, and be there for our clients. It was important to us to throttle growth for a period of time to make sure that we can support this from an operational standpoint, from a capacity standpoint, and we've done that. And as we look forward, we're looking at multiple ways of supporting our clients' needs around long-short because we know there's demand for it. That demand is likely to continue, and we've got to find ways to meet that demand in a sustainable way, and that's where we're at.

In terms of the behavior we're seeing, one of the concerns I know people are raising, is this really going to impact our NNA? What we've seen since we've throttled the growth in mid-September is not any signs of deceleration in our advisor services NNA. And I think that's because we do a lot more than long-short. And we are the number one provider in the space. Our capabilities are hard to match in terms of the service we provide, the breadth of capabilities that we provide, our banking and lending capabilities we provide alongside our custody, the AI innovations that we're making on behalf of clients, the advice and consulting support that we provide to clients, which is unique and differentiated. You add that all up, it's the reason we are number one in the space, continue to see an acceleration of our NNA, and the reason why our TOA this year is as high as it's ever been, and only accelerates. So we want to be able to support the long-short program in the future. We've throttled growth so that we can do that in a sustainable way, and have multiple solutions for clients. And at the same time, we're seeing no impact on NNA there.

OPERATOR: Thank you. Our next question comes from Michael Cyprys with Morgan Stanley. Your line is open.

QUESTION: Hey, good morning. Thanks for taking the question. I just wanted to ask about prediction markets. You've talked about having interest on the financial side of prediction markets, rather than sports or entertainment. So just curious how you're thinking about the opportunity set today, whether it's economic events or even company KPIs, what might the potential timeframe look like? What

sort of work is required in order to make these products available? Is there anything on the regulatory side? Just curious how you're thinking about all that now. Thank you.

RICK: Thanks for the question. Yes, we already are in the prediction markets in a limited way through binary options that we offer on the S&P. We will expand upon that in the coming year or so to financially-related events and KPIs. So yes, if you want to take a view on earnings, and think it's going to beat or not beat, maybe the number of cars delivered in a quarter for a car company, there will be the opportunity to take positions on both financially-related events and KPIs. We will stay away from sports gambling, which is where all the current activity is, but we want to be able to offer financial events and KPIs because we are the number one trading firm in the country. Our traders have interest in it, and we want to bring a responsible set of capabilities that will allow clients to participate in prediction markets in a way that's related to their portfolios, and in a way that can help them improve their financial lives over time rather than purely gamble. So that's the path I would expect us to build on our current capability over the next 12 to 18 months, and eventually have a pretty broad suite of ability to predict and participate in different financial events, and KPIs, and political events. So that's the current plan, and more to follow in the coming year.

OPERATOR: Thank you. Our next question comes from Devin Ryan with Citizens Bank. Your line is open.

QUESTION: Great. Good morning. I have a question on platform monetization. Rick, at the Investor Day, you discussed opportunities to earn a fair share of the value that Schwab's platform creates. So it would be great just to hear about how that work has been progressing, whether there's any obvious areas emerging where you feel like the economics aren't commensurate with the value Schwab is providing and you're under monetizing. And then just more broadly kind of connecting that back to the current monetization model overall. Obviously, still conversations around monetizing transactional cash, and just want to get a sense of whether that thinking is evolving as you look at the full picture.

RICK: Thanks for the question. First on the monetization front, we have actively found and will continue to find many ways to monetize our platform. And ETF monetization is certainly one, but there's others we've pursued and implemented, and feel good about those. We're also expanding into new areas that create additional transactional-based revenue streams that are beneficial to our clients, things like crypto, things like prediction markets. So I expect us to be able to monetize our clients' trading behavior that they want to do that's helpful to their financial lives. I think there's multiple ways for us to monetize that. We can

monetize our product platforms better. So there's lots of things we're doing. We continue to grow wealth. We continue to grow lending to make sure we fully monetize our balance sheet capabilities, integrate a client's financial life, make those assets stickier. There's numerous ways that we are pushing on this. And the underlying concept to it is that we are at the center of our client's financial life, providing them with an incredible value proposition that we don't think they can find elsewhere in terms of the service, the dedication to them, the combination of people and technology, the breadth of our product capabilities, the fact that we see through clients' eyes, and always put their interest and their financial wellbeing first. And you can see it if you track the returns of our clients versus other firms. So I feel good about what we're doing, and we have lots of ways to monetize that.

As it relates to cash, it doesn't impact how we're thinking about cash. I like our cash strategy. It's very simple. When a client comes in, until they tell us what they want to do with their cash, we keep it liquid, and we keep it in the most secure spot available. And that aligns with the interests of our traders, and we make it very easy and transparent how much cash they're sitting on, and what other ways they could invest that cash. And that strategy has worked, I think will continue to work, and at the same time, we'll innovate around how we help clients make those decisions. And I'm sure AI will be a helpful part of that.

But all in all, I see multiple ways for us to monetize our platform, some of which we've already implemented, some of which we will implement in the future. And as a result, I feel great about the growth of the economics of our business.

OPERATOR: Thank you. Our next question comes from Brian Bedell with Deutsche Bank. Your line is open.

