UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPO**
15(d) OF THE S

For the fiscal year ended December 31, 2021

or

☐ **TRANSITION I**
OR 15(d) OF TH
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	**94-3025021**
(State or other jurisdiction of incorporation or organization)	(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:

Title of each class	Trading Symbol(s)
Common Stock – $.01 par value per share	SCHW
Depositary Shares, each representing a 1/40th ownership interest in a share of 5.95% Non-Cumulative Preferred Stock, Series D	SCHW PrD
Depositary Shares, each representing a 1/40th ownership interest in a share of 4.450% Non-Cumulative Preferred Stock, Series J	SCHW PrJ

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 ☒ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth 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. ☒

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, 2021, the aggregate market value of the voting stock held by non-affiliates of the registrant was $122.9 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, 2022, 1,814,620,775 shares of $.01 par value Common Stock and 79,293,695 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 17, 2022, by reference to that document.

THE CHARLES SCHWAB CORPORATION

Annual Report On Form 10-K
For Fiscal Year Ended December 31, 2021

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THE CHARLES SCHWAB CORPORATION

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, 2021, Schwab had $8.14 trillion in client assets, 33.2 million active brokerage accounts, 2.2 million corporate retirement plan participants, and 1.6 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®) and for Schwab's exchange-traded funds (Schwab ETFs™).

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, 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 $70 trillion, which means the Company's $8.14 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.

Within Investor Services, our competition in serving individual investors spans brokerage, wealth management, and asset management firms, as well as banks and trust companies. In the Advisor Services arena, we compete with institutional custodians, traditional and discount brokers, 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, through its broker-dealer subsidiaries; and futures and foreign exchange trade execution services through its futures commission merchant (FCM) and forex dealer member (FDM) subsidiary.

TDA provides services to individual retail investors and to 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, bank deposit account fees, net interest revenue, 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.
- Bank deposit account fees are earned through an insured deposit account agreement with TD Bank USA, National Association and TD Bank, National Association (together, the TD Depository Institutions), as well as bank deposit account sweep agreements with other third-party depository institutions, whereby uninvested cash held within eligible brokerage client accounts is swept into deposit accounts at the TD Depository Institutions and other third-party depository institutions.
- TDA's net interest revenue is generated primarily through margin lending, securities lending activity, as well as segregated and operating cash and investments. Interest-bearing liabilities primarily consist of interest-bearing payables to brokerage clients and long-term debt.
- TDA's asset management and administration fee revenue includes revenues earned on client assets invested in money market funds, other mutual funds, and certain investment programs. TDA's asset management and administration fees also include referral and asset-based program fees on its client assets managed by independent RIAs utilizing TDA's trading and investing platforms.

Integration Overview

The acquisition of TD Ameritrade significantly increases our scale to help support the Company's ongoing efforts to enhance the client experience, provide deeper resources for individual investors as well as RIAs, and 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 are actively combining the respective strengths of Schwab and TD Ameritrade and investing in enhanced client experience capabilities to further our financial success for the benefit of clients, employees, and stockholders.

We expect to transition TDA clients to Schwab within 30 to 36 months from the October 6, 2020 date of acquisition. 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, Inc. branch locations. These and other integration activities such as preparation for client transitions are expected to continue throughout the 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.

Throughout the integration, the Company plans to generally adopt Schwab platforms and systems, though we're committed to leveraging material advantages in TD Ameritrade's platforms when appropriate, as exemplified by our retention of TD Ameritrade's thinkorswim® and thinkpipes® 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® 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. Prior to our acquisition, under TDA's prior insured deposit account agreement with the TD Depository Institutions, TDA had floors in place which enabled it to carve-out up to $20 billion of floating-rate investments from the applicable service fee during specified low-rate environments. Pursuant to the IDA agreement, the 15 basis point service fee now 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 help us build on our existing capabilities and help 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 adds 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 third-party certificates of deposit;
- Mutual funds – third-party mutual funds through the Mutual Fund Marketplace®, including non-transaction fee mutual funds through the Mutual Fund OneSource® 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.

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 over 40 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 Retail Investor, Stock Plan Services, Retirement Plan Services, Compliance Solutions, Mutual Fund Clearing Services, and Off-Platform Sales business units.

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 Private Client™, features a personal advice relationship with a designated Private Client 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 new 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, are 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.

Clients of TD Ameritrade also have access to a suite of programs designed to meet their specific investment advisory needs. TDA's Selective Portfolios offers a broader range of goal-oriented portfolios made up of mutual funds and ETFs, through a combination of automated technology and professional insights. TDA's Personalized Portfolios offers clients tailored portfolios, supported by a team of investment professionals. Finally, TDA's AdvisorDirect® referral program provides clients with an introduction to an independent RIA that can assist in developing customized investment strategies around their unique goals.

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 clients who actively trade, Schwab offers integrated web- and software-based trading platforms, real-time market data, options trading, premium stock and futures research, and multi-channel access, as well as sophisticated account and trade management features, risk management and decision support tools, and dedicated personal support. For example, clients that trade more actively can 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® trading platform designed for the specialized needs of active traders, the Trading Learning Center to help build client knowledge through sequenced courses, the TDA Network, in-house financial network programming, and a trading community platform allowing traders to share ideas.

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 workshops, webcasts, podcasts, interactive courses, and online information about investing, from which Schwab does not earn revenue. Since 2020, we've maintained virtual events to engage with retail and institutional clients amidst an unprecedented climate. 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 10 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.

Our Retirement Plan Services business unit 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, the Mutual Fund Clearing Services business unit provides open-end mutual fund trading, settlement, and related transactional services to banks, brokerage firms, and trust companies, and the Off-Platform Sales business unit 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 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®, 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® 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® 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® 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 trusteed 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®, 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 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.

The majority of asset management and administration fees are 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. Beginning in the fourth quarter of 2019, Schwab eliminated online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options.

Bank deposit account fees are primarily recognized pursuant to the Company's IDA agreement, as well as sweep agreements with other third-party depository institutions. Under these agreements, uninvested cash within eligible brokerage client accounts is swept off-balance sheet to deposit accounts at the TD Depository Institutions and other third-party depository institutions. Schwab provides recordkeeping and support services to the TD Depository Institutions and other third-party 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 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 securities 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), such subsidiaries may be prohibited from making loans or other extensions of credit to any affiliate unless that affiliate engages only in activities permissible under section 4(c) of the Bank Holding Company Act (BHC).

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 headquartered in Henderson, Nevada. CSB and CSPB are currently regulated, supervised, and examined by the Federal Reserve, the Texas Department of Savings and Mortgage Lending, the Consumer Financial Protection Bureau (CFPB), and the FDIC. Trust Bank is currently regulated, supervised and examined by 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.

In October 2019, the Federal Reserve, OCC, and FDIC jointly adopted a final rule which became effective on December 31, 2019 (interagency regulatory capital and liquidity rules) that revised the regulatory capital and liquidity requirements for large U.S. banking organizations with $100 billion or more in total consolidated assets. The rules established four risk-based categories for determining the regulatory capital and liquidity requirements applicable to these institutions based on their total assets, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure. CSC is 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, 2021, CSC had total consolidated assets of approximately $670 billion and cross-jurisdictional activity of approximately $32 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 for large bank holding companies, the stress capital buffer. As discussed below, starting in 2022, CSC, as a large savings and loan holding company will also become subject to the stress capital buffer requirement. 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, now 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 thresholds 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 will become subject to the rule later in 2022.

Capital Stress Testing

In the final enhanced prudential standards rules adopted concurrently in October 2019 with the interagency regulatory capital and liquidity rules, the Federal Reserve revised the capital stress testing regime applicable to savings and loan holding companies and state-chartered member banks. Under the new Federal Reserve capital stress testing rules, savings and loan holding companies that are Category III banking organizations are required to conduct biennial company-run stress tests in even-numbered years beginning in 2020. In 2020, CSC conducted company-run stress tests, reported the results of its stress testing to the Federal Reserve, and voluntarily published a summary of its stress test results. A Category II banking organization is subject to annual company-run stress testing.

In its enhanced prudential standards rules, 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 will go into effect for CSC beginning with the 2022 stress testing cycle. To implement this requirement, the Federal Reserve also expanded the reporting requirements applicable to savings and loan holding companies commencing in the second quarter of 2020.

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 will replace CSC's current 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 will be based on its 2022 CCAR stress testing results.

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.

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.

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

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.

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.

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.

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 in the event the subsidiary is in financial distress.

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, FCM, 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 Islands, and the Commonwealth of Puerto Rico. CS&Co, TD Ameritrade, Inc., 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, 2021, Schwab had full-time, part-time, and temporary employees, and persons employed on a contract basis, that represented the equivalent of approximately 33,400 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 consultations, and disability and life insurance options. In addition, Schwab offers programs to help with employee career growth including 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.

As we move through the COVID-19 pandemic, we've created a Workplace Flexibility Program (WFP) to provide managers and employees with greater flexibility with remote work options. The WFP is designed to balance the importance our employees place on workplace flexibility with the benefit 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. We also offer coaching programs for college students from underrepresented communities to help develop career skills and learn about internship and career opportunities at Schwab. 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), 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

The challenging economic environment triggered by the coronavirus (COVID-19) pandemic has impacted and will continue to impact our business, results of operations, and financial condition.

The onset of the COVID-19 pandemic adversely impacted the economic environment and credit markets, leading to lower interest rates across the curve, heightened volatility in the financial markets, and market-driven credit spread movements in certain sectors within our portfolio of investment securities. Although certain economic conditions improved in 2021, the pandemic continues to evolve and certain impacts of the pandemic, including short-term interest rates, may continue to have a negative impact on our net interest revenue, bank deposit account fee revenue, and asset management and administration fees. Additionally, in March 2020, we experienced a significant increase in client cash balances held at our bank and broker-dealer subsidiaries which caused our Tier 1 Leverage Ratio to decline into the buffer we maintain between our long-term operating objective and our regulatory requirement. We will continue to have limits on our ability to return excess capital to stockholders, including through share repurchases, until the ratio returns to higher levels.

The pandemic has also impacted our client service quality at times. Certain of our client service response and processing times increased as a result of very high levels of client engagement and our clients experienced and may continue to occasionally experience delays accessing and using our website and mobile applications. While we have focused on hiring additional client service employees, we, like many employers, continue to face challenges retaining and hiring employees. In addition, we recently experienced and may again experience staffing shortages at our call centers and branches due to the rapid spread of new variants of COVID-19. Many of our employees and those of our outsourced service providers are working remotely and this has at times contributed to the increase in response and processing times, particularly when we have experienced the temporary loss of services from some of our outsourced service providers. 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.

These and other impacts of the COVID-19 pandemic have had and will likely continue to have the effect of heightening many of the other risks described elsewhere in this “Risk Factors” section. The extent to which the COVID-19 pandemic, or the emergence of another wide-spread health crisis, impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain, including the scope and duration of the outbreak, actions taken by governmental authorities to contain the financial and economic impact and the spread of the outbreak, the effect on our clients, employees, and outsourced service providers, changes in credit quality and spreads, and reactions in the financial markets.

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 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 pursuant to the IDA agreement and agreements with other third-party financial institutions, 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. The significant reduction in interest rates related to the COVID-19 pandemic has had, and will continue to have, a negative impact on our revenue related to interest rates and has caused us to waive management fees for certain funds.

Although we believe we are positioned to benefit from 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 can reduce 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 certain 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. 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. 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 that are consistent with the fallback language included in the contracts. 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, 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, standards of conduct with clients, conflicts of interest, regulatory treatment of deposit accounts, and order routing practices and order-related revenues may directly affect our operations and profitability or our specific business lines. 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 capital conservation buffer 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 January 2021, the Federal Reserve adopted a final rule, effective with the 2022 CCAR cycle, making large savings and loan holding companies, including CSC, subject to the CCAR process, which requires submission of an annual capital plan. 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. The rule also imposes a stress capital buffer requirement, floored at 2.5 percent of risk-weighted assets, that will replace CSC's current 2.5 percent capital conservation buffer for our risk-based capital ratios. The stress capital buffer will equal, as a percentage of total risk-weighted assets, the sum of (i) the difference between a firm's starting common equity Tier 1 capital ratio and the low point under the severely adverse scenario of the Federal Reserve's supervisory stress test plus (ii) the ratio of the firm's projected four quarters of common stock

dividends for the fourth through seventh quarters of the planning horizon to risk-weighted assets as projected under CCAR. The imposition of a stress capital buffer requirement could change the way in which our minimum risk-based capital ratios are calculated and 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, 2021, CSC had approximately $670 billion in total assets and cross-jurisdictional activity of approximately $32 billion.

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 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 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. Moreover, instances of fraud or other misconduct might also negatively impact our reputation and client confidence in the Company, in addition to any direct losses that might result from such instances. The ways that fraudulent activity is attempted is continuously evolving and while we monitor for new types of fraud, there may be a delay in recognizing the fraud is happening. Besides potential losses, shutting down the fraudulent activity often requires a balance with client experience. 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, extraordinary trading volumes, such as those that occurred in 2020 and the first quarter of 2021, 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. For example, certain of our client service response and processing times increased in 2020 as a result of very high levels of client engagement and our clients experienced delays accessing our systems during periods when there was an unusually high volume of client activity. 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.

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 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 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. As a result of certain stay at home restrictions related to the COVID-19 pandemic, we temporarily lost the services from some of our outsourced service providers which contributed to increased client service response and processing times. 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, regulators could limit the subsidiaries' operations or their ability to upstream funds to CSC, which could reduce CSC's liquidity and adversely affect its ability to repay debt, pay dividends on CSC's preferred stock, or return capital to common stockholders. 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. For example, as a result of recent market volatility the National Securities Clearing Corporation increased margin requirements for member firms and we were 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 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, 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.

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, including from the continuing impact of the COVID-19 pandemic, 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 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 at all 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.

Most of the integration planning and execution work is currently being done remotely due to the COVID-19 pandemic. The inability to work in-person and on-site with information technology and management oversight has and will continue to make some of the integration work more challenging, particularly with regard to technology. 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 experience delays in acquiring the technology and infrastructure components needed for the integration due to pandemic-related supply chain disruptions. 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. 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.

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. Recently, the challenge and cost for us to retain and hire talent has increased. In September 2021, we implemented a 5% salary increase for almost all of our employees. 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.

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 only moving IDA balances designated as floating-rate obligations and 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, 2021	Square Footage	
(amounts in thousands)	Leased	Owned
Location		
Corporate headquarters:		
Westlake, TX	188	687
Service and other office space:		
Denver, CO	—	767
Phoenix, AZ	32	728
Omaha, NE	119	578
Austin, TX	—	561
San Francisco, CA	417	—
Southlake, TX	13	375
St. Louis, MO	—	319
Chicago, IL	237	—
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, 2021, 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, 2022, was 5,451. The closing market price per share on that date was $87.70.

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

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December 31,	2016	2017	2018	2019	2020	2021
The Charles Schwab Corporation	$ 100	$ 131	$ 107	$ 125	$ 141	$ 227
Standard & Poor's 500 Index	$ 100	$ 122	$ 116	$ 153	$ 181	$ 233
Dow Jones U.S. Investment Services Index	$ 100	$ 125	$ 110	$ 137	$ 161	$ 226

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.

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 2021 (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 [1]	—	$ —	—	$ 1,780
Employee transactions [2]	39	$ 74.16	N/A	N/A
November:				
Share repurchase program [1]	—	$ —	—	$ 1,780
Employee transactions [2]	614	$ 82.07	N/A	N/A
December:				
Share repurchase program [1]	—	$ —	—	$ 1,780
Employee transactions [2]	120	$ 80.73	N/A	N/A
Total:				
Share repurchase program [1]	—	$ —	—	$ 1,780
Employee transactions [2]	773	$ 81.46	N/A	N/A

[1] All shares were repurchased under an authorization approved by CSC's Board of Directors of up to $4.0 billion of common stock publicly announced by CSC on January 30, 2019. The authorization does not have an expiration date.

[2] 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

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; and maintaining our market position (see Business Strategy and Competitive Environment and Products and Services in Part I, Item 1);
- Expected benefits from the TD Ameritrade and other recently completed acquisitions; and expected timing for the TD Ameritrade client conversion (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 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);
- Driving strategic priorities of scale and efficiency, win-win monetization and segmentation (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 adjustment of rates paid on client-related liabilities; and money market fund fee waivers (see Results of Operations – Net Interest Revenue and Asset Management and Administration Fees 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 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);
- 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, trading activity, the level of interest rates – which can impact money market fund fee waivers, and credit spreads;
- 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;
- The level of client assets, including cash balances;
- Competitive pressure on pricing, including deposit rates;

- Client sensitivity to rates;
- Regulatory guidance;
- 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;
- The scope and duration of the COVID-19 pandemic and actions taken by governmental authorities to contain the spread of the virus and the economic impact;
- Our ability to support client activity levels;
- The risk that expected cost synergies and other benefits from the TD Ameritrade and other recent acquisitions may not be fully realized or may take longer to realize than expected and that integration-related expenses may be higher than expected;
- The ability to successfully implement integration strategies and plans relating to TD Ameritrade;
- The timing and scope of integration-related and other technology projects;
- Real estate and workforce decisions;
- Migrations of BDA balances;
- Prepayment levels for mortgage-backed securities;
- Client cash allocations;
- 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.

THE CHARLES SCHWAB CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Amounts in Millions, Except Ratios, or as Noted)

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 1/100th 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® 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.

Debt to total capital ratio: Calculated as total debt divided by stockholders' equity and total debt.

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.

Final Regulatory Capital Rules: Refers to the regulatory capital rules issued by U.S. banking agencies which implemented Basel III and relevant provisions of Dodd-Frank Act, which apply to savings and loan holding companies, as well as federal savings banks.

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.

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: Net compensation received from markets and firms to which our broker-dealer subsidiaries send equity and options orders. The amount reflects rebates received for certain types of orders, less fees paid for orders where exchange fees or other charges apply.

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.

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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Management's Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Amounts in Millions, Except Ratios, or as Noted)

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, 2021, 2020, and 2019 are as follows:

	Growth Rate 1-Year 2020-2021	2021	2020	2019
Client Metrics				
Net new client assets (in billions) [1]	(74)%	$ 516.2	$ 1,952.5	$ 222.8
Core net new client assets (in billions)	98%	$ 558.2	$ 281.9	$ 211.7
Client assets (in billions, at year end)	22%	$ 8,138.0	$ 6,691.7	$ 4,038.8
Average client assets (in billions)	64%	$ 7,493.8	$ 4,579.0	$ 3,682.0
New brokerage accounts (in thousands) [2]	(61)%	7,306	18,627	1,568
Active brokerage accounts (in thousands, at year end)	12%	33,165	29,629	12,333
Assets receiving ongoing advisory services (in billions, at year end)	23%	$ 4,064.4	$ 3,300.1	$ 2,106.8
Client cash as a percentage of client assets (at year end)		10.9 %	12.3 %	11.3 %
Company Financial Information and Metrics				
Total net revenues	58%	$ 18,520	$ 11,691	$ 10,721
Total expenses excluding interest	46%	10,807	7,391	5,873
Income before taxes on income	79%	7,713	4,300	4,848
Taxes on income	86%	1,858	1,001	1,144
Net income	77%	$ 5,855	$ 3,299	$ 3,704
Preferred stock dividends and other	93%	495	256	178
Net income available to common stockholders	76%	$ 5,360	$ 3,043	$ 3,526
Earnings per common share — diluted [3]	33%	$ 2.83	$ 2.12	$ 2.67
Net revenue growth from prior year		58 %	9 %	6 %
Pre-tax profit margin		41.6 %	36.8 %	45.2 %
Return on average common stockholders' equity		11 %	9 %	19 %
Expenses excluding interest as a percentage of average client assets		0.14 %	0.16 %	0.16 %
Consolidated Tier 1 Leverage Ratio (at year end)		6.2 %	6.3 %	7.3 %
Non-GAAP Financial Measures [4]				
Adjusted total expenses [5]		$ 9,724	$ 6,759	$ 5,820
Adjusted diluted EPS [3]		$ 3.25	$ 2.45	$ 2.70
Return on tangible common equity		22 %	15 %	21 %

[1] 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. 2019 includes inflows of $11.1 billion from certain mutual fund clearing services clients.

(2) 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.

(3) In connection with the acquisition of TD Ameritrade, Schwab issued approximately 586 million common shares to TD Ameritrade stockholders, increasing our weighted average common shares outstanding for the years ended December 31, 2021 and 2020, compared to the year ended December 31, 2019.

(4) See Non-GAAP Financial Measures for further details and a reconciliation of such measures to GAAP reported results.

(5) Adjusted total expenses is a non-GAAP financial measure adjusting total expenses excluding interest. See Non-GAAP Financial Measures.

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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 made significant progress on our integration of TD Ameritrade, and continue to expect to complete client conversion within 30 to 36 months from the October 6, 2020 acquisition date.

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 earnings per common share (EPS) amounted to $2.83, increasing 33% from the prior year. Adjusted diluted EPS [(1)], which excludes acquisition and integration-related costs, amortization of acquired intangible assets, and related income tax effects, amounted to $3.25, increasing 33% from 2020. Our financial results were significantly impacted by the inclusion of TD Ameritrade for the full year of 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. 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 [(1)] 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 return on tangible common equity [(1)] (ROTCE) 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.

[1] 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.

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 the year, with significant improvement in client service levels by the end of the first quarter, and our service levels continued to be improved throughout the remainder of 2021 as client activity moderated.

2020 Compared to 2019

Throughout the extraordinary macroeconomic environment that persisted during 2020, Schwab continued to execute on key strategic initiatives, and produced solid financial results. The impact of COVID-19, along with social and political turmoil, created an unprecedented combination of personal and macroeconomic challenges for our clients, employees, and stockholders. While working through these challenges, we progressed in advancing the Company's strategic goals to drive scale, monetization, and segmentation in ways that benefit our clients. Among the Company's key accomplishments in 2020 were the successful completion of the acquisition of TD Ameritrade and three other strategic acquisitions, as discussed below.

The COVID-19 pandemic's rapid escalation in early 2020 was accompanied by volatile equity markets and the Federal Reserve's further easing of monetary policy. As the year progressed, government aid packages and vaccine developments helped settle the markets, with the S&P 500® erasing its pandemic-related losses to finish up 16% for the year. Throughout 2020, client engagement with the financial markets greatly increased over the prior year, as client trading activity reached record levels. Core net new assets totaled $281.9 billion in 2020, representing our third consecutive year of over $200 billion. Total client assets reached $6.69 trillion spread across 29.6 million brokerage accounts, up 66% and 140%, respectively, from year-end 2019.

Against this backdrop, Schwab's net income totaled $3.3 billion, down $405 million, or 11% from 2019, while the Company produced diluted EPS of $2.12, representing a decrease of 21% relative to 2019. Adjusted diluted EPS [(1)] amounted to $2.45 in 2020, down 9% from $2.70 in 2019.

Total net revenues reached $11.7 billion for the year, increasing 9% from 2019. During March 2020, the Federal Reserve acted to support the economy by cutting the Fed Funds rate from 1.75% to near zero and announcing significant asset purchase programs. Mortgage refinancing activity subsequently accelerated, and our net interest margin was impacted by both significantly lower interest rates and increased prepayments of mortgage-backed securities held in our investment portfolio. Strong growth in interest-earning assets via client inflows and allocation decisions, as well as our acquisitions of TD Ameritrade and assets of USAA-IMCO, helped limit the decrease in net interest revenue to 6%, resulting in a full-year 2020 total of $6.1 billion.

Growing balances in advisory solutions and a rebound in equity markets in 2020 helped drive an 8% increase in asset management and administration fees, which totaled $3.5 billion in 2020. Record client trading activity and the addition of TD Ameritrade in the fourth quarter contributed to an 88% increase in trading revenue, which reached $1.4 billion for the year, more than offsetting a full-year impact of the commission reductions implemented in the fourth quarter of 2019. With the TD Ameritrade acquisition, our fourth quarter 2020 results included bank deposit account fee revenue for the first time, which totaled $355 million for the period from October 6, through December 31, 2020.

Total expenses excluding interest increased 26% in 2020 to $7.4 billion, which included significant costs related to our acquisitions. With the completion of four acquisitions during the year, acquisition and integration-related costs totaled $442 million in 2020, representing a significant increase from the $26 million incurred in 2019. Amortization

of acquired intangible assets also increased, totaling $190 million in 2020 compared with $27 million in 2019. Exclusive of these items, adjusted total expenses [1] increased 16% from 2019. Return on average common stockholders' equity was 9% in 2020, down from 19% in 2019. ROTCE [1] was 15% in 2020, down from 21% in 2019. The 2020 decreases in both return on average common stockholders' equity and ROTCE were due to lower net income as well as significantly higher balances of common equity due to the TDA acquisition and higher AOCI in 2020, driven by unrealized gains in our AFS investment portfolio.

[1] 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.

Throughout 2020, the Company maintained its disciplined approach to capital management, helping sustain significant balance sheet growth. Schwab's consolidated total assets ended 2020 at $549 billion, representing growth of $255 billion, or 87%, from year-end 2019, reflecting both our organic growth as well as the acquisitions of TD Ameritrade and the assets of USAA-IMCO. Through offerings in April and December, the Company issued preferred stock totaling approximately $5 billion in 2020, bringing total preferred stock to approximately $7.7 billion, or approximately 25% of Tier 1 Capital at December 31, 2020. The Company's Tier 1 Leverage Ratio was 6.3% at December 31, 2020.

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, through its broker-dealer subsidiaries; and futures and foreign exchange trade execution services through its FCM and FDM subsidiary. At the time of closing, TD Ameritrade had approximately $1.6 trillion in client assets and approximately 14.5 million brokerage accounts. TD Ameritrade's assets and liabilities were revalued and recorded 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 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.

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 current economic environment. More specifically, factors that could cause variability in our expected acquisition and integration-related costs include the level of employee attrition, workforce redeployment from eliminated positions into open roles, changes in the levels of client activity, as well as increased real estate-related exit cost variability due to effects of the COVID-19 pandemic including changes in remote working trends.

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. In 2021, we commenced greater technology build-out to support the expanded volumes of our combined client base. Based on our current integration plans and expanded scope of technology work, the Company continues to expect to complete client conversion within 30 to 36 months from the October 6, 2020 acquisition date, and we expect to incur total acquisition and integration-related costs and capital expenditures of between $2.0 billion and $2.2 billion.

Acquisition and integration-related costs, which are inclusive of related exit costs, totaled $468 million and $442 million for the years ended December 31, 2021 and 2020, respectively, and the Company expects to incur acquisition and integration-related costs of approximately $350-$400 million in 2022. 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, 2021, we have achieved approximately half of this amount on an annualized run-rate basis. The Company expects to have realized approximately 60% of our estimated annualized cost synergies by year-end 2022, with much of the remaining estimated cost synergies expected to be realized after the completion of client conversion and into 2024. 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.

Assets of USAA-IMCO and Other Acquisitions

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 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.

In addition, during 2020 the Company completed its acquisition of technology and intellectual property of Motif, a financial technology company. The Motif assets help us build on our existing capabilities and help 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, which adds established strategies and new separately managed account offerings to our existing fixed income lineup.

RESULTS OF OPERATIONS

Total Net Revenues

Total net revenues of $18.5 billion and $11.7 billion for the years ended December 31, 2021 and 2020, respectively, represented growth of 58% and 9% from the prior periods. The increases in 2021 and 2020 were due primarily to our acquisition of TD Ameritrade, which contributed total net revenues of $7.6 billion in 2021 and $1.7 billion in 2020 from October 6, through December 31, 2020.

Year Ended December 31,		2021		2020		2019	
	Growth Rate 2020-2021	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Net interest revenue							
Interest revenue	30 %	$ 8,506	46 %	$ 6,531	56 %	$ 7,580	71 %
Interest expense	14 %	(476)	(3)%	(418)	(4)%	(1,064)	(10)%
Net interest revenue	31 %	8,030	43 %	6,113	52 %	6,516	61 %
Asset management and administration fees							
Mutual funds, ETFs, and collective trust funds (CTFs)	11 %	1,961	11 %	1,770	15 %	1,747	16 %
Advice solutions	38 %	1,993	11 %	1,443	12 %	1,198	11 %
Other	22 %	320	1 %	262	3 %	266	3 %
Asset management and administration fees	23 %	4,274	23 %	3,475	30 %	3,211	30 %
Trading revenue							
Commissions	177 %	2,050	11 %	739	6 %	549	5 %
Order flow revenue	N/M	2,053	11 %	621	6 %	135	1 %
Principal transactions	(13)%	49	—	56	—	68	1 %
Trading revenue	193 %	4,152	22 %	1,416	12 %	752	7 %
Bank deposit account fees	N/M	1,315	7 %	355	3 %	—	—
Other	126 %	749	5 %	332	3 %	242	2 %
Total net revenues	58 %	$ 18,520	100 %	$ 11,691	100 %	$ 10,721	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. 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. 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 include bank deposits, payables to brokerage clients, short-term borrowings (e.g., Federal Home Loan Bank (FHLB) advances, commercial paper, secured borrowings by our broker-dealer subsidiaries, 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 structured 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. Schwab establishes the rates paid on client-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. See also Risk Management – Interest Rate Risk Simulations.

As the U.S. economic recovery continued in 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. 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.

Late in the first quarter of 2020, the Federal Reserve cut the federal funds target overnight rate from 1.75% to near zero; on the longer end of the curve, the 10-year Treasury rate declined by over 120 basis points. Lower interest rates across maturities persisted from the end of the first quarter through the end of 2020, while credit spreads also compressed. Moreover, changes in the economic environment throughout 2020 resulting from the COVID-19 pandemic drove significantly higher levels of client cash sweep balances. As these balances rapidly accumulated in the first quarter of 2020, the Company initially placed a substantial amount in excess reserves held at the Federal Reserve, and subsequently deployed a significant amount of this cash build-up throughout 2020. AFS securities purchases in 2020 totaled $202.2 billion, and these purchases were made at rates below the average yield on the existing AFS portfolio due to the low interest rate environment.

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,	2021			2020			2019		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets									
Cash and cash equivalents	$ 40,325	$ 40	0.10 %	$ 39,052	$ 120	0.30 %	$ 23,512	$ 518	2.17 %
Cash and investments segregated	43,942	24	0.05 %	34,100	141	0.41 %	15,694	345	2.17 %
Receivables from brokerage clients	77,768	2,455	3.11 %	28,058	848	2.97 %	19,270	821	4.20 %
Available for sale securities [1,2]	357,122	4,641	1.30 %	253,555	4,537	1.78 %	58,181	1,560	2.67 %
Held to maturity securities [1,2]	—	—	—	—	—	—	134,708	3,591	2.65 %
Bank loans	28,789	620	2.15 %	20,932	545	2.60 %	16,832	584	3.47 %
Total interest-earning assets	547,946	7,780	1.41 %	375,697	6,191	1.64 %	268,197	7,419	2.75 %
Securities lending revenue		720			334			147	
Other interest revenue		6			6			14	
Total interest-earning assets	$ 547,946	$ 8,506	1.54 %	$ 375,697	$ 6,531	1.73 %	$ 268,197	$ 7,580	2.80 %
Funding sources									
Bank deposits	$ 381,549	$ 54	0.01 %	$ 291,206	$ 93	0.03 %	$ 212,605	$ 700	0.33 %
Payables to brokerage clients	91,667	9	0.01 %	46,347	12	0.02 %	24,353	79	0.33 %
Short-term borrowings [3]	3,040	9	0.30 %	89	—	0.20 %	17	—	2.36 %
Long-term debt	17,704	384	2.17 %	8,992	289	3.22 %	7,199	258	3.58 %
Total interest-bearing liabilities	493,960	456	0.09 %	346,634	394	0.11 %	244,174	1,037	0.42 %
Non-interest-bearing funding sources	53,986			29,063			24,023		
Securities lending expense		24			33			38	
Other interest expense		(4)			(9)			(11)	
Total funding sources	$ 547,946	$ 476	0.09 %	$ 375,697	$ 418	0.11 %	$ 268,197	$ 1,064	0.39 %
Net interest revenue		$ 8,030	1.45 %		$ 6,113	1.62 %		$ 6,516	2.41 %

[1] Amounts have been calculated based on amortized cost. Interest revenue on investment securities is presented net of related premium amortization.

[2] On January 1, 2020, the Company transferred all of its investment securities designated as held to maturity (HTM) to the AFS category. See Item 8 – Note 6.

[3] Interest revenue or expense was less than $500 thousand in the period or periods presented.

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 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, 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.

Net interest revenue decreased $403 million, or 6%, in 2020 from 2019, due primarily to lower average investment yields, partially offset by growth in interest-earning assets and our acquisition of TD Ameritrade. Accelerated premium amortization on debt securities in 2020 also contributed to the reduction in net interest revenue, as the decline in long-term interest rates in 2020 resulted in higher prepayments of mortgage-related debt securities. Average interest-earning assets for 2020 were higher by 40%, compared to 2019. This increase in average interest-earning assets was primarily driven by higher client cash balances in bank deposits and payables to brokerage clients, due to higher client cash allocations and our acquisitions of TD Ameritrade and assets of USAA-IMCO. TD Ameritrade contributed approximately $12.0 billion of average interest-earning assets and $9.6 billion of average interest-bearing liabilities to Schwab's full-year 2020 averages.

Our net interest margin decreased to 1.62% in 2020, from 2.41% in 2019. This decrease was driven primarily by lower yields received on interest-earning assets due largely to the Federal Reserve's 2019 and 2020 interest rate reductions as well as higher premium amortization on mortgage-related debt securities. Due to the low interest rate environment, purchases of investment securities in 2020 were made at rates below the average yield on the existing AFS portfolio, which negatively impacted our net interest margin.

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 attributable to TD Ameritrade are primarily earned on client assets invested in money market mutual funds and other mutual funds, as well as advice solutions.

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

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

Year Ended December 31,	2021			2020			2019		
	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	$ 155,821	$ 457	0.29 %	$ 200,119	$ 605	0.30 %	$ 173,558	$ 525	0.30 %
Fee waivers		(326)			(127)			—	
Schwab money market funds	155,821	131	0.08 %	200,119	478	0.24 %	173,558	525	0.30 %
Schwab equity and bond funds, ETFs, and CTFs	423,999	380	0.09 %	301,598	300	0.10 %	267,213	298	0.11 %
Mutual Fund OneSource® and other non-transaction fee funds	229,342	724	0.32 %	192,464	599	0.31 %	191,552	606	0.32 %
Other third-party mutual funds and ETFs [1,2]	898,248	726	0.08 %	525,379	393	0.07 %	478,037	318	0.07 %
Total mutual funds, ETFs, and CTFs [3]	$ 1,707,410	1,961	0.11 %	$ 1,219,560	1,770	0.15 %	$ 1,110,360	1,747	0.16 %
Advice solutions [3]									
Fee-based	$ 452,503	1,993	0.44 %	$ 306,010	1,443	0.47 %	$ 246,888	1,198	0.49 %
Non-fee-based	89,911	—	—	73,161	—	—	70,191	—	—
Total advice solutions	$ 542,414	1,993	0.37 %	$ 379,171	1,443	0.38 %	$ 317,079	1,198	0.38 %
Other balance-based fees [4]	614,787	259	0.04 %	451,350	208	0.05 %	432,613	216	0.05 %
Other [5]		61			54			50	
Total asset management and administration fees		$ 4,274			$ 3,475			$ 3,211	

[1] Beginning in the fourth quarter of 2019, Schwab ETF OneSource™ was discontinued as a result of the elimination of online trading commissions for U.S. and Canadian-listed ETFs.
[2] Beginning in the fourth quarter of 2020, includes third-party money funds related to the acquisition of TD Ameritrade.
[3] Average client assets for advice solutions may also include the asset balances contained in the mutual fund and/or ETF categories listed above.
[4] Includes various asset-related fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees.
[5] Includes miscellaneous service and transaction fees relating to mutual funds and ETFs that are not balance-based.

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 amount of fee waivers in coming quarters is dependent on a variety of factors, including the level of short-term interest rates and client preferences across our money market fund line-up.

Asset management and administration fees increased by $264 million, or 8%, in 2020 from 2019, primarily due to higher balances in advice solutions, including managed account assets from USAA and TD Ameritrade, overall gains in equity markets, as well as higher purchased money market funds and other third-party mutual funds and ETFs, in 2020 relative to 2019. These increases were partially offset by the effect of money market fund fee waivers due to declining portfolio yields.

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® and other non-transaction fee (NTF) funds. The

following funds generated 29%, 40%, and 45% of the asset management and administration fees earned during 2021, 2020, and 2019, respectively:

	Schwab Money Market Funds			Schwab Equity and Bond Funds, ETFs, and CTFs			Mutual Fund OneSource® and Other NTF Funds		
Year Ended December 31,	2021	2020	2019	2021	2020	2019	2021	2020	2019
Balance at beginning of period	$176,089	$200,826	$153,472	$341,689	$286,275	$209,471	$223,857	$202,068	$180,532
Net inflows (outflows)	(29,621)	(25,894)	44,077	48,291	17,200	26,039	(15,760)	(20,246)	(19,930)
Net market gains (losses) and other	41	1,157	3,277	64,884	38,214	50,765	26,843	42,035	41,466
Balance at end of period	$146,509	$176,089	$200,826	$454,864	$341,689	$286,275	$234,940	$223,857	$202,068

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 rebate 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.

The following table presents trading revenue and related information:

Year Ended December 31,	Growth Rate 2020-2021	2021	2020	2019
Trading Revenue	193 %	$ 4,152	$ 1,416	$ 752
Clients' daily average trades (DATs) (in thousands)	150 %	6,507.0	2,602.6	748.9
Number of trading days	—	251.5	252.0	250.5
Revenue per trade [1]	18 %	$ 2.54	$ 2.16	$ 4.01

Note: Effective October 7, 2019, CS&Co eliminated online trade commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options. TD Ameritrade, Inc. also does not charge for these types of trades and does not have a base charge on options.

[1] Revenue per trade is calculated as trading revenue divided by DATs multiplied by the number of trading days.

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.

Trading revenue increased by $664 million, or 88%, in 2020 compared to 2019, primarily due to the acquisition of TD Ameritrade. In addition, the Company saw a significant increase in DATs and higher order flow revenue in 2020, which were partially offset by the Company's October 2019 pricing actions. Order flow revenue increased by $486 million in 2020 compared to 2019. This increase in order flow revenue in 2020 was due to the acquisition of TD Ameritrade and a higher volume of trades throughout 2020 relative to 2019.

Bank Deposit Account Fees

In connection with our acquisition of TD Ameritrade, the Company began earning bank deposit account fee revenue beginning in the fourth quarter of 2020 pursuant to the IDA agreement and arrangements with other third-party banks. Bank deposit account fees are primarily affected by average BDA balances and the floating- and fixed-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.

Bank deposit account fees totaled $1.3 billion for the year ended December 31, 2021 and $355 million from October 6, 2020 through December 31, 2020. During the year ended December 31, 2021 and the period of October 6, 2020 through December 31, 2020, the total average BDA balance was $158.4 billion and $161.3 billion, respectively, of which approximately 80% was designated as fixed-rate obligation amounts and approximately 20% as floating-rate obligation amounts for both periods.

During 2021, the Company transferred $10.6 billion of BDA balances to its balance sheet from the TD Depository Institutions and other third-party banks. 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, software fees, and non-recurring gains. 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.

Other revenue increased $90 million, or 37%, in 2020 compared to 2019 primarily due to higher exchange processing fees resulting from higher trade volumes and the acquisition of TD Ameritrade.

Total Expenses Excluding Interest

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

	Growth Rate 2020-2021	2021	2020	2019
Compensation and benefits				
Salaries and wages	31 %	$ 3,161	$ 2,416	$ 1,958
Incentive compensation	55 %	1,443	932	804
Employee benefits and other	40 %	846	606	558
Total compensation and benefits	38 %	$ 5,450	$ 3,954	$ 3,320
Professional services	18 %	994	843	702
Occupancy and equipment	39 %	976	703	559
Advertising and market development	49 %	485	326	307
Communications	66 %	587	353	253
Depreciation and amortization	33 %	549	414	322
Amortization of acquired intangible assets	N/M	615	190	27
Regulatory fees and assessments	69 %	275	163	122
Other	97 %	876	445	261
Total expenses excluding interest	46 %	$ 10,807	$ 7,391	$ 5,873
Expenses as a percentage of total net revenues				
Compensation and benefits		29 %	34 %	31 %
Advertising and market development		3 %	3 %	3 %
Full-time equivalent employees (in thousands)				
At year end	4 %	33.4	32.0	19.7
Average	36 %	32.5	23.9	20.0

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

Total expenses excluding interest increased $3.4 billion, or 46%, in 2021 from 2020, and $1.5 billion, or 26%, in 2020 from 2019. Total expenses excluding interest included amounts from TD Ameritrade of $3.1 billion in 2021 and $943 million in 2020 from October 6, through December 31, 2020. Adjusted total expenses, which excludes acquisition and integration-related costs and amortization of acquired intangible assets, increased $3.0 billion, or 44%, in 2021 from 2020 and $939 million, or 16%, in 2020 from 2019. See Non-GAAP Financial Measures for further details and a reconciliation of such measures to GAAP reported results.

Total compensation and benefits increased in 2021 from 2020 due to the inclusion of TD Ameritrade and growth in employee headcount. 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. Total compensation and benefits expense increased from 2020 to 2019, primarily due to an overall increase in employee headcount related to our acquisitions of TDA and USAA-IMCO. The increase in 2020 from 2019 also reflected the Company's payment of $1,000 to all non-officer employees in March 2020 to help them cover costs incurred due to the COVID-19 pandemic. Compensation and benefits included acquisition and integration-related costs of $283 million and $235 million in 2021 and 2020, respectively.

Professional services expense increased in 2021 from 2020, primarily due to the inclusion of TDA's results of operations and overall growth in the business. The increase in 2020 from 2019 was primarily due to acquisition and integration-related costs in 2020 of $158 million.

Occupancy and equipment expense increased in 2021 from 2020, primarily due the inclusion of TDA's results of operations, costs related to the integration of TD Ameritrade, and overall growth in the business. The increase in 2020 from 2019 was

primarily due to the inclusion of TDA's results of operations from October 6, 2020 forward, as well as an increase in technology equipment costs associated with higher client trade volumes and overall growth in the business.

Advertising and market development expense increased in 2021 from 2020, primarily due the inclusion of TDA's results of operations.

Communications expense increased in 2021 from 2020 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. The increase in 2020 from 2019 was primarily due to the inclusion of TDA's results of operations from October 6, 2020 forward and higher news and quotation services expenses due to higher trade volumes.

Depreciation and amortization expenses grew in 2021 from 2020, primarily from growth in fixed assets from the TDA acquisition. As a result of capital expenditures to support growth in the business and the integration of TD Ameritrade, 2021 also reflected higher amortization of purchased and internally developed software and higher depreciation of hardware, as well as higher depreciation of buildings. The growth in 2020 from 2019 was primarily due to higher amortization of purchased and internally developed software, higher depreciation and amortization of equipment, office facilities, and property recognized in the TDA acquisition, as well as higher depreciation of buildings and equipment related to the expansion of our U.S. campuses in 2019 and 2020. As a result of significant capital expenditures in 2021 and anticipated for 2022 as described below, the Company expects to recognize higher depreciation and amortization expense in 2022. The periods over which depreciation and amortization are recognized on these capitalized costs are based on the expected useful lives of the types of assets capitalized and when the assets are placed into service.

Amortization of acquired intangible assets increased in 2021 from 2020 and in 2020 from 2019 as a result of the acquisitions completed during 2020.

Regulatory fees and assessments increased in 2021 from 2020, primarily as result of the inclusion of TDA's results of operations and overall growth in the business, including higher FDIC assessments due to asset growth. The increase in 2020 from 2019 was primarily due to the inclusion of TDA's results of operations from October 6, 2020 forward, and higher FDIC insurance assessments and other regulatory assessments due to growth in assets and overall growth of the business in 2020.

Other expenses increased in 2021 from 2020, primarily due to the inclusion of TDA's results of operations and a charge of approximately $200 million for a regulatory matter in 2021 (see Item 8 – Note 15), partially offset by certain lower clearing charges and exchange fees. The increase in 2020 from 2019 was primarily from the inclusion of TDA's results of operations from October 6, 2020 forward, and increases in processing fees and related expenses due to higher client trade volumes and market volatility. These increases were partially offset by lower travel and entertainment expense in 2020. Other expenses in 2020 included acquisition and integration-related costs of $30 million.

Capital expenditures primarily include capitalized software costs, information technology and telecommunications equipment, and buildings. Total capital expenditures were $1.0 billion, $741 million, and $753 million in 2021, 2020, and 2019, respectively. The increase in capital expenditures in 2021 from 2020 was primarily due to higher information technology and telecommunications equipment and higher capitalized software costs, partially offset by lower building expansion in 2021. The increases in spending in 2021 reflect investments made to support our TDA integration efforts and enhance our technological infrastructure to support greater capacity for our expanding client base. Capital expenditures decreased in 2020 compared to 2019 primarily due to lower building expansion in 2020, largely offset by higher capitalized software costs. Capitalized software costs totaled $559 million, $453 million, and $188 million in 2021, 2020, and 2019, respectively. Investments in information technology and telecommunications equipment were $340 million, $60 million, and $81 million in 2021, 2020, and 2019, respectively. Investments in buildings were $102 million, $173 million, and $397 million in 2021, 2020, and 2019, respectively.

Capital expenditures were 6% of total net revenues in 2021, within our estimated range for the year. In 2022, we will continue to invest to support the TDA integration and greater capacity for our expanding client base. We anticipate

capital expenditures in 2022 will be approximately 4-5% 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 24.1% in 2021, 23.3% in 2020, and 23.6% in 2019. 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 a non-deductible regulatory matter charge in 2021 (see Item 8 – Note 15), 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. The decrease in the effective tax rate in 2020 from 2019 was primarily due to federal and state tax benefits recognized during 2020, including settlement of the IRS examination of tax years 2011-2014, the expiration of the statute of limitations on certain federal and state uncertain tax positions, and tax benefits realized from the filing of state tax returns, as well as an increase in Low-Income Housing Tax Credit (LIHTC) benefits. Offsetting the decrease in the effective tax rate from these items was an increase in nondeductible acquisition costs and FDIC insurance premium disallowance, as well as a decrease in equity compensation tax deduction benefits.

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 acquisitions.

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

	Investor Services				Advisor Services				Total			
Year Ended December 31,	Growth Rate 2020-2021	2021	2020	2019	Growth Rate 2020-2021	2021	2020	2019	Growth Rate 2020-2021	2021	2020	2019
Net Revenues												
Net interest revenue	38%	$ 6,052	$4,391	$ 4,685	15%	$ 1,978	$ 1,722	$ 1,831	31%	$ 8,030	$ 6,113	$ 6,516
Asset management and administration fees	23%	3,130	2,544	2,289	23%	1,144	931	922	23%	4,274	3,475	3,211
Trading revenue	N/M	3,753	1,156	503	53%	399	260	249	193%	4,152	1,416	752
Bank deposit account fees	N/M	964	255	—	N/M	351	100	—	N/M	1,315	355	—
Other	115%	562	262	146	167%	187	70	96	126%	749	332	242
Total net revenues	68%	14,461	8,608	7,623	32%	4,059	3,083	3,098	58%	18,520	11,691	10,721
Expenses Excluding Interest	50%	8,289	5,529	4,284	35%	2,518	1,862	1,589	46%	10,807	7,391	5,873
Income before taxes on income	100%	$ 6,172	$3,079	$ 3,339	26%	$ 1,541	$ 1,221	$ 1,509	79%	$ 7,713	$ 4,300	$ 4,848
Net new client assets (in billions) [1,2,3]	(82)%	$ 200.9	$1,106.4	$ 115.6	(63)%	$ 315.3	$ 846.1	$ 107.2	(74)%	$ 516.2	$1,952.5	$ 222.8

(1) In 2021, Investor Services includes outflows of $42.0 billion from mutual fund clearing services clients.

(2) 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. Additionally, 2020 and 2019 include inflows of $10.9 billion and $11.1 billion, respectively, from certain mutual fund clearing services clients.

(3) 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.

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

Segment Net Revenues

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.

Investor Services total net revenues increased by 13% in 2020 from 2019, while Advisor Services total net revenues remained relatively consistent year-over-year. Investor Services' growth was primarily due to an increase in trading revenue, higher asset management and administration fees, and the initial recognition of bank deposit account fees in the fourth quarter of 2020, partially offset by lower net interest revenue. For Advisor Services, bank deposit account fees largely offset a decrease in net interest revenue, while trading revenue and asset management and administration fees were consistent with 2019. Trading revenue increased significantly in the Investor Services segment primarily due to the TD Ameritrade acquisition and higher trade volumes in 2020. Asset management and administration fees increased in 2020 for Investor Services primarily due to higher balances in advice solutions, including managed account assets from USAA and TD Ameritrade, as well as higher purchased money market funds and other third-party mutual funds and ETFs, partially offset by the effect of money fund fee waivers. Net interest revenue decreased for both segments primarily due to lower average investment yields, partially offset by growth in interest-earning assets.

Segment Expenses Excluding Interest

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. 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).

Investor Services and Advisor Services total expenses excluding interest increased by 29% and 17%, respectively, in 2020 compared to 2019, primarily due to the inclusion of TD Ameritrade's expenses from October 6, 2020 forward and acquisition and integration-related costs. Compensation and benefits increased in both segments primarily due to the acquisition of TDA and overall headcount growth to support our expanding client base, with Investor Services increasing more significantly due to greater headcount growth from the TDA acquisition and the hiring of approximately 400 former USAA employees in connection with the USAA-IMCO acquisition. Both segments also saw increases in professional services, depreciation and amortization, amortization of acquired intangible assets, and other expenses, primarily due to the inclusion of TDA's expenses from October 6, 2020 forward as well as acquisition and integration-related costs, with Investor Services' expenses increasing more significantly due to overall size of the segment's client base and greater client base growth from TDA.

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 measurement, risk monitoring and reporting, and risk mitigation controls; 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 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 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 and International Compliance Risk;
- Financial Risk Oversight Committee – provides oversight of and approves credit, market, liquidity, and capital risk policies, limits, and exposures; 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 people, internal processes, and systems, or from external events or relationships impacting the Company and/or any of its key business partners and third parties. 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-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 Federal Reserve guidance on

Model Risk Management SR11-7 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.

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.

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.

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.

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, 2021, 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.

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. 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, and bank loans. 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.

The following table shows the simulated change to net interest revenue over the next 12 months beginning December 31, 2021 and 2020 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,	2021	2020
Increase of 100 basis points	14.1%	14.2%
Decrease of 100 basis points	(4.5)%	(4.3)%

The Company's simulated increase of 100 basis points in market interest rates had a slightly lower impact on net interest revenue at year-end 2021 compared with year-end 2020 due to an increase in the Company's projected repricing of client deposit rates across higher market interest rate scenarios, which was partially offset as a result of holding a higher allocation of floating-rate assets on the balance sheet at December 31, 2021 relative to the prior year-end. A simulated decrease of 100 basis points in market interest rates had a slightly larger impact year-over-year primarily as a result of holding a higher allocation of floating-rate assets.

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

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, 2021 and 2020, 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, undertaking many efforts coordinated by its firm-wide transition team. The LIBOR transition team is overseen by executive leadership and has organized its efforts 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, 2021, 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 convened by the Federal Reserve Board and the Federal Reserve Bank of New York to help ensure a successful transition from LIBOR, the Company phased-out the use of LIBOR as a reference rate in new loans prior to year-end 2021, 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.

Additional transition efforts to prepare for the phasing-out of LIBOR are ongoing. The floating dividend rates for our Series A, E, and F preferred stock are based on LIBOR. In addition, operational work remains to transition our legacy loan portfolio, in accordance with expected regulatory guidance, to alternate reference rates that are consistent with the fallback language included in the contracts.

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 scenarios to support liquidity levels during both business as usual and stressed conditions.

We employ a variety of methodologies to monitor and manage liquidity. We conduct regular liquidity stress testing to develop a consolidated view of liquidity risk exposures and to ensure our ability to maintain sufficient liquidity during market-related or company-specific liquidity stress events. Liquidity is also tested at certain subsidiaries 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.

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, 2021:

Description	Borrower	Ou
Federal Home Loan Bank secured credit facilities	Banking subsidiaries	$
Federal Reserve discount window	Banking subsidiaries	
Uncommitted, unsecured lines of credit with various external banks	CSC, CS&Co	
Unsecured commercial paper [1]	CSC	
Committed, unsecured credit facility with various external banks	TDAC	
Secured uncommitted lines of credit with various external banks [2]	TDAC	

[1] In October 2021, the Company increased the amount of commercial paper available to issue from $1.5 billion to $5.0 billion.

[2] 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.

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 banks in repurchase agreements collateralized by investments securities as another source of short-term liquidity.

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, 2021 and 2020. CSC also has a universal automatic shelf registration statement on file with the SEC, which enables it to issue debt, equity, and other securities. 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 a senior unsecured committed revolving credit facility with an aggregate borrowing capacity of $600 million, which matures in April 2022. TDAC also 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.

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

Liquidity Coverage Ratio

Beginning October 1, 2021, Schwab became subject to the full (100%) LCR, 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 each business day. See Item 1 – Regulation for additional information. The Company was in compliance with the full LCR rule at December 31, 2021, and the table below presents information about our average daily LCR:

		Average for the Three Months Ended December 31, 2021
Total eligible HQLA	$	117,507
Net cash outflows	$	110,405
LCR		106 %

Borrowings

The Company had $4.9 billion of short-term borrowings outstanding as of December 31, 2021 and none at December 31, 2020. Long-term debt is primarily comprised of Senior Notes and totaled $18.9 billion and $13.6 billion at December 31, 2021 and 2020, respectively.

The following table provides information about our Senior Notes outstanding as of December 31, 2021:

	Par Outstanding	Maturity	Weighted-Average Interest Rate	Moody's	Standard & Poor's	Fitch
CSC Senior Notes	$ 17,768	2022 - 2031	2.35%	A2	A	A
TDA Holding Senior Notes	963	2022 - 2029	3.06%	A2	A	—

All debt issuances in 2021, 2020, and 2019 were senior unsecured obligations. Additional details of these debt issuances are as follows:

Issuance Date		Issuance Amount	Maturity Date	Interest R
May 22, 2019	$	600	5/22/2029	3.250%
March 24, 2020	$	600	3/24/2025	4.200%
March 24, 2020	$	500	3/22/2030	4.625%
December 11, 2020	$	1,250	3/11/2026	0.900%
December 11, 2020	$	750	3/11/2031	1.650%
March 18, 2021	$	1,250	3/18/2024	SOFR [1] + 0
March 18, 2021	$	1,500	3/18/2024	0.750%
March 18, 2021	$	1,250	3/20/2028	2.000%
May 13, 2021	$	500	5/13/2026	SOFR [1] + 0
May 13, 2021	$	1,000	5/13/2026	1.150%
May 13, 2021	$	750	5/13/2031	2.300%
August 26, 2021	$	850	12/1/2031	1.950%

[1] Secured Overnight Financing Rate

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 2020 and 2021 shown below. The Company did not issue any equity through external offerings during 2019.

	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

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 redemption was funded with the net proceeds from the Series J preferred stock offering.

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, 2021 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 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, 2021, the Company had total short-term purchase obligations of $484 million and total long-term purchase obligations of $532 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. We also maintain agreements pursuant to which certain client brokerage cash deposits are swept to other third-party depository institutions. See Item 8 – Notes 3 and 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'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. When subsidiaries have need of additional capital, funds are provided by CSC as equity investments and also as subordinated loans (in a form approved as regulatory capital by regulators) for CS&Co. 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 must 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 of 6.75%-7.00%. 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.

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, 2021, CSB is considered well capitalized.

CSB is also subject to regulatory requirements that restrict and govern the terms of affiliate transactions. In addition, CSB is required to provide notice to, and may be required to obtain approval from, the Federal Reserve and the Texas Department of Savings and Mortgage Lending (TDSML) to declare dividends to CSC. 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, 2021, 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,	2021		2020	
	CSC	CSB	CSC	CSB
Total stockholders' equity	$ 56,261	$ 27,035	$ 56,060	$ 22,223
Less:				
Preferred stock	9,954	—	7,733	—
Common Equity Tier 1 Capital before regulatory adjustments	$ 46,307	$ 27,035	$ 48,327	$ 22,223
Less:				
Goodwill, net of associated deferred tax liabilities	$ 11,857	$ 13	$ 11,897	$ 13
Other intangible assets, net of associated deferred tax liabilities	7,579	—	8,103	—
Deferred tax assets, net of valuation allowances and deferred tax liabilities	13	12	17	12
AOCI adjustment	(1,109)	(1,004)	5,394	4,672
Common Equity Tier 1 Capital	$ 27,967	$ 28,014	$ 22,916	$ 17,526
Tier 1 Capital	$ 37,921	$ 28,014	$ 30,649	$ 17,526
Total Capital	37,950	28,033	30,688	17,558
Risk-Weighted Assets	141,969	104,409	123,881	91,062
Total Leverage Exposure	614,466	400,532	491,469	325,437
Common Equity Tier 1 Capital/Risk-Weighted Assets	19.7 %	26.8 %	18.5 %	19.2 %
Tier 1 Capital/Risk-Weighted Assets	26.7 %	26.8 %	24.7 %	19.2 %
Total Capital/Risk-Weighted Assets	26.7 %	26.8 %	24.8 %	19.3 %
Tier 1 Leverage Ratio	6.2 %	7.1 %	6.3 %	5.5 %
Supplementary Leverage Ratio	6.2 %	7.0 %	6.2 %	5.4 %

As a result of significant inflows of client cash in 2020, our Tier 1 Leverage Ratio for consolidated CSC and CSB declined below our long-term operating objectives. In 2021, the Company's issuances of preferred stock and strength in earnings helped to largely maintain our Tier 1 Leverage Ratio, even as bank deposits and payables to brokerage clients grew by a total of $107.2 billion, or 23%, during the year. We ended 2021 with a consolidated Tier 1 Leverage Ratio of 6.2%, down slightly from the prior year-end of 6.3%. Earnings in 2021 as well as capital contributions from CSC drove an increase in CSB's Tier 1 Leverage Ratio from 5.5% at year-end 2020 to 7.1% at year-end 2021. Though our Tier 1 Leverage Ratio is below our long-term operating objective for consolidated CSC, this ratio is well above the regulatory minimum. The pace of return to our long-term operating objective over time depends on a number of factors including the overall size of the Company's balance sheet, earnings, and capital issuance and deployment.

IDA Agreement

Through December 31, 2021, Schwab had moved $10.1 billion of IDA balances to its balance sheet, which included uninsured balances and certain international account balances. 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 and the availability of IDA balances designated as floating-rate obligations. See Item 8 – Note 15 for further information on the IDA agreement.

Dividends

Since the initial dividend in 1989, CSC has paid 131 consecutive quarterly dividends and has increased the quarterly dividend rate 25 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 a quarterly cash dividend increase per common share during 2020 as shown below:

Date of Declaration	Quarterly Cash Increase Per Common Share	% Increase	New Quarterly Dividend Per Common Share
January 30, 2020	$ 0.01	6 %$	0.18

In addition, on January 26, 2022, the Board of Directors of the Company declared a two cent, or 11%, increase in the quarterly cash dividend to $0.20 per common share.

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

Year Ended December 31,	2021		2020	
	Cash Paid	Per Share Amount	Cash Paid	Per Share Amount
Common and Nonvoting Common Stock	$ 1,366	$ 0.72	$ 1,039	$ 0.72
Series A Preferred Stock [(1)]	28	70.00	28	70.00
Series C Preferred Stock [(2)]	18	30.00	36	60.00
Series D Preferred Stock [(3)]	45	59.52	45	59.52
Series E Preferred Stock [(4)]	28	4,625.00	28	4,625.00
Series F Preferred Stock [(5)]	25	5,000.00	25	5,000.00
Series G Preferred Stock [(6)]	134	5,375.00	79	3,150.35
Series H Preferred Stock [(7)]	97	3,888.89	N/A	N/A
Series I Preferred Stock [(8)]	63	2,811.11	N/A	N/A
Series J Preferred Stock [(9)]	18	29.80	N/A	N/A

[(1)] Dividends paid semi-annually until February 1, 2022 and quarterly thereafter.
[(2)] Series C Preferred Stock was redeemed on June 1, 2021. Prior to redemption, dividends paid quarterly and the final dividend was paid on June 1, 2021.
[(3)] Dividends paid quarterly.
[(4)] Dividends paid semi-annually until March 1, 2022 and quarterly thereafter.
[(5)] Dividends paid semi-annually until December 1, 2027 and quarterly thereafter.
[(6)] Series G Preferred Stock was issued on April 30, 2020. Dividends are paid quarterly, and the first dividend was paid on September 1, 2020.
[(7)] Series H Preferred Stock was issued on December 11, 2020. Dividends are paid quarterly, and the first dividend was paid on March 1, 2021.
[(8)] Series I Preferred Stock was issued on March 18, 2021. Dividends are paid quarterly, and the first dividend was paid on June 1, 2021.
[(9)] Series J Preferred Stock was issued on March 30, 2021. Dividends are paid quarterly, and the first dividend was paid on June 1, 2021.
N/A Not applicable.

Share Repurchases

On January 30, 2019, CSC publicly announced that its Board of Directors authorized the repurchase of up to $4.0 billion of common stock. The 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, 2021 or 2020. As of December 31, 2021, $1.8 billion remained on our existing authorization.

FOREIGN EXPOSURE

At December 31, 2021, Schwab had exposure to non-sovereign financial and non-financial institutions in foreign countries, as well as agencies of foreign governments. 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. At December 31, 2020, the fair value of these holdings totaled $10.1 billion, with the top three exposures being to issuers and counterparties domiciled in France at $6.7 billion, Germany at $1.2 billion, and Canada at $880 million. In addition, Schwab had outstanding margin loans to foreign residents of $3.3 billion and $2.2 billion at December 31, 2021 and 2020, respectively.

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 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 2021 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 contain 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.

Non-GAAP Adjustment or Measure	Definition
Acquisition and integration-related costs and amortization of acquired intangible assets	Schwab adjusts certain GAAP financial measures to exclude the impact of acquisition and integration related costs incurred as a result of t Company's acquisitions, amortizatio of acquired intangible assets, and, where applicable, the income tax effect of these expenses. 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 intangib assets contribute to the Company's revenue generation. Amortization of acquired intangible assets will continue in future periods over their remaining useful lives.
Return on tangible common equity	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.

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.

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

	Year Ended December 31,		
	2021	2020	2019
Total expenses excluding interest (GAAP)	$ 10,807	$ 7,391	$ 5,873
Acquisition and integration-related costs [1]	(468)	(442)	(26)
Amortization of acquired intangible assets	(615)	(190)	(27)
Adjusted total expenses (non-GAAP)	$ 9,724	$ 6,759	$ 5,820

[1] 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. Substantially all acquisition and integration-related costs for 2019 are included in professional services expense.

	Year Ended December 31,					
	2021		2020		2019	
	Amount	Diluted EPS	Amount	Diluted EPS	Amount	Diluted EPS
Net income available to common stockholders (GAAP), Earnings per common share — diluted (GAAP)	$ 5,360	$ 2.83	$ 3,043	$ 2.12	$ 3,526	$ 2.67
Acquisition and integration-related costs	468	.25	442	.31	26	.02
Amortization of acquired intangible assets	615	.32	190	.13	27	.02
Income tax effects [1]	(268)	(.15)	(154)	(.11)	(13)	(.01)
Adjusted net income available to common stockholders (non-GAAP), Adjusted diluted EPS (non-GAAP)	$ 6,175	$ 3.25	$ 3,521	$ 2.45	$ 3,566	$ 2.70

[1] 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,		
	2021	2020	2019
Return on average common stockholders' equity (GAAP)	11 %	9 %	19 %
Average common stockholders' equity	$ 47,318	$ 33,640	$ 18,415
Less: Average goodwill	(11,952)	(6,590)	(1,227)
Less: Average acquired intangible assets — net	(9,685)	(5,059)	(140)
Plus: Average deferred tax liabilities related to goodwill and acquired intangible assets — net	1,919	1,005	67
Average tangible common equity	$ 27,600	$ 22,996	$ 17,115
Adjusted net income available to common stockholders [1]	$ 6,175	$ 3,521	$ 3,566
Return on tangible common equity (non-GAAP)	22 %	15 %	21 %

[1] 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.

THE CHARLES SCHWAB CORPORATION

Item 8. Financial Statements and Supplementary Data

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Consolidated Statements of Income

(In Millions, Except Per Share Amounts)

Year Ended December 31,	2021	2020	2019
Net Revenues			
Interest revenue	$ 8,506	$ 6,531	$ 7,580
Interest expense	(476)	(418)	(1,064)
Net interest revenue	8,030	6,113	6,516
Asset management and administration fees [1]	4,274	3,475	3,211
Trading revenue	4,152	1,416	752
Bank deposit account fees	1,315	355	—
Other	749	332	242
Total net revenues	18,520	11,691	10,721
Expenses Excluding Interest			
Compensation and benefits	5,450	3,954	3,320
Professional services	994	843	702
Occupancy and equipment	976	703	559
Advertising and market development	485	326	307
Communications	587	353	253
Depreciation and amortization	549	414	322
Amortization of acquired intangible assets	615	190	27
Regulatory fees and assessments	275	163	122
Other	876	445	261
Total expenses excluding interest	10,807	7,391	5,873
Income before taxes on income	7,713	4,300	4,848
Taxes on income	1,858	1,001	1,144
Net Income	5,855	3,299	3,704
Preferred stock dividends and other	495	256	178
Net Income Available to Common Stockholders	$ 5,360	$ 3,043	$ 3,526
Weighted-Average Common Shares Outstanding:			
Basic	1,887	1,429	1,311
Diluted	1,897	1,435	1,320
Earnings Per Common Shares Outstanding [2]:			
Basic	$ 2.84	$ 2.13	$ 2.69
Diluted	$ 2.83	$ 2.12	$ 2.67

[1] Includes fee waivers of $326 million and $127 million for the years ended December 31, 2021 and 2020, respectively.

[2] For the years ended December 31, 2021 and 2020, the Company had 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.

Consolidated Statements of Comprehensive Income

(In Millions)

Year Ended December 31,	2021	2020	2019
Net income	$ 5,855	$ 3,299	$ 3,704
Other comprehensive income (loss), before tax:			
Change in net unrealized gain (loss) on available for sale securities:			
Net unrealized gain (loss)	(8,521)	6,961	430
Other reclassifications included in other revenue	(4)	(4)	(6)
Change in net unrealized gain (loss) on held to maturity securities:			
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	—	—	36
Other	(11)	8	(14)
Other comprehensive income (loss), before tax	(8,536)	6,965	446
Income tax effect	2,033	(1,659)	(106)
Other comprehensive income (loss), net of tax	(6,503)	5,306	340
Comprehensive Income (Loss)	$ (648)	$ 8,605	$ 4,044

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(In Millions, Except Per Share and Share Amounts)

December 31,	2021	2020
Assets		
Cash and cash equivalents	$ 62,975	$ 40,348
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $13,096 and $14,904 at December 31, 2021 and 2020, respectively)	53,949	50,399
Receivables from brokerage clients — net	90,565	64,440
Available for sale securities (amortized cost of $391,482 and $330,248 at December 31, 2021 and 2020, respectively)	390,054	337,400
Bank loans — net	34,636	23,813
Equipment, office facilities, and property — net	3,442	2,883
Goodwill	11,952	11,952
Acquired intangible assets — net	9,379	9,991
Other assets	10,318	7,783
Total assets	$ 667,270	$ 549,009
Liabilities and Stockholders' Equity		
Bank deposits	$ 443,778	$ 358,022
Payables to brokerage clients	125,671	104,201
Accrued expenses and other liabilities	17,791	17,094
Short-term borrowings	4,855	—
Long-term debt	18,914	13,632
Total liabilities	611,009	492,949
Stockholders' equity:		
Preferred stock — $.01 par value per share; aggregate liquidation preference of $10,100 and $7,850 at December 31, 2021 and 2020, respectively	9,954	7,733
Common stock — 3 billion shares authorized; $.01 par value per share; 1,994,895,180 shares issued at December 31, 2021 and 2020	20	20
Nonvoting common stock — 300 million shares authorized; $.01 par value per share; 79,293,695 shares issued at December 31, 2021 and 2020	1	1
Additional paid-in capital	26,741	26,515
Retained earnings	25,992	21,975
Treasury stock, at cost — 180,959,274 and 193,577,648 shares at December 31, 2021 and 2020, respectively	(5,338)	(5,578)
Accumulated other comprehensive income (loss)	(1,109)	5,394
Total stockholders' equity	56,261	56,060
Total liabilities and stockholders' equity	$ 667,270	$ 549,009

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Stockholders' Equity

(In Millions)

		Common Stock		Nonvoting Common Stock						
	Preferred Stock	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2018	$ 2,793	1,488	$ 15	—	$ —	$ 4,499	$ 17,329	$ (3,714)	$ (252)	$20,670
Net income	—	—	—	—	—	—	3,704	—	—	3,704
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	—	340	340
Dividends declared on preferred stock	—	—	—	—	—	—	(161)	—	—	(161)
Dividends declared on common stock — $.68 per share	—	—	—	—	—	—	(899)	—	—	(899)
Repurchase of common stock	—	—	—	—	—	—	—	(2,220)	—	(2,220)
Stock option exercises and other	—	—	—	—	—	(56)	—	174	—	118
Share-based compensation	—	—	—	—	—	171	—	—	—	171
Other	—	—	—	—	—	42	(13)	(7)	—	22
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

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Cash Flows

(In Millions)

Year Ended December 31,	2021	2020	2019
Cash Flows from Operating Activities			
Net income	$ 5,855	$ 3,299	$ 3,704
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Share-based compensation	254	204	183
Depreciation and amortization	549	414	322
Amortization of acquired intangible assets	615	190	27
Provision (benefit) for deferred income taxes	53	(138)	2
Premium amortization, net, on available for sale securities	2,346	1,586	446
Other	372	349	199
Net change in:			
Investments segregated and on deposit for regulatory purposes	(3,398)	(10,208)	(977)
Receivables from brokerage clients	(26,168)	(14,609)	(125)
Other assets	(1,152)	4	(709)
Payables to brokerage clients	21,470	22,909	6,494
Accrued expenses and other liabilities	1,322	2,852	(241)
Net cash provided by (used for) operating activities	2,118	6,852	9,325
Cash Flows from Investing Activities			
Purchases of available for sale securities	(171,732)	(202,171)	(31,815)
Proceeds from sales of available for sale securities	13,306	4,801	24,495
Principal payments on available for sale securities	94,912	63,247	21,616
Purchases of held to maturity securities	—	—	(19,441)
Principal payments on held to maturity securities	—	—	19,606
Net change in bank loans	(10,845)	(5,675)	(1,730)
Cash acquired in acquisitions, net of cash paid	—	14,748	—
Purchases of equipment, office facilities, and property	(916)	(631)	(708)
Purchases of Federal Home Loan Bank stock	—	(26)	(27)
Proceeds from sales of Federal Home Loan Bank stock	—	32	24
Purchases of Federal Reserve stock	(245)	(191)	—
Other investing activities	(143)	15	(56)
Net cash provided by (used for) investing activities	(75,663)	(125,851)	11,964
Cash Flows from Financing Activities			
Net change in bank deposits	85,756	137,928	(11,329)
Proceeds from commercial paper and secured lines of credit	11,107	1,234	1,400
Repayment of commercial paper and secured lines of credit	(6,255)	(1,234)	(1,400)
Issuance of long-term debt	7,036	3,070	593
Repayment of long-term debt	(1,822)	(700)	—
Repurchases of common stock	—	—	(2,220)
Net proceeds from preferred stock offerings	2,806	4,940	—
Redemption of preferred stock	(600)	—	—
Dividends paid	(1,822)	(1,280)	(1,060)
Proceeds from stock options exercised	221	79	118
Other financing activities	(104)	(55)	(41)
Net cash provided by (used for) financing activities	96,323	143,982	(13,939)
Increase (Decrease) in Cash and Cash Equivalents, including Amounts Restricted	22,778	24,983	7,350
Cash and Cash Equivalents, including Amounts Restricted at Beginning of Year	70,560	45,577	38,227
Cash and Cash Equivalents, including Amounts Restricted at End of Year	$ 93,338	$ 70,560	$ 45,577

Continued on following page.

THE CHARLES SCHWAB CORPORATION

Continued from previous page.

Year Ended December 31,	2021	2020	2019
Supplemental Cash Flow Information			
Non-cash investing activity:			
Securities transferred from held to maturity to available for sale, at fair value	$ —	$ 136,099	$ 8,771
Additions of equipment, office facilities, and property	$ 125	$ 110	$ 45
Acquisition of TD Ameritrade	$ —	$ 21,758	$ —
Non-cash financing activity:			
Extinguishment of finance lease obligation through an assignment agreement	$ —	$ —	$ 52
Other Supplemental Cash Flow Information			
Cash paid during the period for:			
Interest	$ 501	$ 434	$ 1,075
Income taxes	$ 2,053	$ 803	$ 1,199
Amounts included in the measurement of lease liabilities	$ 212	$ 163	$ 133
Leased assets obtained in exchange for new operating lease liabilities	$ 89	$ 160	$ 97
Leased assets obtained in exchange for new finance lease liabilities	$ 109	$ —	$ —

December 31,	2021	2020	2019
Reconciliation of cash, cash equivalents and amounts reported within the balance sheet [1]			
Cash and cash equivalents	$ 62,975	$ 40,348	$ 29,345
Restricted cash and cash equivalents amounts included in cash and investments segregated and on deposit for regulatory purposes	30,363	30,212	16,232
Total cash and cash equivalents, including amounts restricted shown in the statement of cash flows	$ 93,338	$ 70,560	$ 45,577

[1] 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®) and for Schwab's exchange-traded funds (Schwab ETFs™).

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 those 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.

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® and Schwab ETFs™, 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 rebate payments received from 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, certain service fees, software fees, and non-recurring gains. 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.

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 Rule 15c3-3 of the Securities Exchange Act of 1934 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, which are collateralized by U.S. Government and agency securities. Resale agreements are accounted for as collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. Under these resale agreements, the Company obtains collateral with a market value equal to or in excess of the principal amount loaned and the interest accrued. Collateral is valued daily by the Company, with additional collateral obtained to ensure full collateralization. Cash and investments segregated also include certificates of deposit and U.S. Government securities. Certificates of deposit and U.S. Government securities are recorded at fair value and unrealized gains and losses are included in earnings.

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 resale agreements. 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.

Receivables from brokerage clients

Receivables from brokerage clients include margin loans to securities brokerage clients and other trading receivables from 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 in estimating an allowance for credit losses for margin loans. 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 delinquent 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.

AFS 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. 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 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).

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 impairment has resulted from a credit loss or other factors. This evaluation is performed quarterly on an individual security basis.

The evaluation of whether credit loss exists 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 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. Changes in the allowance for credit losses are recorded through earnings in the period of the change.

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 excludes accrued interest from the fair value and the amortized cost basis of the AFS investment securities for the purposes of identifying and measuring impairment of the securities. AFS investment securities are placed on nonaccrual status on a timely basis and any accrued interest receivable is reversed through interest income.

Securities borrowed and securities loaned

Securities borrowed transactions require Schwab to deliver cash to the lender in exchange for securities; the receivables from these transactions are 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. The loss severity estimate used in the allowance for credit loss methodology for HELOCs is higher than that used in the methodology for First Mortgages. 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.

Schwab considers loan modifications in which it makes an economic concession to a borrower experiencing financial difficulty to be troubled debt restructurings (TDRs).

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 delinquent loans 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 [(1)]
Leasehold improvements	Lesser of useful life

[(1)] 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 1st. 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.

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

The Company primarily has operating leases for corporate offices, branch locations, and server equipment and determines 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. ROU assets and lease liabilities are recognized at commencement date 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 lease payments 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.

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 those classes 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 fair value of the share-based award is recognized over the service period as share-based compensation. 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. 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 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, and 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.

New Accounting Standards

No new accounting standards that are material to the Company were adopted during the year ended December 31, 2021. There are currently no new accounting standards not yet adopted that are material to the Company.

3. Business Acquisitions

TD Ameritrade

On October 6, 2020 Schwab completed its previously announced 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, through its broker-dealer subsidiaries,

and futures and foreign exchange trade execution services through its FCM and FDM subsidiary.

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, as described below. Subsequently, TD Bank and its affiliates exchanged common stock for nonvoting common stock and held approximately 79 million shares of nonvoting common stock as of December 31, 2021. For further details on the new class of 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 [1]		94
Purchase price	$	21,758

[1] 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 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.

Purchase price	$	21,758
Fair value of assets acquired:		
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
Fair value of liabilities assumed:		
Payables to brokerage clients		37,599
Accrued expenses and other liabilities		6,975
Long-term debt		3,829
Total liabilities assumed		48,403
Fair value of net identifiable assets acquired		11,543
Goodwill		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)
Equipment, office facilities, and property			
Real property [1]	$	226	37
Personal property [2]		162	2
Construction in progress		49	N/A
Land		33	N/A
Total equipment, office facilities, and property	$	470	
Acquired intangible assets			
Client relationships	$	8,700	20
Existing technology		165	2
Trade names		15	2
Total acquired intangible assets	$	8,880	

[1] Consists primarily of buildings.
[2] 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 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 and $11 million for the years ended December 31, 2020 and 2019, respectively, which are primarily included in professional services on the consolidated statements 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.

Purchase price	$	1,581
Fair value of assets acquired:		
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
Fair value of liabilities assumed:		
Payables to brokerage clients		4,472
Total liabilities assumed		4,472
Fair value of net identifiable assets acquired	$	1,109
Goodwill	$	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 [1]		142	20
Royalty-free license		5	7
Total acquired intangible assets	$	1,109	

[1] The brokerage referral agreement has an initial term of 5 years and is automatically renewable for one-year increments thereafter.

Goodwill recorded 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.

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 and $14 million for the years ended December 31, 2020 and 2019, respectively, which are primarily included in professional services, other expense, and compensation and benefits on the consolidated statements 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. 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. These costs and after-tax acquisition costs of $40 million incurred in 2019 by Schwab and the acquirees are included in pro forma net income for the year ended December 31, 2019.

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 December 31,	
	2020	2019
Total net revenues	$ 16,617	$ 16,897
Net income available to common stockholders	4,617	5,121

4. Revenue Recognition

Disaggregated Revenue

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

Year Ended December 31,	2021	2020	2019
Net interest revenue			
Cash and cash equivalents	$ 40	$ 120	$ 518
Cash and investments segregated	24	141	345
Receivables from brokerage clients	2,455	848	821
Available for sale securities	4,641	4,537	1,560
Held to maturity securities	—	—	3,591
Bank loans	620	545	584
Securities lending revenue	720	334	147
Other interest revenue	6	6	14
Interest revenue	8,506	6,531	7,580
Bank deposits	(54)	(93)	(700)
Payables to brokerage clients	(9)	(12)	(79)
Short-term borrowings	(9)	—	—
Long-term debt	(384)	(289)	(258)
Securities lending expense	(24)	(33)	(38)
Other interest expense	4	9	11
Interest expense	(476)	(418)	(1,064)
Net interest revenue	8,030	6,113	6,516
Asset management and administration fees			
Mutual funds, ETFs, and CTFs	1,961	1,770	1,747
Advice solutions	1,993	1,443	1,198
Other	320	262	266
Asset management and administration fees	4,274	3,475	3,211
Trading revenue			
Commissions	2,050	739	549
Order flow revenue	2,053	621	135
Principal transactions	49	56	68
Trading revenue	4,152	1,416	752
Bank deposit account fees	1,315	355	—
Other	749	332	242
Total net revenues	$ 18,520	$ 11,691	$ 10,721

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.

5. Receivables from and Payables to Brokerage Clients

Receivables from and payables to brokerage clients are detailed below:

December 31,	2021	2020
Receivables		
Margin loans	$ 87,365	$ 60,865
Other brokerage receivables	3,200	3,575
Receivables from brokerage clients — net [1]	$ 90,565	$ 64,440
Payables		
Interest-bearing payables	$ 107,551	$ 84,642
Non-interest-bearing payables	18,120	19,559
Payables to brokerage clients	$ 125,671	$ 104,201

[1] The allowance for credit losses for receivables from brokerage clients and related activity were immaterial for all periods presented.

At December 31, 2021 and 2020, approximately 17% of total CS&Co and TD Ameritrade, Inc. client accounts were located in California.

6. Investment Securities

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

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities				
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 [1]	17,547	79	80	17,546
Corporate debt securities [2]	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
December 31, 2020				
Available for sale securities				
U.S. agency mortgage-backed securities	$ 283,911	$ 7,005	$ 563	$ 290,353
Asset-backed securities [1]	18,808	174	84	18,898
Corporate debt securities [2]	12,408	388	—	12,796
U.S. Treasury securities	10,631	25	—	10,656
U.S. state and municipal securities	1,544	153	—	1,697
Foreign government agency securities	1,411	2	—	1,413
Non-agency commercial mortgage-backed securities	1,213	52	—	1,265
Certificates of deposit	300	—	—	300
Other	22	—	—	22
Total available for sale securities	$ 330,248	$ 7,799	$ 647	$ 337,400

[1] Approximately 58% and 51% of asset-backed securities held as of December 31, 2021 and 2020, respectively, were Federal Family Education Loan Program Asset-Backed Securities. Asset-backed securities collateralized by credit card receivables represented approximately 30% and 36% of the asset-backed securities held as of December 31, 2021 and 2020, respectively.

[2] As of December 31, 2021 and 2020 approximately 31% and 46%, respectively of the total AFS in corporate debt securities were issued by institutions in the financial services industry.

On January 1, 2019 the Company transferred certain U.S. agency mortgage-backed securities with a fair value of $8.8 billion from the HTM category to the AFS category as permitted by ASU 2017-12, "*Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities"* (ASU 2017-12). This transfer resulted in a net of tax increase to AOCI of $19 million.

In October 2019, the Federal Reserve issued a final enhanced prudential standards rule, and the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC jointly issued a final regulatory capital and liquidity rule. 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.

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

At December 31, 2021, our banking subsidiaries had pledged securities with a fair value of $49.6 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 fair value of $12.0 billion as collateral for this facility at December 31, 2021. 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, 2021.

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

	Less than 12 months		12 months or longer		Total	
December 31, 2021	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities						
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
December 31, 2020						
Available for sale securities						
U.S. agency mortgage-backed securities	$ 61,706	$ 551	$ 4,774	$ 12	$ 66,480	$ 563
Asset-backed securities	1,398	13	5,822	71	7,220	84
Total	$ 63,104	$ 564	$ 10,596	$ 83	$ 73,700	$ 647

At December 31, 2021, 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, 2021 and 2020. None of the Company's AFS securities held as of December 31, 2021 and 2020 had an allowance for credit losses. Prior to the Company's adoption of ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13) on January 1, 2020, no amount was recognized as other-than-temporary impairment in earnings or other comprehensive income during the year ended December 31, 2019.

The Company had $683 million and $634 million of accrued interest receivable as of December 31, 2021 and 2020, respectively, for AFS securities. These amounts are excluded from the amortized cost basis of AFS securities and included in other assets on the consolidated balance sheets. There were no write-offs of accrued interest receivable on AFS securities during the years ended December 31, 2021 and 2020.

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 investment securities are as follows:

December 31, 2021	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
U.S. agency mortgage-backed securities	$ 3,483	$ 20,916	$ 71,705	$ 238,251	$ 334,355
U.S. Treasury securities	4,049	14,569	2,664	—	21,282
Asset-backed securities	—	4,922	3,003	9,621	17,546
Corporate debt securities	1,634	6,443	4,267	—	12,344
U.S. state and municipal securities	23	150	1,010	504	1,687
Non-agency commercial mortgage-backed securities	—	—	—	1,190	1,190
Certificates of deposit	300	699	—	—	999
Foreign government agency securities	101	324	—	—	425
Commercial paper	200	—	—	—	200
Other	—	—	—	26	26
Total fair value	$ 9,790	$ 48,023	$ 82,649	$ 249,592	$ 390,054
Total amortized cost	$ 9,761	$ 47,336	$ 82,556	$ 251,829	$ 391,482
Weighted-average yield [1]	1.28 %	1.89 %	1.78 %	1.11 %	1.35 %

[1] The weighted-average yield is computed using the amortized cost at December 31, 2021.

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

Year Ended December 31,	2021	2020	2019
Proceeds	$ 13,306	$ 4,801	$ 24,495
Gross realized gains	40	5	16
Gross realized losses	36	1	10

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, 2021	Current	30-59 days past due	60-89 days past due	≥90 days past due and other nonaccrual loans [3]	Total past due and other nonaccrual loans	Total loans	Allowance for credit losses	Total bank loans – net
Residential real estate:								
First Mortgages [1,2]	$ 21,022	$ 41	$ 1	$ 26	$ 68	$ 21,090	$ 13	$ 21,077
HELOCs [1,2]	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
December 31, 2020								
Residential real estate:								
First Mortgages [1,2]	$ 14,804	$ 27	$ 1	$ 72	$ 100	$ 14,904	$ 22	$ 14,882
HELOCs [1,2]	823	1	1	17	19	842	5	837
Total residential real estate	15,627	28	2	89	119	15,746	27	15,719
Pledged asset lines	7,901	10	5	—	15	7,916	—	7,916
Other	181	—	—	—	—	181	3	178
Total bank loans	$ 23,709	$ 38	$ 7	$ 89	$ 134	$ 23,843	$ 30	$ 23,813

[1] First Mortgages and HELOCs include unamortized premiums and discounts and direct origination costs of $91 million and $72 million at December 31, 2021 and 2020, respectively.
[2] At December 31, 2021 and 2020, 46% and 45%, 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.
[3] There were no loans accruing interest that were contractually 90 days or more past due at December 31, 2021 or 2020.

At December 31, 2021, 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).

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

	December 31, 2021					December 31, 2020					December 31, 2019				
	First Mortgages	HELOCs	Total residential real estate	Other	Total	First Mortgages	HELOCs	Total residential real estate	Other	Total	First Mortgages	HELOCs	Total residential real estate	Other	Total
Balance at beginning of year	$ 22	$ 5	$ 27	$ 3	$ 30	$ 11	$ 4	$ 15	$ 3	$ 18	$ 14	$ 5	$ 19	$ 2	$ 21
Adoption of ASU 2016-13	—	—	—	—	—	1	—	1	—	1	—	—	—	—	—
Charge-offs	—	—	—	(1)	(1)	—	—	—	—	—	—	—	—	—	—
Recoveries	—	1	1	—	1	1	—	1	—	1	1	1	2	—	2
Provision for credit losses	(9)	(4)	(13)	1	(12)	9	1	10	—	10	(4)	(2)	(6)	1	(5)
Balance at end of year	$ 13	$ 2	$ 15	$ 3	$ 18	$ 22	$ 5	$ 27	$ 3	$ 30	$ 11	$ 4	$ 15	$ 3	$ 18

As discussed in Note 2, PALs are subject to the collateral maintenance practical expedient under ASC 326. All PALs were fully collateralized by securities with fair values in excess of borrowings as of December 31, 2021 and 2020, respectively. Therefore, no allowance for credit losses for PALs as of those dates was required.

The economy continued to strengthen overall in 2021, however, COVID-19 has continued to affect the pace of recovery. Management's macroeconomic outlook reflects continued moderate growth in home prices and lower unemployment anticipated over the near term. This macroeconomic outlook, along with the continued strong credit quality metrics in the bank loans portfolio, result in a lower modeled projection of loss rates compared to December 31, 2020.

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

December 31,	2021	2020
Nonaccrual loans [1]	$ 35	$ 89
Other real estate owned [2]	1	1
Total nonperforming assets	36	90
Troubled debt restructurings	—	1
Total nonperforming assets and troubled debt restructurings	$ 36	$ 91

[1] Nonaccrual loans include nonaccrual troubled debt restructurings.
[2] Included in other assets on the consolidated balance sheets.

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									
December 31, 2021	2021	2020	2019	2018	2017	pre-2017	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	6	19	90	—	2	2
680 – 739	1,306	524	146	41	98	215	2,330	61	60	121
≥740	11,649	4,454	1,049	165	354	996	18,667	308	217	525
Total	$ 12,990	$ 5,004	$ 1,200	$ 207	$ 458	$ 1,231	$ 21,090	$ 369	$ 279	$ 648
Origination LTV										
≤70%	$ 11,234	$ 4,159	$ 948	$ 160	$ 351	$ 909	$ 17,761	$ 305	$ 199	$ 504
>70% – ≤90%	1,756	845	252	47	107	319	3,326	64	78	142
>90% – ≤100%	—	—	—	—	—	3	3	—	2	2
Total	$ 12,990	$ 5,004	$ 1,200	$ 207	$ 458	$ 1,231	$ 21,090	$ 369	$ 279	$ 648
Weighted Average Updated FICO										
<620	$ 5	$ 2	$ 1	$ —	$ 2	$ 12	$ 22	$ 2	$ 6	$ 8
620 – 679	96	69	19	7	8	30	229	6	14	20
680 – 739	1,265	421	115	24	53	149	2,027	51	39	90
≥740	11,624	4,512	1,065	176	395	1,040	18,812	310	220	530
Total	$ 12,990	$ 5,004	$ 1,200	$ 207	$ 458	$ 1,231	$ 21,090	$ 369	$ 279	$ 648
Estimated Current LTV [1]										
≤70%	$ 11,707	$ 4,961	$ 1,196	$ 206	$ 455	$ 1,229	$ 19,754	$ 368	$ 277	$ 645
>70% – ≤90%	1,283	43	4	1	3	2	1,336	1	2	3
>90% – ≤100%	—	—	—	—	—	—	—	—	—	—
>100%	—	—	—	—	—	—	—	—	—	—
Total	$ 12,990	$ 5,004	$ 1,200	$ 207	$ 458	$ 1,231	$ 21,090	$ 369	$ 279	$ 648
Percent of Loans on Nonaccrual Status	0.03 %	0.10 %	0.03 %	0.03 %	0.03 %	1.40 %	0.12 %	0.64 %	2.33 %	1.39 %

[1] Represents the LTV for the full line of credit (drawn and undrawn) for revolving HELOCs.

	First Mortgages Amortized Cost Basis by Origination Year						Revolving HELOCs		
December 31, 2020	2020	2019	2018	2017	pre-2017	Total First Mortgages	HELOCs amortized cost basis	converted to term loans	Total HELOCs
Origination FICO									
<620	$ 1	$ —	$ —	$ —	$ 2	$ 3	$ —	$ —	$ —
620 – 679	29	13	3	8	31	84	1	3	4
680 – 739	794	355	105	181	419	1,854	82	80	162
≥740	7,150	2,452	449	858	2,054	12,963	380	296	676
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 2,506	$ 14,904	$ 463	$ 379	$ 842
Origination LTV									
≤70%	$ 6,653	$ 2,211	$ 396	$ 793	$ 1,935	$ 11,988	$ 351	$ 269	$ 620
>70% – ≤90%	1,321	609	161	254	568	2,913	112	107	219
>90% – ≤100%	—	—	—	—	3	3	—	3	3
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 2,506	$ 14,904	$ 463	$ 379	$ 842
Weighted Average Updated FICO									
<620	$ 5	$ 2	$ 1	$ 4	$ 19	$ 31	$ 3	$ 9	$ 12
620 – 679	67	34	16	21	60	198	12	20	32
680 – 739	784	252	66	121	281	1,504	58	55	113
≥740	7,118	2,532	474	901	2,146	13,171	390	295	685
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 2,506	$ 14,904	$ 463	$ 379	$ 842
Estimated Current LTV [1]									
≤70%	$ 6,999	$ 2,582	$ 533	$ 1,034	$ 2,490	$ 13,638	$ 452	$ 368	$ 820
>70% – ≤90%	975	238	24	13	16	1,266	11	9	20
>90% – ≤100%	—	—	—	—	—	—	—	1	1
>100%	—	—	—	—	—	—	—	1	1
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 2,506	$ 14,904	$ 463	$ 379	$ 842
Percent of Loans on Nonaccrual Status	0.09 %	0.38 %	1.02 %	0.87 %	1.57 %	0.48 %	1.37 %	2.80 %	2.02 %

[1] Represents the LTV for the full line of credit (drawn and undrawn) for revolving HELOCs.

At December 31, 2021, First Mortgage loans of $17.0 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 89% 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, 2021 and 2020, Schwab had $57 million and $43 million, respectively, of accrued interest on bank loans, which is excluded from the amortized cost basis of bank loans and 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,	2021	2020
HELOCs converted to amortizing loans	$ 19	$ 26

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

December 31, 2021	Balance
Converted to an amortizing loan by period end	$ 279
Within 1 year	16
> 1 year – 3 years	72
> 3 years – 5 years	65
> 5 years	216
Total	$ 648

At December 31, 2021, $495 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, 2021, the borrowers on approximately 53% 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,	2021	2020
Software	$ 2,524	$ 2,314
Buildings	1,640	1,444
Information technology and telecommunications equipment	679	509
Leasehold improvements	462	455
Construction in progress	429	325
Land	208	208
Other	388	295
Total equipment, office facilities, and property	6,330	5,550
Accumulated depreciation and amortization	(2,888)	(2,667)
Total equipment, office facilities, and property — net	$ 3,442	$ 2,883

9. Goodwill and Acquired Intangible Assets

Acquired intangible assets and goodwill are detailed below:

	December 31, 2021			December 31, 2020		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Client relationships	$ 10,089	$ (908)	$ 9,181	$ 10,089	$ (386)	$ 9,703
Technology	305	(197)	108	305	(112)	193
Trade names	116	(26)	90	113	(18)	95
Total acquired intangible assets	$ 10,510	$ (1,131)	$ 9,379	$ 10,507	$ (516)	$ 9,991

Estimated future annual amortization expense for acquired intangible assets as of December 31, 2021 is as follows:

2022	$ 596
2023	534
2024	518
2025	512
2026	508
Thereafter	6,630
Total	$ 9,298

Note: The above schedule excludes indefinite-lived intangible assets of $81 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, 2019	$ 1,096	$ 131	$ 1,227
Goodwill acquired in TD Ameritrade acquisition	6,380	3,835	10,215
Goodwill acquired in other acquisitions	494	16	510
December 31, 2020	7,970	3,982	11,952
Goodwill acquired and other changes during the period	—	—	—
Balance at December 31, 2021	$ 7,970	$ 3,982	$ 11,952

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

As of our annual testing date, we performed an assessment of each of the Company's reporting units. 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.

10. Other Assets

The components of other assets are as follows:

December 31,	2021	2020
Other receivables from brokers, dealers, and clearing organizations	$ 2,475	$ 1,748
Receivables — interest, dividends, and other	1,615	1,180
Other securities owned at fair value [1]	1,584	687
Other investments [2]	1,526	1,019
Operating lease ROU assets	842	937
Customer contract receivables [3]	637	579
Securities borrowed	582	873
Capitalized contract costs	344	303
Other	713	457
Total other assets	$ 10,318	$ 7,783

[1] 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.

[2] Includes LIHTC investments and certain other CRA-related investments (see Note 11). This item also includes investments in FHLB stock of $29 million at December 31, 2021 and 2020, 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 and CSPB 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 $436 million and $191 million at December 31, 2021 and 2020, respectively.

[3] Represents substantially all receivables from contracts with customers within the scope of ASC 606. Schwab does not have any other significant contract assets or contract liability balances as of December 31, 2021 or 2020.

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 $69 million, $63 million, and $55 million during the years ended December 31, 2021, 2020, and 2019, respectively, which was recorded in compensation and benefits expense on the consolidated statements of income.

11. Variable Interest Entities

As of December 31, 2021 and 2020, all of Schwab's involvement with variable interest entities (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 2021, 2020, and 2019, CSB recorded amortization of $71 million, $56 million, and $39 million, respectively, and recognized tax credits and other tax benefits of $90 million, $69 million, and $47 million, respectively, associated with these investments. The amortization, as well as the tax credits and other tax benefits, are included in taxes on income.

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, 2021			December 31, 2020		
	Aggregate assets	Aggregate liabilities	Maximum exposure to loss	Aggregate assets	Aggregate liabilities	Maximum exposure to loss
LIHTC investments [1]	$ 915	$ 530	$ 915	$ 649	$ 344	$ 649
Other CRA investments [2]	161	—	211	118	—	152
Total	$ 1,076	$ 530	$ 1,126	$ 767	$ 344	$ 801

[1] Aggregate assets and aggregate liabilities are included in other assets and accrued expenses and other liabilities, respectively, on the consolidated balance sheets.
[2] Other CRA investments 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. CSB's funding of these remaining commitments is dependent upon the occurrence of certain conditions, and CSB expects to pay substantially all of these commitments between 2022 and 2025. During the years ended December 31, 2021, 2020, and 2019, 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,	2021	2020
Interest-bearing deposits:		
Deposits swept from brokerage accounts	$ 412,287	$ 332,513
Checking	22,786	17,785
Savings and other	7,234	6,739
Total interest-bearing deposits	442,307	357,037
Non-interest-bearing deposits	1,471	985
Total bank deposits	$ 443,778	$ 358,022

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.

The following table lists long-term debt by instrument outstanding as of December 31, 2021 and 2020.

	Date of Issuance	Principal Amo 2021
CSC Fixed-rate Senior Notes:		
3.250% due May 21, 2021	05/22/18	$ —
3.225% due September 1, 2022	08/29/12	256
2.650% due January 25, 2023	12/07/17	800
3.550% due February 1, 2024	10/31/18	500
0.750% due March 18, 2024	03/18/21	1,500
3.750% due April 1, 2024 [1]	09/24/21	350
3.000% due March 10, 2025	03/10/15	375
4.200% due March 24, 2025	03/24/20	600
3.625% due April 1, 2025 [1]	09/24/21	418
3.850% due May 21, 2025	05/22/18	750
3.450% due February 13, 2026	11/13/15	350
0.900% due March 11, 2026	12/11/20	1,250
1.150% due May 13, 2026	05/13/21	1,000
3.200% due March 2, 2027	03/02/17	650
3.300% due April 1, 2027 [1]	09/24/21	744
3.200% due January 25, 2028	12/07/17	700
2.000% due March 20, 2028	03/18/21	1,250
4.000% due February 1, 2029	10/31/18	600
3.250% due May 22, 2029	05/22/19	600
2.750% due October 1, 2029 [1]	09/24/21	475
4.625% due March 22, 2030	03/24/20	500
1.650% due March 11, 2031	12/11/20	750
2.300% due May 13, 2031	05/13/21	750
1.950% due December 1, 2031	08/26/21	850
CSC Floating-rate Senior Notes:		
Three-month LIBOR + 0.32% due May 21, 2021	05/22/18	—
SOFR + 0.500% due March 18, 2024	03/18/21	1,250
SOFR + 0.520% due May 13, 2026	05/13/21	500
Total CSC Senior Notes		17,768
TDA Holding Fixed-rate Senior Notes:		
2.950% due April 1, 2022	03/09/15	750
3.750% due April 1, 2024 [1]	11/01/18	50
3.625% due April 1, 2025 [1]	10/22/14	82
3.300% due April 1, 2027 [1]	04/27/17	56
2.750% due October 1, 2029 [1]	08/16/19	25
TDA Holding Floating-rate Senior Notes:		
Three-month LIBOR + 0.43% due November 1, 2021	11/01/18	—
Total TDA Holding Senior Notes		963
Finance lease liabilities		94
Unamortized premium — net		180
Debt issuance costs		(91)
Total long-term debt		$ 18,914

[1] 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. The $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.

Annual maturities on all long-term debt outstanding at December 31, 2021, are as follows:

		Maturities
2022	$	1,036
2023		829
2024		3,673
2025		2,237
2026		3,100
Thereafter		7,950
Total maturities		18,825
Unamortized premium — net		180
Debt issuance costs		(91)
Total long-term debt	$	18,914

Short-term borrowings: CSC has the ability to issue up to $5.0 billion of commercial paper notes ($1.5 billion at December 31, 2020) with maturities of up to 270 days. CSC had $3.0 billion of commercial paper notes outstanding at December 31, 2021 and none outstanding at December 31, 2020. CSC and CS&Co also have access to uncommitted lines of credit with external banks with total borrowing capacity of $1.5 billion; no amounts were outstanding as of December 31, 2021 or 2020.

Our banking subsidiaries maintain secured credit facilities with the FHLB. Amounts available under these facilities are dependent on the amount of our First Mortgages, HELOCs, and the fair value of certain of their investment securities that are pledged as collateral. As of December 31, 2021 and 2020, the collateral pledged provided a total borrowing capacity of $63.5 billion and $55.1 billion, respectively, of which no amounts were outstanding at the end of either year.

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, 2021 and 2020, our collateral pledged provided total borrowing capacity of $12.0 billion and $7.9 billion, respectively, of which no amounts were outstanding at the end of either year.

Our banking subsidiaries may engage with external banks in repurchase agreements collateralized by investment securities as another source of short-term liquidity. The Company had no borrowings outstanding pursuant to such repurchase agreements at December 31, 2021 or 2020.

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 $1.9 billion outstanding under the secured uncommitted lines of credit as of December 31, 2021. There were no borrowings outstanding under these secured uncommitted lines of credit as of December 31, 2020. See Note 17 for additional information.

TDAC maintains a senior unsecured committed revolving credit facility with an aggregate borrowing capacity of $600 million, which matures in April 2022. Additionally, at December 31, 2020, TDAC maintained an $850 million unsecured committed revolving credit facility which matured in April 2021 and was not renewed. There were no borrowings outstanding under the TDAC senior revolving facilities as of December 31, 2021 or December 31, 2020.

14. Leases

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

December 31,		2021	2020
Lease assets:	Balance Sheet Classification		
Operating lease ROU assets	Other assets	$ 842	$ 937
Lease liabilities:			
Operating lease liabilities	Accrued expenses and other liabilities	$ 932	$ 1,033

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

The components of lease expense are as follows:

Year Ended December 31,	2021	2020	2019
Lease Cost			
Operating lease cost [1]	$ 220	$ 166	$ 137
Variable lease cost [2]	48	34	34

[1] Includes an immaterial amount attributable to short-term leases.
[2] 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 what is actually incurred.

The following tables present supplemental operating lease information:

December 31,	2021	2020
Lease Term and Discount Rate		
Weighted-average remaining lease term (years)	6.63	7.02
Weighted-average discount rate	2.48 %	2.86 %

Maturity of Lease Liabilities
2022
2023
2024
2025
2026
Thereafter
Total lease payments
Less: Interest
Present value of lease liabilities

[1] Operating lease payments exclude $40 million of legally binding minimum lease payments for leases signed, but not yet commenced. These leases will commence between 2022 and 2023 with lease terms of five years to 15 years.

The Company had finance lease ROU assets included in equipment, office facilities, and property – net of $93 million and finance lease liabilities of $94 million included in long-term debt on the consolidated balance sheet as of December 31, 2021. Finance leases were immaterial as of December 31, 2020.

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®), formerly known as Quicken Loans, LLC. 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 $14.0 billion and $8.7 billion during 2021 and 2020, respectively. CSB purchased HELOCs with commitments of $418 million and $458 million during 2021 and 2020, respectively.

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

December 31,	2021	2020
Commitments to extend credit related to unused HELOCs, PALs, and other lines of credit	$ 6,193	$ 8,141
Commitments to purchase First Mortgage loans	1,824	1,917
Total	$ 8,017	$ 10,058

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 partially satisfy the margin requirements by arranging unsecured standby LOCs, in favor of the Options Clearing Corporation, which are issued by several banks. At December 31, 2021, the aggregate face amount of these LOCs totaled $15 million. There were no funds drawn under any of these LOCs at December 31, 2021. 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 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 also 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, including the requirement that Schwab can only move IDA balances designated as floating-rate obligations. 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.

The total ending IDA balance was $147.2 billion as of December 31, 2021, and $154.1 billion as of December 31, 2020. Were IDA balances 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. Through December 31, 2021, Schwab had moved $10.1 billion of IDA balances to its balance sheet, which included uninsured balances and certain international

account balances. Subsequent to December 31, 2021, the Company moved approximately $10 billion of additional IDA balances to its balance sheet.

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 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.

Schwab Intelligent Portfolios® SEC Investigation: As disclosed on July 1, 2021, the Company has been responding to an enforcement investigation by the SEC arising from a compliance examination and concerning historic disclosures related to the Schwab Intelligent Portfolios digital advisory solution. In connection with a tentative agreement reached with SEC staff to resolve the matter, financial results for 2021 included a liability and related non-deductible charge of approximately $200 million. Completion of any settlement is always contingent on a vote of the Commission. The Company continues to cooperate with SEC staff with the goal of fully resolving the matter.

TD Ameritrade Acquisition Litigation: As disclosed previously, Schwab and TD Ameritrade have been responding to a lawsuit challenging the acquisition which was filed on May 12, 2020 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. The initial complaint named as defendants each member of the TD Ameritrade board of directors at the time the acquisition was approved, as well as TD Bank and Schwab. On June 11, 2020, plaintiff dismissed a claim that had sought to enjoin voting on or consummation of the acquisition. 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 Insured Deposit Account 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, filed motions to dismiss the remaining claims in the lawsuit.

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. Plantiffs sought review of the order denying class certification by the Ninth Circuit Court of Appeals, which was denied, and on February 3, 2022, plantiffs filed a motion for reconsideration of that denial, which is pending.

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 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 plaintiff's 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. Plaintiffs have renewed their motion for class certification with the District Court, and a motion by defendants to compel the case to arbitration was denied by the District Court as premature.

16. Exit and Other Related Liabilities

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, clients' daily average trades, and peak daily trades, the Company determined in 2021 to increase the scope of technology work related to the integration of TD Ameritrade. In 2021, we commenced greater technology build-out to support the expanded volumes of our combined client base. Based on our current integration plans and expanded scope of technology work, the Company continues to expect to complete client conversion within 30 to 36 months from the October 6, 2020 acquisition date.

To achieve our integration objectives, the Company expects to recognize significant additional acquisition and integration-related costs and capital expenditures throughout the integration process. Such acquisition and integration-related 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's acquisition and integration-related spending also includes exit and other related costs, 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 current economic environment. More specifically, factors that could cause variability in our expected acquisition and integration-related costs include the level of employee attrition, workforce redeployment from eliminated positions into open roles, changes in the levels of client activity, as well as increased real estate-related exit cost variability due to the effects of the COVID-19 pandemic including changes in remote working trends.

Inclusive of costs recognized through December 31, 2021, Schwab currently expects to incur total exit and other related costs for the integration of TD Ameritrade ranging from $650 million to $1 billion, consisting of employee compensation and benefits, facility exit costs, and certain other costs. During the years ended December 31, 2021 and 2020, the Company recognized $108 million and $186 million for acquisition-related exit costs, respectively. The Company expects the remaining exit and other related costs will be incurred and charged to expense over the next 21 to 33 months; some costs are expected to be incurred after client conversion. 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*.

The following is a summary of the activity in the Company's exit and other related liabilities for the years ended December 31, 2021 and 2020:

	Investor Services Employee Compensation and Benefits	Advisor Services Employee Compensation and Benefits	Total
Balance at December 31, 2019	$ —	$ —	$ —
Exit and other related liabilities assumed in business acquisition	18	5	23
Amounts recognized in expense [1]	138	38	176
Costs paid or otherwise settled	(70)	(19)	(89)
Balance at December 31, 2020 [2]	$ 86	$ 24	$ 110
Amounts recognized in expense [1]	66	17	83
Costs paid or otherwise settled	(124)	(34)	(158)
Balance at December 31, 2021 [2]	$ 28	$ 7	$ 35

[1] 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.
[2] Included in accrued and expenses and other liabilities on the consolidated balance sheets.

The following table summarizes the exit and other related costs recognized in expense for the year ended December 31, 2021:

	Investor Services			Advisor Services			
	Employee Compensation and Benefits	Facility Exit Costs [1]	Investor Services Total	Employee Compensation and Benefits	Facility Exit Costs [1]	Advisor Services Total	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

[1] 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			
	Employee Compensation and Benefits	Facility Exit Costs [1]	Investor Services Total	Employee Compensation and Benefits	Facility Exit Costs [1]	Advisor Services Total	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

[1] 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.

The following table summarizes the exit and other related costs incurred from October 6, 2020 through December 31, 2021:

	Investor Services			Advisor Services			
	Employee Compensation and Benefits	Facility Exit Costs [1]	Investor Services Total	Employee Compensation and Benefits	Facility Exit Costs [1]	Advisor Services Total	Total
Compensation and benefits	$ 204	$ —	$ 204	$ 55	$ —	$ 55	$ 259
Occupancy and equipment	—	24	24	—	5	5	29
Depreciation and amortization	—	2	2	—	1	1	3
Professional services	—	1	1	—	—	—	1
Other	—	2	2	—	—	—	2
Total	$ 204	$ 29	$ 233	$ 55	$ 6	$ 61	$ 294

[1] 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 investment requirement. Schwab's resale agreements as of December 31, 2021 and 2020 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 $566 million and $852 million at December 31, 2021 and 2020, 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.

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 Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Assets/ Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Counterparty Offsetting	Collateral	Net Amount
December 31, 2021						
Assets						
Resale agreements [1]	$ 13,096	$ —	$ 13,096	$ —	$ (13,096) [2]	$ —
Securities borrowed [3]	582	—	582	(383)	(195)	4
Total	$ 13,678	$ —	$ 13,678	$ (383)	$ (13,291)	$ 4
Liabilities						
Securities loaned [4,5]	$ 7,158	$ —	$ 7,158	$ (383)	$ (6,015)	$ 760
Secured short-term borrowings [6]	1,850	—	1,850	—	(1,850)	—
Total	$ 9,008	$ —	$ 9,008	$ (383)	$ (7,865)	$ 760
December 31, 2020						
Assets						
Resale agreements [1]	$ 14,904	$ —	$ 14,904	$ —	$ (14,904) [2]	$ —
Securities borrowed [3]	873	—	873	(673)	(195)	5
Total	$ 15,777	$ —	$ 15,777	$ (673)	$ (15,099)	$ 5
Liabilities						
Securities loaned [4,5]	$ 7,549	$ —	$ 7,549	$ (673)	$ (6,049)	$ 827
Total	$ 7,549	$ —	$ 7,549	$ (673)	$ (6,049)	$ 827

[1] Included in cash and investments segregated and on deposit for regulatory purposes in the consolidated balance sheets.
[2] Actual collateral was greater than or equal to the value of the related assets. At December 31, 2021 and 2020, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was $13.4 billion and $15.2 billion, respectively.
[3] Included in other assets in the consolidated balance sheets.
[4] 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, 2021 and 2020.
[5] Securities loaned are predominantly comprised of equity securities held in client brokerage accounts with overnight and continuous remaining contractual maturities.
[6] 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.

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,	2021	2020
Fair value of client securities available to be pledged	$ 120,306	$ 84,006
Fair value of securities pledged for:		
Fulfillment of requirements with the Options Clearing Corporation [1]	$ 16,829	$ 10,222
Fulfillment of client short sales	5,934	6,274
Securities lending to other broker-dealers	6,269	6,522
Collateral for short-term borrowings	2,390	—
Total collateral pledged to third parties	$ 31,422	$ 23,018

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 $118 million as of December 31, 2021 and $183 million as of December 31, 2020.

[1] Securities pledged to fulfill client margin requirements for open option contracts established with the Options Clearing Corporation.

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, 2021 or 2020.

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, 2021	Level 1	Level 2	Level 3	Balance at 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

December 31, 2020	Level 1	Level 2	Level 3	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 11,159	$ —	$ —	$ 11,159
Total cash equivalents	11,159	—	—	11,159
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	550	—	550
U.S. Government securities	—	30,698	—	30,698
Total investments segregated and on deposit for regulatory purposes	—	31,248	—	31,248
Available for sale securities:				
U.S. agency mortgage-backed securities	—	290,353	—	290,353
Asset-backed securities	—	18,898	—	18,898
Corporate debt securities	—	12,796	—	12,796
U.S. Treasury securities	—	10,656	—	10,656
U.S. state and municipal securities	—	1,697	—	1,697
Foreign government agency securities	—	1,413	—	1,413
Non-agency commercial mortgage-backed securities	—	1,265	—	1,265
Certificates of deposit	—	300	—	300
Other	—	22	—	22
Total available for sale securities	—	337,400	—	337,400
Other assets:				
Mutual funds and ETFs	361	—	—	361
U.S. Government securities	—	253	—	253
State and municipal debt obligations	—	37	—	37
Equity, corporate debt, and other securities	7	29	—	36
Total other assets	368	319	—	687
Total	$ 11,527	$ 368,967	$ —	$ 380,494

Fair Value of Other Financial Instruments

The following tables present the fair value hierarchy for other financial instruments:

December 31, 2021	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets					
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
Liabilities					
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

December 31, 2020	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets					
Cash and cash equivalents	$ 29,189	$ 29,189	$ —	$ —	$ 29,189
Cash and investments segregated and on deposit for regulatory purposes	19,143	4,212	14,931	—	19,143
Receivables from brokerage clients — net	64,436	—	64,436	—	64,436
Bank loans — net:					
First Mortgages	14,882	—	15,305	—	15,305
HELOCs	837	—	838	—	838
Pledged asset lines	7,916	—	7,916	—	7,916
Other	178	—	178	—	178
Total bank loans — net	23,813	—	24,237	—	24,237
Other assets	2,883	—	2,883	—	2,883
Liabilities					
Bank deposits	$ 358,022	$ —	$ 358,022	$ —	$ 358,022
Payables to brokerage clients	104,201	—	104,201	—	104,201
Accrued expenses and other liabilities	8,263	—	8,263	—	8,263
Long-term debt	13,626	—	14,829	—	14,829

19. Stockholders' Equity

Except in connection with the 2020 acquisition of TD Ameritrade as described below, CSC did not issue shares of common stock through external offerings during the years ended December 31, 2021, 2020 or 2019.

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 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 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 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 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.

On December 11, 2020, the Company issued and sold 2,500,000 depositary shares, each representing a 1/100th ownership interest in a share of 4.000% fixed-rate reset non-cumulative perpetual preferred stock, Series H, $.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 approximately $2.47 billion, after deducting the underwriting discount and offering expenses.

On April 30, 2020, the Company issued and sold 2,500,000 depositary shares, each representing a 1/100th ownership interest in a share of 5.375% fixed-rate reset non-cumulative perpetual preferred stock, Series G, $.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 approximately $2.47 billion, after deducting the underwriting discount and offering expenses.

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, 2021 and 2020. During 2019, CSC repurchased 55 million shares of its common stock under this authorization for $2.2 billion.

CSC was authorized to issue 9,940,000 shares of preferred stock, $.01 par value, at December 31, 2021 and 2020. The following is a summary of CSC's non-cumulative perpetual preferred stock outstanding as of such dates:

	Shares Issued and Outstanding (in thousands) at December 31,			Carrying Value at December 31,							
	2021 [1]	2020 [1]	Liquidation Preference Per Share	2021	2020	Issue Date	Dividend Rate in Effect at December 31, 2021	Earliest Redemption Date	Date at Which Dividend Rate Resets or Becomes Floating	Reset / Floating Rate	Margin Over Reset / Floating Rate
Fixed-rate:											
Series C [2]	—	600	$ 1,000	$ —	$ 585	08/03/15	—	—	N/A	N/A	N/A
Series D	750	750	1,000	728	728	03/07/16	5.950 %	06/01/21	N/A	N/A	N/A
Series J	600	—	1,000	584	—	03/30/21	4.450 %	06/01/26	N/A	N/A	N/A
Fixed-to-floating-rate/Fixed-rate reset [3]:											
Series A	400	400	1,000	397	397	01/26/12	7.000 %	02/01/22	02/01/22	3M LIBOR	4.820 %
Series E	6	6	100,000	591	591	10/31/16	4.625 %	03/01/22	03/01/22	3M LIBOR	3.315 %
Series F	5	5	100,000	492	492	10/31/17	5.000 %	12/01/27	12/01/27	3M LIBOR	2.575 %
Series G	25	25	100,000	2,470	2,470	04/30/20	5.375 %	06/01/25	06/01/25	5-Year Treasury	4.971 %
Series H	25	25	100,000	2,470	2,470	12/11/20	4.000 %	12/01/30	12/01/30	10-Year Treasury	3.079 %
Series I [4]	23	—	100,000	2,222	—	03/18/21	4.000 %	06/01/26	06/01/26	5-Year Treasury	3.168 %
Total preferred stock	1,834	1,811		$ 9,954	$ 7,733						

[1] Represented by depositary shares, except for Series A.

[2] Series C Preferred Stock was redeemed on June 1, 2021.

[3] The dividend rate for Series G resets on each five-year anniversary from the first reset date. The dividend rate for Series H resets on each 10-year anniversary from the first reset date.

[4] The Series I dividend rate resets on each five-year anniversary beginning on June 1, 2026 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 I is only redeemable on dividend payment dates on or after the first reset date.

N/A Not applicable.

Dividends declared on the Company's preferred stock are as follows:

Year Ended December 31,	2021		2020		2019	
	Total Declared (in millions)	Per Share Amount	Total Declared (in millions)	Per Share Amount	Total Declared (in millions)	Per Share Amount
Series A	$ 28.0	$ 70.00	$ 28.0	$ 70.00	$ 28.0	$ 70.00
Series C [1]	18.0	30.00	36.0	60.00	36.0	60.00
Series D	44.6	59.52	44.6	59.52	44.6	59.52
Series E	27.8	4,625.00	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 [2]	134.4	5,375.00	78.8	3,150.35	N/A	N/A
Series H [3]	97.2	3,888.89	N/A	N/A	N/A	N/A
Series I [4]	63.2	2,811.11	N/A	N/A	N/A	N/A
Series J [5]	17.9	29.80	N/A	N/A	N/A	N/A
Total	$ 456.1		$ 240.2		$ 161.4	

[1] Series C Preferred Stock was redeemed on June 1, 2021. Prior to redemption, dividends were paid quarterly and the final dividend was paid on June 1, 2021.

[2] Series G Preferred Stock was issued on April 30, 2020. Dividends are paid quarterly, and the first dividend was paid on September 1, 2020.

[3] Series H Preferred Stock was issued on December 11, 2020. Dividends are paid quarterly, and the first dividend was paid on March 1, 2021.

[4] Series I Preferred Stock was issued on March 18, 2021. Dividends are paid quarterly, and the first dividend was paid on June 1, 2021.

[5] Series J Preferred Stock was issued on March 30, 2021. Dividends are paid quarterly, and the first dividend was paid on June 1, 2021.

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 preferred stock, as well as Series G, H, and I, 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. The Series A preferred stock dividend converted to a floating rate on February 1, 2022 and is now payable quarterly.

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.

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:

Balance at December 31, 2018
Available for sale securities:
Net unrealized gain (loss) excluding transfers to available for sale from held to maturity, net of tax expense (benefit) of $96
Net unrealized gain on securities transferred to available for sale from held to maturity, net of tax expense (benefit) of $6 [1]
Other reclassifications included in other revenue, net of tax expense (benefit) of $(1)
Held to maturity securities:
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale, net of tax expense (benefit) of $9
Other, net of tax expense (benefit) of $(4)
Balance at December 31, 2019
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
Net unrealized gain on securities transferred to available for sale from held to maturity, net of tax expense (benefit) of $336 [2]
Other reclassifications included in other revenue, net of tax expense (benefit) of $(1)
Other, net of tax expense (benefit) of $2
Balance at December 31, 2020
Available for sale securities:
Net unrealized gain (loss), net of tax expense (benefit) of $(2,029)
Other reclassifications included in other revenue, net of tax expense (benefit) of $(1)
Other, net of tax expense (benefit) of $(3)
Balance at December 31, 2021

[1] In the first quarter of 2019, the Company made an election to transfer a portion of its HTM securities to AFS as part of the adoption of ASU 2017-12. The transfer resulted in a net of tax increase to AOCI of $19 million. See Note 6 for additional discussion on the 2019 transfer of HTM securities to AFS.

[2] On January 1, 2020, the Company transferred all of its investment securities designated as HTM to the AFS category. The transfer resulted in a net of tax increase to AOCI of $1.1 billion. See Note 6 for additional discussion on the 2020 transfer of HTM securities to AFS.

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 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,	2021	2020	2019
Stock option expense	$ 36	$ 36	$ 51
Restricted stock unit expense	200	156	120
Employee stock purchase plan expense	18	12	12
Total share-based compensation expense	$ 254	$ 204	$ 183
Income tax benefit on share-based compensation expense [1]	$ (60)	$ (49)	$ (44)

[1] Excludes income tax benefits from stock options exercised and restricted stock units vested of $93 million, $14 million, and $23 million in 2021, 2020, and 2019, respectively.

The Company issues shares for stock options and restricted stock units from treasury stock. At December 31, 2021, the Company was authorized to grant up to 58 million common shares under its existing stock incentive plans. Additionally, at December 31, 2021, the Company had 30 million shares reserved for future issuance under its employee stock purchase plan.

As of December 31, 2021, there was $297 million of total unrecognized compensation cost related to outstanding stock options and restricted stock units, which is expected to be recognized through 2025 with a remaining weighted-average service period of 0.7 years for stock options, 1.9 years for restricted stock units, and 0.5 years for performance-based 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.

Stock option activity is summarized below:

	Number of Options (In millions)	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2020	24	$ 33.67	5.36	$ 452
Granted	2	64.49		
Exercised	(9)	27.80		
Forfeited [1]	—	45.99		
Expired [1]	—	35.00		
Outstanding at December 31, 2021	17	$ 39.11	5.38	$ 782
Vested and expected to vest at December 31, 2021	17	$ 39.09	5.38	$ 782
Vested and exercisable at December 31, 2021	13	$ 34.93	4.54	$ 650

[1] 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,	2021	2020	2019
Weighted-average fair value of options granted per share	$ 19.51	$ 11.56	$ 11.97
Cash received from options exercised	221	79	118
Tax benefit realized on options exercised	61	11	17
Aggregate intrinsic value of options exercised	322	71	108

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,	2021	2020	2019
Weighted-average expected dividend yield	1.36 %	2.08 %	1.85 %
Weighted-average expected volatility	37 %	36 %	30 %
Weighted-average risk-free interest rate	0.8 %	1.0 %	2.5 %
Expected life (in years)	4.2 - 5.4	4.3 - 5.9	4.2 - 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. Restricted stock units are restricted from transfer or sale and generally vest annually over a one- to four-year period, while performance-based restricted stock units 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 grant date fair value is amortized to compensation expense on a straight-line basis over the requisite service period. The fair value of the restricted stock units that vested during each of the years 2021, 2020, and 2019 was $317 million, $175 million, and $123 million, respectively.

The Company's restricted stock units activity is summarized below:

	Number of Units (In millions)	Weighted-Average Grant Date Fair Value per Unit
Outstanding at December 31, 2020	10	$ 40.85
Granted	4	64.18
Vested	(4)	41.25
Forfeited	(1)	45.63
Outstanding at December 31, 2021	9	$ 49.69

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 $187 million, $136 million, and $118 million in 2021, 2020, and 2019, 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 $194 million and $176 million at December 31, 2021 and 2020, 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,	2021	2020
Projected benefit obligation at beginning of year	$ 92	$ 83
Benefit cost [1]	16	17
Actuarial loss/(gain) [2]	11	(8)
Projected benefit obligation at end of year [3]	$ 119	$ 92

[1] Includes service cost and interest cost, which are recognized in compensation and benefits expense and other expense, respectively, in the consolidated statements of income.

[2] Actuarial loss/(gain) is reflected in the consolidated statements of comprehensive income and is included in AOCI on the consolidated balance sheets.

[3] This amount is recognized as a liability in accrued expenses and other liabilities on the consolidated balance sheets.

22. Taxes on Income

The components of taxes on income are as follows:

Year Ended December 31,	2021	2020	2019
Current:			
Federal	$ 1,507	$ 967	$ 958
State	298	172	184
Total current	1,805	1,139	1,142
Deferred:			
Federal	38	(113)	3
State	15	(25)	(1)
Total deferred	53	(138)	2
Taxes on income	$ 1,858	$ 1,001	$ 1,144

The temporary differences that created deferred tax assets and liabilities are detailed below:

December 31,	2021	2020
Deferred tax assets:		
Net unrealized loss on available for sale securities	$ 347	$ —
Employee compensation, severance, and benefits	237	271
Operating lease liabilities	225	249
Reserves and allowances	74	70
Debt fair value remeasurement	47	67
State and local taxes	40	37
Net operating loss carryforwards	8	8
Total deferred tax assets	978	702
Valuation allowance	(8)	(8)
Deferred tax assets — net of valuation allowance	970	694
Deferred tax liabilities:		
Amortization of acquired intangible assets	(1,888)	(1,954)
Net unrealized gain on available for sale securities	—	(1,686)
Operating lease ROU assets	(210)	(233)
Capitalized internal-use software development costs	(142)	(101)
Other	(212)	(182)
Total deferred tax liabilities	(2,452)	(4,156)
Deferred tax asset/(liability) — net [1]	$ (1,482)	$ (3,462)

[1] Amounts are included in accrued expenses and other liabilities on the consolidated balance sheets at December 31, 2021 and 2020.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

Year Ended December 31,	2021	2020	2019
Federal statutory income tax rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal tax benefit	3.4	3.2	3.2
Equity compensation benefit	(1.2)	(0.3)	(0.5)
Other	0.9	(0.6)	(0.1)
Effective income tax rate	24.1 %	23.3 %	23.6 %

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

December 31,	2021	2020
Balance at beginning of year	$ 248	$ 101
Additions for tax positions related to the current year	34	15
Additions for tax positions related to prior years	15	3
Additions for current year acquisitions	—	200
Reductions for tax positions related to prior years	(15)	(7)
Reductions due to lapse of statute of limitations	(8)	(24)
Reductions for settlements with tax authorities	(3)	(40)
Balance at end of year	$ 271	$ 248

Unrecognized tax benefits totaled $271 million and $248 million as of December 31, 2021 and 2020, respectively, $221 million and $202 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, 2021 and 2020, we had accrued approximately $68 million and $58 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 2020 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 FDIC as its deposit insurer, and the CFPB. 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, CSB is required to provide notice to and may be required to obtain approval of the Federal Reserve and the TDSML to declare dividends to CSC. The federal banking agencies have broad powers to enforce these 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, 2021, both CSC and CSB met all of their respective capital requirements.

The regulatory capital and ratios for CSC (consolidated) and CSB are as follows:

	Actual		Minimum to be Well Capitalized		Minimum Capital Requirement	
December 31, 2021	Amount	Ratio	Amount	Ratio	Amount	Ratio [1]
CSC						
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 %
CSB						
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 %
December 31, 2020						
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 22,916	18.5 %	N/A		$ 5,575	4.5 %
Tier 1 Risk-Based Capital	30,649	24.7 %	N/A		7,433	6.0 %
Total Risk-Based Capital	30,688	24.8 %	N/A		9,910	8.0 %
Tier 1 Leverage	30,649	6.3 %	N/A		19,396	4.0 %
Supplementary Leverage Ratio	30,649	6.2 %	N/A		14,744	3.0 %
CSB						
Common Equity Tier 1 Risk-Based Capital	$ 17,526	19.2 %	$ 5,919	6.5 %	$ 4,098	4.5 %
Tier 1 Risk-Based Capital	17,526	19.2 %	7,285	8.0 %	5,464	6.0 %
Total Risk-Based Capital	17,558	19.3 %	9,106	10.0 %	7,285	8.0 %
Tier 1 Leverage	17,526	5.5 %	15,979	5.0 %	12,783	4.0 %
Supplementary Leverage Ratio	17,526	5.4 %	N/A		9,763	3.0 %

[1] Under the Basel III capital rule, CSC and CSB are also required to maintain a capital conservation buffer and a countercyclical capital buffer above the regulatory minimum risk-based capital ratios. The capital conservation buffer and countercyclical buffer were 2.5% and zero percent, respectively, for both periods presented. If either buffer falls below the minimum requirement, the Company would be subject to limits on capital distributions and discretionary bonus payments to executive officers. At December 31, 2021, the minimum capital requirement plus capital conservation buffer and countercyclical capital buffer for Common Equity Tier 1 Risk-Based Capital, Tier 1 Risk-Based Capital, and Total Risk-Based Capital ratios were 7.0%, 8.5%, and 10.5%, respectively.

N/A Not applicable.

Based on its regulatory capital ratios at December 31, 2021, CSB is considered well capitalized (the highest category) under its respective regulatory capital rules. There are no conditions or events since December 31, 2021 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 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, 2021 and 2020, the balance sheets of CSPB and Trust Bank primarily consisted of investment securities. At December 31, 2021 and 2020, CSPB held total assets of $39.2 billion and $31.6 billion, respectively, and Trust Bank held total assets of $15.9 billion and $12.5 billion, respectively. Based on their regulatory capital ratios, at December 31, 2021 and 2020, CSPB and Trust Bank are considered well capitalized under their respective regulatory capital rules.

As securities broker-dealers, CS&Co, TDAC, and TD Ameritrade, Inc. are subject to the SEC's Uniform Net Capital Rule. CS&Co and TDAC 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. TD Ameritrade, Inc. is required to maintain minimum net capital of the greater of 2% of aggregate debit balances arising from client transactions or a minimum dollar requirement. 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,	2021	2020
CS&Co		
Net capital	$ 5,231	$ 3,117
Minimum dollar requirement[1]	0.250	1.000
2% of aggregate debit balances	941	616
Net capital in excess of required net capital	$ 4,290	$ 2,501
TDAC		
Net capital	$ 5,337	$ 4,040
Minimum dollar requirement	1.500	1.500
2% of aggregate debit balances	1,007	748
Net capital in excess of required net capital	$ 4,330	$ 3,292
TD Ameritrade, Inc.		
Net capital	$ 711	$ 350
Minimum dollar requirement	0.250	0.250
2% of aggregate debit balances	—	—
Net capital in excess of required net capital	$ 711	$ 350

[1] 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, 2021. 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, 2021 for CS&Co totaled $38.4 billion and for TDAC totaled $15.9 billion. As of January 4, 2022, CS&Co had deposited $1.5 billion of cash and qualified securities into its segregated reserve accounts. As of January 3, 2022, TDAC had deposited $406 million of cash and qualified securities from its segregated reserve accounts. Cash and investments required to be segregated and on deposit for regulatory purposes at December 31, 2020 for CS&Co totaled $39.2 billion and for TDAC totaled $14.5 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 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:

	Investor Services			Advisor Services			Total		
Year Ended December 31,	2021	2020	2019	2021	2020	2019	2021	2020	2019
Net Revenues									
Net interest revenue	$ 6,052	$ 4,391	$ 4,685	$ 1,978	$ 1,722	$ 1,831	$ 8,030	$ 6,113	$ 6,516
Asset management and administration fees	3,130	2,544	2,289	1,144	931	922	4,274	3,475	3,211
Trading revenue	3,753	1,156	503	399	260	249	4,152	1,416	752
Bank deposit account fees	964	255	—	351	100	—	1,315	355	—
Other	562	262	146	187	70	96	749	332	242
Total net revenues	14,461	8,608	7,623	4,059	3,083	3,098	18,520	11,691	10,721
Expenses Excluding Interest	8,289	5,529	4,284	2,518	1,862	1,589	10,807	7,391	5,873
Income before taxes on income	$ 6,172	$ 3,079	$ 3,339	$ 1,541	$ 1,221	$ 1,509	$ 7,713	$ 4,300	$ 4,848
Capital expenditures	$ 771	$ 535	$ 507	$ 270	$ 206	$ 246	$ 1,041	$ 741	$ 753
Depreciation and amortization	$ 399	$ 288	$ 216	$ 150	$ 126	$ 106	$ 549	$ 414	$ 322
Amortization of acquired intangible assets	$ 499	$ 149	$ 26	$ 116	$ 41	$ 1	$ 615	$ 190	$ 27

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, 2021 and 2020, 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.

EPS under the basic and diluted computations for both common stock and nonvoting common stock are as follows:

Year Ended December 31,	2021		2020		2019	
	Common Stock	Nonvoting Common Stock [1]	Common Stock	Nonvoting Common Stock [1]	Common Stock	Nonvoting Common Stock [1]
Basic earnings per share:						
Numerator						
Net income	$ 5,610	$ 245	$ 3,255	$ 44	$ 3,704	N/A
Preferred stock dividends and other [2]	(474)	(21)	(253)	(3)	(178)	N/A
Net income available to common stockholders	$ 5,136	$ 224	$ 3,002	$ 41	$ 3,526	N/A
Denominator						
Weighted-average common shares outstanding — basic	1,808	79	1,410	19	1,311	N/A
Basic earnings per share	$ 2.84	$ 2.84	$ 2.13	$ 2.13	$ 2.69	N/A
Diluted earnings per share:						
Numerator						
Net income available to common stockholders	$ 5,136	$ 224	$ 3,002	$ 41	$ 3,526	N/A
Reallocation of net income available to common stockholders as a result of conversion of nonvoting to voting shares	224	—	41	—	N/A	N/A
Allocation of net income available to common stockholders:	$ 5,360	$ 224	$ 3,043	$ 41	$ 3,526	N/A
Denominator						
Weighted-average common shares outstanding — basic	1,808	79	1,410	19	1,311	N/A
Conversion of nonvoting shares to voting shares	79	—	19	—	N/A	N/A
Common stock equivalent shares related to stock incentive plans	10	—	6	—	9	N/A
Weighted-average common shares outstanding — diluted [3]	1,897	79	1,435	19	1,320	N/A
Diluted earnings per share	$ 2.83	$ 2.83	$ 2.12	$ 2.12	$ 2.67	N/A

[1] Nonvoting common stock was issued in conjunction with the October 6, 2020 acquisition of TD Ameritrade. As such, nonvoting common stock is not applicable for the basic and diluted EPS computations in 2019.

[2] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

(3) Antidilutive stock options and restricted stock units excluded from the calculation of diluted EPS totaled 16 million, 22 million, and 21 million in 2021, 2020, and 2019 respectively.

N/A Not applicable.

26. The Charles Schwab Corporation – Parent Company Only Financial Statements

Condensed Statements of Income

Year Ended December 31,	2021	2020	2019
Interest revenue	$ 11	$ 38	$ 119
Interest expense	(355)	(273)	(248)
Net interest expense	(344)	(235)	(129)
Trading revenue	—	1	—
Other revenue	(2)	(1)	(1)
Expenses Excluding Interest:			
Professional services	(17)	(68)	(24)
Other expenses excluding interest	(125)	(85)	(83)
Loss before income tax benefit and equity in net income of subsidiaries	(488)	(388)	(237)
Income tax benefit/(expense)	32	45	(9)
Loss before equity in net income of subsidiaries	(456)	(343)	(246)
Equity in net income of subsidiaries:			
Equity in undistributed net income/(distributions in excess of net income) of subsidiaries	3,361	2,476	(1,198)
Dividends from bank subsidiaries	—	—	4,915
Dividends from non-bank subsidiaries	2,950	1,166	233
Net Income	5,855	3,299	3,704
Preferred stock dividends and other [1]	495	256	178
Net Income Available to Common Stockholders	$ 5,360	$ 3,043	$ 3,526

[1] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

Condensed Balance Sheets

December 31,	2021	2020
Assets		
Cash and cash equivalents	$ 6,839	$ 4,654
Receivables from subsidiaries	1,288	1,260
Available for sale securities	4,218	4,982
Investment in non-bank subsidiaries	34,377	29,550
Investment in bank subsidiaries	30,720	25,548
Other assets	357	371
Total assets	$ 77,799	$ 66,365
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	$ 618	$ 458
Payables to subsidiaries	80	34
Short-term borrowings	3,005	—
Long-term debt	17,835	9,813
Total liabilities	21,538	10,305
Stockholders' equity	56,261	56,060
Total liabilities and stockholders' equity	$ 77,799	$ 66,365

Condensed Statements of Cash Flows

Year Ended December 31,	2021	2020	2019
Cash Flows from Operating Activities			
Net income	$ 5,855	$ 3,299	$ 3,704
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Dividends in excess of (equity in undistributed) earnings of subsidiaries	(3,361)	(2,476)	1,198
Other	21	41	9
Net change in:			
Other assets	76	(65)	57
Accrued expenses and other liabilities	112	34	34
Net cash provided by (used for) operating activities	2,703	833	5,002
Cash Flows from Investing Activities			
Due from (to) subsidiaries — net	211	46	(122)
Increase in investments in subsidiaries	(10,926)	(2,172)	(1,783)
Repayments (advances) of subordinated loan to CS&Co	—	—	185
Purchases of available for sale securities	(8,002)	(5,397)	(1,141)
Proceeds from sales of available for sale securities	2	2	181
Principal payments on available for sale securities	8,754	2,395	994
Net cash provided by (used for) investing activities	(9,961)	(5,126)	(1,686)
Cash Flows from Financing Activities			
Issuance of long-term debt	7,036	3,070	593
Repayment of long-term debt	(1,200)	(700)	—
Issuance of commercial paper	8,253	1,234	1,400
Repayments of commercial paper	(5,250)	(1,234)	(1,400)
Repurchases of common stock	—	—	(2,220)
Net proceeds from preferred stock offerings	2,806	4,940	—
Redemption of preferred stock	(600)	—	—
Dividends paid	(1,822)	(1,280)	(1,060)
Proceeds from stock options exercised and other	220	79	118
Other financing activities	—	(1)	—
Net cash provided by (used for) financing activities	9,443	6,108	(2,569)
Increase (Decrease) in Cash and Cash Equivalents	2,185	1,815	747
Cash and Cash Equivalents at Beginning of Year	4,654	2,839	2,092
Cash and Cash Equivalents at End of Year	$ 6,839	$ 4,654	$ 2,839
Supplemental Cash Flow Information			
Non-Cash Investing and Financing Activity			
Exchange of TDA Holding-issued senior notes for CSC-issued senior notes	$ 1,987	$ —	$ —

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, 2021 and 2020, 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, 2021, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, 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, 2021, 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 Matters

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) relate 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, Texas
February 24, 2022

We have served as the Company's auditor since 1976.

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, 2021, 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, 2021.

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, 2021, 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, 2021. 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, 2021.

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, 2021, 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, 2022 (the Proxy Statement) under "Members of the Board of Directors," "Board Structure and Committees," and "Director Nominations." 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.

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Schwab Executive Officers of the Registrant

The following table provides certain information about each of the Company's executive officers as of December 31, 2021.

Executive Officers of the Registrant

Name	Age	Title
Charles R. Schwab	84	Chairman of the Board
Walter W. Bettinger II	61	Chief Executive Officer
Richard A. Wurster	48	President
Bernard J. Clark	63	Managing Director, Head of Advisor Services
Jonathan M. Craig	50	Managing Director, Head of Investor Services & Marketing
Peter B. Crawford	53	Managing Director, Chief Financial Officer
Joseph R. Martinetto	59	Managing Director, Chief Operating Officer
Peter J. Morgan III	57	Managing Director, General Counsel
Nigel J. Murtagh	58	Managing Director, Chief Risk Officer

Mr. Schwab has been Chairman of the Board and a director of CSC since its incorporation in 1986. 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. Schwab is also Chairman of CSB.

Mr. Bettinger has been Chief Executive Officer of CSC since 2008. He serves on the Board of Directors of CSC, CSB, and TD Ameritrade Holding Corporation, and is 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 October 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 and CS&Co since October 2021. He served as CEO of Charles Schwab Investment Management, Inc. from 2019 to 2021 and 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 since 2022 and Executive Vice President – Advisor Services of CSC since 2012. Mr. Clark has served as Executive Vice President – Advisor Services of CS&Co since 2010. 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 since 2022. Prior to that he served as Senior Executive Vice President from 2018 to 2021, Executive Vice President – Client and Marketing Solutions from 2017 until 2018 and Executive Vice President and Chief Marketing Officer from 2012 until 2018. Mr. Craig joined Schwab in 2000.

Mr. Crawford has been Managing Director since 2022 and Executive Vice President 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 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, Senior Executive Vice President of CSC and CS&Co since 2015, 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; he served on the Board of Directors of CSB from 2010 until 2020. Additionally, Mr. Martinetto is 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.

Mr. Morgan has been Managing Director since 2022, and served as Executive Vice President, General Counsel and Corporate Secretary of CSC since 2019. He also serves as Executive Vice President & Corporate Secretary of CS&Co; he was Senior

Vice President and Deputy General Counsel of CS&Co from 2009 to January 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 since 2022 and Executive Vice President – Corporate Risk and Chief Risk Officer since 2012. 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 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 under "Compensation Discussion and Analysis," "Executive Compensation Tables – 2021 Summary Compensation Table," "Executive Compensation Tables – 2021 Grants of Plan-Based Awards Table," "Executive Compensation Tables – Narrative to Summary Compensation and Grants of Plan-Based Awards Tables," "Executive Compensation Tables – 2021 Termination and Change in Control Benefits Table," "Executive Compensation Tables – Outstanding Equity Awards as of December 31, 2021," "Executive Compensation Tables – 2021 Option Exercises and Stock Vested Table," "Executive Compensation Tables – 2021 Nonqualified Deferred Compensation Table," "Director Compensation," and "Compensation Committee Interlocks and Insider Participation." 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 under "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans."

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 under "Transactions with Related Persons" and "Director Independence."

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 under "Auditor Fees."

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.
3.14	Fourth Restated Bylaws, as amended on January 27, 2010, of the Registrant, filed as Exhibit 3.14 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.14(i)	Amendment to Fourth Restated Bylaws of the Registrant, effective January 1, 2021, filed as Exhibit 3.2 to the Registrant's Form 8-K dated October 2, 2020, and incorporated herein by reference.
3.15	Certificate of Designations of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A, of The Charles Schwab Corporation, filed as Exhibit 3.15 to the Registrant's Form 10-K for the year ended December 31, 2016, 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.
3.19	Certificate of Designations of 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 October 31, 2016, and incorporated herein by reference.

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit
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.
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	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
4.11	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

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
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 Registrant's 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.**	
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)
10.409	Summary of Non-Employee Director	(2)

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
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 (supersedes Exhibit 10.349), 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)
10.425	Third Amendment, dated as of September 27, 2021, to Credit Agreement dated April 21, 2017, among TD Ameritrade Clearing, Inc., the lenders party thereto and JP Morgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.425 to the Registrants' Form 10-Q for the quarter ended September 30, 2021, and incorporated herein by reference.	
10.426	Form of Notice and Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans (supersedes Exhibit 10.403).	(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 (supersedes Exhibit 10.404).	(2)
10.428	Summary of Non-Employee Director Compensation (supersedes Exhibit 10.409).	(2)
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	(3)

* 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.

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, 2022.

THE CHARLES SCHWAB CORPORATION
(Registrant)

BY: /s/ Walter W. Bettinger II
Walter W. Bettinger II
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, 2022.

Signature / Title	Signature / Title
/s/ Walter W. Bettinger II Walter W. Bettinger II, Chief Executive Officer and Director	/s/ Peter Crawford Peter Crawford, Managing Director, Executive Vice President, and Chief Financial Officer (principal financial and accounting officer)
/s/ Charles R. Schwab Charles R. Schwab, 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. Herringer Frank C. Herringer, 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/ Paula A. Sneed Paula A. Sneed, Director

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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,	2021			2020			2019		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:									
Cash and cash equivalents	$ 40,325	$ 40	0.10 %	$ 39,052	$ 120	0.30 %	$ 23,512	$ 518	2.17 %
Cash and investments segregated	43,942	24	0.05 %	34,100	141	0.41 %	15,694	345	2.17 %
Receivables from brokerage clients	77,768	2,455	3.11 %	28,058	848	2.97 %	19,270	821	4.20 %
Available for sale securities [1,2]	357,122	4,641	1.30 %	253,555	4,537	1.78 %	58,181	1,560	2.67 %
Held to maturity securities [2]	—	—	—	—	—	—	134,708	3,591	2.65 %
Bank loans [3]	28,789	620	2.15 %	20,932	545	2.60 %	16,832	584	3.47 %
Total interest-earning assets	547,946	7,780	1.41 %	375,697	6,191	1.64 %	268,197	7,419	2.75 %
Securities lending revenue		720			334			147	
Other interest revenue		6			6			14	
Total interest-earning assets	547,946	8,506	1.54 %	375,697	6,531	1.73 %	268,197	7,580	2.80 %
Non-interest-earning assets [4,5]	41,930			38,608			11,559		
Total assets	$ 589,876			$ 414,305			$ 279,756		
Liabilities and Stockholders' Equity:									
Bank deposits	$ 381,549	$ 54	0.01 %	$ 291,206	$ 93	0.03 %	$ 212,605	$ 700	0.33 %
Payables to brokerage clients	91,667	9	0.01 %	46,347	12	0.02 %	24,353	79	0.33 %
Short-term borrowings [6]	3,040	9	0.30 %	89	—	0.20 %	17	—	2.36 %
Long-term debt	17,704	384	2.17 %	8,992	289	3.22 %	7,199	258	3.58 %
Total interest-bearing liabilities	493,960	456	0.09 %	346,634	394	0.11 %	244,174	1,037	0.42 %
Securities lending expense		24			33			38	
Other interest expense		(4)			(9)			(11)	
Non-interest-bearing liabilities [4,7]	39,182			32,486			14,170		
Total liabilities [8]	533,142	476	0.09 %	379,120	418	0.11 %	258,344	1,064	0.39 %
Stockholders' equity [4]	56,734			35,185			21,412		
Total liabilities and stockholders' equity	$ 589,876			$ 414,305			$ 279,756		
Net interest revenue		$ 8,030			$ 6,113			$ 6,516	
Net yield on interest-earning assets			1.45 %			1.62 %			2.41 %

[1] Amounts calculated based on amortized cost.
[2] On January 1, 2020, the Company transferred all of its investment securities designated as HTM to the AFS category, as described in Item 8 – Note 6.
[3] Includes average principal balances of nonaccrual loans.
[4] Average balance calculation based on month end balances.
[5] 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.
[6] Interest revenue or expense was less than $500 thousand in the period or periods presented.
[7] Non-interest-bearing liabilities consist of other liabilities that do not generate interest expense.
[8] 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:

	2021 Compared to 2020 Increase (Decrease) Due to Change in:			2020 Compared to 2019 Increase (Decrease) Due to Change in:		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest-earning assets:						
Cash and cash equivalents [1]	$ 4	$ (84)	$ (80)	$ 337	$ (735)	$ (398)
Cash and investments segregated	40	(157)	(117)	399	(603)	(204)
Receivables from brokerage clients	1,476	131	1,607	369	(342)	27
Available for sale securities [2,3]	1,843	(1,739)	104	5,237	(2,260)	2,977
Held to maturity securities [3]	—	—	—	(3,591)	—	(3,591)
Bank loans [4]	204	(129)	75	142	(181)	(39)
Securities lending revenue	—	386	386	—	187	187
Other interest revenue	—	—	—	—	(8)	(8)
Total interest-earning assets	$ 3,567	$ (1,592)	$ 1,975	$ 2,893	$ (3,942)	$ (1,049)
Interest-bearing sources of funds:						
Bank deposits	$ 27	$ (66)	$ (39)	$ 259	$ (866)	$ (607)
Payables to brokerage clients	9	(12)	(3)	73	(140)	(67)
Short-term borrowings	6	3	9	2	(2)	—
Long-term debt	281	(186)	95	64	(33)	31
Securities lending expense	—	(9)	(9)	—	(5)	(5)
Other interest expense	—	5	5	—	2	2
Total sources on which interest is paid	323	(265)	58	398	(1,044)	(646)
Change in net interest revenue	$ 3,244	$ (1,327)	$ 1,917	$ 2,495	$ (2,898)	$ (403)

Changes that are not due solely to volume or rate have been allocated to rate.

[1] Includes deposits with banks and short-term investments.

[2] Amounts have been calculated based on amortized cost.

[3] On January 1, 2020, the Company transferred all of its investment securities designated as HTM to the AFS category, as described in Item 8 – Note 6.

[4] 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, 2021	Within 1 year	After 1 year through 5 years	After 5 years through 15 years	After 15 years	Total
Residential real estate:					
First Mortgages	$ —	$ 4	$ 1,575	$ 19,511	$ 21,090
HELOCs	295	137	216	—	648
Total residential real estate	295	141	1,791	19,511	21,738
Pledged asset lines	11,373	1,336	—	—	12,709
Other	5	197	5	—	207
Total	$ 11,673	$ 1,674	$ 1,796	$ 19,511	$ 34,654

Note: Maturities in the above table are based upon the contractual terms of the loans. The maturities for HELOCs are based on an initial draw period of ten years.

The interest sensitivity of loans with contractual maturities in excess of one year is as follows:

December 31, 2021	After 1 year through 5 years	After 5 years through 15 years	After 15 years
Loans with floating or adjustable interest rates			
Residential real estate:			
First Mortgages	$ —	$ 32	$ 17,058
HELOCs	137	216	—
Total residential real estate	137	248	17,058
Pledged asset lines	1,336	—	—
Other	1	2	—
Total loans with floating or adjustable interest rates	1,474	250	17,058
Loans with predetermined interest rates			
Residential real estate:			
First Mortgages	$ 4	$ 1,543	$ 2,453
HELOCs	—	—	—
Total residential real estate	4	1,543	2,453
Pledged asset lines	—	—	—
Other	196	3	—
Total loans with predetermined interest rates	200	1,546	2,453
Total	$ 1,674	$ 1,796	$ 19,511

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,	2021	2020
Allowance for credit losses to total year-end loans	0.05 %	0.13 %
Nonaccrual loans to total year-end loans	0.10 %	0.37 %
Allowance for credit losses to total nonaccrual year-end loans	51 %	34 %

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

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,	2021		2020		2019	
	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	$ 17,673	—	$ 13,635	(.01)%	$ 10,610	(.01)%
HELOCs	731	(.14)%	981	—	1,306	(.08)%
Total residential real estate	18,404	(.01)%	14,616	(.01)%	11,916	(.02)%
Pledged asset lines	10,201	—	6,125	—	4,746	—
Other	184	.54 %	191	—	170	—
Total	$ 28,789	—	$ 20,932	—	$ 16,832	(.01)%

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 the low interest rate environment seen throughout the periods presented and Schwab's overall growth in client accounts and net new client assets.

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,	2021		2020	
	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	$ 13	60 %	$ 22	62 %
HELOCs	2	2 %	5	4 %
Total residential real estate	15	62 %	27	66 %
Pledged asset lines	—	37 %	—	33 %
Other	3	1 %	3	1 %
Total	$ 18	100 %	$ 30	100 %

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:

December 31,	2021		2020	
	Amount	Rate	Amount	Rate
Analysis of average daily deposits:				
Money market and other savings deposits	$ 349,665	0.01 %	$ 271,534	0.03 %

As of December 31, 2021 and 2020, uninsured bank deposits totaled approximately $134.8 billion and $89.3 billion, respectively.

As of December 31, 2021, the Company's bank deposits did not include any time deposits that were in excess of FDIC insurance limits or otherwise uninsured.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPO**
15(d) OF THE S

For the fiscal year ended December 31, 2020

or

☐ **TRANSITION I**
OR 15(d) OF TH
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	**94-3025021**
(State or other jurisdiction of incorporation or organization)	(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:

Title of each class	Trading Symbol(s)
Common Stock – $.01 par value per share	SCHW
Depositary Shares, each representing a 1/40th ownership interest in a share of 6.00% Non-Cumulative Preferred Stock, Series C	SCHW PrC
Depositary Shares, each representing a 1/40th ownership interest in a share of 5.95% Non-Cumulative Preferred Stock, Series D	SCHW PrD

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 ☒ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth 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. ☒

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, 2020, the aggregate market value of the voting stock held by non-affiliates of the registrant was $39.3 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 29, 2021, 1,803,049,958 shares of $.01 par value Common Stock and 79,293,695 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 13, 2021, by reference to that document.

THE CHARLES SCHWAB CORPORATION

Annual Report On Form 10-K
For Fiscal Year Ended December 31, 2020

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THE CHARLES SCHWAB CORPORATION

PART I

Item 1. Business

General Corporate Overview

The Charles Schwab Corporation (CSC) is a savings and loan holding company. Incorporated in 1986, 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, 2020, Schwab had $6.69 trillion in client assets, 29.6 million active brokerage accounts, 2.1 million corporate retirement plan participants, and 1.5 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®) and for Schwab's exchange-traded funds (Schwab ETFs™).

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 and banking 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 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 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, through its broker-dealer subsidiaries; and futures and foreign exchange trade execution services through its futures commission merchant (FCM) and forex dealer member (FDM) subsidiary. The TD Ameritrade acquisition is further described in the business and asset acquisition 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, 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 $50 trillion, which means the Company's $6.69 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.

Within Investor Services, our competition in serving individual investors spans brokerage, wealth management, and asset management firms, as well as banks and trust companies. In the Advisor Services arena, we compete with institutional custodians, traditional and discount brokers, 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. In exchange for each share of TD Ameritrade common stock, TD Ameritrade stockholders received 1.0837 shares of CSC common stock, except for The Toronto-Dominion Bank (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 77 million shares of nonvoting common stock. Upon completion of the acquisition, TDA Holding became a wholly-owned subsidiary of CSC.

TDA provides services to individual retail investors and to RIAs predominantly through the Internet, a national branch network, and relationships with RIAs. At the time of acquisition, TD Ameritrade had approximately 10,000 employees. TD Ameritrade's sources of net revenues primarily consist of trading revenue, bank deposit account fees, net interest revenue, 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.
- Bank deposit account fees are earned through an insured deposit account agreement with TD Bank USA, National Association and TD Bank, National Association (together, the TD Depository Institutions), as well as bank deposit account sweep agreements with other third-party depository institutions, whereby uninvested cash held by certain brokerage clients is swept into Federal Deposit Insurance Corporation

(FDIC)-insured (up to specified limits) money market deposit accounts at the TD Depository Institutions and other third-party depository institutions. See discussion below of the IDA agreement that became effective at the acquisition date.

- TDA's net interest revenue is generated primarily through margin lending, securities lending activity, as well as segregated and operating cash and investments. Interest-bearing liabilities primarily consist of interest-bearing payables to brokerage clients and long-term debt.
- TDA's asset management and administration fee revenue includes revenues earned on client assets invested in money market funds, other mutual funds, and certain investment programs. TDA's asset management and administration fees also include referral and asset-based program fees on its client assets managed by independent RIAs utilizing TDA's trading and investing platforms.

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 a stockholder agreement with TD Bank (the Stockholder Agreement), a registration rights agreement with TD Bank and Charles R. Schwab, and an amended and restated insured deposit account agreement with the TD Depository Institutions (the IDA agreement).

Effective upon the merger, Todd M. Ricketts, Brian M. Levitt, and Bharat B. Masrani were elected to CSC's Board of Directors. Mr. Ricketts was designated by TD Ameritrade pursuant to the terms of the Merger Agreement and Messrs. Levitt and Masrani were designated by TD Bank pursuant to the terms of the Merger Agreement and the Stockholder Agreement between Schwab and TD Bank.

Integration Overview

We anticipate the acquisition of TD Ameritrade will significantly increase our scale to help support the Company's ongoing efforts to enhance the client experience, provide deeper resources for individual investors as well as RIAs, and continue to improve our operating efficiency. At the time of closing, TDA had approximately $1.6 trillion in client assets and approximately 14.5 million brokerage accounts. We anticipate combining the respective strengths of Schwab and TD Ameritrade will enable the Company to invest in enhanced client experience capabilities and further our financial success to the benefit of clients, employees, and stockholders.

Throughout the integration, the Company plans to generally adopt Schwab platforms and systems, though we're committed to leveraging material advantages in TD Ameritrade's platforms when appropriate, as exemplified by our intention to retain TD Ameritrade's thinkorswim® and thinkpipes® trading platforms, education, and tools into our offerings for retail and RIA clients. We also plan to retain TD Ameritrade Institutional's customizable portfolio rebalancing solution iRebal® as part of our offering for independent advisor clients. Additional technology solutions continue to be evaluated for consideration as part of the combined platform.

Our integration of TD Ameritrade's operations is expected to occur over 18 to 36 months from the date of acquisition, though planning for integration has been underway since the acquisition was announced on November 25, 2019. In October 2020, the Company began efforts to reduce overlapping or redundant roles across the two firms and to rationalize branch locations of CS&Co and TD Ameritrade, Inc. These and other integration activities are expected to continue throughout the 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.

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 money market deposit accounts at the TD Depository Institutions. Schwab provides marketing, recordkeeping and support services to the TD Depository Institutions with respect to the money market deposit accounts for which Schwab receives an aggregate monthly fee, determined by reference to certain yields, less a service fee on client cash deposits held at the TD Depository Institutions, FDIC deposit assessments, and interest on deposits paid to clients. 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. Under TDA's prior insured deposit account agreement with the TD Depository Institutions, TDA had floors in place which enabled it to carve-out up to $20 billion of floating-rate investments from the applicable service fee during specified low-rate environments. Pursuant to the IDA agreement, the 15 basis point service fee now applies across all designated fixed and floating IDA balances.

Pursuant to the IDA agreement, Schwab will be required to move all uninsured IDA balances out of the IDA sweep program on June 30, 2021. The IDA agreement also provides that starting July 1, 2021, Schwab will have 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 out of the IDA sweep program is dependent on certain binding limitations specified in the IDA agreement, including the requirement that Schwab can only move IDA balances designated as floating-rate obligations. The amount of Schwab's initial potential transfer will also be affected by the net growth or decline in the IDA balance from immediately prior to the October 6, 2020 effective date of the IDA agreement through June 30, 2021. 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.

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

On May 26, 2020, the Company completed its acquisition of the assets of USAA's Investment Management Company (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 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.

Other Acquisitions

During 2020, the Company completed its acquisition of technology and intellectual property of Motif, a financial technology company. The Motif assets help us build on our existing capabilities and help 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 adds established strategies and new separately managed account offerings to our fixed income lineup.

Sources of Net Revenues

Our 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 bank, broker-dealer, and asset management operating subsidiaries, including those of TD Ameritrade, 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. The majority of net interest revenue is derived from a portion of client cash balances awaiting investment and held on Schwab's balance sheet as part of clients' overall relationship with the Company. Interest-earning assets are primarily comprised of high-quality fixed income securities, margin loans, and bank loans.

The majority of asset management and administration fees are earned from proprietary money market mutual funds, proprietary and third-party mutual funds and exchange-traded funds (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. Beginning in the fourth quarter of 2019, Schwab eliminated online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options.

Bank deposit account fees are primarily recognized pursuant to the Company's IDA agreement, as well as sweep agreements with other third-party depository institutions. Under the IDA agreement, eligible brokerage client accounts are swept off-balance sheet to money market deposit accounts at the TD Depository Institutions. Schwab provides marketing, recordkeeping, and support services to the TD Depository Institutions with respect to the money

market deposit accounts for which Schwab receives an aggregate monthly fee, determined by reference to certain yields, less a service fee on client cash deposits held at the TD Depository Institutions, FDIC deposit assessments, and interest on deposits paid to clients.

Products and Services

We offer a broad range of products through intuitive end-to-end solutions, including robust digital capabilities, to address our clients' varying investment and financial needs. Examples of these product 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 third-party certificates of deposit;
- Mutual funds – third-party mutual funds through the Mutual Fund Marketplace®, including non-transaction fee mutual funds through the Mutual Fund OneSource® service, which also includes proprietary mutual funds, plus mutual fund trading and clearing services to broker-dealers;
- Exchange-traded funds – 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.

These investing 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 over 40 years ago to provide individual investors with access to the financial markets at a reasonable cost. The Company has been expanding offerings over time in response to client needs, aiming to provide a compelling and often disruptive solution in the marketplace. As products and services have evolved over the years, the Investor Services segment has expanded and now includes the Retail Investor, Retirement Plan Services, Mutual Fund Clearing Services, and Off-Platform Sales business units.

Through the Retail Investor business unit, we offer individual investors a multi-channel service delivery model, which includes online, mobile, telephone, and branch capabilities. We provide personalized solutions at competitive prices while giving clients the choice of where, when, and how they do business with us. Financial Consultants (FCs) in Schwab's branches and regional telephone service centers focus on building and sustaining client relationships. We have the ability to meet client investing needs through a single ongoing point of contact, even as those needs change over time. We believe that this ability to provide those clients seeking help, guidance, or advice with an individually tailored approach – ranging from occasional consultations, to an ongoing relationship with an FC or participation in one of our advisory solutions, which include referral to an independent RIA in the Schwab Advisor Network®, or for clients of TDA, an RIA in the AdvisorDirect® program – is a competitive strength compared to the more fragmented or limited offerings of other firms.

Our service delivery model provides quick and efficient access to a broad lineup of information, research, tools, trade execution, and administrative services, which clients can access according to their needs. For example, clients that trade more actively can 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. Management also believes the Company is able to compete with the wide variety of financial services firms striving to attract individual client relationships by complementing these capabilities with a range of investment and banking products.

Schwab seeks to educate and assist clients in reaching their financial goals. Educational tools include workshops, webcasts, podcasts, interactive courses, and online information about investing, from which Schwab does not earn revenue. We also introduced virtual events in 2020 to engage with retail and institutional clients amidst an unprecedented climate. Additionally, we provide various online research and analysis tools that are designed to help

clients achieve better investment outcomes. As an example of such tools, 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. In 2020, we launched Schwab Plan™, a free digital financial plan designed to help investors establish and stay on track toward their personalized retirement goals. Schwab Plan is available to all Schwab clients with no

minimum asset requirement, expanding access to retirement planning to the millions of retail investors that Schwab serves. Also in 2020, we launched Schwab Stock Slices™, a service which enables investors to own any of America's leading companies from the S&P 500® for as little as $5 each, even if their shares cost more. Clients can purchase a single stock slice or up to 10 different stock slices at once, commission-free through our online channels.

Clients may seek specific investment recommendations, either from time to time or on an ongoing basis. Schwab provides clients seeking advice with personalized solutions. Our approach to advice is based on long-term investment strategies and guidance on portfolio diversification and asset allocation. This approach is designed to be offered consistently across all of Schwab's delivery channels.

Schwab Private Client™ features a personal advice relationship with a designated Private Client 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.

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. During 2020, we completed our acquisition of Wasmer Schroeder, which adds established strategies and new separately managed account offerings to our existing fixed income lineup. 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, are for clients who are looking to have their assets professionally managed via a fully automated online investment advisory service. In late 2016, we introduced a hybrid advisory service, now called Schwab Intelligent Portfolios Premium®, to offer our 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. In early 2020, we launched Schwab Intelligent Income®, a low-cost solution designed to offer a simple, modern way to generate income from existing investment portfolios. Finally, clients who want the assistance of an independent professional in managing their financial affairs may be referred to RIAs in the Schwab Advisor Network. These RIAs provide personalized portfolio management, financial planning, and wealth management solutions.

Clients of TD Ameritrade also have access to a suite of programs designed to meet their specific investment advisory needs. Through TDA's Essential Portfolios, clients are offered a low-cost automated online investment advisory service with access to goal-oriented ETF portfolios. TDA's Selective Portfolios offers a broader range of goal-oriented portfolios made up of mutual funds and ETFs, through a combination of automated technology and professional insights. TDA's Personalized Portfolios offers clients tailored portfolios, supported by a team of investment professionals. Finally, TDA's AdvisorDirect® referral program provides clients with an introduction to an independent RIA that can assist in developing customized investment strategies around their unique goals.

To meet the specific needs of clients who actively trade, Schwab offers integrated web- and software-based trading platforms, real-time market data, options trading, premium stock and futures research, and multi-channel access, as well as sophisticated account and trade management features, risk management and decision support tools, and dedicated personal support. TD Ameritrade offers clients its award-winning thinkorswim® trading platform, education, and tools, which the Company intends to integrate into the Company's ongoing offerings.

For U.S. clients wishing to invest in foreign equities, we offer 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. Schwab provides multi-lingual services to non-English-speaking clients through a combination of its branch offices, web-based and telephonic services.

We also offer equity compensation plan sponsors full-service recordkeeping for stock plans, stock options, restricted stock, performance shares, and stock appreciation rights. 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.

Our Retirement Plan Services business unit 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, and defined benefit plans.

Lastly, the Mutual Fund Clearing Services business unit provides open-end mutual fund trading, settlement, and related transactional services to banks, brokerage firms, and trust companies, and the Off-Platform Sales business unit 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 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. In early 2019, we released Schwab Advisor Portfolio Connect®, 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® 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® trading platform offers a multitude of features, including real-time charting and efficient trading and allocation. The Company intends to integrate thinkpipes into its ongoing offerings. The Company also plans to retain TD Ameritrade Institutional's customizable portfolio rebalancing solution iRebal® as part of its offering for RIA clients.

The Advisor Services segment also includes the Retirement Business Services and Corporate Brokerage Retirement Services business units. 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). 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®, a self-directed brokerage offering for retirement plans.

Corporate Brokerage Retirement Services serves plan sponsors, advisors, and independent recordkeepers seeking a brokerage-based account to hold retirement plan assets. Retirement plans held at Schwab are either self-trusteed or trusteed by a separate, independent trustee. Corporate Brokerage Retirement Services also offers the Schwab Personal Choice Retirement Account®, and the Company Retirement Account, both of which are self-directed brokerage-based solutions designed to hold the assets of company-sponsored retirement plans.

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 Federal Reserve. 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 headquartered in Henderson, Nevada. CSB and CSPB are currently regulated, supervised, and examined by the Federal Reserve, the Texas Department of Savings and Mortgage Lending, the Consumer Financial Protection Bureau (CFPB), and the FDIC. Trust Bank is currently regulated, supervised and examined by the Nevada Financial Institutions Division, 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.

In October 2019, the Federal Reserve, OCC, and FDIC jointly adopted a final rule which became effective on December 31, 2019 (interagency regulatory capital and liquidity rules) that revised the regulatory capital and liquidity requirements for large U.S. banking organizations with $100 billion or more in total consolidated assets. The rules established four risk-based categories for determining the regulatory capital and liquidity requirements

applicable to these institutions based on their total assets, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure. CSC is 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. As of December 31, 2020, CSC had total consolidated assets of $549 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 for large bank holding companies, the stress capital buffer. As discussed below, starting in 2022, CSC, as a large savings and loan holding company will also become subject to the stress capital buffer requirement. 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, now excludes AOCI from its regulatory capital.

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, which includes CSC, 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 anticipate that we will exceed the $75 billion threshold as of the quarter ended March 31, 2021, and will become 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, which includes CSC, and their depository institution subsidiaries with $10 billion or more in total consolidated assets will be required to maintain ASF in an amount at least equal to 85% of its RSF on an ongoing, daily basis. The final NSFR rule becomes 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. While we will be subject to the reduced NSFR when the rule goes into effect on July 1, 2021, we anticipate that we will become subject to the full NSFR requirement on October 1, 2021.

Capital Stress Testing

In the final enhanced prudential standards rules adopted concurrently in October 2019 with the interagency regulatory capital and liquidity rules, the Federal Reserve revised the capital stress testing regime applicable to savings and loan holding companies and state-chartered member banks. Under the new Federal Reserve capital stress testing rules, savings and loan holding companies that are Category III banking organizations are required to conduct biennial company-run stress tests in even-numbered years beginning in 2020. In 2020, CSC conducted company-run stress tests, reported the results of its stress testing to the Federal Reserve, and voluntarily published a summary of its stress test results.

In its enhanced prudential standards rules, 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 will go into effect for CSC beginning with the 2022 stress testing cycle. To implement this requirement, the Federal Reserve also expanded the reporting requirements applicable to savings and loan holding companies commencing in the second quarter of 2020.

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 will replace CSC's current 2.5 percent capital conservation buffer. The capital plan requirement will become effective for CSC

with the 2022 CCAR cycle, and CSC's initial stress capital buffer requirement will be based on its 2022 CCAR stress testing results.

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 will also extend 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 will be 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 new single counterparty credit limits will go into effect for CSC on January 1, 2022.

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. More recently, in January 2021, the FDIC announced that it will resume requiring resolution plan submissions for insured depository institutions with total consolidated assets of $100 billion or more. The FDIC also indicated that it would provide at least 12 months' notice before firms must submit new resolution plans.

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

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.

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.

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 will qualify for the "primary purpose exception" from the definition of a deposit broker. Under the new framework, the FDIC establishes 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 becomes effective on April 1, 2021. CSC anticipates that under the new framework funds swept by CS&Co to CSB and Schwab's other depository institution subsidiaries will continue to qualify for the

primary purpose exception, and that funds swept by TDAC under its bank sweep program will become eligible for the primary purpose exception.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (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.

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 in the event the subsidiary is in financial distress.

Broker-Dealer, FCM, 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), the fifty states, the District of Columbia, the U.S. Virgin Islands, and the Commonwealth of Puerto Rico. CS&Co, TD Ameritrade, Inc., CSIM, and certain of our other subsidiaries are registered as investment advisors with the SEC. CS&Co is also registered as an FCM with the Commodity Futures Trading Commission (CFTC), and TD Ameritrade Futures & Forex LLC (TDAFF) is registered as an FCM and FDM with the CFTC.

Much of the regulation of broker-dealers has been delegated to SROs. Our principal broker-dealers are each a member 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 CS&Co's and TDAFF's futures and commodities trading activities and TDAFF's 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. If CS&Co fails to maintain specified levels of net capital, such failure could constitute a default by CSC of certain debt covenants under its credit agreement.

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, 2020, Schwab had full-time, part-time, and temporary employees, and persons employed on a contract basis, that represented the equivalent of approximately 32,000 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 consultations, and disability and life insurance options. In addition, Schwab offers programs to help with employee career growth including 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.

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. We also offer coaching programs for college students from underrepresented communities to help develop career skills and learn about internship and career opportunities at Schwab. 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), 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.

General Economic and Market Risks

The challenging economic environment triggered by the coronavirus (COVID-19) pandemic has impacted and will continue to impact our business, results of operations, and financial condition.

The COVID-19 pandemic has adversely impacted the economic environment, leading to lower interest rates across the curve and heightened volatility in the financial markets. These developments have had, and may continue to have, a negative impact on our net interest revenue, bank deposit account fee revenue, and asset management and administration fees. Additionally, in March 2020, we experienced a significant increase in client cash balances held at our bank and broker-dealer subsidiaries which caused our Tier 1 Leverage Ratio to decline into the buffer we maintain between our long-term operating objective and our regulatory requirement. This will limit our ability to return excess capital to stockholders, including through share repurchases, until the ratio returns to higher levels.

Credit markets have been, and may continue to be, adversely impacted due to both uncertainty regarding the pandemic's economic impact and the anticipation that high levels of unemployment will have a significant impact on retail credit and commercial real estate forbearances and delinquencies. We have experienced and may continue to experience higher levels of delinquencies on our portfolios of first mortgages and home equity lines of credit. We also have experienced and may in the future experience material market-driven credit spread movements in certain sectors within our portfolio of investment securities, particularly within our investments in corporate credit securities, asset-backed securities, municipal securities, and commercial mortgage-backed securities.

Certain of our client service response and processing times have increased as a result of very high levels of client engagement and our clients have experienced and continue to occasionally experience delays accessing and using our website and mobile applications. Many of our employees and those of our outsourced service providers are working remotely and this has at times contributed to the increase in response and processing times, particularly when we have experienced the temporary loss of services from some of our outsourced service providers. 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. The COVID-19 pandemic could make the timely achievement of our TD Ameritrade integration milestones more challenging, particularly with regard to technology and systems.

These and other impacts of the COVID-19 pandemic have had and will likely continue to have the effect of heightening many of the other risks described elsewhere in this "Risk Factors" section. The extent to which the COVID-19 pandemic, or the emergence of another wide-spread health crisis, impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain, including the scope and duration of the outbreak, actions taken by governmental authorities to contain the financial and economic impact and the spread of the outbreak, the effect on our clients, employees, and outsourced service providers, further changes in credit quality and spreads, and reactions in the financial markets.

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 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 pursuant to the IDA agreement which requires us to maintain a minimum IDA sweep balance. 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. The significant reduction in interest rates related to the COVID-19 pandemic has had, and will continue to have, a negative impact on our revenue related to interest rates and has caused us to waive management fees for certain funds.

Although we believe we are positioned to benefit from 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 can reduce our net interest revenue.

The announced phase-out of LIBOR could negatively impact our net interest revenue and will continue to require significant operational work.

Certain securities in our investment portfolio and the floating rate loans we offer reference LIBOR as the benchmark rate to determine the applicable interest rate or payment amount. We also use LIBOR in many of our financial models, such as those used for capital stress testing, and to determine the dividend rates for certain of our series of preferred stock which begin to float in 2022 and later. If 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 there will continue to be significant work required to transition to using the new benchmark rates and implement necessary changes to our systems and financial models. This could result in different financial performance for previously booked transactions and may impact our existing transaction data, products, systems, operations, and pricing processes. The calculation of interest rates under the replacement benchmarks could also impact our net interest revenue. In addition, LIBOR may 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.

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, 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, standards of conduct with clients, conflicts of interest, and regulatory treatment of deposit accounts, may directly affect our operations and profitability or our specific business lines. 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 capital conservation buffer 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 January 2021, the Federal Reserve adopted a final rule, effective with the 2022 CCAR cycle, making large savings and loan holding companies, including CSC, subject to the CCAR process, which requires submission of an annual capital plan. 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. The rule also imposes a stress capital buffer requirement, floored at 2.5 percent of risk-weighted assets, that will replace CSC's current 2.5 percent capital conservation buffer for our risk-based capital ratios. The stress capital buffer will equal, as a percentage of total risk-weighted assets, the sum of (i) the difference between a firm's starting common equity Tier 1 capital ratio and the low point under the severely adverse scenario of the Federal Reserve's supervisory stress test plus (ii) the ratio of the firm's projected four quarters of common stock

dividends for the fourth through seventh quarters of the planning horizon to risk-weighted assets as projected under CCAR. The imposition of a stress capital buffer requirement could change the way in which our minimum risk-based capital ratios are calculated and 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 CSC reaches $700 billion in total assets or $75 billion in cross-jurisdictional activity, 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. When CSC's weighted short-term wholesale funding is $75 billion or more over the four most recent quarters, CSC will become subject to the full LCR rule and daily liquidity reporting and the full NSFR rule (which goes into effect July 1, 2021). CSC anticipates exceeding the $75 billion threshold as of March 31, 2021.

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 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 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 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 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, 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. 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. Moreover, instances of fraud or other misconduct might also negatively impact our reputation and client confidence in the Company, in addition to any direct losses that might result from such instances. 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, extraordinary trading volumes, such as those that have recently occurred, 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. For example, certain of our client service response and processing times have increased as a result of very high levels of client engagement and our clients have experienced, and continue to occasionally experience, delays accessing our systems during periods when there is an unusually high volume of client activity. 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.

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 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, 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, public health crises, political developments 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. As a result of certain stay at home restrictions related to the COVID -19 pandemic, we temporarily lost the services from some of our outsourced service providers which contributed to increased client service response and processing times. 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, regulators could limit the subsidiaries' operations or their ability to upstream funds to CSC, which could reduce CSC's liquidity and adversely affect its ability to repay debt, pay dividends on CSC's preferred stock, or return capital to common stockholders. 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. For example, as a result of recent market volatility the National Securities Clearing Corporation increased margin requirements for member firms and we were 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 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 committed and 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, 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.

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, including from the continuing impact of the COVID-19 pandemic, 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 Acquisition of TD Ameritrade

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 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. Our ability to realize these anticipated cost savings and other benefits 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 at all 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.

Most of the integration planning and execution work is currently being done remotely due to the COVID-19 pandemic. The inability to work in-person and on-site with information technology and management oversight could make some of the integration work more challenging, particularly with regard to technology. We will need 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 experience delays in acquiring the technology and infrastructure components needed for the integration due to pandemic-related supply chain disruptions. We also have been experiencing high levels of trading volume which, if sustained, may require us to increase the capacity in our integration technology build-outs. 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 TD Ameritrade acquisition.

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 following completion of the acquisition.

Uncertainty about the effect of the acquisition 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.

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 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.

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:

- Our exposure to changes in interest rates;
- 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, or progress on achieving the expected benefits from our TD Ameritrade acquisition;
- 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 not permitted to reduce the deposit balances swept to the TD Depository Institutions until June 30, 2021 and thereafter only by a set amount during each 12-month period, subject to certain limitations including only moving IDA balances designated as floating-rate obligations and maintaining a minimum IDA sweep balance through 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, 2020	Square Footage	
(amounts in thousands)	Leased	Owned
Location		
Corporate headquarters:		
Westlake, TX [1]	318	542
San Francisco, CA [1]	417	—
Service and other office space:		
Denver, CO	—	767
Phoenix, AZ	28	728
Omaha, NE	119	578
Austin, TX	—	561
Southlake, TX	45	375
Jersey City, NJ	394	—
St. Louis, MO	—	324
Chicago, IL	237	—
Indianapolis, IN	—	161
Orlando, FL	159	—
Richfield, OH	—	117
San Diego, CA	111	—
El Paso, TX	—	105

[1] Effective January 1, 2021, CSC changed the designation of its corporate headquarters from San Francisco, California to Westlake, Texas.

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, 2020, the Company had over 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 29, 2021, was 5,679. The closing market price per share on that date was $51.54.

The following graph shows a five-year comparison of cumulative total returns for CSC's common stock, the Standard & Poor's 500 Index, and the Dow Jones U.S. Investment Services Index, each of which assumes an initial investment of $100 and reinvestment of dividends.
schw-20201231_g1.jpg

December 31,	2015	2016	2017	2018	2019	2020
The Charles Schwab Corporation	$ 100	$ 121	$ 159	$ 129	$ 151	$ 171
Standard & Poor's 500 Index	$ 100	$ 112	$ 136	$ 130	$ 171	$ 203
Dow Jones U.S. Investment Services Index	$ 100	$ 127	$ 158	$ 139	$ 173	$ 204

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.

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 2020 (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 [1]	—	$ —	—	$ 1,780
Employee transactions [2]	111	$ 38.62	N/A	N/A
November:				
Share repurchase program [1]	—	$ —	—	$ 1,780
Employee transactions [2]	704	$ 41.89	N/A	N/A
December:				
Share repurchase program [1]	—	$ —	—	$ 1,780
Employee transactions [2]	273	$ 49.85	N/A	N/A
Total:				
Share repurchase program [1]	—	$ —	—	$ 1,780
Employee transactions [2]	1,088	$ 43.55	N/A	N/A

[1] All shares were repurchased under an authorization approved by CSC's Board of Directors of up to $4.0 billion of common stock publicly announced by CSC on January 30, 2019. The authorization does not have an expiration date.

[2] 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.

Recent Sales of Unregistered Securities

TD Bank exercised a right to exchange 1,786,640 shares of CSC common stock for an equal number of shares of CSC nonvoting common stock. The shares of CSC nonvoting common stock issued in exchange were issued in reliance on Section 3(a)(9) of the Securities Act on October 19, 2020.

Item 6. Selected Financial Data

Selected Financial and Operating Data

(In Millions, Except Per Share Amounts, Ratios, or as Noted)

	Growth Rates						
	Compounded 4-Year 2016-2020 [1]	Annual 1-Year 2019-2020	2020 [2]	2019	2018	2017	2016
Results of Operations							
Total net revenues	12%	9%	$ 11,691	$ 10,721	$ 10,132	$ 8,618	$ 7,478
Expenses excluding interest	13%	26%	$ 7,391	$ 5,873	$ 5,570	$ 4,968	$ 4,485
Net income	15%	(11)%	$ 3,299	$ 3,704	$ 3,507	$ 2,354	$ 1,889
Net income available to common stockholders	15%	(14)%	$ 3,043	$ 3,526	$ 3,329	$ 2,180	$ 1,746
Earnings per common share:							
Basic	13%	(21)%	$ 2.13	$ 2.69	$ 2.47	$ 1.63	$ 1.32
Diluted	13%	(21)%	$ 2.12	$ 2.67	$ 2.45	$ 1.61	$ 1.31
Dividends declared per common share	28%	6%	$ .72	$ .68	$ .46	$ .32	$ .27
Weighted-average common shares outstanding:							
Basic	2%	9%	1,429	1,311	1,348	1,339	1,324
Diluted	2%	9%	1,435	1,320	1,361	1,353	1,334
Net interest revenue as a percentage of total net revenues			52 %	61 %	57 %	50 %	44 %
Asset management and administration fees as a percentage of total net revenues			30 %	30 %	32 %	39 %	41 %
Trading revenue as a percentage of total net revenues [3]			12 %	7 %	9 %	9 %	12 %
Effective income tax rate			23.3 %	23.6 %	23.1 %	35.5 %	36.9 %
Performance Measures							
Total net revenues growth			9 %	6 %	18 %	15 %	17 %
Pre-tax profit margin			36.8 %	45.2 %	45.0 %	42.4 %	40.0 %
Return on average common stockholders' equity			9 %	19 %	19 %	15 %	14 %
Financial Condition (at year end)							
Total assets	25%	87%	$ 549,009	$ 294,005	$ 296,482	$ 243,274	$ 223,383
Short-term borrowings	—	—	—	—	—	$ 15,000	—
Long-term debt	48%	83%	$ 13,632	$ 7,430	$ 6,878	$ 4,753	$ 2,876
Preferred stock	29%	177%	$ 7,733	$ 2,793	$ 2,793	$ 2,793	$ 2,783
Total stockholders' equity	36%	158%	$ 56,060	$ 21,745	$ 20,670	$ 18,525	$ 16,421
Assets to stockholders' equity ratio			10	14	14	13	14
Debt to total capital ratio [4]			20 %	25 %	25 %	52 %	15 %
Employee Information							
Full-time equivalent employees (at year end, in thousands)	19%	62%	32.0	19.7	19.5	17.6	16.2

[1] The Compounded 4-year growth rate is computed using the formula: Compound annual growth rate = (Ending Value / Beginning Value) $^{.25}$ – 1.

[2] Effective October 6, 2020, CSC acquired TD Ameritrade. As a result, TD Ameritrade has been included in our consolidated results of operations and financial condition starting on the acquisition date. Refer to Item 8 – Note 3 for further information regarding the acquisition of TD Ameritrade.

(3) Beginning in the first quarter of 2020, order flow revenue was reclassified from other revenue to trading revenue. Prior period amounts have been reclassified in the statements of income to reflect this change, and prior period percentages presented in this table have been recalculated.

(4) The Debt to total capital ratio is computed using the formula: Total Debt (short and long-term) / (Total Debt + Stockholders' Equity).

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," 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; and maintaining our market position (see Business Strategy and Competitive Environment and Products and Services in Part I, Item 1);
- Expected benefits from the TD Ameritrade and other recently completed acquisitions; and expected timing for the TD Ameritrade integration (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 Note 16);
- The migration of IDA balances to our balance sheet (see Business and Asset Acquisitions – Acquisition of TD Ameritrade in Part I, Item 1; Capital Management – Regulatory Capital Requirements in Part II, Item 7; and Commitments and Contingencies in Part II, Item 8 – Note 15);
- 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);
- Advancing strategic goals to drive scale, monetization and segmentation (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 adjustment of rates paid on client-related liabilities; net interest margin compression and net interest revenue; and money market fund fee waivers (see Results of Operations – Net Interest Revenue and Asset Management and Administration Fees in Part II, Item 7);
- Capital expenditures; and increased spending to improve service levels and support growth (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 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);
- 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, trading activity, the level of interest rates – which can impact money market fund fee waivers, and credit spreads;

- Our ability to attract and retain clients, develop trusted relationships, and grow client assets;
- Client use of our advisory solutions and other products and services;
- The level of client assets, including cash balances;
- Competitive pressure on pricing, including deposit rates;
- Client sensitivity to rates;
- Regulatory guidance;
- Capital and liquidity needs and management;
- Our ability to manage expenses;
- 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;
- The scope and duration of the COVID-19 pandemic and actions taken by governmental authorities to contain the spread of the virus and the economic impact;
- Our ability to support client activity levels;
- The risk that expected cost synergies and other benefits from the TD Ameritrade and other recent acquisitions may not be fully realized or may take longer to realize than expected;
- The ability to successfully implement integration strategies and plans relating to TD Ameritrade;
- The timing of integration-related and other technology projects;
- Real estate and workforce decisions;
- Migrations of BDA balances;
- Prepayment levels for mortgage-backed securities;
- Client cash allocations;
- 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.

THE CHARLES SCHWAB CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Amounts in Millions, Except Ratios, or as Noted)

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 includes unrealized gains and losses on available for sale (AFS) securities and net gains or losses associated with pension obligations.

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 1/100th 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® 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. As permitted by the interagency regulatory capital and liquidity rules adopted in October 2019, CSC, as a Category III banking organization, made an election to exclude AOCI from CET1 capital, beginning January 1, 2020.

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.

Debt to total capital ratio: Calculated as total debt divided by stockholders' equity and total debt.

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.

Final Regulatory Capital Rules: Refers to the regulatory capital rules issued by U.S. banking agencies which implemented Basel III and relevant provisions of Dodd-Frank Act, which apply to savings and loan holding companies, as well as federal savings banks.

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.

High Quality Liquid Assets (HQLA): HQLA is defined by the Federal Reserve, but includes assets with low market- and credit risk 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 "Baa" 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: Net compensation received from markets and firms to which our broker-dealer subsidiaries send equity and options orders. The amount reflects rebates received for certain types of orders, less fees paid for orders where exchange fees or other charges apply.

Pledged Asset Line® (PAL): A non-purpose revolving line of credit from CSB 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.

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.

THE CHARLES SCHWAB CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Amounts in Millions, Except Ratios, or as Noted)

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, 2020, 2019, and 2018 are as follows:

	Growth Rate 1-Year 2019-2020	2020	2019	2018
Client Metrics				
Net new client assets (in billions) [1]	N/M	$ 1,952.5	$ 222.8	$ 133.9
Core net new client assets (in billions)	33%	$ 281.9	$ 211.7	$ 227.8
Client assets (in billions, at year end)	66%	$ 6,691.7	$ 4,038.8	$ 3,252.2
Average client assets (in billions)	24%	$ 4,579.0	$ 3,682.0	$ 3,409.6
New brokerage accounts (in thousands) [2]	N/M	18,627	1,568	1,576
Active brokerage accounts (in thousands, at year end)	140%	29,629	12,333	11,593
Assets receiving ongoing advisory services (in billions, at year end)	57%	$ 3,300.1	$ 2,106.8	$ 1,708.5
Client cash as a percentage of client assets (at year end)		12.3 %	11.3 %	12.8 %
Company Financial Metrics				
Total net revenues	9%	$ 11,691	$ 10,721	$ 10,132
Total expenses excluding interest	26%	7,391	5,873	5,570
Income before taxes on income	(11)%	4,300	4,848	4,562
Taxes on income	(13)%	1,001	1,144	1,055
Net income	(11)%	$ 3,299	$ 3,704	$ 3,507
Preferred stock dividends and other	44%	256	178	178
Net income available to common stockholders	(14)%	$ 3,043	$ 3,526	$ 3,329
Earnings per common share — diluted	(21)%	$ 2.12	$ 2.67	$ 2.45
Net revenue growth from prior year		9 %	6 %	18 %
Pre-tax profit margin		36.8 %	45.2 %	45.0 %
Return on average common stockholders' equity		9 %	19 %	19 %
Expenses excluding interest as a percentage of average client assets		0.16 %	0.16 %	0.16 %
Consolidated Tier 1 Leverage Ratio (at year end)		6.3 %	7.3 %	7.1 %
Non-GAAP Financial Measures [3]				
Adjusted total expenses [4]		$ 6,759	$ 5,820	$ 5,541
Adjusted diluted EPS		$ 2.45	$ 2.70	$ 2.46
Return on tangible common equity		15 %	21 %	21 %

[1] 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 an inflow of $10.9 billion from a mutual fund clearing services client.

2019 includes inflows of $11.1 billion from certain mutual fund clearing services clients. 2018 includes outflows of $93.9 billion from certain mutual fund clearing services clients.

(2) 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.

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

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

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

THE CHARLES SCHWAB CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations
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2020 Compared to 2019

Throughout the extraordinary macroeconomic environment that persisted during 2020, Schwab continued to execute on key strategic initiatives, and produced solid financial results. The impact of COVID-19, along with social and political turmoil, created an unprecedented combination of personal and macroeconomic challenges for our clients, employees, and stockholders. While working through these challenges, we progressed in advancing the Company's strategic goals to drive scale, monetization, and segmentation in ways that benefit our clients. Among the Company's key accomplishments in 2020 were the successful completion of the acquisition of TD Ameritrade and three other strategic acquisitions, as discussed below.

The COVID-19 pandemic's rapid escalation in early 2020 was accompanied by volatile equity markets and the Federal Reserve's further easing of monetary policy. As the year progressed, government aid packages and vaccine developments helped settle the markets, with the S&P 500® erasing its pandemic-related losses to finish up 16% for the year. Throughout 2020, client engagement with the financial markets greatly increased over the prior year, as client trading activity reached record levels. Core net new assets totaled $281.9 billion in 2020, representing our third consecutive year of over $200 billion. Total client assets reached $6.69 trillion spread across 29.6 million brokerage accounts, up 66% and 140%, respectively, from year-end 2019.

Against this backdrop, Schwab's net income totaled $3.3 billion, down $405 million, or 11% from 2019, while the Company produced diluted EPS of $2.12, representing a decrease of 21% relative to 2019. Adjusted diluted EPS [(1)], which excludes acquisition and integration-related costs, amortization of acquired intangible assets, and related income tax effects, amounted to $2.45 in 2020, down 9% from $2.70 in 2019.

Total net revenues reached $11.7 billion for the year, increasing 9% from 2019. During March 2020, the Federal Reserve acted to support the economy by cutting the Fed Funds rate from 1.75% to near zero and announcing significant asset purchase programs. Mortgage refinancing activity subsequently accelerated, and our net interest margin was impacted by both significantly lower interest rates and increased prepayments of mortgage-backed securities held in our investment portfolio. Strong growth in interest-earning assets via client inflows and allocation decisions, as well as our acquisitions of TD Ameritrade and assets of USAA-IMCO, helped limit the decrease in net interest revenue to 6%, resulting in a full-year 2020 total of $6.1 billion.

Growing balances in advisory solutions and a rebound in equity markets in 2020 helped drive an 8% increase in asset management and administration fees, which totaled $3.5 billion in 2020. Record client trading activity and the addition of TD Ameritrade in the fourth quarter contributed to an 88% increase in trading revenue, which reached $1.4 billion for the year, more than offsetting a full-year impact of the commission reductions implemented in the fourth quarter of 2019. With the TD Ameritrade acquisition, our fourth quarter 2020 results included bank deposit account fee revenue for the first time, which totaled $355 million for the period from October 6, through December 31, 2020.

Total expenses excluding interest increased 26% in 2020 to $7.4 billion, which included significant costs related to our acquisitions. With the completion of four acquisitions during the year, acquisition and integration-related costs totaled $442 million in 2020, representing a significant increase from the $26 million incurred in 2019. Amortization of acquired intangible assets also increased, totaling $190 million in 2020 compared with $27 million in 2019. Exclusive of these items [(1)], adjusted total expenses increased 16% from 2019. Return on average common stockholders' equity was 9% in 2020, down from 19% in 2019. Return on tangible common equity [(1)] (ROTCE) was 15% in 2020, down from 21% in 2019. The 2020 decreases in both return on average common stockholders' equity and ROTCE are due to lower net income as well as significantly higher balances of common equity due to the TDA acquisition and higher AOCI in 2020, driven by unrealized gains in our AFS investment portfolio.

[(1)] 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.

Throughout 2020, the Company maintained its disciplined approach to capital management, helping sustain significant balance sheet growth. Schwab's consolidated total assets ended 2020 at $549 billion, representing growth of $255 billion, or 87%, from year-end 2019, reflecting both our organic growth as well as the acquisitions of TD Ameritrade and the assets of USAA-IMCO. Through offerings in April and December, the Company issued preferred stock totaling approximately $5 billion in 2020, bringing total preferred stock to approximately $7.7 billion, or approximately 25% of Tier 1 Capital at December 31, 2020. The Company's Tier 1 Leverage Ratio was 6.3% at December 31, 2020.

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, through its broker-dealer subsidiaries; and futures and foreign exchange trade execution services through its FCM and FDM subsidiary. At the time of closing, TD Ameritrade had approximately $1.6 trillion in client assets and approximately 14.5 million brokerage accounts. 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 77 million shares of nonvoting common stock. Upon completion of the acquisition, TDA Holding became a wholly-owned subsidiary of CSC. See Item 8 – Note 3 for more information.

For the period of October 6, through December 31, 2020, total net revenues and total expenses excluding interest attributable to TD Ameritrade were approximately $1.7 billion and $943 million, respectively. TD Ameritrade's primary sources of revenues include trading revenue, bank deposit account fees, net interest revenue, and asset management and administration fees. Bank deposit account fee revenue is primarily earned through the Company's IDA agreement. TD Ameritrade's assets and liabilities have been revalued and recorded at their provisional estimated fair value as of the date of acquisition.

The integration of TD Ameritrade's operations is expected to occur over 18 to 36 months from the date of acquisition, and the Company expects to continue to incur significant acquisition and integration-related costs and integration-related capital expenditures throughout the integration process. Such costs have included and are expected to continue to include professional fees, such as legal, advisory, and accounting fees, and compensation and benefits expenses for employees and contractors involved in the integration work, costs for technology enhancements, as well as exit and other related costs incurred to attain anticipated synergies. Such costs include employee compensation and benefits, including severance pay, other termination benefits and retention costs, as well as costs related to facility closures, including accelerated depreciation or impairments of assets in those locations.

The Company currently estimates that total acquisition and integration-related costs and capital expenditures related to the integration of TD Ameritrade will be approximately $1.6 billion. The Company is in the early stages of integration, and our estimates of the nature, amounts, and timing of recognition of acquisition and integration-related costs are subject to change based on a number of factors, including the expected duration and complexity of the integration process and the heightened uncertainty of the current economic environment. More specifically, factors that could cause variability in our expected acquisition and integration-related costs include the level of employee attrition, workforce redeployment from eliminated positions into open roles, changes in the levels of client activity, as well as increased real estate-related exit cost variability due to effects of the COVID-19 pandemic.

Acquisition and integration-related costs, which includes related exit costs, for all of our acquisitions completed in 2020 totaled $442 million, and the Company expects to incur a roughly consistent amount in 2021 related primarily to continued work on the integration of TD Ameritrade. While inclusion of TD Ameritrade's operating costs and continued acquisition and integration-related costs will increase the Company's total expenses excluding interest in 2021 and going forward, we expect to realize cost synergies through integration. Over the course of the integration, we expect to realize annualized cost synergies of between $1.8 billion and $2.0 billion, with one-quarter to one-third on an annualized run-rate basis expected by the end of the first year following acquisition. 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.

Assets of 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 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.

Other

During the second quarter of 2020 the Company completed its acquisition of technology and intellectual property of Motif, a financial technology company. The Motif assets help us build on our existing capabilities and help accelerate our development of thematic and direct index investing for Schwab's retail investors and RIA clients. On July 1, 2020, the Company completed its acquisition of Wasmer Schroeder, which adds established strategies and new separately managed account offerings to our existing fixed income lineup.

2019 Compared to 2018

Schwab delivered solid financial results in 2019 while taking significant steps to further enhance our offer to clients and help position the Company to build value for our stakeholders over the long-term. Throughout 2019, investor sentiment reflected a complex market environment that included global trade negotiations and an uncertain domestic economic outlook. The Federal Reserve ended up cutting the federal funds target interest rate three times in 2019, in a reversal of the increases seen in 2018. At the same time, stocks continued to rise, with the S&P 500® increasing 29% during 2019. Core net new assets totaled $211.7 billion for 2019, representing an organic growth rate of 7% and our second consecutive year over $200 billion. Clients opened 1.6 million new brokerage accounts in 2019, while active brokerage accounts grew 6% to 12.3 million. Our success in asset gathering combined with strong market returns drove total client assets to reach $4.04 trillion at December 31, 2019, closing the year up 24%.

Company actions to benefit clients and build long-term value during 2019 included the elimination of online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options, which became effective October 7, 2019. The Company also announced two significant acquisitions during 2019. In July 2019, the Company agreed to acquire assets of USAA-IMCO and agreed to enter into a long-term referral agreement. In late November 2019, we entered into a definitive agreement to acquire TD Ameritrade.

Against the backdrop of the more challenging than expected macroeconomic environment and our own pricing decisions, Schwab's net income totaled $3.7 billion in 2019, an increase of $197 million, or 6%. Diluted EPS grew to $2.67, representing an increase of 9% from 2018.