QUESTION: Great. Thanks. Good morning, folks. Thanks for taking my question. Maybe just back on trading, and just one on the company KPIs. I think Rick, you mentioned a 12- to 18-month timeline of rolling things out, but would company KPIs be on the sooner side of that, especially if you saw traction at other e-brokers? And then just more broadly in terms of your initiatives in trading, how are you envisioning the take up of 23/5 and eventually potentially 24/7 trading. And then also on the usage of AI within directly connected with the MCPs, just your view on to what extent you might develop internal AI trading solutions for clients at some point, and your view on the take up of that.

RICK: Thanks for the question. I'll touch on each of those.

As it relates to KPIs, we're going to move as quickly as we can. We're working with the CBOE, who is rolling these out. As they roll those out, we will roll out our experience. Particularly within thinkorswim, we've already done the first elements of the design of all that. And so it's on its way, and again, in the coming year, we expect to have more functionality there, and are excited about that offering to clients. And I think that capability will help clients hedge or accentuate their positions, and can play an important role in their portfolio.

In terms of the extension of the trading day, we see somewhere between 1- and 2% of trading activity outside of market hours. And we try to sort of control or look out for the clients, and how they trade outside of those hours because there's not as much liquidity. There are both benefits and drawbacks to around-the-clock trading. One of the great things about market hours is it attracts a lot of participants all at the same time. And so you get tight spreads and good execution. And so we want to make sure that we do this in a thoughtful way for clients, and we think we've done that to protect clients and their execution quality. But we're seeing limited interest in trading outside of market hours. That said, we want to make them available. We have plenty of overseas clients or folks that are working during the day that do value participating outside those hours, and we're going to be at the market in terms of providing access when our clients want it. So if we need to go to 24/7, we certainly will. We're ready for that capability when our clients want it. At the moment, we're not seeing tremendous uptake in outside of market hours.

In terms of usage of AI, and I think what you're getting at is are we sort of going to build an automated trading capability for our clients through an agentic experience? I think clients may be able to do that through LLMs at some point, you know, be able to research a certain factor that they have interest, create trading strategies. We already have clients doing that through APIs, through thinkorswim today. So clients are doing that.

In terms of us providing the content or the algorithms, I think that is highly unlikely for a bunch of reasons. Number one, if there was some magic recipe to outperforming markets through quantitative analysis, there would be a lot more money in quantitative strategies today than there are. And so I don't think we want to be in the game of trying to produce quantitative alpha for our clients. We want to be in the game of providing them education, the best research, the best support. We've got thousands of people every day, ex-traders who wake up ready to answer the phone for brand new traders, for experienced traders, to help them think through positions, to help them think through risks, to help them think through their trading strategies. We are rolling out an AI-managed capability to help clients think through their trading strategies so they can clearly articulate

and have a plan for how they're going to trade. So we want to empower clients and help them, but I don't see us getting into the business of trying to create trading strategies on behalf of clients. I think it's a fool's errand, and could lead to a lot of trouble. But we're going to do everything we can to support traders and their ability to outperform the market. And we know they've done really well on our platform because of the combination of what we bring to the table.

KARTIK: Operator, we have time for just one more question. Thank you.

OPERATOR: Thank you. Our last question comes from Mike Brown with UBS. Your line is open.

QUESTION: Great. Thank you for taking my question. Maybe just one more on the long-short products. Obviously, the tax advantage long-short products have been a meaningful driver of client demand and asset gathering across the industry. There's an increasing number of funds coming to market. And so given Schwab's positioning and client interest in the category, do you see an opportunity to launch a proprietary solution? And if so, what would you incur in terms of investments into entering that market, and maybe how would Schwab have kind of a differentiated product if that were to be the case? Thank you.

RICK: Thanks for the question. I do expect us to have an offering. We already have a great direct indexing capability today that has had wonderful performance in terms of tax alpha and delivering for clients. And I expect us to be able to deliver an extended version of that on long-short. The reason that is so appealing is because we will be able to run that product in a very efficient way from a balance sheet and operational standpoint that will help us sustain the ability to deliver long-short capabilities to our clients. So we are thrilled to have something on our platform that is a proprietary long-short, certainly another way we can deliver monetization, but more importantly, it's a way we can deliver sustainable long-short strategies to our clients in a way that is operationally and financially manageable over the longer term. So we're thrilled about that, working on it, and we'll give more updates and future calls as to when that may launch.

And with that, I will wrap up. Thank you for your time and questions today. And I'll leave you where I started.

One, our through clients' eyes strategy endures the test of time, and is fueling our incredible momentum. By putting clients at the forefront of every decision, we continue to deliver record performance and growth. Two, we have an unmatched, no trade-offs value proposition that positions us at the center of our clients' financial lives, and the investing ecosystem. Three, we have a clear strategy, and

we're delivering client-focused capabilities at a pace as the powerful combination of people and AI amplifies our platform advantage. Finally, we have a diversified financial model that drives durable earnings growth across market cycles. Taken together, we are in a position of strength, hard for any competitor to match, and we have compelling growth opportunities ahead.

Thanks again.