Total net revenues reached $10.7 billion, up 6% in 2019. Net interest revenue increased 12% in 2019 to $6.5 billion, driven by higher average investment yields and also by an increase in client cash balances held at our bank and broker-dealer subsidiaries. While trading revenue declined 17% to $752 million due to our pricing actions, asset management and administration fees remained essentially flat with 2018 at $3.2 billion, decreasing 1%. Growing enrollment in advice solutions, along with rising balances in other third-party mutual funds, helped to largely offset declines in Mutual Fund OneSource® and lower sweep money market fund revenue due to transfers of sweep money market funds to our balance sheet in 2018 and early 2019.

Total expenses excluding interest increased 5% in 2019 to $5.9 billion, which included $62 million in severance charges associated with a 3% reduction in our workforce and $25 million in costs relating to the announced acquisitions of assets of USAA-IMCO and TD Ameritrade. The Company's focus on driving efficiency while managing spending in a disciplined manner helped us maintain a ratio of expenses to client assets of 16 bps for 2019. Balancing long-term profitability with reinvesting for growth, we achieved a 45.2% pre-tax profit margin and a 19% return on equity in 2019, representing our second consecutive year of at least 45% and 19%, respectively.

Disciplined balance sheet management remained core to our strategy as we continued to support business growth and meaningful capital returns across a range of conditions. In early 2019, the Board of Directors raised the quarterly cash dividend 31% to $0.17 per share and authorized the repurchase of up to $4.0 billion of common stock; during 2019 we repurchased 55 million shares for $2.2 billion under this authorization. As of December 31, 2019, our balance sheet assets were $294 billion, down 1% from December 31, 2018; our Tier 1 Leverage Ratio was 7.3% at year-end 2019.

RESULTS OF OPERATIONS

Total Net Revenues

Total net revenues of $11.7 billion and $10.7 billion for the years ended December 31, 2020 and 2019, respectively, represented growth of 9% and 6% from the prior periods. The 2020 increase was due to our acquisition of TD Ameritrade, which contributed approximately $1.7 billion of total net revenues from October 6, through December 31, 2020. Total net revenues increased in 2019 primarily due to growth in net interest revenue.

Year Ended December 31,		2020		2019		2018	
	Growth Rate 2019-2020	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Net interest revenue							
Interest revenue	(14)%	$ 6,531	56 %	$ 7,580	71 %	$ 6,680	66 %
Interest expense	(61)%	(418)	(4)%	(1,064)	(10)%	(857)	(9)%
Net interest revenue	(6)%	6,113	52 %	6,516	61 %	5,823	57 %
Asset management and administration fees							
Mutual funds, ETFs, and collective trust funds (CTFs) [1]	1 %	1,770	15 %	1,747	16 %	1,837	18 %
Advice solutions	20 %	1,443	12 %	1,198	11 %	1,139	11 %
Other [1]	(2)%	262	3 %	266	3 %	253	3 %
Asset management and administration fees	8 %	3,475	30 %	3,211	30 %	3,229	32 %
Trading revenue							
Commissions	35 %	739	6 %	549	5 %	685	7 %
Order flow revenue [2]	N/M	621	6 %	135	1 %	139	1 %
Principal transactions	(18)%	56	—	68	1 %	78	1 %
Trading revenue [2]	88 %	1,416	12 %	752	7 %	902	9 %
Bank deposit account fees	N/M	355	3 %	—	—	—	—
Other [2]	37 %	332	3 %	242	2 %	178	2 %
Total net revenues	9 %	$ 11,691	100 %	$ 10,721	100 %	$ 10,132	100 %

[1] Beginning in the first quarter of 2019, a change was made to move CTFs from other asset management and administration fees. Prior periods have been recast to reflect this change.

[2] Beginning in the first quarter of 2020, order flow revenue was reclassified from other revenue to trading revenue. Prior period amounts have been reclassified to reflect this change.

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. 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. 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 include bank deposits, payables to brokerage clients, short-term borrowings (e.g., Federal Home Loan Bank (FHLB) advances, commercial paper), and long-term debt. Non-interest-bearing funding sources include stockholders' equity, certain client cash balances, and other miscellaneous liabilities.

Schwab establishes the rates paid on client-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. Schwab deploys the funds from these sources into the assets outlined above. We do not use short-term, wholesale borrowings to support our long-term investment activity, but may use such funding, including FHLB advances or commercial paper, for short-term liquidity purposes or to provide temporary funding (e.g., for investment purchases) ahead of anticipated balance sheet deposit growth.

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. As Schwab builds its client base, we attract new client sweep cash, which is a primary driver of funding balance sheet growth.

Late in the first quarter of 2020, the Federal Reserve cut the federal funds target overnight rate from 1.75% to near zero; on the longer-end of the curve, the 10-year Treasury rate declined by over 120 basis points. Lower interest rates across maturities persisted from the end of the first quarter through the end of 2020, while credit spreads also compressed. Moreover, changes in the economic environment throughout 2020 resulting from the COVID-19 pandemic drove significantly higher levels of client cash sweep balances. As these balances rapidly accumulated in the first quarter of 2020, the Company initially placed a substantial amount in excess reserves held at the Federal Reserve, and subsequently deployed a significant amount of this cash build-up throughout 2020. AFS securities purchases in 2020 totaled $202.2 billion. These purchases were made at rates below the average yield on the existing AFS portfolio due to the current low interest rate environment.

Schwab's acquisition of TD Ameritrade, effective October 6, 2020, provides additional interest-earning assets and liabilities. For Schwab's 2020 full-year averages, TD Ameritrade contributed approximately $12.0 billion of average interest-earning assets and $9.6 billion of average interest-bearing liabilities. TD Ameritrade's interest-earning assets consist primarily of receivables from brokerage clients, cash and investments segregated, cash and cash equivalents, and AFS securities. TD Ameritrade's interest-bearing liabilities consist primarily of payables to brokerage clients and long-term debt. See Item 8 – Note 3 for additional information on the TD Ameritrade acquisition including the provisional fair values of assets acquired and liabilities assumed.

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,	2020			2019			2018		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets									
Cash and cash equivalents	$ 39,052	$ 120	0.30 %	$ 23,512	$ 518	2.17 %	$ 17,783	$ 348	1.93 %
Cash and investments segregated	34,100	141	0.41 %	15,694	345	2.17 %	11,461	206	1.78 %
Receivables from brokerage clients	28,058	848	2.97 %	19,270	821	4.20 %	19,870	830	4.12 %
Available for sale securities [1,2]	253,555	4,537	1.78 %	58,181	1,560	2.67 %	54,542	1,241	2.26 %
Held to maturity securities [2]	—	—	—	134,708	3,591	2.65 %	131,794	3,348	2.53 %
Bank loans	20,932	545	2.60 %	16,832	584	3.47 %	16,554	559	3.37 %
Total interest-earning assets	375,697	6,191	1.64 %	268,197	7,419	2.75 %	252,004	6,532	2.57 %
Securities lending revenue [3]		334			147			118	
Other interest revenue [3]		6			14			30	
Total interest-earning assets [4]	$ 375,697	$ 6,531	1.73 %	$ 268,197	$ 7,580	2.80 %	$ 252,004	$ 6,680	2.63 %
Funding sources									
Bank deposits	$ 291,206	$ 93	0.03 %	$ 212,605	$ 700	0.33 %	$ 199,139	$ 545	0.27 %
Payables to brokerage clients	46,347	12	0.02 %	24,353	79	0.33 %	21,178	56	0.27 %
Short-term borrowings [5]	89	—	0.20 %	17	—	2.36 %	3,359	54	1.59 %
Long-term debt	8,992	289	3.22 %	7,199	258	3.58 %	5,423	190	3.50 %
Total interest-bearing liabilities	346,634	394	0.11 %	244,174	1,037	0.42 %	229,099	845	0.37 %
Non-interest-bearing funding sources [4]	29,063			24,023			22,905		
Securities lending expense [3]		33			38			18	
Other interest expense [3]		(9)			(11)			(6)	
Total funding sources [4]	$ 375,697	$ 418	0.11 %	$ 268,197	$ 1,064	0.39 %	$ 252,004	$ 857	0.34 %
Net interest revenue		$ 6,113	1.62 %		$ 6,516	2.41 %		$ 5,823	2.29 %

[1] Amounts have been calculated based on amortized cost.
[2] On January 1, 2020, the Company transferred all of its investment securities designated as held to maturity (HTM) to the AFS category, as described in Item 8 – Note 6.
[3] Beginning in the fourth quarter of 2020, securities lending revenue has been reclassified from broker-related receivables and other revenue. Securities lending expense has been reclassified from other expense. Prior period amounts have been reclassified to reflect this change.
[4] Beginning in the fourth quarter of 2020, broker-related receivables were removed from total interest earning assets and netted against non-interest-bearing funding sources, resulting in an immaterial reduction to total interest-earning assets and total funding sources. Prior period amounts have been reclassified to reflect this change.
[5] Interest revenue or expense was less than $500 thousand in the period or periods presented.

Net interest revenue decreased $403 million or 6%, in 2020 from 2019, due primarily to lower average investment yields partially offset by growth in interest-earning assets. Accelerated premium amortization on debt securities in 2020 also contributed to the reduction in net interest revenue, as the decline in long-term interest rates in 2020 resulted in higher prepayments of mortgage-related debt securities. TD Ameritrade contributed approximately $443 million of net interest revenue from October 6, through December 31, 2020.

Average interest-earning assets for 2020 were higher by 40%, compared to 2019. This increase in average interest-earning assets was primarily driven by higher client cash balances in bank deposits and payables to brokerage clients, due to higher client cash allocations and our acquisitions of TD Ameritrade and assets of USAA-IMCO.

Our net interest margin decreased to 1.62% in 2020, from 2.41% in 2019. This decrease was driven primarily by lower yields received on interest-earning assets due largely to the Federal Reserve's 2019 and 2020 interest rate reductions as well as higher premium amortization on mortgage-related debt securities. Due to the low interest rate environment, purchases of investment securities in 2020 were made at rates below the average yield on the existing AFS portfolio, which negatively impacted our net interest margin. The amount of any further net interest margin compression and resulting net interest

revenue is dependent on a number of factors, including changes to LIBOR, premium amortization, reinvestment rates, and growth in client cash balances.

Net interest revenue increased $693 million, or 12%, in 2019 from 2018, due to higher average investment yields and growth in interest earning assets. Our net interest margin improved 12 basis points to 2.41% in 2019 from 2018, driven primarily by higher average yields received on interest-earning assets in 2019 due largely to the net impact of the Federal Reserve's interest rate increases in 2018 and decreases in the third and fourth quarters of 2019. The increase in average yields on interest-earning assets was partially offset by higher average interest rates paid on bank deposits and other interest-bearing liabilities. Portfolio adjustments made in 2019 to hold a higher percentage of fixed-rate, longer duration investments helped to moderate the impact of the declining rate environment on our net interest margin.

Average interest-earning assets grew 6% from 2018 to 2019, primarily driven by higher bank deposits due to transfers from sweep money market funds to bank sweep, as well as higher client cash balances.

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 attributable to TD Ameritrade are primarily earned on client assets invested in money market mutual funds and other mutual funds, as well as advice solutions.

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

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

Year Ended December 31,	2020			2019			2018		
	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	$ 200,119	$ 605	0.30 %	$ 173,558	$ 525	0.30 %	$ 141,018	$ 568	0.40 %
Fee waivers		(127)			—			—	
Schwab money market funds	200,119	478	0.24 %	173,558	525	0.30 %	141,018	568	0.40 %
Schwab equity and bond funds, ETFs, and CTFs [1]	301,598	300	0.10 %	267,213	298	0.11 %	222,830	302	0.14 %
Mutual Fund OneSource® and other non-transaction fee funds	192,464	599	0.31 %	191,552	606	0.32 %	210,429	680	0.32 %
Other third-party mutual funds and ETFs [2,3]	525,379	393	0.07 %	478,037	318	0.07 %	328,150	287	0.09 %
Total mutual funds, ETFs, and CTFs [1,4]	$ 1,219,560	1,770	0.15 %	$ 1,110,360	1,747	0.16 %	$ 902,427	1,837	0.20 %
Advice solutions [4]									
Fee-based	$ 306,010	1,443	0.47 %	$ 246,888	1,198	0.49 %	$ 227,790	1,139	0.50 %
Non-fee-based	73,161	—	—	70,191	—	—	62,813	—	—
Total advice solutions	$ 379,171	1,443	0.38 %	$ 317,079	1,198	0.38 %	$ 290,603	1,139	0.39 %
Other balance-based fees [1,5]	451,350	208	0.05 %	432,613	216	0.05 %	383,050	206	0.05 %
Other [6]		54			50			47	
Total asset management and administration fees		$ 3,475			$ 3,211			$ 3,229	

[1] Beginning in the first quarter of 2019, a change was made to move CTFs from other balance-based fees. Prior periods have been reclassified to reflect this change.
[2] Beginning in the fourth quarter of 2019, Schwab ETF OneSource™ was discontinued as a result of the elimination of online trading commissions for U.S. and Canadian-listed ETFs.
[3] Beginning in the fourth quarter of 2020, includes third-party money funds related to the acquisition of TD Ameritrade.
[4] Average client assets for advice solutions may also include the asset balances contained in the mutual fund and/or ETF categories listed above.
[5] Includes various asset-related fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees.
[6] Includes miscellaneous service and transaction fees relating to mutual funds and ETFs that are not balance-based.

Asset management and administration fees increased by $264 million, or 8%, in 2020 from 2019, primarily due to higher balances in advice solutions, including managed account assets from USAA and TD Ameritrade, overall gains in equity markets, as well as higher purchased money market funds and other third-party mutual funds and ETFs, in 2020 relative to 2019. These increases were partially offset by the effect of money market fund fee waivers due to declining portfolio yields. Asset management and administration fees attributable to TD Ameritrade were approximately $131 million from October 6, through December 31, 2020. The amount of fee waivers in coming quarters is dependent on a variety of factors, including the level of short-term interest rates and client preferences across our money market fund line-up.

Asset management and administration fees decreased by $18 million, or 1%, in 2019 from 2018, primarily due to lower sweep money market fund revenue as a result of transfers to bank and broker-dealer sweep in 2018 and early 2019, as well as client asset allocation choices including reduced usage of Mutual Fund OneSource®. Part of the

decline was offset by revenue from growing asset balances in purchased money market funds, other third-party mutual funds and ETFs, and in advice solutions.

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® and other non-transaction fee (NTF) funds. The following funds generated 40%, 45%, and 48% of the asset management and administration fees earned during 2020, 2019, and 2018, respectively:

	Schwab Money Market Funds			Schwab Equity and Bond Funds, ETFs, and CTFs [1]			Mutual Fund OneSource® and Other NTF Funds		
Year Ended December 31,	2020	2019	2018	2020	2019	2018	2020	2019	2018
Balance at beginning of period	$200,826	$153,472	$163,650	$286,275	$209,471	$196,784	$202,068	$180,532	$225,202
Net inflows (outflows)	(25,894)	44,077	(11,641)	17,200	26,039	31,169	(20,246)	(19,930)	(37,513)
Net market gains (losses) and other	1,157	3,277	1,463	38,214	50,765	(18,482)	42,035	41,466	(7,157)
Balance at end of period	$176,089	$200,826	$153,472	$341,689	$286,275	$209,471	$223,857	$202,068	$180,532

[1] Beginning in the first quarter of 2019, CTFs are included in these balances. Prior periods have been reclassified to reflect this change.

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 rebate 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 primarily comprised of revenue from trading activity in fixed income securities with clients. The difference between the price at which the Company buys and sells securities to and from our clients and other broker-dealers to accommodate clients' fixed income trading activity is recognized as principal transaction revenue. Principal transaction revenue also includes adjustments to the fair value of these securities positions.

The following table presents trading revenue and the related drivers:

Year Ended December 31,	Growth Rate 2019-2020	2020	2019	2018
Trading Revenue [1]	88 %	$ 1,416	$ 752	$ 902
Clients' daily average trades (DATs) (in thousands)	N/M	2,602.6	748.9	765.4
Number of trading days	1 %	252.0	250.5	249.5
Revenue per trade [2]	(46)%	$ 2.16	$ 4.01	$ 4.72

Note: Effective October 7, 2019, CS&Co eliminated online trade commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options. TD Ameritrade, Inc. also does not charge for these types of trades and does not have a base charge on options.

[1] Beginning in the first quarter of 2020, order flow revenue was reclassified from other revenue to trading revenue. Prior period amounts have been reclassified to reflect this change.

[2] Revenue per trade is calculated as trading revenue divided by DATs multiplied by the number of trading days.

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

Trading revenue increased $664 million, or 88% in 2020 compared to 2019, due primarily to the acquisition of TD Ameritrade, which contributed approximately $667 million of trading revenue from October 6, 2020 forward. In addition, the Company saw a significant increase in clients' daily average trades and higher order flow revenue in 2020, which were partially offset by the Company's October 2019 pricing actions. Order flow revenue was $621 million, $135 million, and $139 million during 2020, 2019, and 2018, respectively. The increase in order flow revenue in 2020 was due to the acquisition of TD Ameritrade and a higher volume of trades throughout 2020 relative to 2019.

Trading revenue decreased by $150 million, or 17%, in 2019 compared to 2018. The decrease was primarily due to the elimination of online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options effective October 7, 2019.

Bank Deposit Account Fees

Beginning in the fourth quarter of 2020, the Company began earning bank deposit account fee revenue pursuant to the IDA agreement and arrangements with other third-party banks. Bank deposit account fees are primarily affected by average BDA balances and the floating- and fixed-rate reference yields that are a key component to derive fees pursuant to the IDA

agreement. Fees earned under the IDA agreement are affected by changes in interest rates and the composition of balances designated as fixed- and floating-rate.

Bank deposit account fees totaled $355 million for the period of October 6, 2020 through December 31, 2020. During this period, the total average BDA balance was approximately $161 billion, of which approximately 80% was designated as fixed-rate obligation amounts and approximately 20% as floating-rate obligation amounts.

Other Revenue

Other revenue includes exchange processing fees, certain service fees, software fees, and non-recurring gains. Other revenue increased $90 million, or 37%, in 2020 compared to 2019 primarily due to higher exchange processing fees resulting from higher trade volumes and the acquisition of TD Ameritrade. Other revenue increased $64 million, or 36%, in 2019 compared to 2018 due primarily to a gain from the sale of a portfolio management and reporting software solution for advisors to Tamarac Inc. in the second quarter of 2019 and a gain from the assignment of leased office space in the first quarter of 2019.

Total Expenses Excluding Interest

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

	Growth Rate 2019-2020	2020	2019	2018
Compensation and benefits				
Salaries and wages	23 %	$ 2,416	$ 1,958	$ 1,692
Incentive compensation	16 %	932	804	855
Employee benefits and other	9 %	606	558	510
Total compensation and benefits	19 %	$ 3,954	$ 3,320	$ 3,057
Professional services	20 %	843	702	654
Occupancy and equipment	26 %	703	559	496
Advertising and market development	6 %	326	307	313
Communications	40 %	353	253	242
Depreciation and amortization [1]	29 %	414	322	277
Amortization of acquired intangible assets [1]	N/M	190	27	29
Regulatory fees and assessments	34 %	163	122	189
Other	70 %	445	261	313
Total expenses excluding interest	26 %	$ 7,391	$ 5,873	$ 5,570
Expenses as a percentage of total net revenues				
Compensation and benefits		34 %	31 %	30 %
Advertising and market development		3 %	3 %	3 %
Full-time equivalent employees (in thousands)				
At year end	62 %	32.0	19.7	19.5
Average	20 %	23.9	20.0	18.7

[1] Beginning in the third quarter of 2020, amortization of acquired intangible assets was reclassified from depreciation and amortization. Prior periods have been reclassified to reflect this change.
N/M Not meaningful. Percentage changes greater than 200% are presented as not meaningful.

Total expenses excluding interest increased $1,518 million, or 26%, in 2020 from 2019, and $303 million, or 5%, in 2019 from 2018. In 2020, total expenses excluding interest included approximately $943 million from TD Ameritrade's results of operations from October 6, through December 31, 2020. Adjusted total expenses, which excludes acquisition and integration-related costs and amortization of acquired intangible assets, increased $939

million, or 16%, in 2020 from 2019, and $279 million, or 5%, in 2019 from 2018. See Non-GAAP Financial Measures for further details and a reconciliation of such measures to GAAP reported results.

Total compensation and benefits increased in 2020 from 2019, primarily due to an overall increase in employee headcount due primarily to the addition of approximately 10,000 TD Ameritrade employees and the hiring of 400 former USAA employees in connection with our 2020 acquisitions. The increase in 2020 also reflected the Company's payment of $1,000 to all non-officer employees in March 2020 to help them cover costs incurred due to the COVID-19 pandemic. Compensation and benefits in 2020 included $235 million of acquisition and integration-related costs. The increase in 2019 from 2018 was primarily due to both an overall increase in employee headcount to support our expanding client base and higher severance costs, which included $62 million associated with a 3% reduction in our workforce in the third quarter of 2019.

Professional services expense increased in 2020 from 2019, primarily due to acquisition and integration-related costs in 2020 of $158 million. The increase in 2019 from 2018 was primarily due to overall growth in the business, investments in projects to further drive efficiency and scale, and certain costs relating to the pending acquisitions completed in 2020.

Occupancy and equipment expense increased in 2020 from 2019, primarily due the inclusion of TDA's results of operations from October 6, 2020 forward, as well as an increase in technology equipment costs associated with higher client trade volumes and overall growth in the business. The increase in 2019 from 2018 was primarily due to increases in software maintenance expenses and additional licenses to support growth in the business.

Communications expense increased in 2020 from 2019, primarily due to the inclusion of TDA's results of operations from October 6, 2020 forward and higher news and quotation services expenses due to higher trade volumes.

Depreciation and amortization expenses grew in 2020 from 2019, primarily due to higher amortization of purchased and internally developed software, higher depreciation and amortization of equipment, office facilities, and property recognized in the TDA acquisition, as well as higher depreciation of buildings and equipment related to the expansion of our U.S. campuses in 2019 and 2020. The increase in 2019 from 2018 was primarily due to higher amortization of internally developed software associated with investments in software and technology enhancements.

Amortization of acquired intangible assets increased in 2020 as a result of the acquisitions completed during the year.

Regulatory fees and assessments increased in 2020 from 2019, primarily due to the inclusion of TDA's results of operations from October 6, 2020 forward, and higher FDIC insurance assessments and other regulatory assessments due to growth in assets and overall growth of the business in 2020. Regulatory fees and assessments decreased in 2019 from 2018, primarily due to a decrease in FDIC insurance assessments resulting from the elimination of the FDIC surcharge in the fourth quarter of 2018.

Other expenses increased in 2020 from 2019, primarily resulting from the inclusion of TDA's results of operations from October 6, 2020 forward, and increases in processing fees and related expenses due to higher client trade volumes and market volatility. These increases were partially offset by lower travel and entertainment expense in 2020. Other expenses in 2020 included acquisition and integration-related costs of $30 million. Other expenses decreased in 2019 from 2018, primarily due to lower travel and entertainment expense and bad debt expense.

Capital expenditures were $741 million, $753 million, and $576 million in 2020, 2019, and 2018, respectively. Capital expenditures decreased in 2020 compared to 2019 primarily due to lower building expansion in 2020, largely offset by higher capitalized software costs. Capital expenditures increased in 2019 from 2018 primarily due to the expansion of our campuses in the U.S. Investments in buildings were $173 million, $397 million, and $253 million in 2020, 2019 and 2018, respectively. Capitalized software costs totaled $453 million, $188 million, and $194 million in 2020, 2019, and 2018, respectively.

Our capital expenditures for 2020 equaled 6% of total net revenues, within our estimated range for the year. We will continue to invest in integration-related and other technology projects in 2021, and we anticipate capital expenditures in 2021 to be approximately 6-7% of total net revenues. Our longer term expectation for capital expenditures remains in the range of 3-5% of total net revenues.

During 2020, the Company experienced high levels of client engagement and record trading volumes while nearly all employees were in a remote work environment. Client activity rose sharply in the fourth quarter, and the client service and operational challenges created by this environment became more pronounced. Clients experienced longer call wait times

along with a limited number of issues in utilizing our website and mobile applications. In 2021, the Company anticipates increased spending to improve service levels and support our expanding client base, including additional technology spending as well as hiring more client service professionals.

Overall in 2021, we expect total expenses excluding interest to reflect the impacts of: continued acquisition and integration-related costs primarily related to our integration of TD Ameritrade; increased spending to improve service levels and support growth; and our progress in achieving incremental cost synergies. The magnitude and timing of these impacts are inherently uncertain and depend on a number of factors, including, but not limited to, the level of client engagement and trading volumes, the pace and levels of employee hiring, onboarding, and attrition, and changes in our needs to exit or maintain office and branch locations.

Taxes on Income

Schwab's effective income tax rate on income before taxes was 23.3% in 2020, 23.6% in 2019, and 23.1% in 2018. The decrease in the effective tax rate in 2020 from 2019 was primarily due to federal and state tax benefits recognized during 2020, including settlement of the IRS examination of tax years 2011-2014, the expiration of the statute of limitations on certain federal and state uncertain tax positions, and tax benefits realized from the filing of state tax returns, as well as an increase in Low-Income Housing Tax Credit (LIHTC) benefits. Offsetting the decrease in the effective tax rate from these items was an increase in nondeductible acquisition costs and FDIC insurance premium disallowance, as well as a decrease in equity compensation tax deduction benefits. The change in rates in 2019 from 2018 was primarily due to a decrease in equity compensation tax deduction benefits which reduced our tax expense by approximately $23 million and $46 million in 2019 and 2018, respectively.

Segment Information

Schwab provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking 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 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. 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 acquisitions.

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

	Investor Services				Advisor Services				Total			
Year Ended December 31,	Growth Rate 2019-2020	2020	2019	2018	Growth Rate 2019-2020	2020	2019	2018	Growth Rate 2019-2020	2020	2019	2018
Net Revenues												
Net interest revenue	(6)%	$ 4,391	$4,685	$ 4,341	(6)%	$ 1,722	$ 1,831	$ 1,482	(6)%	$ 6,113	$ 6,516	$ 5,823
Asset management and administration fees	11%	2,544	2,289	2,260	1%	931	922	969	8%	3,475	3,211	3,229
Trading revenue [1]	130%	1,156	503	604	4%	260	249	298	88%	1,416	752	902
Bank deposit account fees	N/M	255	—	—	N/M	100	—	—	N/M	355	—	—
Other [1]	79%	262	146	116	(27)%	70	96	62	37%	332	242	178
Total net revenues	13%	8,608	7,623	7,321	—	3,083	3,098	2,811	9%	11,691	10,721	10,132
Expenses Excluding Interest	29%	5,529	4,284	4,145	17%	1,862	1,589	1,425	26%	7,391	5,873	5,570
Income before taxes on income	(8)%	$ 3,079	$3,339	$ 3,176	(19)%	$ 1,221	$ 1,509	$ 1,386	(11)%	$ 4,300	$ 4,848	$ 4,562
Net new client assets (in billions) [2,3]	N/M	$1,106.4	$115.6	$ 19.4	N/M	$ 846.1	$ 107.2	$ 114.5	N/M	$1,952.5	$ 222.8	$ 133.9

[1] Beginning in 2020, order flow revenue was reclassified from other revenue to trading revenue. Prior period amounts have been reclassified to reflect this change.

[2] 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. Additionally, 2020 and 2019 includes inflows of $10.9 billion and $11.1 billion, respectively, and outflows of $93.9 billion in 2018 from certain mutual fund clearing services clients.

[3] 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.

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

Segment Net Revenues

Investor Services total net revenues increased by 13% in 2020 from 2019, while Advisor Services total net revenues remained relatively consistent year-over-year. Investor Services' growth was primarily due to an increase in trading revenue, higher asset management and administration fees, and the initial recognition of bank deposit account fees in the fourth quarter of 2020, partially offset by lower net interest revenue. For Advisor Services, bank deposit account fees largely offset a decrease in net interest revenue, while trading revenue and asset management and administration fees were consistent with 2019. Trading revenue increased significantly in the Investor Services segment primarily due to the TD Ameritrade acquisition and higher trade volumes in 2020. Asset management and administration fees increased in 2020 for Investor Services primarily due to higher balances in advice solutions, including managed account assets from USAA and TD Ameritrade, as well as higher purchased money market funds and other third-party mutual funds and ETFs, partially offset by the effect of money fund fee waivers. Net interest revenue decreased for both segments primarily due to lower average investment yields, partially offset by growth in interest-earning assets.

Investor Services and Advisor Services total net revenues increased by 4% and 10%, respectively, in 2019 compared to 2018 primarily due to increases in net interest revenue, which increased as a result of higher average investment yields and higher interest earning assets. For Investor Services, asset management and administration fees increased primarily due to growing asset balances in advice solutions, partially offset by lower mutual fund and ETF service fee revenue as a result of client cash allocation choices, including reduced usage of Mutual Fund OneSource®. For Advisor Services, asset management and administration fees decreased primarily due to lower sweep money market

fund revenue as a result of transfers to bank and broker-dealer sweep, as well as client asset allocation choices, including reduced usage of Mutual Fund OneSource®, partially offset by increased revenue from growing asset balances in purchased money market funds and in other third-party mutual funds and ETFs. Trading revenue decreased for both segments as a result of the elimination of online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options in the fourth quarter of 2019.

Segment Expenses Excluding Interest

Investor Services and Advisor Services total expenses excluding interest increased by 29% and 17%, respectively, in 2020 compared to 2019, primarily due to the inclusion of TD Ameritrade's expenses from October 6, 2020 forward and

acquisition and integration-related costs. Compensation and benefits increased in both segments primarily due to the acquisition of TDA and overall headcount growth to support our expanding client base, with Investor Services increasing more significantly due to greater headcount growth from the TDA acquisition and the hiring of approximately 400 former USAA employees in connection with the USAA-IMCO acquisition. Both segments also saw increases in professional services, depreciation and amortization, amortization of acquired intangible assets, and other expenses, primarily due to the inclusion of TDA's expenses from October 6, 2020 forward as well as acquisition and integration-related costs, with Investor Services' expenses increasing more significantly due to overall size of the segment's client base and greater client base growth from TDA.

Investor Services and Advisor Services expenses excluding interest increased 3% and 12%, respectively, in 2019 compared to 2018 primarily due to higher compensation and benefits and occupancy and equipment expense. Additionally, Advisor Services had higher professional services expense due to overall growth in the business and investments in projects to further drive efficiency and scale, and Investor Services had higher amortization of internally developed software due to technology enhancements. For both segments these increases were partially offset by a decrease in FDIC insurance assessments due to the elimination of the FDIC surcharge in the fourth quarter of 2018 and lower travel and entertainment expenses.

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 measurement, risk monitoring and reporting, and risk mitigation controls; 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 integration of TD Ameritrade, the Company is aligning TD Ameritrade's historical risk exposures with Schwab's risk appetite. Our integration work includes evaluating new or changed risks impacting the combined company, and may involve modifications to our existing risk management processes. 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 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, compliance, 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, Fraud, Third-Party Risk, Data, and Model Governance;
- Compliance Risk Committee – provides oversight of compliance risk management programs and policies providing an aggregate view of compliance risk exposure and employee conduct, including subcommittees covering Fiduciary and Conflicts of Interest Risk and International Compliance Risk;
- Financial Risk Oversight Committee – provides oversight of and approves credit, market, liquidity, and capital risk policies, limits, and exposures; 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 compliance, 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 people, internal processes, and systems, or from external events or relationships impacting the Company and/or any of its key business partners and third parties. 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, 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 limit the number of employees who have access to clients' personal information and internal authentication measures are enforced to protect against the potential for social engineering. 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 any 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 contractual provisions, control standards, ongoing monitoring of third party performance, and appropriate testing. We also maintain policies and procedures regarding the standard of care expected with all data, whether the data is internal company information, employee information, or non-public client information. We clearly define for employees, contractors, and third parties the expected standards of care for critical and confidential data. We also provide regular training on data security.

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 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.

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.

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, client privacy, and employment policies.

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 a policy, procedures, a system of internal controls, including personnel

monitoring and surveillance. Conduct-related matters are escalated through appropriate channels by the Corporate Responsibility Officer.

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.

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, 2020, 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, 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.

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 interest rate risk primarily from changes in market interest rates on 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 risk. To remain within these limits, we manage the maturity, repricing, and cash flow characteristics of the investment portfolios. 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 economic value of equity (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, and bank loans. 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.

The following table shows the simulated change to net interest revenue over the next 12 months beginning December 31, 2020 and 2019 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,	2020	2019
Increase of 100 basis points	14.2%	4.8%
Decrease of 100 basis points	(4.3)%	(7.4)%

The change in sensitivities of net interest revenue as of December 31, 2020 reflects a significantly lower interest rate curve relative to December 31, 2019 due to the global economic impact from the COVID-19 pandemic. Higher short-term interest rates would positively impact net interest revenue as yields on interest-earning assets are expected to rise faster than the cost of funding sources. A decline in interest rates could negatively impact the yield on the Company's investment and loan portfolio to a greater degree than any offsetting reduction in interest expense from funding sources, compressing net interest margin.

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.

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 and EVE simulations reflect the assumption of non-negative investment yields.

Bank Deposit Account Fees Simulations

Consistent with the presentation on our statement of income, the sensitivity of bank deposit account fee revenue to interest rate changes is assessed separately from the interest rate sensitivity analysis described above. As of December 31, 2020, the sensitivity of bank deposit account fee revenue to changes in interest rates is limited, as a significant portion of BDA deposit balances are allocated to fixed-rate obligation amounts.

Expected Phase-out of LIBOR

The Company has established a firm-wide team to address the phasing-out of LIBOR by June 30, 2023. As part of our efforts, we have assessed our LIBOR exposures, the largest of which are certain investment securities and loans. In purchasing new investment securities, we ensure that appropriate fall-back language is in the security's prospectus in the event that LIBOR is unavailable or deemed unreliable, and we have sold certain securities lacking appropriate fall-back language. We are updating loan agreements to ensure new LIBOR-based loans adequately provide for an alternative to LIBOR. Furthermore, we plan to phase-out the use of LIBOR as a reference rate in our new lending products before the end of December 2021, per guidance from the Federal Reserve Board. Consistent with our "Through Clients' Eyes" strategy, our focus throughout the LIBOR transition process is to ensure clients are treated fairly and consistently as this major change is occurring in the financial markets.

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 borrowing activities and capital expenditures. The capital needs of the banking subsidiaries are primarily driven by the amount of client deposits. In addition, the liquidity needs of our banking subsidiaries can also be met by excess reserves held at the Federal Reserve, sales of investment securities, or FHLB borrowings. 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 scenarios to support liquidity levels during both business as usual and stressed conditions.

We employ a variety of methodologies to monitor and manage liquidity. We conduct regular liquidity stress testing to develop a consolidated view of liquidity risk exposures and to ensure our ability to maintain sufficient liquidity during market-related or company-specific liquidity stress events. Liquidity is also tested at certain subsidiaries 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, bank deposit account fees earned on client deposits placed in third-party depository programs, repurchase agreements, and cash provided by external financing.

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, 2020:

Description	Borrower	Ou
Federal Home Loan Bank secured credit facilities [1]	Banking subsidiaries	$
Federal Reserve discount window [2]	Banking subsidiaries	
Uncommitted, unsecured lines of credit with various external banks	CSC, CS&Co	
Unsecured commercial paper [3]	CSC	
Committed, unsecured credit facility with various external banks [4]	CSC	
TD Ameritrade Holding Corporation revolving credit facility [5]	TDA Holding	
TD Ameritrade Clearing, Inc. committed, unsecured revolving credit facilities with various external banks	TDAC	
Secured uncommitted lines of credit with various external banks [6]	TDAC	

[1] Amounts available are dependent on the amount of First Mortgages, HELOCs, and the fair value of certain investment securities that are pledged as collateral.
[2] Amounts available are dependent on the fair value of certain investment securities that are pledged as collateral.
[3] CSC has authorization from its Board of Directors to issue Commercial Paper Notes not to exceed $1.5 billion. In February 2021, the Company increased the amount available to $1.5 billion.
[4] Other than an overnight borrowing to test availability, this facility was unused during 2020.
[5] Effective October 6, 2020, Schwab entered into a guaranty supplement to guarantee the obligations of TD Ameritrade under this credit agreement. The provision of the guaranty supplement was a condition for certain financial covenant and reporting obligations being modified in the credit agreement. The Company terminated this revolving credit facility effective January 28, 2021.
[6] Secured borrowing is made available based on TDAC's ability to provide acceptable collateral to the lender as determined by the credit agreement.

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.

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.

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, 2020 and 2019, and CSC had no Commercial Paper Notes outstanding at December 31, 2020 or 2019.

The financial covenants for the $700 million committed credit facility require CS&Co to maintain a minimum net capital ratio, all bank subsidiaries to be well capitalized, and CSC to maintain a minimum level of stockholders' equity, adjusted to exclude AOCI. At December 31, 2020, the minimum level of stockholders' equity required under this facility was $16.5 billion (CSC's stockholders' equity, excluding AOCI, at December 31, 2020 was $50.7 billion). Management believes these restrictions will not have a material effect on CSC's ability to meet foreseeable dividend or funding requirements.

The financial covenants for the $300 million TDA Holding revolving credit facility requires CSC to maintain a minimum level of stockholders' equity, adjusted to exclude AOCI. At December 31, 2020, the minimum level of stockholders' equity required under this facility was $30.9 billion (CSC's stockholders' equity, excluding AOCI, at December 31, 2020 was $50.7 billion). Effective January 28, 2021, the Company terminated the TDA Holding revolving credit facility.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, CS&Co has unsecured standby letter of credit agreements (LOCs) with several banks in favor of the Options Clearing Corporation, which totaled $15 million at December 31, 2020. There were no funds drawn under any of these LOCs during 2020 or 2019. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. These collateral requirements are satisfied by providing cash as collateral.

CSC has a universal automatic shelf registration statement on file with the SEC, which enables it to issue debt, equity, and other securities.

Liquidity Coverage Ratio

Pursuant to the 2019 interagency regulatory capital and liquidity rules, beginning in the first quarter of 2020, Schwab became subject to a reduced LCR rule requiring the Company to hold HQLA in an amount equal to at least 85% 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 reduced LCR rule at December 31, 2020. The table below presents information about our average daily LCR:

	Average for the Three Months Ended December 31, 2020
Total eligible HQLA	$ 78,136
Net cash outflows	$ 72,005
LCR	109 %

Borrowings

The Company had no short-term borrowings outstanding as of December 31, 2020 or 2019. Long-term debt outstanding was $13.6 billion and $7.4 billion at December 31, 2020 and 2019, respectively. Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade. TDA Holding has $3.6 billion of par value unsecured Senior Notes (TDA Senior Notes) outstanding, which were recognized at the date of acquisition at provisional fair value with no change in existing terms.

The following are details of the Senior Notes:

December 31, 2020	Par Outstanding	Maturity	Weighted-Average Interest Rate	Moody's	Standard & Poor's	Fitch
CSC Senior Notes	$ 9,881	2021 - 2031	2.84%	A2	A	A
TDA Senior Notes	3,550	2021 - 2029	2.80%	A2	A	—

New Debt Issuances

All debt issuances in 2020, 2019, and 2018 were senior unsecured obligations. Additional details are as follows:

Issuance Date	Issuance Amount	Maturity Date	Interest
May 22, 2018	$ 600	5/21/2021	Three-month + 0.32
May 22, 2018	$ 600	5/21/2021	3.250
May 22, 2018	$ 750	5/21/2025	3.850
October 31, 2018	$ 500	2/1/2024	3.550
October 31, 2018	$ 600	2/1/2029	4.000
May 22, 2019	$ 600	5/22/2029	3.250
March 24, 2020	$ 600	3/24/2025	4.200
March 24, 2020	$ 500	3/22/2030	4.625
December 11, 2020	$ 1,250	3/11/2026	0.900
December 11, 2020	$ 750	3/11/2031	1.650

Equity Issuances and Redemptions

CSC did not issue any equity through external offerings during 2019 or 2018. CSC's preferred stock issued and net proceeds for 2020 are as follows:

	Date Issued and Sold	Net Proceeds
Series G	April 30, 2020	$ 2,470
Series H	December 11, 2020	$ 2,470

For further discussion of CSC's long-term debt and information on the equity offerings, see Item 8 – Notes 13 and 19.

Off-Balance Sheet Arrangements

Schwab enters into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients. These arrangements include firm commitments to extend credit. Additionally, Schwab enters into guarantees and other similar arrangements in the ordinary course of business. For information on each of these arrangements, see Item 8 – Notes 7, 11, 13, 15, and 17. Concurrent with the closing of the acquisition of TD Ameritrade effective October 6, 2020, the IDA agreement with the TD Depository Institutions became effective. Pursuant to the IDA agreement, certain brokerage client deposits are required to be swept off-balance sheet to the TD Depository Institutions. TD Ameritrade also maintains agreements pursuant to which client brokerage cash deposits are swept to other third-party depository institutions. See Item 8 – Notes 3 and 15 for additional information on the IDA agreement.

Contractual Obligations

Schwab's principal contractual obligations as of December 31, 2020 are shown in the following table. Excluded from this table are liabilities recorded on the consolidated balance sheets that are generally short-term in nature or without contractual payment terms (e.g., bank deposits, payables to brokerage clients, and deferred compensation). The below table excludes exit and other related liabilities from the integration of TD Ameritrade (see Item 8 – Note 16), as well as obligations related to the IDA agreement (see Item 8 – Note 15).

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Credit-related financial instruments [1]	$ 3,250	$ 3,856	$ 1,884	$ 1,449	$ 10,439
Long-term debt [2]	2,165	2,466	3,638	7,217	15,486
Purchase obligations [3]	443	303	110	28	884
Leases [4]	184	367	254	351	1,156
Total	$ 6,042	$ 6,992	$ 5,886	$ 9,045	$ 27,965

[1] Represents CSB's commitments to extend credit to banking clients, purchase mortgage loans, and fund CRA investments.
[2] Includes estimated future interest payments through 2031 for Senior Notes. Amounts exclude unamortized discounts and premiums.
[3] Consists of purchase obligations for services such as advertising and marketing, telecommunications, professional services, and hardware- and software-related agreements.
[4] Represents operating lease payments including legally-binding minimum lease payments for leases signed but not yet commenced.

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'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. When subsidiaries have need of additional capital, funds are provided by CSC as equity investments and also as subordinated loans (in a form approved as regulatory capital by regulators) for CS&Co. 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 must 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 of 6.75%-7.00%. 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.

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, 2020, CSB is considered well capitalized.

As a result of the significant inflow of client cash in 2020, our Tier 1 Leverage Ratios for CSC and CSB declined from 7.3% and 7.1%, respectively, at year-end 2019 to 6.3% and 5.5%, respectively, at December 31, 2020. Though below our long-term operating objectives, these ratios are well above the regulatory minimum for both CSC and CSB. The pace of our return to the long-term operating objectives over time depends on a number of factors including the overall size of the Company's balance sheet, earnings, and capital issuances and deployment.

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

December 31,	2020 [1]		2019 [1]	
	CSC	CSB	CSC	CSB
Total stockholders' equity	$ 56,060	$ 22,223	$ 21,745	$ 14,832
Less:				
Preferred Stock	7,733	—	2,793	—
Common Equity Tier 1 Capital before regulatory adjustments	$ 48,327	$ 22,223	$ 18,952	$ 14,832
Less:				
Goodwill, net of associated deferred tax liabilities	$ 11,897	$ 13	$ 1,184	$ 13
Other intangible assets, net of associated deferred tax liabilities	8,103	—	104	—
Deferred tax assets, net of valuation allowances and deferred tax liabilities	17	12	4	—
AOCI adjustment [1]	5,394	4,672	—	—
Common Equity Tier 1 Capital	$ 22,916	$ 17,526	$ 17,660	$ 14,819
Tier 1 Capital	$ 30,649	$ 17,526	$ 20,453	$ 14,819
Total Capital	30,688	17,558	20,472	14,837
Risk-Weighted Assets	123,881	91,062	90,512	71,521
Total Leverage Exposure	491,469	325,437	286,813	216,582
Common Equity Tier 1 Capital/Risk-Weighted Assets	18.5 %	19.2 %	19.5 %	20.7 %
Tier 1 Capital/Risk-Weighted Assets	24.7 %	19.2 %	22.6 %	20.7 %
Total Capital/Risk-Weighted Assets	24.8 %	19.3 %	22.6 %	20.7 %
Tier 1 Leverage Ratio	6.3 %	5.5 %	7.3 %	7.1 %
Supplementary Leverage Ratio	6.2 %	5.4 %	7.1 %	6.8 %

[1] In the interagency regulatory capital and liquidity rules adopted in October 2019, Category III banking organizations such as CSC were given the ability to opt-out of the inclusion of AOCI in regulatory capital, and CSC made this opt-out election as of January 1, 2020. Therefore, AOCI is excluded from the amounts and ratios presented as of December 31, 2020. In 2019, CSC and CSB were required to include all components of AOCI in regulatory capital; the amounts and ratios for December 31, 2019 are presented on this basis. See Business – Regulation in Part I, Item 1 for additional information.

CSB is also subject to regulatory requirements that restrict and govern the terms of affiliate transactions. In addition, CSB is required to provide notice to, and may be required to obtain approval from, the Federal Reserve and the Texas Department of Savings and Mortgage Lending (TDSML) to declare dividends to CSC. 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, 2020, 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.

IDA Agreement

Pursuant to the IDA agreement, Schwab will be required to move all uninsured IDA balances out of the IDA sweep program on June 30, 2021. The IDA agreement also provides that, starting July 1, 2021, Schwab will have 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 overall capital management strategy includes supporting migration of the uninsured IDA balances on June 30, 2021 as well as optional 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 and the availability of IDA balances designated as floating-rate obligations. See Item 8 – Note 15 for further information on the IDA agreement.

Dividends

Since the initial dividend in 1989, CSC has paid 127 consecutive quarterly dividends and has increased the quarterly dividend rate 25 times, resulting in a 21% 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 2019 and 2020 as shown below:

Date of Declaration	Quarterly Cash Increase Per Common Share	% Increase	New Quarterly Dividend Per Common Share
January 30, 2019	$ 0.04	31 %	$ 0.17
January 30, 2020	$ 0.01	6 %	$ 0.18

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

Year Ended December 31,	2020		2019	
	Cash Paid	Per Share Amount	Cash Paid	Per Share Amount
Common and Nonvoting Common Stock	$ 1,039	$ 0.72	$ 898	$ 0.68
Series A Preferred Stock [1]	28	70.00	28	70.00
Series C Preferred Stock [2]	36	60.00	36	60.00
Series D Preferred Stock [2]	45	59.52	45	59.52
Series E Preferred Stock [3]	28	4,625.00	28	4,625.00
Series F Preferred Stock [4]	25	5,000.00	25	5,000.00
Series G Preferred Stock [5]	79	3,150.35	N/A	N/A
Series H Preferred Stock [6]	N/A	N/A	N/A	N/A

[1] Dividends paid semi-annually until February 1, 2022 and quarterly thereafter.
[2] Dividends paid quarterly.
[3] Dividends paid semi-annually until March 1, 2022 and quarterly thereafter.
[4] Dividends paid semi-annually beginning on June 1, 2018 until December 1, 2027, and quarterly thereafter.
[5] Series G Preferred Stock was issued on April 30, 2020. Dividends are paid quarterly, and the first dividend was paid on September 1, 2020.
[6] Series H Preferred Stock was issued on December 11, 2020. Dividends are paid quarterly beginning on March 1, 2021.
N/A Not applicable.

Share Repurchases

On January 30, 2019, CSC publicly announced that its Board of Directors authorized the repurchase of up to $4.0 billion of common stock. The authorization does not have an expiration date. There were no repurchases of CSC's common stock under this authorization during the year ended December 31, 2020. During 2019, CSC repurchased 55 million shares of its common stock for $2.2 billion. As of December 31, 2020, $1.8 billion remained on our existing authorization.

FOREIGN EXPOSURE

At December 31, 2020, Schwab had exposure to non-sovereign financial and non-financial institutions in foreign countries, as well as agencies of foreign governments. At December 31, 2020, the fair value of these holdings totaled $10.1 billion, with the top three exposures being to issuers and counterparties domiciled in France at $6.7 billion, Germany at $1.2 billion, and Canada at $880 million. At December 31, 2019, the fair value of these holdings totaled

$6.4 billion, with the top three exposures being to issuers and counterparties domiciled in France at $3.1 billion, the Netherlands at $845 million, and Sweden at $684 million. In addition, Schwab had outstanding margin loans to foreign residents of $2.2 billion and $437 million at December 31, 2020 and 2019, respectively. Outstanding margin loans to foreign residents at December 31, 2020 includes $1.2 billion attributable to the inclusion of TDA balances beginning on October 6, 2020.

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.

When available, Schwab 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, we use the price within the bid-ask spread that best represents fair value. When quoted prices in active markets do not exist, prices are obtained from independent third-party pricing services to measure the fair value of investment assets. We generally obtain prices from three independent pricing sources for assets recorded at fair value. Our primary third-party 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. At December 31, 2020 and 2019, we did not adjust prices received from the primary independent third-party pricing service.

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 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 – Note 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 2020 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 GAAP, Management's Discussion and Analysis of Financial Condition and Results of Operations contain 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.

Non-GAAP Adjustment or Measure	Definition
Acquisition and integration-related costs and amortization of acquired intangible assets	Schwab adjusts certain GAAP financial measures to exclude the impact of acquisition and integration related costs incurred as a result of t Company's acquisitions, amortizatio of acquired intangible assets, and, where applicable, the income tax effect of these expenses. 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 intangib assets contribute to the Company's revenue generation. Amortization of acquired intangible assets will continue in future periods over their remaining useful lives.
Return on tangible common equity	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.

Beginning in 2021, 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.

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

	Year Ended December 31,		
	2020	2019	2018
Total expenses excluding interest (GAAP)	$ 7,391	$ 5,873	$ 5,570
Acquisition and integration-related costs [1]	(442)	(26)	—
Amortization of acquired intangible assets	(190)	(27)	(29)
Adjusted total expenses (non-GAAP)	$ 6,759	$ 5,820	$ 5,541

[1] 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. Substantially all acquisition and integration-related costs for 2019 are included in professional services expense.

	Year Ended December 31,					
	2020		2019		2018	
	Amount	Diluted EPS	Amount	Diluted EPS	Amount	Diluted EPS
Net income available to common stockholders (GAAP), Earnings per common share — diluted (GAAP)	$ 3,043	$ 2.12	$ 3,526	$ 2.67	$ 3,329	$ 2.45
Acquisition and integration-related costs	442	.31	26	.02	—	—
Amortization of acquired intangible assets	190	.13	27	.02	29	.02
Income tax effects [1]	(154)	(.11)	(13)	(.01)	(7)	(.01)
Adjusted net income available to common stockholders (non-GAAP), Adjusted diluted EPS (non-GAAP)	$ 3,521	$ 2.45	$ 3,566	$ 2.70	$ 3,351	$ 2.46

[1] 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,		
	2020	2019	2018
Return on average common stockholders' equity (GAAP)	9 %	19 %	19 %
Average common stockholders' equity	$ 33,640	$ 18,415	$ 17,125
Less: Average goodwill	(6,590)	(1,227)	(1,227)
Less: Average acquired intangible assets — net	(5,059)	(140)	(130)
Plus: Average deferred tax liabilities related to goodwill and acquired intangible assets — net	1,005	67	68
Average tangible common equity	$ 22,996	$ 17,115	$ 15,836
Adjusted net income available to common stockholders [1]	$ 3,521	$ 3,566	$ 3,351
Return on tangible common equity (non-GAAP)	15 %	21 %	21 %

[1] 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.

THE CHARLES SCHWAB CORPORATION

Item 8. Financial Statements and Supplementary Data

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THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Income [1]

(In Millions, Except Per Share Amounts)

Year Ended December 31,	2020	2019	2018
Net Revenues			
Interest revenue	$ 6,531	$ 7,580	$ 6,680
Interest expense	(418)	(1,064)	(857)
Net interest revenue	6,113	6,516	5,823
Asset management and administration fees [2]	3,475	3,211	3,229
Trading revenue	1,416	752	902
Bank deposit account fees	355	—	—
Other	332	242	178
Total net revenues	11,691	10,721	10,132
Expenses Excluding Interest			
Compensation and benefits	3,954	3,320	3,057
Professional services	843	702	654
Occupancy and equipment	703	559	496
Advertising and market development	326	307	313
Communications	353	253	242
Depreciation and amortization	414	322	277
Amortization of acquired intangible assets	190	27	29
Regulatory fees and assessments	163	122	189
Other	445	261	313
Total expenses excluding interest	7,391	5,873	5,570
Income before taxes on income	4,300	4,848	4,562
Taxes on income	1,001	1,144	1,055
Net Income	3,299	3,704	3,507
Preferred stock dividends and other [3]	256	178	178
Net Income Available to Common Stockholders	$ 3,043	$ 3,526	$ 3,329
Weighted-Average Common Shares Outstanding:			
Basic	1,429	1,311	1,348
Diluted	1,435	1,320	1,361
Earnings Per Common Shares Outstanding [4]:			
Basic	$ 2.13	$ 2.69	$ 2.47
Diluted	$ 2.12	$ 2.67	$ 2.45

[1] Certain prior year amounts have been reclassified to conform to the current year presentation. See Note 1 for additional information.

[2] Includes fee waivers of $127 million for the year ended December 31, 2020.

[3] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

[4] For the year ended December 31, 2020, the Company had 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.

Consolidated Statements of Comprehensive Income

(In Millions)

Year Ended December 31,	2020	2019	2018
Net income	$ 3,299	$ 3,704	$ 3,507
Other comprehensive income (loss), before tax:			
Change in net unrealized gain (loss) on available for sale securities:			
Net unrealized gain (loss)	6,961	430	(123)
Other reclassifications included in other revenue	(4)	(6)	—
Change in net unrealized gain (loss) on held to maturity securities:			
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	—	36	35
Other	8	(14)	(1)
Other comprehensive income (loss), before tax	6,965	446	(89)
Income tax effect	(1,659)	(106)	22
Other comprehensive income (loss), net of tax	5,306	340	(67)
Comprehensive Income	$ 8,605	$ 4,044	$ 3,440

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets [1]

(In Millions, Except Per Share and Share Amounts)

December 31,	2020	2019
Assets		
Cash and cash equivalents	$ 40,348	$ 29,345
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $14,904 and $9,028 at December 31, 2020 and 2019, respectively)	50,399	20,483
Receivables from brokerage clients — net	64,440	21,767
Available for sale securities (amortized cost of $330,248 and $61,155 at December 31, 2020 and 2019, respectively)	337,400	61,422
Held to maturity securities	—	134,706
Bank loans — net	23,813	18,212
Equipment, office facilities, and property — net	2,883	2,128
Goodwill	11,952	1,227
Acquired intangible assets — net	9,991	128
Other assets	7,783	4,587
Total assets	$ 549,009	$ 294,005
Liabilities and Stockholders' Equity		
Bank deposits	$ 358,022	$ 220,094
Payables to brokerage clients	104,201	39,220
Accrued expenses and other liabilities	17,094	5,516
Long-term debt	13,632	7,430
Total liabilities	492,949	272,260
Stockholders' equity:		
Preferred stock — $.01 par value per share; aggregate liquidation preference of $7,850 and $2,850 at December 31, 2020 and 2019, respectively	7,733	2,793
Common stock — 3 billion shares authorized; $.01 par value per share; 1,994,895,180 and 1,487,543,446 shares issued at December 31, 2020 and 2019, respectively	20	15
Nonvoting common stock — 300 million shares authorized; $.01 par value per share; 79,293,695 shares issued	1	—
Additional paid-in capital	26,515	4,656
Retained earnings	21,975	19,960
Treasury stock, at cost — 193,577,648 and 201,818,100 shares at December 31, 2020 and 2019, respectively	(5,578)	(5,767)
Accumulated other comprehensive income (loss)	5,394	88
Total stockholders' equity	56,060	21,745
Total liabilities and stockholders' equity	$ 549,009	$ 294,005

[1] Certain prior year amounts have been reclassified to conform to the current year presentation. See Note 1 for additional information.

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Stockholders' Equity

(In Millions)

		Common Stock		Nonvoting Common Stock						
	Preferred Stock	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2017	$ 2,793	1,488	$ 15	—	$ —	$ 4,353	$ 14,408	$ (2,892)	$ (152)	$18,525
Adoption of accounting standards	—	—	—	—	—	—	200	—	(33)	167
Net income	—	—	—	—	—	—	3,507	—	—	3,507
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	—	(67)	(67)
Dividends declared on preferred stock	—	—	—	—	—	—	(164)	—	—	(164)
Dividends declared on common stock — $.46 per share	—	—	—	—	—	—	(624)	—	—	(624)
Repurchase of common stock	—	—	—	—	—	—	—	(1,000)	—	(1,000)
Stock option exercises and other	—	—	—	—	—	(84)	—	209	—	125
Share-based compensation	—	—	—	—	—	188	—	—	—	188
Other	—	—	—	—	—	42	2	(31)	—	13
Balance at December 31, 2018	2,793	1,488	15	—	—	4,499	17,329	(3,714)	(252)	20,670
Net income	—	—	—	—	—	—	3,704	—	—	3,704
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	—	340	340
Dividends declared on preferred stock	—	—	—	—	—	—	(161)	—	—	(161)
Dividends declared on common stock — $.68 per share	—	—	—	—	—	—	(899)	—	—	(899)
Repurchase of common stock	—	—	—	—	—	—	—	(2,220)	—	(2,220)
Stock option exercises and other	—	—	—	—	—	(56)	—	174	—	118
Share-based compensation	—	—	—	—	—	171	—	—	—	171
Other	—	—	—	—	—	42	(13)	(7)	—	22
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

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Cash Flows [1]

(In Millions)

Year Ended December 31,	2020	2019	2018
Cash Flows from Operating Activities			
Net income	$ 3,299	$ 3,704	$ 3,507
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Share-based compensation	204	183	197
Depreciation and amortization	414	322	277
Amortization of acquired intangible assets	190	27	29
Provision (benefit) for deferred income taxes	(138)	2	49
Premium amortization, net, on available for sale and held to maturity securities	1,586	446	350
Other	349	199	137
Net change in:			
Investments segregated and on deposit for regulatory purposes	(10,208)	(977)	6,922
Receivables from brokerage clients	(14,609)	(125)	(1,100)
Other assets	4	(709)	(8)
Payables to brokerage clients	22,909	6,494	1,483
Accrued expenses and other liabilities	2,852	(241)	613
Net cash provided by (used for) operating activities	6,852	9,325	12,456
Cash Flows from Investing Activities			
Purchases of available for sale securities	(202,171)	(31,815)	(32,801)
Proceeds from sales of available for sale securities	4,801	24,495	115
Principal payments on available for sale securities	63,247	21,616	16,016
Purchases of held to maturity securities	—	(19,441)	(40,873)
Principal payments on held to maturity securities	—	19,606	17,410
Net change in bank loans	(5,675)	(1,730)	(129)
Cash acquired in acquisitions, net of cash paid	14,748	—	—
Purchases of equipment, office facilities, and property	(631)	(708)	(570)
Purchases of Federal Home Loan Bank stock	(26)	(27)	(156)
Proceeds from sales of Federal Home Loan Bank stock	32	24	529
Purchases of Federal Reserve stock	(191)	—	—
Other investing activities	15	(56)	(96)
Net cash provided by (used for) investing activities	(125,851)	11,964	(40,555)
Cash Flows from Financing Activities			
Net change in bank deposits	137,928	(11,329)	61,767
Net change in short-term borrowings	—	—	(15,000)
Issuance of long-term debt	3,070	593	3,024
Repayment of long-term debt	(700)	—	(909)
Repurchases of common stock	—	(2,220)	(1,000)
Net proceeds from preferred stock offerings	4,940	—	—
Dividends paid	(1,280)	(1,060)	(787)
Proceeds from stock options exercised	79	118	125
Other financing activities	(55)	(41)	(54)
Net cash provided by (used for) financing activities	143,982	(13,939)	47,166
Increase (Decrease) in Cash and Cash Equivalents, including Amounts Restricted	24,983	7,350	19,067
Cash and Cash Equivalents, including Amounts Restricted at Beginning of Year	45,577	38,227	19,160
Cash and Cash Equivalents, including Amounts Restricted at End of Year	$ 70,560	$ 45,577	$ 38,227

Continued on following page.

THE CHARLES SCHWAB CORPORATION

Continued from previous page.

Year Ended December 31,	2020	2019	2018
Supplemental Cash Flow Information			
Non-cash investing activity:			
Securities transferred from held to maturity to available for sale, at fair value	$ 136,099	$ 8,771	$ —
Additions of equipment, office facilities, and property	$ 110	$ 45	$ 6
Acquisition of TD Ameritrade	$ 21,758	$ —	$ —
Non-cash financing activity:			
Extinguishment of finance lease obligation through an assignment agreement	$ —	$ 52	$ —
Other Supplemental Cash Flow Information			
Cash paid during the period for:			
Interest	$ 434	$ 1,075	$ 798
Income taxes	$ 803	$ 1,199	$ 927
Amounts included in the measurement of lease liabilities	$ 163	$ 133	N/A
Leased assets obtained in exchange for new operating lease liabilities	$ 160	$ 97	N/A

December 31,	2020	2019	2018
Reconciliation of cash, cash equivalents and amounts reported within the balance sheet [2]			
Cash and cash equivalents	$ 40,348	$ 29,345	$ 27,938
Restricted cash and cash equivalents amounts included in cash and investments segregated and on deposit for regulatory purposes	30,212	16,232	10,289
Total cash and cash equivalents, including amounts restricted shown in the statement of cash flows	$ 70,560	$ 45,577	$ 38,227

[1] Certain prior year amounts have been reclassified to conform to the current year presentation. See Note 1 for additional information.
[2] For more information on the nature of restrictions on restricted cash and cash equivalents, see Note 23.
N/A Not applicable.

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. Incorporated in 1986, CSC engages, through its subsidiaries, 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®) and for Schwab's exchange-traded funds (Schwab ETFs™).

Schwab's securities broker-dealers have over 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 those 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 TD Ameritrade Holding Corporation 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, through its broker-dealer subsidiaries; and futures and foreign exchange trade execution services through its futures commission merchant (FCM) and forex dealer member (FDM) subsidiary. 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.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. Beginning in 2020, order flow revenue was reclassified from other revenue to trading revenue in the consolidated statements of income. Beginning in 2020, amortization of acquired intangible assets was reclassified from depreciation and amortization and presented separately in the consolidated statements of income. Beginning in 2020, acquired intangible assets – net was reclassified from other assets and presented separately in the consolidated balance sheets. Prior period amounts have been reclassified to reflect these changes. Corresponding presentation changes have been made to the consolidated statements of cash flows and related notes.

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. Investments in entities for which Schwab does not have the ability to exercise significant influence 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.

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® and Schwab ETFs™, 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. In late 2019, Schwab eliminated online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options. Commissions revenue is earned when the trades are executed and collected when the trades are settled. Order flow revenue is comprised of rebate payments received from 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, certain service fees, software fees, and non-recurring gains. 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.

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 Rule 15c3-3 of the Securities Exchange Act of 1934 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, which are collateralized by U.S. Government and agency securities. Resale agreements are accounted for as collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. Under these resale agreements, the Company obtains collateral with a market value equal to or in excess of the principal amount loaned and the interest accrued. Collateral is valued daily by the Company, with additional collateral obtained to ensure full collateralization. Cash and investments segregated also include certificates of deposit and U.S. Government securities. Certificates of deposit and U.S. Government securities are recorded at fair value and unrealized gains and losses are included in earnings.

Schwab applies the practical expedient based on collateral maintenance provisions under ASC 326, *Financial Instruments – Credit Losses*, in estimating an allowance for credit losses for resale agreements. 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.

Receivables from brokerage clients

Receivables from brokerage clients include margin loans to securities brokerage clients and other trading receivables from 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 in estimating an allowance for credit losses for margin loans. 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 delinquent 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. The allowance for credit losses for receivables from brokerage clients and related activity were immaterial for all periods presented.

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.

AFS 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. 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 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).

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 impairment has resulted from a credit loss or other factors. This evaluation is performed quarterly on an individual security basis.

The evaluation of whether credit loss exists 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 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. Changes in the allowance for credit losses are recorded through earnings in the period of the change.

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 excludes accrued interest from the fair value and the amortized cost basis of the AFS investment securities for the purposes of identifying and measuring impairment of the securities. AFS investment securities are placed on nonaccrual status on a timely basis and any accrued interest receivable is reversed through interest income.

Securities borrowed and securities loaned

Securities borrowed transactions require Schwab to deliver cash to the lender in exchange for securities; the receivables from these transactions are 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 (Estimated Current LTV) of each loan, the term and structure of each loan, current key interest rates including U.S. Treasury and LIBOR rates, and borrower FICO scores. 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. The loss severity estimate used in the allowance for credit loss methodology for HELOCs is higher than that used in the methodology for First Mortgages. 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.

Schwab considers loan modifications in which it makes an economic concession to a borrower experiencing financial difficulty to be troubled debt restructurings (TDRs).

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 delinquent loans 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 [(1)]
Leasehold improvements	Lesser of useful life

[(1)] 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.

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 1st. 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.

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.

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

The Company has operating leases for corporate offices, branch locations, and server equipment and determines 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. Operating lease ROU assets and lease liabilities are recognized at commencement date 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. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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 those classes 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.

Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

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. Such costs are generally expensed 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 fair value of the share-based award is recognized over the service period as share-based compensation. 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. 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 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, and certain other assets. 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. We generally obtain prices from three independent third-party pricing sources for 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.

New Accounting Standards

Adoption of New Accounting Standards

Standard	Description	Date of Adoption	Effe Sign
Accounting Standards Update (ASU) 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"	Provides guidance for recognizing impairment of most debt instruments measured at amortized cost, including loans and HTM debt securities. Requires estimating current expected credit losses (CECL) over the remaining life of an instrument or a portfolio of instruments with similar risk characteristics based on relevant information about past events, current conditions, and reasonable forecasts. The initial estimate of, and the subsequent changes in, CECL will be recognized as credit loss expense through current earnings and will be reflected as an allowance for credit losses offsetting the carrying value of the financial instrument(s) on the balance sheet. Amends the other-than-temporary impairment (OTTI) model for AFS debt securities by requiring the use of an allowance, rather than directly reducing the carrying value of the security, and eliminating consideration of the length of time such security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. Adoption requires modified retrospective transition through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the entity applies the new guidance except that a prospective transition is required for AFS debt securities for which an OTTI has been recognized prior to the effective date.	January 1, 2020	The 2020 The incr loss expe cred and as a date

ASU 2018-15, "Intangibles–Goodwill and Other–Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)"	Aligns the criteria for capitalizing implementation costs for cloud computing arrangements (CCA) that are service contracts with internal-use software that is developed or purchased and CCAs that include an internal-use software license. This guidance requires that the capitalized implementation costs be recognized over the period of the CCA service contract, subject to impairment evaluation on an ongoing basis. The guidance prescribes the balance sheet, income statement, and statement of cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. Adoption provides for retrospective or prospective application to all implementation costs incurred after the date of adoption.	January 1, 2020	The pros adop fina expe incu The Con of in adop
Standard	**Description**	**Date of Adoption**	**Effe Sign**
ASU 2020-4, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting"	Provides optional expedients and exceptions for applying existing accounting guidance to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met, including simplifying accounting analyses for contract modifications. This guidance only applies to the items listed above if they reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and only for a limited period of time. When elected, the optional expedients for contract modifications must be applied consistently for all eligible contracts or eligible transactions subject to the same accounting guidance that would have otherwise been applied. Once elected, the amendments must be applied prospectively.	N/A. Effective March 12, 2020 through December 31, 2022	The pros no i fina

There are no new accounting standards not yet adopted that are material to the Company as of December 31, 2020.

3. Business Acquisitions

TD Ameritrade

On October 6, 2020 Schwab completed its previously announced acquisition of TD Ameritrade. 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, through its broker-dealer subsidiaries, and futures and foreign exchange trade execution services through its FCM and FDM subsidiary. TD Ameritrade also provides cash sweep and deposit account products through the IDA agreement, as well as bank deposit account sweep agreements with other third-party depository institutions. The Company anticipates this transaction will add scale to help support the Company's ongoing efforts to enhance the client experience, provide deeper resources for individual investors as well as RIAs, and continue to improve its operating

efficiency.

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, as described below. For further details on the new class of nonvoting common stock, see Note 19.

Information regarding the acquisition is provisional and based on information that was available in the limited time since October 6, 2020. Due to the timing of the close of the acquisition, the information described below will be finalized in subsequent periods as prescribed in ASC 805, *Business Combinations*.

The fair value of the purchase price transferred upon completion of the acquisition included 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 provisional 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 [1]		94
Provisional purchase price	$	21,758

[1] 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 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 estimated 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. The determination of fair values requires management to make significant estimates and assumptions. The estimated fair values of the assets acquired and liabilities assumed are considered provisional and are based on currently available information. The Company believes that the information available provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed; however, these provisional estimates may be adjusted upon the availability of new information regarding facts and circumstances which existed at the acquisition date. The Company expects to finalize the valuation of assets and liabilities as soon as practicable, but not later than one year from the acquisition date. Any adjustments to the initial estimates of the fair values of the acquired assets and liabilities assumed will be recorded as adjustments to the respective assets and liabilities, with the residual amounts allocated to goodwill.

The following table summarizes provisional information including the purchase price, fair value estimates of the assets acquired and liabilities assumed, and resulting goodwill as of the October 6, 2020 acquisition date.

Purchase price	$	21,758
Fair values of assets acquired:		
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
Fair values of liabilities assumed:		
Payables to brokerage clients		37,599
Accrued expenses and other liabilities		6,975
Long-term debt		3,829
Total liabilities assumed		48,403
Fair value of net identifiable assets acquired		11,543
Goodwill	$	10,215

The provisional 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 estimated fair values and weighted-average useful lives:

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

[1] Consists primarily of buildings.
[2] Consists primarily of equipment and leasehold improvements.
N/A Not applicable.

The estimated fair values of real property, personal property, construction in progress, and land were determined using a sales comparison and cost approach, including consideration of functional and economic obsolescence. The Company estimated the weighted-average useful lives of the assets based on the current condition and expected future use of the assets. The estimated fair values of client relationships, existing technology, and trade names were

estimated using a multi-period excess earnings approach, cost approach, and relief from royalty approach, respectively. 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 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.

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 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 and $11 million for the years ended December 31, 2020 and 2019, respectively, which are primarily included in professional services on the consolidated statements of income.

Pro Forma Financial Information (Unaudited)

The following table presents unaudited pro forma financial information as if the TD Ameritrade acquisition 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 acquisition. Pro forma net income for the year ended December 31, 2020 excludes after-tax acquisition costs for both Schwab and TD Ameritrade of $115 million. These costs and after-tax acquisition costs of $30 million incurred in 2019 by Schwab and TD Ameritrade are included in pro forma net income for the year ended December 31, 2019. 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 acquisition been completed as of January 1, 2019.

	Year Ended December 31,	
	2020	2019
Total net revenues	$ 16,514	$ 16,561
Net income	4,655	5,240

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 estimated 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 value estimates 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.

Purchase price	$	1,581
Fair values of assets acquired:		
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
Fair values of liabilities assumed:		
Payables to brokerage clients		4,472
Total liabilities assumed		4,472
Fair value of net identifiable assets acquired		1,109
Goodwill	$	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 estimated fair values and weighted-average useful lives.

		Estimated Fair Value	Weighted-Average Estimated Useful Life (years)
Client relationships	$	962	18
Brokerage referral agreement [1]		142	20
Royalty-free license		5	7
Total acquired intangible assets	$	1,109	

[1] The brokerage referral agreement has an initial term of 5 years and is automatically renewable for one-year increments thereafter.

The estimated fair values of client relationships, the brokerage referral agreement, and the royalty-free license were estimated using the multi-period excess earnings, with-and-without, and relief from royalty methods, respectively. 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.

Goodwill recorded 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.

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 and $14 million for the years ended December 31, 2020 and 2019, respectively, which are primarily included in professional services, other expense, and compensation and benefits on the consolidated statements of income.

Pro Forma Financial Information (Unaudited)

The following table presents unaudited pro forma financial information as if the USAA-IMCO acquisition had occurred on January 1, 2019. The unaudited pro forma results reflect after-tax adjustments for acquisition costs and amortization of acquired intangible assets, and do not reflect potential revenue growth or cost savings that may be realized as a result of the acquisition. Pro forma net income for the year ended December 31, 2020 excludes after-tax acquisition costs of $41 million. These costs, and after-tax acquisition costs of $10 million incurred in 2019, are included in pro forma net income for the year

ended December 31, 2019. The unaudited pro forma financial information is presented for informational purposes only, and is not necessarily indicative of future operations or results had the USAA-IMCO acquisition been completed as of January 1, 2019.

	Year Ended December 31,	
	2020	2019
Total net revenues	$ 11,794	$ 11,057
Net income	3,005	3,407

4. Revenue Recognition

Disaggregated Revenue

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

Year Ended December 31,	2020	2019	2018
Net interest revenue			
Interest revenue	$ 6,531	$ 7,580	$ 6,680
Interest expense	(418)	(1,064)	(857)
Net interest revenue	6,113	6,516	5,823
Asset management and administration fees			
Mutual funds, ETFs, and CTFs [1]	1,770	1,747	1,837
Advice solutions	1,443	1,198	1,139
Other [1]	262	266	253
Asset management and administration fees	3,475	3,211	3,229
Trading revenue			
Commissions	739	549	685
Order flow revenue [2]	621	135	139
Principal transactions	56	68	78
Trading revenue [2]	1,416	752	902
Bank deposit account fees	355	—	—
Other [2]	332	242	178
Total net revenues	$ 11,691	$ 10,721	$ 10,132

[1] Beginning in the first quarter of 2019, a change was made to move CTFs from other asset management and administration fees. Prior period amounts have been recast to reflect this change.

[2] Beginning in the first quarter of 2020, order flow revenue was reclassified from other revenue to trading revenue. Amounts in prior periods have been reclassified to reflect this change.

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.

Contract balances

Receivables from contracts with customers within the scope of ASC 606 were $579 million at December 31, 2020 and $356 million at December 31, 2019 and were recorded in other assets on the consolidated balance sheets. Schwab does not have any other significant contract assets or contract liability balances as of December 31, 2020 and 2019.

5. Receivables from and Payables to Brokerage Clients

Receivables from and payables to brokerage clients are detailed below:

December 31,	2020	2019
Receivables		
Margin loans, net of allowance for credit losses	$ 60,865	$ 19,474
Other brokerage receivables	3,575	2,293
Receivables from brokerage clients — net	$ 64,440	$ 21,767
Payables		
Interest-bearing payables	$ 84,642	$ 29,009
Non-interest-bearing payables	19,559	10,211
Payables to brokerage clients	$ 104,201	$ 39,220

At December 31, 2020, approximately 17% of total CS&Co and TD Ameritrade, Inc. client accounts were located in California. At December 31, 2019, approximately 22% of CS&Co's total client accounts were located in California.

6. Investment Securities

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

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities				
U.S. agency mortgage-backed securities	$ 283,911	$ 7,005	$ 563	$ 290,353
Asset-backed securities [1]	18,808	174	84	18,898
Corporate debt securities [2]	12,408	388	—	12,796
U.S. Treasury securities	10,631	25	—	10,656
U.S. state and municipal securities	1,544	153	—	1,697
Foreign government agency securities	1,411	2	—	1,413
Non-agency commercial mortgage-backed securities	1,213	52	—	1,265
Certificates of deposit	300	—	—	300
Other	22	—	—	22
Total available for sale securities	$ 330,248	$ 7,799	$ 647	$ 337,400
December 31, 2019				
Available for sale securities				
U.S. agency mortgage-backed securities	$ 45,964	$ 312	$ 121	$ 46,155
Corporate debt securities [2]	5,427	57	—	5,484
Asset-backed securities [1]	4,970	30	13	4,987
U.S. Treasury securities	3,387	3	6	3,384
Certificates of deposit	1,000	4	—	1,004
Commercial paper [2,3]	394	1	—	395
Non-agency commercial mortgage-backed securities	13	—	—	13
Total available for sale securities	$ 61,155	$ 407	$ 140	$ 61,422
Held to maturity securities				
U.S. agency mortgage-backed securities	$ 109,325	$ 1,521	$ 280	$ 110,566
Asset-backed securities [1]	17,806	50	85	17,771
Corporate debt securities [2]	4,661	57	—	4,718
U.S. state and municipal securities	1,301	103	—	1,404
Non-agency commercial mortgage-backed securities	1,119	22	—	1,141
U.S. Treasury securities	223	5	—	228
Certificates of deposit	200	—	—	200
Foreign government agency securities	50	—	—	50
Other	21	—	—	21
Total held to maturity securities	$ 134,706	$ 1,758	$ 365	$ 136,099

[1] Approximately 51% and 43% of asset-backed securities held as of December 31, 2020 and 2019, respectively, were Federal Family Education Loan Program Asset-Backed Securities. Asset-backed securities collateralized by credit card receivables represented approximately 36% and 42% of the asset-backed securities held as of December 31, 2020 and 2019, respectively.

[2] As of December 31, 2020 approximately 46% of the total AFS, and as of December 31, 2019, approximately 32%, of the total AFS and HTM investments in corporate debt securities and commercial paper were issued by institutions in the financial services industry.

[3] Included in cash and cash equivalents on the consolidated balance sheets, but excluded from this table is $2.5 billion of AFS commercial paper as of December 31, 2019 (none as of December 31, 2020). These holdings have maturities of three months or less and an aggregate market value equal to amortized cost.

On January 1, 2019 the Company transferred certain U.S. agency mortgage-backed securities with a fair value of $8.8 billion from the HTM category to the AFS category as permitted by ASU 2017-12, "*Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities"* (ASU 2017-12). This transfer resulted in a net of tax increase to AOCI of $19 million.

In October 2019, the Federal Reserve issued a final enhanced prudential standards rule, and the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC jointly issued a final regulatory capital and liquidity rule. With total consolidated assets of $294.0 billion at December 31, 2019, CSC is 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.

At December 31, 2020, our banking subsidiaries had pledged securities with a fair value of $44.7 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 fair value of $7.9 billion as collateral for this facility at December 31, 2020. The Company also pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was $1.2 billion at December 31, 2020.

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

	Less than 12 months		12 months or longer		Total	
December 31, 2020	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities						
U.S. agency mortgage-backed securities	$ 61,706	$ 551	$ 4,774	$ 12	$ 66,480	$ 563
Asset-backed securities	1,398	13	5,822	71	7,220	84
Total	$ 63,104	$ 564	$ 10,596	$ 83	$ 73,700	$ 647
December 31, 2019						
Available for sale securities						
U.S. agency mortgage-backed securities	$ 16,023	$ 94	$ 6,592	$ 27	$ 22,615	$ 121
Asset-backed securities	960	6	298	7	1,258	13
U.S. Treasury securities	510	—	1,243	6	1,753	6
Total	$ 17,493	$ 100	$ 8,133	$ 40	$ 25,626	$ 140
Held to maturity securities						
U.S. agency mortgage-backed securities	$ 16,183	$ 100	$ 18,910	$ 180	$ 35,093	$ 280
Asset-backed securities	7,507	63	2,898	22	10,405	85
Total	$ 23,690	$ 163	$ 21,808	$ 202	$ 45,498	$ 365
Total securities with unrealized losses	$ 41,183	$ 263	$ 29,941	$ 242	$ 71,124	$ 505

At December 31, 2020, 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 year ended December 31, 2020. None of the Company's AFS securities held as of December 31, 2020 had an allowance for credit losses. No amounts were recognized as OTTI in earnings or other comprehensive income during the years ended December 31, 2019 and 2018. As of December 31, 2019, Schwab did not hold any securities on which OTTI was previously recognized.

The Company had $634 million of accrued interest receivable as of December 31, 2020 for AFS securities, and $471 million of accrued interest receivable for AFS and HTM securities as of December 31, 2019. These amounts are excluded from the amortized cost basis of AFS and HTM securities and included in other assets on the consolidated

balance sheets. There were no write-offs of accrued interest receivable on AFS securities during the year ended December 31, 2020, and no write-offs of accrued interest receivable on AFS securities or HTM securities during the year ended December 31, 2019.

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 securities are as follows:

December 31, 2020	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
U.S. agency mortgage-backed securities	$ 1,758	$ 22,392	$ 63,400	$ 202,803	$ 290,353
Asset-backed securities	15	5,975	4,012	8,896	18,898
Corporate debt securities	3,632	6,429	2,735	—	12,796
U.S. Treasury securities	10,316	340	—	—	10,656
U.S. state and municipal securities	—	116	824	757	1,697
Foreign government agency securities	125	1,288	—	—	1,413
Non-agency commercial mortgage-backed securities	—	—	—	1,265	1,265
Certificates of deposit	300	—	—	—	300
Other	—	—	—	22	22
Total fair value	16,146	36,540	70,971	213,743	337,400
Total amortized cost	$ 16,080	$ 35,119	$ 68,080	$ 210,969	$ 330,248
Weighted-average yield [1]	1.01 %	2.09 %	1.81 %	1.10 %	1.35 %

[1] The weighted-average yield is computed using the amortized cost at December 31, 2020.

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

Year Ended December 31,	2020	2019	2018
Proceeds	$ 4,801	$ 24,495	$ 115
Gross realized gains	5	16	—
Gross realized losses	1	10	—

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, 2020	Current	30-59 days past due	60-89 days past due	≥90 days past due and other nonaccrual loans [3]	Total past due and other nonaccrual loans	Total loans	Allowance for credit losses	Total bank loans – net
Residential real estate:								
First Mortgages [1,2]	$ 14,804	$ 27	$ 1	$ 72	$ 100	$ 14,904	$ 22	$ 14,882
HELOCs [1,2]	823	1	1	17	19	842	5	837
Total residential real estate	15,627	28	2	89	119	15,746	27	15,719
Pledged asset lines	7,901	10	5	—	15	7,916	—	7,916
Other	181	—	—	—	—	181	3	178
Total bank loans	$ 23,709	$ 38	$ 7	$ 89	$ 134	$ 23,843	$ 30	$ 23,813

December 31, 2019								
Residential real estate:								
First Mortgages [1,2]	$ 11,665	$ 24	$ 4	$ 11	$ 39	$ 11,704	$ 11	$ 11,693
HELOCs [1,2]	1,105	2	1	9	12	1,117	4	1,113
Total residential real estate	12,770	26	5	20	51	12,821	15	12,806
Pledged asset lines	5,202	4	—	—	4	5,206	—	5,206
Other	201	—	—	2	2	203	3	200
Total bank loans	$ 18,173	$ 30	$ 5	$ 22	$ 57	$ 18,230	$ 18	$ 18,212

[1] First Mortgages and HELOCs include unamortized premiums and discounts and direct origination costs of $72 million and $74 million at December 31, 2020 and 2019, respectively.
[2] At December 31, 2020 and 2019, 45% 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.
[3] There were no loans accruing interest that were contractually 90 days or more past due at December 31, 2020 or 2019.

At December 31, 2020, 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).

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

	December 31, 2020					December 31, 2019					December 31, 2018				
	First Mortgages	HELOCs	Total residential real estate	Other	Total [1]	First Mortgages	HELOCs	Total residential real estate	Other	Total [1]	First Mortgages	HELOCs	Total residential real estate	Other	Total [1]
Balance at beginning of year	$ 11	$ 4	$ 15	$ 3	$ 18	$ 14	$ 5	$ 19	$ 2	$ 21	$ 16	$ 8	$ 24	2	$ 26
Adoption of ASU 2016-13	1	—	1	—	1	—	—	—	—	—	—	—	—	—	—
Charge-offs	—	—	—	—	—	—	—	—	—	—	—	—	—	(1)	(1)
Recoveries	1	—	1	—	1	1	1	2	—	2	1	1	2	—	2
Provision for credit losses	9	1	10	—	10	(4)	(2)	(6)	1	(5)	(3)	(4)	(7)	1	(6)
Balance at end of year	$ 22	$ 5	$ 27	$ 3	$ 30	$ 11	$ 4	$ 15	$ 3	$ 18	$ 14	$ 5	$ 19	$ 2	$ 21

Note: Substantially all of the bank loans were collectively evaluated for impairment at December 31, 2019 and 2018.

[1] All PALs were fully collateralized by securities with fair values in excess of borrowings as of each period presented.

Despite the impact of COVID-19 on the economy and the continued uncertainty of the economic outlook, credit quality metrics and overall performance of the bank loan portfolios remained strong in 2020. The ACL increased from January 1, 2020 to December 31, 2020, primarily due to growth in mortgage loan origination during the year, driven by the continued low interest rate environment, and also reflects management's consideration of qualitative factors associated with the potential persistence and effects of COVID-19 on the economic recovery. At December 31, 2020, management's reasonable and supportable forecast period extends through 2024, with limited growth in home prices anticipated over the near term and unemployment expected to remain above 5% through the end of 2022.

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

December 31,	2020	2019
Nonaccrual loans [1]	$ 89	$ 22
Other real estate owned [2]	1	1
Total nonperforming assets	90	23
Troubled debt restructurings	1	2
Total nonperforming assets and troubled debt restructurings	$ 91	$ 25

[1] Nonaccrual loans include nonaccrual troubled debt restructurings.
[2] Included in other assets on the consolidated balance sheets.

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.

Borrowers' FICO scores are provided by an independent third-party credit reporting service and 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 bank loan portfolio are detailed below:

	First Mortgages Amortized Cost Basis by Origination Year									
December 31, 2020	2020	2019	2018	2017	2016	pre-2016	Total First Mortgages	Revolving HELOCs amortized cost basis	HELOCs converted to term loans	Total HELOCs
Origination FICO										
<620	$ 1	$ —	$ —	$ —	$ —	$ 2	$ 3	$ —	$ —	$ —
620 – 679	29	13	3	8	17	14	84	1	3	4
680 – 739	794	355	105	181	166	253	1,854	82	80	162
≥740	7,150	2,452	449	858	1,029	1,025	12,963	380	296	676
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 1,212	$ 1,294	$ 14,904	$ 463	$ 379	$ 842
Origination LTV										
≤70%	$ 6,653	$ 2,211	$ 396	$ 793	$ 1,024	$ 911	$ 11,988	$ 351	$ 269	$ 620
>70% – ≤90%	1,321	609	161	254	188	380	2,913	112	107	219
>90% – ≤100%	—	—	—	—	—	3	3	—	3	3
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 1,212	$ 1,294	$ 14,904	$ 463	$ 379	$ 842
Weighted Average Updated FICO										
<620	$ 5	$ 2	$ 1	$ 4	$ 2	$ 17	$ 31	$ 3	$ 9	$ 12
620 – 679	67	34	16	21	20	40	198	12	20	32
680 – 739	784	252	66	121	110	171	1,504	58	55	113
≥740	7,118	2,532	474	901	1,080	1,066	13,171	390	295	685
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 1,212	$ 1,294	$ 14,904	$ 463	$ 379	$ 842
Estimated Current LTV [1]										
≤70%	$ 6,999	$ 2,582	$ 533	$ 1,034	$ 1,207	$ 1,283	$ 13,638	$ 452	$ 368	$ 820
>70% – ≤90%	975	238	24	13	5	11	1,266	11	9	20
>90% – ≤100%	—	—	—	—	—	—	—	—	1	1
>100%	—	—	—	—	—	—	—	—	1	1
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 1,212	$ 1,294	$ 14,904	$ 463	$ 379	$ 842
Percent of Loans on Nonaccrual Status	0.09 %	0.38 %	1.02 %	0.87 %	0.24 %	2.82 %	0.48 %	1.37 %	2.80 %	2.02 %

[1] Represents the LTV for the full line of credit (drawn and undrawn) for revolving HELOCs.

December 31, 2020	Balance	Weighted Average Updated FICO	Percent of Loans on Nonaccrual Status
Pledged Asset Lines			
Weighted-Average LTV [1]			
=70%	$ 7,916	770	—

[1] Represents the LTV for the full line of credit (drawn and undrawn).

	First Mortgages Amortized Cost Basis by Origination Year								
December 31, 2019	2019	2018	2017	2016	pre-2016	Total First Mortgages	Revolving HELOCs amortized cost basis	HELOCs converted to term loans	Total HELOCs
Origination FICO									
<620	$ —	$ —	$ —	$ —	$ 3	$ 3	$ —	$ —	$ —
620 – 679	12	6	14	20	25	77	1	4	5
680 – 739	478	220	304	290	421	1,713	114	105	219
≥740	3,512	1,058	1,593	1,839	1,909	9,911	496	397	893
Total	$ 4,002	$ 1,284	$ 1,911	$ 2,149	$ 2,358	$ 11,704	$ 611	$ 506	$ 1,117
Origination LTV									
≤70%	$ 3,104	$ 906	$ 1,427	$ 1,812	$ 1,679	$ 8,928	$ 444	$ 354	$ 798
>70% – ≤90%	898	378	484	337	676	2,773	167	147	314
>90% – ≤100%	—	—	—	—	3	3	—	5	5
Total	$ 4,002	$ 1,284	$ 1,911	$ 2,149	$ 2,358	$ 11,704	$ 611	$ 506	$ 1,117
Weighted Average Updated FICO									
<620	$ 5	$ 4	$ 5	$ 3	$ 25	$ 42	$ 6	$ 15	$ 21
620 – 679	45	36	32	26	68	207	18	22	40
680 – 739	474	153	213	199	307	1,346	92	80	172
≥740	3,478	1,091	1,661	1,921	1,958	10,109	495	389	884
Total	$ 4,002	$ 1,284	$ 1,911	$ 2,149	$ 2,358	$ 11,704	$ 611	$ 506	$ 1,117
Estimated Current LTV [1]									
≤70%	$ 3,125	$ 1,018	$ 1,790	$ 2,119	$ 2,330	$ 10,382	$ 578	$ 478	$ 1,056
>70% – ≤90%	877	265	121	30	27	1,320	33	23	56
>90% – ≤100%	—	1	—	—	1	2	—	3	3
>100%	—	—	—	—	—	—	—	2	2
Total	$ 4,002	$ 1,284	$ 1,911	$ 2,149	$ 2,358	$ 11,704	$ 611	$ 506	$ 1,117
Percent of Loans on Nonaccrual Status	0.04 %	0.04 %	0.04 %	0.08 %	0.25 %	0.09 %	0.19 %	1.57 %	0.83 %

[1] Represents the LTV for the full line of credit (drawn and undrawn) for revolving HELOCs.

December 31, 2019	Balance	Weighted Average Updated FICO	Percent of Loans on Nonaccrual Status
Pledged Asset Lines			
Weighted-Average LTV [1]			
=70%	$ 5,206	766	—

[1] Represents the LTV for the full line of credit (drawn and undrawn).

At December 31, 2020, First Mortgage loans of $12.9 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 26% of the balance of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 77% 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, 2020 and 2019, Schwab had $43 million and $46 million, respectively, of accrued interest on bank loans, which is excluded from the amortized cost basis of bank loans and 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,	2020	2019
HELOCs converted to amortizing loans	$ 26	$ 44

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

December 31, 2020	Balance
Converted to an amortizing loan by period end	$ 379
Within 1 year	31
> 1 year – 3 years	88
> 3 years – 5 years	95
> 5 years	249
Total	$ 842

At December 31, 2020, $664 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, 2020, the borrowers on approximately 52% 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,	2020	2019
Software	$ 2,314	$ 1,876
Buildings	1,444	1,056
Leasehold improvements	455	360
Information technology equipment	374	253
Construction in progress	325	324
Furniture and equipment	288	241
Land	208	163
Telecommunications equipment	135	91
Other	7	—
Total equipment, office facilities, and property	5,550	4,364
Accumulated depreciation and amortization	(2,667)	(2,236)
Total equipment, office facilities, and property — net [1]	$ 2,883	$ 2,128

[1] The Company assumed the estimated fair value of TD Ameritrade's equipment, office facilities and property as of the date acquisition on October 6, 2020. See Note 3.

9. Goodwill and Acquired Intangible Assets

Acquired intangible assets and goodwill are detailed below:

	December 31, 2020			December 31, 2019		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Client relationships	$ 10,089	$ 386	$ 9,703	$ 274	$ 228	$ 46
Technology	305	112	193	89	84	5
Trade names	113	18	95	91	14	77
Total acquired intangible assets	$ 10,507	$ 516	$ 9,991	$ 454	$ 326	$ 128

Estimated future annual amortization expense for acquired intangible assets as of December 31, 2020 is as follows:

2021	$ 615
2022	596
2023	534
2024	518
2025	512
Thereafter	7,139
Total	$ 9,914

Note: The above schedule excludes indefinite-lived intangible assets of $77 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, 2018	$ 1,096	$ 131	$ 1,227
Goodwill acquired and other changes during the period	—	—	—
Balance at December 31, 2019	1,096	131	1,227
Goodwill acquired in TD Ameritrade acquisition	6,380	3,835	10,215
Goodwill acquired in other acquisitions	494	16	510
Balance at December 31, 2020	$ 7,970	$ 3,982	$ 11,952

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

As of our annual testing date, we performed an assessment of each of the Company's reporting units. 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.

10. Other Assets

The components of other assets are as follows:

December 31,	2020	2019
Other receivables from brokers, dealers, and clearing organizations	$ 1,748	$ 235
Receivables — interest, dividends, and other	1,180	788
Other investments [1]	1,019	633
Operating lease ROU assets	937	577
Securities borrowed	873	735
Other securities owned at fair value	687	718
Customer contract receivables	579	356
Capitalized contract costs	303	281
Other	457	264
Total other assets	$ 7,783	$ 4,587

[1] Primarily CRA-related, including LIHTC investments; also includes investments in FHLB stock of $29 million and $35 million at December 31, 2020 and 2019, respectively, which 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. During 2020, CSB and CSPB became members of the Federal Reserve and as a condition of membership, are required to hold Federal Reserve Stock. As such, other investments also includes investments in FRB stock of $191 million at December 31, 2020.

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. These costs are amortized to expense on a straight-line basis over a period that is consistent with how the related revenue is recognized. Capitalized contract costs were $303 million and $281 million at December 31, 2020 and 2019, respectively. Amortization expense related to capitalized contract costs was $63 million and $55 million in 2020 and 2019, respectively, which was recorded in compensation and benefits expense on the consolidated statements of income.

11. Variable Interest Entities

As of December 31, 2020 and 2019, all of Schwab's involvement with VIEs is through CSB's CRA-related investments and most of those 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 2020 and 2019, CSB recorded amortization of $56 million and $39 million, respectively, and recognized tax credits and other tax benefits of $69 million and $47 million, respectively, associated with these investments. The amortization, as well as the tax credits and other tax benefits, are included in taxes on income.

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, 2020			December 31, 2019		
	Aggregate assets	Aggregate liabilities	Maximum exposure to loss	Aggregate assets	Aggregate liabilities	Maximum exposure to loss
LIHTC Investments [1]	$ 649	$ 344	$ 649	$ 516	$ 275	$ 516
Other CRA Investments [2]	118	—	152	120	—	154
Total	$ 767	$ 344	$ 801	$ 636	$ 275	$ 670

[1] Aggregate assets and aggregate liabilities are included in other assets and accrued expenses and other liabilities, respectively, on the consolidated balance sheets.

[2] Other CRA investments 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. CSB's funding of these remaining commitments is dependent upon the occurrence of certain conditions, and CSB expects to pay substantially all of these commitments between 2021 and 2024. During the years ended December 31, 2020 and 2019, 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,	2020	2019
Interest-bearing deposits:		
Deposits swept from brokerage accounts	$ 332,513	$ 201,531
Checking	17,785	12,650
Savings and other	6,739	5,168
Total interest-bearing deposits	357,037	219,349
Non-interest-bearing deposits	985	745
Total bank deposits	$ 358,022	$ 220,094

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 Senior Notes

On October 6, 2020, the effective date of our acquisition of TD Ameritrade, TD Ameritrade's debt outstanding was recognized at provisional fair value and with no change in existing terms. See Note 3 The TD Ameritrade debt outstanding on the acquisition date included $3.6 billion par value of TDA Senior Notes. These notes are unsecured

obligations. TDA Holding may redeem some or all of the TDA 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 TDA Senior Notes and quarterly for the floating-rate TDA Senior Notes.

The following table lists long-term debt by instrument outstanding as of December 31, 2020 and 2019.

	Date of Issuance	Principal An 2020
CSC Fixed-rate Senior Notes:		
4.450% due July 22, 2020 [1]	07/22/10	$ -
3.250% due May 21, 2021	05/22/18	60
3.225% due September 1, 2022	08/29/12	25
2.650% due January 25, 2023	12/07/17	80
3.550% due February 1, 2024	10/31/18	50
3.000% due March 10, 2025	03/10/15	37
4.200% due March 24, 2025	03/24/20	60
3.850% due May 21, 2025	05/22/18	75
3.450% due February 13, 2026	11/13/15	35
0.900% due March 11, 2026	12/11/20	1,25
3.200% due March 2, 2027	03/02/17	65
3.200% due January 25, 2028	12/07/17	70
4.000% due February 1, 2029	10/31/18	60
3.250% due May 22, 2029	05/22/19	60
4.625% due March 22, 2030	03/24/20	50
1.650% due March 11, 2031	12/11/20	75
Floating-rate Senior Notes:		
Three-month LIBOR + 0.32% due May 21, 2021	05/22/18	60
Total CSC Senior Notes		9,88
TDA Fixed-rate Senior Notes:		
2.950% due April 1, 2022	03/09/15	75
3.750% due April 1, 2024	11/01/18	40
3.625% due April 1, 2025	10/22/14	50
3.300% due April 1, 2027	04/27/17	80
2.750% due October 1, 2029	08/16/19	50
Floating-rate TDA Senior Notes:		
Three-month LIBOR + 0.43% due November 1, 2021	11/01/18	60
Total TDA Senior Notes		3,55
Other financing		
Unamortized premium/(discount) — net		24
Debt issuance costs		(5
Total long-term debt		$ 13,63

[1] Matured on July 22, 2020.
N/A Not applicable.

Annual maturities on long-term debt outstanding at December 31, 2020, are as follows:

	Maturities
2021	$ 1,802
2022	1,008
2023	802
2024	900
2025	2,225
Thereafter	6,700
Total maturities	13,437
Unamortized discount — net	249
Debt issuance costs	(54)
Total long-term debt	$ 13,632

Short-term borrowings: Our banking subsidiaries maintain secured credit facilities with the FHLB. Amounts available under these facilities are dependent on the amount of our First Mortgages, HELOCs, and the fair value of certain of their investment securities that are pledged as collateral. As of December 31, 2020 and 2019, the collateral pledged provided a total borrowing capacity of $55.1 billion and $34.2 billion, respectively, of which no amounts were outstanding at the end of either year.

As a condition of the FHLB borrowings, we are required to hold FHLB stock, which was recorded in other assets on the consolidated balance sheets. The investment in FHLB stock was $29 million and $35 million at December 31, 2020 and 2019, respectively.

Additionally, 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, 2020 and 2019, the collateral pledged provided total borrowing capacity of $7.9 billion and $8.5 billion, respectively, of which no amounts were outstanding at the end of either year.

During 2020, CSB and CSPB became members of the Federal Reserve. As a condition of our Federal Reserve membership, we are required to hold Federal Reserve stock, which totaled $191 million at December 31, 2020.

TD Ameritrade Lines of Credit and Revolving Credit Facilities

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 were no borrowings outstanding under the secured uncommitted lines of credit as of December 31, 2020.

TDAC has access to two senior unsecured committed revolving credit facilities with an aggregate borrowing capacity of $1.5 billion, consisting of an $850 million senior revolving credit facility and a $600 million senior revolving credit facility, maturing in April 2021 and April 2022, respectively. There were no borrowings outstanding under the TDAC senior revolving facilities as of December 31, 2020.

TDA Holding had access to a senior unsecured committed revolving credit facility with a borrowing capacity of $300 million. On October 6, 2020, Schwab entered into a guaranty supplement to guarantee the obligations of TD Ameritrade under this credit agreement. The provision of the guaranty supplement by Schwab was a condition for certain financial covenant and reporting obligations being modified in the credit agreement. There were no borrowings outstanding under the TDA Holding revolving credit facility as of December 31, 2020, and effective January 28, 2021, the Company terminated the TDA Holding revolving credit facility.

14. Leases

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

December 31,		2020	2019
Lease assets:	Balance Sheet Classification		
Operating lease ROU assets	Other assets	$ 937	$ 577
Lease liabilities:			
Operating lease liabilities	Accrued expenses and other liabilities	$ 1,033	$ 650

Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Company had an immaterial finance lease in 2020 and immaterial sublease income for all periods presented.

The components of lease expense are as follows:

Year Ended December 31,	2020	2019
Lease Cost [1]		
Operating lease cost [2]	$ 166	$ 137
Variable lease cost [3]	34	34

[1] Rent expense related to operating leases was $146 million in 2018.
[2] Includes short-term leases, which are immaterial.
[3] Includes payments that are entirely variable and amounts that represent the difference between payments based on an index or rate that would be reflected in the lease liability and what is actually incurred.

The following tables present supplemental lease information:

December 31,	2020	2019
Lease Term and Discount Rate		
Weighted-average remaining lease term (years)	7.02	7.15
Weighted-average discount rate	2.86 %	3.42 %

Maturity of Lease Liabilities
2021
2022
2023
2024
2025
Thereafter
Total lease payments
Less: Interest
Present value of lease liabilities

[1] Operating lease payments exclude $24 million of legally binding minimum lease payments for leases signed but not yet commenced. These leases will commence between 2021 and 2022 with lease terms of three years to 15 years.

15. Commitments and Contingencies

Loan Portfolio: CSB provides a co-branded loan origination program for CSB clients (the Program) with Quicken Loans, Inc. (Quicken Loans®). Pursuant to the Program, Quicken Loans originates and services First Mortgages and HELOCs for CSB clients. Under the Program, CSB purchases certain First Mortgages and HELOCs that are

originated by Quicken Loans. CSB purchased First Mortgages of $8.7 billion and $4.4 billion during 2020 and 2019, respectively. CSB purchased HELOCs with commitments of $458 million and $242 million during 2020 and 2019, respectively.

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

December 31,	2020	2019
Commitments to extend credit related to unused HELOCs, PALs, and other lines of credit	$ 8,141	$ 10,753
Commitments to purchase First Mortgage loans	1,917	1,521
Total	$ 10,058	$ 12,274

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 partially satisfy the margin requirements by arranging unsecured standby LOCs, in favor of the Options Clearing Corporation, which are issued by several banks. At December 31, 2020, the aggregate face amount of these LOCs totaled $15 million. There were no funds drawn under any of these LOCs at December 31, 2020. 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 potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these guarantees.

Effective October 6, 2020, the Company acquired TD Ameritrade. The TD Ameritrade broker-dealer and FCM/FDM subsidiaries' operations include the execution, settlement, and financing of various client securities, options, futures and foreign exchange transactions. These activities may expose the Company to credit risk and losses in the event the clients are unable to fulfill their contractual obligations. TD Ameritrade is a member of and provides guarantees to securities clearing houses and exchanges under standard membership agreements. TD Ameritrade 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 loss that they may incur from the client transactions introduced to them by TD Ameritrade. 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, cash held in eligible brokerage client accounts must be swept off-balance sheet to money market deposit accounts at the TD Depository Institutions. Schwab provides marketing, recordkeeping and support services to the TD Depository Institutions with respect to the money market deposit accounts for which Schwab receives an aggregate monthly fee, determined by reference to certain yields, less a service fee on client cash deposits held at the TD Depository Institutions, FDIC deposit assessments, and interest on deposits paid to clients. 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.

Pursuant to the IDA agreement, Schwab will be required to move all uninsured IDA balances out of the IDA sweep program on June 30, 2021. The IDA agreement also provides that, starting July 1, 2021, Schwab will have 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, including the requirement that Schwab can only move IDA balances designated as floating-rate obligations. The amount of Schwab's initial potential transfer will also be affected by the net growth or decline in the IDA balance from immediately prior to the October 6, 2020 effective date of the IDA agreement through June 30, 2021. 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.

The total ending IDA balance was $144.6 billion as of October 5, 2020, and $154.1 billion as of December 31, 2020. Were IDA balances 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.

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 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.

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. 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. Defendants have answered the complaint to deny all allegations, and are vigorously contesting the lawsuit.

Ford Order Routing Litigation: On September 15, 2014, TDA Holding, TD Ameritrade, Inc. and its former CEO, Frederick J. Tomczyk, were sued 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 routing practices. Plaintiffs seek unspecified damages and injunctive and other relief. On September 14, 2018, the District Court granted plaintiff's motion for class certification, and defendants petitioned for an immediate appeal of the District Court's class certification decision. The U.S. Court of Appeals, 8th Circuit, granted defendants' petition on December 18, 2018, and a decision on defendants' appeal is pending. Defendants are vigorously contesting the lawsuit, and the Company is unable to predict the outcome or the potential loss, if any, that may result.

TD Ameritrade Acquisition Litigation: As disclosed previously, Schwab and TD Ameritrade have been responding to a lawsuit challenging the acquisition which was filed on May 12, 2020 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. The initial complaint named as defendants each member of the TD Ameritrade board of directors at the time the acquisition was approved, as well as TD Bank and Schwab. On June 11, 2020, plaintiff dismissed a claim that had

sought to enjoin voting on or consummation of the acquisition. 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 Insured Deposit Account 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 are contesting the remaining claims in the lawsuit.

16. Exit and Other Related Liabilities

The integration of TD Ameritrade's operations is expected to occur over 18 to 36 months from the October 6, 2020 acquisition date. To achieve our integration objectives, the Company expects to recognize significant additional acquisition and integration-related costs and capital expenditures throughout the integration process. Such acquisition and integration-related costs have included and are expected to continue to include professional fees, such as legal, advisory, and accounting fees, costs for technology enhancements, and compensation and benefits expenses for employees and contractors involved in the integration work.

The Company's acquisition and integration-related spending also includes exit and other related costs, such as severance and other employee termination benefits, retention costs, as well as costs related to facility closures, including accelerated 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.

The Company is in the early stages of integration, and our estimates of the nature, amounts, and timing of recognition of acquisition and integration-related costs are subject to change based on a number of factors, including the expected duration and complexity of the integration process and the heightened uncertainty of the current economic environment. More specifically, factors that could cause variability in our expected acquisition and integration-related costs include the level of employee attrition, workforce redeployment from eliminated positions into open roles, changes in the levels of client activity, and increased real estate-related exit cost variability due to the effects of the COVID-19 pandemic.

Inclusive of costs recognized in 2020, Schwab currently expects to incur total exit and other related costs for the integration of TD Ameritrade ranging from $650 million to $1 billion, consisting of employee compensation and benefits, facility exit costs, and certain other costs. During 2020, the Company incurred pre-tax charges of $186 million for acquisition-related exit costs. The Company expects the remaining exit and other related costs be incurred and charged to expense over the next 15 to 33 months. 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*.

The following is a summary of the activity in the Company's exit and other related liabilities for the year ended December 31, 2020:

	Investor Services Employee Compensation and Benefits	Advisor Services Employee Compensation and Benefits	Total
Balance at December 31, 2019	$ —	$ —	$ —
Exit and other related liabilities assumed in business acquisition	18	5	23
Costs incurred and charged to expense [1]	138	38	176
Costs paid or otherwise settled	(70)	(19)	(89)
Balance at December 31, 2020 [2]	$ 86	$ 24	$ 110

[1] Costs incurred for severance pay and other termination benefits, as well as retention costs, are included in employee compensation and benefits on the consolidated statements of income.

[2] Included in accrued and expenses and other liabilities on the consolidated balance sheets.

The following table summarizes the exit and other related costs incurred by the Company for the year ended December 31, 2020, which represents cumulative costs incurred to date:

	Investor Services			Advisor Services			
	Employee Compensation and Benefits	Facility Exit Costs [1]	Investor Services Total	Employee Compensation and Benefits	Facility Exit Costs [1]	Advisor Services Total	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

[1] 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.

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 investment requirement. Schwab's resale agreements as of December 31, 2020 and 2019 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 $852 million and $719 million at December 31, 2020 and 2019, 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.

The following table presents information about our resale agreements and securities lending activity depicting the potential effect of rights of setoff between these recognized assets and recognized liabilities.

	Gross Assets/ Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Counterparty Offsetting	Collateral	
December 31, 2020						
Assets						
Resale agreements [1]	$ 14,904	$ —	$ 14,904	$ —	$ (14,904) [2]	$ —
Securities borrowed [3]	873	—	873	(673)	(195)	5
Total	$ 15,777	$ —	$ 15,777	$ (673)	$ (15,099)	$ 5
Liabilities						
Securities loaned [4,5]	$ 7,549	$ —	$ 7,549	$ (673)	$ (6,049)	$ 827
Total	$ 7,549	$ —	$ 7,549	$ (673)	$ (6,049)	$ 827
December 31, 2019						
Assets						
Resale agreements [1]	$ 9,028	$ —	$ 9,028	$ —	$ (9,028) [2]	$ —
Securities borrowed [3]	735	—	735	(730)	(5)	—
Total	$ 9,763	$ —	$ 9,763	$ (730)	$ (9,033)	$ —
Liabilities						
Securities loaned [4,5]	$ 1,251	$ —	$ 1,251	$ (730)	$ (445)	$ 76
Total	$ 1,251	$ —	$ 1,251	$ (730)	$ (445)	$ 76

[1] Included in cash and investments segregated and on deposit for regulatory purposes in the consolidated balance sheets.
[2] Actual collateral was greater than or equal to the value of the related assets. At December 31, 2020 and 2019, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was $15.2 billion and $9.2 billion, respectively.
[3] Included in other assets in the consolidated balance sheets.
[4] 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, 2020 and 2019.
[5] Securities loaned are predominantly comprised of equity securities held in client brokerage accounts with overnight and continuous remaining contractual maturities.

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.

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 under such regulations and from securities borrowed transactions:

December 31,	2020	2019
Fair value of client securities available to be pledged	$ 84,006	$ 26,685
Fair value of securities pledged for:		
Fulfillment of requirements with the Options Clearing Corporation [1]	$ 10,222	$ 2,171
Fulfillment of client short sales	6,274	2,293
Securities lending to other broker-dealers	6,522	1,017
Total collateral pledged	$ 23,018	$ 5,481

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 $183 million as of December 31, 2020 and $142 million as of December 31, 2019.

[1] Securities pledged to fulfill client margin requirements for open option contracts established with the Options Clearing Corporation.

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, 2020 or 2019.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the fair value hierarchy for assets measured at fair value on a recurring basis. Liabilities recorded at fair value were not material, and therefore are not included in the following tables:

December 31, 2020	Level 1	Level 2	Level 3	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 11,159	$ —	$ —	$ 11,159
Total cash equivalents	11,159	—	—	11,159
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	550	—	550
U.S. Government securities	—	30,698	—	30,698
Total investments segregated and on deposit for regulatory purposes	—	31,248	—	31,248
Available for sale securities:				
U.S. agency mortgage-backed securities	—	290,353	—	290,353
Asset-backed securities	—	18,898	—	18,898
Corporate debt securities	—	12,796	—	12,796
U.S. Treasury securities	—	10,656	—	10,656
U.S. state and municipal securities	—	1,697	—	1,697
Foreign government agency securities	—	1,413	—	1,413
Non-agency commercial mortgage-backed securities	—	1,265	—	1,265
Certificates of deposit	—	300	—	300
Other	—	22	—	22
Total available for sale securities	—	337,400	—	337,400
Other assets:				
Equity and bond mutual funds	361	—	—	361
U.S. Government securities	—	253	—	253
State and municipal debt obligations	—	37	—	37
Equity, corporate debt, and other securities	7	29	—	36
Total other assets	368	319	—	687
Total	$ 11,527	$ 368,967	$ —	$ 380,494

December 31, 2019	Level 1	Level 2	Level 3	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 5,179	$ —	$ —	$ 5,179
Commercial paper	—	2,498	—	2,498
Total cash equivalents	5,179	2,498	—	7,677
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	1,351	—	1,351
U.S. Government securities	—	7,276	—	7,276
Total investments segregated and on deposit for regulatory purposes	—	8,627	—	8,627
Available for sale securities:				
U.S. agency mortgage-backed securities	—	46,155	—	46,155
Corporate debt securities	—	5,484	—	5,484
Asset-backed securities	—	4,987	—	4,987
U.S. Treasury securities	—	3,384	—	3,384
Certificates of deposit	—	1,004	—	1,004
Commercial paper	—	395	—	395
Non-agency commercial mortgage-backed securities	—	13	—	13
Total available for sale securities	—	61,422	—	61,422
Other assets:				
Equity and bond mutual funds	442	—	—	442
U.S. Government securities	—	202	—	202
State and municipal debt obligations	—	47	—	47
Equity, corporate debt, and other securities	5	22	—	27
Total other assets	447	271	—	718
Total	$ 5,626	$ 72,818	$ —	$ 78,444

Fair Value of Other Financial Instruments

The following tables present the fair value hierarchy for other financial instruments:

December 31, 2020	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets					
Cash and cash equivalents	$ 29,189	$ 29,189	$ —	$ —	$ 29,189
Cash and investments segregated and on deposit for regulatory purposes	19,143	4,212	14,931	—	19,143
Receivables from brokerage clients — net	64,436	—	64,436	—	64,436
Bank loans — net:					
First Mortgages	14,882	—	15,305	—	15,305
HELOCs	837	—	838	—	838
Pledged asset lines	7,916	—	7,916	—	7,916
Other	178	—	178	—	178
Total bank loans — net	23,813	—	24,237	—	24,237
Other assets	2,883	—	2,883	—	2,883
Liabilities					
Bank deposits	$ 358,022	$ —	$ 358,022	$ —	$ 358,022
Payables to brokerage clients	104,201	—	104,201	—	104,201
Accrued expenses and other liabilities	8,263	—	8,263	—	8,263
Long-term debt	13,626	—	14,829	—	14,829

December 31, 2019	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets					
Cash and cash equivalents	$ 21,668	$ 21,668	$ —	$ —	$ 21,668
Cash and investments segregated and on deposit for regulatory purposes	11,807	2,792	9,015	—	11,807
Receivables from brokerage clients — net	21,763	—	21,763	—	21,763
Held to maturity securities:					
U.S. agency mortgage-backed securities	109,325	—	110,566	—	110,566
Asset-backed securities	17,806	—	17,771	—	17,771
Corporate debt securities	4,661	—	4,718	—	4,718
U.S. state and municipal securities	1,301	—	1,404	—	1,404
Non-agency commercial mortgage-backed securities	1,119	—	1,141	—	1,141
U.S. Treasury securities	223	—	228	—	228
Certificates of deposit	200	—	200	—	200
Foreign government agency securities	50	—	50	—	50
Other	21	—	21	—	21
Total held to maturity securities	134,706	—	136,099	—	136,099
Bank loans — net:					
First Mortgages	11,693	—	11,639	—	11,639
HELOCs	1,113	—	1,153	—	1,153
Pledged asset lines	5,206	—	5,206	—	5,206
Other	200	—	200	—	200
Total bank loans — net	18,212	—	18,198	—	18,198
Other assets	1,014	—	1,014	—	1,014
Liabilities					
Bank deposits	$ 220,094	$ —	$ 220,094	$ —	$ 220,094
Payables to brokerage clients	39,220	—	39,220	—	39,220
Accrued expenses and other liabilities	1,882	—	1,882	—	1,882
Long-term debt	7,430	—	7,775	—	7,775

19. Stockholders' Equity

Effective 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, 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 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, 2020. 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.

CSC did not issue any shares of common stock through external offerings during 2019 or 2018.

On December 11, 2020, the Company issued and sold 2,500,000 depositary shares, each representing a 1/100th ownership interest in a share of 4.000% fixed-rate reset non-cumulative perpetual preferred stock, Series H, $.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 approximately $2.47 billion, after deducting the underwriting discount and offering expenses.

On April 30, 2020, the Company issued and sold 2,500,000 depositary shares, each representing a 1/100th ownership interest in a share of 5.375% fixed-rate reset non-cumulative perpetual preferred stock, Series G, $.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 approximately $2.47 billion, after deducting the underwriting discount and offering expenses.

On January 30, 2019, CSC publicly announced that its Board of Directors authorized a new 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 year ended December 31, 2020. During 2019, CSC repurchased 55 million shares of its common stock under this authorization for $2.2 billion.

On October 25, 2018, CSC publicly announced that its Board of Directors terminated the previous two share repurchase authorizations and replaced them with an authorization to repurchase up to $1.0 billion of common stock. CSC repurchased 22 million shares for $1.0 billion in 2018, completing all repurchases under this authorization.

CSC was authorized to issue 9,940,000 shares of preferred stock, $.01 par value, at December 31, 2020 and 2019. The following is a summary of CSC's non-cumulative perpetual preferred stock outstanding as of such dates:

	Shares Issued and Outstanding (in thousands) at December 31,			Carrying Value at December 31,						
	2020 [1]	2019 [1]	Liquidation Preference Per Share	2020	2019	Issue Date	Dividend Rate in Effect at December 31, 2020	Earliest Redemption Date	Date at Which Dividend Rate Becomes Floating or Resets	Floating Annual Rate of Three-Month LIBOR/ Term Five or Ten-Year Treasury plus [2,3]:
Fixed-rate:										
Series C	600	600	$ 1,000	$ 585	$ 585	08/03/15	6.000 %	12/01/20	N/A	N/A
Series D	750	750	1,000	728	728	03/07/16	5.950 %	06/01/21	N/A	N/A
Fixed-to-floating-rate/Fixed-rate reset:										
Series A	400	400	1,000	397	397	01/26/12	7.000 %	02/01/22	02/01/22	4.820 %
Series E	6	6	100,000	591	591	10/31/16	4.625 %	03/01/22	03/01/22	3.315 %
Series F	5	5	100,000	492	492	10/31/17	5.000 %	12/01/27	12/01/27	2.575 %
Series G	25	—	100,000	2,470	—	04/30/20	5.375 %	06/01/25	06/01/25	4.971 %
Series H	25	—	100,000	2,470	—	12/11/20	4.000 %	12/01/30	12/01/30	3.079 %
Total preferred stock	1,811	1,761		$ 7,733	$ 2,793					

[1] Represented by depositary shares, except for Series A.
[2] The Series G dividend rate resets on each five-year anniversary beginning on June 1, 2025 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 G is only redeemable on reset dates. The dividend rates for all other series of preferred stock, except for Series H, will float based on LIBOR.
[3] The Series H dividend rate resets on each ten-year anniversary beginning on December 1, 2030 based on a ten-year treasury rate, representing the average of the yields on actively traded U.S. treasury securities adjusted to constant maturity for ten-year maturities. Series H is only redeemable on dividend payment dates on or after the first reset date. The dividend rates for all other series of preferred stock, except for Series G, will float based on LIBOR.
N/A Not applicable.

Dividends declared on the Company's preferred stock are as follows:

Year Ended December 31,	2020		2019		2018	
	Total Declared (in millions)	Per Share Amount	Total Declared (in millions)	Per Share Amount	Total Declared (in millions)	Per Share Amount
Series A	$ 28.0	$ 70.00	$ 28.0	$ 70.00	$ 28.0	$ 70.00
Series C	36.0	60.00	36.0	60.00	36.0	60.00
Series D	44.6	59.52	44.6	59.52	44.6	59.52
Series E	27.8	4,625.00	27.8	4,625.00	27.8	4,625.00
Series F	25.0	5,000.00	25.0	5,000.00	27.2	5,430.56
Series G [1]	78.8	3,150.35	N/A	N/A	N/A	N/A
Series H [2]	N/A	N/A	N/A	N/A	N/A	N/A
Total	$ 240.2		$ 161.4		$ 163.6	

[1] Series G Preferred Stock was issued on April 30, 2020. Dividends are paid quarterly, and the first dividend was paid on September 1, 2020.
[2] Series H Preferred Stock was issued on December 11, 2020. Dividends are paid quarterly beginning on March 1, 2021.
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 preferred stock, as well as Series G and H, 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.

20. Accumulated Other Comprehensive Income

AOCI represents cumulative gains and losses that are not reflected in earnings. The components of other comprehensive income (loss) are as follows:

Year Ended December 31,	2020			2019			2018		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Change in net unrealized gain (loss) on available for sale securities:									
Net unrealized gain (loss)	$ 6,961	$(1,658)	$ 5,303	$ 430	$ (102)	$ 328	$ (123)	$ 30	$ (93)
Other reclassifications included in other revenue	(4)	1	(3)	(6)	1	(5)	—	—	—
Change in net unrealized gain (loss) on held to maturity securities:									
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	—	—	—	36	(9)	27	35	(8)	27
Other	8	(2)	6	(14)	4	(10)	(1)	—	(1)
Other comprehensive income (loss)	$ 6,965	$(1,659)	$ 5,306	$ 446	$ (106)	$ 340	$ (89)	$ 22	$ (67)

AOCI balances are as follows:

Balance at December 31, 2017
Adoption of accounting standards [1]
Available for sale securities:
Net unrealized gain (loss)
Held to maturity securities:
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale
Other
Balance at December 31, 2018
Available for sale securities:
Net unrealized gain (loss), excluding transfers to available for sale from held to maturity
Net unrealized gain on securities transferred to available for sale from held to maturity [2]
Other reclassifications included in other revenue
Held to maturity securities:
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale
Other
Balance at December 31, 2019
Available for sale securities:
Net unrealized gain (loss), excluding transfers to available for sale from held to maturity
Net unrealized gain on securities transferred to available for sale from held to maturity [3]
Other reclassifications included in other revenue
Other
Balance at December 31, 2020

[1] As part of the adoption of ASU 2018-02, "*Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*", we elected to reclassify the income tax effects of the Tax Cuts and Jobs Act from items in AOCI into retained earnings as of January 1, 2018.

[2] In the first quarter of 2019, the Company made an election to transfer a portion of its HTM securities to AFS as part of the adoption of ASU 2017-12. The transfer resulted in a net of tax increase to AOCI of $19 million. See Note 6 for additional discussion on the 2019 transfer of HTM securities to AFS.

[3] On January 1, 2020, the Company transferred all of its investment securities designated as HTM to the AFS category. The transfer resulted in a net of tax increase to AOCI of $1.1 billion. See Note 6 for additional discussion on the 2020 transfer of HTM securities to AFS.

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 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.

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.

A summary of share-based compensation expense and related income tax benefit is as follows:

Year Ended December 31,	2020	2019	2018
Stock option expense	$ 36	$ 51	$ 51
Restricted stock unit expense [1]	156	120	136
Employee stock purchase plan expense	12	12	10
Total share-based compensation expense	$ 204	$ 183	$ 197
Income tax benefit on share-based compensation expense [2]	$ (49)	$ (44)	$ (47)

[1] Restricted stock unit expense in 2018 includes $36 million related to special stock awards issued to non-officer employees.
[2] Excludes income tax benefits from stock options exercised and restricted stock units vested of $14 million, $23 million, and $46 million in 2020, 2019, and 2018, respectively.

The Company issues shares for stock options and restricted stock units from treasury stock. At December 31, 2020, the Company was authorized to grant up to 62 million common shares under its existing stock incentive plans. Additionally, at December 31, 2020, the Company had 32 million shares reserved for future issuance under its employee stock purchase plan.

As of December 31, 2020, there was $289 million of total unrecognized compensation cost related to outstanding stock options and restricted stock units, which is expected to be recognized through 2024 with a remaining weighted-average service period of 0.9 years for stock options, 2.2 years for restricted stock units, and 0.4 years for performance-based stock units.

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.

Stock option activity is summarized below:

	Number of Options (In millions)	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2019	26	$ 32.10	5.75	$ 403
Converted TD Ameritrade stock options	1	25.81		
Granted	1	41.45		
Exercised	(4)	23.10		
Forfeited [1]	—	44.04		
Expired [1]	—	43.83		
Outstanding at December 31, 2020	24	$ 33.67	5.36	$ 452
Vested and expected to vest at December 31, 2020	24	$ 33.67	5.36	$ 452
Vested and exercisable at December 31, 2020	19	$ 30.51	4.64	$ 414

[1] 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,	2020	2019	2018
Weighted-average fair value of options granted per share	$ 11.56	$ 11.97	$ 14.16
Cash received from options exercised	79	118	125
Tax benefit realized on options exercised	11	17	35
Aggregate intrinsic value of options exercised	71	108	189

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,	2020	2019	2018
Weighted-average expected dividend yield	2.08 %	1.85 %	1.42 %
Weighted-average expected volatility	36 %	30 %	33 %
Weighted-average risk-free interest rate	1.0 %	2.5 %	3.0 %
Expected life (in years)	4.3 - 5.9	4.2 - 5.9	4.0 - 5.2

Restricted Stock Units

Restricted stock units are awards that entitle the holder to receive shares of CSC's common stock following a vesting period. Restricted stock units are restricted from transfer or sale and generally vest annually over a one- to four-year period, while performance-based restricted stock units also require the Company 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 grant date fair value is amortized to compensation expense on a straight-line basis over the requisite service period. The fair value of the restricted stock units that vested during each of the years 2020, 2019, and 2018 was $175 million, $123 million, and $166 million, respectively.

The Company's restricted stock units activity is summarized below:

	Number of Units (In millions)	Weighted-Average Grant Date Fair Value per Unit
Outstanding at December 31, 2019	8	$ 42.93
Converted TD Ameritrade restricted stock units	4	36.94
Granted	3	39.26
Vested	(5)	39.78
Forfeited [1]	—	41.13
Outstanding at December 31, 2020	10	$ 40.85

[1] 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 $136 million, $118 million, and $105 million in 2020, 2019, and 2018, 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 $176 million and $164 million at December 31, 2020 and 2019, respectively.

Effective upon the completion of the TD Ameritrade acquisition on October 6, 2020, TD Ameritrade's 401(k) and deferred profit-sharing plans were terminated and TD Ameritrade employees were eligible to participate in the SchwabPlan Retirement Savings and Investment Plan. As of December 31, 2020, there were no TD Ameritrade participants in Schwab's deferred compensation plan.

FC Career Achievement Plan

The FC career achievement plan is a noncontributory, unfunded, nonqualified plan for eligible FCs. An FC 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 an FC 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,	2020	2019
Projected benefit obligation at beginning of year	$ 83	$ 56
Benefit cost [1]	17	13
Actuarial (gain)/loss [2]	(8)	14
Projected benefit obligation at end of year [3]	$ 92	$ 83

[1] Includes service cost and interest cost, which are recognized in compensation and benefits expense and other expense, respectively, in the consolidated statements of income.
[2] Actuarial (gain)/loss is reflected in the consolidated statements of comprehensive income and is included in AOCI on the consolidated balance sheets.
[3] This amount is recognized as a liability in accrued expenses and other liabilities on the consolidated balance sheets.

22. Taxes on Income

The components of taxes on income are as follows:

Year Ended December 31,	2020	2019	2018
Current:			
Federal	$ 967	$ 958	$ 847
State	172	184	159
Total current	1,139	1,142	1,006
Deferred:			
Federal	(113)	3	42
State	(25)	(1)	7
Total deferred	(138)	2	49
Taxes on income	$ 1,001	$ 1,144	$ 1,055

The temporary differences that created deferred tax assets and liabilities are detailed below:

December 31,	2020	2019
Deferred tax assets:		
Employee compensation, severance, and benefits	$ 271	$ 154
Operating lease liabilities	249	159
Reserves and allowances	70	14
Debt fair value remeasurement	67	—
State and local taxes	37	22
Net operating loss carryforwards	8	6
Total deferred tax assets	702	355
Valuation allowance	(8)	(3)
Deferred tax assets — net of valuation allowance	694	352
Deferred tax liabilities:		
Amortization of acquired intangible assets	(1,954)	(51)
Net unrealized gain on available for sale securities	(1,686)	(28)
Operating lease ROU assets	(233)	(146)
Capitalized internal-use software development costs	(101)	(97)
Capitalized contract costs	(72)	(68)
Equipment, office facilities, and property	(69)	(62)
Other	(41)	(10)
Total deferred tax liabilities	(4,156)	(462)
Deferred tax asset/(liability) — net [1]	$ (3,462)	$ (110)

[1] Amounts are included in accrued expenses and other liabilities on the consolidated balance sheets at December 31, 2020 and 2019.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

Year Ended December 31,	2020	2019	2018
Federal statutory income tax rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal tax benefit	3.2	3.2	3.0
Equity compensation benefit	(0.3)	(0.5)	(1.0)
Other	(0.6)	(0.1)	0.1
Effective income tax rate	23.3 %	23.6 %	23.1 %

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

December 31,	2020	2019
Balance at beginning of year	$ 101	$ 112
Additions for tax positions related to the current year	15	3
Additions for tax positions related to prior years	3	4
Additions for current year acquisitions	200	—
Reductions for tax positions related to prior years	(7)	(2)
Reductions due to lapse of statute of limitations	(24)	(14)
Reductions for settlements with tax authorities	(40)	(2)
Balance at end of year	$ 248	$ 101

Unrecognized tax benefits totaled $248 million and $101 million as of December 31, 2020 and 2019, respectively, $202 million and $97 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, 2020 and 2019, we had accrued approximately $58 million and $11 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 2019 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. During 2020, CSB, CSC's primary depository institution subsidiary, converted to a Texas-chartered state savings bank and became a member of the Federal Reserve system. CSB is subject to examination, supervision, and regulation by the Federal Reserve, the TDSML, the FDIC as its deposit insurer, and the CFPB. 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, CSB is required to provide notice to and may be required to obtain approval of the Federal Reserve and the TDSML to declare dividends to CSC. The federal banking agencies have broad powers to enforce these 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, 2020, both CSC and CSB met all of their respective capital requirements.

The regulatory capital and ratios for CSC (consolidated) and CSB are as follows:

	Actual [1]		Minimum to be Well Capitalized		Minimum Capital Requirement	
December 31, 2020	Amount	Ratio	Amount	Ratio	Amount	Ratio [2]
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 22,916	18.5 %	N/A		$ 5,575	4.5 %
Tier 1 Risk-Based Capital	30,649	24.7 %	N/A		7,433	6.0 %
Total Risk-Based Capital	30,688	24.8 %	N/A		9,910	8.0 %
Tier 1 Leverage	30,649	6.3 %	N/A		19,396	4.0 %
Supplementary Leverage Ratio	30,649	6.2 %	N/A		14,744	3.0 %
CSB						
Common Equity Tier 1 Risk-Based Capital	$ 17,526	19.2 %$	5,919	6.5 %$	4,098	4.5 %
Tier 1 Risk-Based Capital	17,526	19.2 %	7,285	8.0 %	5,464	6.0 %
Total Risk-Based Capital	17,558	19.3 %	9,106	10.0 %	7,285	8.0 %
Tier 1 Leverage	17,526	5.5 %	15,979	5.0 %	12,783	4.0 %
Supplementary Leverage Ratio	17,526	5.4 %	N/A	N/A	9,763	3.0 %
December 31, 2019						
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 17,660	19.5 %	N/A		$ 4,073	4.5 %
Tier 1 Risk-Based Capital	20,453	22.6 %	N/A		5,431	6.0 %
Total Risk-Based Capital	20,472	22.6 %	N/A		7,241	8.0 %
Tier 1 Leverage	20,453	7.3 %	N/A		11,189	4.0 %
Supplementary Leverage Ratio	20,453	7.1 %	N/A		8,604	3.0 %
CSB						
Common Equity Tier 1 Risk-Based Capital	$ 14,819	20.7 %$	4,649	6.5 %$	3,218	4.5 %
Tier 1 Risk-Based Capital	14,819	20.7 %	5,722	8.0 %	4,291	6.0 %
Total Risk-Based Capital	14,837	20.7 %	7,152	10.0 %	5,722	8.0 %
Tier 1 Leverage	14,819	7.1 %	10,486	5.0 %	8,389	4.0 %
Supplementary Leverage Ratio	14,819	6.8 %	N/A	N/A	6,497	3.0 %

[1] In the interagency regulatory capital and liquidity rules adopted in October 2019, Category III banking organizations such as CSC were given the ability to opt-out of the inclusion of AOCI in regulatory capital, and CSC made this opt-out election as of January 1, 2020. Therefore, AOCI is excluded from the amounts and ratios presented as of December 31, 2020. In 2019, CSC and CSB were required to include all components of AOCI in regulatory capital; the amounts and ratios for December 31, 2019 are presented on this basis.

[2] Under the Basel III capital rule, CSC and CSB are also required to maintain a capital conservation buffer and a countercyclical capital buffer above the regulatory minimum risk-based capital ratios. The capital conservation buffer and countercyclical buffer were 2.5% and zero percent, respectively, for both periods presented. If either buffer falls below the minimum requirement, the Company would be subject to limits on capital distributions and discretionary bonus payments to executive officers. At December 31, 2020, the minimum capital requirement plus capital conservation buffer and countercyclical capital buffer for Common Equity Tier 1 Risk-Based Capital, Tier 1 Risk-Based Capital, and Total Risk-Based Capital ratios were 7.0%, 8.5%, and 10.5%, respectively.

N/A Not applicable.

Based on its regulatory capital ratios at December 31, 2020, CSB is considered well capitalized (the highest category) under its respective regulatory capital rules. There are no conditions or events since December 31, 2020 that management believes have changed CSB's capital category.

Effective March 26, 2020, the Federal Reserve eliminated a requirement that depository institutions maintain reserve balances at the Federal Reserve based on deposits considered to be transaction accounts. CSB's average required reserve pursuant to this regulation was $1.5 billion in 2019. In 2018, the Company established Charles Schwab Trust Bank (Trust Bank) as a Nevada state-chartered savings bank to provide certain trust and custody services. At

December 31, 2020, the balance sheets of CSPB and Trust Bank consisted primarily of investment securities, and the entities held total assets of $31.6 billion and $12.5 billion, respectively. Based on their regulatory capital ratios, at December 31, 2020, CSPB and Trust Bank are considered well capitalized under their respective regulatory capital rules.

During 2020, CS&Co registered as an FCM with the CFTC, and subsequently, Charles Schwab Futures, Inc., a wholly-owned subsidiary of CSC, transferred its futures business and all of its assets and liabilities to CS&Co. This transfer was accounted for as a common control transaction and did not have an impact on the consolidated financial statements.

As a securities broker-dealer, CS&Co is subject to the SEC's Uniform Net Capital Rule, and as an FCM, CS&Co is also subject to net capital requirements under CFTC Regulation 1.17 under the Commodity Exchange Act. CS&Co computes 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 CS&Co. CFTC Regulation 1.17 requires maintenance of adjusted net capital equal to or in excess of the greater of (1) $1.0 million; (2) its futures risk-based capital requirement, equal to 8% of the total risk margin requirement for all futures positions carried by the FCM in client and nonclient accounts; (3) the amount of adjusted net capital required by a registered futures association of which it is a member; or (4) for securities brokers and dealers, the amount of net capital required by the Uniform Net Capital Rule.

Certain subsidiaries of TDA Holding are subject to regulatory capital requirements, including TDAC and TD Ameritrade, Inc. TDAC and TD Ameritrade, Inc. are subject to the SEC's Uniform Net Capital Rule and compute net capital under the alternative method. TDAC is required to maintain net capital of the greater of $1.5 million, which is based on the type of business conducted by the broker-dealer, or 2% of aggregate debit balances arising from client transactions. TD Ameritrade, Inc. is required to maintain minimum net capital, as defined, as the greater of 2% of aggregate debit balances arising from client transactions or a minimum dollar requirement of $250,000, 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,	2020	2019
CS&Co		
Net capital	$ 3,117	$ 3,700
Minimum dollar requirement	1.000	0.250
2% of aggregate debit balances	616	446
Net capital in excess of required net capital	$ 2,501	$ 3,254
TDAC		
Net capital	$ 4,040	N/A
Minimum dollar requirement	1.500	N/A
2% of aggregate debit balances	748	N/A
Net capital in excess of required net capital	$ 3,292	N/A
TD Ameritrade, Inc.		
Net capital	$ 350	N/A
Minimum dollar requirement	0.250	N/A
2% of aggregate debit balances	—	N/A
Net capital in excess of required net capital	$ 350	N/A

N/A Not applicable. Net capital amounts and requirements are not presented for TDAC and TD Ameritrade, Inc. prior to the acquisition of TD Ameritrade.

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, 2020. 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, 2020 for CS&Co totaled $39.2 billion and for TDAC totaled $14.5 billion. As of January 5, 2021, CS&Co had deposited $4.8 billion of cash and qualified securities into its segregated reserve

accounts. As of January 4, 2021, TDAC had withdrawn $164 million of cash and qualified securities from its segregated reserve accounts. Cash and investments required to be segregated and on deposit for regulatory purposes at December 31, 2019 for CS&Co totaled $23.0 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 and banking 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 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 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:

	Investor Services			Advisor Services			Total		
Year Ended December 31,	2020	2019	2018	2020	2019	2018	2020	2019	2018
Net Revenues									
Net interest revenue	$ 4,391	$ 4,685	$ 4,341	$ 1,722	$ 1,831	$ 1,482	$ 6,113	$ 6,516	$ 5,823
Asset management and administration fees	2,544	2,289	2,260	931	922	969	3,475	3,211	3,229
Trading revenue [1]	1,156	503	604	260	249	298	1,416	752	902
Bank deposit account fees	255	—	—	100	—	—	355	—	—
Other [1]	262	146	116	70	96	62	332	242	178
Total net revenues	8,608	7,623	7,321	3,083	3,098	2,811	11,691	10,721	10,132
Expenses Excluding Interest	5,529	4,284	4,145	1,862	1,589	1,425	7,391	5,873	5,570
Income before taxes on income	$ 3,079	$ 3,339	$ 3,176	$ 1,221	$ 1,509	$ 1,386	$ 4,300	$ 4,848	$ 4,562
Capital expenditures	$ 535	$ 507	$ 390	$ 206	$ 246	$ 186	$ 741	$ 753	$ 576
Depreciation and amortization [2]	$ 288	$ 216	$ 158	$ 126	$ 106	$ 119	$ 414	$ 322	$ 277
Amortization of acquired intangible assets [2]	$ 149	$ 26	$ 28	$ 41	$ 1	$ 1	$ 190	$ 27	$ 29

(1) Beginning in 2020, order flow revenue was reclassified from other revenue to trading revenue. Prior period amounts have been reclassified to reflect this change.

(2) Beginning in 2020, amortization of acquired intangible assets was reclassified from depreciation and amortization. Prior periods have been reclassified to reflect this change.

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 year ended December 31, 2020, 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.

EPS under the basic and diluted computations for both common stock and nonvoting common stock are as follows:

Year Ended December 31,	2020		2019		2018	
	Common Stock	Common Stock – Nonvoting [1]	Common Stock	Common Stock – Nonvoting [1]	Common Stock	Common Stock – Nonvoting [1]
Basic earnings per share:						
Numerator						
Net income	$ 3,255	$ 44	$ 3,704	N/A	$ 3,507	N/A
Preferred stock dividends and other [2]	(253)	(3)	(178)	N/A	(178)	N/A
Net income available to common stockholders	$ 3,002	$ 41	$ 3,526	N/A	$ 3,329	N/A
Denominator						
Weighted-average common shares outstanding — basic	1,410	19	1,311	N/A	1,348	N/A
Basic earnings per share	$ 2.13	$ 2.13	$ 2.69	N/A	$ 2.47	N/A
Diluted earnings per share:						
Numerator						
Net income available to common stockholders	$ 3,002	$ 41	$ 3,526	N/A	$ 3,329	N/A
Reallocation of net income available to common stockholders as a result of conversion of nonvoting to voting shares	41	—	N/A	N/A	N/A	N/A
Allocation of net income available to common stockholders:	$ 3,043	$ 41	$ 3,526	N/A	$ 3,329	N/A
Denominator						
Weighted-average common shares outstanding — basic	1,410	19	1,311	N/A	1,348	N/A
Conversion of nonvoting shares to voting shares	19	—	N/A	N/A	N/A	N/A
Common stock equivalent shares related to stock incentive plans	6	—	9	N/A	13	N/A
Weighted-average common shares outstanding — diluted [3]	1,435	19	1,320	N/A	1,361	N/A
Diluted earnings per share	$ 2.12	$ 2.12	$ 2.67	N/A	$ 2.45	N/A

(1) Nonvoting common stock was issued on October 6, 2020 in conjunction with the acquisition of TD Ameritrade. As such, nonvoting common stock is not applicable for the basic and diluted EPS computations in 2019 and 2018.

(2) Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

(3) Antidilutive stock options and restricted stock units excluded from the calculation of diluted EPS totaled 22 million, 21 million, and 18 million in 2020, 2019, and 2018, respectively.

N/A Not applicable.

26. The Charles Schwab Corporation – Parent Company Only Financial Statements

Condensed Statements of Income

Year Ended December 31,	2020	2019	2018
Interest revenue	$ 38	$ 119	$ 88
Interest expense	(273)	(248)	(184)
Net interest expense	(235)	(129)	(96)
Trading revenue	1	—	—
Other revenue	(1)	(1)	1
Expenses Excluding Interest:			
Professional services	(68)	(24)	(6)
Other expenses excluding interest	(85)	(83)	(79)
Loss before income tax benefit and equity in net income of subsidiaries	(388)	(237)	(180)
Income tax benefit/(expense)	45	(9)	20
Loss before equity in net income of subsidiaries	(343)	(246)	(160)
Equity in net income of subsidiaries:			
Equity in undistributed net income/(distributions in excess of net income) of subsidiaries	2,476	(1,198)	2,590
Dividends from bank subsidiaries	—	4,915	750
Dividends from non-bank subsidiaries	1,166	233	327
Net Income	3,299	3,704	3,507
Preferred stock dividends and other [1]	256	178	178
Net Income Available to Common Stockholders	$ 3,043	$ 3,526	$ 3,329

[1] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

Condensed Balance Sheets

December 31,	2020	2019
Assets		
Cash and cash equivalents	$ 4,654	$ 2,839
Receivables from subsidiaries	1,260	1,085
Available for sale securities	4,982	1,743
Held to maturity securities	—	224
Investment in non-bank subsidiaries	29,550	7,090
Investment in bank subsidiaries	25,548	16,325
Other assets	371	304
Total assets	$ 66,365	$ 29,610
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	$ 458	$ 430
Payables to subsidiaries	34	5
Long-term debt	9,813	7,430
Total liabilities	10,305	7,865
Stockholders' equity	56,060	21,745
Total liabilities and stockholders' equity	$ 66,365	$ 29,610

Condensed Statements of Cash Flows

Year Ended December 31,	2020	2019	2018
Cash Flows from Operating Activities			
Net income	$ 3,299	$ 3,704	$ 3,507
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Dividends in excess of (equity in undistributed) earnings of subsidiaries	(2,476)	1,198	(2,590)
Other	41	9	13
Net change in:			
Other assets	(65)	57	(5)
Accrued expenses and other liabilities	34	34	28
Net cash provided by (used for) operating activities	833	5,002	953
Cash Flows from Investing Activities			
Due from (to) subsidiaries — net	46	(122)	408
Increase in investments in subsidiaries	(2,172)	(1,783)	(1,188)
Repayments (Advances) of subordinated loan to CS&Co	—	185	(185)
Purchases of available for sale securities	(5,397)	(1,141)	(1,751)
Proceeds from sales of available for sale securities	2	181	—
Principal payments on available for sale securities	2,395	994	573
Other investing activities	—	—	(5)
Net cash provided by (used for) investing activities	(5,126)	(1,686)	(2,148)
Cash Flows from Financing Activities			
Issuance of long-term debt	3,070	593	3,024
Repayment of long-term debt	(700)	—	(900)
Repurchases of common stock	—	(2,220)	(1,000)
Net proceeds from preferred stock offerings	4,940	—	—
Dividends paid	(1,280)	(1,060)	(787)
Proceeds from stock options exercised and other	79	118	125
Other financing activities	(1)	—	—
Net cash provided by (used for) financing activities	6,108	(2,569)	462
Increase (Decrease) in Cash and Cash Equivalents	1,815	747	(733)
Cash and Cash Equivalents at Beginning of Year	2,839	2,092	2,825
Cash and Cash Equivalents at End of Year	$ 4,654	$ 2,839	$ 2,092

27. Quarterly Financial Information (Unaudited)

	Fourth Quarter [1]	Third Quarter	Second Quarter	First Quarter
Year Ended December 31, 2020:				
Total net revenues	$ 4,176	$ 2,448	$ 2,450	$ 2,617
Total expenses excluding interest	$ 2,700	$ 1,559	$ 1,562	$ 1,570
Net income	$ 1,135	$ 698	$ 671	$ 795
Net income available to common stockholders	$ 1,050	$ 615	$ 621	$ 757
Weighted-average common shares outstanding — Basic	1,848	1,289	1,288	1,287
Weighted-average common shares outstanding — Diluted	1,855	1,294	1,294	1,294
Earnings per common share — Basic [2]	$ .57	$ .48	$ .48	$ .59
Earnings per common share — Diluted [2]	$ .57	$ .48	$ .48	$ .58
Dividends declared per common share	$ .18	$ .18	$ .18	$ .18
Year Ended December 31, 2019:				
Total net revenues	$ 2,606	$ 2,711	$ 2,681	$ 2,723
Total expenses excluding interest	$ 1,494	$ 1,475	$ 1,445	$ 1,459
Net income	$ 852	$ 951	$ 937	$ 964
Net income available to common stockholders	$ 801	$ 913	$ 887	$ 925
Weighted-average common shares outstanding — Basic	1,284	1,300	1,328	1,333
Weighted-average common shares outstanding — Diluted	1,293	1,308	1,337	1,344
Earnings per common share — Basic	$ .62	$ .70	$ .67	$ .69
Earnings per common share — Diluted	$ .62	$ .70	$ .66	$ .69
Dividends declared per common share	$ .17	$ .17	$ .17	$ .17

[1] The fourth quarter of 2020 includes TD Ameritrade in our consolidated results of operations and financial condition starting on the acquisition date, October 6, 2020. Refer to Item 8 – Note 3 for further information regarding the acquisition of TD Ameritrade.

[2] For the fourth quarter of 2020, the Company had 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.

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, 2020 and 2019, 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, 2020, 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

As described in *Management's Report on Internal Control Over Financial Reporting*, management excluded from its assessment the internal control over financial reporting at TD Ameritrade Holding Corporation and its consolidated subsidiaries (TD Ameritrade), which was acquired on October 6, 2020, and whose financial information constitute 14% of the Company's total assets, 15% of revenues, and 18% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2020. Accordingly, our audit did not include the internal control over financial reporting at TD Ameritrade.

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 Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate 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 matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Asset Management and Administration Fees (AMAF) – Refer to Note 4 to the financial statements

Critical Audit Matter Description

Certain revenues included in asset management and administrative fees are generated through third-party mutual fund and exchange-traded funds (ETF) offerings, as well as fee-based advisory solutions. These AMAF 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 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.

Purchase Price Accounting for the TD Ameritrade Acquisition – Client Relationship Intangible Asset – Refer to Note 3 to the financial statements

Critical Audit Matter Description

On October 6, 2020, the Company completed the acquisition of TD Ameritrade for approximately $22 billion in common stock. 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 estimated fair values as of the date of acquisition, including client relationship intangible assets of $8.7 billion. The estimated fair value of client relationships were estimated using the multi-period excess earnings method. The multi-period excess earnings method starts

with a forecast of all of the expected future net cash flows associated with the asset. The forecast is then adjusted to present value by applying an appropriate discount rate that reflects the risks associated with the cash flow stream.

Given the fair value determination of client relationship intangible assets requires management to make significant estimates and assumptions related to the determination of net future cash flows, and the selection of the respective discount rates, performing audit procedures to evaluate the reasonableness of these estimates and assumptions required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the determination of net future cash flows and the selection of the discount rate relating to the client relationship intangible assets included the following, among others:

- We tested the operating effectiveness of internal controls over the determination of forecasted net future cash flows, selection of the discount rate and the valuation methodology used.
- We assessed the knowledge, skill, ability and objectivity of management's valuation specialist and evaluated the work performed.
- With the assistance of our valuation specialists, we evaluated the reasonableness of (1) the valuation methodologies used and (2) discount rate by:
    - Testing the source information underlying the determination of the discount rate and testing the mathematical accuracy of the calculation.
    - Developing a range of independent estimates of the discount rate and comparing to the discount rate utilized by management.
- When assessing the reasonableness of assumptions related to net future cash flows for client relationship intangible assets, we evaluated whether the assumptions used were reasonable considering the past performance of the acquired company and the Company's strategic plan going forward.
- We evaluated whether the assumptions used to estimate net future cash flows were consistent with evidence obtained in other areas of the audit.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
February 24, 2021

We have served as the Company's auditor since 1976.

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, 2020, 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. As permitted by Securities and Exchange Commission Staff guidance, this assessment has excluded TD Ameritrade Holding Corporation and its consolidated subsidiaries (TD Ameritrade), as described below. Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2020.

Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade. Due to the significance of the acquisition and the complexity of TD Ameritrade's systems and business processes, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2020 excludes TD Ameritrade from that assessment. TD Ameritrade's assets represented approximately 14% of the Company's consolidated total assets as of December 31, 2020, and its revenues and net income for the period from the acquisition through December 31, 2020 represented approximately 15% and 18%, respectively, of the Company's consolidated total net revenues and net income for the year ended December 31, 2020.

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, 2020, 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, 2020. 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, 2020.

Changes in internal control over financial reporting: Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade. In conducting its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, as permitted by the Securities and Exchange Commission Staff guidance, management has elected to exclude TD Ameritrade from that assessment. TD Ameritrade's assets represented approximately 14% of the Company's consolidated total assets as of December 31, 2020, and its revenues and net income for the period from the acquisition through December 31, 2020 represented approximately 15% and 18%, respectively, of the Company's consolidated total net revenues and net income for the year ended December 31, 2020. As of December 31, 2020, management is in the process of integrating TD Ameritrade into the Company's internal control over financial reporting.

Other than as discussed above, there were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, during our most recently completed fiscal quarter that materially affected or are reasonably likely to materially affect our 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.

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, 2021 (the Proxy Statement) under "Members of the Board of Directors," "Board Structure and Committees," and "Director Nominations." 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, 2020.

Executive Officers of the Registrant

Name	Age	Title
Charles R. Schwab	83	Chairman of the Board
Walter W. Bettinger II	60	President and Chief Executive Officer
Bernard J. Clark	62	Executive Vice President – Advisor Services
Jonathan M. Craig	49	Senior Executive Vice President
Peter B. Crawford	52	Executive Vice President and Chief Financial Officer
Joseph R. Martinetto	58	Senior Executive Vice President and Chief Operating Officer
Peter J. Morgan III	56	Executive Vice President, General Counsel and Corporate Secretary
Nigel J. Murtagh	57	Executive Vice President – Corporate Risk

Mr. Schwab has been Chairman of the Board and a director of CSC since its incorporation in 1986. 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. Schwab is also Chairman of CSB.

Mr. Bettinger has been President and Chief Executive Officer of CSC since 2008. He serves on the Board of Directors of CSC, CSB, and TD Ameritrade Holding Corporation, and is Chairman of CS&Co, as well 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 President and Chief Operating Officer of CSC 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. Clark has been Executive Vice President – Advisor Services of CSC since 2012. Mr. Clark has served as Executive Vice President – Advisor Services of CS&Co since 2010. 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 Senior Executive Vice President of CSC and CS&Co since 2018. He served as Executive Vice President – Client and Marketing Solutions for CSC from 2017 until 2018 and served as Executive Vice President and Chief Marketing Officer of CS&Co from 2012 until 2018. Mr. Craig joined Schwab in 2000.

Mr. Crawford has been Executive Vice President 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 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 Senior Executive Vice President of CSC and CS&Co since 2015, 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; he served on the Board of Directors of CSB from 2010 until 2020. Additionally, Mr. Martinetto is 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.

Mr. Morgan has served as Executive Vice President, General Counsel and Corporate Secretary of CSC since 2019. He also serves as Executive Vice President & Corporate Secretary of CS&Co; he was Senior Vice President and Deputy General Counsel of CS&Co from 2009 to January 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 Executive Vice President – Corporate Risk and Chief Risk Officer since 2012. 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 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 under "Compensation Discussion and Analysis," "Executive Compensation Tables – 2020 Summary Compensation Table," "Executive Compensation Tables – 2020 Grants of Plan-Based Awards Table," "Executive Compensation Tables – Narrative to Summary Compensation and Grants of Plan-Based Awards Tables," "Executive Compensation Tables – 2020 Termination and Change in Control Benefits Table," "Executive Compensation Tables – Outstanding Equity Awards as of December 31, 2020," "Executive Compensation Tables – 2020 Option Exercises and Stock Vested Table," "Executive Compensation Tables – 2020 Nonqualified Deferred Compensation Table," "Director Compensation," and "Compensation Committee Interlocks and Insider Participation." 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 under "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans."

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 under "Transactions with Related Persons" and "Director Independence."

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 under "Auditor Fees."

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.
3.14	Fourth Restated Bylaws, as amended on January 27, 2010, of the Registrant, filed as Exhibit 3.14 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.14(i)	Amendment to Fourth Restated Bylaws of the Registrant, effective January 1, 2021, filed as Exhibit 3.2 to the Registrant's Form 8-K dated October 2, 2020, and incorporated herein by reference.
3.15	Certificate of Designations of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A, of The Charles Schwab Corporation, filed as Exhibit 3.15 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.17	Certificate of Designations of 6.00% Non-Cumulative Perpetual Preferred Stock, Series C, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated August 3, 2015, 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.
3.19	Certificate of Designations of 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 October 31, 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.
4.2	Deposit Agreement, dated August 3, 2015, 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 August 3, 2015 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.
4.4	Deposit Agreement, dated October 31, 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 October 31, 2016, and incorporated herein by reference.

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
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.	
4.8	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.	
4.9	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.	
10.271	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)
10.338	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)
10.349	The Charles Schwab Severance Pay Plan, as Amended and Restated Effective May 1, 2012, filed as Exhibit 10.349 to the Registrant's Form 10-Q for the quarter ended June 30, 2017, and incorporated herein by reference.	(2)
10.362	The Charles Schwab Corporation Directors' Deferred Compensation Plan II, as amended and restated as of April 24, 2013, filed as Exhibit 10.362 to the Registrant's Form 10-K for the year ended December 31, 2018, and incorporated herein by reference.	(2)
10.385	The Charles Schwab Corporation Deferred Compensation Plan II, as amended and restated as of December 13, 2017, filed as Exhibit 10.385 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)
10.391	2013 Stock Incentive Plan, as amended and restated, filed as Exhibit 10.391 to the Registrant's Form 8-K dated May 15, 2018, and incorporated herein by reference.	(2)

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
10.395	Credit Agreement (364 – Day Commitment) dated as of May 31, 2019, between the Registrant and financial institutions therein, filed as Exhibit 10.395 to the Registrant's Form 10-Q for the quarter ended June 30, 2019, and incorporated herein by reference.	
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)
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 Registrant's 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.	
10.408	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)
10.409	Summary of Non-Employee Director Compensation, filed as Exhibit 10.409 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 (supersedes Exhibit 10.391), filed as Exhibit 10.410 to the Registrant's Form 8-K dated May 12, 2020, and incorporated herein by reference.	(2)
10.411	Credit Agreement (364 – Day Commitment) dated as of May 29, 2020, between the Registrant and financial institutions therein (supersedes Exhibit 10.395), filed as Exhibit 10.411 to the Registrant's Form 10-Q for the quarter ended June 30, 2020, and incorporated herein by reference.	

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
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 (supersedes Exhibit 10.397), 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 (supersedes Exhibit 10.398), 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 (supersedes Exhibit 10.399), 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)
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 (supersedes Exhibit 10.401), 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)
10.416	Credit Agreement, dated April 21, 2017, among TD Ameritrade Holding Corporation, the lenders party thereto, U.S. Bank National Association, as syndication agent, Barclays Bank PLC, TD Securities (USA) LLC and Wells Fargo Securities, LLC, as co-documentation agents and JPMorgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.1 to TD Ameritrade Holding Corporation's Form 8-K dated April 21, 2017, and incorporated herein by reference.	
10.417	First Amendment, dated as of August 3, 2020, to Credit Agreement dated April 21, 2017, among TD Ameritrade Holding Corporation, the lenders party thereto and JP Morgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.1 to TD Ameritrade Holding Corporation's Form 8-K dated August 3, 2020, and incorporated herein by reference.	
10.418	Credit Agreement, dated April 21, 2017, among TD Ameritrade Clearing, Inc., the lenders party thereto, U.S. Bank National Association, as syndication agent, Barclays Bank PLC, TD Securities (USA) LLC and Wells Fargo Securities, LLC, as co-documentation agents and JPMorgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.2 to TD Ameritrade Holding Corporation's Form 8-K dated April 21, 2017, and incorporated herein by reference.	
10.419	First Amendment, dated May 17, 2018, to Credit Agreement, dated April 21, 2017, among TD Ameritrade Clearing, Inc., the lenders party thereto, U.S. Bank National Association, as syndication agent, Barclays Bank PLC, TD Securities (USA) LLC, Wells Fargo Securities, LLC, and Industrial and Commercial Bank of China Ltd., New York Branch, as co-documentation agents and JPMorgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.2 to TD Ameritrade Holding Corporation's Form 8-K dated May 17, 2018, and incorporated herein by reference.	
10.420	Second Amendment, dated as of August 3, 2020, to Credit Agreement dated April 21, 2017, among TD Ameritrade Clearing, Inc., the lenders party thereto and JP Morgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.2 to TD Ameritrade Holding Corporation's Form 8-K dated August 3, 2020, and incorporated herein by reference.	
10.421	Credit Agreement, dated May 16, 2019, among TD Ameritrade Clearing, Inc., the lenders parties thereto, Wells Fargo Securities, LLC, Barclays Bank PLC, Citibank, N.A., JPMorgan Chase Bank, N.A., U.S. Bank National Association, TD Securities (USA) LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley Senior Funding, Inc., as joint bookrunners and joint lead arrangers, and Wells Fargo Bank, National Association, as administrative agent, filed as Exhibit 10.1 to TD Ameritrade Holding Corporation's Form 8-K dated May 15, 2019, and incorporated herein by reference.	
10.422	First Amendment, dated as of April 21, 2020, to Credit Agreement dated May 16, 2019, among TD Ameritrade Clearing, Inc., the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, filed as Exhibit 10.1 to TD Ameritrade Holding Corporation's Form 8-K dated April 21, 2020, and incorporated herein by reference.	
10.423	The Charles Schwab Corporation Deferred Compensation Plan II, as amended and restated as of December 8, 2020 (supersedes Exhibit 10.385).	(2)
21.1	Subsidiaries of the Registrant.	
23.1	Independent Registered Public Accounting Firm's Consent.	

Exhibit Number	Exhibit	
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)
101.PRE	Inline XBRL Taxonomy Extension Presentation	(3)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	
(1)	*Furnished as an exhibit to this annual report on Form 10-K.*	
(2)	*Management contract or compensatory plan.*	
(3)	*Attached as Exhibit 101 to this Annual Report on Form 10-K for the annual period ended December 31, 2020, 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.*	

* 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, 2021.

THE CHARLES SCHWAB CORPORATION
(Registrant)

BY: /s/ Walter W. Bettinger II
Walter W. Bettinger II
President 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, 2021.

Signature / Title	Signature / Title
/s/ Walter W. Bettinger II Walter W. Bettinger II, President and Chief Executive Officer and Director	/s/ Peter Crawford Peter Crawford, Executive Vice President and Chief Financial Officer (principal financial and accounting officer)
/s/ Charles R. Schwab Charles R. Schwab, 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. Herringer Frank C. Herringer, 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/ Paula A. Sneed Paula A. Sneed, Director

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

The following table outlines the information required by the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies," which is presented at the consolidated holding company level.

Required Disclosure	Page
Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential	F-2 – F-3
Investment Portfolio	F-4
Risk Elements – Cross-border Holdings	F-5
Loan Portfolio	F-5 – F-6
Summary of Credit Loss Experience	F-6
Deposits	F-6
Return on Equity and Assets	F-7

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

The following supplemental financial data is consistent with the Securities Exchange Act of 1934, Industry Guide 3 – Statistical Disclosure by Bank Holding Companies (Guide 3). Other information required by Guide 3 is presented throughout this Annual Report on Form 10-K.

1. Three-year Net Interest Revenue and Average Balances

For the Year Ended December 31,	2020			2019			2018		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:									
Cash and cash equivalents	$ 39,052	$ 120	0.30 %	$ 23,512	$ 518	2.17 %	$ 17,783	$ 348	1.93 %
Cash and investments segregated	34,100	141	0.41 %	15,694	345	2.17 %	11,461	206	1.78 %
Receivables from brokerage clients	28,058	848	2.97 %	19,270	821	4.20 %	19,870	830	4.12 %
Available for sale securities [1] [2]	253,555	4,537	1.78 %	58,181	1,560	2.67 %	54,542	1,241	2.26 %
Held to maturity securities [2]	—	—	—	134,708	3,591	2.65 %	131,794	3,348	2.53 %
Bank loans [3]	20,932	545	2.60 %	16,832	584	3.47 %	16,554	559	3.37 %
Total interest-earning assets	375,697	6,191	1.64 %	268,197	7,419	2.75 %	252,004	6,532	2.57 %
Securities lending revenue [4]		334			147			118	
Other interest revenue [4]		6			14			30	
Total interest-earning assets [5]	375,697	6,531	1.73 %	268,197	7,580	2.80 %	252,004	6,680	2.63 %
Non-interest-earning assets [5,6,7]	38,608			11,559			11,984		
Total assets	$ 414,305			$ 279,756			$ 263,988		
Liabilities and Stockholders' Equity:									
Bank deposits	$ 291,206	$ 93	0.03 %	$ 212,605	$ 700	0.33 %	$ 199,139	$ 545	0.27 %
Payables to brokerage clients	46,347	12	0.02 %	24,353	79	0.33 %	21,178	56	0.27 %
Short-term borrowings [8]	89	—	0.20 %	17	—	2.36 %	3,359	54	1.59 %
Long-term debt	8,992	289	3.22 %	7,199	258	3.58 %	5,423	190	3.50 %
Total interest-bearing liabilities	346,634	394	0.11 %	244,174	1,037	0.42 %	229,099	845	0.37 %
Securities lending expense [4]		33			38			18	
Other interest expense [4]		(9)			(11)			(6)	
Non-interest-bearing liabilities [6,9]	32,486			14,170			14,883		
Total liabilities [10]	379,120	418	0.11 %	258,344	1,064	0.39 %	243,982	857	0.34 %
Stockholders' equity [6]	35,185			21,412			20,006		
Total liabilities and stockholders' equity	$ 414,305			$ 279,756			$ 263,988		
Net interest revenue		$ 6,113			$ 6,516			$ 5,823	
Net yield on interest-earning assets			1.62 %			2.41 %			2.29 %

[1] Amounts calculated based on amortized cost.
[2] On January 1, 2020, the Company transferred all of its investment securities designated as HTM to the AFS category, as described in Item 8 – Note 6.
[3] Includes average principal balances of nonaccrual loans.
[4] Beginning in the fourth quarter of 2020, securities lending revenue has been reclassified from broker-related receivables and other revenue. Securities lending expense has been reclassified from other expense. Prior period amounts have been reclassified to reflect this change.
[5] Beginning in the fourth quarter of 2020, broker-related receivables were removed from total interest earning assets, resulting in an immaterial reduction to total interest earning assets. Prior period amounts have been reclassified to reflect this change.
[6] Average balance calculation based on month end balances.

[7] 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.

[8] Interest revenue or expense was less than $500 thousand in the period or periods presented.

[9] Non-interest-bearing liabilities consist of other liabilities that do not generate interest expense.

[10] Average rate calculation based on total funding sources.

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

2. Analysis of Change 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:

	2020 Compared to 2019 Increase (Decrease) Due to Change in:			2019 Compared to 2018 Increase (Decrease) Due to Change in:		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest-earning assets:						
Cash and cash equivalents [1]	$ 337	$ (735)	$ (398)	$ 111	$ 59	$ 170
Cash and investments segregated	399	(603)	(204)	75	64	139
Receivables from brokerage clients	369	(342)	27	(25)	16	(9)
Available for sale securities [2,3]	5,237	(2,260)	2,977	82	237	319
Held to maturity securities [3]	(3,591)	—	(3,591)	74	169	243
Bank loans [4]	142	(181)	(39)	9	16	25
Securities lending revenue [5]	—	187	187	—	29	29
Other interest revenue [5]	—	(8)	(8)	—	(16)	(16)
Total interest-earning assets [6]	$ 2,893	$ (3,942)	$ (1,049)	$ 326	$ 574	$ 900
Interest-bearing sources of funds:						
Bank deposits	$ 259	$ (866)	$ (607)	$ 36	$ 119	$ 155
Payables to brokerage clients	73	(140)	(67)	9	14	23
Short-term borrowings	2	(2)	—	(53)	(1)	(54)
Long-term debt	64	(33)	31	62	6	68
Securities lending expense [5]	—	(5)	(5)	—	20	20
Other interest expense [5]	—	2	2	—	(5)	(5)
Total sources on which interest is paid [6]	398	(1,044)	(646)	54	153	207
Change in net interest revenue	$ 2,495	$ (2,898)	$ (403)	$ 272	$ 421	$ 693

Changes that are not due solely to volume or rate have been allocated to rate.

[1] Includes deposits with banks and short-term investments.

[2] Amounts have been calculated based on amortized cost.

[3] On January 1, 2020, the Company transferred all of its investment securities designated as HTM to the AFS category, as described in Item 8 – Note 6.

[4] Includes average principal balances of nonaccrual loans.

[5] Beginning in the fourth quarter of 2020, securities lending revenue has been reclassified from broker-related receivables and other revenue. Securities lending expense has been reclassified from other expense. Prior period amounts have been reclassified to reflect this change.

[6] Beginning in the fourth quarter of 2020, broker-related receivables were removed from total interest earning assets and netted against non-interest bearing funding sources, resulting in an immaterial reduction to total interest-earning assets and total funding sources. Prior period amounts have been reclassified to reflect this change.

3. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities for 2018 are as follows:

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities				
U.S. agency mortgage-backed securities	$ 25,594	$ 44	$ 82	$ 25,556
U.S. Treasury securities	18,410	—	108	18,302
Asset-backed securities	10,086	14	15	10,085
Corporate debt securities	7,477	10	20	7,467
Certificates of deposit	3,682	4	1	3,685
U.S. agency notes	900	—	2	898
Commercial paper	522	—	—	522
Foreign government agency securities	50	—	1	49
Non-agency commercial mortgage-backed securities	14	—	—	14
Total available for sale securities	$ 66,735	$ 72	$ 229	$ 66,578
Held to maturity securities				
U.S. agency mortgage-backed securities	$ 118,064	$ 217	$ 2,188	$ 116,093
Asset-backed securities	18,502	83	39	18,546
Corporate debt securities	4,477	2	47	4,432
U.S. state and municipal securities	1,327	24	3	1,348
Non-agency commercial mortgage-backed securities	1,156	3	17	1,142
U.S. Treasury securities	223	—	6	217
Certificates of deposit	200	1	—	201
Foreign government agency securities	50	—	1	49
Other	10	—	—	10
Total held to maturity securities	$ 144,009	$ 330	$ 2,301	$ 142,038

For additional information on 2020 and 2019 investment securities, see Item 8 – Note 6.

As of December 31, 2020, with exception of holdings of securities issued by the U.S. Government and U.S. Government agencies and corporations, the Company held no investment securities from single issuers with aggregate book values in excess of ten percent of stockholders' equity.

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

4. Cross-border Holdings

The below information describes Schwab's cross-border holdings, based on fair value, as of December 31, 2020, 2019, and 2018. Such holdings, by country, that exceed 0.75% of total assets are disclosed separately.

December 31, 2020	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets
Country:				
France	$ 6,716	$ —	$ 6,716	1.2 %

December 31, 2019	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets
Country:				
France	$ 3,103	$ —	$ 3,103	1.1 %

December 31, 2018	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets
Country:				
France	$ 2,793	$ —	$ 2,793	0.9 %

5. Bank Loans and Related Allowance for Credit Losses

The composition of the loan portfolio is as follows:

December 31,	2020	2019	2018	2017	2016
Residential real estate:					
First Mortgages	$ 14,904	$ 11,704	$ 10,384	$ 10,016	$ 9,134
HELOCs	842	1,117	1,505	1,943	2,350
Total residential real estate	15,746	12,821	11,889	11,959	11,484
Pledged asset lines	7,916	5,206	4,561	4,369	3,851
Other	181	203	180	176	94
Total bank loans	$ 23,843	$ 18,230	$ 16,630	$ 16,504	$ 15,429

An analysis of nonaccrual loans is as follows:

December 31,	2020	2019	2018	2017	2016
Nonaccrual loans	$ 89	$ 22	$ 21	$ 28	$ 26
Average nonaccrual loans	$ 35	$ 21	$ 25	$ 27	$ 27

There were no loans accruing interest that were contractually 90 days or more past due as of any period presented.

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

December 31,	2020	2019	2018	2017	2016
Balance at beginning of year	$ 18	$ 21	$ 26	$ 26	$ 31
Adoption of ASU 2016-13 [1]	1	—	—	—	—
Charge-offs	—	—	(1)	(3)	(2)
Recoveries	1	2	2	3	2
Provision for credit losses	10	(5)	(6)	—	(5)
Balance at end of year	$ 30	$ 18	$ 21	$ 26	$ 26

[1] See Item 8 – Note 2 for discussion of the adoption of ASU 2016-13.

The maturities of the loan portfolio are as follows:

December 31, 2020	Within 1 year	After 1 year through 5 years	After 5 years	Total
Residential real estate:				
First Mortgages [1]	$ —	$ 1	$ 14,903	$ 14,904
HELOCs [2]	410	183	249	842
Total residential real estate	410	184	15,152	15,746
Pledged asset lines	5,811	2,105	—	7,916
Other	5	173	3	181
Total	$ 6,226	$ 2,462	$ 15,155	$ 23,843

[1] Maturities are based upon the contractual terms of the loans.
[2] Maturities are based on an initial draw period of ten years.

The interest sensitivity of loans with contractual maturities in excess of one year is as follows:

December 31, 2020	After 1 year
Loans with floating or adjustable interest rates	$ 15,465
Loans with predetermined interest rates	2,152
Total	$ 17,617

6. Summary of Credit Loss on Banking Loans Experience

December 31,	2020	2019	2018	2017	2016
Average loans	$ 20,932	$ 16,832	$ 16,554	$ 15,919	$ 14,715
Allowance to year end loans	.13 %	.10 %	.13 %	.16 %	.17 %
Allowance to nonperforming loans	34 %	82 %	100 %	93 %	101 %
Nonperforming assets to average loans and real estate owned	.43 %	.14 %	.14 %	.20 %	.21 %

7. 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 deposits from banking clients:

December 31,	2020		2019		2018	
	Amount	Rate	Amount	Rate	Amount	Rate
Analysis of average daily deposits:						
Money market and other savings deposits	$ 271,534	0.03 %	$ 197,788	0.33 %	$ 184,039	0.28 %

At December 31, 2020, there were no certificates of deposit of $100,000 or more included in bank deposits.

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

8. Ratios

December 31,	2020	2019	2018
Return on average total stockholders' equity	9.38 %	17.30 %	17.53 %
Return on average total assets	0.80 %	1.32 %	1.33 %
Average total stockholders' equity as a percentage of average total assets	8.49 %	7.65 %	7.58 %
Dividend payout ratio [1]	33.96 %	25.47 %	18.78 %

Note: Average balance calculations based on month end balances.
[1] Dividends declared per common share divided by diluted EPS.

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, 2019

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	**94-3025021**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

211 Main Street, San Francisco, CA 94105
(Address of principal executive offices and zip code)
Registrant's telephone number, including area code: (415) 667-7000

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock – $.01 par value per share	SCHW	New York Stock Exchange
Depositary Shares, each representing a 1/40th ownership interest in a share of 6.00% Non-Cumulative Preferred Stock, Series C	SCHW PrC	New York Stock Exchange
Depositary 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

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 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 ☒ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2019, the aggregate market value of the voting stock held by non-affiliates of the registrant was $47.4 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.

The number of shares of Common Stock outstanding as of January 31, 2020, was 1,286,215,799.

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 12, 2020, by reference to that document.

THE CHARLES SCHWAB CORPORATION

Annual Report On Form 10-K
For Fiscal Year Ended December 31, 2019

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THE CHARLES SCHWAB CORPORATION

PART I

Item 1. Business

General Corporate Overview

The Charles Schwab Corporation (CSC) is a savings and loan holding company, headquartered in San Francisco, California. CSC was incorporated in 1986 and 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, 2019, Schwab had $4.04 trillion in client assets, 12.3 million active brokerage accounts, 1.7 million corporate retirement plan participants, and 1.4 million banking accounts.

Principal business subsidiaries of CSC include the following:

- Charles Schwab & Co., Inc. (CS&Co), incorporated in 1971, a securities broker-dealer with over 360 domestic branch offices in 48 states, as well as a branch in the Commonwealth of Puerto Rico. In addition, Schwab serves clients through branch offices in the United Kingdom (U.K.) and Hong Kong through other subsidiaries of CSC;
- Charles Schwab Bank (CSB), our principal banking entity; and
- Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds®) and for Schwab's exchange-traded funds (Schwab ETFs™).

Schwab provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking 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 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.

As of December 31, 2019, Schwab had full-time, part-time, temporary employees, and persons employed on a contract basis that represented the equivalent of approximately 19,700 full-time employees.

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

Business Acquisitions

Planned Acquisition of TD Ameritrade Holding Corporation

On November 25, 2019, CSC announced that it had entered into an Agreement and Plan of Merger (the Merger Agreement) with TD Ameritrade Holding Corporation (TD Ameritrade), pursuant to which TD Ameritrade would be acquired by CSC in an all-stock transaction. At the time of announcement, TD Ameritrade had approximately twelve million brokerage accounts and $1.3 trillion in total client assets. Under the agreement, TD Ameritrade stockholders will receive 1.0837 CSC shares for each TD Ameritrade share. Based on the closing price of CSC common stock on November 20, 2019, the merger consideration represented approximately $26 billion. The Company anticipates this transaction will add scale to help support the Company's ongoing efforts to enhance the client experience, provide deeper resources for RIAs, and continue to improve our operating efficiency.

Upon completion of the merger, The Toronto-Dominion Bank (TD Bank), which as of January 15, 2020 beneficially-owned approximately 43.4% of TD Ameritrade's common stock, will have an estimated aggregate ownership position of approximately 13.6% in CSC, with other TD Ameritrade stockholders and existing CSC stockholders holding approximately 17.7% and 68.7%, respectively. TD Bank's voting stake will be capped at 9.9%, with the

balance of its position held in a new, nonvoting class of Schwab common stock. Subject to certain conditions, TD Bank will have the right to designate two individuals and TD Ameritrade will have the right to designate one individual to be appointed to Schwab's Board of Directors as of the effective time of the merger.

THE CHARLES SCHWAB CORPORATION

Concurrently with the execution of the merger agreement, CSC entered into the following agreements which will become effective when the merger closes:

- *Stockholder Agreement* with TD Bank which governs the rights and obligations of Schwab and TD Bank with respect to the Schwab stock that will be acquired by TD Bank in the merger. The Stockholder Agreement sets out, among other things, standstill restrictions, a voting agreement and transfer restrictions. It also provides that TD Bank will have the right to designate up to two directors to be nominated for election to Schwab's Board of Directors and be members of certain board committees, depending on TD Bank's ownership percentage of Schwab stock.
- *Registration Rights Agreement* that provides each of TD Bank, Charles R. Schwab, and, if it elects to be a party, Schwab's Employee Stock Ownership Plan, up to three "demand" registrations in any 12-month period and customary "piggyback" registration rights.
- *Amended and Restated Insured Deposit Account Agreement* (Amended IDA Agreement) with TD Bank USA, National Association and TD Bank, National Association (together, the Depository Institutions) which will replace the existing IDA agreement between the Depository Institutions and TD Ameritrade. Under the Amended IDA Agreement, there will be an initial period during which the amounts swept to the Depository Institutions will solely be composed of customer funds from the TD Ameritrade subsidiary broker-dealers. Following this initial period, CSC's subsidiary broker-dealers, including the broker-dealers it will acquire from TD Ameritrade, can sweep client funds to money market deposit accounts at the Depository Institutions, subject to certain limits.

  Beginning no later than July 1, 2021, CSC's subsidiary broker-dealers will be permitted to reduce deposit balances swept to the Depository Institutions by up to $10 billion over each rolling 12-month period, subject to the maturity of fixed-term investments and certain carry-forward and look-back requirements and a requirement to maintain an aggregate minimum required balance of $50 billion. Subject to CSC maintaining this minimum required balance at the Depository Institutions, the Amended IDA Agreement will allow CSC's subsidiary broker-dealers to sweep their customers' funds to CSC's own subsidiary depository institutions, other depository institutions and other liquid investment options.

  CSC will receive from the Depository Institutions an aggregate monthly fee (the Sweep Arrangement Fee) that compensates CSC for its services under the Amended IDA Agreement based on the total amount of deposits swept to the Depository Institutions each month. The Sweep Arrangement Fee will be determined by reference to certain yields based on whether the balances are fixed-term obligations or floating rate short-term obligations, less a 15 basis point service fee paid by CSC to the Depository Institutions, less FDIC deposit assessments and less interest on deposits paid to customers.

  The Amended IDA Agreement will have an initial expiration date of July 1, 2031, subject to automatic renewal for a five-year term if not terminated by either CSC or the Depository Institutions two years prior to the expiration date. CSC's subsidiary broker-dealers will be required to sweep 80% of customer balances under the Amended IDA Agreement into fixed-rate obligations until at least July 1, 2026. After July 1, 2026, they will be able to convert maturing fixed rate obligations into floating rate short-term obligations.

The obligation of the parties to consummate the merger is subject to customary closing conditions, including, among others, (i) the approval and adoption of the Merger Agreement by TD Ameritrade's stockholders, including by the holders (other than TD Bank, certain other of TD Ameritrade stockholders who entered into voting and support agreements with CSC in connection with the merger (the Significant TD Ameritrade Stockholders) and their respective affiliates) of a majority of the outstanding shares of TD Ameritrade common stock (other than shares of TD Ameritrade common stock held by TD Bank, the Significant TD Ameritrade Stockholders and their respective affiliates), (ii) the approval by CSC's stockholders of the issuance of CSC common shares in the transaction and an amendment to CSC's certificate of incorporation to create CSC nonvoting common stock with 300 million shares authorized for issuance and (iii) receipt of applicable regulatory approvals. The obligation of CSC to consummate the merger is also subject to receipt of a determination or other acceptable confirmation from the Board of Governors of the Federal Reserve System (Federal Reserve) that the completion of the merger will not result in Schwab either (i) being deemed to be "controlled" by TD Bank or (ii) being deemed to be in "control" of any depository institution that may be controlled by TD Bank and to which TD Bank may cause funds to be swept under the Amended IDA

Agreement, as “control” is interpreted by the Federal Reserve. With respect to the review of the transaction pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), on January 29, 2020, each of CSC and TD Ameritrade received a request for additional information and documentary material, often referred to as a “second request” from the Antitrust Division of the Department of Justice. CSC currently expects that the merger will be completed in the second half of 2020, subject to satisfaction of closing conditions. Under certain

circumstances, CSC or TD Ameritrade could be required to pay the other party a termination fee of $950 million or reimburse the other party's fees up to $50 million.

Planned Acquisition of Assets of USAA's Investment Management Company

On July 25, 2019, the Company announced a definitive agreement to acquire assets of USAA's Investment Management Company (USAA-IMCO), including over one million brokerage and managed portfolio accounts with approximately $90 billion in client assets at the time of announcement, for $1.8 billion in cash. The companies have also agreed to enter into a long-term referral agreement, effective at closing of the acquisition, that would make Schwab the exclusive wealth management and brokerage provider for USAA members. The transaction is expected to close in mid-2020, subject to satisfaction of closing conditions, including regulatory approvals and the implementation of conversion plans.

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 $45 trillion, which means the Company's $4.04 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.

Within Investor Services, our competition in serving individual investors spans brokerage, wealth management, and asset management firms, as well as banks and trust companies. In the Advisor Services arena, we compete with institutional custodians, traditional and discount brokers, 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.

Sources of Net Revenues

Our three largest sources of net revenues are net interest revenue, asset management and administration fees, and trading revenue. These revenue streams are supported by the combination of 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 looking for.

Net interest revenue is the difference between interest generated on interest-earning assets and interest paid on funding sources, the majority of which is derived from client cash balances awaiting investment, held by Schwab as part of clients' overall relationship with the Company. While certain of these client cash balances are held on CS&Co's balance sheet or swept to our money market funds, a substantial amount of existing balances – and most new inflows of cash awaiting investment – are swept to our banking subsidiaries. Interest-earning assets are primarily comprised of high-quality fixed income securities, margin loans, and bank loans.

The majority of asset management and administration fees are earned from proprietary money market mutual funds, proprietary and third-party mutual funds and exchange-traded funds (ETFs), and fee-based advisory solutions.

Trading revenue includes commissions earned for executing trades for clients in individual equities, options, futures, fixed income securities, and certain third-party mutual funds and ETFs, as well as principal transaction revenue earned primarily from actions to support client trading in fixed income securities. Effective October 7, 2019, CS&Co eliminated online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options. These pricing reductions are consistent with our vision of making investing accessible to all. Management believes they enhance both our value proposition and our competitive positioning, and will contribute to long-term growth in total client assets and client accounts at Schwab, thereby helping build long-term stockholder value.

Products and Services

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

- Brokerage – an array of full-feature brokerage accounts with equity and fixed income trading, margin lending, options trading, and cash management capabilities including third-party certificates of deposit;
- Mutual funds – third-party mutual funds through the Mutual Fund Marketplace®, including non-transaction fee mutual funds through the Mutual Fund OneSource® service, which also includes proprietary mutual funds, plus mutual fund trading and clearing services to broker-dealers;
- Exchange-traded funds – 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.

These investing 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 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements” (Item 8) – Note 2.

Investor Services

Charles Schwab initially founded the Company over 40 years ago to provide individual investors with access to the financial markets at a reasonable cost. The Company has been expanding offerings over time in response to client needs, aiming to

provide a compelling and often disruptive solution in the marketplace. As products and services have evolved over the years, the Investor Services segment has expanded and now includes the Retail Investor, Retirement Plan Services, Mutual Fund Clearing Services, and Off-Platform Sales business units.

Through the Retail Investor business unit, we offer individual investors a multi-channel service delivery model, which includes online, mobile, telephone, and branch capabilities. We provide personalized service at competitive prices while giving clients the choice of where, when, and how they do business with us. Financial Consultants (FCs) in Schwab's branches and regional telephone service centers focus on building and sustaining client relationships. We have the ability to meet client investing needs through a single ongoing point of contact, even as those needs change over time. We believe that this ability to provide those clients seeking help, guidance, or advice with an individually tailored approach – ranging from occasional consultations, to an ongoing relationship with a Schwab FC or participation in one of our advisory solutions, which include referral to an independent RIA in the Schwab Advisor Network® – is a competitive strength compared to the more fragmented or limited offerings of other firms.

Our service delivery model provides quick and efficient access to a broad lineup of information, research, tools, trade execution, and administrative services, which clients can access according to their needs. For example, clients that trade more actively can 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. Management also believes the Company is able to compete with the wide variety of financial services firms striving to attract individual client relationships by complementing these capabilities with a range of investment and banking products.

Schwab strives to educate and assist clients in reaching their financial goals. Educational tools include workshops, webcasts, podcasts, interactive courses, and online information about investing, from which Schwab does not earn revenue. Additionally, we provide various online research and analysis tools that are designed to help clients achieve better investment outcomes. As an example of such tools, 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.

Clients may seek specific investment recommendations, either from time to time or on an ongoing basis. Schwab provides clients seeking advice with personalized solutions. Our approach to advice is based on long-term investment strategies and guidance on portfolio diversification and asset allocation. This approach is designed to be offered consistently across all of Schwab's delivery channels.

Schwab Private Client™ features a personal advice relationship with a designated Private Client 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.

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. 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, are for clients who are looking to have their assets professionally managed via a fully automated online investment advisory service. In late 2016, we introduced a hybrid advisory service, now called Schwab Intelligent Portfolios Premium™, to offer our 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. In early 2020, we launched Schwab Intelligent Income™, a low-cost solution designed to offer a simple, modern way to generate income from existing investment portfolios. Finally, clients who want the assistance of an independent professional in managing their financial affairs may be referred to RIAs in the Schwab Advisor Network. These RIAs provide personalized portfolio management, financial planning, and wealth management solutions.

To meet the specific needs of clients who actively trade, Schwab offers integrated web- and software-based trading platforms, real-time market data, options trading, premium stock and futures research, and multi-channel access, as well as sophisticated account and trade management features, risk management and decision support tools, and dedicated personal support.

For U.S. clients wishing to invest in foreign equities, we offer 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. Schwab serves non-English-speaking clients, including Mandarin-, Cantonese-, Spanish-, Vietnamese-, and Portuguese-speaking clients through a combination of its branch offices, web-based and telephonic services.

We also offer equity compensation plan sponsors full-service recordkeeping for stock plans, stock options, restricted stock, performance shares, and stock appreciation rights. 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.

Our Retirement Plan Services business unit 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, and defined benefit plans.

Lastly, the Mutual Fund Clearing Services business unit provides open-end mutual fund trading, settlement, and related transactional services to banks, brokerage firms, and trust companies, and the Off-Platform Sales business unit offers proprietary mutual funds, ETFs, and collective trust funds 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, and local events designed to help RIAs 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 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. In early 2019, we released Schwab Advisor Portfolio Connect®, 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® 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.

The Advisor Services segment also includes the Retirement Business Services and Corporate Brokerage Retirement Services business units. Retirement Business Services provides trust, custody, and retirement business services to independent retirement plan advisors and independent recordkeepers. Retirement plan assets are held at the Business Trust division of CSB. 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®, a self-directed brokerage offering for retirement plans.

Corporate Brokerage Retirement Services serves plan sponsors, advisors, and independent recordkeepers seeking a brokerage-based account to hold retirement plan assets. Retirement plans held at Schwab are either self-trusteed or trusteed by a separate, independent trustee. Corporate Brokerage Retirement Services also offers the Schwab Personal Choice Retirement Account®, and the Company Retirement Account, both of which are self-directed brokerage-based solutions designed to hold the assets of company-sponsored retirement plans.

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 Federal Reserve. CSC's principal depository institution subsidiary, CSB, is a federal savings bank and is regulated, supervised, and examined by the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), and the Federal Deposit Insurance Corporation (FDIC). CSC and CSB 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. Also see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Current Regulatory Environment and Other Developments" for information regarding significant proposed rulemaking related to our regulation.

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 OCC and the FDIC. In addition to minimum risk-based capital requirements, banking organizations

must hold additional capital, referred to as a capital conservation buffer, to avoid being subject to limits on capital distributions and discretionary bonus payments to executive officers.

During 2019, depository institutions and their holding companies with consolidated total assets of $250 billion or more, or total on-balance-sheet foreign exposure of $10 billion or more, were required to calculate their regulatory capital and risk-weighted assets using both a "standardized approach" and an "advanced approaches" framework and to satisfy the minimum capital requirements under both approaches. Such companies were also required to maintain a minimum supplementary leverage ratio of at least 3.0%, include accumulated other comprehensive income (AOCI) in their calculation of their capital ratios, were subject to an incremental capital buffer of up to 2.5% of common equity Tier 1 capital if imposed by the banking agencies, referred to as the countercyclical capital buffer, and were subject to certain other enhanced provisions, including additional reporting requirements. The Federal Reserve, OCC, and FDIC all granted extensions and exemptions to CSC and its banking subsidiaries such that they would not be subject to the advanced approaches framework until June 30, 2020. As a result of crossing the $250 billion threshold in 2018, CSC and its banking subsidiaries in 2019 became subject to all other advanced approaches requirements – the supplementary leverage ratio, the inclusion of AOCI in the calculation of capital ratios, and the countercyclical capital buffer.

The full liquidity coverage ratio (LCR) rule required banking organizations with consolidated total assets of $250 billion or more, or total on-balance-sheet foreign exposure of $10 billion or more and their depository institution subsidiaries with $10 billion or more in total consolidated assets to hold high quality liquid assets (HQLA) in an amount equal to at least 100% of their projected net cash outflows over a prospective 30-calendar-day period of acute liquidity stress, calculated on each business day. CSC became subject to the full LCR rule in the second quarter of 2019 but until the beginning of 2020 was only required to calculate and comply with its LCR requirement as of the last business day of each calendar month.

In October 2019, the Federal Reserve, OCC, and FDIC jointly adopted a final rule which became effective on December 31, 2019 (interagency regulatory capital and liquidity rules) that revised the regulatory capital and liquidity requirements for large U.S. banking organizations with $100 billion or more in total consolidated assets. The rules established four risk-based categories for determining the regulatory capital and liquidity requirements applicable to these institutions based on their total assets, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure. CSC is 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.

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, and the countercyclical capital buffer which is currently 0%. Category III organizations are no longer subject to the "advanced approaches" regulatory capital framework and are permitted to opt out of including AOCI in their regulatory capital calculations. CSC made this opt out election, and commencing with the first quarter of 2020, now excludes AOCI from its regulatory capital.

As revised by the interagency regulatory capital and liquidity rules, Category III banking organizations with less than $75 billion in weighted short-term wholesale funding, which includes CSC, and their depository institution subsidiaries with $10 billion or more in total consolidated assets are subject to a reduced LCR rule requiring them to hold 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 weighted short-term wholesale funding 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.

Capital Stress Testing

During 2019, savings and loan and bank holding companies and insured depository institutions with total consolidated assets of more than $10 billion were required to conduct annual company-run stress tests using certain scenarios and prescribed stress-testing methodologies under the Dodd-Frank Act Stress Test rules. CSC reported the

results to the Federal Reserve and CSB reported the results to the OCC. Both published summaries of their stress test results.

In final enhanced prudential standards rules adopted concurrently in October 2019 with the interagency regulatory capital and liquidity rules, the Federal Reserve revised the capital stress testing regime applicable to savings and loan holding companies. Under the new Federal Reserve enhanced prudential standards rules, savings and loan holding companies that are Category III banking organizations are required to conduct biennial company-run stress tests in even-numbered years

beginning in 2020. CSC will continue to be required to report the results of its stress testing to the Federal Reserve and publish a summary of its stress test results. In accordance with the Economic Growth, Regulatory Relief, and Consumer Protection Act enacted in May 2018, the OCC also adopted amendments to its company-run stress testing rule in October 2019, increasing the minimum threshold for Federal savings associations to conduct stress tests from $10 billion to $250 billion in consolidated assets. As a result, CSB is currently not subject to any company-run stress testing requirements.

In its enhanced prudential standards rules, 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 will go into effect for CSC beginning with the 2022 stress testing cycle. To implement this requirement, the Federal Reserve is also expanding the reporting requirements applicable to savings and loan holding companies commencing in the second quarter of 2020. The Federal Reserve has also indicated that in the future, large savings and loan holding companies, including CSC, will become subject to an annual Comprehensive Capital Analysis and Review (CCAR) process, which requires submission of an annual capital plan to the Federal Reserve. However, to date, the Federal Reserve has not yet proposed modifications to its existing capital planning requirements to extend them to savings and loan holding companies.

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 will also extend 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 Act, include: risk management and risk committee requirements; liquidity risk management, stress testing, and buffer requirements; and single counterparty credit limits. CSC will be 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 new single counterparty credit limits will go into effect for CSC on January 1, 2022.

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 approved an advance notice of proposed rulemaking seeking comment on ways to tailor and improve its insured depository institution resolution plan rule. At the same time, the FDIC announced that it would delay the next round of resolution plan submissions under the rule until this rulemaking process has been completed.

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

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.

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.

In July 2016, the FDIC imposed a flat-rate quarterly surcharge on insured depository institutions with total assets of $10 billion or more and certain of their bank affiliates to pay for an increase to the DIF from 1.15% to 1.35% of the assessment base. As a result, Schwab's banking subsidiaries became subject to an additional 4.5 basis point surcharge on the amount of their aggregate assessment base in excess of $10 billion. In the third quarter of 2018, the DIF ratio exceeded 1.35%, and the FDIC eliminated the surcharge beginning in the fourth quarter of 2018.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (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. On January 9, 2020, the OCC and FDIC published their jointly proposed revisions to the regulations implementing the CRA. See Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Current Regulatory Environment and Other Developments.

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 in the event the subsidiary is in financial distress.

Broker-Dealer and Investment Advisor Regulation

Schwab's principal broker-dealer is CS&Co. CS&Co is registered as a broker-dealer with the U.S. Securities and Exchange Commission (SEC), the fifty states, the District of Columbia, the U.S. Virgin Islands, and the Commonwealth of Puerto Rico. CS&Co and CSIM are registered as investment advisors with the SEC. Additionally, CS&Co is regulated by the Commodities Futures Trading Commission (CFTC) with respect to the commodity futures and trading activities it conducts as an introducing broker.

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

The principal purpose of regulating broker-dealers and investment advisors 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.

CS&Co is 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. If CS&Co fails to maintain specified levels of net capital, such failure could constitute a default by CSC of certain debt covenants under its credit agreement.

The Uniform Net Capital Rule prohibits CS&Co 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 of $250,000.

In addition to net capital requirements, as a self-clearing broker-dealer, CS&Co is 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 U.K., the Securities and Futures Commission (SFC) in Hong Kong, the Monetary Authority of Singapore (MAS) in Singapore, and the Australian Securities and Investments Commission (ASIC) in Australia.

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.

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 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), telephone (415-667-7000), 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.

We also face certain risks in connection with our proposed merger with TD Ameritrade as described above in Item 1 of this Form 10-K. We encourage you to consider the risks below under the caption "Risks Related to the Proposed Merger with TD Ameritrade." These risks and other risks associated with the proposed merger will be more fully discussed in the joint proxy statement/prospectus that will be included in the registration statement on Form S-4 that CSC will file with the SEC in connection with the merger.

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.

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 short-term interest rates, and decreases in securities valuations negatively impact our results of operations and capital resources.

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.

In addition to specific banking laws and regulations, our banking regulators have broad discretion in connection with their supervisory and enforcement activities and examination policies and 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. The banking regulators could also limit our ability to grow, including adding assets, launching new products, making acquisitions, and undertaking strategic investments. Other potential regulatory actions include limiting our banking subsidiaries' ability to accept deposits swept from client brokerage accounts and brokered deposits and preventing us from pursuing our business strategy.

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, 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, broker-dealer fiduciary duties and regulatory treatment of deposit accounts, may directly affect the operation and profitability of Schwab or its specific business lines. 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 and broker-dealer subsidiaries, must meet certain capital and liquidity standards, subject to qualitative judgments by regulators about the adequacy of Schwab's capital and Schwab's internal assessment of its capital needs. The Uniform Net Capital Rule limits CS&Co's ability to transfer capital to CSC and other affiliates. New regulatory capital, liquidity, 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 capital conservation buffer 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.

Effective December 31, 2019, CSC was assigned to Category III of the new tailored regulatory requirements. The Federal Reserve indicated that large savings and loan holding companies, including CSC, will become subject to the CCAR process. If CSC reaches $700 billion in total assets or $75 billion in cross-jurisdictional activity, CSC will become subject to more stringent Category II requirements, including annual stress testing, the advanced approaches framework, the inability to opt out of including AOCI in regulatory capital calculations, the full LCR rule and daily liquidity reporting. CSC will also be subject to the full LCR rule and daily liquidity reporting if its weighted short-term wholesale funding is $75 billion or more.

A significant change in client cash allocations could negatively impact our net interest revenue.

We rely heavily on bank deposits as a funding source to extend loans to clients and purchase investment securities. Our bank deposits are primarily driven by our bank sweep feature when cash awaiting investment in our client brokerage accounts is swept to our banking subsidiaries. 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 net interest revenue.

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. A low interest rate environment may also have a negative impact on our asset management and administration fee revenues if 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 we are positioned to benefit from 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 can reduce our net interest revenue.

The expected phase-out of LIBOR could negatively impact our net interest revenue and require significant operational work.

Certain securities in our investment portfolio and the floating rate loans we offer reference LIBOR as the benchmark rate to determine the applicable interest rate or payment amount. We also use LIBOR in many of our financial models, such as those used for capital stress testing, and to determine the dividend rates for certain of our series of preferred stock which begin to float in 2022 and later. If LIBOR is discontinued after 2021 as expected, 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 there will be significant work required to transition to using the new benchmark rates and implement necessary changes to our systems and financial models. This could result in different financial performance for previously booked transactions and may impact our existing transaction data, products, systems, operations, and pricing processes. The calculation of interest rates under the replacement benchmarks could also impact our net interest revenue. In addition, LIBOR may 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.

Security breaches of our systems, or those of our clients or third parties, may subject us to significant liability and damage Schwab's 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 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 are likely to continue to be the target of cyber attacks, malicious code, computer viruses 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 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 Schwab's 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 clients' financial accounts at Schwab. 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 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 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, power outage, capacity constraints, software flaws, events impacting key business partners and vendors, and similar events. For example, Schwab 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. 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. Moreover, instances of fraud or other misconduct might also negatively impact Schwab's reputation and client confidence in the Company, in addition to any direct losses that might result from such instances. 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, extraordinary trading volumes 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 and decreased client satisfaction. We are also dependent on the integrity and performance of securities exchanges, clearing houses 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, cause substantial losses for us and for our clients, and subject us to claims from our clients for damages.

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 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.

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

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 Schwab, 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, regulators could limit the subsidiaries' operations or their ability to upstream funds to CSC, which could reduce CSC's liquidity and adversely affect its ability to repay debt, pay dividends on CSC's preferred stock, or return capital to common stockholders. In addition, CSC may need to provide additional funding to such subsidiaries.

Factors which may adversely affect our liquidity position include CS&Co 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 Schwab resulting in unanticipated withdrawals of client funds.

When available cash is not sufficient for our liquidity needs, we may 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 and CS&Co maintain committed and 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, 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.

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.

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.

On January 1, 2020, the Company adopted Accounting Standards Update (ASU) 2016-13, "*Financial Instruments – Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments", which requires estimation of expected lifetime credit losses, rather than incurred losses only, as was previously required. For more information on this adoption, see Part II – Item 8 – Notes to Consolidated Financial Statements – Note 2.

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, Schwab could suffer reputational damage and its business could be adversely affected.

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 at Schwab. 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.

We rely on outsourced service providers to perform key functions.

We rely on external service providers to perform certain key technology, 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 Schwab's reputation. An interruption in or the cessation of service by any external service provider as a result of systems failures, capacity constraints, financial difficulties 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. Switching to an alternative service provider may require a transition period and result in less efficient operations.

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, and effecting 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. In addition, an acquisition may cause us to assume liabilities or become subject to litigation or regulatory proceedings. Further, we may not realize the anticipated benefits from an acquisition (including without limitation the pending acquisitions of TD Ameritrade and assets of USAA-IMCO), 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 being acquired or sold. To the extent we enter into an agreement to buy or sell 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.

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:

- Our exposure to changes in interest rates;
- 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, or strategic transactions;
- 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.

Risks Related to the Proposed Merger with TD Ameritrade

Completion of the merger is subject to many conditions and if these conditions are not satisfied or waived, the merger will not be completed.

The obligations of CSC and TD Ameritrade to complete the merger are subject to satisfaction (or, to the extent permitted by applicable law, waiver) of a number of conditions, including, among others:

- the affirmative vote of (A) the holders of a majority of the outstanding shares of TD Ameritrade common stock approving and adopting the Merger Agreement and (B) the holders (other than TD Bank, the Significant TD Ameritrade Stockholders and their respective affiliates) of a majority of the outstanding shares of TD Ameritrade common stock (other than shares of TD Ameritrade common stock held by TD Bank, the Significant TD Ameritrade Stockholders and their respective affiliates) approving and adopting the Merger Agreement;
- the affirmative vote of (A) a majority of the votes cast by holders of outstanding shares of Schwab common stock approving the share issuance and (B) the holders of a majority of the outstanding shares of Schwab common stock approving the Schwab charter amendment;
- expiration or termination of any applicable waiting period (or extension thereof) under the HSR Act and certain governmental authorizations having been made or obtained and being in full force and effect;
- receipt of noncontrol determinations from the Federal Reserve;
- accuracy of the representations and warranties made in the Merger Agreement by the other party, subject to certain materiality thresholds;

- performance in all material respects by the other party of the obligations required to be performed by it at or prior to completion of the merger; and
- the absence since the date of the Merger Agreement of a material adverse effect on the other party.

There can be no assurance that the conditions to the closing of the merger will be satisfied or waived in a timely manner or at all, and, accordingly, the merger may not be completed. If the merger is not completed for any reason, the ongoing business of CSC may be adversely affected and, without realizing the benefits of having completed the merger, we would be subject to a number of risks, including that we may receive negative reactions from our stockholders, employees, customers and regulators, and that the price of our common stock may decline to the extent that current market prices reflect a market assumption that the merger will be completed.

As a condition to authorization of the merger, governmental authorities may impose requirements, limitations or costs or place restrictions on the conduct of our business after completion of the merger. Such conditions or changes and the process of obtaining regulatory approvals could, among other things, have the effect of delaying completion of the merger or imposing additional material costs on or materially limiting the revenues of the combined company following the merger, or otherwise adversely affecting our businesses and results of operations after completion of the merger.

Also, if the Merger Agreement is terminated in certain circumstances, we may be required to pay a termination fee of $950 million to TD Ameritrade and we could be subject to litigation related to any failure to complete the merger or related to any enforcement proceeding commenced against us to perform our obligations under the Merger Agreement.

In addition, the Merger Agreement places certain restrictions on the conduct of our businesses prior to completion of the merger, and such restrictions, the waiver of which is subject to consent of TD Ameritrade, could prevent us from making certain acquisitions, taking certain other specified actions or otherwise pursuing business opportunities during the pendency of the merger that we would have made, taken or pursued if these restrictions were not in place.

CSC and TD Ameritrade may also be subject to lawsuits challenging the merger, and adverse rulings in these lawsuits may delay or prevent the merger from being completed or require CSC or TD Ameritrade to incur significant costs to defend or settle these lawsuits.

If any of these risks materialize, they may materially and adversely affect our businesses, financial condition, financial results, ratings, and/or stock price.

Schwab's business relationships may be subject to disruption due to uncertainty associated with the merger.

Parties with which we do business may experience uncertainty associated with the merger, including with respect to current or future business relationships with Schwab or the combined business. Schwab's business relationships may be subject to disruption as parties with which Schwab does business may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than Schwab or the combined business. These disruptions could have an adverse effect on the businesses, financial condition, results of operations or prospects of the combined business, including an adverse effect on Schwab's ability to realize the anticipated benefits of the merger. The risk, and adverse effect, of such disruptions could be exacerbated by a delay in completion of the merger or termination of the Merger Agreement.

After completion of the merger, we may fail to realize the anticipated benefits and cost savings of the merger, which could adversely affect the value of our stock.

The success of the merger will depend, in significant part, on our ability to realize the anticipated benefits and cost savings from combining the businesses of Schwab and TD Ameritrade. Our ability to realize these anticipated benefits and cost savings is subject to certain risks. If Schwab is 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 at all or may take longer to realize than expected, the combined business may not perform as expected and the value of Schwab common stock may be adversely affected.

Schwab and TD Ameritrade have operated and, until completion of the merger, will continue to operate, independently, and there can be no assurances that their businesses can be integrated successfully. 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.

In addition, at times the attention of certain members of either company's or both companies' management and resources may be focused on completion of the merger and the integration of the businesses of the two companies and diverted from day-to-day business operations, which may disrupt each company's ongoing business and the business of the combined company.

Schwab will incur significant transaction and merger-related costs in connection with the merger.

We expect to incur a number of non-recurring costs associated with the merger and combining the operations of the two

companies. Some of these costs have already been incurred or may be incurred regardless of whether the merger is completed. Schwab also will incur transaction fees and costs related to formulating and implementing integration plans with respect to the two companies, including facilities and systems consolidation costs. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the merger and the integration of the two companies' businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to offset integration-related costs over time, this net benefit may not be achieved in the near term, or at all.

Schwab and TD Ameritrade may have difficulty attracting, motivating and retaining executives and other employees in light of the merger.

Uncertainty about the effect of the merger on Schwab and TD Ameritrade employees may impair Schwab's and TD Ameritrade's ability to attract, retain and motivate personnel prior to and following the merger. Employee retention may be particularly challenging during the pendency of the merger, as employees of Schwab and TD Ameritrade may experience uncertainty about their future roles with the combined business. In addition, pursuant to change-in-control provisions in their respective employment agreements or term sheets with TD Ameritrade, certain employees of TD Ameritrade are entitled to receive severance payments upon a constructive termination of employment. Such TD Ameritrade employees potentially could terminate their employment following specified circumstances set forth in their employment agreements or term sheets, including certain changes in such employees' position, compensation or benefits and collect severance. Such circumstances could occur in connection with the merger as a result of changes in roles and responsibilities. If employees of Schwab or TD Ameritrade depart, the integration of the companies may be more difficult and the combined business following the merger may be harmed. Furthermore, Schwab 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 Schwab's ability to realize the anticipated benefits of the merger may be adversely affected. In addition, there could be disruptions to or distractions for the workforce and management associated with integrating employees into Schwab.

The merger may not be accretive to Schwab's earnings per share, which may negatively affect the market price of Schwab common stock following completion of the merger.

In connection with the completion of the merger, Schwab expects to issue approximately 586 million Schwab common shares. The issuance of new Schwab common shares could have the effect of depressing the market price of Schwab common shares.

Based on the anticipated synergies between Schwab and TD Ameritrade, the merger is expected to be accretive to Schwab's 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 merger being dilutive to Schwab's 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 merger. Any dilution of, reduction in, or delay of any accretion to, Schwab's earnings per share could cause the price of shares of Schwab common stock to decline or grow at a reduced rate.

If our pending merger with TD Ameritrade is completed, our stockholders' ownership percentage will be diluted.

If the proposed merger is completed, we will issue to TD Ameritrade stockholders shares of our common stock. As a result of the issuance of these shares of our common stock, our stockholders will own a smaller percentage of the combined company after the merger and will therefore have a reduced voting interest. In addition, TD Bank will become our largest stockholder.

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, 2019	Square Footage	
(amounts in thousands)	Leased	Owned
Location		
Corporate headquarters:		
San Francisco, CA [1]	481	—
Service and other office space:		
Phoenix, AZ	28	728
Denver, CO	—	731
Dallas, TX	318	293
Austin, TX	83	490
Indianapolis, IN	—	161
Orlando, FL	159	—
Chicago, IL	146	—
Richfield, OH	—	117
El Paso, TX	—	105

[1] The Company has announced its intention to eventually relocate our corporate headquarters to the Dallas, Texas area.

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.

As of December 31, 2019, the Company had over 360 domestic branch offices, and substantially all are located in leased premises.

Item 3. Legal Proceedings

For a discussion of legal proceedings, see Item 8 – Note 14.

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, 2020, was 5,614. The closing market price per share on that date was $45.55.

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

totalreturnlinegraph.jpg

December 31,	2014	2015	2016	2017	2018	2019
The Charles Schwab Corporation	$ 100	$ 110	$ 133	$ 174	$ 142	$ 166
Standard & Poor's 500 Index	$ 100	$ 101	$ 114	$ 138	$ 132	$ 174
Dow Jones U.S. Investment Services Index	$ 100	$ 100	$ 126	$ 157	$ 139	$ 172

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 19 and Part III – Item 12.

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 2019 (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 [1]	6,357	$ 36.00	6,357	$ 1,780
Employee transactions [2]	3	$ 36.85	N/A	N/A
November:				
Share repurchase program [1]	—	$ —	—	$ 1,780
Employee transactions [2]	652	$ 41.97	N/A	N/A
December:				
Share repurchase program [1]	—	$ —	—	$ 1,780
Employee transactions [2]	5	$ 49.77	N/A	N/A
Total:				
Share repurchase program [1]	6,357	$ 36.00	6,357	$ 1,780
Employee transactions [2]	660	$ 42.01	N/A	N/A

[1] All shares were repurchased under an authorization approved by CSC's Board of Directors of up to $4.0 billion of common stock publicly announced by CSC on January 30, 2019. The authorization does not have an expiration date.

[2] 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.

THE CHARLES SCHWAB CORPORATION

Item 6. Selected Financial Data

Selected Financial and Operating Data

(In Millions, Except Per Share Amounts, Ratios, or as Noted)

	Growth Rates						
	Compounded 4-Year 2015-2019 [1]	Annual 1-Year 2018-2019	2019	2018	2017	2016	2015
Results of Operations							
Net revenues	14%	6%	$ 10,721	$ 10,132	$ 8,618	$ 7,478	$ 6,380
Expenses excluding interest	9%	5%	$ 5,873	$ 5,570	$ 4,968	$ 4,485	$ 4,101
Net income	26%	6%	$ 3,704	$ 3,507	$ 2,354	$ 1,889	$ 1,447
Net income available to common stockholders	27%	6%	$ 3,526	$ 3,329	$ 2,180	$ 1,746	$ 1,364
Earnings per common share:							
Basic	27%	9%	$ 2.69	$ 2.47	$ 1.63	$ 1.32	$ 1.04
Diluted	27%	9%	$ 2.67	$ 2.45	$ 1.61	$ 1.31	$ 1.03
Dividends declared per common share	30%	48%	$ .68	$ .46	$ .32	$ .27	$ .24
Weighted-average common shares outstanding:							
Basic	—	(3)%	1,311	1,348	1,339	1,324	1,315
Diluted	—	(3)%	1,320	1,361	1,353	1,334	1,327
Net interest revenue as a percentage of net revenues			61 %	57 %	50 %	44 %	40 %
Asset management and administration fees as a percentage of net revenues			30 %	32 %	39 %	41 %	41 %
Trading revenue as a percentage of net revenues			6 %	8 %	8 %	11 %	14 %
Effective income tax rate			23.6 %	23.1 %	35.5 %	36.9 %	36.5 %
Performance Measures							
Net revenue growth			6 %	18 %	15 %	17 %	5 %
Pre-tax profit margin			45.2 %	45.0 %	42.4 %	40.0 %	35.7 %
Return on average common stockholders' equity			19 %	19 %	15 %	14 %	12 %
Financial Condition (at year end)							
Total assets	12%	(1)%	$ 294,005	$ 296,482	$ 243,274	$ 223,383	$ 183,705
Short-term borrowings	—	—	—	—	$ 15,000	—	—
Long-term debt	27%	8%	$ 7,430	$ 6,878	$ 4,753	$ 2,876	$ 2,877
Preferred stock	18%	—	$ 2,793	$ 2,793	$ 2,793	$ 2,783	$ 1,459
Total stockholders' equity	13%	5%	$ 21,745	$ 20,670	$ 18,525	$ 16,421	$ 13,402
Assets to stockholders' equity ratio			14	14	13	14	14
Debt to total capital ratio [2]			25 %	25 %	52 %	15 %	18 %
Employee Information							
Full-time equivalent employees (at year end, in thousands)	7%	1%	19.7	19.5	17.6	16.2	15.3

[1] The Compounded 4-year growth rate is computed using the formula: Compound annual growth rate = (Ending Value / Beginning Value) $^{.25}$ – 1.

[2] The Debt to total capital ratio is computed using the formula: Total Debt (short and long-term) / (Total Debt + Stockholders' Equity).

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", "maintain," 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:

- The acquisition of TD Ameritrade; the acquisition of assets of USAA-IMCO, the related funding, and entering into a referral agreement; and the expected closing dates of the acquisitions (see Business Acquisitions in Part I, Item 1; Overview and Capital Management in Part II, Item 7; Commitments and Contingencies in Part II, Item 8 – Notes to Consolidated Financial Statements (Item 8) – Note 14);
- 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; and maintaining our market position (see Business Strategy and Competitive Environment and Products and Services in Part I, Item 1);
- The impact of pricing reductions on our value proposition, competitive positioning and long-term growth in client assets and accounts (see Sources of Net Revenues in Part I, Item I; Overview in Part II, Item 7);
- 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 14);
- Commitment to balancing long-term profitability with reinvesting for growth; business growth; meaningful capital returns; and intent to return excess capital above our long-term operating objective of 6.75% - 7.00% (see Overview in Part II, Item 7);
- The adjustment of rates paid on client-related liabilities; client cash sorting; reducing exposure to lower rates; and the duration difference between liabilities and assets (see Net Interest Revenue in Part II, Item 7);
- Capital expenditures (see Total Expenses Excluding Interest in Part II, Item 7);
- The phase-out of the use of LIBOR (see Expected Phase-out of LIBOR in Part II, Item 7);
- Sources of liquidity, capital, and level of dividends (see Liquidity Risk in Part II, Item 7);
- Capital ratios (see Regulatory Capital Requirements in Part II, Item 7);
- 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 (see Commitments and Contingencies in Part II, Item 8 – Note 14).

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:

- The timing and the ability of us and TD Ameritrade to satisfy the closing conditions in the merger agreement, including stockholder and regulatory approvals;
- The timing and the ability of us and USAA-IMCO to satisfy the closing conditions in the purchase agreement, including regulatory approvals and the implementation of conversion plans;
- The timing and extent to which we realize expected revenue, expense and other synergies from our acquisitions;
- General market conditions, including the level of interest rates, equity valuations, and trading activity;
- Our ability to attract and retain clients, develop trusted relationships, and grow client assets;
- Client use of our advisory solutions and other products and services;
- The level of client assets, including cash balances;

- Competitive pressure on pricing, including deposit rates;
- Client sensitivity to rates;
- Regulatory guidance;
- Capital and liquidity needs and management;
- Our ability to manage expenses;
- Our ability to develop and launch new and enhanced products, services, and capabilities, as well as implement infrastructure, in a timely and successful manner;
- The effect of pricing reductions on client acquisition, retention and asset levels, including cash balances;
- The Company's ability to monetize client assets;
- The timing of campus expansion work and technology projects;
- 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 cash sorting and net equity sales.

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.

THE CHARLES SCHWAB CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Amounts in Millions, Except Ratios, or as Noted)

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 includes unrealized gains and losses on available for sale (AFS) securities and net gains or losses associated with pension obligations.

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.

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 1/100th 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 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 proprietary money market fund balances, bank deposits, Schwab One® 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. See Current Regulatory Environment and Other Developments for information on recently issued rules that will impact Schwab's regulatory capital requirements.

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 Revenue Trades (DARTs): Total revenue trades during a certain period, divided by the number of trading days in that period. Revenue trades include all client trades that generate trading revenue (i.e., commission revenue or principal transaction revenue).

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

Debt to total capital ratio: Calculated as total debt divided by stockholders' equity and total debt.

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): 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.

Final Regulatory Capital Rules: Refers to the regulatory capital rules issued by U.S. banking agencies which implemented Basel III and relevant provisions of Dodd-Frank, which apply to savings and loan holding companies, as well as federal savings banks.

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.

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

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

Interest-earning assets: Includes cash and cash equivalents, cash and investments segregated, broker-related receivables, 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 "Baa" 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: Advances made to brokerage clients on a secured basis to purchase or carry securities reflected in receivables from brokerage clients on the consolidated balance sheets.

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): Measures an organization's "available" amount of stable funding relative to its "required" amount of stable funding over a one-year time horizon.

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: Net compensation received from markets and firms to which CS&Co sends equity and options orders. The amount reflects rebates received for certain types of orders, less fees paid for orders where exchange fees or other charges apply.

Pledged Asset Line® (PAL): A non-purpose revolving line of credit from CSB 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 quarter.

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.

THE CHARLES SCHWAB CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Amounts in Millions, Except Ratios, or as Noted)

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. Results for the years ended December 31, 2019, 2018, and 2017 are as follows:

	Growth Rate 1-Year 2018-2019	2019	2018	2017
Client Metrics				
Net new client assets (in billions) [1]	66%	$ 222.8	$ 133.9	$ 233.1
Core net new client assets (in billions)	(7)%	$ 211.7	$ 227.8	$ 198.6
Client assets (in billions, at year end)	24%	$ 4,038.8	$ 3,252.2	$ 3,361.8
Average client assets (in billions)	8%	$ 3,682.0	$ 3,409.6	$ 3,060.2
New brokerage accounts (in thousands)	(1)%	1,568	1,576	1,441
Active brokerage accounts (in thousands, at year end)	6%	12,333	11,593	10,755
Assets receiving ongoing advisory services (in billions, at year end)	23%	$ 2,106.8	$ 1,708.5	$ 1,699.8
Client cash as a percentage of client assets (at year end)		11.3 %	12.8 %	10.8 %
Company Financial Metrics				
Total net revenues	6%	$ 10,721	$ 10,132	$ 8,618
Total expenses excluding interest	5%	5,873	5,570	4,968
Income before taxes on income	6%	4,848	4,562	3,650
Taxes on income	8%	1,144	1,055	1,296
Net income	6%	$ 3,704	$ 3,507	$ 2,354
Preferred stock dividends and other	—	178	178	174
Net income available to common stockholders	6%	$ 3,526	$ 3,329	$ 2,180
Earnings per common share — diluted	9%	$ 2.67	$ 2.45	$ 1.61
Net revenue growth from prior year		6 %	18 %	15 %
Pre-tax profit margin		45.2 %	45.0 %	42.4 %
Return on average common stockholders' equity		19 %	19 %	15 %
Expenses excluding interest as a percentage of average client assets		0.16 %	0.16 %	0.16 %
Consolidated Tier 1 Leverage Ratio (at year end)		7.3 %	7.1 %	7.6 %

[1] 2019 and 2017 include inflows of $11.1 billion and $34.5 billion, respectively, from certain mutual fund clearing services clients. 2018 includes outflows of $93.9 billion from certain mutual fund clearing services clients.

2019 Compared to 2018

Schwab delivered solid financial results in 2019 while taking significant steps to further enhance our offer to clients and help position the Company to build value for our stakeholders over the long-term. Throughout the year, investor sentiment reflected a complex market environment that included global trade negotiations and an uncertain domestic economic outlook. The Federal Reserve ended up cutting the federal funds target interest rate three times, in a reversal of the increases seen in 2018. At the same time, stocks continued to rise, with the S&P 500 increasing 29% during the year. Core net new assets totaled $211.7 billion for the year, representing an organic growth rate of 7%

and our second consecutive year over $200 billion. Clients opened 1.6 million new brokerage accounts in 2019, while active brokerage accounts grew 6% to 12.3 million. Our success in asset gathering combined with strong market returns drove total client assets to reach $4.04 trillion at December 31, 2019, closing the year up 24%.

Company actions to benefit clients and build long-term value during 2019 included the elimination of online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options, which became effective October 7th. The Company also announced two significant acquisitions during the year. In July, the Company agreed to acquire assets of USAA-IMCO and agreed to enter into a long-term referral agreement. In late November, we entered into a definitive agreement to acquire TD Ameritrade.

Against the backdrop of the more challenging than expected macroeconomic environment and our own pricing decisions, Schwab's net income totaled $3.7 billion in 2019, an increase of $197 million, or 6%. Diluted earnings per common share grew to $2.67, representing an increase of 9% from 2018.

Total net revenues reached $10.7 billion, up 6% in 2019. Net interest revenue increased 12% in 2019 to $6.5 billion, driven by higher average investment yields and also by an increase in client cash balances held at our bank and broker-dealer subsidiaries. While trading revenue declined 19% to $617 million due to our pricing actions, asset management and administration fees remained essentially flat with 2018 at $3.2 billion, decreasing 1%. Growing enrollment in advice solutions, along with rising balances in other third-party mutual funds, helped to largely offset declines in Mutual Fund OneSource® and lower sweep money market fund revenue due to transfers of sweep money market funds to our balance sheet in 2018 and early 2019.

Total expenses excluding interest increased 5% in 2019 to $5.9 billion, which included $62 million in severance charges associated with a 3% reduction in our workforce and $25 million in costs relating to the announced acquisitions of assets of USAA-IMCO and TD Ameritrade. Our ongoing focus on driving efficiency while managing our spending in a disciplined manner helped us maintain a ratio of expenses to client assets of 16 bps for 2019. Reflecting our commitment to balancing long-term profitability with reinvesting for growth, we achieved a 45.2% pre-tax profit margin and a 19% return on equity in 2019, representing our second consecutive year of at least 45% and 19%, respectively.

Disciplined balance sheet management remains core to our strategy as we continue to support business growth and meaningful capital returns across a range of conditions. In early 2019, the Board of Directors raised the quarterly cash dividend 31% to $0.17 per share and authorized the repurchase of up to $4.0 billion of common stock; during 2019 we repurchased 55 million shares for $2.2 billion under this authorization. As of December 31, 2019, our balance sheet assets were $294 billion, down 1% from a year ago; our Tier 1 Leverage Ratio was 7.3% at year-end. As the Company continues to grow both organically and through our pending acquisitions, our intent to return excess capital above our long-term operating objective of 6.75%-7.00% remains in place.

Planned Acquisitions

TD Ameritrade: On November 25, 2019, CSC announced a definitive agreement to acquire TD Ameritrade in an all-stock transaction. At the time of announcement, TD Ameritrade had approximately twelve million brokerage accounts and $1.3 trillion in total client assets. Under the agreement, TD Ameritrade stockholders will receive 1.0837 CSC shares for each TD Ameritrade share. Based on the closing price of CSC common stock on November 20, 2019, the merger consideration represented approximately $26 billion. The Company anticipates this transaction will add scale to help support the Company's ongoing efforts to enhance the client experience, provide deeper resources for RIAs, and continue to improve our operating efficiency. The transaction is expected to close in the second half of 2020, subject to satisfaction of closing conditions. Under certain circumstances, CSC or TD Ameritrade could be required to pay the other party a termination fee of $950 million or reimburse the other party's fees up to $50 million.

Assets of USAA-IMCO: On July 25, 2019, the Company announced a definitive agreement to acquire assets of USAA-IMCO, including over one million brokerage and managed portfolio accounts with approximately $90 billion in client assets at the time of announcement, for $1.8 billion in cash. The companies have also agreed to enter into a long-term referral agreement, effective at closing of the acquisition, which would make Schwab the exclusive wealth management and brokerage provider for USAA members. The transaction is expected to close in mid-2020, subject to satisfaction of closing conditions, including regulatory approvals and the implementation of conversion plans.

The Company expects to recognize significant amounts of goodwill and amortizable intangible assets as part of the planned acquisitions.

2018 Compared to 2017

Net income increased by $1.2 billion, or 49%, in 2018, driven primarily by business momentum, a supportive economic environment for much of the year, and lower corporate tax rates. Continued execution of our 'Through Clients' Eyes' strategy helped us succeed with clients. In 2018, clients opened 1.6 million new brokerage accounts, helping bring active brokerage accounts to 11.6 million at the end of the year, and core net new assets totaled $227.8 billion, up 15% from the 2017 total. Our strong net new assets largely offset lower market valuations, and we ended 2018 at $3.25 trillion in total client assets.

Total net revenue grew by $1.5 billion, or 18%, in 2018 primarily due to an increase of $1.5 billion, or 36%, in net interest revenue. The Fed raised the federal funds target interest rate four times in 2018 for a total of 100 basis points. The growth of total net revenue resulted from higher interest rates due to the Fed's rate increases, and also from higher interest-earning assets, which reflect both client cash allocations and the transfer of sweep money market funds to bank and broker-dealer sweep. As we progressed with these transfers, the corresponding money market fund asset management and administration fee revenue naturally declined, yet positive inflows in advice solutions, Schwab equity and bond funds and ETFs, and other third-party mutual funds and ETFs kept asset management fees at $3.2 billion, limiting the decrease to 5% from 2017. Record trading activity from our clients resulted in trading revenue reaching $763 million, an increase of 17% from the prior year.

Our increase in total expenses excluding interest of $602 million, or 12%, reflected our 2018 investments to support and fuel our business growth, including hiring additional client-facing and other employees and technology project spending, as well as an increase in marketing and a special stock award of $36 million to our employees. Even with these increases, expenses as a percentage of client assets remained consistent at 16 basis points, and pre-tax income increased 25% to $4.6 billion in 2018, resulting in a pre-tax profit margin of 45.0%. As a result of the Tax Cuts and Jobs Act of 2017 (the Tax Act), taxes on income decreased 19% in 2018, resulting in an effective tax rate of 23.1%. Overall, we generated a 19% return on equity and diluted EPS of $2.45 for the year.

During 2018, the Board of Directors raised the quarterly cash dividend 63% to $0.13 per share and authorized a $1.0 billion Share Repurchase Program, which we completed during the fourth quarter of 2018. These actions reflected the Company's strong financial performance and our confidence in its long-term success; they also demonstrated that effective capital management at Schwab can support both healthy business growth and more meaningful capital returns to stockholders.

Subsequent Events

In October 2019, the Federal Reserve issued a final enhanced prudential standards rule, and the Federal Reserve, OCC, and the FDIC jointly issued a final regulatory capital and liquidity rule. With total consolidated assets of $294.0 billion at December 31, 2019, CSC is 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, *Investments – Debt and Equity Securities* (ASC 320) and as of January 1, 2020, the Company transferred all of its investment securities designated as held to maturity (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.

CURRENT REGULATORY ENVIRONMENT AND OTHER DEVELOPMENTS

In December 2019, the FDIC issued a proposed rule that would modernize its brokered deposits regulations. Among other things, the proposed rule would clarify the "primary purpose" exception from the definition of a deposit broker for securities broker-dealers such as CS&Co that place deposits through brokerage sweep arrangements under certain conditions. In addition, the proposed rule would create a streamlined application process for obtaining a primary purpose exception where less than 25 percent of a broker-dealer's customer assets are placed with a depository institution. Schwab is currently evaluating the impact of the proposed rule on its bank sweep program.

In January 2020, the OCC and the FDIC published their jointly proposed revisions to the regulations implementing the CRA. The proposed regulations (i) clarify and expand what qualifies for CRA credit; (ii) expand where CRA activity counts; (iii) provide an objective method to measure CRA activity; and (iv) revise data collection, recordkeeping, and reporting. The

Federal Reserve did not join the OCC and the FDIC in the proposed regulations. The comment period for the proposed regulations ends on March 9, 2020. Schwab is currently evaluating the impact of the proposed regulations.

In May 2016, the Federal Reserve, the OCC and the FDIC jointly issued a notice of proposed rulemaking that would impose a minimum NSFR on certain banking organizations, including CSC. The comment period for the proposed rule ended on August 5, 2016 and the impact to the Company cannot be assessed until the final rule is released. The agencies indicated in the October 2019 interagency regulatory capital and liquidity rule their intention to utilize the four category tiering framework when the NSFR rule is adopted.

RESULTS OF OPERATIONS

Total Net Revenues

Total net revenues of $10.7 billion and $10.1 billion for the years ended December 31, 2019 and 2018, respectively, represented growth of 6% and 18% from the prior periods, primarily due to increases in net interest revenue.

Year Ended December 31,		2019		2018		2017	
	Growth Rate 2018-2019	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Net interest revenue							
Interest revenue	13 %	$ 7,580	71 %	$ 6,680	66 %	$ 4,624	54 %
Interest expense	24 %	(1,064)	(10 %)	(857)	(9 %)	(342)	(4 %)
Net interest revenue	12 %	6,516	61 %	5,823	57 %	4,282	50 %
Asset management and administration fees							
Mutual funds, ETFs, and collective trust funds (CTFs) [1]	(5 %)	1,747	16 %	1,837	18 %	2,088	24 %
Advice solutions	5 %	1,198	11 %	1,139	11 %	1,043	12 %
Other [1]	5 %	266	3 %	253	3 %	261	3 %
Asset management and administration fees	(1 %)	3,211	30 %	3,229	32 %	3,392	39 %
Trading revenue							
Commissions	(20 %)	549	5 %	685	7 %	600	7 %
Principal transactions	(13 %)	68	1 %	78	1 %	54	1 %
Trading revenue	(19 %)	617	6 %	763	8 %	654	8 %
Other	19 %	377	3 %	317	3 %	290	3 %
Total net revenues	6 %	$ 10,721	100 %	$ 10,132	100 %	$ 8,618	100 %

[1] Beginning in 2019, a change was made to move CTFs from other asset management and administration fees. Prior periods have been recast to reflect this change.

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. 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. Fees

earned on securities borrowing and lending activities, which are conducted by CS&Co using assets held in client brokerage accounts, are primarily included in other interest revenue and expense.

Schwab's interest-bearing liabilities include bank deposits, payables to brokerage clients, short-term borrowings (e.g., Federal Home Loan Bank (FHLB) advances), and long-term debt. Non-interest-bearing funding sources include stockholders' equity, certain client cash balances, and other miscellaneous liabilities.

We establish the rates paid on client-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. Schwab deploys the funds from these sources into the

assets outlined above. We do not use short-term, wholesale borrowings to support our long-term investment activity, but may use such funding, including FHLB advances, for short-term liquidity purposes or to provide temporary funding (e.g., for investment purchases) ahead of anticipated balance sheet deposit growth.

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. As Schwab builds its client base, we attract new client sweep cash, which is a primary driver of funding balance sheet growth.

Towards the end of 2018, the federal funds target interest rate increased to levels not seen in over a decade, leading us to expect some clients would shift more of their cash holdings from brokerage deposits swept to our banking subsidiaries to higher-yielding alternatives like purchased money market funds. We therefore expected brokerage deposits swept to our banking subsidiaries, excluding organic growth, to decline during the first part of 2019. As a result, we held a higher amount of short-term liquidity at our banking subsidiaries at the end of 2018 to accommodate this potential client cash sorting.

While average interest rates throughout the year in 2019 were higher than average rates in 2018, interest rates across maturities declined from December 2018 to December 2019. Lower interest rates typically result in longer durations on our client-related liabilities and shorter durations on our investment securities, especially mortgage-related securities with options to prepay without penalty. During 2019, to maintain our overall targeted interest rate risk profile, we began positioning our banking entities' investment portfolios to include a higher percentage of fixed-rate, longer duration investments to reduce our interest rate sensitivities which would naturally increase as market rates declined. We did, however, once again hold a higher level of short-term liquidity at the end of 2019 to accommodate a typical seasonal buildup of client cash, much of which then generally moves to other assets within a few months.

We believe that the process of clients sorting between transactional cash and cash held for investment is subsiding. Aligned with market consensus, we do not expect to see a significant increase in market rates in the near term. Over the course of 2020, we expect to further reduce our exposure to lower rates primarily by adding a larger percentage of fixed-rate securities with relatively longer duration to our ongoing purchases as a result of maturities, prepayments, organic deposit growth, on-boarding of USAA-IMCO client cash to our balance sheet, and any potential asset-liability-management-driven investment portfolio re-balancing. As such, we expect the duration difference between our liabilities and assets to decline over the course of 2020.

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,	2019			2018			2017		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets									
Cash and cash equivalents	$ 23,512	$ 518	2.17 %	$ 17,783	$ 348	1.93 %	$ 9,931	$ 109	1.10 %
Cash and investments segregated	15,694	345	2.17 %	11,461	206	1.78 %	18,525	166	0.90 %
Broker-related receivables	376	7	1.87 %	303	6	2.09 %	430	3	0.70 %
Receivables from brokerage clients	19,270	821	4.20 %	19,870	830	4.12 %	16,269	575	3.53 %
Available for sale securities [1]	58,181	1,560	2.67 %	54,542	1,241	2.26 %	53,040	815	1.54 %
Held to maturity securities	134,708	3,591	2.65 %	131,794	3,348	2.53 %	103,599	2,354	2.27 %
Bank loans	16,832	584	3.47 %	16,554	559	3.37 %	15,919	472	2.97 %
Total interest-earning assets	268,573	7,426	2.75 %	252,307	6,538	2.57 %	217,713	4,494	2.06 %
Other interest revenue		154			142			130	
Total interest-earning assets	$ 268,573	$ 7,580	2.80 %	$ 252,307	$ 6,680	2.63 %	$ 217,713	$ 4,624	2.12 %
Funding sources									
Bank deposits	$ 212,605	$ 700	0.33 %	$ 199,139	$ 545	0.27 %	$ 163,998	$ 148	0.09 %
Payables to brokerage clients	24,353	79	0.33 %	21,178	56	0.27 %	25,403	16	0.06 %
Short-term borrowings [2]	17	—	2.36 %	3,359	54	1.59 %	3,503	41	1.17 %
Long-term debt	7,199	258	3.58 %	5,423	190	3.50 %	3,431	119	3.47 %
Total interest-bearing liabilities	244,174	1,037	0.42 %	229,099	845	0.37 %	196,335	324	0.17 %
Non-interest-bearing funding sources	24,399			23,208			21,378		
Other interest expense		27			12			18	
Total funding sources	$ 268,573	$ 1,064	0.39 %	$ 252,307	$ 857	0.34 %	$ 217,713	$ 342	0.15 %
Net interest revenue		$ 6,516	2.41 %		$ 5,823	2.29 %		$ 4,282	1.97 %

[1] Amounts have been calculated based on amortized cost.
[2] Interest revenue or expense was less than $500,000 in the period or periods presented.

Net interest revenue increased $693 million or 12%, in 2019 from 2018, and $1.5 billion, or 36%, in 2018 from 2017, due to higher average investment yields and growth in interest earning assets.

Our net interest margin improved 12 basis points to 2.41% in 2019, driven primarily by higher average yields received on interest-earning assets in 2019 due largely to the net impact of the Federal Reserve's interest rate increases in 2018 and decreases in the third and fourth quarters of 2019. The increase in average yields on interest-earning assets was partially offset by higher average interest rates paid on bank deposits and other interest-bearing liabilities. The portfolio adjustments made in 2019 as described above helped to moderate the impact of the declining rate environment on our net interest margin.

Average interest-earning assets grew 6% from 2018 to 2019, primarily driven by higher bank deposits due to transfers from sweep money market funds to bank sweep, as well as higher client cash balances.

Our net interest margin improved 32 basis points to 2.29% in 2018, primarily as a result of the Federal Reserve's 2017 and 2018 interest rate increases, partially offset by higher interest rates paid on bank deposits and other interest-bearing liabilities. Average interest earning assets grew 16% from 2017 to 2018, primarily reflecting higher bank deposits due to transfers from sweep money market funds to bank sweep, as well as changes in client cash allocations, partially offset by client purchases of other assets. In March 2017, the Company transferred $24.7 billion of debt securities from the AFS category to the HTM category. The transfer had no effect on the overall net interest

margin. Short-term borrowings in 2018 and 2017 primarily included FHLB advances, which were used to provide temporary funding for investments ahead of deposit growth.

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.

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

Year Ended December 31,	2019			2018			2017		
	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	$ 173,558	$ 525	0.30 %	$ 141,018	$ 568	0.40 %	$ 160,735	$ 875	0.54 %
Fee waivers		—			—			(10)	
Schwab money market funds	173,558	525	0.30 %	141,018	568	0.40 %	160,735	865	0.54 %
Schwab equity and bond funds, ETFs, and CTFs [1]	267,213	298	0.11 %	222,830	302	0.14 %	172,809	266	0.15 %
Mutual Fund OneSource® and other non-transaction fee funds	191,552	606	0.32 %	210,429	680	0.32 %	215,333	706	0.33 %
Other third-party mutual funds and ETFs [2]	478,037	318	0.07 %	328,150	287	0.09 %	286,111	251	0.09 %
Total mutual funds, ETFs, and CTFs [1,3]	$ 1,110,360	1,747	0.16 %	$ 902,427	1,837	0.20 %	$ 834,988	2,088	0.25 %
Advice solutions [3]									
Fee-based	$ 246,888	1,198	0.49 %	$ 227,790	1,139	0.50 %	$ 203,794	1,043	0.51 %
Non-fee-based	70,191	—	—	62,813	—	—	48,936	—	—
Total advice solutions	$ 317,079	1,198	0.38 %	$ 290,603	1,139	0.39 %	$ 252,730	1,043	0.41 %
Other balance-based fees [1,4]	432,613	216	0.05 %	383,050	206	0.05 %	403,474	215	0.05 %
Other [5]		50			47			46	
Total asset management and administration fees		$ 3,211			$ 3,229			$ 3,392	

[1] Beginning in the first quarter of 2019, a change was made to move CTFs from other balance-based fees. Prior periods have been recast to reflect this change.
[2] Beginning in the fourth quarter of 2019, Schwab ETF OneSource™ was discontinued as a result of the elimination of online trading commissions for U.S. and Canadian-listed ETFs.
[3] Average client assets for advice solutions may also include the asset balances contained in the mutual fund and/or ETF categories listed above.
[4] Includes various asset-related fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees.
[5] Includes miscellaneous service and transaction fees relating to mutual funds and ETFs that are not balance-based.

Asset management and administration fees decreased by $18 million, or 1%, in 2019 from 2018, primarily due to lower sweep money market fund revenue as a result of transfers to bank and broker-dealer sweep in 2018 and early 2019, as well as client asset allocation choices including continued reduced usage of Mutual Fund OneSource®. Part of the decline was offset by revenue from growing asset balances in purchased money market funds, other third-party mutual funds and ETFs, and in advice solutions.

Asset management and administration fees decreased by $163 million, or 5%, in 2018 from 2017, primarily due to lower money market fund revenue as a result of transfers to bank sweep, client asset allocation choices, and lower fee rates on

proprietary money funds and other indexed mutual funds and ETFs due to fee reductions implemented by the Company in 2017. Part of the decline was offset by revenue from growing asset balances in advice solutions, Schwab equity and bond funds, ETFs, and CTFs, and other third-party mutual funds and ETFs.

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® and other non-transaction fee (NTF) funds. The following funds generated 45%, 48%, and 54% of the asset management and administration fees earned during 2019, 2018, and 2017, respectively:

	Schwab Money Market Funds			Schwab Equity and Bond Funds, ETFs, and CTFs [1]			Mutual Fund OneSource® and Other NTF Funds		
Year Ended December 31,	2019	2018	2017	2019	2018	2017	2019	2018	2017
Balance at beginning of period	$ 153,472	$ 163,650	$ 163,495	$ 209,471	$ 196,784	$ 138,524	$ 180,532	$ 225,202	$ 198,924
Net inflows (outflows)	44,077	(11,641)	(486)	26,039	31,169	31,127	(19,930)	(37,513)	(27,485)
Net market gains (losses) and other [2]	3,277	1,463	641	50,765	(18,482)	27,133	41,466	(7,157)	53,763
Balance at end of period	$ 200,826	$ 153,472	$ 163,650	$ 286,275	$ 209,471	$ 196,784	$ 202,068	$ 180,532	$ 225,202

[1] Beginning in the first quarter of 2019, CTFs are included in these balances. Prior periods have been recast to reflect this change.
[2] Includes net inflows from other third-party mutual funds to Mutual Fund OneSource® in the second quarter of 2017.

Trading Revenue

Trading revenue includes commission and principal transaction revenues. Commission revenue is affected by the number of revenue trades executed and the average revenue earned per revenue trade. Principal transaction revenue is primarily comprised of revenue from trading activity in fixed income securities with clients. To accommodate clients' fixed income trading activity, Schwab maintains positions in fixed income securities, including U.S. state and municipal debt obligations, U.S. Government and corporate debt, and other securities. The difference between the price at which the Company buys and sells securities to and from its clients and other broker-dealers is recognized as principal transaction revenue. Principal transaction revenue also includes adjustments to the fair value of these securities positions.

The following table presents trading revenue and the related drivers:

Year Ended December 31,	Growth Rate 2018-2019	2019	2018	2017
DARTs (in thousands)	(20 %)	338.4	420.9	321.3
Daily average trades (in thousands)	(2 %)	748.9	765.4	608.8
Number of trading days	—	250.5	249.5	250.0
Daily average revenue per revenue trade	—	$ 7.26	$ 7.23	$ 8.20
Trading revenue	(19 %)	$ 617	$ 763	$ 654

Trading revenue decreased by $146 million, or 19%, in 2019 compared to 2018. The decrease was primarily due to a 20% decrease in DART volumes in 2019 as a result of the elimination of online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options effective October 7, 2019.

Trading revenue increased by $109 million, or 17%, in 2018 compared to 2017. This increase was due primarily to a 31% increase in DART volumes in 2018, which more than offset Schwab's 2017 commission pricing reductions to lower standard equity, ETF, and option trade commissions from $8.95 to $4.95 and lower the per contract option fee from $.75 to $.65.

Other Revenue

Other revenue includes order flow revenue, other service fees, software fees from our portfolio management solutions, exchange processing fees, and non-recurring gains. Other revenue increased $60 million, or 19%, in 2019 compared to 2018 due primarily to a gain from the sale of a portfolio management and reporting software solution for advisors to Tamarac Inc. in the second quarter of 2019 and a gain from the assignment of leased office space in the first quarter of 2019. Order flow revenue was $135 million during 2019, $139 million for 2018, and $114 million in 2017. The increase in 2018 from 2017 was primarily due to higher rebate rates received on certain types of orders and higher volume of trades.

Total Expenses Excluding Interest

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

	Growth Rate 2018-2019	2019	2018	2017
Compensation and benefits				
Salaries and wages	16 %	$ 1,958	$ 1,692	$ 1,496
Incentive compensation	(6 %)	804	855	797
Employee benefits and other	9 %	558	510	444
Total compensation and benefits	9 %	$ 3,320	$ 3,057	$ 2,737
Professional services	7 %	702	654	580
Occupancy and equipment	13 %	559	496	436
Advertising and market development	(2 %)	307	313	268
Communications	5 %	253	242	231
Depreciation and amortization	14 %	349	306	269
Regulatory fees and assessments	(35 %)	122	189	179
Other	(17 %)	261	313	268
Total expenses excluding interest	5 %	$ 5,873	$ 5,570	$ 4,968
Expenses as a percentage of total net revenues				
Compensation and benefits		31 %	30 %	32 %
Advertising and market development		3 %	3 %	3 %
Full-time equivalent employees (in thousands)				
At year end	1 %	19.7	19.5	17.6
Average	7 %	20.0	18.7	16.9

Expenses excluding interest increased in 2019 and 2018 from the prior years by 5% and 12%, respectively. The largest driver of the increase in both years was compensation and benefits costs.

Total compensation and benefits increased in 2019 from 2018, primarily due to both an overall increase in employee headcount to support our expanding client base and higher severance costs, which included $62 million associated with a 3% reduction in our workforce in the third quarter of 2019. The increase in 2018 from 2017 was primarily due to increases in employee headcount; additionally, special stock awards were issued in 2018 to non-officer employees, totaling $36 million.

Professional services expense increased in 2019 from 2018, primarily due to overall growth in the business, investments in projects to further drive efficiency and scale, and certain costs relating to pending acquisitions. The increase in 2018 from 2017 was primarily due to higher spending on technology projects as well as an increase in asset management and administration related expenses resulting from growth in the Schwab Funds® and Schwab ETFs™.

Occupancy and equipment expense increased in 2019 and 2018 from the prior years, primarily due to increases in software maintenance expenses and additional licenses to support growth in the business.

Advertising and market development expense increased in 2018 from 2017, primarily reflecting management's decision to increase television advertising and digital media spending in the fourth quarter of 2018.

Depreciation and amortization expenses grew in 2019 and 2018 from the prior years, primarily due to higher amortization of internally developed software associated with continued investments in software and technology enhancements.

Regulatory fees and assessments decreased in 2019 from 2018, primarily due to a decrease in FDIC insurance assessments resulting from the elimination of the FDIC surcharge in the fourth quarter of 2018. Regulatory fees and assessments

increased in 2018 from 2017, due to an increase in FDIC insurance assessments which rose as a result of higher average assets in deposit balances, partially offset by the elimination of the FDIC surcharge.

Other expenses decreased in 2019 from 2018, primarily due to lower travel and entertainment expense and bad debt expense. Other expenses increased in 2018 from 2017 due to travel and entertainment and miscellaneous items due to overall growth in the business.

Capital expenditures were $753 million, $576 million, and $412 million in 2019, 2018, and 2017, respectively. The increases in capital expenditures in 2019 and 2018 from the prior years were primarily due to the expansion of our campuses in the U.S., with investments in buildings totaling $397 million and $253 million in 2019 and 2018, respectively. Capitalized costs for developing internal-use software totaled $165 million, $167 million, and $157 million in 2019, 2018, and 2017, respectively.

Our capital expenditures for 2019 equaled 7% of total net revenues, within our estimated range for the year. Along with continued campus expansion, we will continue to invest further in technology projects in 2020. Excluding any potential impact of the pending acquisition of TD Ameritrade, we anticipate capital expenditures in 2020 to be approximately 5-6% of total net revenues, while our longer term expectation for capital expenditures remains in the range of 3-5% of total net revenues.

Taxes on Income

On December 22, 2017, P.L.115-97, the Tax Act, was signed into law, and became effective on January 1, 2018. Among other things, the Tax Act lowered the federal corporate income tax rate from 35% to 21% beginning in 2018. As a result of the Tax Act, Schwab recognized a $46 million one-time non-cash charge to taxes on income in the fourth quarter of 2017 associated with the remeasurement of net deferred tax assets and other tax adjustments related to the Tax Act.

Schwab's effective income tax rate on income before taxes was 23.6% in 2019, 23.1% in 2018, and 35.5% in 2017. The change in rates in 2019 from 2018 was primarily due to a decrease in equity compensation tax deduction benefits which reduced our tax expense by approximately $23 million and $46 million in 2019 and 2018, respectively. The change in rates in 2018 from 2017 was primarily due to impacts of the Tax Act and a decrease in equity compensation tax deduction benefits, which totaled $87 million in 2017.

Segment Information

Schwab provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking 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 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. 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 platform.

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

	Investor Services				Advisor Services				Total			
Year Ended December 31,	Growth Rate 2018-2019	2019	2018	2017	Growth Rate 2018-2019	2019	2018	2017	Growth Rate 2018-2019	2019	2018	2017
Net Revenues												
Net interest revenue	8 %	$ 4,685	$ 4,341	$ 3,231	24 %	$ 1,831	$ 1,482	$ 1,051	12 %	$ 6,516	$ 5,823	$ 4,282
Asset management and administration fees	1 %	2,289	2,260	2,344	(5 %)	922	969	1,048	(1 %)	3,211	3,229	3,392
Trading revenue	(20 %)	378	475	408	(17 %)	239	288	246	(19 %)	617	763	654
Other	11 %	271	245	217	47 %	106	72	73	19 %	377	317	290
Total net revenues	4 %	7,623	7,321	6,200	10 %	3,098	2,811	2,418	6 %	10,721	10,132	8,618
Expenses Excluding Interest	3 %	4,284	4,145	3,725	12 %	1,589	1,425	1,243	5 %	5,873	5,570	4,968
Income before taxes on income	5 %	$ 3,339	$ 3,176	$ 2,475	9 %	$ 1,509	$ 1,386	$ 1,175	6 %	$ 4,848	$ 4,562	$ 3,650
Net new client assets (in billions) [1]	N/M	$ 115.6	$ 19.4	$ 123.7	(6 %)	$ 107.2	$ 114.5	$ 109.4	66 %	$ 222.8	$ 133.9	$ 233.1

[1] Investor Services includes inflows of $11.1 billion and $34.5 billion in 2019 and 2017, respectively, and outflows of $93.9 billion in 2018 from certain mutual fund clearing services clients.
N/M Not meaningful.

Investor Services

Total net revenues increased by 4% in 2019 from 2018 primarily due to an increase in net interest revenue and higher asset management and administrations fees, partially offset by lower trading revenue. Net interest revenue increased primarily due to higher average investment yields and higher interest-earning assets. Asset management and administration fees increased primarily due to growing asset balances in advice solutions, partially offset by lower mutual fund and ETF service fee revenue as a result of client cash allocation choices, including reduced usage of Mutual Fund OneSource®. Trading revenue decreased as a result of the elimination of online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options in the fourth quarter of 2019.

Expenses excluding interest increased by 3% in 2019 compared to 2018, primarily as a result of higher compensation and benefits due to increased headcount in 2019 and severance charges in the third quarter of 2019, higher occupancy and equipment expenses due to an increase in software maintenance expenses and additional licenses to support growth in the business, and higher amortization of internally developed software associated with continued investments in software and technology enhancements. These increases were partially offset by a decrease in FDIC insurance assessments due to the elimination of the FDIC surcharge in the fourth quarter of 2018 and lower travel and entertainment expenses.

Total net revenues increased by $1.1 billion, or 18%, in 2018 from 2017 primarily due to an increase in net interest revenue, partially offset by lower asset management and administration fees. Net interest revenue increased primarily due to higher net interest margins and higher balances of interest-earning assets. Asset management and administration fees decreased primarily due to lower money market fund revenue as a result of transfers to bank sweep, client asset allocation choices, and our 2017 fee reductions. Expenses excluding interest increased by $420 million, or 11%, in 2018 from 2017 primarily due to higher compensation and benefits, technology project spend, and asset management and administration related expenses to support the Company's expanding client base.

Advisor Services

Total net revenues increased by 10%, in 2019 from 2018 primarily due to an increase in net interest revenue and other revenue, partially offset by lower asset management and administration fees and lower trading revenue. Net interest revenue increased primarily due to higher average investment yields and higher interest-earning assets. Other revenue increased primarily due to a gain from the sale of a portfolio management and reporting software solution for advisors to Tamarac Inc. in the second quarter of 2019. Asset management and administration fees decreased primarily due to lower sweep money market fund revenue as a result of transfers to bank and broker-dealer sweep, as well as client asset allocation choices, including reduced usage of Mutual Fund OneSource®, partially offset by increased revenue from growing asset balances in purchased money market funds and in other third-party mutual funds and ETFs. Trading revenue decreased as a result of the

elimination of online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options in the fourth quarter of 2019.

Expenses excluding interest increased by 12% of 2019 compared to 2018, primarily due to higher compensation and benefits due to increased headcount in 2019 and severance charges in the third quarter of 2019, higher professional services expense due to overall growth in the business and investments in projects to further drive efficiency and scale, and higher occupancy and equipment expense due to an increase in software maintenance expenses and additional licenses to support growth in the business. These increases were partially offset by a decrease in FDIC insurance assessments due to the elimination of the FDIC surcharge in the fourth quarter of 2018, lower bad debt expenses, and lower travel and entertainment expenses.

Total net revenues increased by $393 million or 16%, in 2018 from 2017 primarily due to an increase in net interest revenue, partially offset by lower asset management and administration fees. Net interest revenue increased primarily due to higher net interest margins and higher balances of interest-earning assets. Asset management and administration fees decreased primarily due to lower money market fund revenue as a result of transfers to bank sweep, client asset allocation choices, and our 2017 fee reductions. Expenses excluding interest increased by $182 million, or 15%, in 2018 from 2017 primarily due to higher compensation and benefits, technology project spend, and asset management and administration related expenses to support the Company's expanding client base.

RISK MANAGEMENT

Schwab's business activities expose it to a variety of risks, including operational, credit, market, liquidity, and compliance 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 measurement, risk monitoring and reporting, and risk mitigation controls; 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.

Culture

The Board of Directors has approved an Enterprise Risk Management (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 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, compliance, 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, Fraud, Third-Party Risk, Data, and Model Governance;
- Compliance Risk Committee – provides oversight of compliance risk management programs and policies providing an aggregate view of compliance risk exposure and employee conduct, including subcommittees covering Fiduciary and Conflicts of Interest Risk and International Compliance Risk;
- Financial Risk Oversight Committee – provides oversight of and approves credit, market, liquidity, and capital risk policies, limits, and exposures; 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 compliance, 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 people, internal processes, and systems, or from external events or relationships impacting the Company and/or any of its key business partners and third parties. 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, 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 limit the number of employees who have access to clients' personal information and internal authentication measures are enforced to protect against the potential for social engineering. 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 any 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 contractual provisions, control standards, ongoing monitoring of third party performance, and appropriate testing. We also maintain policies and procedures regarding the standard of care expected with all data, whether the data is internal company information, employee information, or non-public client information. We clearly define for employees, contractors, and third parties the expected standards of care for critical and confidential data. We also provide regular training on data security.

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 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.

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.

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, client privacy, and employment policies.

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 a policy, procedures, a system of internal

controls, including personnel monitoring and surveillance. Conduct-related matters are escalated through appropriate channels by the Corporate Responsibility Officer.

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.

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, 2019, 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, 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 loan 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 6.

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.

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 Schwab.

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 interest rate risk primarily from changes in market interest rates on 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 risk. To remain within these limits, we manage the maturity, repricing, and cash flow characteristics of the investment portfolios. 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 or economic value of equity. 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.

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 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 primarily include investment securities, margin loans and bank loans. 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. The following table shows the simulated net interest revenue change over the next 12 months beginning December 31, 2019 and 2018 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,	2019	2018
Increase of 100 basis points	4.8%	4.4%
Decrease of 100 basis points	(7.4%)	(4.9%)

The year-over-year change in net interest revenue sensitivities reflects lower interest rates across the yield curve, producing higher adverse sensitivity to lower rates as funding costs more rapidly reach rate floor assumptions.

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.

Economic Value of Equity Simulation

Management also uses economic value of equity (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.

Expected Phase-out of LIBOR

The Company has established a firm-wide team to address the likely discontinuation of LIBOR. As part of our efforts, we have inventoried our LIBOR exposures, the largest of which are certain investment securities and loans. In purchasing new investment securities, we ensure that appropriate fall-back language is in the security's prospectus in the event that LIBOR is unavailable or deemed unreliable. We are updating loan agreements to ensure new LIBOR-based loans adequately provide for an alternative to LIBOR. Furthermore, we plan to phase-out the use of LIBOR as a reference rate in our new lending products before December 2021. Consistent with our "Through Clients' Eyes" strategy, our focus throughout the LIBOR transition process is to ensure clients are treated fairly and consistently as this major change is occurring in the financial markets. The market transition process has not yet progressed to a point at which the impact to the Company's consolidated financial statements of LIBOR's discontinuation can be estimated.

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, 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 CS&Co are primarily driven by client activity including trading and margin borrowing activities and capital expenditures. The capital needs of the banking subsidiaries are primarily driven by client deposits. 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 scenarios to support liquidity levels during both business as usual and stressed conditions.

We employ a variety of methodologies to monitor and manage liquidity. We conduct regular liquidity stress testing to develop a consolidated view of liquidity risk exposures and to ensure our ability to maintain sufficient liquidity during market-related or company-specific liquidity stress events. Liquidity is also tested at key subsidiaries 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.

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, 2019:

Description	Borrower	Outstanding	Available
Federal Home Loan Bank secured credit facility [1]	Banking subsidiaries	$ —	$ 34,207
Federal Reserve discount window [2]	Banking subsidiaries	—	8,536
Uncommitted, unsecured lines of credit with various external banks	CSC, CS&Co	—	1,642
Unsecured commercial paper [3]	CSC	—	750
Committed, unsecured credit facility with various external banks [4]	CSC	—	750

[1] Amounts available are dependent on the amount of First Mortgages, HELOCs, and the fair value of certain investment securities that are pledged as collateral.
[2] Amounts available are dependent on the fair value of certain investment securities that are pledged as collateral.
[3] CSC has authorization from its Board of Directors to issue Commercial Paper Notes not to exceed $1.5 billion. Management has set a current limit not to exceed the amount of the committed, unsecured credit facility.
[4] Other than an overnight borrowing to test availability, this facility was unused during 2019.

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.

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.

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, 2019 and 2018, and CSC had no Commercial Paper Notes outstanding at December 31, 2019 or 2018.

The financial covenants for the $750 million committed credit facility require CS&Co to maintain a minimum net capital ratio, all bank subsidiaries to be well capitalized, and CSC to maintain a minimum level of stockholders' equity, adjusted to exclude AOCI. At December 31, 2019, the minimum level of stockholders' equity required under this facility was $16.0 billion (CSC's stockholders' equity, excluding AOCI, at December 31, 2019 was $21.7 billion). Management believes these restrictions will not have a material effect on CSC's ability to meet foreseeable dividend or funding requirements.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, CS&Co has unsecured standby letter of credit agreements (LOCs) with several banks in favor of the Options Clearing Corporation aggregating $20 million at December 31, 2019. There were no funds drawn under any of these LOCs during 2019 or 2018. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The collateral requirements were satisfied by providing cash as collateral.

CSC has a universal automatic shelf registration statement on file with the SEC, which enables it to issue debt, equity, and other securities.

Liquidity Coverage Ratio

As Schwab's consolidated balance sheet assets were above $250 billion at December 31, 2018, Schwab became subject to the non-modified LCR rule on April 1, 2019. The Company was in compliance with the LCR rule at December 31, 2019. See Business – Regulation in Part I, Item 1 for information on recently issued rules that impact Schwab's LCR requirements.

The table below presents information about our average LCR:

	Average for the Three Months Ended December 31, 2019
Total eligible HQLA	$ 54,494
Net cash outflows	$ 48,135
LCR	113 %

Borrowings

The Company had no short-term borrowings outstanding as of December 31, 2019 or 2018. Long-term debt outstanding was $7.4 billion and $6.9 billion at December 31, 2019 and 2018, respectively.

The following are details of the Senior Notes:

December 31, 2019	Par Outstanding	Maturity	Weighted-Average Interest Rate	Moody's	Standard & Poor's	Fitch
Senior Notes	$ 7,481	2020 - 2029	3.34%	A2	A	A

New Debt Issuances

All debt issuances in 2019, 2018, and 2017 were senior unsecured obligations. Additional details are as follows:

Issuance Date	Issuance Amount	Maturity Date	Interest Rate	Interest Payable
March 2, 2017	$ 650	3/2/2027	3.200%	Semi-annually
December 7, 2017	$ 700	1/25/2028	3.200%	Semi-annually
December 7, 2017	$ 800	1/25/2023	2.650%	Semi-annually
May 22, 2018	$ 600	5/21/2021	Three-month LIBOR + 0.32%	Quarterly
May 22, 2018	$ 600	5/21/2021	3.250%	Semi-annually
May 22, 2018	$ 750	5/21/2025	3.850%	Semi-annually
October 31, 2018	$ 500	2/1/2024	3.550%	Semi-annually
October 31, 2018	$ 600	2/1/2029	4.000%	Semi-annually
May 22, 2019	$ 600	5/22/2029	3.250%	Semi-annually

Equity Issuances and Redemptions

CSC did not issue any equity through external offerings during 2019 or 2018. CSC's preferred stock issued and net proceeds for 2017 are as follows:

	Date Issued and Sold	Net Proceeds
Series F	October 31, 2017	$ 492

On December 1, 2017, CSC redeemed all of the 485,000 outstanding shares of its 6.00% Non-Cumulative Perpetual Preferred Stock, Series B (Series B Preferred Stock), and the corresponding 19,400,000 depositary shares, each representing a 1/40th interest in a share of the Series B Preferred Stock.

For further discussion of CSC's long-term debt and information on the equity offerings, see Item 8 – Note 12 and Note 17.

Acquisition of USAA-IMCO

We expect to utilize cash generated from operations to fund the $1.8 billion purchase of assets from USAA-IMCO. The transaction is expected to close in mid-2020, subject to satisfaction of closing conditions, including regulatory approvals and the implementation of conversion plans.

Off-Balance Sheet Arrangements

Schwab enters into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients. These arrangements include firm commitments to extend credit. Additionally, Schwab enters into guarantees and other similar arrangements in the ordinary course of business. For information on each of these arrangements, see Item 8 – Note 6, Note 10, Note 12, Note 14, and Note 15.

Contractual Obligations

Schwab's principal contractual obligations as of December 31, 2019 are shown in the following table. Excluded from this table are liabilities recorded on the consolidated balance sheets that are generally short-term in nature or without contractual payment terms (e.g., bank deposits, payables to brokerage clients, and deferred compensation). The below table also excludes the planned all-stock acquisition of TD Ameritrade and any expenses related to the acquisition.

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Credit-related financial instruments [1]	$ 3,033	$ 3,495	$ 4,549	$ 1,501	$ 12,578
Long-term debt [2]	947	1,842	1,615	4,389	8,793
Purchase obligations [3]	2,061	225	46	44	2,376
Leases [4]	141	236	173	268	818
Total	$ 6,182	$ 5,798	$ 6,383	$ 6,202	$ 24,565

[1] Represents CSB's commitments to extend credit to banking clients, purchase mortgage loans, and commitments to fund CRA investments.
[2] Includes estimated future interest payments through 2029 for Senior Notes. Amounts exclude unamortized discounts and premiums.
[3] Consists of purchase obligations for services such as advertising and marketing, telecommunications, professional services, and hardware- and software-related agreements. Also includes $1.8 billion for the planned acquisition of USAA-IMCO assets; other costs related to the USAA-IMCO acquisition are excluded. (See Item 8 – Note 14).
[4] Represents operating lease payments including legally-binding minimum lease payments for leases signed but not yet commenced.

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, 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'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. Our capital management in coming quarters will incorporate preparations for closing the USAA-IMCO transaction, including the allocation of capital to support client cash that will be added to our balance sheet.

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. When subsidiaries have need of additional capital, funds are provided by CSC as equity investments and also as subordinated loans (in a form approved as regulatory capital by regulators) for CS&Co. 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 must 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%; however, management seeks to maintain a ratio of at least 6%. 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.

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, 2019, CSB is considered well capitalized.

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

December 31,	2019 [1]		2018	
	CSC	CSB	CSC	CSB
Total stockholders' equity	$ 21,745	$ 14,832	$ 20,670	$ 15,615
Less:				
Preferred Stock	2,793	—	2,793	—
Common Equity Tier 1 Capital before regulatory adjustments	$ 18,952	$ 14,832	$ 17,877	$ 15,615
Less:				
Goodwill, net of associated deferred tax liabilities	$ 1,184	$ 13	$ 1,188	$ 13
Other intangible assets, net of associated deferred tax liabilities	104	—	125	—
Deferred tax assets, net of valuation allowances and deferred tax liabilities	4	—	3	1
AOCI adjustment [1]	—	—	(252)	(231)
Common Equity Tier 1 Capital	$ 17,660	$ 14,819	$ 16,813	$ 15,832
Tier 1 Capital	$ 20,453	$ 14,819	$ 19,606	$ 15,832
Total Capital	20,472	14,837	19,628	15,853
Risk-Weighted Assets	90,512	71,521	95,441	80,513
Total Leverage Exposure [1]	286,813	216,582	N/A	N/A
Common Equity Tier 1 Capital/Risk-Weighted Assets	19.5 %	20.7 %	17.6 %	19.7 %
Tier 1 Capital/Risk-Weighted Assets	22.6 %	20.7 %	20.5 %	19.7 %
Total Capital/Risk-Weighted Assets	22.6 %	20.7 %	20.6 %	19.7 %
Tier 1 Leverage Ratio	7.3 %	7.1 %	7.1 %	7.2 %
Supplementary Leverage Ratio [1]	7.1 %	6.8 %	N/A	N/A

[1] Beginning in 2019, CSC and CSB were required to include all components of AOCI in regulatory capital and report our supplementary leverage ratio, which is calculated as Tier 1 capital divided by total leverage exposure. Total leverage exposure includes all on-balance sheet assets and certain off-balance sheet exposures, including unused commitments. Prior to 2019, CSC and CSB elected to opt-out of the requirement to include most components of AOCI in Common Equity Tier 1 Capital; the amounts and ratios for December 31, 2018 are presented on this basis. In the interagency regulatory capital and liquidity rules adopted in October 2019, Category III banking organizations such as CSC were given the ability to opt-out of the inclusion of AOCI in regulatory capital, and CSC made this opt-out election effective as of January 1, 2020. See Business – Regulation in Part I, Item 1 for additional information on recently issued rules that impact Schwab's regulatory capital requirements.

N/A Not applicable.

CSB is also subject to regulatory requirements that restrict and govern the terms of affiliate transactions. In addition, CSB is required to provide notice to, and may be required to obtain approval from, the OCC and the Federal Reserve to declare dividends to CSC.

As a broker-dealer, CS&Co is 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 CS&Co from paying cash dividends, making unsecured advances and loans to the parent company and employees, and repaying subordinated borrowings from CSC if such payment would result in a net capital amount below prescribed thresholds. At December 31, 2019, CS&Co was in compliance with its 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 21 for additional information on the components of stockholders' equity and information on the capital requirements of significant subsidiaries.

Dividends

Since the initial dividend in 1989, CSC has paid 123 consecutive quarterly dividends and has increased the quarterly dividend rate 24 times, resulting in a 21% 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 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 2018 and 2019 as shown below:

Date of Declaration	Quarterly Cash Increase Per Common Share	% Increase	New Quarterly Dividend Per Common Share
January 25, 2018	$ 0.02	25 %	$ 0.10
July 25, 2018	0.03	30 %	0.13
January 30, 2019	0.04	31 %	0.17

In addition, on January 30, 2020, the Board of Directors of the Company declared a one cent, or 6%, increase in the quarterly cash dividend to $0.18 per common share.

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

Year Ended December 31,	2019		2018	
	Cash Paid	Per Share Amount	Cash Paid	Per Share Amount
Common Stock	$ 898	$ 0.68	$ 623	$ 0.46
Series A Preferred Stock [1]	28	70.00	28	70.00
Series C Preferred Stock [2]	36	60.00	36	60.00
Series D Preferred Stock [2]	45	59.52	45	59.52
Series E Preferred Stock [3]	28	4,625.00	28	4,625.00
Series F Preferred Stock [4]	25	5,000.00	27	5,430.56

[1] Dividends paid semi-annually until February 1, 2022 and quarterly thereafter.
[2] Dividends paid quarterly.
[3] Dividends paid semi-annually until March 1, 2022 and quarterly thereafter.
[4] Dividends paid semi-annually beginning on June 1, 2018 until December 1, 2027, and quarterly thereafter.

Share Repurchases

On January 30, 2019, CSC publicly announced that its Board of Directors authorized the repurchase of up to $4.0 billion of common stock. The authorization does not have an expiration date. During 2019, CSC repurchased 55 million shares of its common stock for $2.2 billion, leaving $1.8 billion remaining on our existing authorization as of December 31, 2019.

On October 25, 2018, CSC publicly announced that its Board of Directors terminated the existing two share repurchase authorizations and replaced them with a new authorization to repurchase up to $1.0 billion of common stock. CSC repurchased 22 million shares of its common stock for $1.0 billion in 2018, completing all repurchases under this authorization.

FOREIGN EXPOSURE

At December 31, 2019, Schwab had exposure to non-sovereign financial and non-financial institutions in foreign countries, as well as agencies of foreign governments. At December 31, 2019, the fair value of these holdings totaled $6.4 billion, with the top three exposures being to issuers and counterparties domiciled in France at $3.1 billion, the Netherlands at $845 million, and Sweden at $684 million.

In addition to the direct holdings in foreign companies and securities issued by foreign government agencies, Schwab had outstanding margin loans to foreign residents of $437 million at December 31, 2019.

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 16 for more information on our assets and liabilities recorded at fair value.

When available, Schwab 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, we use the price within the bid-ask spread that best represents fair value. When quoted prices in active markets do not exist, prices are obtained from independent third-party pricing services to measure the fair value of investment assets. We generally obtain prices from three independent pricing sources for assets recorded at fair value. Our primary third-party 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. At December 31, 2019 and 2018, we did not adjust prices received from the primary independent third-party pricing service.

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 connection with its application of 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 reported 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 20 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 14 for more information on the Company's contingencies related to legal and regulatory reserves.

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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Consolidated Statements of Income

(In Millions, Except Per Share Amounts)

Year Ended December 31,	2019	2018	2017
Net Revenues			
Interest revenue	$ 7,580	$ 6,680	$ 4,624
Interest expense	(1,064)	(857)	(342)
Net interest revenue	6,516	5,823	4,282
Asset management and administration fees	3,211	3,229	3,392
Trading revenue	617	763	654
Other	377	317	290
Total net revenues	10,721	10,132	8,618
Expenses Excluding Interest			
Compensation and benefits	3,320	3,057	2,737
Professional services	702	654	580
Occupancy and equipment	559	496	436
Advertising and market development	307	313	268
Communications	253	242	231
Depreciation and amortization	349	306	269
Regulatory fees and assessments	122	189	179
Other	261	313	268
Total expenses excluding interest	5,873	5,570	4,968
Income before taxes on income	4,848	4,562	3,650
Taxes on income	1,144	1,055	1,296
Net Income	3,704	3,507	2,354
Preferred stock dividends and other [1]	178	178	174
Net Income Available to Common Stockholders	$ 3,526	$ 3,329	$ 2,180
Weighted-Average Common Shares Outstanding:			
Basic	1,311	1,348	1,339
Diluted [2]	1,320	1,361	1,353
Earnings Per Common Shares Outstanding:			
Basic	$ 2.69	$ 2.47	$ 1.63
Diluted [2]	$ 2.67	$ 2.45	$ 1.61

[1] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.
[2] Antidilutive stock options and restricted stock units excluded from the calculation of diluted EPS totaled 21 million, 18 million, and 15 million shares in 2019, 2018, and 2017, respectively.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(In Millions)

Year Ended December 31,	2019	2018	2017
Net income	$ 3,704	$ 3,507	$ 2,354
Other comprehensive income (loss), before tax:			
Change in net unrealized gain (loss) on available for sale securities:			
Net unrealized gain (loss)	430	(123)	13
Reclassification of net unrealized loss transferred to held to maturity	—	—	227
Other reclassifications included in other revenue	(6)	—	(12)
Change in net unrealized gain (loss) on held to maturity securities:			
Reclassification of net unrealized loss transferred from available for sale	—	—	(227)
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	36	35	31
Other	(14)	(1)	(11)
Other comprehensive income (loss), before tax	446	(89)	21
Income tax effect	(106)	22	(10)
Other comprehensive income (loss), net of tax	340	(67)	11
Comprehensive Income	$ 4,044	$ 3,440	$ 2,365

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(In Millions, Except Per Share and Share Amounts)

December 31,	2019	2018
Assets		
Cash and cash equivalents	$ 29,345	$ 27,938
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $9,028 and $7,195 at December 31, 2019 and 2018, respectively)	20,483	13,563
Receivables from brokerage clients — net	21,767	21,651
Available for sale securities	61,422	66,578
Held to maturity securities	134,706	144,009
Bank loans — net	18,212	16,609
Equipment, office facilities, and property — net	2,128	1,769
Goodwill	1,227	1,227
Other assets	4,715	3,138
Total assets	$ 294,005	$ 296,482
Liabilities and Stockholders' Equity		
Bank deposits	$ 220,094	$ 231,423
Payables to brokerage clients	39,220	32,726
Accrued expenses and other liabilities	5,516	4,785
Long-term debt	7,430	6,878
Total liabilities	272,260	275,812
Stockholders' equity:		
Preferred stock — $.01 par value per share; aggregate liquidation preference of $2,850	2,793	2,793
Common stock — 3 billion shares authorized; $.01 par value per share; 1,487,543,446 shares issued	15	15
Additional paid-in capital	4,656	4,499
Retained earnings	19,960	17,329
Treasury stock, at cost — 201,818,100 and 155,116,695 shares at December 31, 2019 and 2018, respectively	(5,767)	(3,714)
Accumulated other comprehensive income (loss)	88	(252)
Total stockholders' equity	21,745	20,670
Total liabilities and stockholders' equity	$ 294,005	$ 296,482

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

(In Millions)

	Preferred Stock	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Income (Loss)	Total
		Shares	Amount					
Balance at December 31, 2016	$ 2,783	1,488	$ 15	$ 4,267	$ 12,649	$ (3,130)	$ (163)	$ 16,421
Net income	—	—	—	—	2,354	—	—	2,354
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	11	11
Issuance of preferred stock, net	492	—	—	—	—	—	—	492
Redemption of preferred stock	(482)				(3)			(485)
Dividends declared on preferred stock	—	—	—	—	(161)	—	—	(161)
Dividends declared on common stock — $.32 per share	—	—	—	—	(431)	—	—	(431)
Stock option exercises and other	—	—	—	(88)	—	259	—	171
Share-based compensation	—	—	—	144	—	—	—	144
Other	—	—	—	30	—	(21)	—	9
Balance at December 31, 2017	2,793	1,488	15	4,353	14,408	(2,892)	(152)	18,525
Adoption of accounting standards	—	—	—	—	200	—	(33)	167
Net income	—	—	—	—	3,507	—	—	3,507
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(67)	(67)
Dividends declared on preferred stock	—	—	—	—	(164)	—	—	(164)
Dividends declared on common stock — $.46 per share	—	—	—	—	(624)	—	—	(624)
Repurchase of common stock	—	—	—	—	—	(1,000)	—	(1,000)
Stock option exercises and other	—	—	—	(84)	—	209	—	125
Share-based compensation	—	—	—	188	—	—	—	188
Other	—	—	—	42	2	(31)	—	13
Balance at December 31, 2018	2,793	1,488	15	4,499	17,329	(3,714)	(252)	20,670
Net income	—	—	—	—	3,704	—	—	3,704
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	340	340
Dividends declared on preferred stock	—	—	—	—	(161)	—	—	(161)
Dividends declared on common stock — $.68 per share	—	—	—	—	(899)	—	—	(899)
Repurchase of common stock	—	—	—	—	—	(2,220)	—	(2,220)
Stock option exercises and other	—	—	—	(56)	—	174	—	118
Share-based compensation	—	—	—	171	—	—	—	171
Other	—	—	—	42	(13)	(7)	—	22
Balance at December 31, 2019	$ 2,793	1,488	$ 15	$ 4,656	$ 19,960	$ (5,767)	$ 88	$ 21,745

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(In Millions)

Year Ended December 31,	2019	2018	2017
Cash Flows from Operating Activities			
Net income	$ 3,704	$ 3,507	$ 2,354
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Share-based compensation	183	197	153
Depreciation and amortization	349	306	269
Provision (benefit) for deferred income taxes	2	49	58
Premium amortization, net, on available for sale and held to maturity securities	446	350	342
Other	199	137	51
Net change in:			
Investments segregated and on deposit for regulatory purposes	(977)	6,922	4,933
Receivables from brokerage clients	(125)	(1,100)	(3,428)
Other assets	(709)	(8)	(193)
Payables to brokerage clients	6,494	1,483	(4,651)
Accrued expenses and other liabilities	(241)	613	(727)
Net cash provided by (used for) operating activities	9,325	12,456	(839)
Cash Flows from Investing Activities			
Purchases of available for sale securities	(31,815)	(32,801)	(15,033)
Proceeds from sales of available for sale securities	24,495	115	8,617
Principal payments on available for sale securities	21,616	16,016	9,095
Purchases of held to maturity securities	(19,441)	(40,873)	(32,925)
Principal payments on held to maturity securities	19,606	17,410	11,627
Net change in bank loans	(1,730)	(129)	(1,071)
Purchases of equipment, office facilities, and property	(708)	(570)	(400)
Purchases of Federal Home Loan Bank stock	(27)	(156)	(430)
Proceeds from sales of Federal Home Loan Bank stock	24	529	106
Other investing activities	(56)	(96)	(59)
Net cash provided by (used for) investing activities	11,964	(40,555)	(20,473)
Cash Flows from Financing Activities			
Net change in bank deposits [1]	(11,329)	61,767	6,186
Net change in short-term borrowings	—	(15,000)	15,000
Issuance of long-term debt	593	3,024	2,129
Repayment of long-term debt	—	(909)	(257)
Repurchases of common stock	(2,220)	(1,000)	—
Net proceeds from preferred stock offerings	—	—	492
Redemption of preferred stock	—	—	(485)
Dividends paid	(1,060)	(787)	(592)
Proceeds from stock options exercised	118	125	171
Other financing activities	(41)	(54)	(45)
Net cash provided by (used for) financing activities	(13,939)	47,166	22,599
Increase (Decrease) in Cash and Cash Equivalents, including Amounts Restricted	7,350	19,067	1,287
Cash and Cash Equivalents, including Amounts Restricted at Beginning of Year	38,227	19,160	17,873
Cash and Cash Equivalents, including Amounts Restricted at End of Year	$ 45,577	$ 38,227	$ 19,160

Continued on following page.

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Year Ended December 31,	2019	2018	2017
Supplemental Cash Flow Information			
Non-cash investing activity:			
Securities transferred from held to maturity to available for sale, at fair value	$ 8,771	$ —	$ —
Securities transferred from available for sale to held to maturity, at fair value	$ —	$ —	$ 24,696
Securities purchased during the period but settled after period end	$ —	$ —	$ 29
Non-cash financing activity:			
Extinguishment of finance lease obligation through an assignment agreement	$ 52	$ —	$ —
Other Supplemental Cash Flow Information			
Cash paid during the period for:			
Interest	$ 1,075	$ 798	$ 327
Income taxes	$ 1,199	$ 927	$ 1,212
Amounts included in the measurement of lease liabilities [2]	$ 133	N/A	N/A
Leased assets obtained in exchange for new operating lease liabilities [2]	$ 97	N/A	N/A

December 31,	2019	2018	2017
Reconciliation of cash, cash equivalents and amounts reported within the balance sheet [3]			
Cash and cash equivalents	$ 29,345	$ 27,938	$ 14,217
Restricted cash and cash equivalents amounts included in cash and investments segregated and on deposit for regulatory purposes	16,232	10,289	4,943
Total cash and cash equivalents, including amounts restricted shown in the statement of cash flows	$ 45,577	$ 38,227	$ 19,160

[1] Includes transfers from other sweep features to bank sweep of $10.3 billion, $71.9 billion and $4.9 billion for the years ended December 31, 2019, 2018 and 2017, respectively.
[2] These amounts are presented beginning in 2019 as part of the adoption of ASU 2016-02. See Notes 2 and 13 for additional information related to this adoption.
[3] For more information on the nature of restrictions on restricted cash and cash equivalents, see Note 21.
N/A Not applicable.

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, headquartered in San Francisco, California. CSC was incorporated in 1986 and engages, through its subsidiaries, 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) is a securities broker-dealer with over 360 domestic branch offices in 48 states, as well as a branch in the Commonwealth of Puerto Rico. In addition, Schwab serves clients through branch offices in the United Kingdom (U.K.) and Hong Kong through other subsidiaries of CSC;
- Charles Schwab Bank (CSB), our principal banking entity; and
- Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds®) and for Schwab's exchange-traded funds (Schwab ETFs™).

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 those estimates. Certain estimates relate to taxes on income and legal and regulatory reserves.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. Amounts presented in the consolidated balance sheets in prior periods in the line items Receivables from brokers, dealers, and clearing organizations and Other securities owned are now presented as part of Other assets. Amounts presented in prior periods as Payables to brokers, dealers, and clearing organizations are now presented as part of Accrued expenses and other liabilities on the consolidated balance sheets. Corresponding presentation changes have been made to the consolidated statements of cash flows and related notes.

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 10 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. Investments in entities for which Schwab does not have the ability to exercise significant influence 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.

2. Summary of Significant Accounting Policies

Revenue recognition

Net interest revenue

Net interest revenue is not within the scope of 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 CS&Co on assets held in client brokerage accounts, are also included in interest revenue and expense.

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.

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® and Schwab ETFs™, 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

Substantially all trading revenue is generated through commissions earned for executing trades for clients in individual equities, options, fixed income securities, and certain third-party mutual funds and ETFs. This revenue is earned when the trades are executed and collected when the trades are settled. Effective October 7, 2019, CS&Co eliminated online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options.

Other revenue

Other revenue includes order flow revenue, other service fees, software fees from our portfolio management solutions, exchange processing fees, and nonrecurring gains. Generally, the most significant portion of other revenue is order flow revenue, which is comprised of rebate payments received from execution venues to which CS&Co sends equity and option orders. Order flow revenue is recognized when the trades are executed and is collected on a monthly or quarterly basis.

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 SEC's 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, which are collateralized by U.S. Government and agency securities. Resale agreements are accounted for as collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The Company obtains collateral with a market value equal to or in excess of the principal amount

loaned and accrued interest under resale agreements. Collateral is valued daily by the Company, with additional collateral obtained to ensure full collateralization. Cash and investments segregated also include certificates of deposit and U.S. Government securities. Certificates of deposit and U.S. Government securities are recorded at fair value.

Receivables from brokerage clients

Receivables from brokerage clients include margin loans to securities brokerage clients and other trading receivables from clients. Margin loans are collateralized by client securities and are carried at the amount receivable, net of an allowance for doubtful accounts. The Company monitors margin levels and requires clients to deposit additional collateral, or reduce margin positions, to meet minimum collateral requirements if the fair value of the collateral changes. Receivables from brokerage clients that remain unsecured or partially secured for more than 30 days are fully reserved for in the allowance for doubtful accounts, except in the case of confirmed fraud, which is reserved immediately. The Company's policy is to charge off any delinquent margin loans no later than at 90 days past due. 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. The allowance for doubtful accounts for brokerage clients and related activity was immaterial for all periods presented.

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.

Investment securities

AFS securities are recorded at fair value and unrealized gains and losses are reported, net of taxes, in AOCI included in stockholders' equity. HTM securities are recorded at amortized cost based on the Company's positive intent and ability to hold these securities to maturity. Realized gains and losses from sales of AFS securities are determined on a specific identification basis and are included in other revenue.

Management evaluates whether investment securities are other-than-temporarily impaired (OTTI) on a quarterly basis. Debt securities with unrealized losses are considered OTTI if the Company intends to sell the security or if it is more likely than not that the Company will be required to sell such security before any anticipated recovery. If management determines that a security is OTTI under these circumstances, the impairment recognized in earnings is measured as the entire difference between amortized cost and fair value.

A security is also OTTI if management does not expect to recover all of the amortized cost of the security. In this circumstance, the impairment recognized in earnings represents the estimated credit loss, and is measured by the difference between the present value of expected cash flows and the amortized cost of the security. Where appropriate, models are utilized to estimate the credit loss on a discounted cash flow basis using the security's effective interest rate.

The evaluation of whether we expect to recover the amortized cost of a security is inherently judgmental. The evaluation considers multiple factors including: the magnitude and duration of the unrealized loss; the financial condition of the issuer; the payment structure of the security; external credit ratings; our internal credit ratings; 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.

Securities borrowed and securities loaned

Securities borrowed transactions require Schwab to deliver cash to the lender in exchange for securities; the receivables from these transactions are 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 are monitored, with additional collateral obtained or refunded to ensure full collateralization. Fees received or paid are recorded in interest revenue or interest expense.

Bank loans and related allowance for loan losses

Bank loans are recorded at their contractual principal amounts and include 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, loans are recorded net of an allowance for loan losses. The loan portfolio includes four loan types: First Mortgages, HELOCs, PALs, and other loans. We use these segments when developing and documenting our methodology for determining the allowance for loan losses.

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

PALs are collateralized by marketable securities with liquid markets. Credit lines are over-collateralized dependent on the type of security pledged. Collateral market value is monitored on a daily basis and a borrower's committed line may be reduced or collateral may be liquidated if the collateral is in danger of falling below specified levels. As such, the loss inherent within this portfolio is limited.

The methodology to establish an allowance for loan losses for First Mortgages and HELOCs utilizes statistical models that estimate prepayments, defaults, and probable losses for the loan segments based on predicted behavior of individual loans within the segments. The methodology considers the effects of borrower behavior and a variety of factors including, but not limited to, interest rates, housing price movements as measured by a housing price index, economic conditions, estimated defaults and foreclosures measured by historical and expected delinquencies, changes in prepayment speeds, LTV ratios, past loss experience, estimates of future loss severities, borrower credit risk, and the adequacy of collateral. The methodology also evaluates concentrations in the loan types, including loan products within those types, year of origination, and geographical distribution of collateral.

Probable 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 (Estimated Current LTV) of each loan, the term and structure of each loan, current key interest rates including U.S. Treasury and LIBOR rates, and borrower FICO scores. The more significant variables in the simulation include delinquency roll rates, loss severity, housing prices, and interest rates. 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. Loss severity estimates are based on our historical loss experience and market trends. The estimated loss severity (i.e., loss given default) used in the allowance for loan loss methodology for HELOC loans is higher than that used in the methodology for First Mortgages. 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. This methodology results in loss factors that are applied to the outstanding balances to determine the allowance for loan loss for each loan type.

Schwab considers loan modifications in which it makes an economic concession to a borrower experiencing financial difficulty to be troubled debt restructurings (TDRs).

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. Nonaccrual loans, other real estate owned, and TDRs are considered impaired 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 loan 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 delinquent loans 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:

Equipment and office facilities	3 to 10 years
Buildings	40 years
Building and land improvements	20 years
Software	3 to 10 years [(1)]
Leasehold improvements	Lesser of useful life or lease term

[(1)] 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.

Goodwill

Goodwill represents the fair value of acquired businesses in excess of the fair value of the individually identified net assets acquired. Goodwill is not amortized but is tested for impairment annually or whenever indications of impairment exist. Impairment exists when the carrying amount of goodwill exceeds its implied fair value, resulting in an impairment charge for this excess. Our annual impairment testing date is April 1st. 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.

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 other than goodwill are included in other assets on the consolidated balance sheets.

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

The Company has operating leases for corporate offices, branch locations, and server equipment and determines 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. 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. Operating lease ROU assets and lease liabilities are recognized at commencement date 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. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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 those classes 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.

Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Guarantees and indemnifications

Schwab recognizes, at the inception of a guarantee, a liability equal to the estimated fair value of the obligation undertaken in issuing the guarantee. The fair values of obligations relating to guarantees are estimated based on transactions for similar guarantees or expected present value measures.

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. Such costs are generally expensed 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 during which 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 is recorded in taxes on income. Schwab records amounts within AOCI net of taxes. Income tax effects are released from AOCI using the specific-identification approach.

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 fair value of the share-based award is recognized over the vesting period as share-based compensation. 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. 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.

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. The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. Dilutive potential common shares include, if dilutive, the effect of outstanding stock options and non-vested restricted stock units.

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 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, and certain other assets. 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. We generally obtain prices from three independent third-party pricing sources for 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.

New Accounting Standards

Adoption of New Accounting Standards

Standard	Description	Date of Adoption	Effects on the Financial Statements or Other Significant Matters
Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)"	Amends the accounting for leases by lessees and lessors. The primary change from the new guidance is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Additional changes include accounting for lease origination and executory costs, required lessee reassessments during the lease term due to changes in circumstances, and expanded lease disclosures. Adoption provides for modified retrospective transition as of the beginning of the earliest comparative period presented in the financial statements in which the entity first applies the new standard or, optionally, through another transition method by which a cumulative-effect adjustment is recorded to retained earnings as of the beginning of the period of adoption. Certain transition relief is permitted if elected by the entity.	January 1, 2019	The Company adopted the new lease accounting guidance as of January 1, 2019 under the optional transition method provided electing not to recast its comparative periods. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification. The adoption resulted in a gross up of the consolidated balance sheet due to recognition of ROU assets and lease liabilities primarily related to the CS&Co leases of office space and branches. The amounts were based on the present value of our remaining operating lease payments. The Company's ROU assets and related lease liabilities upon adoption were $596 million and $662 million, respectively. Further details on the impact of adoption are included below in this Note as well as in Note 13.
ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities"	Shortens the amortization period for the premium on certain callable debt securities to the earliest call date. The amendments are applicable to any purchased individual debt security with an explicit and noncontingent call feature with a fixed price on a preset date. ASU 2017-08 does not impact the accounting for callable debt securities held at a discount. Adoption requires modified retrospective transition as of the beginning of the period of adoption through a cumulative-effect adjustment to retained earnings.	January 1, 2019	The Company adopted this guidance as of January 1, 2019 using the modified retrospective method. Adoption resulted in an immaterial cumulative-effect adjustment to retained earnings as of the date of adoption.
ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities"	This ASU amends hedge accounting guidance to better align hedge accounting with risk management activities, while reducing the complexity of applying and reporting on hedge accounting. In addition, for a closed pool of prepayable financial assets, entities will be able to hedge an amount that is not expected to be affected by prepayments, defaults and	January 1, 2019	The Company adopted this guidance on January 1, 2019. As part of its adoption, the Company made a one-time election to reclassify a portion of its HTM securities eligible to be hedged under the "last-of-layer" method to AFS. As of January 1, 2019, the securities reclassified had a fair value of $8.8 billion and resulted in a net of tax increase to AOCI of $19 million. The adoption of this standard had no other

	other events under the “last-of-layer” method. The guidance also permits a one-time reclassification of debt securities eligible to be hedged under the “last-of-layer” method from HTM to AFS upon adoption.		impact on the Company’s financial statements.

New Accounting Standards Not Yet Adopted

Standard	Description	Required Date of Adoption	Effects on the Financial Statements or Other Significant Matters
ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"	Provides guidance for recognizing impairment of most debt instruments measured at amortized cost, including loans and HTM debt securities. Requires estimating current expected credit losses (CECL) over the remaining life of an instrument or a portfolio of instruments with similar risk characteristics based on relevant information about past events, current conditions, and reasonable forecasts. The initial estimate of, and the subsequent changes in, CECL will be recognized as credit loss expense through current earnings and will be reflected as an allowance for credit losses offsetting the carrying value of the financial instrument(s) on the balance sheet. Amends the OTTI model for AFS debt securities by requiring the use of an allowance, rather than directly reducing the carrying value of the security, and eliminating consideration of the length of time such security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. Adoption requires modified retrospective transition through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the entity applies the new guidance except that a prospective transition is required for AFS debt securities for which an OTTI has been recognized prior to the effective date.	January 1, 2020	The Company adopted CECL as of January 1, 2020 using the modified retrospective method. The adoption of CECL resulted in an immaterial increase in the Company's allowance for credit losses and an increase in the liability for expected credit losses on commitments to extend credit, both primarily related to First Mortgages and HELOCs. The adoption impact was recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The Company's implementation work is now substantially complete.
ASU 2018-15, "Intangibles–Goodwill and Other–Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service	Aligns the criteria for capitalizing implementation costs for cloud computing arrangements (CCA) that are service contracts with internal-use software that is developed or purchased and CCAs that include an internal-use software license. This guidance requires that the capitalized implementation costs be recognized over the period of the CCA service contract, subject to impairment evaluation on an ongoing basis. The guidance prescribes the balance sheet, income statement, and statement	January 1, 2020	The Company adopted this guidance prospectively on January 1, 2020. As such, adoption had no impact on the Company's financial statements. Historically, Schwab has expensed implementation costs as they are incurred for CCAs that are service contracts. Therefore, adopting this guidance will change the Company's accounting treatment for these types of implementation costs going forward. This guidance is not anticipated to have a material impact on future financial statements, including EPS.

Contract (a consensus of the FASB Emerging Issues Task Force)”	of cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. Adoption provides for retrospective or prospective application to all implementation costs incurred after the date of adoption.		

The cumulative effect of the changes made to our consolidated January 1, 2019 balance sheet for the adoption of ASU 2016-02, *Leases* (Topic 842) were as follows:

	Balance at December 31, 2018	Adjustments Due to ASU 2016-02	Balance at January 1, 2019
Assets			
Other assets [1]	$ 3,138	$ 588	$ 3,726
Liabilities			
Accrued expenses and other liabilities [2]	$ 4,785	$ 588	$ 5,373

[1] The adoption adjustment is comprised of two parts: 1) an increase of $596 million for the recognition of the January 1, 2019 ROU asset and 2) an $8 million decrease related to prepaid rent and initial direct costs, which were reclassified to the ROU asset upon adoption of ASU 2016-02.
[2] The adoption adjustment is comprised of two parts: 1) an increase of $662 million for the recognition of the January 1, 2019 lease liability and 2) a
$74 million decrease related to deferred rent and lease incentives, which were reclassified to the ROU asset upon adoption of ASU 2016-02.

3. Revenue Recognition

Disaggregated Revenue

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

Year Ended December 31,	2019	2018	2017
Net interest revenue			
Interest revenue	$ 7,580	$ 6,680	$ 4,624
Interest expense	(1,064)	(857)	(342)
Net interest revenue	6,516	5,823	4,282
Asset management and administration fees			
Mutual funds, ETFs, and CTFs [1]	1,747	1,837	2,088
Advice solutions	1,198	1,139	1,043
Other [1]	266	253	261
Asset management and administration fees	3,211	3,229	3,392
Trading revenue			
Commissions	549	685	600
Principal transactions	68	78	54
Trading revenue	617	763	654
Other	377	317	290
Total net revenues	$ 10,721	$ 10,132	$ 8,618

[1] Beginning in the first quarter of 2019, a change was made to move CTFs from other asset management and administration fees. Prior periods have been recast to reflect this change.

For a summary of revenue provided by our reportable segments, see Note 22. The recognition of revenue is not impacted by the operating segment in which revenue is generated.

Contract balances

Receivables from contracts with customers within the scope of ASC 606 were $356 million at December 31, 2019 and $307 million at December 31, 2018 and were recorded in other assets on the consolidated balance sheets. Schwab does not have any other significant contract assets or contract liability balances as of December 31, 2019 and 2018.

4. Receivables from and Payables to Brokerage Clients

Receivables from and payables to brokerage clients are detailed below:

December 31,	2019	2018
Receivables		
Margin loans, net of allowance for doubtful accounts	$ 19,474	$ 19,273
Other brokerage receivables	2,293	2,378
Receivables from brokerage clients — net	$ 21,767	$ 21,651
Payables		
Interest-bearing payables	$ 29,009	$ 21,990
Non-interest-bearing payables	10,211	10,736
Payables to brokerage clients	$ 39,220	$ 32,726

At December 31, 2019 and 2018, approximately 22% of CS&Co's total client accounts were located in California.

5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of AFS and HTM securities are as follows:

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities				
U.S. agency mortgage-backed securities	$ 45,964	$ 312	$ 121	$ 46,155
Corporate debt securities [1]	5,427	57	—	5,484
Asset-backed securities [2]	4,970	30	13	4,987
U.S. Treasury securities	3,387	3	6	3,384
Certificates of deposit	1,000	4	—	1,004
Commercial paper [1,3]	394	1	—	395
Non-agency commercial mortgage-backed securities	13	—	—	13
Total available for sale securities	$ 61,155	$ 407	$ 140	$ 61,422
Held to maturity securities				
U.S. agency mortgage-backed securities	$ 109,325	$ 1,521	$ 280	$ 110,566
Asset-backed securities [2]	17,806	50	85	17,771
Corporate debt securities [1]	4,661	57	—	4,718
U.S. state and municipal securities	1,301	103	—	1,404
Non-agency commercial mortgage-backed securities	1,119	22	—	1,141
U.S. Treasury securities	223	5	—	228
Certificates of deposit	200	—	—	200
Foreign government agency securities	50	—	—	50
Other	21	—	—	21
Total held to maturity securities	$ 134,706	$ 1,758	$ 365	$ 136,099

December 31, 2018				
Available for sale securities				
U.S. agency mortgage-backed securities	$ 25,594	$ 44	$ 82	$ 25,556
U.S. Treasury securities	18,410	—	108	18,302
Asset-backed securities [2]	10,086	14	15	10,085
Corporate debt securities [1]	7,477	10	20	7,467
Certificates of deposit	3,682	4	1	3,685
U.S. agency notes	900	—	2	898
Commercial paper [1,3]	522	—	—	522
Foreign government agency securities	50	—	1	49
Non-agency commercial mortgage-backed securities	14	—	—	14
Total available for sale securities	$ 66,735	$ 72	$ 229	$ 66,578
Held to maturity securities				
U.S. agency mortgage-backed securities	$ 118,064	$ 217	$ 2,188	$ 116,093
Asset-backed securities [2]	18,502	83	39	18,546
Corporate debt securities [1]	4,477	2	47	4,432
U.S. state and municipal securities	1,327	24	3	1,348
Non-agency commercial mortgage-backed securities	1,156	3	17	1,142

U.S. Treasury securities	223	—	6	217
Certificates of deposit	200	1	—	201
Foreign government agency securities	50	—	1	49
Other	10	—	—	10
Total held to maturity securities	$ 144,009	$ 330	$ 2,301	$ 142,038

(1) As of December 31, 2019 and 2018, approximately 32% and 26%, respectively, of the total AFS and HTM investments in corporate debt securities and commercial paper were issued by institutions in the financial services industry.

(2) Approximately 43% and 36% of asset-backed securities held as of December 31, 2019 and 2018, respectively, were Federal Family Education Loan Program Asset-Backed Securities. Asset-backed securities collateralized by credit card receivables represented approximately 42% of the asset-backed securities held as of both December 31, 2019 and 2018.

(3) Included in cash and cash equivalents on the consolidated balance sheets, but excluded from this table is $2.5 billion and $4.9 billion of AFS commercial paper as of December 31, 2019 and 2018, respectively. These holdings have maturities of three months or less and an aggregate market value equal to amortized cost.

On January 1, 2019 the Company transferred certain U.S. agency mortgage-backed securities with a fair value of $8.8 billion from the HTM category to the AFS category as permitted by ASU 2017-12. For additional information see Notes 2 and 18.

At December 31, 2019, our banking subsidiaries had pledged securities with a fair value of $25.9 billion as collateral to secure borrowing capacity on secured credit facilities with the FHLB (see Note 12). 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 fair value of $8.5 billion as collateral for this facility at December 31, 2019. CSB also pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was $913 million at December 31, 2019.

See Note 25 for discussion of the transfer of all investment securities designated as HTM to the AFS category made on January 1, 2020.

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

	Less than 12 months		12 months or longer		Total	
December 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities						
U.S. agency mortgage-backed securities	$ 16,023	$ 94	$ 6,592	$ 27	$ 22,615	$ 121
Asset-backed securities	960	6	298	7	1,258	13
U.S. Treasury securities	510	—	1,243	6	1,753	6
Total	$ 17,493	$ 100	$ 8,133	$ 40	$ 25,626	$ 140
Held to maturity securities						
U.S. agency mortgage-backed securities	$ 16,183	$ 100	$ 18,910	$ 180	$ 35,093	$ 280
Asset-backed securities	7,507	63	2,898	22	10,405	85
Total	$ 23,690	$ 163	$ 21,808	$ 202	$ 45,498	$ 365
Total securities with unrealized losses	$ 41,183	$ 263	$ 29,941	$ 242	$ 71,124	$ 505
December 31, 2018						
Available for sale securities						
U.S. agency mortgage-backed securities	$ 9,529	$ 32	$ 4,257	$ 50	$ 13,786	$ 82
U.S. Treasury securities	4,951	6	7,037	102	11,988	108
Asset-backed securities	4,050	9	837	6	4,887	15
Corporate debt securities	3,561	19	254	1	3,815	20
Certificates of deposit	1,217	1	150	—	1,367	1
U.S. agency notes	195	—	304	2	499	2
Foreign government agency securities	—	—	49	1	49	1
Total	$ 23,503	$ 67	$ 12,888	$ 162	$ 36,391	$ 229
Held to maturity securities						
U.S. agency mortgage-backed securities	$ 29,263	$ 222	$ 56,435	$ 1,966	$ 85,698	$ 2,188
Asset-backed securities	6,795	35	376	4	7,171	39
Corporate debt securities	2,909	29	1,066	18	3,975	47
U.S. state and municipal securities	77	2	18	1	95	3
Non-agency commercial mortgage-backed securities	283	2	632	15	915	17
U.S. Treasury securities	—	—	218	6	218	6
Foreign government agency securities	—	—	49	1	49	1
Total	$ 39,327	$ 290	$ 58,794	$ 2,011	$ 98,121	$ 2,301
Total securities with unrealized losses	$ 62,830	$ 357	$ 71,682	$ 2,173	$ 134,512	$ 2,530

At December 31, 2019, 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.

Management evaluates whether investment securities are OTTI on a quarterly basis as described in Note 2. No amounts were recognized as OTTI in earnings or other comprehensive income during the years ended December 31, 2019, 2018, and 2017. As of December 31, 2019 and 2018, Schwab did not hold any securities on which OTTI was previously recognized.

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 securities are as follows:

December 31, 2019	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Available for sale securities					
U.S. agency mortgage-backed securities	$ 30	$ 1,896	$ 12,509	$ 31,720	$ 46,155
Corporate debt securities	1,181	4,132	171	—	5,484
Asset-backed securities	65	4,093	367	462	4,987
U.S. Treasury securities	1,915	1,469	—	—	3,384
Certificates of deposit	703	301	—	—	1,004
Commercial paper	395	—	—	—	395
Non-agency commercial mortgage-backed securities	—	—	—	13	13
Total fair value	4,289	11,891	13,047	32,195	61,422
Total amortized cost	$ 4,279	$ 11,823	$ 13,046	$ 32,007	$ 61,155
Weighted-average yield [1]	2.42 %	2.44 %	2.13 %	2.40 %	2.35 %
Held to maturity securities					
U.S. agency mortgage-backed securities	$ 966	$ 15,162	$ 32,971	$ 61,467	$ 110,566
Asset-backed securities	—	3,025	6,473	8,273	17,771
Corporate debt securities	1,279	2,713	726	—	4,718
U.S. state and municipal securities	—	98	556	750	1,404
Non-agency commercial mortgage-backed securities	—	—	—	1,141	1,141
U.S. Treasury securities	—	—	228	—	228
Certificates of deposit	200	—	—	—	200
Foreign government agency securities	—	50	—	—	50
Other	—	—	—	21	21
Total fair value	2,445	21,048	40,954	71,652	136,099
Total amortized cost	$ 2,442	$ 20,775	$ 40,182	$ 71,307	$ 134,706
Weighted-average yield [1]	2.51 %	2.54 %	2.64 %	2.42 %	2.51 %

[1] The weighted-average yield is computed using the amortized cost at December 31, 2019.

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

Year Ended December 31,	2019	2018	2017
Proceeds	$ 24,495	$ 115	$ 8,617
Gross realized gains	16	—	12
Gross realized losses	10	—	—

6. Bank Loans and Related Allowance for Loan Losses

The composition of bank loans and delinquency analysis by loan type is as follows:

December 31, 2019	Current	30-59 days past due	60-89 days past due	≥90 days past due and other nonaccrual loans [3]	Total past due and other nonaccrual loans	Total loans	Allowance for loan losses	Total bank loans – net
First Mortgages [1,2]	$ 11,665	$ 24	$ 4	$ 11	$ 39	$ 11,704	$ 11	$ 11,693
HELOCs [1,2]	1,105	2	1	9	12	1,117	4	1,113
Pledged asset lines	5,202	4	—	—	4	5,206	—	5,206
Other	201	—	—	2	2	203	3	200
Total bank loans	$ 18,173	$ 30	$ 5	$ 22	$ 57	$ 18,230	$ 18	$ 18,212
December 31, 2018								
First Mortgages [1,2]	$ 10,349	$ 21	$ 2	$ 12	$ 35	$ 10,384	$ 14	$ 10,370
HELOCs [1,2]	1,493	3	1	8	12	1,505	5	1,500
Pledged asset lines	4,558	3	—	—	3	4,561	—	4,561
Other	180	—	—	—	—	180	2	178
Total bank loans	$ 16,580	$ 27	$ 3	$ 20	$ 50	$ 16,630	$ 21	$ 16,609

[1] First Mortgages and HELOCs include unamortized premiums and discounts and direct origination costs of $74 million and $73 million at December 31, 2019 and 2018, respectively.
[2] At December 31, 2019 and 2018, 45% and 47%, 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.
[3] There were no loans accruing interest that were contractually 90 days or more past due at December 31, 2019 or 2018.

At December 31, 2019, CSB had pledged $10.5 billion of First Mortgages and HELOCs as collateral to secure borrowing capacity on a secured credit facility with the FHLB (see Note 12).

Substantially all of the bank loans were collectively evaluated for impairment at both December 31, 2019 and 2018.

Changes in the allowance for loan losses were as follows:

	December 31, 2019				December 31, 2018				December 31, 2017			
	First Mortgages	HELOCs	Other	Total [1]	First Mortgages	HELOCs	Other	Total [1]	First Mortgages	HELOCs	Other	Total [1]
Balance at beginning of year	$ 14	$ 5	$ 2	$ 21	$ 16	$ 8	$ 2	$ 26	$ 17	$ 8	1	$ 26
Charge-offs	—	—	—	—	—	—	(1)	(1)	(2)	(1)	—	(3)
Recoveries	1	1	—	2	1	1	—	2	1	1	1	3
Provision for loan losses	(4)	(2)	1	(5)	(3)	(4)	1	(6)	—	—	—	—
Balance at end of year	$ 11	$ 4	$ 3	$ 18	$ 14	$ 5	$ 2	$ 21	$ 16	$ 8	$ 2	$ 26

[1] All PALs were fully collateralized by securities with fair values in excess of borrowings at December 31, 2019, 2018, and 2017.

A summary of impaired bank loan-related assets is as follows:

December 31,	2019	2018
Nonaccrual loans [1]	$ 22	$ 21
Other real estate owned [2]	1	3

Total nonperforming assets	23	24
Troubled debt restructurings	2	4
Total impaired assets	$ 25	$ 28

(1) Nonaccrual loans include nonaccrual troubled debt restructurings.
(2) Included in other assets on the consolidated balance sheets.

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.

Borrowers' FICO scores are provided by an independent third-party credit reporting service and 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 bank loan portfolio are detailed below:

December 31, 2019		Balance	Weighted Average Updated FICO	Percent of Loans that are on Nonaccrual Status
First Mortgages				
Estimated Current LTV				
≤70%	$	10,382	775	0.08 %
>70% – ≤90%		1,320	770	0.22 %
>90% – ≤100%		2	715	0.04 %
>100%		—	—	—
Total	$	11,704	775	0.09 %
HELOCs				
Estimated Current LTV [1]				
≤70%	$	1,056	767	0.81 %
>70% – ≤90%		56	750	0.80 %
>90% – ≤100%		3	701	3.28 %
>100%		2	675	9.71 %
Total	$	1,117	766	0.83 %
Pledged asset lines				
Weighted-Average LTV [1]				
=70%	$	5,206	766	—

December 31, 2018		Balance	Weighted Average Updated FICO	Percent of Loans that are on Nonaccrual Status
First Mortgages				
Estimated Current LTV				
≤70%	$	9,396	776	0.04 %
>70% – ≤90%		985	769	0.41 %
>90% – ≤100%		2	717	—
>100%		1	753	—
Total	$	10,384	775	0.07 %
HELOCs				
Estimated Current LTV [1]				
≤70%	$	1,416	770	0.13 %
>70% – ≤90%		80	752	0.60 %
>90% – ≤100%		6	729	3.36 %
>100%		3	702	—
Total	$	1,505	769	0.17 %
Pledged asset lines				
Weighted-Average LTV [1]				
=70%	$	4,561	766	—

[1] Represents the LTV for the full line of credit (drawn and undrawn).

December 31, 2019	First Mortgages	HELOCs
Year of origination		
Pre-2015	$ 1,585	$ 788
2015	773	77
2016	2,149	72
2017	1,911	81
2018	1,284	64
2019	4,002	35
Total	$ 11,704	$ 1,117
Origination FICO		
<620	$ 3	$ —
620 – 679	77	5
680 – 739	1,713	219
≥740	9,911	893
Total	$ 11,704	$ 1,117
Origination LTV		
≤70%	$ 8,928	$ 798
>70% – ≤90%	2,773	314
>90% – ≤100%	3	5
Total	$ 11,704	$ 1,117

December 31, 2018	First Mortgages	HELOCs
Year of origination		
Pre-2015	$ 2,387	$ 1,140
2015	1,050	106
2016	2,606	95
2017	2,366	99
2018	1,975	65
Total	$ 10,384	$ 1,505
Origination FICO		
<620	$ 5	$ —
620 – 679	83	8
680 – 739	1,626	282
≥740	8,670	1,215
Total	$ 10,384	$ 1,505
Origination LTV		
≤70%	$ 7,815	$ 1,064
>70% – ≤90%	2,564	434
>90% – ≤100%	5	7
Total	$ 10,384	$ 1,505

At December 31, 2019, First Mortgage loans of $10.5 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 26% of the balance of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 68% 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.

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 when current outstanding HELOCs will convert to amortizing loans:

December 31, 2019	Balance
Converted to an amortizing loan by period end	$ 506
Within 1 year	45
> 1 year – 3 years	81
> 3 years – 5 years	155
> 5 years	330
Total	$ 1,117

At December 31, 2019, $905 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, 2019, the borrowers on approximately 52% of HELOC loan balances outstanding only paid the minimum amount due.

7. Equipment, Office Facilities, and Property

Equipment, office facilities, and property are detailed below:

December 31,	2019	2018
Software	$ 1,876	$ 1,699
Buildings	1,056	945
Leasehold improvements	360	367
Construction in progress	324	248
Information technology equipment	253	206
Furniture and equipment	241	219
Land	163	179
Telecommunications equipment	91	69
Total equipment, office facilities, and property	4,364	3,932
Accumulated depreciation and amortization	(2,236)	(2,163)
Total equipment, office facilities, and property — net	$ 2,128	$ 1,769

Depreciation and amortization expense for equipment, office facilities, and property was $322 million, $277 million, and $232 million in 2019, 2018, and 2017, respectively.

8. Goodwill

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, 2017	$ 1,096	$ 131	$ 1,227
Goodwill acquired and other changes during the period	—	—	—
Balance at December 31, 2018	1,096	131	1,227
Goodwill acquired and other changes during the period	—	—	—
Balance at December 31, 2019	$ 1,096	$ 131	$ 1,227

As of our annual testing date, we performed an assessment of each of the Company's reporting units. Based on the Company's analysis, fair value significantly exceeded the carrying value for all reporting units and we concluded that goodwill was not impaired. Schwab did not recognize any goodwill impairment in any of the years presented.

9. Other Assets

The components of other assets are as follows:

December 31,	2019	2018
Receivables — interest, dividends, and other	$ 788	$ 689
Securities borrowed	735	101
Other securities owned at fair value	718	539
Other investments [1]	633	460
Operating lease ROU assets	577	—
Customer contract receivables	356	307
Capitalized contract costs, net	281	250
Other receivables from brokers, dealers, and clearing organizations	235	452
Intangible assets, net of accumulated amortization of $326 and $299 [2]	128	152
Other	264	188
Total other assets	$ 4,715	$ 3,138

[1] Primarily CRA-related, including LIHTC investments; also includes investments in FHLB stock of $35 million and $32 million at December 31, 2019 and 2018, respectively, which 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.

[2] Exclusive of indefinite-lived intangible assets of $77 million and $74 million at December 31, 2019 and 2018, respectively, future amortization over the next five years and thereafter is expected to total $51 million. Amortization expense for intangible assets was $27 million in 2019, $29 million in 2018, and $37 million in 2017.

Capitalized contract costs

Capitalized contract costs relate to sales commissions paid to employees for obtaining contracts with clients and are included in other assets on the consolidated balance sheets. These costs are amortized to expense on a straight-line basis over a period that is consistent with how the related revenue is recognized. Capitalized contract costs were $281 million and $250 million at December 31, 2019 and 2018, respectively. Amortization expense related to capitalized contract costs was $55 million and $47 million in 2019 and 2018, respectively, which was recorded in compensation and benefits expense on the consolidated statements of income.

10. Variable Interest Entities

As of December 31, 2019 and 2018, all of Schwab's involvement with VIEs is through CSB's CRA-related investments and most of those 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 2019 and 2018, CSB recorded amortization of $39 million and $32 million, respectively, and recognized tax credits and other tax benefits of $47 million and $36 million, respectively, associated with these investments. The amortization, as well as the tax credits and other tax benefits, are included in taxes on income.

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, 2019			December 31, 2018		
	Aggregate assets	Aggregate liabilities	Maximum exposure to loss	Aggregate assets	Aggregate liabilities	Maximum exposure to loss
LIHTC Investments [1]	$ 516	$ 275	$ 516	$ 338	$ 188	$ 338
Other CRA Investments [2]	120	—	154	70	—	124
Total	$ 636	$ 275	$ 670	$ 408	$ 188	$ 462

[1] Aggregate assets and aggregate liabilities are included in other assets and accrued expenses and other liabilities, respectively, on the consolidated balance sheets.
[2] Other CRA investments are recorded using either the adjusted cost method, equity method, or as HTM securities. Aggregate assets are included in HTM 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. CSB's funding of these remaining commitments is dependent upon the occurrence of certain conditions, and CSB expects to pay substantially all of these commitments between 2020 and 2023. During the years ended December 31, 2019 and 2018, Schwab did not provide or intend to provide financial or other support to the VIEs that it was not contractually required to provide.

11. Bank Deposits

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

December 31,	2019	2018
Interest-bearing deposits:		
Deposits swept from brokerage accounts	$ 201,531	$ 212,311
Checking	12,650	12,523
Savings and other	5,168	5,827
Total interest-bearing deposits	219,349	230,661
Non-interest-bearing deposits	745	762
Total bank deposits	$ 220,094	$ 231,423

12. Borrowings

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. The following table lists long-term debt by instrument outstanding as of December 31, 2019 and 2018.

	Date of Issuance	Principal Amount Outstanding 2019	Principal Amount Outstanding 2018
Fixed-rate Senior Notes:			
4.450% due July 22, 2020	07/22/10	$ 700	$ 700
3.250% due May 21, 2021	05/22/18	600	600
3.225% due September 1, 2022	08/29/12	256	256
2.650% due January 25, 2023	12/07/17	800	800
3.550% due February 1, 2024	10/31/18	500	500
3.000% due March 10, 2025	03/10/15	375	375
3.850% due May 21, 2025	05/22/18	750	750
3.450% due February 13, 2026	11/13/15	350	350
3.200% due March 2, 2027	03/02/17	650	650
3.200% due January 25, 2028	12/07/17	700	700
4.000% due February 1, 2029	10/31/18	600	600
3.250% due May 22, 2029	05/22/19	600	—
Floating-rate Senior Notes:			
Three-month LIBOR + 0.32% due May 21, 2021	05/22/18	600	600
Total Senior Notes		7,481	6,881
5.450% Finance lease obligation [1]	06/04/04	—	52
Unamortized discount — net		(14)	(15)
Debt issuance costs		(37)	(40)
Total long-term debt		$ 7,430	$ 6,878

[1] The finance lease obligation was extinguished through an assignment agreement during the first quarter of 2019.

Annual maturities on long-term debt outstanding at December 31, 2019, are as follows:

	Maturities
2020	$ 700
2021	1,200
2022	256
2023	800
2024	500
Thereafter	4,025
Total maturities	7,481
Unamortized discount — net	(14)
Debt issuance costs	(37)
Total long-term debt	$ 7,430

Short-term borrowings: Our banking subsidiaries maintain secured credit facilities with the FHLB. Amounts available under these facilities are dependent on the amount of our First Mortgages, HELOCs, and the fair value of certain of their investment securities that are pledged as collateral. As of December 31, 2019 and 2018, the collateral pledged provided a total borrowing capacity of $34.2 billion and $35.5 billion, respectively, of which no amounts were outstanding at the end of either period.

As a condition of the FHLB borrowings, we are required to hold FHLB stock, which was recorded in other assets on the consolidated balance sheets.

Additionally, 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, 2019 and 2018, the collateral pledged provided total borrowing capacity of $8.5 billion and $7.9 billion, respectively, of which no amounts were outstanding at the end of either period.

13. Leases

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

	Balance Sheet Classification	December 31, 2019
Lease assets:		
Operating lease ROU assets	Other assets	$ 577
Lease liabilities:		
Operating lease liabilities	Accrued expenses and other liabilities	$ 650

Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Company does not have any finance leases and had an immaterial amount of sublease income for all periods presented.

The components of lease expense are as follows:

Lease Cost [1]	Year Ended December 31, 2019
Operating lease cost [2]	$ 137
Variable lease cost [3]	34

[1] Rent expense related to operating leases was $146 million and $136 million in 2018 and 2017, respectively.
[2] Includes short-term leases, which are immaterial.
[3] Includes payments that are entirely variable and amounts that represent the difference between payments based on an index or rate that would be reflected in the lease liability and what is actually incurred.

The following tables present supplemental lease information as of December 31, 2019:

Lease Term and Discount Rate	
Weighted-average remaining lease term (years)	7.15
Weighted-average discount rate	3.42 %

Maturity of Lease Liabilities	Operating Leases [1]
2020	$ 128
2021	115
2022	93
2023	84
2024	79
Thereafter	241
Total lease payments	740
Less: Interest	90
Present value of lease liabilities	$ 650

[1] Operating lease payments exclude $78 million of legally binding minimum lease payments for leases signed but not yet commenced. These leases will commence between 2020 and 2021 with lease terms of one year to 21 years.

In accordance with the disclosure requirements for our adoption of ASU 2016-02, the Company is presenting the operating leases commitment table as of December 31, 2018. The following table is unchanged from the disclosure in Note 14 in the 2018 Form 10-K:

	Operating Leases	Subleases	Net
2019	$ 131	$ 4	$ 127
2020	125	4	121
2021	101	4	97
2022	79	2	77
2023	72	1	71
Thereafter	282	—	282
Total	$ 790	$ 15	$ 775

14. Commitments and Contingencies

Loan Portfolio: CSB provides a co-branded loan origination program for CSB clients (the Program) with Quicken Loans, Inc. (Quicken Loans®). Pursuant to the Program, Quicken Loans originates and services First Mortgages and HELOCs for CSB clients. Under the Program, CSB purchases certain First Mortgages and HELOCs that are originated by Quicken Loans. CSB purchased First Mortgages of $4.4 billion and $2.1 billion during 2019 and 2018, respectively. CSB purchased HELOCs with commitments of $242 million and $395 million during 2019 and 2018, respectively.

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

December 31,	2019	2018
Commitments to extend credit related to unused HELOCs, PALs, and other lines of credit	$ 10,753	$ 11,046
Commitments to purchase First Mortgage loans	1,521	268
Total	$ 12,274	$ 11,314

In the last six months of 2019, volume in new and refinanced First Mortgages increased as a result of lower interest rates and enhancements to customer incentives, leading to additional purchases during the last six months of 2019 and an increase in commitments to purchase First Mortgages as of December 31, 2019.

Purchase obligations: Schwab has purchase obligations for services such as advertising and marketing, telecommunications, professional services, and hardware- and software-related agreements. As of December 31, 2019, the Company has purchase obligations as follows:

2020 [1]	$ 2,061
2021	135
2022	90
2023	23
2024	23
Thereafter	44
Total	$ 2,376

[1] Includes $1.8 billion for the planned acquisition of USAA-IMCO assets discussed below; other costs related to the USAA-IMCO acquisition are excluded. The table above excludes the planned all-stock acquisition of TD Ameritrade and any expenses related to the acquisition.

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 partially satisfy the margin requirements by arranging unsecured standby LOCs, in favor of the Options Clearing Corporation, which are issued by several banks. At December 31, 2019, the aggregate face amount of these LOCs totaled $20 million. There were no funds drawn under any of these LOCs at December 31, 2019. 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.

Schwab 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. Schwab's liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. At December 31, 2019, amounts posted as collateral with such clearing houses and exchanges included $167 million of U.S. Treasury securities, which are included in other assets on the consolidated balance sheet. The potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these guarantees.

Acquisition of TD Ameritrade: On November 25, 2019, CSC announced a definitive agreement to acquire TD Ameritrade in an all-stock transaction. At the time of announcement, TD Ameritrade had approximately twelve million brokerage accounts and $1.3 trillion in total client assets. Under the agreement, TD Ameritrade stockholders will receive 1.0837 CSC shares for each TD Ameritrade share. Based on the closing price of CSC common stock on November 20, 2019, the merger consideration represented approximately $26 billion. The transaction is expected to close in the second half of 2020, subject to satisfaction of closing conditions. Under certain circumstances, CSC or TD Ameritrade could be required to pay the other party a termination fee of $950 million or reimburse the other party's fees up to $50 million.

Acquisition of USAA-IMCO: On July 25, 2019, the Company announced a definitive agreement to acquire assets of USAA-IMCO, including over one million brokerage and managed portfolio accounts with approximately $90 billion in client assets at the time of announcement, for $1.8 billion in cash. The companies have also agreed to enter into a long-term referral agreement, effective at closing of the acquisition, that would make Schwab the exclusive wealth management and brokerage provider for USAA members. The transaction is expected to close in mid-2020, subject to satisfaction of closing conditions, including regulatory approvals and the implementation of conversion plans.

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 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 is a matter 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.

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. 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. Defendants have answered the complaint to deny all allegations, and are vigorously contesting the lawsuit.

15. 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 investment requirement. Schwab's resale agreements are 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. 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 $719 million and $99 million at December 31, 2019 and 2018, respectively. Most of our securities lending transactions are through a program with a clearing organization, which guarantees the return of cash to us. 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.

The following table presents information about our resale agreements and securities lending activity depicting the potential effect of rights of setoff between these recognized assets and recognized liabilities.

	Gross Assets/ Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Counterparty Offsetting	Collateral	
December 31, 2019						
Assets						
Resale agreements [1]	$ 9,028	$ —	$ 9,028	$ —	$ (9,028) [2]	$ —
Securities borrowed [3]	735	—	735	(730)	(5)	—
Total	$ 9,763	$ —	$ 9,763	$ (730)	$ (9,033)	$ —
Liabilities						
Securities loaned [4,5]	$ 1,251	$ —	$ 1,251	$ (730)	$ (445)	$ 76
Total	$ 1,251	$ —	$ 1,251	$ (730)	$ (445)	$ 76
December 31, 2018						
Assets						
Resale agreements [1]	$ 7,195	$ —	$ 7,195	$ —	$ (7,195) [2]	$ —
Securities borrowed [3]	101	—	101	(98)	(3)	—
Total	$ 7,296	$ —	$ 7,296	$ (98)	$ (7,198)	$ —
Liabilities						
Securities loaned [4,5]	$ 1,184	$ —	$ 1,184	$ (98)	$ (975)	$ 111
Total	$ 1,184	$ —	$ 1,184	$ (98)	$ (975)	$ 111

[1] Included in cash and investments segregated and on deposit for regulatory purposes in the consolidated balance sheets.
[2] Actual collateral was greater than or equal to 102% of the related assets. At December 31, 2019 and 2018, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was $9.2 billion and $7.4 billion, respectively.
[3] Included in other assets in the consolidated balance sheets.
[4] 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, 2019 and 2018.
[5] Securities loaned are predominantly comprised of equity securities held in client brokerage accounts with overnight and continuous remaining contractual maturities.

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.

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 under such regulations and from securities borrowed transactions:

December 31,	2019	2018
Fair value of client securities available to be pledged	$ 26,685	$ 26,628
Fair value of securities pledged for:		
Fulfillment of requirements with the Options Clearing Corporation [1]	$ 2,171	$ 2,315
Fulfillment of client short sales	2,293	1,292
Securities lending to other broker-dealers	1,017	974
Total collateral pledged	$ 5,481	$ 4,581

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 $142 million as of December 31, 2019 and $97 million as of December 31, 2018.

[1] Securities pledged to fulfill client margin requirements for open option contracts established with the Options Clearing Corporation.

16. 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, 2019 or 2018.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the fair value hierarchy for assets measured at fair value on a recurring basis. Liabilities recorded at fair value were not material, and therefore are not included in the following tables:

December 31, 2019	Level 1	Level 2	Level 3	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 5,179	$ —	$ —	$ 5,179
Commercial paper	—	2,498	—	2,498
Total cash equivalents	5,179	2,498	—	7,677
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	1,351	—	1,351
U.S. Government securities	—	7,276	—	7,276
Total investments segregated and on deposit for regulatory purposes	—	8,627	—	8,627
Available for sale securities:				
U.S. agency mortgage-backed securities	—	46,155	—	46,155
Corporate debt securities	—	5,484	—	5,484
Asset-backed securities	—	4,987	—	4,987
U.S. Treasury securities	—	3,384	—	3,384
Certificates of deposit	—	1,004	—	1,004
Commercial paper	—	395	—	395
Non-agency commercial mortgage-backed securities	—	13	—	13
Total available for sale securities	—	61,422	—	61,422
Other assets:				
Equity and bond mutual funds	442	—	—	442
U.S. Government securities	—	202	—	202
State and municipal debt obligations	—	47	—	47
Equity, corporate debt, and other securities	5	22	—	27
Total other assets	447	271	—	718
Total	$ 5,626	$ 72,818	$ —	$ 78,444

December 31, 2018	Level 1	Level 2	Level 3	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 3,429	$ —	$ —	$ 3,429
Commercial paper	—	4,863	—	4,863
Total cash equivalents	3,429	4,863	—	8,292
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	1,396	—	1,396
U.S. Government securities	—	3,275	—	3,275
Total investments segregated and on deposit for regulatory purposes	—	4,671	—	4,671
Available for sale securities:				
U.S. agency mortgage-backed securities	—	25,556	—	25,556
U.S. Treasury securities	—	18,302	—	18,302
Asset-backed securities	—	10,085	—	10,085
Corporate debt securities	—	7,467	—	7,467
Certificates of deposit	—	3,685	—	3,685
U.S. agency notes	—	898	—	898
Commercial paper	—	522	—	522
Foreign government agency securities	—	49	—	49
Non-agency commercial mortgage-backed securities	—	14	—	14
Total available for sale securities	—	66,578	—	66,578
Other assets:				
Equity and bond mutual funds	441	—	—	441
U.S. Government securities	—	1	—	1
State and municipal debt obligations	—	39	—	39
Equity, corporate debt, and other securities	3	29	—	32
Schwab Funds® money market funds	26	—	—	26
Total other assets	470	69	—	539
Total	$ 3,899	$ 76,181	$ —	$ 80,080

Fair Value of Other Financial Instruments

The following tables present the fair value hierarchy for other financial instruments:

December 31, 2019	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets					
Cash and cash equivalents	$ 21,668	$ 21,668	$ —	$ —	$ 21,668
Cash and investments segregated and on deposit for regulatory purposes	11,807	2,792	9,015	—	11,807
Receivables from brokerage clients — net	21,763	—	21,763	—	21,763
Held to maturity securities:					
U.S. agency mortgage-backed securities	109,325	—	110,566	—	110,566
Asset-backed securities	17,806	—	17,771	—	17,771
Corporate debt securities	4,661	—	4,718	—	4,718
U.S. state and municipal securities	1,301	—	1,404	—	1,404
Non-agency commercial mortgage-backed securities	1,119	—	1,141	—	1,141
U.S. Treasury securities	223	—	228	—	228
Certificates of deposit	200	—	200	—	200
Foreign government agency securities	50	—	50	—	50
Other	21	—	21	—	21
Total held to maturity securities	134,706	—	136,099	—	136,099
Bank loans — net:					
First Mortgages	11,693	—	11,639	—	11,639
HELOCs	1,113	—	1,153	—	1,153
Pledged asset lines	5,206	—	5,206	—	5,206
Other	200	—	200	—	200
Total bank loans — net	18,212	—	18,198	—	18,198
Other assets	1,014	—	1,014	—	1,014
Liabilities					
Bank deposits	$ 220,094	$ —	$ 220,094	$ —	$ 220,094
Payables to brokerage clients	39,220	—	39,220	—	39,220
Accrued expenses and other liabilities	1,882	—	1,882	—	1,882
Long-term debt	7,430	—	7,775	—	7,775

December 31, 2018	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets					
Cash and cash equivalents	$ 19,646	$ —	$ 19,646	$ —	$ 19,646
Cash and investments segregated and on deposit for regulatory purposes	8,886	—	8,886	—	8,886
Receivables from brokerage clients — net	21,641	—	21,641	—	21,641
Held to maturity securities:					
U.S. agency mortgage-backed securities	118,064	—	116,093	—	116,093
Asset-backed securities	18,502	—	18,546	—	18,546
Corporate debt securities	4,477	—	4,432	—	4,432
U.S. state and municipal securities	1,327	—	1,348	—	1,348
Non-agency commercial mortgage-backed securities	1,156	—	1,142	—	1,142
U.S. Treasury securities	223	—	217	—	217
Certificates of deposit	200	—	201	—	201
Foreign government agency securities	50	—	49	—	49
Other	10	—	10	—	10
Total held to maturity securities	144,009	—	142,038	—	142,038
Bank loans — net:					
First Mortgages	10,370	—	10,193	—	10,193
HELOCs	1,500	—	1,583	—	1,583
Pledged asset lines	4,561	—	4,561	—	4,561
Other	178	—	178	—	178
Total bank loans — net	16,609	—	16,515	—	16,515
Other assets	1,013	—	1,013	—	1,013
Liabilities					
Bank deposits	$ 231,423	$ —	$ 231,423	$ —	$ 231,423
Payables to brokerage clients	32,726	—	32,726	—	32,726
Accrued expenses and other liabilities	3,201	—	3,201	—	3,201
Long-term debt	6,878	—	6,827	—	6,827

17. Stockholders' Equity

CSC did not issue any shares of common stock through external offerings during 2019, 2018, or 2017.

On January 30, 2019, CSC publicly announced that its Board of Directors authorized a new Share Repurchase Program to repurchase up to $4.0 billion of common stock. The share repurchase authorization does not have an expiration date. During 2019, CSC repurchased 55 million shares of its common stock under this authorization for $2.2 billion.

On October 25, 2018, CSC publicly announced that its Board of Directors terminated the previous two share repurchase authorizations and replaced them with an authorization to repurchase up to $1.0 billion of common stock. CSC repurchased 22 million shares for $1.0 billion in 2018, completing all repurchases under this authorization.

CSC was authorized to issue 9,940,000 shares of preferred stock, $0.01 par value, at December 31, 2019 and 2018. The following is a summary of CSC's non-cumulative perpetual preferred stock outstanding as of such dates:

	Shares Issued and Outstanding (in thousands) at December 31,		Liquidation Preference Per Share	Carrying Value at December 31,		Issue Date	Dividend Rate in Effect at December 31, 2019	Earliest Redemption Date	Date at Which Dividend Rate Becomes Floating	Floating Annual Rate of Three-Month LIBOR plus:
	2019 [1]	2018 [1]		2019	2018					
Fixed-rate:										
Series C	600	600	$ 1,000	$ 585	$ 585	08/03/15	6.000 %	12/01/20	N/A	N/A
Series D	750	750	1,000	728	728	03/07/16	5.950 %	06/01/21	N/A	N/A
Fixed-to-floating-rate:										
Series A	400	400	1,000	397	397	01/26/12	7.000 %	02/01/22	02/01/22	4.820 %
Series E	6	6	100,000	591	591	10/31/16	4.625 %	03/01/22	03/01/22	3.315 %
Series F	5	5	100,000	492	492	10/31/17	5.000 %	12/01/27	12/01/27	2.575 %
Total preferred stock	1,761	1,761		$ 2,793	$ 2,793					

[1] Represented by depositary shares, except for Series A.
N/A Not applicable.

Dividends declared on the Company's preferred stock are as follows:

Year Ended December 31,	2019		2018		2017	
	Total Declared	Per Share Amount	Total Declared	Per Share Amount	Total Declared	Per Share Amount
Series A	$ 28.0	70.00	$ 28.0	70.00	$ 28.0	70.00
Series B [1]	N/A	N/A	N/A	N/A	29.1	60.00
Series C	36.0	60.00	36.0	60.00	36.0	60.00
Series D	44.6	59.52	44.6	59.52	44.6	59.52
Series E	27.8	4,625.00	27.8	4,625.00	23.2	3,867.01
Series F [2]	25.0	5,000.00	27.2	5,430.56	N/A	N/A
Total	$ 161.4		$ 163.6		$ 160.9	

[1] On December 1, 2017, CSC redeemed all of the outstanding shares of its 6.00% Non-Cumulative Perpetual Preferred Stock, Series B at their stated redemption value.
[2] Series F Preferred Stock was issued on October 31, 2017. Dividends are paid semi-annually beginning on June 1, 2018 until December 1, 2027, and quarterly thereafter.
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 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 may be redeemed at CSC's option on any dividend payment date on or after the earliest redemption date for that 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.

18. Accumulated Other Comprehensive Income

AOCI represents cumulative gains and losses that are not reflected in earnings. The components of other comprehensive income (loss) are as follows:

Year Ended December 31,	2019			2018			2017		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Change in net unrealized gain (loss) on available for sale securities:									
Net unrealized gain (loss)	$ 430	$ (102)	$ 328	$ (123)	$ 30	$ (93)	$ 13	$ (7)	$ 6
Reclassification of net unrealized loss on securities transferred to held to maturity [1]	—	—	—	—	—	—	227	(85)	142
Other reclassifications included in other revenue	(6)	1	(5)	—	—	—	(12)	4	(8)
Change in net unrealized gain (loss) on held to maturity securities:									
Reclassification of net unrealized loss on securities transferred from available for sale [1]	—	—	—	—	—	—	(227)	85	(142)
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	36	(9)	27	35	(8)	27	31	(11)	20
Other	(14)	4	(10)	(1)	—	(1)	(11)	4	(7)
Other comprehensive income (loss)	$ 446	$ (106)	$ 340	$ (89)	$ 22	$ (67)	$ 21	$ (10)	$ 11

[1] During 2017, the Company transferred investment securities from the AFS category to the HTM category that had a total net unrealized loss of $227 million before income tax in AOCI on the date of the transfer.

AOCI balances are as follows:

		Total AOCI
Balance at December 31, 2016	$	(163)
Available for sale securities:		
Net unrealized gain (loss)		6
Reclassification of net unrealized loss on securities transferred to held to maturity		142
Other reclassifications included in other revenue		(8)
Held to maturity securities:		
Reclassification of net unrealized loss on securities transferred from available for sale		(142)
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale		20
Other		(7)
Balance at December 31, 2017	$	(152)
Adoption of accounting standards [1]		(33)
Available for sale securities:		
Net unrealized gain (loss)		(93)
Held to maturity securities:		
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale		27
Other		(1)
Balance at December 31, 2018	$	(252)
Available for sale securities:		
Net unrealized gain (loss), excluding transfers to available for sale from held to maturity		309
Net unrealized gain on securities transferred to available for sale from held to maturity [2]		19
Other reclassifications included in other revenue		(5)
Held to maturity securities:		
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale		27
Other		(10)
Balance at December 31, 2019	$	88

[1] As part of the adoption of ASU 2018-02, "*Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*" (ASU 2018-02), we elected to reclassify the income tax effects of the Tax Cuts and Jobs Act from items in AOCI into retained earnings as of January 1, 2018.

[2] As part of the adoption of ASU 2017-12, in the first quarter of 2019, the Company made a one-time election to transfer a portion of its HTM securities to AFS. The transfer resulted in a net of tax increase to AOCI of $19 million. See Notes 2 and 5 for additional discussion on the transfer of HTM securities to AFS.

19. 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 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,	2019	2018	2017
Stock option expense	$ 51	$ 51	$ 50
Restricted stock unit expense [1]	120	136	94
Employee stock purchase plan expense	12	10	9
Total share-based compensation expense	$ 183	$ 197	$ 153
Income tax benefit on share-based compensation expense [2]	$ (44)	$ (47)	$ (57)

[1] Restricted stock unit expense in 2018 includes $36 million related to special stock awards issued to non-officer employees.
[2] Excludes income tax benefits from stock options exercised and restricted stock units vested of $23 million, $46 million, and $87 million in 2019, 2018, and 2017, respectively.

The Company issues shares for stock options and restricted stock units from treasury stock. At December 31, 2019, the Company was authorized to grant up to 65 million common shares under its existing stock incentive plans. Additionally, at December 31, 2019, the Company had 34 million shares reserved for future issuance under its employee stock purchase plan.

As of December 31, 2019, there was $290 million of total unrecognized compensation cost related to outstanding stock options and restricted stock units, which is expected to be recognized through 2023 with a remaining weighted-average service period of 1.3 years for stock options, 2.5 years for restricted stock units, and 0.3 years for performance-based stock units.

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.

Stock option activity is summarized below:

	Number of Options (In millions)	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2018	30	$ 30.19	6.27	$ 373
Granted	2	46.25		
Exercised	(5)	23.51		
Forfeited	(1)	43.12		
Expired [1]	—	41.42		
Outstanding at December 31, 2019	26	$ 32.10	5.75	$ 403
Vested and expected to vest at December 31, 2019	26	$ 32.08	5.74	$ 403
Vested and exercisable at December 31, 2019	18	$ 27.44	4.77	$ 371

[1] Number of options were 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,	2019	2018	2017
Weighted-average fair value of options granted per share	$ 11.97	$ 14.16	$ 13.04
Cash received from options exercised	118	125	171
Tax benefit realized on options exercised	17	35	70
Aggregate intrinsic value of options exercised	108	189	241

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,	2019	2018	2017
Weighted-average expected dividend yield	1.85 %	1.42 %	1.06 %
Weighted-average expected volatility	30 %	33 %	34 %
Weighted-average risk-free interest rate	2.5 %	3.0 %	2.1 %
Expected life (in years)	4.2 - 5.9	4.0 - 5.2	4.1 - 5.3

Restricted Stock Units

Restricted stock units are awards that entitle the holder to receive shares of CSC's common stock following a vesting period. Restricted stock units are restricted from transfer or sale and generally vest annually over a one- to four-year period, while performance-based restricted stock units also require the Company 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 grant date fair value is amortized to compensation expense on a straight-line basis over the requisite service period. The fair value of the restricted stock units that vested during each of the years 2019, 2018, and 2017 was $123 million, $166 million, and $127 million, respectively.

The Company's restricted stock units activity is summarized below:

	Number of Units (In millions)	Weighted-Average Grant Date Fair Value per Unit
Outstanding at December 31, 2018	7	$ 40.64
Granted	4	42.16
Vested	(3)	36.10
Forfeited [1]	—	43.34
Outstanding at December 31, 2019	8	$ 42.93

[1] Number of units were less than 500 thousand.

Retirement Plan

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 $118 million, $105 million, and $92 million in 2019, 2018, and 2017, respectively.

Deferred Compensation Plans

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 $164 million and $144 million at December 31, 2019 and 2018, respectively.

FC Career Achievement Plan

The FC career achievement plan is a noncontributory, unfunded, nonqualified plan for eligible FCs. An FC 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 an FC 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,	2019	2018
Projected benefit obligation at beginning of year	$ 56	$ 44
Benefit cost [1]	13	11
Actuarial (gain)/loss [2]	14	1
Projected benefit obligation at end of year [3]	$ 83	$ 56

[1] Includes service cost and interest cost, which are recognized in compensation and benefits expense and other expense, respectively, in the consolidated statements of income.
[2] Actuarial (gain)/loss is reflected in the consolidated statements of comprehensive income and is included in AOCI on the consolidated balance sheets.
[3] This amount is recognized as a liability on the consolidated balance sheets and also depicts the accumulated benefit obligation.

20. Taxes on Income

On December 22, 2017, the Tax Act was signed into law. Among other things, the Tax Act lowered the federal corporate income tax rate from 35% to 21%, effective for tax years including or commencing January 1, 2018. Schwab's effective tax rate for the years ended December 31, 2019, 2018, and 2017 was 23.6%, 23.1%, and 35.5%, respectively.

Also as a result of the Tax Act, Schwab recognized a $46 million one-time non-cash charge to taxes on income in the fourth quarter of 2017 associated with the remeasurement of net deferred tax assets and other tax adjustments related to the Tax Act. During 2018, we concluded our analysis and accounting for all remaining impacts of the Tax Act, including the state tax effect of adjustments made to federal temporary differences, resulting in no additional material impacts.

As of January 1, 2018, Schwab adopted ASU 2018-02, which resulted in a decrease to AOCI and an increase to retained earnings by $33 million for the reclassification of certain impacts of the Tax Act. Schwab also adopted ASU 2014-09, "*Revenue – Revenue from Contracts with Customers*" as of January 1, 2018, which resulted in recording an initial asset for capitalized contract costs of $219 million and a related deferred tax liability of $52 million. As of December 31, 2019, the deferred tax liability related to the capitalized contract costs was $68 million.

The components of taxes on income are as follows:

Year Ended December 31,	2019	2018	2017
Current:			
Federal	$ 958	$ 847	$ 1,132
State	184	159	106
Total current	1,142	1,006	1,238
Deferred:			
Federal	3	42	58
State	(1)	7	—
Total deferred	2	49	58
Taxes on income	$ 1,144	$ 1,055	$ 1,296

The temporary differences that created deferred tax assets and liabilities are detailed below:

December 31,	2019	2018
Deferred tax assets:		
Operating lease liabilities	$ 159	$ —
Employee compensation, severance, and benefits	154	132
State and local taxes	22	21
Reserves and allowances	14	13
Net operating loss carryforwards	6	5
Net unrealized loss on available for sale securities	—	79
Facilities lease commitments	—	12
Other	—	6
Total deferred tax assets	355	268
Valuation allowance	(3)	(3)
Deferred tax assets — net of valuation allowance	352	265
Deferred tax liabilities:		
Operating lease ROU assets	(146)	—
Depreciation and amortization	(113)	(108)
Capitalized internal-use software development costs	(97)	(98)
Capitalized contract costs	(68)	(60)
Net unrealized gain on available for sale securities	(28)	—
Other	(10)	—
Total deferred tax liabilities	(462)	(266)
Deferred tax asset/(liability) — net [1]	$ (110)	$ (1)

[1] Amounts are included in accrued expenses and other liabilities and in other assets on the consolidated balance sheets at December 31, 2019 and 2018.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

Year Ended December 31,	2019	2018	2017
Federal statutory income tax rate	21.0 %	21.0 %	35.0 %
State income taxes, net of federal tax benefit	3.2	3.0	2.2
Equity compensation benefit	(0.5)	(1.0)	(2.4)
Other [1]	(0.1)	0.1	0.7

Effective income tax rate	23.6 %	23.1 %	35.5 %

(1) 2017 includes the impact of one-time charge to taxes on income associated with the Tax Act.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

December 31,	2019	2018
Balance at beginning of year	$ 112	$ 111
Additions for tax positions related to the current year	3	3
Additions for tax positions related to prior years	4	3
Reductions for tax positions related to prior years	(2)	(4)
Reductions due to lapse of statute of limitations	(14)	—
Reductions for settlements with tax authorities	(2)	(1)
Balance at end of year	$ 101	$ 112

Unrecognized tax benefits totaled $101 million and $112 million as of December 31, 2019 and 2018, respectively, $97 million and $108 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, 2019 and 2018, we had accrued approximately $11 million and $9 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 2011 through 2014 and 2016 through 2018 remain subject to examination. The years open to examination by state and local governments vary by jurisdiction.

21. Regulatory Requirements

CSC is a savings and loan holding company and CSB, CSC's primary depository institution subsidiary, is a federal savings bank. CSC is subject to examination, supervision, and regulation by the Federal Reserve. CSB is subject to examination, supervision, and regulation by the OCC, as its primary regulator, the FDIC as its deposit insurer, and the CFPB. 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, CSB is required to provide notice to and may be required to obtain approval of the OCC and the Federal Reserve to declare dividends to CSC. The federal banking agencies have broad powers to enforce these 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, 2019, both CSC and CSB met all of their respective capital requirements.

The regulatory capital and ratios for CSC (consolidated) and CSB are as follows:

	Actual [1]		Minimum to be Well Capitalized		Minimum Capital Requirement	
December 31, 2019	Amount	Ratio	Amount	Ratio	Amount	Ratio [2]
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 17,660	19.5 %	N/A		$ 4,073	4.5 %
Tier 1 Risk-Based Capital	20,453	22.6 %	N/A		5,431	6.0 %
Total Risk-Based Capital	20,472	22.6 %	N/A		7,241	8.0 %
Tier 1 Leverage	20,453	7.3 %	N/A		11,189	4.0 %
Supplementary Leverage Ratio [1]	20,453	7.1 %	N/A		8,604	3.0 %
CSB						
Common Equity Tier 1 Risk-Based Capital	$ 14,819	20.7 %	$ 4,649	6.5 %	$ 3,218	4.5 %
Tier 1 Risk-Based Capital	14,819	20.7 %	5,722	8.0 %	4,291	6.0 %
Total Risk-Based Capital	14,837	20.7 %	7,152	10.0 %	5,722	8.0 %
Tier 1 Leverage	14,819	7.1 %	10,486	5.0 %	8,389	4.0 %
Supplementary Leverage Ratio [1]	14,819	6.8 %	N/A	N/A	6,497	3.0 %
December 31, 2018						
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 16,813	17.6 %	N/A		$ 4,295	4.5 %
Tier 1 Risk-Based Capital	19,606	20.5 %	N/A		5,726	6.0 %
Total Risk-Based Capital	19,628	20.6 %	N/A		7,635	8.0 %
Tier 1 Leverage	19,606	7.1 %	N/A		11,058	4.0 %
CSB						
Common Equity Tier 1 Risk-Based Capital	$ 15,832	19.7 %	$ 5,233	6.5 %	$ 3,623	4.5 %
Tier 1 Risk-Based Capital	15,832	19.7 %	6,441	8.0 %	4,831	6.0 %
Total Risk-Based Capital	15,853	19.7 %	8,051	10.0 %	6,441	8.0 %
Tier 1 Leverage	15,832	7.2 %	11,044	5.0 %	8,836	4.0 %

[1] Beginning in 2019, CSC and CSB were required to include all components of AOCI in regulatory capital and report our supplementary leverage ratio, which is calculated as Tier 1 capital divided by total leverage exposure. Total leverage exposure includes all on-balance sheet assets and certain off-balance sheet exposures, including unused commitments. Prior to 2019, CSC and CSB elected to opt-out of the requirement to include most components of AOCI in Common Equity Tier 1 Capital; the amounts and ratios for December 31, 2018 are presented on this basis. In the interagency regulatory capital and liquidity rules adopted in October 2019, Category III banking organizations such as CSC were given the ability to opt-out of the inclusion of AOCI in regulatory capital, and CSC made this opt-out election as of January 1, 2020.

[2] Under the Basel III capital rule, CSC and CSB are also required to maintain a capital conservation buffer and, beginning in 2019, a countercyclical capital buffer above the regulatory minimum risk-based capital ratios. The capital conservation buffer became 2.5% on January 1, 2019 (1.875% at December 31, 2018). At December 31, 2019, the countercyclical capital buffer was zero. If either buffer falls below the minimum requirement, the Company would be subject to limits on capital distributions and discretionary bonus payments to executive officers. At December 31, 2019, the minimum capital requirement plus capital conservation buffer and countercyclical capital buffer for Common Equity Tier 1 Risk-Based Capital, Tier 1 Risk-Based Capital, and Total Risk-Based Capital ratios were 7.0%, 8.5%, and 10.5%, respectively.

N/A Not applicable.

Based on its regulatory capital ratios at December 31, 2019, CSB is considered well capitalized (the highest category) under its respective regulatory capital rules. There are no conditions or events since December 31, 2019 that management believes have changed CSB's capital category.

The Federal Reserve requires CSB to maintain reserve balances at the Federal Reserve based on its deposits that are considered to be transaction accounts. CSB's average reserve requirement was $1.5 billion and $1.6 billion in 2019 and 2018, respectively. In late 2017, Schwab acquired a federal savings bank charter which is now called Charles Schwab Premier Bank (CSPB). In 2018, the Company established Charles Schwab Trust Bank (Trust Bank) as a Nevada state-chartered savings bank to provide certain trust and custody services. At December 31, 2019, the balance

sheets of CSPB and Trust Bank consisted primarily of investment securities, and the entities held total assets of $14.3 billion and $6.1 billion, respectively. Based on their regulatory capital ratios, at December 31, 2019, CSPB and Trust Bank are considered well capitalized under their respective regulatory capital rules.

CS&Co, a securities broker-dealer, is subject to the Uniform Net Capital Rule. CS&Co computes its net capital under the alternative method permitted by the Uniform Net Capital Rule. This method 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 of $250,000, 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 are as follows:

December 31,	2019	2018
Net capital	$ 3,700	$ 2,304
Minimum net capital required	0.250	0.250
2% of aggregate debit balances	446	436
Net capital in excess of required net capital	$ 3,254	$ 1,868

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, 2019. 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, 2019 for CS&Co totaled $23.0 billion. As of January 3, 2020, CS&Co had deposited $3.1 billion 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, 2018 for CS&Co totaled $16.7 billion. As of January 3, 2019, CS&Co had deposited $3.7 billion of cash and qualified securities into its segregated reserve accounts. 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.

22. 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 and banking 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 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 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 its 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:

	Investor Services			Advisor Services			Total		
Year Ended December 31,	2019	2018	2017	2019	2018	2017	2019	2018	2017
Net Revenues									
Net interest revenue	$ 4,685	$ 4,341	$ 3,231	$ 1,831	$ 1,482	$ 1,051	$ 6,516	$ 5,823	$ 4,282
Asset management and administration fees	2,289	2,260	2,344	922	969	1,048	3,211	3,229	3,392
Trading revenue	378	475	408	239	288	246	617	763	654
Other	271	245	217	106	72	73	377	317	290
Total net revenues	7,623	7,321	6,200	3,098	2,811	2,418	10,721	10,132	8,618
Expenses Excluding Interest	4,284	4,145	3,725	1,589	1,425	1,243	5,873	5,570	4,968
Income before taxes on income	$ 3,339	$ 3,176	$ 2,475	$ 1,509	$ 1,386	$ 1,175	$ 4,848	$ 4,562	$ 3,650
Capital expenditures	$ 507	$ 390	$ 265	$ 246	$ 186	$ 147	$ 753	$ 576	$ 412
Depreciation and amortization	$ 242	$ 186	$ 203	$ 107	$ 120	$ 66	$ 349	$ 306	$ 269

23. The Charles Schwab Corporation – Parent Company Only Financial Statements

Condensed Statements of Income

Year Ended December 31,	2019	2018	2017
Interest revenue	$ 119	$ 88	$ 33
Interest expense	(248)	(184)	(114)
Net interest expense	(129)	(96)	(81)
Other revenue	(1)	1	3
Expenses Excluding Interest:			
Professional services	(24)	(6)	(4)
Other expenses excluding interest	(83)	(79)	(28)
Loss before income tax benefit and equity in net income of subsidiaries	(237)	(180)	(110)
Income tax benefit/(expense)	(9)	20	27
Loss before equity in net income of subsidiaries	(246)	(160)	(83)
Equity in net income of subsidiaries:			
Equity in undistributed net income/(distributions in excess of net income) of subsidiaries	(1,198)	2,590	1,479
Dividends from bank subsidiaries	4,915	750	625
Dividends from non-bank subsidiaries	233	327	333
Net Income	3,704	3,507	2,354
Preferred stock dividends and other [1]	178	178	174
Net Income Available to Common Stockholders	$ 3,526	$ 3,329	$ 2,180

[1] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

Condensed Balance Sheets

December 31,	2019	2018
Assets		
Cash and cash equivalents	$ 2,839	$ 2,092
Receivables from subsidiaries	1,085	784
Available for sale securities	1,743	1,754
Held to maturity securities	224	223
Loans to non-bank subsidiaries	—	185
Investment in non-bank subsidiaries	7,090	5,507
Investment in bank subsidiaries	16,325	16,995
Other assets	304	337
Total assets	$ 29,610	$ 27,877
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	$ 430	$ 379
Payables to subsidiaries	5	2
Long-term debt	7,430	6,826
Total liabilities	7,865	7,207
Stockholders' equity	21,745	20,670
Total liabilities and stockholders' equity	$ 29,610	$ 27,877

Condensed Statements of Cash Flows

Year Ended December 31,	2019	2018	2017
Cash Flows from Operating Activities			
Net income	$ 3,704	$ 3,507	$ 2,354
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Dividends in excess of (equity in undistributed) earnings of subsidiaries	1,198	(2,590)	(1,479)
Other	9	13	5
Net change in:			
Other assets	57	(5)	(27)
Accrued expenses and other liabilities	34	28	44
Net cash provided by (used for) operating activities	5,002	953	897
Cash Flows from Investing Activities			
Due from (to) subsidiaries — net	(122)	408	(374)
Increase in investments in subsidiaries	(1,783)	(1,188)	(342)
Repayments (Advances) of subordinated loan to CS&Co	185	(185)	—
Purchases of available for sale securities	(1,141)	(1,751)	(201)
Proceeds from sales of available for sale securities	181	—	197
Principal payments on available for sale securities	994	573	—
Other investing activities	—	(5)	(6)
Net cash provided by (used for) investing activities	(1,686)	(2,148)	(726)
Cash Flows from Financing Activities			
Issuance of long-term debt	593	3,024	2,129
Repayment of long-term debt	—	(900)	(250)
Repurchases of common stock	(2,220)	(1,000)	—
Net proceeds from preferred stock offerings	—	—	492
Redemption of preferred stock	—	—	(485)
Dividends paid	(1,060)	(787)	(592)
Proceeds from stock options exercised and other	118	125	171
Net cash provided by (used for) financing activities	(2,569)	462	1,465
Increase (Decrease) in Cash and Cash Equivalents	747	(733)	1,636
Cash and Cash Equivalents at Beginning of Year	2,092	2,825	1,189
Cash and Cash Equivalents at End of Year	$ 2,839	$ 2,092	$ 2,825

24. Quarterly Financial Information (Unaudited)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Year Ended December 31, 2019:				
Total net revenues	$ 2,606	$ 2,711	$ 2,681	$ 2,723
Total expenses excluding interest	$ 1,494	$ 1,475	$ 1,445	$ 1,459
Net income	$ 852	$ 951	$ 937	$ 964
Net income available to common stockholders	$ 801	$ 913	$ 887	$ 925
Weighted-average common shares outstanding — Basic	1,284	1,300	1,328	1,333
Weighted-average common shares outstanding — Diluted	1,293	1,308	1,337	1,344
Earnings per common share — Basic	$ .62	$ .70	$ .67	$ .69
Earnings per common share — Diluted	$ .62	$ .70	$ .66	$ .69
Dividends declared per common share	$ .17	$ .17	$ .17	$ .17
Year Ended December 31, 2018:				
Total net revenues	$ 2,669	$ 2,579	$ 2,486	$ 2,398
Total expenses excluding interest	$ 1,459	$ 1,360	$ 1,355	$ 1,396
Net income	$ 935	$ 923	$ 866	$ 783
Net income available to common stockholders	$ 885	$ 885	$ 813	$ 746
Weighted-average common shares outstanding — Basic	1,343	1,351	1,350	1,347
Weighted-average common shares outstanding — Diluted	1,354	1,364	1,364	1,362
Earnings per common share — Basic	$ .66	$ .66	$ .60	$ .55
Earnings per common share — Diluted	$ .65	$ .65	$ .60	$ .55
Dividends declared per common share	$ .13	$ .13	$ .10	$ .10

25. Subsequent Events

In October 2019, the Federal Reserve issued a final enhanced prudential standards rule, and the Federal Reserve, OCC, and the FDIC jointly issued a final regulatory capital and liquidity rule. With total consolidated assets of $294.0 billion at December 31, 2019, CSC is 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 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.

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, 2019 and 2018, 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, 2019, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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 and Trading Revenue – Refer to Note 3 to the financial statements

Critical Audit Matter Description

Revenues from asset management and administrative fees (AMAF) are generated through proprietary, third-party mutual fund and exchange-traded funds (ETFs) offerings, as well as fee-based advisory solutions. Trading revenue is generated through commissions earned for executing trades for clients in individual equities, options, fixed income securities, and certain third-party mutual funds and ETFs. Both AMAF and trading revenue is made up of a significant volume of low-dollar transactions, and uses automated systems to process and record revenue from these transactions based on underlying information sourced from multiple systems. The processing and recording of revenue is highly automated and is based on contractual terms with individual investors, mutual funds and investment advisors. As of December 31, 2019, total net revenue was $10.7 billion, of which $3.8 billion is AMAF and trading revenue.

Given that the Company's process to record revenue is highly automated and involves multiple systems, 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) which was necessary for us to identify, test, and evaluate the Company's systems.

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, as well as the controls designed to ensure the accuracy and completeness of revenue.
- 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 performed testing of controls addressing the accuracy and completeness of reports used in the performance of controls.
- With the assistance of our data specialists, we created data visualizations to evaluate recorded revenue and evaluate trends in the revenue data.
- For a sample of transactions, we performed detail transaction testing by testing the mathematical accuracy of the recorded revenue and agreeing inputs to the calculation to contractual agreements.
- We tested the amount of client assets by obtaining quoted market prices and reconciling total positions to third-party statements.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
February 26, 2020

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, 2019, 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, 2019.

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, 2019, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing on the previous page.

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, 2019. 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, 2019.

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, 2019, that has materially affected, or is reasonably 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.

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, 2020 (the Proxy Statement) under "Members of the Board of Directors," "Board Structure and Committees," and "Director Nominations." 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, 2019.

Executive Officers of the Registrant

Name	Age	Title
Charles R. Schwab	82	Chairman of the Board
Walter W. Bettinger II	59	President and Chief Executive Officer
Bernard J. Clark	61	Executive Vice President – Advisor Services
Jonathan M. Craig	48	Senior Executive Vice President
Peter B. Crawford	51	Executive Vice President and Chief Financial Officer
Joseph R. Martinetto	57	Senior Executive Vice President and Chief Operating Officer
Peter J. Morgan III	55	Executive Vice President, General Counsel and Corporate Secretary
Nigel J. Murtagh	56	Executive Vice President – Corporate Risk

Mr. Schwab has been Chairman of the Board and a director of CSC since its incorporation in 1986. 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. Schwab is also Chairman of CSB.

Mr. Bettinger has been President and Chief Executive Officer of CSC since 2008. He serves on the Board of Directors of CSC and CSB, and is Chairman of CS&Co, as well 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 President and Chief Operating Officer of CSC 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. Clark has been Executive Vice President – Advisor Services of CSC since 2012. Mr. Clark has served as Executive Vice President – Advisor Services of CS&Co since 2010. 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 Senior Executive Vice President of CSC and CS&Co since 2018. He served as Executive Vice President – Client and Marketing Solutions for CSC from 2017 until 2018 and served as Executive Vice President and Chief Marketing Officer of CS&Co from 2012 until 2018. Mr. Craig joined Schwab in 2000.

Mr. Crawford has been Executive Vice President 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 from 2015 to 2017. He served as Senior Vice President of Schwab's asset management and client solutions organization from 2008 to 2015. He has served on the Board of Directors of CS&Co since 2018. Mr. Crawford joined Schwab in 2001.

Mr. Martinetto has been Senior Executive Vice President of CSC and CS&Co since 2015, 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 CSB. Additionally, Mr. Martinetto is 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.

Mr. Morgan was appointed Executive Vice President, General Counsel and Corporate Secretary of CSC in October 2019. He served as Acting Head of Legal Services for CSC from April 2019 to October 2019. Mr. Morgan served as Senior Vice President and Deputy General Counsel of CS&Co from 2009. He was appointed Executive Vice

President and General Counsel of CSB in December 2019, served as Senior Vice President and General Counsel of CSB in 2015, and served as General Counsel of CSB from 2009. Mr. Morgan joined Schwab in 1999.

Mr. Murtagh has been Executive Vice President – Corporate Risk and Chief Risk Officer since 2012. 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 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 under "Compensation Discussion and Analysis," "Executive Compensation Tables – 2019 Summary Compensation Table," "Executive Compensation Tables – 2019 Grants of Plan-Based Awards Table," "Executive Compensation Tables – Narrative to Summary Compensation and Grants of Plan-Based Awards Tables," "Executive Compensation Tables – 2019 Termination and Change in Control Benefits Table," "Executive Compensation Tables – Outstanding Equity Awards as of December 31, 2019," "Executive Compensation Tables – 2019 Option Exercises and Stock Vested Table," "Executive Compensation Tables – 2019 Nonqualified Deferred Compensation Table," "Director Compensation," and "Compensation Committee Interlocks and Insider Participation." 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 under "Security Ownership of Certain Beneficial Owners and Management," and "Securities Authorized for Issuance under Equity Compensation Plans."

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 under "Transactions with Related Persons" and "Director Independence."

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 under "Auditor Fees."

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.*
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.
3.14	Fourth Restated Bylaws, as amended on January 27, 2010, of the Registrant, filed as Exhibit 3.14 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.15	Certificate of Designations of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A of The Charles Schwab Corporation, filed as Exhibit 3.15 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.17	Certificate of Designations of 6.00% Non-Cumulative Perpetual Preferred Stock, Series C, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated August 3, 2015, 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.
3.19	Certificate of Designations of 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 October 31, 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.
4.2	Deposit Agreement, dated August 3, 2015, 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 August 3, 2015 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.
4.4	Deposit Agreement, dated October 31, 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 October 31, 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	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.	(1)
4.7	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.	

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
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.	
10.271	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.	(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)
10.349	The Charles Schwab Severance Pay Plan, as Amended and Restated Effective May 1, 2012, filed as Exhibit 10.349 to the Registrant's Form 10-Q for the quarter ended June 30, 2017, and incorporated herein by reference.	(2)
10.362	The Charles Schwab Corporation Directors' Deferred Compensation Plan II, as amended and restated as of April 24, 2013.	(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)
10.382	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 10.382 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)
10.385		(2)

	The Charles Schwab Corporation Deferred Compensation Plan II, as amended and restated as of December 13, 2017, filed as Exhibit 10.385 to the Registrant's Form 10-K for the year ended December 31, 2017, and incorporated herein by reference.	
10.386	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 10.386 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)
10.390	Summary of Non-Employee Director Compensation, filed as Exhibit 10.390 to the Registrant's Form 10-K for the year ended December 31, 2017, and incorporated herein by reference.	(2)
10.391	2013 Stock Incentive Plan, as amended and restated, filed as Exhibit 10.391 to the Registrant's Form 8-K dated May 15, 2018, and incorporated herein by reference.	(2)

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
10.392	Credit Agreement (364 – Day Commitment) dated as of June 1, 2018, between the Registrant and financial institutions therein, filed as Exhibit 10.392 to the Registrant's Form 8-K dated October 31, 2018, and incorporated herein by reference.	
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)
10.395	Credit Agreement (364 – Day Commitment) dated as of May 31, 2019, between the Registrant and financial institutions therein (supersedes Exhibit 10.392), filed as Exhibit 10.395 to the Registrant's Form 10-Q for the quarter ended June 30, 2019, and incorporated herein by reference.	
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 Registrant's 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 (supersedes Exhibit 10.381), 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 (supersedes Exhibit 10.382), 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)
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 (supersedes Exhibit 10.383), 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 (supersedes Exhibit 10.384), 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 (supersedes Exhibit 10.393), 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 (supersedes Exhibit 10.394), 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 (supersedes Exhibit 10.396), filed as Exhibit 10.404 to the Registrant's 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.**

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
10.408	Form of Notice Performance-Based Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans (supersedes Exhibit 10.386).	(1),(2)
10.409	Summary of Non-Employee Director Compensation (supersedes Exhibit 10.390).	(1),(2)
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	XBRL Instance Document	(3)
101.SCH	XBRL Taxonomy Extension Schema	(3)
101.CAL	XBRL Taxonomy Extension Calculation	(3)
101.DEF	XBRL Extension Definition	(3)
101.LAB	XBRL Taxonomy Extension Label	(3)
101.PRE	XBRL Taxonomy Extension Presentation	(3)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	
(1)	*Furnished as an exhibit to this annual report on Form 10-K.*	
(2)	*Management contract or compensatory plan.*	
(3)	*Attached as Exhibit 101 to this Annual Report on Form 10-K for the annual period ended December 31, 2019, 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.*	

* 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 26, 2020.

THE CHARLES SCHWAB CORPORATION
(Registrant)

BY: /s/ Walter W. Bettinger II
Walter W. Bettinger II
President 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 26, 2020.

Signature / Title	Signature / Title
/s/ Walter W. Bettinger II Walter W. Bettinger II, President and Chief Executive Officer and Director	/s/ Peter Crawford Peter Crawford, Executive Vice President and Chief Financial Officer (principal financial and accounting officer)
/s/ Charles R. Schwab Charles R. Schwab, Chairman of the Board	/s/ John K. Adams, Jr. John K. Adams, Jr., 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. Herringer Frank C. Herringer, Director
/s/ Stephen T. McLin Stephen T. McLin, Director	/s/ Charles A. Ruffel Charles A. Ruffel, Director
/s/ Arun Sarin Arun Sarin, Director	/s/ Paula A. Sneed Paula A. Sneed, Director
/s/ Roger O. Walther Roger O. Walther, Director	

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

The following table outlines the information required by the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies," which is presented at the consolidated holding company level.

Required Disclosure	Page
Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential	F-2 – F-3
Investment Portfolio	F-4
Risk Elements – Cross-border Holdings	F-4
Loan Portfolio	F-5
Summary of Loan Loss Experience	F-6
Deposits	F-6
Return on Equity and Assets	F-6

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

The following supplemental financial data is consistent with the Securities Exchange Act of 1934, Industry Guide 3 – Statistical Disclosure by Bank Holding Companies (Guide 3). Other information required by Guide 3 is presented throughout this Annual Report on Form 10-K.

1. Three-year Net Interest Revenue and Average Balances

For the Year Ended December 31,	2019			2018			2017		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:									
Cash and cash equivalents	$ 23,512	$ 518	2.17 %	$ 17,783	$ 348	1.93 %	$ 9,931	$ 109	1.10 %
Cash and investments segregated	15,694	345	2.17 %	11,461	206	1.78 %	18,525	166	0.90 %
Broker-related receivables	376	7	1.87 %	303	6	2.09 %	430	3	0.70 %
Receivables from brokerage clients	19,270	821	4.20 %	19,870	830	4.12 %	16,269	575	3.53 %
Available for sale securities [1]	58,181	1,560	2.67 %	54,542	1,241	2.26 %	53,040	815	1.54 %
Held to maturity securities	134,708	3,591	2.65 %	131,794	3,348	2.53 %	103,599	2,354	2.27 %
Bank loans [2]	16,832	584	3.47 %	16,554	559	3.37 %	15,919	472	2.97 %
Total interest-earning assets	268,573	7,426	2.75 %	252,307	6,538	2.57 %	217,713	4,494	2.06 %
Other interest revenue		154			142			130	
Total interest-earning assets	268,573	7,580	2.80 %	252,307	6,680	2.63 %	217,713	4,624	2.12 %
Non-interest-earning assets [3,4]	11,183			11,681			9,968		
Total assets	$ 279,756			$ 263,988			$ 227,681		
Liabilities and Stockholders' Equity:									
Bank deposits	$ 212,605	$ 700	0.33 %	$ 199,139	$ 545	0.27 %	$ 163,998	$ 148	0.09 %
Payables to brokerage clients	24,353	79	0.33 %	21,178	56	0.27 %	25,403	16	0.06 %
Short-term borrowings [5]	17	—	2.36 %	3,359	54	1.59 %	3,503	41	1.17 %
Long-term debt	7,199	258	3.58 %	5,423	190	3.50 %	3,431	119	3.47 %
Total interest-bearing liabilities	244,174	1,037	0.42 %	229,099	845	0.37 %	196,335	324	0.17 %
Other interest expense		27			12			18	
Non-interest-bearing liabilities [3,6]	14,170			14,883			13,787		
Total liabilities [7]	258,344	1,064	0.39 %	243,982	857	0.34 %	210,122	342	0.15 %
Stockholders' equity [3]	21,412			20,006			17,559		
Total liabilities and stockholders' equity	$ 279,756			$ 263,988			$ 227,681		
Net interest revenue		$ 6,516			$ 5,823			$ 4,282	
Net yield on interest-earning assets			2.41 %			2.29 %			1.97 %

[1] Amounts calculated based on amortized cost.
[2] Includes average principal balances of nonaccrual loans.
[3] Average balance calculation based on month end balances.
[4] Non-interest-earning assets include equipment, office facilities, and property – net, goodwill, and other assets that do not generate interest income.
[5] Interest revenue or expense was less than $500,000 in the period or periods presented.
[6] Non-interest-bearing liabilities consist of other liabilities that do not generate interest expense.
[7] Average rate calculation based on total funding sources.

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

2. Analysis of Change 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:

	2019 Compared to 2018 Increase (Decrease) Due to Change in:			2018 Compared to 2017 Increase (Decrease) Due to Change in:		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest-earning assets:						
Cash and cash equivalents [1]	$ 111	$ 59	$ 170	$ 86	$ 153	$ 239
Cash and investments segregated	75	64	139	(64)	104	40
Broker-related receivables	2	(1)	1	(1)	4	3
Receivables from brokerage clients	(25)	16	(9)	127	128	255
Available for sale securities [2]	82	237	319	23	403	426
Held to maturity securities	74	169	243	640	354	994
Bank loans [3]	9	16	25	19	68	87
Other interest revenue	—	12	12	—	12	12
Total interest-earning assets	$ 328	$ 572	$ 900	$ 830	$ 1,226	$ 2,056
Interest-bearing sources of funds:						
Bank deposits	$ 36	$ 119	$ 155	$ 32	$ 365	$ 397
Payables to brokerage clients	9	14	23	(3)	43	40
Short-term borrowings	(53)	(1)	(54)	(2)	15	13
Long-term debt	62	6	68	69	2	71
Other interest expense	—	15	15	—	(6)	(6)
Total sources on which interest is paid	54	153	207	96	419	515
Change in net interest revenue	$ 274	$ 419	$ 693	$ 734	$ 807	$ 1,541

Changes that are not due solely to volume or rate have been allocated to rate.
[1] Includes deposits with banks and short-term investments.
[2] Amounts have been calculated based on amortized cost.
[3] Includes average principal balances of nonaccrual loans.

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

3. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of AFS and HTM securities for 2017 are as follows:

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. agency mortgage-backed securities	$ 20,915	$ 53	$ 39	$ 20,929
U.S. Treasury securities	9,583	—	83	9,500
Asset-backed securities	9,019	34	6	9,047
Corporate debt securities	6,154	16	1	6,169
Certificates of deposit	2,040	2	1	2,041
U.S. agency notes	1,914	—	8	1,906
Commercial paper	313	—	—	313
Foreign government agency securities	51	—	1	50
Non-agency commercial mortgage-backed securities	40	—	—	40
Total available for sale securities	$ 50,029	$ 105	$ 139	$ 49,995
Held to maturity securities:				
U.S. agency mortgage-backed securities	$ 101,197	$ 290	$ 1,034	$ 100,453
Asset-backed securities	12,937	127	2	13,062
Corporate debt securities	4,078	13	5	4,086
U.S. state and municipal securities	1,247	57	—	1,304
Non-agency commercial mortgage-backed securities	994	10	5	999
U.S. Treasury securities	223	—	3	220
Certificates of deposit	200	—	—	200
Foreign government agency securities	50	—	1	49
Total held to maturity securities	$ 120,926	$ 497	$ 1,050	$ 120,373

For additional information on 2019 and 2018 investment securities, see Item 8 – Note 5.

As of December 31, 2019, with exception of holdings of securities issued by the U.S. Government and U.S. Government agencies and corporations, the Company held no investment securities from single issuers with aggregate book values in excess of ten percent of stockholders' equity.

4. Cross-border Holdings

The below information describes Schwab's cross-border holdings, based on fair value, as of December 31, 2019, 2018, and 2017. Such holdings, by country, that exceed 0.75% of total assets are disclosed separately.

December 31, 2019	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets
Country:				
France	$ 3,103	$ —	$ 3,103	1.1 %

December 31, 2018	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets

Country:				
France	$ 2,793	$ —	$ 2,793	0.9 %

There were no cross-border holdings that exceeded 0.75% of total assets at December 31, 2017.

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

5. Bank Loans and Related Allowance for Loan Losses

The composition of the loan portfolio is as follows:

December 31,	2019	2018	2017	2016	2015
First Mortgages	$ 11,704	$ 10,384	$ 10,016	$ 9,134	$ 8,334
HELOCs	1,117	1,505	1,943	2,350	2,735
Pledged asset lines	5,206	4,561	4,369	3,851	3,232
Other	203	180	176	94	64
Total bank loans	$ 18,230	$ 16,630	$ 16,504	$ 15,429	$ 14,365

An analysis of nonaccrual loans is as follows:

December 31,	2019	2018	2017	2016	2015
Nonaccrual loans	$ 22	$ 21	$ 28	$ 26	$ 28
Average nonaccrual loans	$ 21	$ 25	$ 27	$ 27	$ 30

There were no loans accruing interest that were contractually 90 days or more past due as of any period presented.

Changes in the allowance for loan losses were as follows:

December 31,	2019	2018	2017	2016	2015
Balance at beginning of year	$ 21	$ 26	$ 26	$ 31	$ 42
Charge-offs	—	(1)	(3)	(2)	(3)
Recoveries	2	2	3	2	3
Provision for loan losses	(5)	(6)	—	(5)	(11)
Balance at end of year	$ 18	$ 21	$ 26	$ 26	$ 31

The maturities of the loan portfolio are as follows:

December 31, 2019	Within 1 year	After 1 year through 5 years	After 5 years	Total
First Mortgages [1]	$ —	$ 1	$ 11,703	$ 11,704
HELOCs [2]	551	236	330	1,117
Pledged asset lines	1,832	3,374	—	5,206
Other	7	192	4	203
Total	$ 2,390	$ 3,803	$ 12,037	$ 18,230

[1] Maturities are based upon the contractual terms of the loans.
[2] Maturities are based on an initial draw period of ten years.

The interest sensitivity of loans with contractual maturities in excess of one year is as follows:

December 31, 2019	After 1 year
Loans with floating or adjustable interest rates	$ 14,546
Loans with predetermined interest rates	1,294
Total	$ 15,840

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

6. Summary of Loan Loss on Banking Loans Experience

December 31,	2019	2018	2017	2016	2015
Average loans	$ 16,832	$ 16,554	$ 15,919	$ 14,715	$ 13,973
Allowance to year end loans	.10 %	.13 %	.16 %	.17 %	.21 %
Allowance to nonperforming loans	82 %	100 %	93 %	101 %	110 %
Nonperforming assets to average loans and real estate owned	.14 %	.14 %	.20 %	.21 %	.26 %

7. 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 deposits from banking clients:

December 31,	2019		2018		2017	
	Amount	Rate	Amount	Rate	Amount	Rate
Analysis of average daily deposits:						
Money market and other savings deposits	$ 197,788	0.33 %	$ 184,039	0.28 %	$ 148,679	0.09 %

At December 31, 2019, there were no certificates of deposit of $100,000 or more included in bank deposits.

8. Ratios

December 31,	2019	2018	2017
Return on average total stockholders' equity	17.30 %	17.53 %	13.41 %
Return on average total assets	1.32 %	1.33 %	1.03 %
Average total stockholders' equity as a percentage of average total assets	7.65 %	7.58 %	7.71 %
Dividend payout ratio [1]	25.47 %	18.78 %	19.88 %

Note: Average balance calculations based on month end balances.

[1] Dividends declared per common share divided by diluted EPS.

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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, 2018 **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.)

211 Main Street, San Francisco, CA 94105
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (415) 667-7000

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

Title of each class	Name of each exchange on which registered
Common Stock – $.01 par value per share	New York Stock Exchange
Depositary Shares, each representing a 1/40th ownership interest in a share of 6.00% Non-Cumulative Preferred Stock, Series C	New York Stock Exchange
Depositary Shares, each representing a 1/40th ownership interest in a share of 5.95% Non-Cumulative Preferred Stock, Series D	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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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 ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2018, the aggregate market value of the voting stock held by non-affiliates of the registrant was $62.1 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.

The number of shares of Common Stock outstanding as of January 31, 2019, was 1,332,893,531.

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 15, 2019, by reference to that document.

THE CHARLES SCHWAB CORPORATION

Annual Report On Form 10-K
For Fiscal Year Ended December 31, 2018

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THE CHARLES SCHWAB CORPORATION

PART I

Item 1. Business

General Corporate Overview

The Charles Schwab Corporation (CSC) is a savings and loan holding company, headquartered in San Francisco, California. CSC was incorporated in 1986 and 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, 2018, Schwab had $3.25 trillion in client assets, 11.6 million active brokerage accounts, 1.7 million corporate retirement plan participants, and 1.3 million banking accounts.

Significant business subsidiaries of CSC include the following:

- Charles Schwab & Co., Inc. (CS&Co), incorporated in 1971, a securities broker-dealer with over 355 domestic branch offices in 47 states, as well as a branch in the Commonwealth of Puerto Rico. In addition, Schwab serves clients through branch offices in the United Kingdom (U.K.), Hong Kong, Singapore, and Australia through various subsidiaries;
- Charles Schwab Bank (CSB), a federal savings bank; and
- Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds®) and Schwab's exchange-traded funds (Schwab ETFs™).

Schwab provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking 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 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.

As of December 31, 2018, Schwab had full-time, part-time, temporary employees, and persons employed on a contract basis that represented the equivalent of approximately 19,500 full-time employees.

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

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 $45 trillion, which means the Company's $3.25 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.

Within Investor Services, our competition in serving individual investors spans brokerage, wealth management, and asset management firms, as well as banks and trust companies. In the Advisor Services arena, we compete with institutional custodians, traditional and discount brokers, 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 many different client 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 enables 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.

Sources of Net Revenues

Our major sources of net revenues are net interest revenue, asset management and administration fees, and trading revenue. These revenue streams are supported by the combination of 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 looking for.

Net interest revenue is the difference between interest generated on interest-earning assets and interest paid on funding sources, the majority of which is derived from client cash balances awaiting investment, held by Schwab as part of clients' overall relationship with the Company. While certain of these client cash balances are held on CS&Co's balance sheet or swept to our money market funds, a substantial amount of existing balances – and most new inflows of cash awaiting investment – are swept to a banking subsidiary. Interest-earning assets are primarily comprised of high-quality fixed income securities, margin loans, and bank loans.

The majority of asset management and administration fees are earned from proprietary money market mutual funds, proprietary and third-party mutual funds and exchange-traded funds (ETFs), and fee-based advisory solutions.

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

Products and Services

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

- Brokerage – an array of full-feature brokerage accounts with equity and fixed income trading, margin lending, options trading, and cash management capabilities including third-party certificates of deposit;

- Mutual funds – third-party mutual funds through the Mutual Fund Marketplace®, including non-transaction fee mutual funds through the Mutual Fund OneSource® service, which also includes proprietary mutual funds, plus mutual fund trading and clearing services to broker-dealers;
- Exchange-traded funds – an extensive offering of ETFs, including many proprietary and third-party ETFs available without a commission through Schwab ETF OneSource™;
- 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.

These investing 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 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements" (Item 8) – Note 2.

Investor Services

Charles Schwab initially founded the Company over 40 years ago to provide individual investors with access to the financial markets at a reasonable cost. The Company has been expanding offerings over time in response to client needs, aiming to provide a compelling and often disruptive solution in the marketplace. As products and services have evolved over the years, the Investor Services segment has expanded and now includes the Retail Investor, Retirement Plan Services, Mutual Fund Clearing Services, and Off-Platform Sales business units.

Through the Retail Investor business unit, we offer individual investors a multi-channel service delivery model, which includes online, mobile, telephone, and branch capabilities. We provide personalized service at competitive prices while giving clients the choice of where, when, and how they do business with us. Financial Consultants (FCs) in Schwab's branches and regional telephone service centers focus on building and sustaining client relationships. We have the ability to meet client investing needs through a single ongoing point of contact, even as those needs change over time. We believe that this ability to give those clients seeking help, guidance, or advice with an individually tailored solution – ranging from occasional consultations to an ongoing relationship with a Schwab FC or an independent RIA in the Schwab Advisor Network® – is a competitive strength compared to the more fragmented or limited offerings of other firms.

Our service delivery model provides quick and efficient access to a broad lineup of information, research, tools, trade execution, and administrative services, which clients can access according to their needs. For example, clients that trade more actively can 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. Management also believes the Company is able to compete with the wide variety of financial services firms striving to attract individual client relationships by complementing these capabilities with a range of investment and banking products.

Schwab strives to educate and assist clients in reaching their financial goals. Educational tools include workshops, webcasts, interactive courses, and online information about investing, from which Schwab does not earn revenue. Additionally, we provide various online research and analysis tools that are designed to help clients achieve better investment outcomes. As an example of such tools, 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.

Clients may seek specific investment recommendations, either from time to time or on an ongoing basis. Schwab provides clients seeking advice with personalized solutions. Our approach to advice is based on long-term investment strategies and guidance on portfolio diversification and asset allocation. This approach is designed to be offered consistently across all of Schwab's delivery channels.

Schwab Private Client™ features a personal advice relationship with a designated Portfolio Consultant, 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.

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. 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, are for clients who are looking to have their assets professionally managed via a fully automated online investment advisory service. In late 2016, we introduced Schwab Intelligent Advisory® to offer our clients a hybrid advisory service which combines live credentialed professionals and algorithm-driven technology to make financial and investment planning more accessible to investors. Finally, clients who want the assistance of an independent professional in managing their financial affairs may be referred to RIAs in the Schwab Advisor Network. These RIAs provide personalized portfolio management, financial planning, and wealth management solutions.

To meet the specific needs of clients who actively trade, Schwab offers integrated web- and software-based trading platforms, real-time market data, options trading, premium stock and futures research, and multi-channel access, as well as sophisticated account and trade management features, risk management and decision support tools, and dedicated personal support.

For U.S. clients wishing to invest in foreign equities, we offer 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. In the U.S., Schwab serves Mandarin-, Cantonese-, Spanish-, and Vietnamese-speaking clients through a combination of its branch offices, web-based and telephonic services.

We also offer equity compensation plan sponsors full-service recordkeeping for stock plans, stock options, restricted stock, performance shares, and stock appreciation rights. 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. In addition, we provide software and services for compliance departments of regulated companies and firms with special requirements to monitor employee personal trading, including trade surveillance technology.

Our Retirement Plan Services business unit 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, and defined benefit plans.

Lastly, the Mutual Fund Clearing Services business unit provides custody, recordkeeping, and trading services to banks, brokerage firms, and trust companies, and the Off-Platform Sales business unit offers proprietary mutual funds, ETFs, and collective trust funds outside the Company. 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 the largest provider 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 leadership 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, and local events designed to help RIAs 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 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 select third-party platforms, which support a variety of advisor needs including client relationship management, portfolio management systems, trade order management, and financial planning.

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 variety 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 a variety of 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 update and share market 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® 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 invested in our products and utilization of the services we provide. In this capacity, we do not charge an explicit custodial fee.

The Advisor Services segment also includes the Retirement Business Services and Corporate Brokerage Retirement Services business units. Retirement Business Services provides trust, custody, and retirement business services to independent retirement plan advisors and independent recordkeepers. Retirement plan assets are held at the Business Trust division of CSB. 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®, a self-directed brokerage offering for retirement plans.

Corporate Brokerage Retirement Services serves plan sponsors, advisors, and independent recordkeepers seeking a brokerage-based account to hold retirement plan assets. Retirement plans held at Schwab are either self-trusteed or trusteed by a separate, independent trustee. Corporate Brokerage Retirement Services also offers the Schwab Personal Choice Retirement Account®, and the Company Retirement Account, both of which are self-directed brokerage-based solutions designed to hold the assets of company-sponsored retirement plans.

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.

THE CHARLES SCHWAB CORPORATION

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). CSC's principal depository institution subsidiary, CSB, is a federal savings bank and is regulated, supervised, and examined by the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), and the Federal Deposit Insurance Corporation (FDIC). CSC and CSB 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. Also see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Current Regulatory Environment and Other Developments" for information regarding significant proposed rulemaking related to our regulation.

Basel III 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 OCC and the FDIC. In addition to minimum risk-based capital requirements, banking organizations must hold additional capital, referred to as a capital conservation buffer, to avoid being subject to limits on capital distributions and discretionary bonus payments to executive officers.

For the calculation of a banking organization's regulatory capital and risk-weighted assets, the regulatory capital rules provide for a "standardized approach" framework and an "advanced approaches" framework. Depository institutions and their holding companies with consolidated total assets of $250 billion or more, or total on-balance-sheet foreign exposure of $10 billion or more, are required to calculate their regulatory capital and risk-weighted assets using an "advanced approaches" framework and must satisfy the minimum capital requirements under both approaches. Such companies must also maintain a minimum supplementary leverage ratio of at least 3.0%, must include accumulated other comprehensive income (AOCI) in their calculation of their capital ratios, are subject to an incremental capital buffer of up to 2.5% of common equity Tier 1 capital if imposed by the banking agencies, referred to as the countercyclical capital buffer, and are subject to certain other enhanced provisions, including additional reporting requirements. Once a banking organization becomes subject to the "advanced approaches" framework, the banking organization and its subsidiary depository institutions must adopt written implementation plans and complete satisfactory parallel runs of at least four consecutive quarters during which they must calculate their risk-weighted assets under both the "advanced approaches" and "standardized approach" framework. The Federal banking agencies will notify the banking organization and its subsidiaries when they determine that the banking organization and its subsidiaries have completed satisfactory parallel runs, which may take several years. The Federal Reserve, OCC, and FDIC have recently granted extensions and exemptions to CSC and its banking subsidiaries such that they will not be required to submit implementation plans until June 30, 2020. As a result of crossing the $250 billion threshold in 2018, CSC and its banking subsidiaries are subject to all other advanced approaches requirements – the supplementary leverage ratio, the inclusion of AOCI in the calculation of capital ratios, and the countercyclical capital buffer, which is currently 0%.

The liquidity coverage ratio (LCR) rule requires banking organizations with consolidated total assets of $250 billion or more, or total on-balance-sheet foreign exposure of $10 billion or more and their depository institution subsidiaries with $10 billion or more in total consolidated assets to hold high quality liquid assets (HQLA) in an amount equal to at least 100% of their projected net cash outflows over a prospective 30-calendar-day period of acute liquidity stress, calculated on each business day. Other bank and savings and loan holding companies with total consolidated assets of $50 billion or more are subject to a modified LCR rule requiring them to hold HQLA in an amount equal to at least 70% of their projected net cash outflows over the 30-day period, calculated as of the last business day of the month. While we are currently subject to the modified LCR rule, we will become subject to the full LCR rule at the beginning of the second quarter of 2019.

Capital Stress Testing

Savings and loan holding companies and federal savings banks with total consolidated assets of more than $10 billion are required to conduct annual company-run stress tests using certain scenarios and prescribed stress-testing methodologies under the Dodd-Frank Act Stress Test (DFAST) rules. CSC reports the results to the Federal Reserve and CSB reports to the OCC. Both publish summaries of their stress test results.

As a savings and loan holding company, CSC is not subject to the annual Comprehensive Capital Analysis and Review (CCAR) process, which requires certain financial institutions to submit annual capital plans to the Federal Reserve.

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. CSB is 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.

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.

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.

In July 2016, the FDIC imposed a flat-rate quarterly surcharge on insured depository institutions with total assets of $10 billion or more and certain of their bank affiliates to pay for an increase to the DIF from 1.15% to 1.35% of the assessment base. As a result, Schwab's banking subsidiaries became subject to an additional 4.5 basis point surcharge on the amount of their aggregate assessment base in excess of $10 billion. In the third quarter of 2018, the DIF ratio exceeded 1.35%, and the FDIC eliminated the surcharge beginning in the fourth quarter.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (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.

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 in the event the subsidiary is in financial distress.

Broker-Dealer and Investment Advisor Regulation

Schwab's principal broker-dealer is CS&Co. CS&Co is registered as a broker-dealer with the U.S. Securities and Exchange Commission (SEC), the fifty states, the District of Columbia and Commonwealth of Puerto Rico. CS&Co and CSIM are registered as investment advisors with the SEC. Additionally, CS&Co is regulated by the Commodities Futures Trading Commission (CFTC) with respect to the commodity futures and trading activities it conducts as an introducing broker.

Much of the regulation of broker-dealers has been delegated to SROs. CS&Co is a member of the Financial Industry Regulatory Authority, Inc. (FINRA), the Municipal Securities Rulemaking Board (MSRB), NYSE Arca, and the Chicago Board Options Exchange (CBOE). In addition to the SEC, the primary regulators of CS&Co are FINRA and, for municipal securities, the MSRB. The National Futures Association (NFA) is CS&Co's primary regulator for futures and commodities trading activities.

The principal purpose of regulating broker-dealers and investment advisors 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.

CS&Co is 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. If CS&Co fails to maintain specified levels of net capital, such failure could constitute a default by CSC of certain debt covenants under its credit agreement.

The Uniform Net Capital Rule prohibits CS&Co 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 of $250,000.

In addition to net capital requirements, as a self-clearing broker-dealer, CS&Co is 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 U.K., the Securities and Futures Commission (SFC) in Hong Kong, the Monetary Authority of Singapore (MAS) in Singapore, and the Australian Securities and Investments Commission (ASIC) in Australia.

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.

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 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), telephone (415-667-7000), 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, including operational risk, compliance risk, credit risk, market risk, and liquidity risk, see Risk Management and Capital Management in Part II, Item 7.

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 short-term interest rates, and decreases in securities valuations negatively impact our results of operations and capital resources.

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.

In addition to specific banking laws and regulations, our banking regulators have broad discretion in connection with their supervisory and enforcement activities and examination policies and 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. The banking regulators could also limit our ability to grow, including adding assets, launching new products, making acquisitions, and undertaking strategic investments. Other potential regulatory actions include limiting our banking subsidiaries' ability to accept deposits swept from client brokerage accounts and brokered deposits and preventing us from pursuing our business strategy.

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, 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, broker-dealer fiduciary duties and regulatory treatment of deposit accounts, may directly affect the operation and profitability of Schwab or its specific business lines. 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 and broker-dealer subsidiaries, must meet certain capital and liquidity standards, subject to qualitative judgments by regulators about the adequacy of Schwab's capital and Schwab's internal assessment of its capital needs. The Uniform Net Capital Rule limits CS&Co's ability to transfer capital to CSC and other affiliates. New regulatory capital, liquidity, 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 capital conservation buffer 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 2018, we crossed the threshold for becoming subject to the "advanced approaches" framework. We are currently subject to a supplementary leverage ratio and related disclosure requirements, the inclusion of AOCI in regulatory capital, and the countercyclical capital buffer, and will become subject to the full LCR in the second quarter of 2019. In addition, federal banking agencies have broad discretion and could require CSC or its banking subsidiaries to hold higher levels of capital or increase liquidity above the applicable regulatory requirements.

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. A low interest rate environment may also have a negative impact on our asset management and administration fee revenues if 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 we are positioned to benefit from 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 can reduce our net interest revenue.

The expected phase-out of LIBOR could negatively impact our net interest revenue and require significant operational work.

Certain securities in our investment portfolio and the floating rate loans we offer reference LIBOR as the benchmark rate to determine the applicable interest rate or payment amount. We also use LIBOR in many of our financial models, such as those used for capital stress testing, and to determine the dividend rates for certain of our series of preferred stock which begin to float in 2022 and later. If LIBOR is discontinued after 2021 as expected, 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

there will be significant work required to transition to using the new benchmark rates and implement necessary changes to our systems and financial models. This could result in different financial performance for previously booked transactions and may impact our existing transaction data, products, systems, operations, and pricing processes. The calculation of interest rates under the replacement benchmarks could also impact our net interest revenue. In addition, LIBOR may 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.

A significant change in client cash allocations could negatively impact our net interest revenue.

We rely heavily on bank deposits as a low cost source of funding to extend loans to clients and purchase investment securities. Our bank deposits are primarily driven by our bank sweep feature when cash awaiting investment in our client brokerage accounts is swept to our banking subsidiaries. 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 net interest revenue.

Security breaches of our systems, or those of our clients or third parties, may subject us to significant liability and damage Schwab's 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 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 are likely to continue to be the target of cyber attacks, malicious code, computer viruses 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 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 Schwab's 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 clients' financial accounts at Schwab. 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 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 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, power outage, capacity constraints, software flaws, events impacting key business partners and vendors, and similar events. For example, Schwab 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. 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. Moreover, instances of fraud or other misconduct might also negatively impact Schwab's reputation and client confidence in the Company, in addition to any direct losses that might result from such instances. 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, extraordinary trading volumes 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 and decreased client satisfaction. We are also dependent on the integrity and performance of securities exchanges, clearing houses 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, cause substantial losses for us and for our clients, and subject us to claims from our clients for damages.

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 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.

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

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 Schwab, 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, regulators could limit the subsidiaries' operations or their ability to upstream funds to CSC, which could reduce CSC's liquidity and adversely affect its ability to repay debt, pay dividends on CSC's

preferred stock, or return capital to common stockholders. In addition, CSC may need to provide additional funding to such subsidiaries.

Factors which may adversely affect our liquidity position include CS&Co 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 Schwab resulting in unanticipated withdrawals of client funds.

When available cash is not sufficient for our liquidity needs, we may 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 and CS&Co maintain committed and 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, 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.

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.

We have exposure to credit risk associated with our investments. Those investments are subject to price fluctuations as a result of changes in the financial market's assessment of credit quality. Loss of value of securities can negatively affect earnings if management determines that such securities are other than temporarily impaired. The evaluation of whether other-than-temporary impairment (OTTI) exists is a matter of judgment, which includes the assessment of several factors. If management determines that a security is OTTI, the cost basis of the security may be adjusted and a corresponding loss may be recognized in current earnings. Deterioration in the performance of available for sale (AFS) and held to maturity (HTM) securities could result in the recognition of future impairment charges. Even if a security is not considered OTTI, 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 charges for loan loss reserves and 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, Schwab could suffer reputational damage and its business could be adversely affected.

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 at Schwab. 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.

We rely on outsourced service providers to perform key functions.

We rely on external service providers to perform certain key technology, 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 Schwab's reputation. An interruption in or the cessation of service by any external service provider as a result of systems failures, capacity constraints, financial difficulties 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. Switching to an alternative service provider may require a transition period and result in less efficient operations.

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, and effecting 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. In addition, an acquisition may cause us to assume liabilities or become subject to litigation or regulatory proceedings. Further, we may not realize the anticipated benefits from an acquisition, 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 being acquired or sold. To the extent we enter into an agreement to buy or sell 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 characterized by aggressive price competition.

We continually monitor our pricing in relation to competitors and periodically adjust trade commission rates, interest rates on deposits and loans, fees for advisory services, expense ratios on mutual funds and ETFs, and other pricing to enhance our competitive position. Increased price competition from other financial services firms to attract clients, such as reduced commissions, higher deposit rates, or reduced mutual fund or ETF expense ratios, 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.

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:

- Our exposure to changes in interest rates;
- 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, or strategic transactions;
- The announcement of new products, services, acquisitions, or dispositions by us or our competitors; and
- 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.

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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

A summary of Schwab's significant locations is presented in the following table. Locations are leased or owned as noted below. The square footage amounts are presented net of space that has been subleased to third parties.

December 31, 2018	Square Footage	
(amounts in thousands)	Leased	Owned
Location		
Corporate headquarters:		
San Francisco, CA	662	—
Service and other office space:		
Phoenix, AZ	28	728
Denver, CO	—	731
Austin, TX	83	452
Dallas, TX	318	—
Indianapolis, IN	—	161
Orlando, FL	159	—
Chicago, IL	145	—
Richfield, OH	—	117
El Paso, TX	—	105

Substantially all of our branch offices are located in leased premises. The corporate headquarters, data centers, offices, and service centers support both of our segments.

Item 3. Legal Proceedings

For a discussion of legal proceedings, see Item 8 – Note 14.

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

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, 2019, was 5,803. The closing market price per share on that date was $46.77.

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

totalreturnlinegrapha03.jpg

December 31,	2013	2014	2015	2016	2017	2018
The Charles Schwab Corporation	$ 100	$ 117	$ 129	$ 156	$ 204	$ 167
Standard & Poor's 500 Index	$ 100	$ 114	$ 115	$ 129	$ 157	$ 150
Dow Jones U.S. Investment Services Index	$ 100	$ 115	$ 114	$ 144	$ 180	$ 159

Issuer Purchases of Equity Securities

On October 25, 2018, CSC publicly announced that its Board of Directors authorized the repurchase of up to $1.0 billion of common stock, which was completed as of December 31, 2018 (see Item 8 – Note 17).

On January 30, 2019, CSC publicly announced that its Board of Directors authorized the repurchase of up to $4.0 billion of common stock. The authorization does not have an expiration date.

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 2018 (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 [2]
October:				
Share repurchase program	3,831	$ 45.02	3,831	$ 827
Employee transactions [1]	5	$ 49.67	N/A	N/A
November:				
Share repurchase program	11,862	$ 47.03	11,862	$ 269
Employee transactions [1]	651	$ 46.59	N/A	N/A
December:				
Share repurchase program	6,643	$ 40.52	6,643	$ —
Employee transactions [1]	269	$ 45.86	N/A	N/A
Total:				
Share repurchase program	22,336	$ 44.75	22,336	$ —
Employee transactions [1]	925	$ 46.40	N/A	N/A

[1] 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.

[2] All repurchases under the 2018 share repurchase program authorization were completed by the end of 2018.

THE CHARLES SCHWAB CORPORATION

Item 6. Selected Financial Data

Selected Financial and Operating Data

(In Millions, Except Per Share Amounts, Ratios, or as Noted)

	Growth Rates						
	Compounded 4-Year 2014-2018 [1]	Annual 1-Year 2017-2018	2018	2017	2016	2015	2014
Results of Operations							
Net revenues	14%	18%	$ 10,132	$ 8,618	$ 7,478	$ 6,380	$ 6,058
Expenses excluding interest	9%	12%	$ 5,570	$ 4,968	$ 4,485	$ 4,101	$ 3,943
Net income	28%	49%	$ 3,507	$ 2,354	$ 1,889	$ 1,447	$ 1,321
Net income available to common stockholders	27%	53%	$ 3,329	$ 2,180	$ 1,746	$ 1,364	$ 1,261
Earnings per common share:							
Basic	27%	52%	$ 2.47	$ 1.63	$ 1.32	$ 1.04	$ .96
Diluted	27%	52%	$ 2.45	$ 1.61	$ 1.31	$ 1.03	$ .95
Dividends declared per common share	18%	44%	$ .46	$ .32	$ .27	$ .24	$ .24
Weighted average common shares outstanding:							
Basic	1%	1%	1,348	1,339	1,324	1,315	1,303
Diluted	1%	1%	1,361	1,353	1,334	1,327	1,315
Net interest revenue as a percentage of net revenues			57 %	50 %	44 %	40 %	38 %
Asset management and administration fees as a percentage of net revenues			32 %	39 %	41 %	41 %	42 %
Trading revenue as a percentage of net revenues			8 %	8 %	11 %	14 %	15 %
Effective income tax rate			23.1 %	35.5 %	36.9 %	36.5 %	37.5 %
Performance Measures							
Net revenue growth			18 %	15 %	17 %	5 %	11 %
Pre-tax profit margin			45.0 %	42.4 %	40.0 %	35.7 %	34.9 %
Return on average common stockholders' equity			19 %	15 %	14 %	12 %	12 %
Financial Condition (at year end)							
Total assets	18%	22%	$ 296,482	$ 243,274	$ 223,383	$ 183,705	$ 154,635
Short-term borrowings	N/M	(100)%	—	$ 15,000	—	—	—
Long-term debt	38%	45%	$ 6,878	$ 4,753	$ 2,876	$ 2,877	$ 1,892
Preferred stock	34%	—	$ 2,793	$ 2,793	$ 2,783	$ 1,459	$ 872
Total stockholders' equity	15%	12%	$ 20,670	$ 18,525	$ 16,421	$ 13,402	$ 11,803
Assets to stockholders' equity ratio			14	13	14	14	13
Debt to total capital ratio [2]			25 %	52 %	15 %	18 %	14 %
Employee Information							
Full-time equivalent employees (in thousands, at year end)	8%	11%	19.5	17.6	16.2	15.3	14.6

[1] The Compounded 4-year growth rate is computed using the formula: Compound annual growth rate = (Ending Value / Beginning Value) $^{.25}$ – 1.

[2] The Debt to total capital ratio is computed using the formula: Total Debt (short and long-term) / (Total Debt + Stockholders' Equity).

N/M Not meaningful.

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," 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; and Schwab's ability to pursue its business strategy and maintain its market leadership position; (see Business Strategy and Competitive Environment in Part I, Item 1);
- The impact of legal proceedings and regulatory matters (see Item 8 – Note 14);
- Effective capital management supporting business growth and capital returns to stockholders (see Overview in Part II, Item 7);
- The adjustment of rates paid on client-related liabilities; the stability, rate sensitivity, and duration of client-related liabilities; managing the duration of interest-earning assets; and Schwab's positioning to benefit from an increase in interest rates and limit its exposure to falling rates (see Net Interest Revenue in Part II, Item 7);
- 2019 capital expenditures (see Total Expenses Excluding Interest in Part II, Item 7);
- Sources of liquidity, capital, and level of dividends (see Liquidity Risk in Part II, Item 7);
- Capital ratios (see Regulatory Capital Requirements in Part II, Item 7);
- The impact of changes in management's estimates on Schwab's results of operations (see Critical Accounting Estimates in Part II, Item 7);
- The expected impact of new accounting standards not yet adopted (see Item 8 – Note 2); and
- The impact of changes in the likelihood of indemnification and guarantee payment obligations on Schwab's results of operations (see Item 8 – Note 14).

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 the level of interest rates, equity valuations and trading activity;

- Our ability to attract and retain clients, develop trusted relationships, and grow client assets;
- Client use of our advisory solutions and other products and services;
- The level of client assets, including cash balances;
- Competitive pressure on pricing, including deposit rates;
- Client sensitivity to interest rates;
- Regulatory guidance;
- Timing and amount of transfers to bank sweep deposits;
- Capital and liquidity needs and management;
- Our ability to manage expenses;
- Our ability to develop and launch new products, services, and capabilities, as well as implement infrastructure, in a timely and successful manner;
- The timing of campus expansion work and technology projects;
- The effect of adverse developments in litigation or regulatory matters and the extent of any related charges; and
- Potential breaches of contractual terms for which we have indemnification and guarantee obligations.

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.

THE CHARLES SCHWAB CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Amounts in Millions, Except Ratios, or as Noted)

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 includes unrealized gains and losses on AFS securities and net gains or losses associated with pension obligations.

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 retail or other advisory solutions.

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 1/100th 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 and proprietary products, which includes both cash and securities. Average client assets are the daily average client asset balance for the period.

Client cash as a percentage of client assets: Calculated as money market fund balances, bank deposits, Schwab One® balances, and certain cash equivalents as a percentage of client assets.

Clients' daily average trades: Includes daily average revenue trades by clients, trades by clients in asset-based pricing relationships, and all commission-free trades.

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. Schwab made a one-time election to opt-out of the requirement to include most components of AOCI in CET1 Capital under the "standardized approach" framework. Beginning in 2019, Schwab must include AOCI in CET1 Capital.

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 Revenue Trades (DARTs): Total revenue trades during a certain period, divided by the number of trading days in that period. Revenue trades include all client trades that generate trading revenue (i.e., commission revenue or principal transaction revenue).

Debt to total capital ratio: Calculated as total debt divided by stockholders' equity and total debt.

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): 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.

Final Regulatory Capital Rules: Refers to the regulatory capital rules issued by U.S. banking agencies which implemented Basel III and relevant provisions of Dodd-Frank, which apply to savings and loan holding companies, as well as federal savings banks.

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.

High Quality Liquid Assets (HQLA): Assets with a high potential to be converted easily and quickly into cash.

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

Interest-earning assets: Includes cash and cash equivalents, cash and investments segregated, broker-related receivables, 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 "Baa" 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: Advances made to brokerage clients on a secured basis to purchase securities reflected in receivables from brokerage clients on the consolidated balance sheets.

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): Measures an organization's "available" amount of stable funding relative to its "required" amount of stable funding over a one-year time horizon.

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: Net compensation received from markets and firms to which CS&Co sends equity and options orders. The amount reflects rebates received for certain types of orders, less fees paid for orders where exchange fees or other charges apply.

Pledged Asset Line® (PAL): A non-purpose revolving line of credit from CSB 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 quarter.

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.

THE CHARLES SCHWAB CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Amounts in Millions, Except Ratios, or as Noted)

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. Results for the years ended December 31, 2018, 2017, and 2016 are as follows:

	Growth Rate 1-Year 2017-2018	2018	2017	2016
Client Metrics				
Net new client assets (in billions) [1]	(43)%	$ 133.9	$ 233.1	$ 125.5
Core net new client assets (in billions)	15%	$ 227.8	$ 198.6	$ 125.5
Client assets (in billions, at year end)	(3)%	$ 3,252.2	$ 3,361.8	$ 2,779.5
Average client assets (in billions)	11%	$ 3,409.6	$ 3,060.2	$ 2,614.7
New brokerage accounts (in thousands)	9%	1,576	1,441	1,093
Active brokerage accounts (in thousands, at year end)	8%	11,593	10,755	10,155
Assets receiving ongoing advisory services (in billions, at year end)	1%	$ 1,708.5	$ 1,699.8	$ 1,401.4
Client cash as a percentage of client assets (at year end)		12.8 %	10.8 %	13.0 %
Company Financial Metrics				
Total net revenues	18%	$ 10,132	$ 8,618	$ 7,478
Total expenses excluding interest	12%	5,570	4,968	4,485
Income before taxes on income	25%	4,562	3,650	2,993
Taxes on income	(19)%	1,055	1,296	1,104
Net income	49%	$ 3,507	$ 2,354	$ 1,889
Preferred stock dividends and other	2%	178	174	143
Net income available to common stockholders	53%	$ 3,329	$ 2,180	$ 1,746
Earnings per common share — diluted	52%	$ 2.45	$ 1.61	$ 1.31
Net revenue growth from prior year		18 %	15 %	17 %
Pre-tax profit margin		45.0 %	42.4 %	40.0 %
Return on average common stockholders' equity		19 %	15 %	14 %
Expenses excluding interest as a percentage of average client assets		0.16 %	0.16 %	0.17 %
Consolidated Tier 1 Leverage Ratio (at year end)		7.1 %	7.6 %	7.2 %

[1] 2018 includes outflows of $93.9 billion from certain mutual fund clearing services clients. 2017 includes inflows of $34.5 billion from certain mutual fund clearing services clients.

2018 Compared to 2017

Net income increased by $1.2 billion, or 49%, in 2018, driven primarily by business momentum, a supportive economic environment for much of the year, and lower corporate tax rates. Continued execution of our 'Through Clients' Eyes' strategy helped us succeed with clients. In 2018, clients opened 1.6 million new brokerage accounts, helping bring active brokerage accounts to 11.6 million at the end of the year, and core net new assets totaled $227.8 billion, up 15% from the 2017 total. Our strong net new assets largely offset lower market valuations, and we ended 2018 at $3.25 trillion in total client assets.

Total net revenue grew by $1.5 billion, or 18%, in 2018 primarily due to an increase of $1.5 billion, or 36%, in net interest revenue. The Fed raised the overnight federal funds target interest rate four times in 2018 for a total of 100 basis points. The growth of total net revenue resulted from higher interest rates due to the Fed's rate normalization, and also from higher

interest-earning assets, which reflect both client cash allocations and the transfer of sweep money market funds to bank and broker-dealer sweep. As we progressed with these transfers, the corresponding money market fund asset management and administration fee revenue naturally declined, yet positive inflows in advice solutions, Schwab equity and bond funds and ETFs, and other third-party mutual funds and ETFs kept asset management fees at $3.2 billion, limiting the decrease to 5% from 2017. Record trading activity from our clients resulted in trading revenue reaching $763 million, an increase of 17% from the prior year.

Our increase in total expenses excluding interest of $602 million, or 12%, reflected our 2018 investments to support and fuel our business growth, including hiring additional client-facing and other employees and technology project spending, as well as an increase in marketing and a special stock award of $36 million to our employees. Even with these increases, expenses as a percentage of client assets remained consistent at 16 basis points, and pre-tax income increased 25% to $4.6 billion in 2018, resulting in a pre-tax profit margin of 45.0%. As a result of the Tax Cuts and Jobs Act of 2017 (the Tax Act), taxes on income decreased 19% in 2018, resulting in an effective tax rate of 23.1%. Overall, we generated a 19% return on equity and diluted EPS of $2.45 for the year.

During 2018, the Board of Directors raised the quarterly cash dividend 63% to $0.13 per share and authorized a $1.0 billion Share Repurchase Program, which we completed during the fourth quarter. These actions reflected the Company's strong financial performance and our confidence in its long-term success; they also demonstrated that effective capital management at Schwab can support both healthy business growth and more meaningful capital returns to stockholders.

2017 Compared to 2016

Net income available to common stockholders rose in 2017 by $434 million, or 25%, from the prior year, resulting in diluted EPS of $1.61 in 2017 – an increase of 23% compared to $1.31 in 2016. Net revenues improved by $1.1 billion, or 15%, while expenses excluding interest increased $483 million, or 11%, compared to 2016.

Our steady focus on operating 'through clients' eyes' and our goal to continually challenge the status quo helped Schwab achieve another strong growth year in 2017. Clients opened 1.4 million new brokerage accounts in 2017 and trusted Schwab with $198.6 billion of core net new assets in 2017, up 58% from 2016. Total assets receiving ongoing advisory services grew 21% in 2017 to $1.70 trillion. Our success with clients was bolstered by strength in the equity markets – the Standard & Poor's 500® Index (S&P 500) finished 2017 up 19% from the prior year end. Also in 2017, the Federal Reserve increased the overnight federal funds target interest rate three times for a total of 75 basis points. Strong client activity and the positive economic environment resulted in total client assets rising to $3.36 trillion as of December 31, 2017 – a 21% increase since the end of 2016.

Schwab's 2017 financial results demonstrate the power of our financial formula working as designed: our robust business growth supported strong revenue growth through multiple sources in 2017, which we combined with continued expense discipline to drive significantly improved profitability.

Net revenues grew by 15% in 2017 compared to 2016 through contributions from our two largest revenue sources. Net interest revenue rose 29% while asset management and administration fees grew 11% in 2017 when compared to the prior year. Trading revenue declined in 2017 by 21% due to price reductions announced early in 2017.

Consistent with our expectations, expenses grew 11% in 2017 compared to the prior year. This increase was primarily due to higher incentive compensation and higher staffing related to our strong asset gathering, as well as expenses related to project spending and third-party fees tied to higher balances in our asset management business.

This combination of revenue growth and expense discipline drove the pre-tax profit margin to 42.4% – an increase of 240 basis points over the prior year. Earnings before income taxes rose 22% to $3.7 billion in 2017 compared to $3.0 billion in the prior year.

The effective tax rate in 2017 was 35.5% compared to 36.9% in 2016 reflecting the benefit from the adoption of new accounting standards requiring the recognition of a portion of tax deductions related to equity compensation partially

offset by the remeasurement of deferred tax assets and other tax adjustments associated with the 2017 enactment of the Tax Act.

Subsequent Event

On January 30, 2019, CSC publicly announced that its Board of Directors authorized a new Share Repurchase Program to repurchase up to $4.0 billion of common stock, and declared a four cent, or 31%, increase in the quarterly cash dividend to $0.17 per common share. The share repurchase authorization does not have an expiration date.

Current Regulatory Environment and Other Developments

On October 31, 2018, the Federal Reserve issued a notice of proposed rulemaking and the Federal Reserve, the OCC and the FDIC jointly issued another notice of proposed rulemaking. The two proposals would establish a revised framework for applying enhanced prudential standards to large U.S. banking organizations, with four categories of standards that reflect the risks of banking organizations in each group. CSC would be in Category III based on having $250 billion – $700 billion in total assets.

The Federal Reserve proposal, which would make large savings and loan holding companies such as CSC subject to enhanced prudential standards, would tailor those regulatory requirements relating to capital stress testing, risk management, liquidity risk management, and single-counterparty credit limits based on the category of the banking organization. The proposal provides that Category III banking organizations would be subject to annual supervisory stress testing and biennial company-run stress testing. The interagency proposal would similarly tailor requirements under the agencies' capital rule, LCR rule, and the proposed net stable funding ratio rule for banking organizations in each category. Under the proposal, banking organizations in Category III would not be required to calculate their risk-weighted assets using the "advanced approaches" framework or to include AOCI in calculating their regulatory capital; however, they would continue to be subject to the supplementary leverage ratio and any future countercyclical capital buffer imposed by the banking agencies.

Although the Federal Reserve announced in its proposal that additional capital planning and resolution planning proposals would be issued at a later date, the agency did indicate that all Category III firms, including savings and loan holding companies, would be required to submit annual capital plans that would be subject to qualitative and quantitative assessments evaluated as part of the CCAR process.

The comment period for both proposed rules ended on January 22, 2019 and the impact to Schwab cannot be assessed until the final rule is released.

On December 22, 2017, P.L.115-97, the Tax Act, was signed into law, and became effective on January 1, 2018. Among other things, the Tax Act lowered the federal corporate income tax rate from 35% to 21%.

As a result of the reduction of the federal corporate income tax rate, generally accepted accounting principles in the U.S. (GAAP) require companies to remeasure their deferred tax assets and deferred tax liabilities as of the date of enactment, with the resulting tax effects accounted for in the reporting period of enactment. Schwab recorded a one-time non-cash charge to taxes on income associated with the remeasurement of net deferred tax assets and other tax adjustments related to the tax reform legislation in the fourth quarter of 2017. Our 2018 effective income tax rate was reduced as a result of these changes.

In May 2016, the Federal Reserve, the OCC and the FDIC jointly issued a notice of proposed rulemaking that would impose a minimum NSFR on certain banking organizations, including CSC. The comment period for the proposed rule ended on August 5, 2016 and the impact to the Company cannot be assessed until the final rule is released.

RESULTS OF OPERATIONS

Total Net Revenues

Total net revenues of $10.1 billion and $8.6 billion for the years ended December 31, 2018 and 2017, respectively, represented growth of 18% and 15% from the prior periods, primarily due to increases in net interest revenue.

Year Ended December 31,		2018		2017		2016	
	Growth Rate 2017-2018	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Net interest revenue							
Interest revenue	44 %	$ 6,680	66 %	$ 4,624	54 %	$ 3,493	46 %
Interest expense	151 %	(857)	(9 %)	(342)	(4 %)	(171)	(2 %)
Net interest revenue	36 %	5,823	57 %	4,282	50 %	3,322	44 %
Asset management and administration fees							
Mutual fund and ETF service fees	(12 %)	1,793	18 %	2,045	24 %	1,853	25 %
Advice solutions	9 %	1,139	11 %	1,043	12 %	915	12 %
Other	(2 %)	297	3 %	304	3 %	287	4 %
Asset management and administration fees	(5 %)	3,229	32 %	3,392	39 %	3,055	41 %
Trading revenue							
Commissions	14 %	685	7 %	600	7 %	779	10 %
Principal transactions	44 %	78	1 %	54	1 %	46	1 %
Trading revenue	17 %	763	8 %	654	8 %	825	11 %
Other	9 %	317	3 %	290	3 %	276	4 %
Total net revenues	18 %	$ 10,132	100 %	$ 8,618	100 %	$ 7,478	100 %

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. Revenue on interest-earning assets is affected by various factors, such as the composition of assets, prevailing interest rates at the time of origination or purchase, changes in interest rates on floating rate securities and loans, and changes in prepayment levels for mortgage-related securities and loans. Fees earned on securities borrowing and lending activities, which are conducted by CS&Co using assets held in client brokerage accounts, are included in other interest revenue and expense.

Schwab's interest-bearing liabilities include bank deposits, payables to brokerage clients, short-term borrowings, and long-term debt. We establish the rates paid on client-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. During 2018, these liabilities rose by a total of $63.3 billion, largely reflecting the effect of: our transferring a total of $72 billion sweep money market funds to bank and broker-dealer sweep; clients choosing to reallocate assets between cash, equities, fixed income and other investments; and the Company gathering additional flows from new and current clients.

Overall, management believes that the extended period of extraordinarily low interest rates running from the financial crisis until recently has likely resulted in certain sweep cash balances retaining some level of latent rate sensitivity. With the Federal Funds Target Rate having increased to 2.25 – 2.50%, management expects some sweep

cash balances could migrate to alternatives, including purchased money market funds, that offer higher yields to clients but lower revenue to Schwab.

Given the general stability and relatively low rate sensitivity of client-related liabilities, management believes their duration is at least several years. We have positioned Schwab to benefit from an increase in interest rates, especially short-term interest rates, by managing the duration of interest-earning assets to be shorter than that of interest-bearing liabilities, so that asset yields are expected to move faster than liability costs.

In order to keep interest-rate sensitivity within established limits, management monitors and responds to changes in the balance sheet. As Schwab builds its client base, we attract new client sweep cash, which, along with the transfers of existing sweep cash balances from money market funds, is a primary driver of balance sheet growth. By managing the duration of interest-earning assets as necessary, we are positioned to continue to gain from increasing rates while limiting exposure to falling rates to an acceptable level. Approximately half of our interest earning assets re-price or reset based on short-term interest rates such as one-month LIBOR.

Non-interest-bearing funding sources include certain cash balances, stockholders' equity and other miscellaneous assets and liabilities.

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,	2018			2017			2016		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets									
Cash and cash equivalents	$ 17,783	$ 348	1.93 %	$ 9,931	$ 109	1.10 %	$ 11,143	$ 57	0.51 %
Cash and investments segregated	11,461	206	1.78 %	18,525	166	0.90 %	20,104	93	0.46 %
Broker-related receivables	303	6	2.09 %	430	3	0.70 %	558	1	0.22 %
Receivables from brokerage clients	19,870	830	4.12 %	16,269	575	3.53 %	15,001	497	3.31 %
Available for sale securities [1]	54,542	1,241	2.26 %	53,040	815	1.54 %	72,586	883	1.22 %
Held to maturity securities	131,794	3,348	2.53 %	103,599	2,354	2.27 %	57,451	1,402	2.44 %
Bank loans	16,554	559	3.37 %	15,919	472	2.97 %	14,715	400	2.72 %
Total interest-earning assets	252,307	6,538	2.57 %	217,713	4,494	2.06 %	191,558	3,333	1.74 %
Other interest revenue		142			130			160	
Total interest-earning assets	$ 252,307	$ 6,680	2.63 %	$ 217,713	$ 4,624	2.12 %	$ 191,558	$ 3,493	1.82 %
Funding sources									
Bank deposits	$ 199,139	$ 545	0.27 %	$ 163,998	$ 148	0.09 %	$ 141,432	$ 37	0.03 %
Payables to brokerage clients	21,178	56	0.27 %	25,403	16	0.06 %	26,311	3	0.01 %
Short-term borrowings	3,359	54	1.59 %	3,503	41	1.17 %	1,864	9	0.48 %
Long-term debt	5,423	190	3.50 %	3,431	119	3.47 %	2,876	104	3.62 %
Total interest-bearing liabilities	229,099	845	0.37 %	196,335	324	0.17 %	172,483	153	0.09 %
Non-interest-bearing funding sources	23,208			21,378			19,075		
Other interest expense		12			18			18	
Total funding sources	$ 252,307	$ 857	0.34 %	$ 217,713	$ 342	0.15 %	$ 191,558	$ 171	0.09 %
Net interest revenue		$ 5,823	2.29 %		$ 4,282	1.97 %		$ 3,322	1.73 %

[1] Amounts have been calculated based on amortized cost.

Net interest revenue increased $1.5 billion or 36%, in 2018 from 2017, and $960 million, or 29%, in 2017 from 2016, primarily due to higher interest rates and growth in interest-earning assets.

Our net interest margin improved 32 basis points to 2.29% in 2018, primarily as a result of the Federal Reserve's 2017 and 2018 interest rate increases, partially offset by higher interest rates paid on bank deposits and other interest-bearing liabilities. Our net interest margin was 1.97% in 2017, representing an improvement of 24 basis points compared to 2016, primarily due to the Federal Reserve's interest rate increases in 2016 and 2017.

Average interest earning assets grew 16% and 14% during 2018 and 2017, respectively, compared with the sequential prior years. These increases primarily reflect higher bank deposits due to transfers from sweep money market funds

to bank sweep balances, as well as changes in client cash allocations, partially offset by client purchases of other assets.

In March 2017, $24.7 billion of debt securities were transferred from the AFS category to the HTM category. The transfer had no effect on the overall net interest margin. For additional information on the transfer, see Item 8 – Note 6.

Asset Management and Administration Fees

Asset management and administration fees include mutual fund and ETF service fees and fees for other asset-based financial services provided to individual and institutional clients. Schwab earns mutual fund and ETF 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 and ETFs, as those amounts, net of program fees, are credited to the fund shareholders. The fair values of client assets included in proprietary and third-party mutual funds and ETFs 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, collective trust fund 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.

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

Year Ended December 31,	2018			2017			2016		
	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	$ 141,018	$ 568	0.40 %	$ 160,735	$ 875	0.54 %	$ 164,120	$ 962	0.59 %
Fee waivers		—			(10)			(224)	
Schwab money market funds	141,018	568	0.40 %	160,735	865	0.54 %	164,120	738	0.45 %
Schwab equity and bond funds and ETFs	207,385	258	0.12 %	158,625	223	0.14 %	115,849	217	0.19 %
Mutual Fund OneSource® and other non-transaction fee funds	210,429	680	0.32 %	215,333	706	0.33 %	199,389	676	0.34 %
Other third-party mutual funds and ETFs [1]	328,150	287	0.09 %	286,111	251	0.09 %	254,584	222	0.09 %
Total mutual funds and ETFs [2]	$ 886,982	1,793	0.20 %	$ 820,804	2,045	0.25 %	$ 733,942	1,853	0.25 %
Advice solutions [2]									
Fee-based	$ 227,790	1,139	0.50 %	$ 203,794	1,043	0.51 %	$ 177,409	915	0.52 %
Non-fee-based	62,813	—	—	48,936	—	—	35,262	—	—
Total advice solutions	$ 290,603	1,139	0.39 %	$ 252,730	1,043	0.41 %	$ 212,671	915	0.43 %
Other balance-based fees [3]	398,495	250	0.06 %	417,659	258	0.06 %	339,071	235	0.07 %
Other [4]		47			46			52	
Total asset management and administration fees		$ 3,229			$ 3,392			$ 3,055	

[1] Includes Schwab ETF OneSource™.

[2] Beginning in the fourth quarter of 2017, a change was made to add non-fee based average assets from managed portfolios. Average client assets for advice solutions may also include the asset balances contained in the mutual fund and/or ETF categories listed above. Prior periods have been adjusted to accommodate this change.

[3] Includes various asset-related fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees. Beginning in the first quarter of 2017, a prospective methodology change was made to average client assets relating to 401(k) recordkeeping fees to provide improved insight into the associated fee driver, which resulted in an increase of approximately $25 billion. There was no impact to revenue or the average fee.

[4] Includes miscellaneous service and transaction fees relating to mutual funds and ETFs that are not balance-based.

Asset management and administration fees decreased by $163 million, or 5%, in 2018 from 2017, primarily due to lower money market fund revenue as a result of transfers to bank sweep, client asset allocation choices, and our 2017 fee reductions. Part of the decline was offset by revenue from growing asset balances in advice solutions, Schwab equity and bond funds and ETFs, and other third-party mutual funds and ETFs.

Asset management and administration fees increased by $337 million, or 11%, in 2017 from 2016 due to higher average client assets invested in advice solutions, mutual funds and ETFs, and lower fee waivers on money market funds. Partially offsetting these increases were lower fee rates on proprietary money funds and other indexed mutual funds and ETFs due to fee reductions implemented by Schwab in 2017.

The following table presents a roll forward of client assets for the Schwab money market funds, Schwab equity and bond funds and ETFs, and Mutual Fund OneSource® and other non-transaction fee (NTF) funds. The following funds generated 47%, 53%, and 53% of the asset management and administration fees earned during 2018, 2017, and 2016, respectively:

	Schwab Money Market Funds			Schwab Equity and Bond Funds and ETFs			Mutual Fund OneSource® and Other NTF Funds		
Year Ended December 31,	2018	2017	2016	2018	2017	2016	2018	2017	2016
Balance at beginning of period	$ 163,650	$ 163,495	$ 166,148	$ 181,608	$ 125,813	$ 102,112	$ 225,202	$ 198,924	$ 207,654
Net inflows (outflows)	(11,641)	(486)	(2,765)	31,091	30,771	13,858	(37,513)	(27,485)	(22,469)
Net market gains (losses) and other [1]	1,463	641	112	(17,589)	25,024	9,843	(7,157)	53,763	13,739
Balance at end of period	$ 153,472	$ 163,650	$ 163,495	$ 195,110	$ 181,608	$ 125,813	$ 180,532	$ 225,202	$ 198,924

[1] Includes net inflows from other third-party mutual funds to Mutual Fund OneSource® in the second quarter of 2017.

Trading Revenue

Trading revenue includes commission and principal transaction revenues. Commission revenue is affected by the number of revenue trades executed and the average revenue earned per revenue trade. Principal transaction revenue is primarily comprised of revenue from trading activity in fixed income securities with clients. To accommodate clients' fixed income trading activity, Schwab maintains positions in fixed income securities, including U.S. state and municipal debt obligations, U.S. Government and corporate debt, and other securities. The difference between the price at which the Company buys and sells securities to and from its clients and other broker-dealers is recognized as principal transaction revenue. Principal transaction revenue also includes adjustments to the fair value of these securities positions.

The following table presents trading revenue and the related drivers:

Year Ended December 31,	Growth Rate 2017-2018	2018	2017	2016
DARTs (in thousands)	31 %	420.9	321.3	291.6
Clients' daily average trades (in thousands)	26 %	765.4	608.8	561.8
Number of trading days	—	249.5	250.0	251.5
Daily average revenue per revenue trade	(12 %)	$ 7.23	$ 8.20	$ 11.23
Trading revenue	17 %	$ 763	$ 654	$ 825

Trading revenue increased by $109 million, or 17%, in 2018 compared to 2017. DART volumes increased 31% in 2018, which more than offset Schwab's commission pricing reductions implemented in the first quarter of 2017. Trading revenue decreased by $171 million in
2017 from 2016, primarily due to lower commissions rates on DARTs.

During the first quarter of 2017, we announced two trading price reductions which lowered standard equity, ETF, and option trade commissions from $8.95 to $4.95 and lowered the per contract option fee from $.75 to $.65. These reductions in commission rates reflect our continuing belief that pricing should never be an obstacle for choosing Schwab and our commitment to share the benefits of scale with clients.

With these changes, trading revenue has declined from a peak of 50%-60% of total revenue in the early 1990's to the current low of 8% in 2018, 8% in 2017, and 11% in 2016.

Other Revenue

Other revenue includes order flow revenue, other service fees, software fees from our portfolio management solutions, exchange processing fees, and non-recurring gains. Order flow revenue was $139 million during 2018, $114 million for 2017, and $103 million in 2016. These increases were primarily due to higher rebate rates received on certain types of

orders and higher volume of trades. In 2016, other revenue also included net litigation proceeds of $16 million related to our non-agency residential mortgage-backed securities portfolios.

Total Expenses Excluding Interest

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

	Growth Rate 2017-2018	2018	2017	2016
Compensation and benefits				
Salaries and wages	13 %	$ 1,692	$ 1,496	$ 1,368
Incentive compensation	7 %	855	797	689
Employee benefits and other	15 %	510	444	409
Total compensation and benefits	12 %	$ 3,057	$ 2,737	$ 2,466
Professional services	13 %	654	580	506
Occupancy and equipment	14 %	496	436	398
Advertising and market development	17 %	313	268	265
Communications	5 %	242	231	237
Depreciation and amortization	14 %	306	269	234
Regulatory fees and assessments	6 %	189	179	144
Other	17 %	313	268	235
Total expenses excluding interest	12 %	$ 5,570	$ 4,968	$ 4,485
Expenses as a percentage of total net revenues				
Compensation and benefits		30 %	32 %	33 %
Advertising and market development		3 %	3 %	4 %
Full-time equivalent employees (in thousands)				
At year end	11 %	19.5	17.6	16.2
Average	11 %	18.7	16.9	15.9

Expenses excluding interest increased in 2018 and 2017 from the prior years by 12% and 11%, respectively. The largest drivers of the increase in both years were compensation and benefits and professional services.

Total compensation and benefits increased in 2018 and 2017 from prior years, primarily due to increases in employee headcount to support our expanding client base. Additionally, in 2018 non-officer employees were issued special stock awards totaling $36 million.

Professional services expense increased in 2018 and 2017 from the prior years, primarily due to higher spending on technology projects as well as an increase in asset management and administration related expenses resulting from growth in the Schwab Funds® and Schwab ETFs™.

Occupancy and equipment expense increased in 2018 and 2017 from the prior years, primarily due to an increase in software maintenance expenses and additional licenses to support growth in the business.

Advertising and market development expense rose in 2018, primarily reflecting management's decision to increase television advertising and digital media spending in the fourth quarter.

Depreciation and amortization expenses grew in 2018 and 2017 from the prior years, primarily due to higher amortization of internally developed software associated with our investments in software and technology enhancements.

Regulatory fees assessments increased in 2018 and 2017 from the prior years, due to an increase in FDIC insurance assessments which rose as a result of higher average assets in deposit balances. This increase in 2018 was partially offset by the elimination of the FDIC surcharge in the fourth quarter of 2018.

Other expenses increased in 2018 from 2017 due to travel and entertainment and miscellaneous items due to overall growth in our business. Other expenses increased in 2017 from 2016 due to travel and entertainment, asset volume-related increases, and some miscellaneous items.

Capital expenditures were $576 million, $412 million, and $353 million in 2018, 2017, and 2016, respectively. The increase in capital expenditures in both 2018 and 2017 from the prior years was primarily due to the expansion of our campuses in the U.S. and investments in technology projects. The largest component of capital expenditures in 2018 was investment in buildings of $253 million. Capitalized costs for developing internal-use software totaled $167 million, $157 million, and $130 million in 2018, 2017, and 2016, respectively. Our capital expenditures for 2018 came in at the lower end of our estimated range of 6-7% of total net revenues, largely due to the timing of our campus expansion work. As we carry this work forward in 2019 and invest further in technology projects, we anticipate capital expenditures for the year will reach approximately 7-9% 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

As previously discussed under Current Regulatory Environment and Other Developments, the Tax Act was signed into law during 2017. Among other things, the Tax Act lowered the federal corporate income tax rate from 35% to 21%, beginning in 2018.

Also as a result of the Tax Act, Schwab recognized a $46 million one-time non-cash charge to taxes on income in the fourth quarter of 2017 associated with the remeasurement of net deferred tax assets and other tax adjustments related to the Tax Act.

Effective January 1, 2017, Schwab adopted Accounting Standards Update (ASU) 2016-09, which prospectively changed the accounting treatment of a portion of the tax deductions relating to equity compensation. These deductions were previously reflected directly in additional paid-in capital, a component of stockholders' equity, and are now included in taxes on income, a component of net income. As a result of this change, our tax expense was reduced by approximately $46 million and $87 million in 2018 and 2017, respectively. Future effects will depend on our share price, restricted stock vesting, and the volume of equity incentive options exercised.

Schwab's effective income tax rate on income before taxes was 23.1% in 2018, 35.5% in 2017, and 36.9% in 2016. The decrease in rates over this three-year time period was primarily due to the net impact of the above items.

Segment Information

Schwab provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking services, retirement plan services, and other corporate brokerage services to individual investors. The Advisor Services segment provides custodial, trading, banking, 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. 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 platform.

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

	Investor Services				Advisor Services				Total			
Year Ended December 31,	Growth Rate 2017-2018	2018	2017	2016	Growth Rate 2017-2018	2018	2017	2016	Growth Rate 2017-2018	2018	2017	2016
Net Revenues												
Net interest revenue	34 %	$ 4,341	$ 3,231	$ 2,591	41 %	$ 1,482	$ 1,051	$ 731	36 %	$ 5,823	$ 4,282	$ 3,322
Asset management and administration fees	(4 %)	2,260	2,344	2,093	(8 %)	969	1,048	962	(5 %)	3,229	3,392	3,055
Trading revenue	16 %	475	408	524	17 %	288	246	301	17 %	763	654	825
Other	13 %	245	217	203	(1 %)	72	73	73	9 %	317	290	276
Total net revenues	18 %	7,321	6,200	5,411	16 %	2,811	2,418	2,067	18 %	10,132	8,618	7,478
Expenses Excluding Interest	11 %	4,145	3,725	3,380	15 %	1,425	1,243	1,105	12 %	5,570	4,968	4,485
Income before taxes on income	28 %	$ 3,176	$ 2,475	$ 2,031	18 %	$ 1,386	$ 1,175	$ 962	25 %	$ 4,562	$ 3,650	$ 2,993

Investor Services

Total net revenues increased by $1.1 billion, or 18%, in 2018 from 2017 primarily due to an increase in net interest revenue, partially offset by lower asset management and administration fees. Net interest revenue increased primarily due to higher net interest margins and higher balances of interest-earning assets. Asset management and administration fees decreased primarily due to lower money market fund revenue as a result of transfers to bank sweep, client asset allocation choices, and our 2017 fee reductions. Expenses excluding interest increased by $420 million, or 11%, in 2018 from 2017 primarily due to higher compensation and benefits, technology project spend, and asset management and administration related expenses to support our expanding client base.

Total net revenues increased by $789 million, or 15%, in 2017 from 2016 primarily due to increases in net interest revenue and asset management and administration fees, partially offset by a decrease in trading revenue. Net interest revenue increased primarily due to higher net interest margins and higher balances of interest-earning assets. Asset management and administration fees increased primarily due to higher client assets enrolled in advisory solutions and higher net fees on money market fund assets. Trading revenue decreased primarily due to lower commission rates. Expenses excluding interest increased by $345 million, or 10%, in 2017 from 2016 primarily due to higher compensation and benefits, technology project spend, asset management and administration related expenses, and regulatory fee assessments.

Advisor Services

Total net revenues increased by $393 million or 16%, in 2018 from 2017 primarily due to an increase in net interest revenue, partially offset by lower asset management and administration fees. Net interest revenue increased primarily due to higher net interest margins and higher balances of interest-earning assets. Asset management and administration fees decreased primarily due to lower money market fund revenue as a result of transfers to bank sweep, client asset allocation choices, and our 2017 fee reductions. Expenses excluding interest increased by $182 million, or 15%, in 2018 from 2017 primarily due to higher compensation and benefits, technology project spend, and asset management and administration related expenses to support our expanding client base.

Total net revenues increased by $351 million, or 17%, in 2017 from 2016 primarily due to increases in net interest revenue and asset management and administration fees, partially offset by a decrease in trading revenue. Net interest revenue increased primarily due to higher balances of interest-earning assets and higher net interest margins. Asset management and administration fees increased primarily due to higher fees from growth in client assets invested in

ETFs and equity and bond funds, and higher net fees on money market fund assets. Trading revenue decreased primarily due to lower commission rates. Expenses excluding interest increased by $138 million, or 12%, in 2017 from 2016 primarily due to higher compensation and benefits, technology project spend, asset management and administration related expenses, and regulatory fee assessments.

RISK MANAGEMENT

Schwab's business activities expose it to a variety of risks, including operational, credit, market, liquidity, and compliance 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 measurement, risk monitoring and reporting, and risk mitigation. The activities and governance that comprise the risk management process are described below.

Culture

The Board of Directors has approved an Enterprise Risk Management (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 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 risk management, legal, compliance, and internal audit.

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

- Compliance Risk Committee – provides oversight of compliance risk management programs and policies providing an aggregate view of compliance risk exposure, and includes a subcommittee covering Fiduciary Risk;
- Financial Risk Oversight Committee – provides oversight of and approves capital, credit, liquidity, and market risk policies, limits, and exposures;
-

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; and

- 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 Fraud, Data, Information Security, Model Governance, and Third-Party risk.

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 compliance, 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 risks arise due to potential inadequacies or failures related to people, internal processes, and systems, or from external events or relationships impacting the Company and/or any of its key business partners and third parties. 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 periodic risk and control self-assessments, 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, 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 limit the number of employees who have access to clients' personal information and internal authentication measures are enforced to protect against the potential for social engineering. All employees who handle sensitive information are trained in privacy and security. Schwab's fraud and cyber security teams monitor activity looking for suspicious behavior. These capabilities allow us to identify and quickly act on any attempted intrusions.
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 contractual provisions, control standards, ongoing monitoring of third party performance, and appropriate testing. We maintain policies and procedures regarding the standard of care expected with all data, whether the data is internal company information, employee information, or non-public client information. We clearly define for employees, contractors, and third parties the expected standards of care for confidential data. We also provide regular training on data security.

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 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 business conduct and ethics, sales and trading practices, marketing and communications, extension of credit, client funds and securities, books and records, anti-money laundering, client privacy, and employment policies.

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.

Credit Risk

Credit risk is the potential for loss due to a borrower, counterparty, or issuer failing to perform on 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 establishing 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, 2018, 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, 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 loan 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 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.

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 Schwab.

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. We are exposed to interest rate risk primarily from changes in market interest rates on our interest-earning assets relative to changes in the costs of its funding sources that finance these assets.

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 primarily include investment securities, margin loans and bank loans. 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.

To mitigate the risk of declining interest revenue, we have established policies and procedures, which include setting guidelines on the amount of net interest revenue at risk, and monitoring the net interest margin and average maturity of our interest-earning assets and funding sources. To remain within these guidelines, we manage the maturity, repricing, and cash flow characteristics of the investment portfolios.

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.

Net Interest Revenue Simulation

For Schwab's net interest revenue sensitivity analysis, we use net interest revenue simulation modeling techniques to evaluate and manage the effect of changing interest rates. The simulation includes all interest-sensitive assets and liabilities. Key variables in the simulation include the repricing of financial instruments, prepayment, reinvestment, and product pricing assumptions. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely estimate the impact of changes in interest rates on net interest revenue. 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.

If our guidelines for net interest revenue sensitivity are breached, management must report the breach to the Financial Risk Oversight Committee and establish a plan to address the interest rate risk. There were no breaches of Schwab's net interest revenue sensitivity risk limits during the years ended December 31, 2018 or 2017.

As represented by the simulations presented below, our investment strategy is structured to produce an increase in net interest revenue when interest rates rise and, conversely, a decrease in net interest revenue when interest rates fall.

The simulations in the following table assume that the asset and liability structure of the consolidated balance sheets would not be changed as a result of the simulated changes in interest rates. As we actively manage the consolidated balance sheets 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. The following table shows the simulated net interest revenue change over the next 12 months beginning December 31, 2018 and 2017 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,	2018	2017
Increase of 100 basis points	4.4%	3.3%
Decrease of 100 basis points	(4.9%)	(6.2%)

The year-over-year change in net interest revenue sensitivities reflects higher interest rates across the yield curve, and particularly, higher short-term interest rates.

Liquidity Risk

Liquidity risk is the potential that Schwab will be unable to 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, 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 CS&Co are primarily driven by client activity including trading and margin borrowing activities and capital expenditures. The capital needs of the banking subsidiaries are primarily driven by client deposits. 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 scenarios to support liquidity levels during both business as usual and stressed conditions.

We employ a variety of methodologies to monitor and manage liquidity. We conduct regular liquidity stress testing to develop a consolidated view of liquidity risk exposures and to ensure our ability to maintain sufficient liquidity during market-related or company-specific liquidity stress events. Liquidity is also tested at key subsidiaries 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.

The Company was subject to, and was in compliance with, the modified LCR rule at December 31, 2018. As Schwab's consolidated balance sheet assets were above $250 billion at December 31, 2018, Schwab will become subject to the full LCR rule in the second quarter of 2019. The table below presents information about our average LCR:

	Average for the Three Months Ended December 31, 2018
Total eligible HQLA	$ 38,881
Net cash outflows [1]	$ 35,191
LCR	111 %

[1] This amount represents modified net cash outflows as defined by the LCR rule, which requires that HQLA cover 70% of total stressed net cash outflows.

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.

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

Additional Funding Sources

In addition to internal sources of liquidity, Schwab has access to external funding. The need for short-term borrowings from these 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, 2018:

Description	Borrower	Outstanding	Available
Federal Home Loan Bank secured credit facility [1]	Banking subsidiaries	$ —	$ 35,528
Uncommitted, unsecured lines of credit with various external banks	CSC, CS&Co	—	1,432
Unsecured commercial paper [2]	CSC	—	750
Committed, unsecured credit facility with various external banks [3]	CSC	—	750
Federal Reserve Bank discount window [4]	CSB	—	7,865

[1] Amounts available are dependent on the amount of First Mortgages, HELOCs, and the fair value of certain investment securities that are pledged as collateral.
[2] CSC has authorization from its Board of Directors to issue Commercial Paper Notes to not exceed $1.5 billion. Management has set a current limit not to exceed the amount of the committed, unsecured credit facility.
[3] Other than an overnight borrowing to test availability, this facility was unused during 2018.
[4] Amounts available are dependent on the fair value of certain investment securities that are pledged as collateral.

Certain banking subsidiaries maintain secured credit facilities with the Federal Home Loan Bank of San Francisco (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. During 2018, CSB used

borrowings under this agreement to purchase investment securities in advance of bank sweep transfers. This credit facility is 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.

CSB also has access to short-term secured funding through the Federal Reserve's 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.

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 are P1 by Moody's, A1 by Standard & Poor's, and F1 by Fitch. CSC had no Commercial Paper Notes outstanding at December 31, 2018 or 2017.

The financial covenants for the $750 million committed credit facility require CS&Co to maintain a minimum net capital ratio, CSB to be well capitalized, and CSC to maintain a minimum level of stockholders' equity, adjusted to exclude AOCI. At December 31, 2018, the minimum level of stockholders' equity required under this facility was $14.5 billion (CSC's stockholders' equity, excluding AOCI, at December 31, 2018 was $20.9 billion). Management believes these restrictions will not have a material effect on CSC's ability to meet foreseeable dividend or funding requirements.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, CS&Co has unsecured standby letter of credit agreements (LOCs) with several banks in favor of the Options Clearing Corporation aggregating $225 million at December 31, 2018. There were no funds drawn under any of these LOCs during 2018 or 2017. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The collateral requirements were satisfied by providing cash as collateral.

CSC has a universal automatic shelf registration statement (Shelf Registration Statement) on file with the SEC, which enables it to issue debt, equity, and other securities.

Borrowings

Long-term debt outstanding was $6.9 billion and $4.8 billion at December 31, 2018 and 2017, respectively. No short-term borrowings were outstanding as of December 31, 2018. Short-term borrowings outstanding from the FHLB were $15.0 billion at December 31, 2017.

The following are details of the Senior Notes:

December 31, 2018	Par Outstanding	Maturity	Weighted Average Interest Rate	Moody's	Standard & Poor's	Fitch
Senior Notes	$ 6,881	2020 - 2029	3.42%	A2	A	A

New Debt Issuances

All debt issuances in 2018 and 2017 were senior unsecured obligations with interest payable quarterly or semi-annually. Additional details are as follows:

Issuance Date	Issuance Amount	Maturity Date	Interest Rate	Interest Payable
March 2, 2017	$ 650	3/2/2027	3.200%	Semi-annually
December 7, 2017	$ 700	1/25/2028	3.200%	Semi-annually
December 7, 2017	$ 800	1/25/2023	2.650%	Semi-annually
May 22, 2018	$ 600	5/21/2021	Three-month LIBOR + 0.32%	Quarterly
May 22, 2018	$ 600	5/21/2021	3.250%	Semi-annually
May 22, 2018	$ 750	5/21/2025	3.850%	Semi-annually
October 31, 2018	$ 500	2/1/2024	3.550%	Semi-annually

October 31, 2018	$	600	2/1/2029	4.000%	Semi-annually

Equity Issuances and Redemptions

CSC did not issue any equity through external offerings during the year ended December 31, 2018. CSC's preferred stock issued and net proceeds for the year ended December 31, 2017 are as follows:

	Date Issued and Sold	Net Proceeds
Series F	October 31, 2017	$ 492

On December 1, 2017, CSC redeemed all of the 485,000 outstanding shares of its 6.00% Non-Cumulative Perpetual Preferred Stock, Series B ("Series B Preferred Stock"), and the corresponding 19,400,000 depositary shares, each representing a 1/40th interest in a share of the Series B Preferred Stock.

For further discussion of CSC's long-term debt and information on the equity offerings, see Item 8 – Note 13 and Note 17.

Off-Balance Sheet Arrangements

Schwab enters into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients. These arrangements include firm commitments to extend credit. Additionally, Schwab enters into guarantees and other similar arrangements in the ordinary course of business. For information on each of these arrangements, see Item 8 – Note 7, Note 11, Note 13, Note 14, and Note 15.

Contractual Obligations

Schwab's principal contractual obligations as of December 31, 2018 are shown in the following table. Excluded from this table are liabilities recorded on the consolidated balance sheets that are generally short-term in nature (e.g., payables to brokers, dealers, and clearing organizations and short-term borrowings) or without contractual payment terms (e.g., bank deposits, payables to brokerage clients, and deferred compensation).

December 31, 2018	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Credit-related financial instruments [1]	$ 1,592	$ 3,162	$ 5,093	$ 1,698	$ 11,545
Long-term debt [2]	237	2,325	1,370	4,330	8,262
Purchase obligations [3]	475	303	54	170	1,002
Leases [4]	128	219	150	282	779
Total	$ 2,432	$ 6,009	$ 6,667	$ 6,480	$ 21,588

[1] Represents CSB's commitments to extend credit to banking clients, purchase mortgage loans, and commitments to fund CRA investments.
[2] Includes estimated future interest payments through 2029 for Senior Notes. Amounts exclude maturities under a finance lease obligation and unamortized discounts and premiums.
[3] Consists of purchase obligations for services such as advertising and marketing, telecommunications, professional services, and hardware- and software-related agreements.
[4] Represents minimum rental commitments, net of sublease commitments, and includes facilities under past restructuring initiatives and rental commitments under a finance lease obligation.

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, providing financial support to the 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'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. When subsidiaries have need of additional capital, funds are provided by CSC as equity investments and also as subordinated loans (in a form approved as regulatory capital by regulators) for CS&Co. 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 must 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%; however, management seeks to maintain the ratio of at least 6%. 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.

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 the ratio of at least 6.25%. Based on its regulatory capital ratios at December 31, 2018, CSB is considered well capitalized.

The following table details CSC's consolidated and CSB's capital ratios:

December 31,	2018		2017	
	CSC	CSB	CSC	CSB
Total stockholders' equity	$ 20,670	$ 15,615	$ 18,525	$ 13,224
Less:				
Preferred Stock	2,793	—	2,793	—
Common Equity Tier 1 Capital before regulatory adjustments	$ 17,877	$ 15,615	$ 15,732	$ 13,224
Less:				
Goodwill, net of associated deferred tax liabilities	$ 1,188	$ 13	$ 1,191	$ 13
Other intangible assets, net of associated deferred tax liabilities	125	—	61	—
Deferred tax assets, net of valuation allowances and deferred tax liabilities	3	1	2	—
AOCI adjustment [1]	(252)	(231)	(152)	(144)
Common Equity Tier 1 Capital	$ 16,813	$ 15,832	$ 14,630	$ 13,355
Tier 1 Capital	$ 19,606	$ 15,832	$ 17,423	$ 13,355
Total Capital	19,628	15,853	17,452	13,382
Risk-Weighted Assets	95,441	80,513	75,866	66,519
Common Equity Tier 1 Capital/Risk-Weighted Assets	17.6%	19.7%	19.3%	20.1%
Tier 1 Capital/Risk-Weighted Assets	20.5%	19.7%	23.0%	20.1%
Total Capital/Risk-Weighted Assets	20.6%	19.7%	23.0%	20.1%
Tier 1 Leverage Ratio	7.1%	7.2%	7.6%	7.1%

[1] CSC and CSB elected to opt-out of the requirement to include most components of AOCI in CET1 Capital. Beginning in 2019, CSC is required to include all components of AOCI in regulatory capital.

CSB is also subject to regulatory requirements that restrict and govern the terms of affiliate transactions. In addition, CSB is required to provide notice to, and may be required to obtain approval from, the OCC and the Federal Reserve to declare dividends to CSC.

As a broker-dealer, CS&Co is 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 CS&Co from paying cash dividends, making unsecured advances and loans to the parent company and employees, and repaying subordinated borrowings from CSC if such payment would result in a net capital amount below prescribed thresholds. At December 31, 2018, CS&Co was in compliance with its 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 21 for additional information on the components of stockholders' equity and information on the capital requirements of significant subsidiaries.

Dividends

Since the initial dividend in 1989, CSC has paid 119 consecutive quarterly dividends and has increased the quarterly dividend rate 23 times, resulting in a 21% 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 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 2017 and 2018 as shown below:

Date of Declaration	Quarterly Cash Increase Per Common Share	% Increase	New Quarterly Dividend Per Common Share
January 26, 2017	$ 0.01	14 %	$ 0.08
January 25, 2018	0.02	25 %	0.10
July 25, 2018	0.03	30 %	0.13

In addition, on January 30, 2019, the Board of Directors of the Company declared a four cent, or 31%, increase in the quarterly cash dividend to $0.17 per common share.

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

Year Ended December 31,	2018		2017	
	Cash Paid	Per Share Amount	Cash Paid	Per Share Amount
Common Stock	$ 623	$ 0.46	$ 431	$ 0.32
Series A Preferred Stock [1]	28	70.00	28	70.00
Series B Preferred Stock [2,5]	N/A	N/A	29	60.00
Series C Preferred Stock [2]	36	60.00	36	60.00
Series D Preferred Stock [2]	45	59.52	45	59.52
Series E Preferred Stock [3]	28	4,625.00	23	3,867.01
Series F Preferred Stock [4]	27	5,430.56	N/A	N/A

[1] Dividends paid semi-annually until February 1, 2022 and quarterly thereafter.
[2] Dividends paid quarterly.
[3] Dividends paid semi-annually until March 1, 2022 and quarterly thereafter.
[4] Series F Preferred Stock was issued on October 31, 2017. Dividends paid semi-annually beginning on June 1, 2018 until December 1, 2027, and quarterly thereafter.
[5] Series B Preferred Stock was redeemed on December 1, 2017.
N/A Not applicable.

Share Repurchases

On October 25, 2018, CSC publicly announced that its Board of Directors terminated the existing two share repurchase authorizations and replaced them with a new authorization to repurchase up to $1.0 billion of common stock. CSC repurchased 22 million shares of its common stock for $1.0 billion in 2018, completing all repurchases under this authorization. There were no repurchases of CSC's common stock in 2018 prior to the fourth quarter, or in 2017.

On January 30, 2019, CSC publicly announced that its Board of Directors authorized the repurchase of up to $4.0 billion of common stock. The authorization does not have an expiration date.

FOREIGN HOLDINGS

At December 31, 2018, Schwab had exposure to non-sovereign financial and non-financial institutions in foreign countries, as well as agencies of foreign governments. At December 31, 2018, the fair value of these holdings totaled $7.6 billion, with the top three exposures being to issuers and counterparties domiciled in France at $2.8 billion, Sweden at $1.3 billion, and Canada at $0.8 billion.

In addition to the direct holdings in foreign companies and securities issued by foreign government agencies, Schwab has indirect exposure to foreign countries through its investments in CSIM money market funds (collectively, the Funds) resulting from brokerage clearing activities. At December 31, 2018, the Company had $21 million in

investments in these Funds. Certain of the Funds' positions include certificates of deposits, time deposits, commercial paper and corporate debt securities issued by counterparties in foreign countries. Schwab had outstanding margin loans to foreign residents of $746 million at December 31, 2018.

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 – Note 2 and Note 16 for more information on our assets and liabilities recorded at fair value.

When available, Schwab uses quoted prices in active markets to measure the fair value of assets and liabilities. When utilizing market data and bid-ask spread, we use the price within the bid-ask spread that best represents fair value. When quoted prices do not exist, prices are obtained from independent third-party pricing services to measure the fair value of investment assets. We generally obtain prices from three independent pricing sources for assets recorded at fair value. Our primary third-party pricing service provides prices based on observable trades 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. At December 31, 2018 and 2017, we did not adjust prices received from the primary independent third-party pricing service.

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 connection with its application of 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 reported 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 20 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 14 for more information on the Company's contingencies related to legal and regulatory reserves.

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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Consolidated Statements of Income

(In Millions, Except Per Share Amounts)

Year Ended December 31,	2018	2017	2016
Net Revenues			
Interest revenue	$ 6,680	$ 4,624	$ 3,493
Interest expense	(857)	(342)	(171)
Net interest revenue	5,823	4,282	3,322
Asset management and administration fees [1]	3,229	3,392	3,055
Trading revenue	763	654	825
Other	317	290	276
Total net revenues	10,132	8,618	7,478
Expenses Excluding Interest			
Compensation and benefits	3,057	2,737	2,466
Professional services	654	580	506
Occupancy and equipment	496	436	398
Advertising and market development	313	268	265
Communications	242	231	237
Depreciation and amortization	306	269	234
Regulatory fees and assessments	189	179	144
Other	313	268	235
Total expenses excluding interest	5,570	4,968	4,485
Income before taxes on income	4,562	3,650	2,993
Taxes on income	1,055	1,296	1,104
Net Income	3,507	2,354	1,889
Preferred stock dividends and other [2]	178	174	143
Net Income Available to Common Stockholders	$ 3,329	$ 2,180	$ 1,746
Weighted-Average Common Shares Outstanding:			
Basic	1,348	1,339	1,324
Diluted [3]	1,361	1,353	1,334
Earnings Per Common Shares Outstanding:			
Basic	$ 2.47	$ 1.63	$ 1.32
Diluted [3]	$ 2.45	$ 1.61	$ 1.31

[1] Includes fee waivers of $0, $10 million, and $224 million during the years ended December 31, 2018, 2017, and 2016, respectively, relating to Schwab-sponsored money market funds.

[2] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

[3] Antidilutive stock options and restricted stock units excluded from the calculation of diluted EPS totaled 18 million, 15 million, and 26 million shares in 2018, 2017, and 2016, respectively.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(In Millions)

Year Ended December 31,	2018	2017	2016
Net income	$ 3,507	$ 2,354	$ 1,889
Other comprehensive income (loss), before tax:			
Change in net unrealized gain (loss) on available for sale securities:			
Net unrealized gain (loss)	(123)	13	(44)
Reclassification of net unrealized loss transferred to held to maturity	—	227	—
Other reclassifications included in other revenue	—	(12)	(4)
Change in net unrealized gain (loss) on held to maturity securities:			
Reclassification of net unrealized loss transferred from available for sale	—	(227)	—
Amortization of amounts previously recorded upon transfer from available for sale	35	31	—
Other	(1)	(11)	1
Other comprehensive income (loss), before tax	(89)	21	(47)
Income tax effect	22	(10)	18
Other comprehensive income (loss), net of tax	(67)	11	(29)
Comprehensive Income	$ 3,440	$ 2,365	$ 1,860

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(In Millions, Except Per Share and Share Amounts)

December 31,	2018	2017
Assets		
Cash and cash equivalents	$ 27,938	$ 14,217
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $7,195 and $6,596 at December 31, 2018 and 2017, respectively)	13,563	15,139
Receivables from brokers, dealers, and clearing organizations	553	649
Receivables from brokerage clients — net	21,651	20,576
Other securities owned — at fair value	539	539
Available for sale securities	66,578	49,995
Held to maturity securities	144,009	120,926
Bank loans — net	16,609	16,478
Equipment, office facilities, and property — net	1,769	1,471
Goodwill	1,227	1,227
Other assets	2,046	2,057
Total assets	$ 296,482	$ 243,274
Liabilities and Stockholders' Equity		
Bank deposits	$ 231,423	$ 169,656
Payables to brokers, dealers, and clearing organizations	1,831	1,287
Payables to brokerage clients	32,726	31,243
Accrued expenses and other liabilities	2,954	2,810
Short-term borrowings	—	15,000
Long-term debt	6,878	4,753
Total liabilities	275,812	224,749
Stockholders' equity:		
Preferred stock — $.01 par value per share; aggregate liquidation preference of $2,850	2,793	2,793
Common stock — 3 billion shares authorized; $.01 par value per share; 1,487,543,446 shares issued	15	15
Additional paid-in capital	4,499	4,353
Retained earnings	17,329	14,408
Treasury stock, at cost — 155,116,695 and 142,210,890 shares at December 31, 2018 and 2017, respectively	(3,714)	(2,892)
Accumulated other comprehensive income (loss)	(252)	(152)
Total stockholders' equity	20,670	18,525
Total liabilities and stockholders' equity	$ 296,482	$ 243,274

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Cash Flows

(In Millions)

Year Ended December 31,	2018	2017 [1]	2016 [1]
Cash Flows from Operating Activities			
Net income	$ 3,507	$ 2,354	$ 1,889
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Share-based compensation	197	153	141
Depreciation and amortization	306	269	234
Provision (benefit) for deferred income taxes	49	58	15
Premium amortization, net, on available for sale and held to maturity securities	350	342	266
Other	137	51	4
Net change in:			
Investments segregated and on deposit for regulatory purposes	6,922	4,933	(1,635)
Receivables from brokers, dealers, and clearing organizations	96	74	(147)
Receivables from brokerage clients	(1,100)	(3,428)	150
Other securities owned	—	(90)	84
Other assets	(104)	(177)	(93)
Payables to brokers, dealers, and clearing organizations	573	(1,148)	(181)
Payables to brokerage clients	1,483	(4,651)	2,709
Accrued expenses and other liabilities	40	421	167
Net cash provided by (used for) operating activities	12,456	(839)	3,603
Cash Flows from Investing Activities			
Purchases of available for sale securities	(32,801)	(15,033)	(29,248)
Proceeds from sales of available for sale securities	115	8,617	5,537
Principal payments on available for sale securities	16,016	9,095	11,903
Purchases of held to maturity securities	(40,873)	(32,925)	(31,162)
Principal payments on held to maturity securities	17,410	11,627	5,747
Net increase in bank loans	(129)	(1,071)	(1,103)
Purchases of equipment, office facilities, and property	(570)	(400)	(346)
Purchases of Federal Home Loan Bank stock	(156)	(430)	(152)
Proceeds from sales of Federal Home Loan Bank stock	529	106	88
Other investing activities	(96)	(59)	(39)
Net cash provided by (used for) investing activities	(40,555)	(20,473)	(38,775)
Cash Flows from Financing Activities			
Net change in bank deposits [2]	61,767	6,186	33,952
Net change in short-term borrowings	(15,000)	15,000	—
Issuance of long-term debt	3,024	2,129	—
Repayment of long-term debt	(909)	(257)	(7)
Repurchases of common stock	(1,000)	—	—
Net proceeds from preferred stock offerings	—	492	1,316
Redemption of preferred stock	—	(485)	—
Dividends paid	(787)	(592)	(486)
Proceeds from stock options exercised	125	171	144
Other financing activities	(54)	(45)	44
Net cash provided by (used for) financing activities	47,166	22,599	34,963
Increase (Decrease) in Cash and Cash Equivalents, including Amounts Restricted	19,067	1,287	(209)
Cash and Cash Equivalents including Amounts Restricted at Beginning of Year	19,160	17,873	18,082
Cash and Cash Equivalents, including Amounts Restricted at End of Year	$ 38,227	$ 19,160	$ 17,873

Continued on following page

Continued from previous page

Year Ended December 31,	2018	2017 [1]	2016 [1]
Supplemental Cash Flow Information			
Cash paid during the year for:			
Interest	$ 798	$ 327	$ 160
Income taxes	$ 927	$ 1,212	$ 991
Non-cash investing activity:			
Securities purchased during the period but settled after period end	$ —	$ 29	$ —

December 31,	2018	2017	2016
Reconciliation of cash, cash equivalents and amounts reported within the balance sheet [3]			
Cash and cash equivalents	$ 27,938	$ 14,217	$ 10,828
Restricted cash and cash equivalents amounts included in cash and investments segregated and on deposit for regulatory purposes	10,289	4,943	7,045
Total cash and cash equivalents, including amounts restricted shown in the statement of cash flows	$ 38,227	$ 19,160	$ 17,873

[1] Adjusted for the retrospective adoption of ASU 2016-18. See Note 2.
[2] Includes transfers from other sweep features to bank sweep of $72 billion, $5 billion and $8 billion for the years ended December 31, 2018, 2017 and 2016, respectively.
[3] For more information on the nature of restrictions on restricted cash and cash equivalents see Note 21.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

(In Millions)

	Preferred Stock	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Income (Loss)	Total
		Shares	Amount					
Balance at December 31, 2015	$ 1,459	1,488	$ 15	$ 4,152	$ 11,253	$ (3,343)	$ (134)	$ 13,402
Net income	—	—	—	—	1,889	—	—	1,889
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(29)	(29)
Issuance of preferred stock, net	1,324	—	—	—	—	—	—	1,324
Dividends declared on preferred stock	—	—	—	—	(126)	—	—	(126)
Dividends declared on common stock — $.27 per share	—	—	—	—	(360)	—	—	(360)
Stock option exercises and other	—	—	—	(80)	—	224	—	144
Share-based compensation and related tax effects	—	—	—	177	—	—	—	177
Other	—	—	—	18	(7)	(11)	—	—
Balance at December 31, 2016	2,783	1,488	15	4,267	12,649	(3,130)	(163)	16,421
Net income	—	—	—	—	2,354	—	—	2,354
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	11	11
Issuance of preferred stock, net	492	—	—	—	—	—	—	492
Redemption of preferred stock	(482)	—	—	—	(3)	—	—	(485)
Dividends declared on preferred stock	—	—	—	—	(161)	—	—	(161)
Dividends declared on common stock — $.32 per share	—	—	—	—	(431)	—	—	(431)
Stock option exercises and other	—	—	—	(88)	—	259	—	171
Share-based compensation	—	—	—	144	—	—	—	144
Other	—	—	—	30	—	(21)	—	9
Balance at December 31, 2017	2,793	1,488	15	4,353	14,408	(2,892)	(152)	18,525
Adoption of accounting standards (Note 2)	—	—	—	—	200	—	(33)	167
Net income	—	—	—	—	3,507	—	—	3,507
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(67)	(67)
Dividends declared on preferred stock	—	—	—	—	(164)	—	—	(164)
Dividends declared on common stock — $.46 per share	—	—	—	—	(624)	—	—	(624)
Repurchase of common stock	—	—	—	—	—	(1,000)	—	(1,000)
Stock option exercises and other	—	—	—	(84)	—	209	—	125
Share-based compensation	—	—	—	188	—	—	—	188
Other	—	—	—	42	2	(31)	—	13
Balance at December 31, 2018	$ 2,793	1,488	$ 15	$ 4,499	$ 17,329	$ (3,714)	$ (252)	$ 20,670

See Notes to Consolidated Financial Statements.

1. Introduction and Basis of Presentation

The Charles Schwab Corporation (CSC) is a savings and loan holding company, headquartered in San Francisco, California. CSC was incorporated in 1986 and engages, through its subsidiaries, in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services.

Significant business subsidiaries of CSC include the following:

- Charles Schwab & Co., Inc. (CS&Co) is a securities broker-dealer with over 355 domestic branch offices in 47 states, as well as a branch in the Commonwealth of Puerto Rico. In addition, Schwab serves clients through branch offices in the U.K., Hong Kong, Singapore, and Australia through various subsidiaries;
- Charles Schwab Bank (CSB), a federal savings bank; and
- Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds®), and for Schwab's exchange-traded funds (Schwab ETFs™).

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 those estimates. Certain estimates relate to taxes on income and legal and regulatory reserves. Actual results may differ from those estimates.

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. Investments in entities for which Schwab does not have the ability to exercise significant influence 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.

2. Summary of Significant Accounting Policies

Revenue recognition

Schwab's accounting policies for revenue recognition are discussed in Note 3.

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

Cash and investments segregated and on deposit for regulatory purposes include securities purchased under agreements to resell (resale agreements), which are collateralized by U.S. Government and agency securities. Resale agreements are accounted for as collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The Company obtains collateral with a market value equal to or in excess of the principal amount loaned and accrued interest under resale agreements. Collateral is valued daily by the Company, with additional collateral obtained to ensure full collateralization. Cash and investments segregated also include certificates of deposit and U.S. Government securities. Certificates of deposit and U.S. Government securities are recorded at fair value. Pursuant to the SEC's Customer Protection Rule, cash balances not collateralizing margin positions and not swept to money market funds or bank deposit accounts, are segregated by Schwab for the exclusive benefit of clients.

Receivables from brokerage clients

Receivables from brokerage clients include margin loans to securities brokerage clients and other trading receivables from clients. Margin loans are collateralized by client securities and are carried at the amount receivable, net of an allowance for doubtful accounts. The Company monitors margin levels and requires clients to deposit additional collateral, or reduce margin positions, to meet minimum collateral requirements if the fair value of the collateral changes. Receivables from brokerage clients that remain unsecured or partially secured for more than 30 days are fully reserved for in the allowance for doubtful accounts, except in the case of confirmed fraud, which is reserved immediately. 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. The allowance for doubtful accounts for brokerage clients and related activity was immaterial for all periods presented.

Other securities owned

Other securities owned are recorded at fair value based on quoted market prices or other observable market data. Unrealized gains and losses are included in earnings.

Investment securities

AFS securities are recorded at fair value and unrealized gains and losses are reported, net of taxes, in AOCI included in stockholders' equity. HTM securities are recorded at amortized cost based on the Company's positive intent and ability to hold these securities to maturity. Realized gains and losses from sales of AFS securities are determined on a specific identification basis and are included in other revenue.

Management evaluates whether investment securities are OTTI on a quarterly basis. Debt securities with unrealized losses are considered OTTI if the Company intends to sell the security or if it is more likely than not that the

Company will be required to sell such security before any anticipated recovery. If management determines that a security is OTTI under these circumstances, the impairment recognized in earnings is measured as the entire difference between amortized cost and fair value.

A security is also OTTI if management does not expect to recover all of the amortized cost of the security. In this circumstance, the impairment recognized in earnings represents the estimated credit loss, and is measured by the difference between the present value of expected cash flows and the amortized cost of the security. Where appropriate, models are utilized to estimate the credit loss on a discounted cash flow basis using the security's effective interest rate.

The evaluation of whether we expect to recover the amortized cost of a security is inherently judgmental. The evaluation considers multiple factors including: the magnitude and duration of the unrealized loss; the financial condition of the issuer; the payment structure of the security; external credit ratings; our internal credit ratings; 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.

Securities borrowed and securities loaned

Securities borrowed transactions require Schwab to deliver cash to the lender in exchange for securities; the receivables from these transactions are included in receivables from brokers, dealers, and clearing organizations. 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 payables to brokers, dealers, and clearing organizations. The market value of securities borrowed and loaned are monitored, with additional collateral obtained or refunded to ensure full collateralization. Fees received or paid are recorded in interest revenue or interest expense.

Bank loans and related allowance for loan losses

Bank loans are recorded at their contractual principal amounts and include 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, loans are recorded net of an allowance for loan losses. The loan portfolio includes four loan types: First Mortgages, HELOCs, PALs, and other loans. We use these segments when developing and documenting our methodology for determining the allowance for loan losses.

PALs are collateralized by marketable securities with liquid markets. Credit lines are over-collateralized dependent on the type of security pledged. Collateral market value is monitored on a daily basis and a borrower's committed line may be reduced or collateral may be liquidated if the collateral is in danger of falling below specified levels. As such, the loss inherent within this portfolio is limited.

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

The methodology to establish an allowance for loan losses utilizes statistical models that estimate prepayments, defaults, and probable losses for the loan segments based on predicted behavior of individual loans within the segments. The methodology considers the effects of borrower behavior and a variety of factors including, but not limited to, interest rates, housing price movements as measured by a housing price index, economic conditions, estimated defaults and foreclosures measured by historical and expected delinquencies, changes in prepayment speeds, LTV ratios, past loss experience, estimates of future loss severities, borrower credit risk, and the adequacy of collateral. The methodology also evaluates concentrations in the loan types, including loan products within those types, year of origination, and geographical distribution of collateral.

Probable 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 (Estimated Current LTV) of each loan, the term and structure of each loan, current key interest rates including U.S. Treasury and LIBOR rates, and borrower FICO scores. The more significant

variables in the simulation include delinquency roll rates, loss severity, housing prices, and interest rates. 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. Loss severity estimates are based on our historical loss experience and

market trends. The estimated loss severity (i.e., loss given default) used in the allowance for loan loss methodology for HELOC loans is higher than that used in the methodology for First Mortgages. 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. This methodology results in loss factors that are applied to the outstanding balances to determine the allowance for loan loss for each loan type.

Schwab considers loan modifications in which it makes an economic concession to a borrower experiencing financial difficulty to be troubled debt restructurings (TDRs).

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. Nonaccrual loans, other real estate owned, and TDRs are considered impaired assets, as it is probable we will not collect all amounts due.

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 loan 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.

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:

Equipment and office facilities	5 to 10 years
Buildings	20 to 40 years
Software	3 to 10 years [1]
Leasehold improvements	Lesser of useful life or lease term

[1] 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.

Goodwill

Goodwill represents the fair value of acquired businesses in excess of the fair value of the individually identified net assets acquired. Goodwill is not amortized but is tested for impairment annually or whenever indications of impairment exist. Impairment exists when the carrying amount of goodwill exceeds its implied fair value, resulting in an impairment charge for this excess. Our annual impairment testing date is April 1st. 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.

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.

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.

Guarantees and indemnifications

Schwab recognizes, at the inception of a guarantee, a liability equal to the estimated fair value of the obligation undertaken in issuing the guarantee. The fair values of obligations relating to guarantees are estimated based on transactions for similar guarantees or expected present value measures.

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. Such costs are generally expensed 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 during which 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 is recorded in taxes on income. Schwab records amounts within AOCI net of taxes. Income tax effects are released from AOCI using the specific-identification approach.

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 fair value of the share-based award is recognized over the vesting period as share-based compensation. 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. Beginning January 1, 2017, 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.

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. The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. Dilutive potential common shares include, if dilutive, the effect of outstanding stock options and non-vested restricted stock units.

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 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, other securities owned, and AFS securities. 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. 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 do not exist, the Company uses prices obtained from independent third-party pricing services to measure the fair value of investment assets. We generally obtain prices from three independent third-party pricing sources for assets recorded at fair value.

Our primary independent pricing service provides prices based on observable trades 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.

New Accounting Standards

Adoption of New Accounting Standards

Standard	Description	Date of Adoption	Effects on the Financial Statements or Other Significant Matters
Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" and related ASUs	Clarifies that revenue from contracts with clients should be recognized in a manner that depicts the timing of the related transfer of goods or performance of services at an amount that reflects the expected consideration. Adoption allows either full or modified retrospective transition. Full retrospective transition required a cumulative effect adjustment to retained earnings as of the earliest comparative period presented. Modified retrospective transition required a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance.	January 1, 2018	The guidance does not apply to revenue earned from the Company's loans and securities. Accordingly, net interest revenue was not impacted. The primary impact for the Company was the capitalization on the consolidated balance sheets of sales commissions paid to employees for obtaining new contracts with clients. These capitalized costs resulted in an asset of $219 million and a related deferred tax liability of $52 million upon adoption. The asset is being amortized to expense over time as the related revenues are recognized. The Company adopted the revenue recognition guidance using the modified retrospective method for all contracts that were not completed as of January 1, 2018. Further details of the impact of adoption are included below in this Note as well as in Note 3.
ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10)" and ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10)"	Requires: (i) equity investments to be measured at fair value, with changes in fair value recognized in net income, unless the equity method is applied or the equity investments do not have readily determinable fair values in which case a practical alternative may be elected; (ii) use of an exit price when measuring the fair value of financial instruments for disclosures; (iii) separate presentation of financial assets and liabilities by measurement category and form of instrument on the balance sheet or in the accompanying notes. Adoption requires a cumulative effect adjustment to the balance sheet as of the beginning of the year of initial application, except for certain changes that require prospective adoption.	January 1, 2018	The Company adopted this guidance on a prospective basis for its equity securities that do not have readily determinable fair values. No other significant changes resulted from adoption. Therefore, there was no material impact on the Company's financial statements. The Company elected to use the alternative to fair value measurement for its equity securities that do not have readily determinable fair values. These equity securities will be adjusted for impairment and observable price changes of the identical or similar investments of the same issuer, as applicable. Schwab refers to this approach as the adjusted cost method. This method was applied to an immaterial amount of Community Reinvestment Act (CRA) investments included in other assets on the consolidated balance sheets.
ASU 2016-18, "Statement of Cash Flows (Topic 230) – Restricted Cash a Consensus of the Emerging Issues Task Force"	Requires that the statement of cash flows explain the change during the period in the total cash and cash equivalents, including restricted cash and cash equivalents. Adoption requires retrospective presentation of the statement of cash flows to include restricted cash and	January 1, 2018	The Company adopted this guidance on a retrospective basis. The Company has significant amounts of restricted cash and cash equivalents due to its business as a broker-dealer. As a result of the adoption, changes in restricted cash and cash equivalents included within cash and investments segregated and on

	cash equivalents in the beginning and ending amounts.		deposit for regulatory purposes in the consolidated balance sheets are now presented with changes in cash and cash equivalents throughout the consolidated statements of cash flows. The amount of restricted cash and cash equivalents is included in a separate table in the consolidated statement of cash flows.

Standard	Description	Date of Adoption	Effects on the Financial Statements or Other Significant Matters
ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"	Permits reclassification of the impacts on certain tax affected items included in AOCI that were adjusted through income from continuing operations rather than AOCI upon the effective date of the Tax Act. Adoption provides for retrospective adoption to all periods presented and impacted by the Tax Act or as of the beginning of the period of adoption.	January 1, 2018	The Company adopted this guidance as of January 1, 2018. The Company elected to reclassify the income tax effects of the Tax Act from items in AOCI into retained earnings as of the beginning of the period of adoption. Adoption resulted in a reduction in AOCI and a corresponding increase in retained earnings of $33 million.

New Accounting Standards Not Yet Adopted

Standard	Description	Required Date of Adoption	Effects on the Financial Statements or Other Significant Matters
ASU 2016-02, "Leases (Topic 842)"	Amends the accounting for leases by lessees and lessors. The primary change from the new guidance is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases. Additional changes include accounting for lease origination and executory costs, required lessee reassessments during the lease term due to changes in circumstances, and expanded lease disclosures. Adoption provides for modified retrospective transition as of the beginning of the earliest comparative period presented in the financial statements in which the entity first applies the new standard or prospectively with an adjustment as of the beginning of the period of adoption. Certain transition relief is permitted if elected by the entity.	January 1, 2019	The Company adopted the new lease accounting guidance prospectively as of January 1, 2019, which will result in a gross up of the consolidated balance sheet due to recognition of right-of-use assets and lease liabilities primarily related to CS&Co leases of office space and branches. These amounts will be based on the present value of our remaining operating lease payments. The Company's right of use assets and related lease liabilities upon adoption will be $596 million and $662 million, respectively.

Standard	Description	Required Date of Adoption	Effects on the Financial Statements or Other Significant Matters
ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"	Provides guidance for recognizing impairment of most debt instruments measured at amortized cost, including loans and HTM debt securities. Requires estimating current expected credit losses (CECL) over the remaining life of an instrument or a portfolio of instruments with similar risk characteristics based on relevant information about past events, current conditions, and reasonable forecasts. The initial estimate of, and the subsequent changes in, CECL will be recognized as credit loss expense through current earnings and will be reflected as an allowance for credit losses offsetting the carrying value of the financial instrument(s) on the balance sheet. Amends the OTTI model for AFS debt securities by requiring the use of an allowance, rather than directly reducing the carrying value of the security, and eliminating consideration of the length of time such security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. Adoption requires a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the entity applies the new guidance except that a prospective transition is required for AFS debt securities for which an OTTI has been recognized prior to the effective date.	January 1, 2020 (early adoption permitted)	The Company continues to evaluate the impact of this guidance on its financial statements. The Company has finished the majority of its scoping work and assessment of the current state of data and systems. Work is transitioning to designing and building out approaches to address certain asset classes with a focus primarily on a subset of our securities, including corporate debt securities. The Company expects that a large portion of its securities will have zero expectation of credit losses based on industry and regulator views for U.S. treasury and certain government agency-backed securities. We are currently working on in-depth analysis for the other asset types that do not have zero expectation of credit losses to determine our methods and any needed changes to policies and procedures.
ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities"	Shortens the amortization period for the premium on certain callable debt securities to the earliest call date. The amendments are applicable to any purchased individual debt security with an explicit and noncontingent call feature with a fixed price on a preset date. ASU 2017-08 does not impact the accounting for callable debt securities held at a discount. Adoption requires modified retrospective transition as of the beginning of the period of adoption	January 1, 2019 (early adoption permitted)	The Company adopted this guidance as of January 1, 2019 using the modified retrospective method. Adoption resulted in an immaterial cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the period of adoption.

	through a cumulative-effect adjustment to retained earnings.		

Standard	Description	Required Date of Adoption	Effects on the Financial Statements or Other Significant Matters
ASU 2018-15, "Intangibles–Goodwill and Other–Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)"	Aligns the criteria for capitalizing implementation costs for cloud computing arrangements (CCA) that are service contracts with internal-use software that is developed or purchased and CCAs that include an internal-use software license. This guidance requires that the capitalized implementation costs be recognized over the period of the CCA service contract, subject to impairment evaluation on an ongoing basis. The guidance prescribes the balance sheet, income statement, and statement of cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. Adoption provides for retrospective or prospective application to all implementation costs incurred after the date of adoption.	January 1, 2020 (early adoption permitted)	Historically, Schwab has expensed implementation costs as they are incurred for CCAs that are service contracts. Therefore, adopting this guidance will change the Company's accounting treatment for these types of implementation costs. The Company is evaluating the impacts of this guidance on its financial statements.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of *ASU 2014-09, "Revenue – Revenue from Contracts with Customers"* and *ASU 2018-02, "Other Comprehensive Income – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"* were as follows:

	Balance at December 31, 2017	Adjustments Due to ASU 2014-09	Adjustments Due to ASU 2018-02	Balance at January 1, 2018
Assets				
Other assets [1]	$ 2,057	$ 167	$ —	$ 2,224
Stockholders' Equity				
Retained earnings	14,408	167	33	14,608
Accumulated other comprehensive income	(152)	—	(33)	(185)

[1] Adjustment is comprised of an increase in capitalized contract costs of $219 million, partially offset by an increase in deferred tax liabilities of $52 million.

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our consolidated statement of income and consolidated balance sheet were as follows:

	Year Ended December 31, 2018		
Statement of Income	As Reported	Balances Without Adoption of ASU 2014-09	Effect of Change Higher/(Lower)
Expenses Excluding Interest			

Compensation and benefits	$ 3,057	$ 3,088	$ (31)
Taxes on income	1,055	1,047	8
Net Income	3,507	3,484	23

	As of December 31, 2018		
Balance Sheet	As Reported	Balances Without Adoption of ASU 2014-09	Effect of Change Higher/(Lower)
Assets			
Other assets [1]	$ 2,046	$ 1,851	$ 195
Liabilities			
Accrued expenses and other liabilities [1]	2,954	2,949	5
Stockholders' Equity			
Retained earnings	17,329	17,139	190

[1] Adjustment is comprised of an increase in capitalized contract costs of $250 million, partially offset by an increase in deferred tax liabilities of $60 million.

3. Revenue Recognition

Disaggregated Revenue

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

Year Ended December 31,	2018	2017	2016
Net interest revenue			
Interest revenue	$ 6,680	$ 4,624	$ 3,493
Interest expense	(857)	(342)	(171)
Net interest revenue	5,823	4,282	3,322
Asset management and administration fees			
Mutual funds and ETF service fees	1,793	2,045	1,853
Advice solutions	1,139	1,043	915
Other	297	304	287
Asset management and administration fees	3,229	3,392	3,055
Trading revenue			
Commissions	685	600	779
Principal transactions	78	54	46
Trading revenue	763	654	825
Other	317	290	276
Total net revenues	$ 10,132	$ 8,618	$ 7,478

For a summary of revenue provided by our reportable segments, see Note 22. The recognition of revenue is not impacted by the operating segment in which revenue is generated.

Net interest revenue

Net interest revenue, which is generated from financial instruments covered by various other areas of GAAP, is not within the scope of Accounting Standards Codification (ASC) 606, *Revenue From Contracts With Customers* (ASC 606), and is included in the table above in order to reconcile to total net revenues per the consolidated statements of income. 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, which constitute the majority of receivables from brokerage clients; investment securities; and bank loans. Revenue on interest earning assets is affected by various factors, such as the composition of assets, prevailing interest rates at the time of origination or purchase, changes in interest rates on floating rate securities and loans, and changes in prepayment levels for mortgage related securities and loans. Fees earned and incurred on securities borrowing and lending activities, which are conducted by CS&Co 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® and Schwab ETFs™, 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

Substantially all trading revenue is generated through commissions earned for executing trades for clients in individual equities, options, fixed income securities, and certain third-party mutual funds and ETFs. This revenue is earned and collected when the trades are executed.

Other revenue

Other revenue includes order flow revenue, other service fees, software fees from our portfolio management solutions, exchange processing fees, and nonrecurring gains. Generally, the most significant portion of other revenue is order flow revenue, which is comprised of rebate payments received from execution venues to which CS&Co sends equity and option orders. Order flow revenue is recognized when the trades are executed.

Capitalized contract costs

Capitalized contract costs relate to sales commissions paid to employees for obtaining contracts with clients and are included in other assets on the consolidated balance sheets. These costs are amortized to expense on a straight-line basis over a period that is consistent with how the related revenue is recognized. At December 31, 2018 and January 1, 2018, we had $250 million and $219 million of capitalized contract costs, respectively. Amortization expense related to capitalized contract costs was $47 million in 2018, which was recorded in compensation and benefits expense on the consolidated statements of income.

Contract balances

Receivables from contracts with customers within the scope of ASC 606 were $307 million at December 31, 2018 and $353 million at January 1, 2018 and were recorded in other assets on the consolidated balance sheets. Schwab does not have any other significant contract assets or contract liability balances as of December 31, 2018 and January 1, 2018.

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.

4. Receivables from and Payables to Brokerage Clients

Receivables from and payables to brokerage clients are detailed below:

December 31,	2018	2017
Receivables		
Margin loans, net of allowance for doubtful accounts	$ 19,273	$ 18,331
Other brokerage receivables	2,378	2,245
Receivables from brokerage clients — net	$ 21,651	$ 20,576
Payables		
Interest-bearing payables	$ 21,990	$ 22,840
Non-interest-bearing payables	10,736	8,403
Payables to brokerage clients	$ 32,726	$ 31,243

At December 31, 2018 and 2017, approximately 22% of CS&Co's total client accounts were located in California.

5. Other Securities Owned

A summary of securities owned is as follows:

December 31,	2018	2017
Equity and bond mutual funds	$ 441	$ 318
State and municipal debt obligations	39	52
Equity, U.S. Government and corporate debt, and other securities	33	34
Schwab Funds® money market funds	26	135
Total other securities owned	$ 539	$ 539

Equity and bond mutual funds include inventory maintained to facilitate clients' transactions in certain Schwab Funds and third-party mutual funds, and investments made relating to our deferred compensation plan. State and municipal debt obligations, equity, U.S. Government and corporate debt, and other securities include securities to meet clients' trading activities. The positions in Schwab Funds® money market funds arise from certain overnight funding of clients' redemption, check-writing, and debit card activities.

6. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of AFS and HTM securities are as follows:

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities				
U.S. agency mortgage-backed securities	$ 25,594	$ 44	$ 82	$ 25,556
U.S. Treasury securities	18,410	—	108	18,302
Asset-backed securities [1]	10,086	14	15	10,085
Corporate debt securities [2]	7,477	10	20	7,467
Certificates of deposit	3,682	4	1	3,685
U.S. agency notes	900	—	2	898
Commercial paper [2,3]	522	—	—	522
Foreign government agency securities	50	—	1	49
Non-agency commercial mortgage-backed securities	14	—	—	14
Total available for sale securities	$ 66,735	$ 72	$ 229	$ 66,578
Held to maturity securities				
U.S. agency mortgage-backed securities	$ 118,064	$ 217	$ 2,188	$ 116,093
Asset-backed securities [1]	18,502	83	39	18,546
Corporate debt securities [2]	4,477	2	47	4,432
U.S. state and municipal securities	1,327	24	3	1,348
Non-agency commercial mortgage-backed securities	1,156	3	17	1,142
U.S. Treasury securities	223	—	6	217
Certificates of deposit	200	1	—	201
Foreign government agency securities	50	—	1	49
Other	10	—	—	10
Total held to maturity securities	$ 144,009	$ 330	$ 2,301	$ 142,038

December 31, 2017				
Available for sale securities				
U.S. agency mortgage-backed securities	$ 20,915	$ 53	$ 39	$ 20,929
U.S. Treasury securities	9,583	—	83	9,500
Asset-backed securities [1]	9,019	34	6	9,047
Corporate debt securities [2]	6,154	16	1	6,169
Certificates of deposit	2,040	2	1	2,041
U.S. agency notes	1,914	—	8	1,906
Commercial paper [2]	313	—	—	313
Foreign government agency securities	51	—	1	50
Non-agency commercial mortgage-backed securities	40	—	—	40
Total available for sale securities	$ 50,029	$ 105	$ 139	$ 49,995
Held to maturity securities				
U.S. agency mortgage-backed securities	$ 101,197	$ 290	$ 1,034	$ 100,453
Asset-backed securities [1]	12,937	127	2	13,062
Corporate debt securities [2]	4,078	13	5	4,086
U.S. state and municipal securities	1,247	57	—	1,304

Non-agency commercial mortgage-backed securities	994	10	5	999
U.S. Treasury securities	223	—	3	220
Certificates of deposit	200	—	—	200
Foreign government agency securities	50	—	1	49
Total held to maturity securities	$ 120,926	$ 497	$ 1,050	$ 120,373

(1) Approximately 36% and 42% of asset-backed securities held as of December 31, 2018 and 2017, respectively, were Federal Family Education Loan Program Asset-Backed Securities. Asset-backed securities collateralized by credit card receivables represented approximately 42% and 40% of the asset-backed securities held as of December 31, 2018 and 2017, respectively.

(2) As of December 31, 2018 and 2017, approximately 26% and 41%, respectively, of the total AFS and HTM investments in corporate debt securities and commercial paper were issued by institutions in the financial services industry. Approximately 18% and 22% of the holdings of these securities were issued by institutions in the information technology industry as of December 31, 2018 and 2017, respectively.

(3) Included in cash and cash equivalents on the consolidated balance sheet, but excluded from this table is $4.9 billion of AFS commercial paper. These holdings have maturities of three months or less and an aggregate market value equal to amortized cost.

During 2017, the Company transferred $24.7 billion of investment securities from the AFS category to the HTM category. These securities had a total net unrealized loss of $227 million before income tax in AOCI on the date of transfer. The transfer was made to mitigate the potential volatility in regulatory capital from changes in market values in the AFS securities portfolio and the related impact to AOCI in anticipation of Schwab crossing $250 billion in consolidated assets, which occurred in the second quarter of 2018. The year after a company surpasses $250 billion in consolidated assets, it can no longer exclude AOCI from regulatory capital. The transfer included U.S. agency mortgage-backed securities, asset-backed securities, corporate debt securities, and U.S. state and municipal securities. The unrealized holding gains and losses on the date of transfer, are reported as a separate component of AOCI and as an adjustment to the purchase premium and discount on the securities transferred. The separate component of AOCI is amortized or accreted into interest income over the remaining life of the securities transferred, offsetting the revised premium or discount amortization or accretion on the transferred assets.

At December 31, 2018, certain banking subsidiaries had pledged securities with a fair value of $27.2 billion as collateral to secure borrowing capacity on secured credit facilities with the FHLB (see Note 13). CSB also pledges certain investment securities as collateral to secure borrowing capacity at the Federal Reserve Bank discount window, and had pledged securities with a fair value of $7.9 billion as collateral for this facility at December 31, 2018. CSB also pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was $906 million at December 31, 2018.

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

	Less than 12 months		12 months or longer		Total	
December 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities						
U.S. agency mortgage-backed securities	$ 9,529	$ 32	$ 4,257	$ 50	$ 13,786	$ 82
U.S. Treasury securities	4,951	6	7,037	102	11,988	108
Asset-backed securities	4,050	9	837	6	4,887	15
Corporate debt securities	3,561	19	254	1	3,815	20
Certificates of deposit	1,217	1	150	—	1,367	1
U.S. agency notes	195	—	304	2	499	2
Foreign government agency securities	—	—	49	1	49	1
Total	$ 23,503	$ 67	$ 12,888	$ 162	$ 36,391	$ 229
Held to maturity securities						
U.S. agency mortgage-backed securities	$ 29,263	$ 222	$ 56,435	$ 1,966	$ 85,698	$ 2,188
Asset-backed securities	6,795	35	376	4	7,171	39
Corporate debt securities	2,909	29	1,066	18	3,975	47
U.S. state and municipal securities	77	2	18	1	95	3
Non-agency commercial mortgage-backed securities	283	2	632	15	915	17
U.S. Treasury securities	—	—	218	6	218	6
Foreign government agency securities	—	—	49	1	49	1
Total	$ 39,327	$ 290	$ 58,794	$ 2,011	$ 98,121	$ 2,301
Total securities with unrealized losses [1]	$ 62,830	$ 357	$ 71,682	$ 2,173	$ 134,512	$ 2,530
December 31, 2017						
Available for sale securities						
U.S. agency mortgage-backed securities	$ 5,696	$ 21	$ 2,548	$ 18	$ 8,244	$ 39
U.S. Treasury securities	4,625	11	4,875	72	9,500	83
Asset-backed securities	904	3	424	3	1,328	6
Corporate debt securities	736	1	120	—	856	1
Certificates of deposit	799	1	—	—	799	1
U.S. agency notes	99	—	1,807	8	1,906	8
Foreign government agency securities	50	1	—	—	50	1
Total	$ 12,909	$ 38	$ 9,774	$ 101	$ 22,683	$ 139
Held to maturity securities						
U.S. agency mortgage-backed securities	$ 42,102	$ 310	$ 24,753	$ 724	$ 66,855	$ 1,034
Asset-backed securities	1,124	2	72	—	1,196	2
Corporate debt securities	1,078	5	—	—	1,078	5
Non-agency commercial mortgage-backed securities	607	5	—	—	607	5
U.S. Treasury securities	220	3	—	—	220	3
Foreign government agency securities	49	1	—	—	49	1
Total	$ 45,180	$ 326	$ 24,825	$ 724	$ 70,005	$ 1,050
Total securities with unrealized losses [2]	$ 58,089	$ 364	$ 34,599	$ 825	$ 92,688	$ 1,189

[1] The number of investment positions with unrealized losses totaled 441 for AFS securities and 1,524 for HTM securities.
[2] The number of investment positions with unrealized losses totaled 251 for AFS securities and 938 for HTM securities.

At December 31, 2018, 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.

Management evaluates whether investment securities are OTTI on a quarterly basis as described in Note 2. Amounts recognized as OTTI in earnings or other comprehensive income were immaterial in 2018, 2017, and 2016. As of December 31, 2018 and 2017, the Company did not hold any securities on which OTTI was previously recognized.

In the below table, mortgage-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 securities are as follows:

December 31, 2018	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Available for sale securities					
U.S. agency mortgage-backed securities	$ 153	$ 3,481	$ 12,100	$ 9,822	$ 25,556
U.S. Treasury securities	14,164	4,138	—	—	18,302
Asset-backed securities	—	8,445	1,240	400	10,085
Corporate debt securities	1,755	5,712	—	—	7,467
Certificates of deposit	1,984	1,701	—	—	3,685
U.S. agency notes	499	399	—	—	898
Commercial paper	522	—	—	—	522
Foreign government agency securities	—	49	—	—	49
Non-agency commercial mortgage-backed securities	—	—	—	14	14
Total fair value	$ 19,077	$ 23,925	$ 13,340	$ 10,236	$ 66,578
Total amortized cost	$ 19,111	$ 24,010	$ 13,382	$ 10,232	$ 66,735
Weighted-average yield [1]	1.80 %	2.71 %	2.61 %	2.70 %	2.43 %
Held to maturity securities					
U.S. agency mortgage-backed securities	$ 256	$ 14,960	$ 34,008	$ 66,869	$ 116,093
Asset-backed securities	—	2,106	9,144	7,296	18,546
Corporate debt securities	137	3,550	745	—	4,432
U.S. state and municipal securities	—	59	309	980	1,348
Non-agency commercial mortgage-backed securities	—	356	—	786	1,142
U.S. Treasury securities	—	—	217	—	217
Certificates of deposit	—	201	—	—	201
Foreign government agency securities	—	49	—	—	49
Other	—	—	—	10	10
Total fair value	$ 393	$ 21,281	$ 44,423	$ 75,941	$ 142,038
Total amortized cost	$ 395	$ 21,446	$ 44,925	$ 77,243	$ 144,009
Weighted-average yield [1]	1.97 %	2.56 %	2.69 %	2.63 %	2.63 %

[1] The weighted-average yield is computed using the amortized cost at December 31, 2018.

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

Year Ended December 31,	2018	2017	2016
Proceeds	$ 115	$ 8,617	$ 5,537

Gross realized gains	—	12	4
Gross realized losses	—	—	—

7. Bank Loans and Related Allowance for Loan Losses

The composition of bank loans and delinquency analysis by loan type is as follows:

December 31, 2018	Current	30-59 days past due	60-89 days past due	≥90 days past due and other nonaccrual loans [3]	Total past due and other nonaccrual loans	Total loans	Allowance for loan losses	Total bank loans – net
First Mortgages [1,2]	$ 10,349	$ 21	$ 2	$ 12	$ 35	$ 10,384	$ 14	$ 10,370
HELOCs [1,2]	1,493	3	1	8	12	1,505	5	1,500
Pledged asset lines	4,558	3	—	—	3	4,561	—	4,561
Other	180	—	—	—	—	180	2	178
Total bank loans	$ 16,580	$ 27	$ 3	$ 20	$ 50	$ 16,630	$ 21	$ 16,609
December 31, 2017								
First Mortgages [1,2]	$ 9,983	$ 14	$ 2	$ 17	$ 33	$ 10,016	$ 16	$ 10,000
HELOCs [1,2]	1,928	—	3	12	15	1,943	8	1,935
Pledged asset lines	4,361	4	4	—	8	4,369	—	4,369
Other	176	—	—	—	—	176	2	174
Total bank loans	$ 16,448	$ 18	$ 9	$ 29	$ 56	$ 16,504	$ 26	$ 16,478

[1] First Mortgages and HELOCs include unamortized premiums and discounts and direct origination costs of $73 million and $77 million at December 31, 2018 and 2017, respectively.
[2] At December 31, 2018 and 2017, 47% and 48%, 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.
[3] There were no loans accruing interest that were contractually 90 days or more past due at December 31, 2018 or 2017.

At December 31, 2018, CSB had pledged $11.1 billion of First Mortgages and HELOCs as collateral to secure borrowing capacity on a secured credit facility with the FHLB (see Note 13).

Substantially all of the bank loans were collectively evaluated for impairment at both December 31, 2018 and 2017.

Changes in the allowance for loan losses were as follows:

	December 31, 2018				December 31, 2017				December 31, 2016			
	First Mortgages	HELOCs	Other	Total [1]	First Mortgages	HELOCs	Other	Total [1]	First Mortgages	HELOCs	Other	Total [1]
Balance at beginning of year	$ 16	$ 8	$ 2	$ 26	$ 17	$ 8	$ 1	$ 26	$ 20	$ 11	—	$ 31
Charge-offs	—	—	(1)	(1)	(2)	(1)	—	(3)	(1)	(1)	—	(2)
Recoveries	1	1	—	2	1	1	1	3	1	1	—	2
Provision for loan losses	(3)	(4)	1	(6)	—	—	—	—	(3)	(3)	1	(5)
Balance at end of year	$ 14	$ 5	$ 2	$ 21	$ 16	$ 8	$ 2	$ 26	$ 17	$ 8	$ 1	$ 26

[1] All PALs were fully collateralized by securities with fair values in excess of borrowings at December 31, 2018, 2017, and 2016.

A summary of impaired bank loan-related assets is as follows:

December 31,	2018	2017
Nonaccrual loans [1]	$ 21	$ 28
Other real estate owned [2]	3	3
Total nonperforming assets	24	31
Troubled debt restructurings	4	11

Total impaired assets	$ 28	$ 42

(1) Nonaccrual loans include nonaccrual troubled debt restructurings.
(2) Included in Other assets on the consolidated balance sheets.

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 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 bank loan portfolio are detailed below:

December 31, 2018		Balance	Weighted Average Updated FICO	Percent of Loans that are on Nonaccrual Status
First Mortgages				
Estimated Current LTV				
≤70%	$	9,396	776	0.04 %
>70% – ≤90%		985	769	0.41 %
>90% – ≤100%		2	717	—
>100%		1	753	—
Total	$	10,384	775	0.07 %
HELOCs				
Estimated Current LTV [1]				
≤70%	$	1,416	770	0.13 %
>70% – ≤90%		80	752	0.60 %
>90% – ≤100%		6	729	3.36 %
>100%		3	702	—
Total	$	1,505	769	0.17 %
Pledged asset lines				
Weighted Average LTV [1]				
=70%	$	4,561	766	—

December 31, 2017		Balance	Weighted Average Updated FICO	Percent of Loans that are on Nonaccrual Status
First Mortgages				
Estimated Current LTV				
≤70%	$	9,046	775	0.09 %
>70% – ≤90%		961	769	0.46 %
>90% – ≤100%		5	714	10.49 %
>100%		4	713	6.23 %
Total	$	10,016	775	0.14 %
HELOCs				
Estimated Current LTV [1]				
≤70%	$	1,773	772	0.18 %
>70% – ≤90%		148	755	0.84 %
>90% – ≤100%		14	742	2.85 %
>100%		8	718	4.91 %
Total	$	1,943	770	0.27 %
Pledged asset lines				
Weighted Average LTV [1]				
=70%	$	4,369	765	—

[1] Represents the LTV for the full line of credit (drawn and undrawn).

December 31, 2018	First Mortgages	HELOCs
Year of origination		
Pre-2014	$ 1,979	$ 1,051
2014	408	89
2015	1,050	106
2016	2,606	95
2017	2,366	99
2018	1,975	65
Total	$ 10,384	$ 1,505
Origination FICO		
<620	$ 5	$ —
620 – 679	83	8
680 – 739	1,626	282
≥740	8,670	1,215
Total	$ 10,384	$ 1,505
Origination LTV		
≤70%	$ 7,815	$ 1,064
>70% – ≤90%	2,564	434
>90% – ≤100%	5	7
Total	$ 10,384	$ 1,505

December 31, 2017	First Mortgages	HELOCs
Year of origination		
Pre-2014	$ 2,804	$ 1,496
2014	530	116
2015	1,218	128
2016	2,886	111
2017	2,578	92
Total	$ 10,016	$ 1,943
Origination FICO		
<620	$ 6	$ 1
620 – 679	89	10
680 – 739	1,569	365
≥740	8,352	1,567
Total	$ 10,016	$ 1,943
Origination LTV		
≤70%	$ 7,569	$ 1,360
>70% – ≤90%	2,441	574
>90% – ≤100%	6	9
Total	$ 10,016	$ 1,943

At December 31, 2018, First Mortgage loans of $9.4 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 31% of the balance of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 64% 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.

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. HELOCs that convert to an amortizing loan may experience higher delinquencies and higher loss rates than those in the initial draw period. The allowance for loan loss methodology takes this increased inherent risk into consideration.

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

December 31, 2018	Balance
Converted to amortizing loan by period end	$ 677
Within 1 year	83
> 1 year – 3 years	118
> 3 years – 5 years	173
> 5 years	454
Total	$ 1,505

At December 31, 2018, $1.2 billion 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, 2018, the borrowers on approximately 51% 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,	2018	2017
Software	$ 1,699	$ 1,490
Buildings	945	810
Leasehold improvements	367	357
Construction in progress	248	142
Furniture and equipment	219	193
Information technology equipment	206	326
Land	179	167
Telecommunications equipment	69	66
Total equipment, office facilities, and property	3,932	3,551
Accumulated depreciation and amortization	(2,163)	(2,080)
Total equipment, office facilities, and property — net	$ 1,769	$ 1,471

Depreciation and amortization expense for equipment, office facilities, and property was $277 million, $232 million, and $197 million in 2018, 2017, and 2016, respectively.

9. Goodwill

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, 2016	$ 1,096	$ 131	$ 1,227
Goodwill acquired and other changes during the period	—	—	—
Balance at December 31, 2017	1,096	131	1,227
Goodwill acquired and other changes during the period	—	—	—
Balance at December 31, 2018	$ 1,096	$ 131	$ 1,227

As of our annual testing date, we performed a qualitative assessment of each of the Company's reporting units. Based on the Company's analysis, fair value significantly exceeded the carrying value for all reporting units and we concluded that goodwill was not impaired. Schwab did not recognize any goodwill impairment in any of the years presented.

10. Other Assets

The components of other assets are as follows:

December 31,	2018	2017
Interest and dividends receivable	$ 586	$ 413
Other investments [1]	428	376
Accounts receivable [2]	410	461
Capitalized contract costs, net	250	—
Intangible assets, net of accumulated amortization of $299 and $270 [3]	152	108
Prepaid expenses	122	126
FHLB stock [4]	32	405
Deferred tax asset — net	3	76
Other	63	92
Total other assets	$ 2,046	$ 2,057

[1] Predominantly CRA-related, including LIHTC investments.
[2] Accounts receivable predominantly includes receivables from contracts with customers and a receivable from our loan servicer.
[3] Exclusive of indefinite-lived intangible assets of $74 million and $1 million at December 31, 2018 and 2017, respectively, future amortization over the next five years and thereafter is expected to total $77 million. Amortization expense for intangible assets was $29 million in 2018, and $37 million in both 2017 and 2016.
[4] Investments in stock of the FHLB can only be sold to the issuer at its par value. Any cash dividends received from these investments are recognized as interest revenue in the consolidated statements of income.

11. Variable Interest Entities

As of December 31, 2018 and 2017, all of Schwab's involvement with VIEs is through CSB's CRA-related investments and most of those 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. CSB receives tax credits and other tax benefits for these investments.

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, 2018			December 31, 2017		
	Aggregate assets	Aggregate liabilities	Maximum exposure to loss	Aggregate assets	Aggregate liabilities	Maximum exposure to loss
LIHTC Investments [1]	$ 338	$ 188	$ 338	$ 304	$ 203	$ 304
Other CRA Investments [2]	70	—	124	69	—	125
Total	$ 408	$ 188	$ 462	$ 373	$ 203	$ 429

[1] Aggregate assets and aggregate liabilities are included in other assets and accrued expenses and other liabilities, respectively, on the consolidated balance sheets.
[2] Other CRA investments are recorded using either the adjusted cost method, equity method, or as HTM securities. Aggregate assets are included in HTM 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. During the years ended December 31, 2018 and 2017, Schwab did not provide or intend to provide financial or other support to the VIEs that it was not contractually required to provide. CSB's funding of these remaining commitments is dependent upon the occurrence of certain conditions, and CSB expects to pay substantially all of these commitments between 2019 and 2022.

12. Bank Deposits

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

December 31,	2018	2017
Interest-bearing deposits:		
Deposits swept from brokerage accounts	$ 212,311	$ 148,212
Checking	12,523	13,388
Savings and other	5,827	7,264
Total interest-bearing deposits	230,661	168,864
Non-interest-bearing deposits	762	792
Total bank deposits	$ 231,423	$ 169,656

13. Borrowings

CSC's Senior Notes are unsecured obligations and rank equally with the other unsecured senior debt. 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. The following table lists long-term debt by instrument outstanding as of December 31, 2018 and 2017.

	Date of Issuance	Principal Amount Outstanding	
		2018	2017
Fixed-Rate Senior Notes:			
1.500% due March 10, 2018 [1]	03/10/15	$ —	$ 625
2.200% due July 25, 2018 [2]	07/25/13	—	275
4.450% due July 22, 2020	07/22/10	700	700
3.250% due May 21, 2021	05/22/18	600	—
3.225% due September 1, 2022	08/29/12	256	256
2.650% due January 25, 2023	12/07/17	800	800
3.550% due February 1, 2024	10/31/18	500	—
3.000% due March 10, 2025	03/10/15	375	375
3.850% due May 21, 2025	05/22/18	750	—
3.450% due February 13, 2026	11/13/15	350	350
3.200% due March 2, 2027	03/02/17	650	650
3.200% due January 25, 2028	12/07/17	700	700
4.000% due February 1, 2029	10/31/18	600	—
Floating-rate Senior Notes:			
Three-month LIBOR + 0.32% due May 21, 2021	05/22/18	600	—
Total Senior Notes		6,881	4,731
5.450% Finance lease obligation [3]	06/04/04	52	61
Unamortized discount — net		(15)	(14)
Debt issuance costs		(40)	(25)
Total long-term debt		$ 6,878	$ 4,753

[1] Redeemed on February 8, 2018.
[2] Redeemed on June 25, 2018.
[3] Schwab has a finance lease obligation related to an office building and land under a 20-year lease. The remaining finance lease obligation is being reduced by a portion of the lease payments over the remaining lease term through June 30, 2024.

Annual maturities on long-term debt outstanding at December 31, 2018, are as follows:

	Maturities
2019	$ 8
2020	709
2021	1,209
2022	266
2023	810
Thereafter	3,931
Total maturities	6,933
Unamortized discount — net	(15)
Debt issuance costs	(40)
Total long-term debt	$ 6,878

Short-term borrowings: Certain banking subsidiaries maintain secured credit facilities with the FHLB. Amounts available under these facilities are dependent on the amount of our First Mortgages, HELOCs, and the fair value of certain of their investment securities that are pledged as collateral. As of December 31, 2018, the collateral pledged provided a total borrowing capacity of $35.5 billion of which no amounts were outstanding. As of December 31, 2017, the collateral pledged provided a total borrowing capacity of $32.3 billion of which $15.0 billion was outstanding, with a 1.53% weighted average fixed interest rate. The Company could increase its borrowing capacity by pledging additional securities.

As a condition of the FHLB borrowings, we are required to hold FHLB stock, with the investment recorded in other assets on the consolidated balance sheets. The investment in FHLB was $32 million and $405 million at December 31, 2018 and 2017, respectively.

14. Commitments and Contingencies

Loan Portfolio: CSB provides a co-branded loan origination program for CSB clients (the Program) with Quicken Loans, Inc. (Quicken Loans®). Pursuant to the Program, Quicken Loans originates and services First Mortgages and HELOCs for CSB clients. Under the Program, CSB purchases certain First Mortgages and HELOCs that are originated by Quicken Loans. CSB purchased First Mortgages of $2.1 billion and $2.8 billion during 2018 and 2017, respectively. CSB purchased HELOCs with commitments of $395 million and $461 million during 2018 and 2017, respectively.

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

December 31,	2018	2017
Commitments to extend credit related to unused HELOCs, PALs, and other lines of credit	$ 11,046	$ 10,060
Commitments to purchase First Mortgage loans	268	308
Total	$ 11,314	$ 10,368

Operating leases: Schwab has non-cancelable operating leases for office space and equipment. As of December 31, 2018, future annual minimum rental commitments under these leases, net of contractual subleases are as follows:

	Operating Leases	Subleases	Net
2019	$ 131	$ 4	$ 127
2020	125	4	121
2021	101	4	97
2022	79	2	77
2023	72	1	71
Thereafter	282	—	282
Total	$ 790	$ 15	$ 775

Certain leases contain provisions for renewal options, purchase options, and rent escalations based on increases in certain costs incurred by the lessor. Rent expense relating to operating leases was $146 million, $136 million, and $123 million in 2018, 2017, and 2016, respectively.

Purchase obligations: Schwab has purchase obligations for services such as advertising and marketing, telecommunications, professional services, and hardware- and software-related agreements. As of December 31, 2018, the Company has purchase obligations as follows:

2019	$ 475
2020	232
2021	71
2022	32
2023	22
Thereafter	170
Total	$ 1,002

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 partially satisfy the margin requirements by arranging unsecured standby LOCs, in favor of the Options Clearing Corporation, which are issued by several banks. At December 31, 2018, the aggregate face amount of these LOCs totaled $225 million. There were no funds drawn under any of these LOCs at December 31, 2018. 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.

Schwab 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. Schwab's liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. The potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these guarantees.

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 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 certain 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.

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. 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. Defendants have answered the complaint to deny all allegations, and intend to vigorously contest the lawsuit.

Total Bond Market Fund™ Litigation: As disclosed previously, the Company had been responding to a class action lawsuit in the U.S. District Court for the Northern District of California on behalf of investors in the Schwab Total Bond Market Fund. On December 13, 2018, following dismissal of its fourth amended complaint and unsuccessful appeals to the Ninth Circuit Court of Appeals, plaintiff stipulated and agreed to dismissal of all claims, concluding the case.

15. Financial Instruments Subject to Off-Balance Sheet Credit Risk

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, it would be required to deposit cash and/or securities of an equal amount into its segregated reserve bank accounts in order to meet its segregated cash and investment requirement. Schwab's resale agreements are 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. 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 $99 million and $215 million at December 31, 2018 and 2017, respectively. All of our securities lending transactions are

through a program with a clearing organization, which guarantees the return of cash to us and is 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.

The following table presents information about our resale agreements and securities lending activity depicting the potential effect of rights of setoff between these recognized assets and recognized liabilities at December 31, 2018 and 2017.

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Assets/ Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Counterparty Offsetting	Collateral	Net Amount
December 31, 2018						
Assets						
Resale agreements [1]	$ 7,195	$ —	$ 7,195	$ —	$ (7,195) [2]	$ —
Securities borrowed [3]	101	—	101	(98)	(3)	—
Total	$ 7,296	$ —	$ 7,296	$ (98)	$ (7,198)	$ —
Liabilities						
Securities loaned [4,5]	$ 1,184	$ —	$ 1,184	$ (98)	$ (975)	$ 111
Total	$ 1,184	$ —	$ 1,184	$ (98)	$ (975)	$ 111
December 31, 2017						
Assets						
Resale agreements [1]	$ 6,596	$ —	$ 6,596	$ —	$ (6,596) [2]	$ —
Securities borrowed [3]	222	—	222	(199)	(22)	1
Total	$ 6,818	$ —	$ 6,818	$ (199)	$ (6,618)	$ 1
Liabilities						
Securities loaned [4,5]	$ 966	$ —	$ 966	$ (199)	$ (670)	$ 97
Total	$ 966	$ —	$ 966	$ (199)	$ (670)	$ 97

[1] Included in cash and investments segregated and on deposit for regulatory purposes in the consolidated balance sheets.
[2] Actual collateral was greater than or equal to 102% of the related assets. At December 31, 2018 and 2017, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was $7.4 billion and $6.7 billion, respectively.
[3] Included in receivables from brokers, dealers, and clearing organizations in the consolidated balance sheets.
[4] Included in payables to brokers, dealers, and clearing organizations 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, 2018 and 2017.
[5] Securities loaned are predominantly comprised of equity securities held in client brokerage accounts with overnight and continuous remaining contractual maturities.

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.

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, and the amounts that we had pledged:

December 31,	2018	2017
Fair value of client securities available to be pledged	$ 26,628	$ 25,905
Fair value of client securities pledged for:		
Fulfillment of requirements with the Options Clearing Corporation [1]	2,315	2,280
Fulfillment of client short sales	1,292	2,011
Securities lending to other broker-dealers	974	784
Total collateral pledged	$ 4,581	$ 5,075

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 $97 million as of December 31, 2018 and $78 million as of December 31, 2017.

[1] Client securities pledged to fulfill client margin requirements for open option contracts established with the Options Clearing Corporation.

16. 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, 2018 or 2017.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the fair value hierarchy for assets measured at fair value on a recurring basis. Liabilities recorded at fair value were not material, and therefore are not included in the following tables:

December 31, 2018	Level 1	Level 2	Level 3	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 3,429	$ —	$ —	$ 3,429
Commercial paper	—	4,863	—	4,863
Total cash equivalents	3,429	4,863	—	8,292
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	1,396	—	1,396
U.S. Government securities	—	3,275	—	3,275
Total investments segregated and on deposit for regulatory purposes	—	4,671	—	4,671
Other securities owned:				
Equity and bond mutual funds	441	—	—	441
State and municipal debt obligations	—	39	—	39
Equity, U.S. Government and corporate debt, and other securities	3	30	—	33
Schwab Funds® money market funds	26	—	—	26
Total other securities owned	470	69	—	539
Available for sale securities:				
U.S. agency mortgage-backed securities	—	25,556	—	25,556
U.S. Treasury securities	—	18,302	—	18,302
Asset-backed securities	—	10,085	—	10,085
Corporate debt securities	—	7,467	—	7,467
Certificates of deposit	—	3,685	—	3,685
U.S. agency notes	—	898	—	898
Commercial paper	—	522	—	522
Foreign government agency securities	—	49	—	49
Non-agency commercial mortgage-backed securities	—	14	—	14
Total available for sale securities	—	66,578	—	66,578
Total	$ 3,899	$ 76,181	$ —	$ 80,080

December 31, 2017	Level 1	Level 2	Level 3	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 2,727	$ —	$ —	$ 2,727
Total cash equivalents	2,727	—	—	2,727
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	2,198	—	2,198
U.S. Government securities	—	3,658	—	3,658
Total investments segregated and on deposit for regulatory purposes	—	5,856	—	5,856
Other securities owned:				
Equity and bond mutual funds	318	—	—	318
Schwab Funds® money market funds	135	—	—	135
State and municipal debt obligations	—	52	—	52
Equity, U.S. Government and corporate debt, and other securities	2	32	—	34
Total other securities owned	455	84	—	539
Available for sale securities:				
U.S. agency mortgage-backed securities	—	20,929	—	20,929
U.S. Treasury securities	—	9,500	—	9,500
Asset-backed securities	—	9,047	—	9,047
Corporate debt securities	—	6,169	—	6,169
Certificates of deposit	—	2,041	—	2,041
U.S. agency notes	—	1,906	—	1,906
Commercial paper	—	313	—	313
Foreign government mortgage-backed securities	—	50	—	50
Non-agency commercial mortgage-backed securities	—	40	—	40
Total available for sale securities	—	49,995	—	49,995
Total	$ 3,182	$ 55,935	$ —	$ 59,117

Fair Value of Other Financial Instruments

The following tables present the fair value hierarchy for other financial instruments:

December 31, 2018	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets					
Cash and cash equivalents	$ 19,646	$ —	$ 19,646	$ —	$ 19,646
Cash and investments segregated and on deposit for regulatory purposes	8,886	—	8,886	—	8,886
Receivables from brokers, dealers, and clearing organizations	553	—	553	—	553
Receivables from brokerage clients — net	21,641	—	21,641	—	21,641
Held to maturity securities:					
U.S. agency mortgage-backed securities	118,064	—	116,093	—	116,093
Asset-backed securities	18,502	—	18,546	—	18,546
Corporate debt securities	4,477	—	4,432	—	4,432
U.S. state and municipal securities	1,327	—	1,348	—	1,348
Non-agency commercial mortgage-backed securities	1,156	—	1,142	—	1,142
U.S. Treasury securities	223	—	217	—	217
Certificates of deposit	200	—	201	—	201
Foreign government agency securities	50	—	49	—	49
Other	10	—	10	—	10
Total held to maturity securities	144,009	—	142,038	—	142,038
Bank loans — net:					
First Mortgages	10,370	—	10,193	—	10,193
HELOCs	1,500	—	1,583	—	1,583
Pledged asset lines	4,561	—	4,561	—	4,561
Other	178	—	178	—	178
Total bank loans — net	16,609	—	16,515	—	16,515
Other assets	460	—	460	—	460
Total	$ 211,804	$ —	$ 209,739	$ —	$ 209,739
Liabilities					
Bank deposits	$ 231,423	$ —	$ 231,423	$ —	$ 231,423
Payables to brokers, dealers, and clearing organizations	1,831	—	1,831	—	1,831
Payables to brokerage clients	32,726	—	32,726	—	32,726
Accrued expenses and other liabilities	1,370	—	1,370	—	1,370
Long-term debt	6,878	—	6,827	—	6,827
Total	$ 274,228	$ —	$ 274,177	$ —	$ 274,177

December 31, 2017	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets					
Cash and cash equivalents	$ 11,490	$ —	$ 11,490	$ —	$ 11,490
Cash and investments segregated and on deposit for regulatory purposes	9,277	—	9,277	—	9,277
Receivables from brokers, dealers, and clearing organizations	649	—	649	—	649
Receivables from brokerage clients — net	20,568	—	20,568	—	20,568
Held to maturity securities:					
U.S. agency mortgage-backed securities	101,197	—	100,453	—	100,453
Asset-backed securities	12,937	—	13,062	—	13,062
Corporate debt securities	4,078	—	4,086	—	4,086
U.S. state and municipal securities	1,247	—	1,304	—	1,304
Non-agency commercial mortgage-backed securities	994	—	999	—	999
U.S. Treasury securities	223	—	220	—	220
Certificates of deposit	200	—	200	—	200
Foreign government agency securities	50	—	49	—	49
Total held to maturity securities	120,926	—	120,373	—	120,373
Bank loans — net:					
First Mortgages	10,000	—	9,917	—	9,917
HELOCs	1,935	—	2,025	—	2,025
Pledged asset lines	4,369	—	4,369	—	4,369
Other	174	—	174	—	174
Total bank loans — net	16,478	—	16,485	—	16,485
Other assets	781	—	781	—	781
Total	$ 180,169	$ —	$ 179,623	$ —	$ 179,623
Liabilities					
Bank deposits	$ 169,656	$ —	$ 169,656	$ —	$ 169,656
Payables to brokers, dealers, and clearing organizations	1,287	—	1,287	—	1,287
Payables to brokerage clients	31,243	—	31,243	—	31,243
Accrued expenses and other liabilities	1,463	—	1,463	—	1,463
Short-term borrowings	15,000	—	15,000	—	15,000
Long-term debt	4,753	—	4,811	—	4,811
Total	$ 223,402	$ —	$ 223,460	$ —	$ 223,460

17. Stockholders' Equity

CSC did not issue any shares of common stock through external offerings during 2018, 2017, or 2016.

On October 25, 2018, CSC publicly announced that its Board of Directors terminated the existing two share repurchase authorizations and replaced them with a new authorization to repurchase up to $1.0 billion of common stock. CSC repurchased 22 million shares for $1.0 billion in 2018, completing all repurchases under this authorization. There were no repurchases of CSC's common stock in 2018 prior to the fourth quarter, or in 2017.

CSC was authorized to issue 9,940,000 shares of preferred stock, $0.01 par value, at December 31, 2018 and 2017. The following is a summary of CSC's non-cumulative perpetual preferred stock outstanding as of such dates:

	Shares Issued and Outstanding (In thousands) at December 31,		Liquidation Preference Per Share	Carrying Value at December 31,		Issue Date	Dividend Rate in Effect at December 31, 2018	Earliest Redemption Date	Date at Which Dividend Rate Becomes Floating	Floating Annual Rate of Three-month LIBOR plus:
	2018 [1]	2017 [1]		2018	2017					
Fixed-rate:										
Series C	600	600	$ 1,000	$ 585	$ 585	08/03/15	6.000 %	12/01/20	N/A	N/A
Series D	750	750	1,000	728	728	03/07/16	5.950 %	06/01/21	N/A	N/A
Fixed-to-floating-rate:										
Series A	400	400	1,000	397	397	01/26/12	7.000 %	02/01/22	02/01/22	4.820 %
Series E	6	6	100,000	591	591	10/31/16	4.625 %	03/01/22	03/01/22	3.315 %
Series F	5	5	100,000	492	492	10/31/17	5.000 %	12/01/27	12/01/27	2.575 %
Total Preferred Stock	1,761	1,761		$ 2,793	$ 2,793					

[1] Represented by depositary shares, except for Series A.
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 preferred stock are payable quarterly. Dividends on fixed-to-floating-rate preferred stock are payable semiannually while at a fixed rate, and will become payable quarterly after converting to a floating rate.

Redemption Rights

Each series of CSC's stock may be redeemed at CSC's option on any dividend payment date on or after the earliest redemption date for that 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.

18. Accumulated Other Comprehensive Income

AOCI represents cumulative gains and losses that are not reflected in earnings. The components of other comprehensive income (loss) are as follows:

Year Ended December 31,	2018			2017			2016		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Change in net unrealized gain (loss) on available for sale securities:									
Net unrealized gain (loss)	$ (123)	$ 30	$ (93)	$ 13	$ (7)	$ 6	$ (44)	$ 16	$ (28)
Reclassification of net unrealized loss on securities transferred to held to maturity [1]	—	—	—	227	(85)	142	—	—	—
Other reclassifications included in other revenue	—	—	—	(12)	4	(8)	(4)	2	(2)
Change in net unrealized gain (loss) on held to maturity securities:									
Reclassification of net unrealized loss on securities transferred from available for sale [1]	—	—	—	(227)	85	(142)	—	—	—
Amortization of amounts previously recorded upon transfer from available for sale	35	(8)	27	31	(11)	20	—	—	—
Other	(1)	—	(1)	(11)	4	(7)	1	—	1
Other comprehensive income (loss)	$ (89)	$ 22	$ (67)	$ 21	$ (10)	$ 11	$ (47)	$ 18	$ (29)

[1] See Note 6 for discussion of the transfer of securities from the AFS category to the HTM category during the first quarter of 2017.

AOCI balances are as follows:

	Total AOCI
Balance at December 31, 2015	$ (134)
Net unrealized gain (loss) on available for sale securities	(30)
Other changes	1
Balance at December 31, 2016	$ (163)
Available for sale securities:	
Net unrealized gain (loss)	6
Reclassification of net unrealized loss on securities transferred to held to maturity	142
Other reclassifications included in other revenue	(8)
Held to maturity securities:	
Reclassification of net unrealized loss on securities transferred from available for sale	(142)
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	20
Other	(7)
Balance at December 31, 2017	$ (152)
Adoption of accounting standards (Note 2)	(33)
Available for sale securities:	
Net unrealized gain (loss)	(93)
Held to maturity securities:	
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	27
Other	(1)
Balance at December 31, 2018	$ (252)

19. 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, officers, and 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,	2018	2017	2016
Stock option expense	$ 51	$ 50	$ 45
Restricted stock unit expense [1]	136	94	89
Employee stock purchase plan expense	10	9	7
Total share-based compensation expense	$ 197	$ 153	$ 141
Income tax benefit on share-based compensation expense [2]	$ (47)	$ (57)	$ (53)

[1] Restricted stock unit expense in 2018 includes $36 million related to special stock awards issued to non-officer employees.
[2] Excludes income tax benefits due to the adoption of ASU 2016-09 of $46 million and $87 million in 2018 and 2017, respectively.

The Company issues shares for stock options and restricted stock units from treasury stock. At December 31, 2018, the Company was authorized to grant up to 68 million common shares under its existing stock incentive plans. Additionally, at December 31, 2018, the Company had 36 million shares reserved for future issuance under its employee stock purchase plan.

As of December 31, 2018, there was $294 million of total unrecognized compensation cost related to outstanding stock options and restricted stock units, which is expected to be recognized through 2022 with a remaining weighted-average service period of 1.8 years for stock options, 2.4 years for restricted stock units, and 0.3 years for performance stock units.

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.

Stock option activity is summarized below:

	Number of Options (In millions)	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	32	$ 26.16	6.38	$ 814
Granted	4	47.98		
Exercised	(6)	21.65		
Forfeited [1]	—	36.05		
Expired [1]	—	19.05		
Outstanding at December 31, 2018	30	$ 30.19	6.27	$ 373
Vested and expected to vest at December 31, 2018	30	$ 30.05	6.24	$ 373
Vested and exercisable at December 31, 2018	19	$ 23.70	4.86	$ 331

[1] Number of options were 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,	2018	2017	2016
Weighted-average fair value of options granted per share	$ 14.16	$ 13.04	$ 8.73
Cash received from options exercised	125	171	144
Tax benefit realized on options exercised	35	70	38
Aggregate intrinsic value of options exercised	189	241	149

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,	2018	2017	2016
Weighted-average expected dividend yield	1.42 %	1.06 %	1.22 %
Weighted-average expected volatility	33 %	34 %	30 %
Weighted-average risk-free interest rate	3.0 %	2.1 %	1.8 %
Expected life (in years)	4.0 - 5.2	4.1 - 5.3	4.7 - 7.3

Restricted Stock Units

Restricted stock units are awards that entitle the holder to receive shares of CSC's common stock following a vesting period. Restricted stock units are restricted from transfer or sale and generally vest annually over a one- to four-year period, while performance-based restricted stock units also require the Company 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 grant date fair value is amortized to compensation expense on a straight-line basis over the requisite service period. The fair value of the restricted stock units that vested during each of the years 2018, 2017, and 2016 was $166 million, $127 million, and $105 million, respectively.

The Company's restricted stock units activity is summarized below:

	Number of Units (In millions)	Weighted-Average Grant Date Fair Value per Unit
Outstanding at December 31, 2017	7	$ 35.16
Granted [1]	3	47.03
Vested [1]	(3)	35.95
Forfeited [2]	—	36.10
Outstanding at December 31, 2018	7	$ 40.64

[1] Includes 781 thousand units related to special non-officer employee stock awards, with a weighted-average grant date fair value of $45.87. All units granted vested immediately.
[2] Number of units were less than 500 thousand.

Retirement Plan

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 $105 million, $92 million, and $83 million in 2018, 2017, and 2016, respectively.

Deferred Compensation Plans

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 $144 million and $160 million at December 31, 2018 and 2017, respectively.

FC Career Achievement Plan

The FC career achievement plan is a noncontributory, unfunded, nonqualified plan for eligible FCs. An FC 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 an FC 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,	2018	2017
Projected benefit obligation at beginning of year	$ 44	$ 26
Benefit cost [1]	11	9
Actuarial (gain)/loss [2]	1	9
Projected benefit obligation at end of year [3]	$ 56	$ 44

[1] Includes service cost and interest cost, which are recognized in compensation and benefits expense and other expense, respectively, in the consolidated statements of income.
[2] Actuarial (gain)/loss is reflected in the consolidated statements of comprehensive income and is included in AOCI on the consolidated balance sheets.
[3] This amount is recognized as a liability on the consolidated balance sheets and also depicts the accumulated benefit obligation.

20. Taxes on Income

On December 22, 2017, the Tax Act was signed into law. Among other things, the Tax Act lowered the federal corporate income tax rate from 35% to 21%, effective for tax years including or commencing January 1, 2018. Schwab's effective tax rate for the years ended December 31, 2018, 2017, and 2016 was 23.1%, 35.5%, and 36.9%, respectively, resulting from the impact of the Tax Act of 2017.

Also as a result of the Tax Act, Schwab recognized a $46 million one-time non-cash charge to taxes on income in the fourth quarter of 2017 associated with the remeasurement of net deferred tax assets and other tax adjustments related to the Tax Act. During 2018, we concluded our analysis and accounting for all remaining impacts of the Tax Act, including the state tax effect of adjustments made to federal temporary differences, resulting in no additional material impacts.

As of January 1, 2018, Schwab adopted new accounting guidance that decreased AOCI and increased retained earnings by $33 million for the reclassification of certain impacts of the Tax Act as described in Note 2. Schwab also adopted new revenue recognition guidance as of January 1, 2018, which resulted in recording an asset for capitalized contract costs of $219 million and a related deferred tax liability of $52 million as described in Note 2. As of December 31, 2018, the deferred tax liability related to the capitalized contract costs was $60 million.

The components of taxes on income are as follows:

Year Ended December 31,	2018	2017	2016
Current:			
Federal	$ 847	$ 1,132	$ 980
State	159	106	109
Total current	1,006	1,238	1,089
Deferred:			
Federal	42	58	13
State	7	—	2
Total deferred	49	58	15
Taxes on income	$ 1,055	$ 1,296	$ 1,104

The temporary differences that created deferred tax assets and liabilities are detailed below:

December 31,	2018	2017
Deferred tax assets:		
Employee compensation, severance, and benefits	$ 132	$ 133
Net unrealized loss on available for sale securities	79	57
Reserves and allowances	13	15
Facilities lease commitments	12	14
State and local taxes	21	12
Net operating loss carryforwards	5	5
Other	6	3
Total deferred tax assets	268	239
Valuation allowance	(3)	(2)
Deferred tax assets — net of valuation allowance	265	237
Deferred tax liabilities:		
Capitalized internal-use software development costs	(98)	(89)
Depreciation and amortization	(108)	(72)
Capitalized contract costs	(60)	—
Total deferred tax liabilities	(266)	(161)
Deferred tax asset/(liability) — net [1]	$ (1)	$ 76

[1] Amounts are included in accrued expenses and other liabilities and in other assets on the consolidated balance sheets at December 31, 2018 and in other assets at December 31, 2017.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

Year Ended December 31,	2018	2017	2016
Federal statutory income tax rate	21.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	3.0	2.2	2.4
Equity compensation benefit	(1.0)	(2.4)	—
Other [1]	0.1	0.7	(0.5)
Effective income tax rate	23.1 %	35.5 %	36.9 %

[1] 2017 includes the impact of one-time charge to taxes on income associated with the Tax Act.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

December 31,	2018	2017
Balance at beginning of year	$ 111	$ 93
Additions for tax positions related to the current year	3	22
Additions for tax positions related to prior years	3	15
Reductions for tax positions related to prior years	(4)	(2)
Reductions due to lapse of statute of limitations	—	—
Reductions for settlements with tax authorities	(1)	(17)
Balance at end of year	$ 112	$ 111

Unrecognized tax benefits totaled $112 million and $111 million as of December 31, 2018 and 2017, respectively, $108 million and $104 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, 2018 and 2017, we had accrued approximately $9 million and $5 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 2011 through 2017 remain subject to examination. The years open to examination by state and local governments vary by jurisdiction.

21. Regulatory Requirements

CSC is a savings and loan holding company and CSB, CSC's primary depository institution subsidiary, is a federal savings bank. CSC is subject to examination, supervision, and regulation by the Federal Reserve. CSB is subject to examination, supervision, and regulation by the OCC, as its primary regulator, the FDIC as its deposit insurer, and the CFPB. 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, CSB is required to provide notice to and may be required to obtain approval of the OCC and the Federal Reserve to declare dividends to CSC. The federal banking agencies have broad powers to enforce these 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 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, 2018, both CSC and CSB met all of their respective capital requirements.

The regulatory capital and ratios for CSC (consolidated) and CSB are as follows:

	Actual		Minimum to be Well Capitalized		Minimum Capital Requirement	
December 31, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio [1]
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 16,813	17.6 %	N/A		$ 4,295	4.5 %
Tier 1 Risk-Based Capital	19,606	20.5 %	N/A		5,726	6.0 %
Total Risk-Based Capital	19,628	20.6 %	N/A		7,635	8.0 %
Tier 1 Leverage	19,606	7.1 %	N/A		11,058	4.0 %
CSB						
Common Equity Tier 1 Risk-Based Capital	$ 15,832	19.7 %	$ 5,233	6.5 %	$ 3,623	4.5 %
Tier 1 Risk-Based Capital	15,832	19.7 %	6,441	8.0 %	4,831	6.0 %
Total Risk-Based Capital	15,853	19.7 %	8,051	10.0 %	6,441	8.0 %
Tier 1 Leverage	15,832	7.2 %	11,044	5.0 %	8,836	4.0 %
December 31, 2017						
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 14,630	19.3 %	N/A		$ 3,414	4.5 %
Tier 1 Risk-Based Capital	17,423	23.0 %	N/A		4,552	6.0 %
Total Risk-Based Capital	17,452	23.0 %	N/A		6,069	8.0 %
Tier 1 Leverage	17,423	7.6 %	N/A		9,218	4.0 %
CSB						
Common Equity Tier 1 Risk-Based Capital	$ 13,355	20.1 %	$ 4,324	6.5 %	$ 2,993	4.5 %
Tier 1 Risk-Based Capital	13,355	20.1 %	5,321	8.0 %	3,991	6.0 %
Total Risk-Based Capital	13,382	20.1 %	6,652	10.0 %	5,321	8.0 %
Tier 1 Leverage	13,355	7.1 %	9,462	5.0 %	7,569	4.0 %

[1] Under the Basel III capital rule, CSC and CSB are also required to maintain a capital conservation buffer above the regulatory minimum capital ratios. The capital conservation buffer was 1.875% in 2018, and became 2.5% on January 1, 2019. If the capital conservation buffer falls below the minimum requirement, the Company would be subject to limits on capital distributions and discretionary bonus payments to executive officers. For 2018, the minimum capital requirement plus capital conservation buffer for Common Equity Tier 1 Risk-Based Capital, Tier 1 Risk-Based Capital, and Total Risk-Based Capital ratios were 6.375%, 7.875%, and 9.875%, respectively. At December 31, 2018, both CSC's and CSB's capital levels exceeded the fully implemented capital conservation buffer requirement.

N/A Not applicable.

Based on its regulatory capital ratios at December 31, 2018, CSB is considered well capitalized (the highest category) under its respective regulatory capital rules. There are no conditions or events since December 31, 2018 that management believes have changed CSB's capital category.

The Federal Reserve requires CSB to maintain reserve balances at the Federal Reserve based on its deposits that are considered to be transaction accounts. CSB's average reserve requirement was $1.6 billion in 2018 and 2017. In late 2017, Schwab acquired a federal savings bank charter which is now called Charles Schwab Premier Bank (formerly known as Charles Schwab Signature Bank). At December 31, 2018, the balance sheet of Charles Schwab Premier Bank consisted primarily of investment securities, and held total assets of $15.2 billion. Charles Schwab Premier Bank is subject to similar regulatory guidelines and requirements, and seeks to maintain a Tier 1 Leverage Ratio similar to CSB.

CS&Co, a securities broker-dealer, is subject to the Uniform Net Capital Rule. CS&Co computes its net capital under the alternative method permitted by the Uniform Net Capital Rule. This method 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 of $250,000, 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 are as follows:

December 31,	2018	2017
Net capital	$ 2,304	$ 2,118
Minimum net capital required	0.250	0.250
2% of aggregate debit balances	436	435
Net capital in excess of required net capital	$ 1,868	$ 1,683

In accordance with the SEC Customer Protection Rule, CS&Co had portions of its cash and investments segregated for the exclusive benefit of clients at December 31, 2018. The SEC 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, 2018 for CS&Co totaled $16.7 billion. As of January 3, 2019, CS&Co had deposited $3.7 billion 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, 2017 for CS&Co totaled $15.3 billion. On January 3, 2018, $704 million of cash and qualified securities was deposited into the segregated reserve accounts.

22. 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 and banking 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 support services, as well as retirement business services, to independent RIAs, independent retirement advisors, and recordkeepers. Revenues and expenses are allocated to the two segments based on which segment services the client.

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 its 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:

	Investor Services			Advisor Services			Total		
Year Ended December 31,	2018	2017	2016	2018	2017	2016	2018	2017	2016
Net Revenues									
Net interest revenue	$ 4,341	$ 3,231	$ 2,591	$ 1,482	$ 1,051	$ 731	$ 5,823	$ 4,282	$ 3,322
Asset management and administration fees	2,260	2,344	2,093	969	1,048	962	3,229	3,392	3,055
Trading revenue	475	408	524	288	246	301	763	654	825
Other	245	217	203	72	73	73	317	290	276
Total net revenues	7,321	6,200	5,411	2,811	2,418	2,067	10,132	8,618	7,478
Expenses Excluding Interest	4,145	3,725	3,380	1,425	1,243	1,105	5,570	4,968	4,485

Income before taxes on income	$ 3,176	$ 2,475	$ 2,031	$ 1,386	$ 1,175	$ 962	$ 4,562	$ 3,650	$ 2,993
Capital expenditures	$ 390	$ 265	$ 234	$ 186	$ 147	$ 119	$ 576	$ 412	$ 353
Depreciation and amortization	$ 186	$ 203	$ 180	$ 120	$ 66	$ 54	$ 306	$ 269	$ 234

23. The Charles Schwab Corporation – Parent Company Only Financial Statements

Condensed Statements of Income

Year Ended December 31,	2018	2017	2016
Interest revenue	$ 88	$ 33	$ 22
Interest expense	(184)	(114)	(100)
Net interest expense	(96)	(81)	(78)
Other	1	3	1
Expenses excluding interest	(85)	(32)	(21)
Loss before income tax benefit and equity in net income of subsidiaries	(180)	(110)	(98)
Income tax benefit	20	27	34
Loss before equity in net income of subsidiaries	(160)	(83)	(64)
Equity in net income of subsidiaries:			
Equity in undistributed net income of subsidiaries	2,590	1,479	1,690
Dividends from bank subsidiaries	750	625	—
Dividends from non-bank subsidiaries	327	333	263
Net Income	3,507	2,354	1,889
Preferred stock dividends and other [1]	178	174	143
Net Income Available to Common Stockholders	$ 3,329	$ 2,180	$ 1,746

[1] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

Condensed Balance Sheets

December 31,	2018	2017
Assets		
Cash and cash equivalents	$ 2,092	$ 2,825
Receivables from subsidiaries	784	571
Available for sale securities	1,754	573
Held to maturity securities	223	223
Other securities owned — at fair value	109	76
Loans to non-bank subsidiaries	185	448
Investment in non-bank subsidiaries	5,507	5,393
Investment in bank subsidiaries	16,995	13,224
Other assets	228	160
Total assets	$ 27,877	$ 23,493
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	$ 379	$ 276
Payables to subsidiaries	2	—
Long-term debt	6,826	4,692
Total liabilities	7,207	4,968
Stockholders' equity	20,670	18,525
Total liabilities and stockholders' equity	$ 27,877	$ 23,493

Condensed Statements of Cash Flows

Year Ended December 31,	2018	2017	2016
Cash Flows from Operating Activities			
Net income	$ 3,507	$ 2,354	$ 1,889
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Equity in undistributed earnings of subsidiaries	(2,590)	(1,479)	(1,690)
Other	13	5	(37)
Net change in:			
Other securities owned	(33)	(1)	(10)
Other assets	28	(26)	(27)
Accrued expenses and other liabilities	28	44	30
Net cash provided by (used for) operating activities	953	897	155
Cash Flows from Investing Activities			
Due from (to) subsidiaries — net	408	(374)	95
Increase in investments in subsidiaries	(1,188)	(342)	(1,547)
Repayments (Advances) of subordinated loan to CS&Co	(185)	—	465
Purchases of available for sale securities	(1,751)	(201)	(2)
Proceeds from sales of available for sale securities	—	197	2
Principal payments on available for sale securities	573	—	—
Other investing activities	(5)	(6)	(4)
Net cash provided by (used for) investing activities	(2,148)	(726)	(991)
Cash Flows from Financing Activities			
Issuance of long-term debt	3,024	2,129	—
Repayment of long-term debt	(900)	(250)	—
Repurchases of common stock	(1,000)	—	—
Net proceeds from preferred stock offerings	—	492	1,316
Redemption of preferred stock	—	(485)	—
Dividends paid	(787)	(592)	(486)
Proceeds from stock options exercised and other	125	171	144
Other financing activities	—	—	44
Net cash provided by (used for) financing activities	462	1,465	1,018
Increase (Decrease) in Cash and Cash Equivalents	(733)	1,636	182
Cash and Cash Equivalents at Beginning of Year	2,825	1,189	1,007
Cash and Cash Equivalents at End of Year	$ 2,092	$ 2,825	$ 1,189

24. Quarterly Financial Information (Unaudited)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Year Ended December 31, 2018:				
Total Net Revenues	$ 2,669	$ 2,579	$ 2,486	$ 2,398
Total Expenses Excluding Interest	$ 1,459	$ 1,360	$ 1,355	$ 1,396
Net Income	$ 935	$ 923	$ 866	$ 783
Net Income Available to Common Stockholders	$ 885	$ 885	$ 813	$ 746
Weighted-Average Common Shares Outstanding — Basic	1,343	1,351	1,350	1,347
Weighted-Average Common Shares Outstanding — Diluted	1,354	1,364	1,364	1,362
Earnings Per Common Share — Basic	$ .66	$ .66	$ .60	$ .55
Earnings Per Common Share — Diluted	$ .65	$ .65	$ .60	$ .55
Dividends Declared Per Common Share	$ .13	$ .13	$ .10	$ .10
Year Ended December 31, 2017:				
Total Net Revenues	$ 2,242	$ 2,165	$ 2,130	$ 2,081
Total Expenses Excluding Interest	$ 1,289	$ 1,220	$ 1,221	$ 1,238
Net Income	$ 597	$ 618	$ 575	$ 564
Net Income Available to Common Stockholders	$ 550	$ 575	$ 530	$ 525
Weighted-Average Common Shares Outstanding — Basic	1,343	1,339	1,338	1,336
Weighted-Average Common Shares Outstanding — Diluted	1,358	1,353	1,351	1,351
Earnings Per Common Share — Basic	$ .41	$ .43	$ .40	$ .39
Earnings Per Common Share — Diluted	$ .41	$ .42	$ .39	$ .39
Dividends Declared Per Common Share	$ .08	$ .08	$ .08	$ .08

25. Subsequent Event

On January 30, 2019, CSC publicly announced that its Board of Directors authorized a new Share Repurchase Program to repurchase up to $4.0 billion of common stock, and declared a four cent, or 31%, increase in the quarterly cash dividend to $0.17 per common share. The share repurchase authorization does not have an expiration date.

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, 2018 and 2017, 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, 2018, 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, 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.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
February 22, 2019

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, 2018, 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, 2018.

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, 2018, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing on the previous page.

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, 2018. 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, 2018.

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, 2018, that has materially affected, or is reasonably 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.

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, 2019 (the Proxy Statement) under "Members of the Board of Directors," "Corporate Governance," "Director Nominations," and "Section 16(a) Beneficial Ownership Reporting Compliance." 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, 2018.

Executive Officers of the Registrant

Name	Age	Title
Charles R. Schwab	81	Chairman of the Board
Walter W. Bettinger II	58	President and Chief Executive Officer
Marie A. Chandoha	57	Chief Executive Officer – Charles Schwab Investment Management, Inc.
Bernard J. Clark	60	Executive Vice President – Advisor Services
Jonathan M. Craig	47	Senior Executive Vice President
Peter B. Crawford	50	Executive Vice President and Chief Financial Officer
David R. Garfield	62	Executive Vice President, General Counsel and Corporate Secretary
Terri R. Kallsen	50	Executive Vice President – Investor Services
Joseph R. Martinetto	56	Senior Executive Vice President and Chief Operating Officer
Nigel J. Murtagh	55	Executive Vice President – Corporate Risk

Mr. Schwab has been Chairman of the Board and a director of CSC since its incorporation in 1986. 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. Schwab is also Chairman of CSB.

Mr. Bettinger has been President and Chief Executive Officer of CSC since 2008. He serves on the Board of Directors of CSC and CSB, and is Chairman of CS&Co, as well 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 President and Chief Operating Officer of CSC 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.

Ms. Chandoha has been Chief Executive Officer of CSIM since 2011 and served as President of CSIM from 2011 until October 2018. She serves as a trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, and Schwab Strategic Trust. On September 25, 2018, Ms. Chandoha announced her decision to retire on March 29, 2019. Ms. Chandoha joined Schwab in 2010.

Mr. Clark has been Executive Vice President – Advisor Services of CSC since 2012. Mr. Clark has served as Executive Vice President – Advisor Services of CS&Co since 2010. From 2006 until 2010, Mr. Clark served as Senior Vice President – Schwab Institutional Sales of Charles Schwab & Co., Inc. Mr. Clark joined Schwab in 1998.

Mr. Craig has been Senior Executive Vice President of CSC and CS&Co since 2018. He served as Executive Vice President – Client and Marketing Solutions for CSC from 2017 until 2018 and served as Executive Vice President and Chief Marketing Officer of CS&Co from 2012 until 2018. Mr. Craig joined Schwab in 2000.

Mr. Crawford has been Executive Vice President 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 from 2015 to 2017. He served as Senior Vice President of Schwab's asset management and client solutions organization from 2008 to 2015. He has served on the Board of Directors of CS&Co since 2018. Mr. Crawford joined Schwab in 2001.

Mr. Garfield has been Executive Vice President, General Counsel and Corporate Secretary of CSC since 2014 and Executive Vice President and Corporate Secretary of CS&Co since 2015. Mr. Garfield served as Deputy General Counsel of Wells Fargo & Company from 1998 to 2014. Mr. Garfield joined Schwab in 2014.

Ms. Kallsen has been Executive Vice President – Investor Services of CSC and CS&Co since 2014. She served as Senior Vice President – Portfolio Consulting of CS&Co from 2012 until 2014 and as Senior Vice President – Branch Network from June 2014 until December 2014. Ms. Kallsen joined Schwab in 2012.

Mr. Martinetto has been Senior Executive Vice President of CSC and CS&Co since 2015, 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 CSB. Additionally, Mr. Martinetto is 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.

Mr. Murtagh has been Executive Vice President – Corporate Risk of CSC and CS&Co since 2012. He has served as Executive Vice President and Chief Risk Officer of CSB since 2018. He served as Senior Vice President and Chief Credit Officer of CS&Co from 2002 until 2012 and of CSC from 2008 until 2012. 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 under "Compensation Discussion and Analysis," "Executive Compensation Tables – 2018 Summary Compensation Table," "Executive Compensation Tables – 2018 Grants of Plan-Based Awards Table," "Executive Compensation Tables – Narrative to Summary Compensation and Grants of Plan-Based Awards Tables," "Executive Compensation Tables – 2018 Termination and Change in Control Benefits Table," "Executive Compensation Tables – Outstanding Equity Awards as of December 31, 2018," "Executive Compensation Tables – 2018 Option Exercises and Stock Vested Table," "Executive Compensation Tables – 2018 Nonqualified Deferred Compensation Table," "Director Compensation," and "Compensation Committee Interlocks and Insider Participation." 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 under "Security Ownership of Certain Beneficial Owners and Management," and "Securities Authorized for Issuance under Equity Compensation Plans."

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 under "Transactions with Related Persons" and "Director Independence."

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 under "Auditor Fees."

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 Cash Flows
Consolidated Statements of Stockholders' Equity
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
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.
3.14	Fourth Restated Bylaws, as amended on January 27, 2010, of the Registrant, filed as Exhibit 3.14 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.15	Certificate of Designations of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A of The Charles Schwab Corporation, filed as Exhibit 3.15 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.17	Certificate of Designations of 6.00% Non-Cumulative Perpetual Preferred Stock, Series C, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated August 3, 2015, 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.
3.19	Certificate of Designations of 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 October 31, 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.
4.2	Deposit Agreement, dated August 3, 2015, 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 August 3, 2015 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.
4.4	Deposit Agreement, dated October 31, 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 October 31, 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	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.

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
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.	
10.271	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.	(1),(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)
10.349	The Charles Schwab Severance Pay Plan, as Amended and Restated Effective May 1, 2012, filed as Exhibit 10.349 to the Registrant's Form 10-Q for the quarter ended June 30, 2017, and incorporated herein by reference.	(2)
10.362	The Charles Schwab Corporation Directors' Deferred Compensation Plan II, as amended and restated as of April 24, 2013.	(1),(2)
10.376	Credit Agreement (364 – Day Commitment) dated as of June 2, 2017, between the Registrant and financial institutions therein, filed as Exhibit 10.376 to the Registrant's Form 10-Q for the quarter ended June 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)
10.382	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 10.382 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)
10.385		(2)

	The Charles Schwab Corporation Deferred Compensation Plan II, as amended and restated as of December 13, 2017, filed as Exhibit 10.385 to the Registrant's Form 10-K for the year ended December 31, 2017, and incorporated herein by reference.	
10.386	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 10.386 to the Registrant's Form 10-K for the year ended December 31, 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)
10.388	Form of Notice and Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.388 to the Registrant's Form 10-K for the year ended December 31, 2017, and incorporated herein by reference.	(2)

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
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)
10.390	Summary of Non-Employee Director Compensation, filed as Exhibit 10.390 to the Registrant's Form 10-k for the year ended December 31, 2017, and incorporated herein by reference.	(2)
10.391	2013 Stock Incentive Plan, as amended and restated, filed as Exhibit 10.391 to the Registrant's Form 8-K dated May 15, 2018, and incorporated herein by reference.	(2)
10.392	Credit Agreement (364 – Day Commitment) dated as of June 1, 2018, between the Registrant and financial institutions therein (supersedes Exhibit 10.376), filed as Exhibit 10.392 to the Registrant's Form 8-K dated October 31, 2018, and incorporated herein by reference.	
10.393	Form of Notice and Nonqualified Stock Option Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans (supersedes Exhibit 10.387).	(1),(2)
10.394	Form of Notice and Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans (supersedes Exhibit 10.388).	(1),(2)
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	XBRL Instance Document	(3)
101.SCH	XBRL Taxonomy Extension Schema	(3)
101.CAL	XBRL Taxonomy Extension Calculation	(3)
101.DEF	XBRL Extension Definition	(3)
101.LAB	XBRL Taxonomy Extension Label	(3)
101.PRE	XBRL Taxonomy Extension Presentation	(3)

Exhibit Number	Exhibit
(1)	*Furnished as an exhibit to this annual report on Form 10-K.*
(2)	*Management contract or compensatory plan.*
(3)	*Attached as Exhibit 101 to this Annual Report on Form 10-K for the annual period ended December 31, 2018, 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.*

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 22, 2019.

THE CHARLES SCHWAB CORPORATION
(Registrant)

BY: /s/ Walter W. Bettinger II
Walter W. Bettinger II
President 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 22, 2019.

Signature / Title	Signature / Title
/s/ Walter W. Bettinger II Walter W. Bettinger II, President and Chief Executive Officer and Director	/s/ Peter Crawford Peter Crawford, Executive Vice President and Chief Financial Officer (principal financial and accounting officer)
/s/ Charles R. Schwab Charles R. Schwab, Chairman of the Board	/s/ John K. Adams, Jr. John K. Adams, Jr., 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. Herringer Frank C. Herringer, Director
/s/ Stephen T. McLin Stephen T. McLin, Director	/s/ Charles A. Ruffel Charles A. Ruffel, Director
/s/ Arun Sarin Arun Sarin, Director	/s/ Paula A. Sneed Paula A. Sneed, Director
/s/ Roger O. Walther Roger O. Walther, Director	

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

The following table outlines the information required by the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies," which is presented at the consolidated holding company level.

Required Disclosure	**Page**
Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential	F-2 – F-3
Investment Portfolio	F-4
Risk Elements – Cross-border Holdings	F-5
Loan Portfolio	F-6 – F-7
Summary of Loan Loss Experience	F-7
Deposits	F-7
Return on Equity and Assets	F-7

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

The following supplemental financial data is consistent with the Securities Exchange Act of 1934, Industry Guide 3 – Statistical Disclosure by Bank Holding Companies.

1. Three-year Net Interest Revenue and Average Balances

For the Year Ended December 31,	2018			2017			2016		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:									
Cash and cash equivalents	$ 17,783	$ 348	1.93 %	$ 9,931	$ 109	1.10 %	$ 11,143	$ 57	0.51 %
Cash and investments segregated	11,461	206	1.78 %	18,525	166	0.90 %	20,104	93	0.46 %
Broker-related receivables	303	6	2.09 %	430	3	0.70 %	558	1	0.22 %
Receivables from brokerage clients	19,870	830	4.12 %	16,269	575	3.53 %	15,001	497	3.31 %
Available for sale securities [1]	54,542	1,241	2.26 %	53,040	815	1.54 %	72,586	883	1.22 %
Held to maturity securities	131,794	3,348	2.53 %	103,599	2,354	2.27 %	57,451	1,402	2.44 %
Bank loans [5]	16,554	559	3.37 %	15,919	472	2.97 %	14,715	400	2.72 %
Total interest-earning assets	252,307	6,538	2.57 %	217,713	4,494	2.06 %	191,558	3,333	1.74 %
Other interest revenue		142			130			160	
Total interest-earning assets	252,307	6,680	2.63 %	217,713	4,624	2.12 %	191,558	3,493	1.82 %
Noninterest-earning assets [2,3]	11,681			9,968			9,354		
Total assets	$ 263,988			$ 227,681			$ 200,912		
Liabilities and Stockholders' Equity:									
Bank deposits	$ 199,139	$ 545	0.27 %	$ 163,998	$ 148	0.09 %	$ 141,432	$ 37	0.03 %
Payables to brokerage clients	21,178	56	0.27 %	25,403	16	0.06 %	26,311	3	0.01 %
Short-term borrowings	3,359	54	1.59 %	3,503	41	1.17 %	1,864	9	0.48 %
Long-term debt	5,423	190	3.50 %	3,431	119	3.47 %	2,876	104	3.62 %
Total interest-bearing liabilities	229,099	845	0.37 %	196,335	324	0.17 %	172,483	153	0.09 %
Other interest expense		12			18			18	
Noninterest-bearing liabilities [2,4]	14,883			13,787			13,375		
Total liabilities [6]	243,982	857	0.34 %	210,122	342	0.15 %	185,858	171	0.09 %
Stockholders' equity [2]	20,006			17,559			15,054		
Total liabilities and stockholders' equity	$ 263,988			$ 227,681			$ 200,912		
Net interest revenue		$ 5,823			$ 4,282			$ 3,322	
Net yield on interest-earning assets			2.29 %			1.97 %			1.73 %

[1] Amounts calculated based on amortized cost.
[2]) Average balance calculation based on month end balances.
[3] Noninterest-earning assets include equipment, office facilities, and property – net, goodwill, and other assets that do not generate interest income.
[4] Noninterest-bearing liabilities consist of other liabilities that do not generate interest expense.
[5] Includes average principal balances of nonaccrual loans.
[6] Average rate calculation based on total funding sources.

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

2. Analysis of Change 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:

	2018 Compared to 2017 Increase (Decrease) Due to Change in:			2017 Compared to 2016 Increase (Decrease) Due to Change in:		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest-earning assets:						
Cash and cash equivalents [1]	$ 86	$ 153	$ 239	$ (6)	$ 58	$ 52
Cash and investments segregated	(64)	104	40	(7)	80	73
Broker-related receivables	(1)	4	3	—	2	2
Receivables from brokerage clients	127	128	255	42	36	78
Available for sale securities [2]	23	403	426	(238)	170	(68)
Held to maturity securities	640	354	994	1,126	(174)	952
Bank loans [3]	19	68	87	33	39	72
Other interest revenue	—	12	12	—	(30)	(30)
Total interest-earning assets	$ 830	$ 1,226	$ 2,056	$ 950	$ 181	$ 1,131
Interest-bearing sources of funds:						
Bank deposits	$ 32	$ 365	$ 397	$ 7	$ 104	$ 111
Payables to brokerage clients	(3)	43	40	—	13	13
Short-term borrowings	(2)	15	13	8	24	32
Long-term debt	69	2	71	20	(5)	15
Other interest expense	—	(6)	(6)	—	—	—
Total sources on which interest is paid	96	419	515	35	136	171
Change in net interest revenue	$ 734	$ 807	$ 1,541	$ 915	$ 45	$ 960

Changes that are not due solely to volume or rate have been allocated to rate.
[1] Includes deposits with banks and short-term investments.
[2] Amounts have been calculated based on amortized cost.
[3] Includes average principal balances of nonaccrual loans.

3. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of AFS and HTM securities for 2016 are as follows:

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. agency mortgage-backed securities	$ 33,167	$ 120	$ 92	$ 33,195
Asset-backed securities	20,520	29	214	20,335
Corporate debt securities	9,850	20	18	9,852
U.S. Treasury securities	8,679	3	59	8,623
Certificates of deposit	2,070	2	1	2,071
U.S. agency notes	1,915	—	8	1,907
U.S. state and municipal securities	1,167	2	46	1,123
Commercial paper	214	—	—	214
Non-agency commercial mortgage-backed securities	45	—	—	45
Total available for sale securities	$ 77,627	$ 176	$ 438	$ 77,365
Held to maturity securities:				
U.S. agency mortgage-backed securities	$ 72,439	$ 324	$ 1,086	$ 71,677
Non-agency commercial mortgage-backed securities	997	11	4	1,004
Asset-backed securities	941	—	—	941
Corporate debt securities	436	—	—	436
U.S. Treasury securities	223	—	4	219
Commercial paper	99	—	—	99
U.S. state and municipal securities	68	1	1	68
Total held to maturity securities	$ 75,203	$ 336	$ 1,095	$ 74,444

For additional information on 2018 and 2017 investments, see Item 8 – Note 6.

As of December 31, 2018, in addition to holdings of securities issued by the U.S. Government and U.S. Government agencies and corporations, the Company's holdings of investment securities from single issuers with aggregate book values in excess of ten percent of stockholders' equity are detailed in the table below. These securities have performed in a manner consistent with the investment securities portfolio as a whole.

Issuer	Aggregate Amortized Cost	Aggregate Fair Value
Discover Card Execution Note Trust [1]	$ 2,300	$ 2,295
American Express Credit Account Master Trust Class A[1]	$ 2,251	$ 2,241
Capital One Multi-Asset Execution Trust Class A[1]	$ 2,140	$ 2,140

[1] Included in AFS and HTM securities in the Company's consolidated balance sheets.

4. Cross-border Holdings

The below information describes Schwab's cross-border holdings, based on fair value, as of December 31, 2018, 2017, and 2016. Such holdings, by country, that exceed 0.75% of total assets are disclosed separately.

December 31, 2018	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets
Country:				
France	$ 2,793	$ —	$ 2,793	0.9 %
Total	$ 2,793	$ —	$ 2,793	

There were no cross-border holdings that exceeded 0.75% of total assets at December 31, 2017.

December 31, 2016	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets
Country:				
France	$ 1,784	$ 110	$ 1,894	0.8 %
Total	$ 1,784	$ 110	$ 1,894	

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

5. Bank Loans and Related Allowance for Loan Losses

The composition of the loan portfolio is as follows:

December 31,	2018	2017	2016	2015	2014
First Mortgages	$ 10,384	$ 10,016	$ 9,134	$ 8,334	$ 8,127
HELOCs	1,505	1,943	2,350	2,735	2,955
Pledged asset lines	4,561	4,369	3,851	3,232	2,320
Other	180	176	94	64	39
Total bank loans	$ 16,630	$ 16,504	$ 15,429	$ 14,365	$ 13,441

An analysis of nonaccrual loans is as follows:

December 31,	2018	2017	2016	2015	2014
Nonaccrual loans	$ 21	$ 28	$ 26	$ 28	$ 35
Average nonaccrual loans	$ 25	$ 27	$ 27	$ 30	$ 39

There were no loans accruing interest that were contractually 90 days or more past due as of any period presented.

Changes in the allowance for loan losses were as follows:

December 31,	2018	2017	2016	2015	2014
Balance at beginning of year	$ 26	$ 26	$ 31	$ 42	$ 48
Charge-offs	(1)	(3)	(2)	(3)	(5)
Recoveries	2	3	2	3	3
Provision for loan losses	(6)	—	(5)	(11)	(4)
Balance at end of year	$ 21	$ 26	$ 26	$ 31	$ 42

The maturities of the loan portfolio are as follows:

December 31, 2018	Within 1 year	After 1 year through 5 years	After 5 years	Total
First Mortgages [1]	$ —	$ —	$ 10,384	$ 10,384
HELOCs [2]	760	291	454	1,505
Pledged asset lines	679	3,869	13	4,561
Other	6	169	5	180
Total	$ 1,445	$ 4,329	$ 10,856	$ 16,630

[1] Maturities are based upon the contractual terms of the loans.
[2] Maturities are based on an initial draw period of ten years.

The interest sensitivity of loans with contractual maturities in excess of one year is as follows:

December 31, 2018	After 1 year
Loans with floating or adjustable interest rates	$ 14,175
Loans with predetermined interest rates	1,010
Total	$ 15,185

THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

6. Summary of Loan Loss on Banking Loans Experience

December 31,	2018	2017	2016	2015	2014
Average loans	$ 16,554	$ 15,919	$ 14,715	$ 13,973	$ 12,906
Allowance to year end loans	.13 %	.16 %	.17 %	.21 %	.31 %
Allowance to nonperforming loans	100 %	93 %	101 %	110 %	120 %
Nonperforming assets to average loans and real estate owned	.14 %	.20 %	.21 %	.26 %	.31 %

7. 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 deposits from banking clients:

December 31,	2018		2017		2016	
	Amount	Rate	Amount	Rate	Amount	Rate
Analysis of average daily deposits:						
Money market and other savings deposits	$ 184,039	0.28 %	$ 148,679	0.09 %	$ 126,719	0.02 %
Interest-bearing demand deposits	15,100	0.25 %	15,319	0.14 %	14,713	0.07 %
Total	$ 199,139		$ 163,998		$ 141,432	

At December 31, 2018, there were no certificates of deposit of $100,000 or more included in bank deposits.

8. Ratios

December 31,	2018	2017	2016
Return on average total stockholders' equity	17.53 %	13.41 %	12.55 %
Return on average total assets	1.33 %	1.03 %	0.94 %
Average total stockholders' equity as a percentage of average total assets	7.58 %	7.71 %	7.49 %
Dividend payout ratio [1]	18.78 %	19.88 %	20.61 %

Note: Average balance calculations based on month end balances.

[1] Dividends declared per common share divided by diluted EPS.

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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, 2017 **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.)

211 Main Street, San Francisco, CA 94105

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (415) 667-7000

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

Title of each class	Name of each exchange on which registered
Common Stock – $.01 par value per share	New York Stock Exchange
Depositary Shares, each representing a 1/40th ownership interest in a share of 6.00% Non-Cumulative Preferred Stock, Series C	New York Stock Exchange
Depositary Shares, each representing a 1/40th ownership interest in a share of 5.95% Non-Cumulative Preferred Stock, Series D	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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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 ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
	Emerging growth 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2017, the aggregate market value of the voting stock held by non-affiliates of the registrant was $51.2 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.

The number of shares of Common Stock outstanding as of January 31, 2018, was 1,346,473,499.

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 15, 2018, by reference to that document.

THE CHARLES SCHWAB CORPORATION

Annual Report On Form 10-K
For Fiscal Year Ended December 31, 2017

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THE CHARLES SCHWAB CORPORATION

PART I

Item 1. Business

General Corporate Overview

The Charles Schwab Corporation (CSC) is a savings and loan holding company, headquartered in San Francisco, California. CSC was incorporated in 1986 and 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, 2017, Schwab had $3.36 trillion in client assets, 10.8 million active brokerage accounts, 1.6 million corporate retirement plan participants, and 1.2 million banking accounts.

Significant business subsidiaries of CSC include the following:

- Charles Schwab & Co., Inc. (CS&Co), incorporated in 1971, a securities broker-dealer with over 345 domestic branch offices in 46 states, as well as a branch in the Commonwealth of Puerto Rico. In addition, Schwab serves clients in England, Hong Kong, Singapore, and Australia through various subsidiaries;
- Charles Schwab Bank (Schwab Bank), a federal savings bank; and
- Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds®) and Schwab's exchange-traded funds (Schwab ETFs™).

Schwab provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking 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 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.

As of December 31, 2017, Schwab had full-time, part-time, temporary employees, and persons employed on a contract basis that represented the equivalent of approximately 17,600 full-time employees.

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

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 the aspiration of creating the most trusted leader in investment services, management has adopted a strategy described as "Through Clients' Eyes."

Under this approach, our strategic goals are focused on putting 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 aim to offer a broad range of products and solutions to meet client needs with a focus on transparency and value. 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. Finally, we seek to maximize our market valuation and stockholder returns over time.

Management estimates that investable wealth in the U.S. currently exceeds $30 trillion, which means the Company's $3.36 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, generate earnings growth and build long-term stockholder value.

Within Investor Services, our competition in serving individual investors includes a wide range of brokerage, wealth management, and asset management firms, as well as banks and trust companies. In the Advisor Services arena, we compete with institutional custodians, traditional and discount brokers, banks and investment advisory firms, 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 United States (U.S.), we are able to spread operating costs, amortize new investments over a large base of clients, and have 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 many different client channels.
- Operating Structure – Adding bank and asset management capabilities to the broker-dealers helps serve a wider array of client needs, thereby deepening client 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 enables 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 to benefit clients fosters innovation and continuous improvement, which helps to attract more clients and assets.

Sources of Net Revenues

Our major sources of net revenues are net interest revenue, asset management and administration fees, and trading revenue. These revenue streams are supported by the combination of 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 looking for.

Net interest revenue is the difference between interest generated on interest-earning assets and interest paid on funding sources, the majority of which is derived from client cash balances held by Schwab as part of the clients' overall relationship with the Company. While certain client cash balances are held on CS&Co's balance sheet or swept to our money market funds, a substantial amount of existing cash balances and most new client cash inflows are swept to a banking subsidiary. Over time, as supporting capital has been available, we have been directing a growing proportion of client cash sweep balances to a banking subsidiary relative to those going to the broker-dealer or money market funds. This shift has been effected through changes to default sweep options and the periodic bulk transfer of larger balances. Bank sweep balances have access to Federal Deposit Insurance Corporation (FDIC) insurance protection, as allowed, and provide us with greater flexibility in terms of options for investing the cash and administering the interest rate paid.

The majority of asset management and administration fees are earned from proprietary money market mutual funds, proprietary and third-party mutual funds and exchange-traded funds (ETFs), and fee-based advisory solutions.

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

Products and Services

We offer a broad range of products to address our clients' varying investment and financial needs. Examples of these product offerings include the following:

- Brokerage – an array of full-feature brokerage accounts with margin lending, options trading, and cash management capabilities including third-party certificates of deposit;
- Mutual funds – third-party mutual funds through the Mutual Fund Marketplace®, including no-transaction fee mutual funds through the Mutual Fund OneSource® service, which also includes proprietary mutual funds, plus mutual fund trading and clearing services to broker-dealers;

- Exchange-traded funds – an extensive offering of ETFs, including many proprietary and third-party ETFs available without a commission through Schwab ETF OneSource™;
- 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.

This full array of investing services is 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. 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 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements" (Item 8) – Note 2. For financial information related to the Company's reportable segments, see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations" (Item 7) and Item 8 – Note 22.

Investor Services

Charles Schwab initially founded the Company over 40 years ago to provide individual investors with access to the financial markets at a reasonable cost. The Company has been expanding offerings over time in response to client needs, aiming to provide a compelling and often disruptive solution in the marketplace. As products and services have evolved over the years, the Investor Services segment has expanded and now includes the Retail Investor, Retirement Plan Services, Mutual Fund Clearing Services, and Off-Platform Sales business units.

Through the Retail Investor business unit, we offer individual investors a multi-channel service delivery model, which includes online, mobile, telephone, and branch capabilities. We provide personalized service at competitive prices while giving clients the choice of where, when, and how they do business with us. Financial Consultants (FCs) in Schwab's branches and regional telephone service centers focus on building and sustaining client relationships. We have the ability to meet client investing needs through a single ongoing point of contact, even as those needs change over time. We believe that this ability to give those clients seeking help, guidance, or advice with an individually tailored solution – ranging from occasional consultations to an ongoing relationship with a Schwab FC or an independent RIA in the Schwab Advisor Network® – is a competitive strength compared to the more fragmented or limited offerings of other firms.

Our service delivery model provides quick and efficient access to an extensive array of information, research, tools, trade execution, and administrative services, which clients can access according to their needs. For example, clients that trade more actively can 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. Management also believes the Company is able to compete with the wide variety of financial services firms striving to attract individual client relationships by complementing these capabilities with a range of investment and banking products.

Schwab strives to educate and assist clients in reaching their financial goals. Educational tools include workshops, webcasts, interactive courses, and online information about investing, from which Schwab does not earn revenue. Additionally, we provide various online research and analysis tools that are designed to help clients achieve better investment outcomes. As an example of such tools, 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.

Clients may seek specific investment recommendations, either from time to time or on an ongoing basis. Schwab provides clients seeking advice with personalized solutions. Our approach to advice is based on long-term investment

strategies and guidance on portfolio diversification and asset allocation. This approach is designed to be offered consistently across all of Schwab's delivery channels.

Schwab Private Client features a personal advice relationship with a designated Portfolio Consultant, 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.

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 Windhaven Investment Management, Inc. (Windhaven®), or equity securities and ETFs through ThomasPartners® programs. 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, are for clients who are looking to have their assets professionally managed via a fully automated online investment advisory service. In late 2016, we introduced Schwab Intelligent Advisory® to offer our clients a hybrid advisory service which combines live credentialed professionals and algorithm-driven technology to make financial and investment planning more accessible to investors. Finally, clients who want the assistance of an independent professional in managing their financial affairs may be referred to RIAs in the Schwab Advisor Network. These RIAs provide personalized portfolio management, financial planning, and wealth management solutions.

To meet the specific needs of clients who actively trade, Schwab offers integrated web- and software-based trading platforms, which incorporate intelligent order routing technology, real-time market data, options trading, premium stock and futures research, and multi-channel access, as well as sophisticated account and trade management features, risk management and decision support tools, and dedicated personal support.

For U.S. clients wishing to invest in foreign equities, we offer 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. In the U.S., Schwab serves Mandarin-, Cantonese-, Spanish-, and Vietnamese-speaking clients through a combination of its branch offices, web-based and telephonic services.

We also offer equity compensation plan sponsors full-service recordkeeping for stock plans, stock options, restricted stock, performance shares, and stock appreciation rights. 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. In addition, we provide software and services for compliance departments of regulated companies and firms with special requirements to monitor employee personal trading, including trade surveillance technology.

Our Retirement Plan Services business unit offers a bundled 401(k) retirement plan product that provides retirement plan sponsors a wide array of 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, and defined benefit plans.

Lastly, the Mutual Fund Clearing Services business unit provides custody, recordkeeping, and trading services to banks, brokerage firms, and trust companies, and the Off-Platform Sales business unit offers proprietary mutual funds, ETFs, and collective trust funds outside the Company. They are included within the Investor Services segment given their leveraging of the products and services offered to individual investors.

Advisor Services

More than twenty-five 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 the largest provider 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 leadership position primarily through the efforts of our sales, support, 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 a variety of national, regional, and local events designed to help RIAs 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 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.

To help RIAs grow and manage their practices, we offer a variety of services, including business management and technology and operations consulting on a variety of topics critical to an RIA's success including strategic business planning, client segmentation, growth strategies, technological strategies, and succession planning. The Advisor Services website provides interactive tools, educational content, and research reports to assist advisors thinking about establishing and managing their own independent practices.

We also offer an array of services to help advisors establish their own independent practices through the Business Start-up Solutions package. These services include access to dedicated service teams and outsourcing of back-office operations, as well as third-party firms who provide assistance with real estate, errors and omissions insurance, and company benefits.

We provide a variety of 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 update and share market 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 the annual IMPACT® 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 a broad range of our products and services, including individual securities, mutual funds, ETFs, managed accounts, cash products, and bank lending. By functioning as the custodian, Schwab earns revenue associated with the underlying client assets invested in our products and utilization of the services we provide. In this capacity, we do not charge an explicit custodial fee.

The Advisor Services segment also includes the Retirement Business Services and Corporate Brokerage Retirement Services business units. Retirement Business Services provides trust, custody, and retirement business services to independent retirement plan advisors and independent recordkeepers. Retirement plan assets are held at the Business Trust division of Schwab Bank. 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®, a self-directed brokerage offering for retirement plans.

Corporate Brokerage Retirement Services serves plan sponsors, advisors, and independent recordkeepers seeking a brokerage-based account to hold retirement plan assets. Retirement plans held at Schwab are either self-trusteed or trusteed by a separate, independent trustee. Corporate Brokerage Retirement Services also offers the Schwab Personal Choice Retirement Account®, and the Company Retirement Account, both of which are self-directed brokerage-based solutions designed to hold the assets of company-sponsored retirement plans.

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.

As a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 (Dodd-Frank), the adoption of implementing regulations by the federal regulatory agencies, and other recent regulatory reforms, we have experienced significant changes in the laws and regulations that apply to us, how we are regulated, and regulatory expectations in the areas of compliance, risk management, corporate governance, operations, capital, and liquidity.

THE CHARLES SCHWAB CORPORATION

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). CSC's principal depository institution subsidiary, Schwab Bank, is a federal savings bank and is regulated, supervised, and examined by the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), and the FDIC. CSC and Schwab 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.

Financial Regulatory Reform

Following the enactment of Dodd-Frank, the federal banking agencies have adopted a number of implementing regulations and other regulatory reforms that are significant for CSC and its banking subsidiaries. These regulations are highlighted below.

Basel III 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 OCC and the FDIC. In addition to minimum risk-based capital requirements, banking organizations must hold additional capital, referred to as a capital conservation buffer, to avoid being subject to limits on capital distributions and discretionary bonus payments to executive officers.

The regulatory capital rules provide for a "standardized approach" framework for the calculation of a banking organization's regulatory capital and risk-weighted assets. Depository institutions and their holding companies with consolidated total assets of $250 billion or more, or total on-balance-sheet foreign exposure of $10 billion or more, are also required to calculate their regulatory capital and risk-weighted assets using an "advanced approaches" framework and must satisfy the minimum capital requirements under both approaches. Such companies must also maintain a minimum supplementary leverage ratio of at least 3.0%, must include accumulated other comprehensive income (AOCI) in their calculation of their capital ratios, and are subject to certain other enhanced provisions, including additional reporting requirements. CSC and its banking subsidiaries are currently only subject to the "standardized approach" framework but will become subject to the "advanced approaches" framework upon exceeding either of the thresholds.

The liquidity coverage ratio (LCR) rule requires banking organizations with consolidated total assets of $250 billion or more, or total on-balance-sheet foreign exposure of $10 billion or more and their depository institution subsidiaries with $10 billion or more in total consolidated assets to hold high quality liquid assets (HQLA) in an amount equal to at least 100% of their projected net cash outflows over the 30-day period, calculated on each business day. Other bank and savings and loan holding companies with total consolidated assets of $50 billion or more are subject to a modified LCR rule requiring them to hold HQLA in an amount equal to at least 70% of their projected net cash outflows over the 30-day period, calculated as of the last business day of the month.

Capital Stress Testing

Savings and loan holding companies and federal savings bank with total consolidated assets of more than $10 billion are required to conduct annual company-run stress tests. Under the Dodd-Frank Act Stress Test (DFAST) rules, CSC (for the first time in 2017) and Schwab Bank must conduct annual stress tests using certain scenarios and prescribed stress-testing methodologies, report the results to the Federal Reserve and, for Schwab Bank, the OCC, and publish summaries of the results of their stress tests.

As a savings and loan holding company, CSC is not subject to the annual Comprehensive Capital Analysis and Review (CCAR) process, which requires certain financial institutions to submit annual capital plans to the Federal

Reserve. CSC continues to enhance its stress testing policies, procedures, systems, and governance structures to be consistent with regulatory expectations for a firm of its size and complexity.

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. Schwab Bank is required to file with the FDIC an annual 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.

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.

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.

The Dodd-Frank Act (i) raised the minimum reserve ratio for the DIF to 1.35% (from the former minimum of 1.15%) and (ii) required that the DIF's reserve ratio reach 1.35% by September 30, 2020.

In July 2016, the FDIC imposed a flat-rate quarterly surcharge on insured depository institutions with total assets of $10 billion or more and certain of their bank affiliates to pay for the increase. The surcharge took effect at the same time as a scheduled reduction in the regular FDIC insurance. As a result, Schwab's banking subsidiaries are now subject to a 3 basis point regular assessment on their respective assessment bases (down from 5 basis points) and a new 4.5 basis point surcharge on the amount of their aggregate assessment base in excess of $10 billion that will remain in effect until the earlier of the DIF reaching 1.35% or December 31, 2018. If DIF has not reached 1.35% by such date, the FDIC will impose a shortfall assessment.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (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.

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 in the event the subsidiary is in financial distress.

Broker-Dealer and Investment Advisor Regulation

Schwab's principal broker-dealer is CS&Co. CS&Co is registered as a broker-dealer with the United States Securities and Exchange Commission (SEC), the fifty states, the District of Columbia and Puerto Rico. CS&Co and CSIM are registered as investment advisors with the SEC. Additionally, CS&Co is regulated by the Commodities Futures Trading Commission (CFTC) with respect to the commodity futures and trading activities it conducts as an introducing broker.

Much of the regulation of broker-dealers has been delegated to SROs. CS&Co is a member of the Financial Industry Regulatory Authority, Inc. (FINRA), the Municipal Securities Rulemaking Board (MSRB), NYSE Arca, and the Chicago Board Options Exchange (CBOE). In addition to the SEC, the primary regulators of CS&Co are FINRA and, for municipal securities, the MSRB. The National Futures Association (NFA) is CS&Co's primary regulator for futures and commodities trading activities.

The principal purpose of regulating broker-dealers and investment advisors 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 owed to advisory clients, and the conduct of directors, officers, and employees.

CS&Co is 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. If CS&Co fails to maintain specified levels of net capital, such failure could constitute a default by CSC of certain debt covenants under its credit agreement.

The Uniform Net Capital Rule prohibits CS&Co 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 of $250,000.

In addition to net capital requirements, as a self-clearing broker-dealer, CS&Co is 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.

Financial Service 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.

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. You may read and copy any document that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE,

Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

On Schwab's website, https://www.aboutschwab.com, the following filings are posted 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 stress test results and our regulatory capital disclosures based on Basel III.

All such filings are available free of charge either on our website or by request via email (investor.relations@schwab.com), telephone (415-667-7000), 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, including operational risk, compliance risk, credit risk, market risk, and liquidity risk, see Risk Management and Capital Management in Part II, Item 7.

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 short-term interest rates, and decreases in securities valuations negatively impact our results of operations and capital resources.

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.

In addition to specific banking laws and regulations, our banking regulators have broad discretion in connection with their supervisory and enforcement activities and examination policies and 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. The banking regulators could also limit our ability to grow, including adding assets, launching new products, making acquisitions, and undertaking strategic investments, could limit our banking subsidiaries' ability to accept deposits swept from client brokerage accounts and brokered deposits and could prevent us from pursuing our business strategy.

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, 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, broker-dealer fiduciary duties and regulatory treatment of deposit accounts, may directly affect the operation and profitability of Schwab or its specific business lines. 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. 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 and broker-dealer subsidiaries, must meet certain capital and liquidity standards, subject to qualitative judgments by regulators about the adequacy of Schwab's capital and Schwab's internal assessment of its capital needs. The Uniform Net Capital Rule limits CS&Co's ability to transfer capital to CSC and other affiliates. New regulatory capital, liquidity, 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 capital conservation buffer requirements (as phased in) 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.

With $243.3 billion in consolidated total assets at December 31, 2017, we are currently only subject to the "standardized approach" capital framework of Basel III and modified liquidity requirements. When our consolidated total assets equal or exceed $250 billion, we will become subject to the "advanced approaches" framework, including being subject to a supplementary leverage ratio, the inclusion of AOCI in regulatory capital, the unmodified LCR, enhanced Basel III disclosures, and a more complex calculation of risk weighted assets that includes an assessment of the impact of operational risk. In addition, federal banking agencies have broad discretion and could require CSC or its banking subsidiaries to hold higher levels of capital or increase liquidity above the applicable regulatory requirements.

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. A low interest rate environment may also have a negative impact on our asset management and administration fee revenues if 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.

Overall, we are positioned to benefit from a rising interest rate environment. A rise in interest rates may cause our funding costs to increase if market conditions or the competitive environment forces us to raise our interest rates to avoid losing deposits. Higher funding costs without offsetting increases in yields on interest-earning assets can reduce our net interest revenue.

The manner in which interest rates are calculated could also impact our net interest revenue. For example, certain securities in Schwab's investment portfolios have floating interest rates based on benchmarks like the one-month LIBOR, which has been the subject of recent regulatory guidance and proposals for reform. These reforms may cause

LIBOR to perform differently than in the past, or be replaced as a benchmark, and could result in lower interest payments and a reduction in the value of the securities.

A significant change in client cash allocations could negatively impact our net interest revenue.

We rely heavily on bank deposits as a low cost source of funding to extend loans to clients and purchase investment securities. Our bank deposits are primarily driven by our bank sweep feature: uninvested cash balances in our client brokerage accounts are swept to our banking subsidiaries. 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 net interest revenue.

Security breaches of our systems, or those of our clients or third parties, may subject us to significant liability and damage Schwab's 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 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 are likely to continue to be the target of cyber attacks, malicious code, computer viruses 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 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 Schwab's 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 clients' financial accounts at Schwab. 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 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 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, power outage, capacity constraints, software flaws, events impacting key business partners and vendors, and similar events. For example, Schwab 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. 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. Moreover, instances of fraud or other misconduct might also negatively impact Schwab's reputation and client confidence in the Company, in addition to any direct losses that might result from such instances. 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, extraordinary trading volumes 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 and decreased client satisfaction. We are also dependent on the integrity and performance of securities exchanges, clearing houses 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, cause substantial losses for us and for our clients, and subject us to claims from our clients for damages.

A significant decrease in our liquidity could negatively affect our business and financial management as well as reduce client confidence in Schwab.

Maintaining adequate liquidity is crucial to our business operations, including margin lending, mortgage lending, and transaction settlement, among other liquidity needs. We meet our liquidity needs primarily through cash generated by client activity and operating earnings, as well as cash provided by external financing. Fluctuations in client cash or deposit balances, as well as changes in regulatory treatment of client deposits or market conditions, may affect our ability to meet our liquidity needs. A reduction in our liquidity position could reduce client confidence in Schwab, which could result in the loss of client accounts, or could cause us to fail to satisfy our liquidity requirements, including the modified LCR. In addition, if our broker-dealer or depository institution subsidiaries fail to meet regulatory capital guidelines, regulators could limit the subsidiaries' operations or their ability to upstream funds to CSC, which could reduce CSC's liquidity and adversely affect its ability to repay debt and pay cash dividends. In addition, CSC may need to provide additional funding to such subsidiaries.

Factors which may adversely affect our liquidity position include CS&Co having temporary liquidity demands due to timing differences between brokerage transaction settlements and the availability of segregated cash balances, unanticipated outflows of company cash, fluctuations in cash held in banking or brokerage client accounts, a dramatic increase in our client 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 Schwab.

When cash generated by client activity and operating earnings is not sufficient for our liquidity needs, we may 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 and CS&Co maintain committed and 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, 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.

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 trading, futures activities, 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.

We have exposure to credit risk associated with our investments. Those investments are subject to price fluctuations as a result of changes in the financial market's assessment of credit quality. Loss of value of securities can negatively affect earnings if management determines that such securities are other than temporarily impaired. The evaluation of whether other-than-temporary impairment (OTTI) exists is a matter of judgment, which includes the assessment of several factors. If management determines that a security is OTTI, the cost basis of the security may be adjusted and a corresponding loss may be recognized in current earnings. Deterioration in the performance of available for sale (AFS) and held to maturity (HTM) securities could result in the recognition of future impairment charges. Even if a security is not considered OTTI, 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 charges for loan loss reserves and 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 a supported fund in our financial statements. If we chose not to provide credit, liquidity or other support in such a situation, Schwab could suffer reputational damage and its business could be adversely affected.

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 at Schwab. 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, the volume of legal claims and amount of damages sought in litigation and regulatory proceedings against financial services companies have historically increased.

We rely on outsourced service providers to perform key functions.

We rely on external service providers to perform certain key technology, 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 Schwab's reputation. An interruption in or the cessation of service by any external service provider as a result of systems failures, capacity constraints, financial difficulties 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. Switching to an alternative service provider may require a transition period and result in less efficient operations.

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, and effecting 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. In addition, an acquisition may cause us to assume liabilities or become subject to litigation or regulatory proceedings. Further, we may not realize the anticipated benefits from an acquisition, 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 being acquired or sold. To the extent we enter into an agreement to buy or sell 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 characterized by aggressive price competition.

We continually monitor our pricing in relation to competitors and periodically adjust trade commission rates, interest rates on deposits and loans, fees for advisory services, expense ratios on mutual funds and ETFs, and other pricing to enhance our competitive position. Increased price competition from other financial services firms, such as reduced commissions to attract trading volume, higher deposit rates to attract client cash balances or reduced expense ratios to attract mutual fund or ETF investments, 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.

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:

- Our exposure to changes in interest rates;
- 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, or strategic transactions;

- The announcement of new products, services, acquisitions, or dispositions by us or our competitors; and
- 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.

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.

Item 1B. Unresolved Securities and Exchange Commission Staff Comments

None.

Item 2. Properties

A summary of Schwab's significant locations is presented in the following table. Locations are leased or owned as noted below. The square footage amounts are presented net of space that has been subleased to third parties.

December 31, 2017	Square Footage	
(amounts in thousands)	Leased	Owned
Location		
Corporate headquarters:		
San Francisco, CA	569	—
Service and other office space:		
Phoenix, AZ	28	720
Denver, CO	—	731
Austin, TX	219	191
Dallas, TX	188	—
Indianapolis, IN	—	161
Orlando, FL	148	—
Richfield, OH	—	117
El Paso, TX	—	105
Chicago, IL	104	—

Substantially all of our branch offices are located in leased premises. The corporate headquarters, data centers, offices, and service centers support both of our segments.

Item 3. Legal Proceedings

For a discussion of legal proceedings, see Item 8 – Note 13.

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

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, 2018, was 6,055. The closing market price per share on that date was $53.34.

The quarterly high and low sales prices for CSC's common stock and the other information required to be furnished pursuant to this item are included in Item 8 – Note 18 and Note 24.

The following graph shows a five-year comparison of cumulative total returns for CSC's common stock, the Dow Jones U.S. Investment Services Index, and the Standard & Poor's 500 Index, each of which assumes an initial investment of $100 and reinvestment of dividends.
a10kschw2017.jpg

December 31,	2012	2013	2014	2015	2016	2017
The Charles Schwab Corporation	$ 100	$ 183	$ 215	$ 236	$ 286	$ 375
Standard & Poor's 500 Index	$ 100	$ 132	$ 151	$ 153	$ 171	$ 208
Dow Jones U.S. Investment Services Index	$ 100	$ 162	$ 185	$ 184	$ 233	$ 290

Issuer Purchases of Equity Securities

At December 31, 2017, approximately $596 million of future share repurchases are authorized under the Share Repurchase Program. There were no share repurchases during the fourth quarter. There were two authorizations under this program by CSC's Board of Directors, each covering up to $500 million of common stock that were publicly announced by CSC on April 25, 2007, and March 13, 2008. The remaining authorizations do not have an expiration date.

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 2017:

Month	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share
October:		
Employee transactions [1]	4	$ 44.12
November:		
Employee transactions [1]	779	$ 44.70
December:		
Employee transactions [1]	2	$ 48.97
Total:		
Employee transactions [1]	785	$ 44.71

[1] 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.

Item 6. Selected Financial Data

Selected Financial and Operating Data

(In Millions, Except Per Share Amounts, Ratios, or as Noted)

	Growth Rates						
	Compounded 4-Year [1] 2013-2017	Annual 1-Year 2016-2017	2017	2016	2015	2014	2013
Results of Operations							
Net revenues	12%	15%	$ 8,618	$ 7,478	$ 6,380	$ 6,058	$ 5,435
Expenses excluding interest	7%	11%	$ 4,968	$ 4,485	$ 4,101	$ 3,943	$ 3,730
Net income	22%	25%	$ 2,354	$ 1,889	$ 1,447	$ 1,321	$ 1,071
Net income available to common stockholders	21%	25%	$ 2,180	$ 1,746	$ 1,364	$ 1,261	$ 1,010
Earnings per common share:							
Basic	20%	23%	$ 1.63	$ 1.32	$ 1.04	$ .96	$ .78
Diluted	20%	23%	$ 1.61	$ 1.31	$ 1.03	$ .95	$ .78
Dividends declared per common share			$ .32	$ .27	$ .24	$ .24	$ .24
Weighted average common shares outstanding:							
Basic	1%	1%	1,339	1,324	1,315	1,303	1,285
Diluted	1%	1%	1,353	1,334	1,327	1,315	1,293
Net interest revenue as a percentage of net revenues			50 %	44 %	40 %	38 %	36 %
Asset management and administration fees as a percentage of net revenues			39 %	41 %	41 %	42 %	43 %
Trading revenue as a percentage of net revenues			8 %	11 %	14 %	15 %	17 %
Effective income tax rate			35.5 %	36.9 %	36.5 %	37.5 %	37.2 %
Performance Measures							
Net revenue growth			15 %	17 %	5 %	11 %	11 %
Pre-tax profit margin			42.4 %	40.0 %	35.7 %	34.9 %	31.4 %
Return on average common stockholders' equity			15 %	14 %	12 %	12 %	11 %
Financial Condition (at year end)							
Total assets	14%	9%	$ 243,274	$ 223,383	$ 183,705	$ 154,635	$ 143,633
Short-term borrowings	N/M	N/M	$ 15,000	—	—	—	—
Long-term debt	26%	65%	$ 4,753	$ 2,876	$ 2,877	$ 1,892	$ 1,894
Preferred stock	34%	—	$ 2,793	$ 2,783	$ 1,459	$ 872	$ 869
Total stockholders' equity	16%	13%	$ 18,525	$ 16,421	$ 13,402	$ 11,803	$ 10,381
Assets to stockholders' equity ratio			13	14	14	13	14
Debt to total capital ratio [2]			52 %	15 %	18 %	14 %	15 %
Employee Information							
Full-time equivalent employees (in thousands, at year end)	6%	9%	17.6	16.2	15.3	14.6	13.8

[1] The Compounded 4-year growth rate is computed using the formula: Compound annual growth rate = (Ending Value / Beginning Value) $^{.25}$ – 1.

[2] The Debt to total capital ratio is computed using the formula: Total Debt (short and long-term) / (Total Debt + Stockholders' Equity).

N/M Not meaningful.

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," "aim," "target," "seek", "could," "would," "continue," 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:

- Schwab seeking to maximize its market valuation and stockholder returns over time; the belief that developing trusted relationships will translate into more client assets which drives revenue and, along with expense discipline, generates earnings growth and builds stockholder value; and Schwab's ability to pursue its business strategy and maintain its market leadership position; (see Business Strategy and Competitive Environment in Part I, Item 1);
- The impact of legal proceedings and regulatory matters (see Legal Proceedings in Part I, Item 3 and Item 8 – Note 13);
- The adjustment of rates paid on client-related liabilities; the stability, rate sensitivity, and duration of client-related liabilities; the opportunity to migrate non-rate sensitive cash in sweep money market funds to banking subsidiaries; increasing the duration of interest-earning assets; and Schwab's positioning to benefit from an increase in interest rates and limit its exposure to falling rates; (see Net Interest Revenue in Part II, Item 7);
- The estimated net reduction in Schwab's effective income tax rate for 2018; (see Taxes on Income in Part II, Item 7);
- Sources of liquidity, capital, and level of dividends (see Liquidity Risk in Part II, Item 7);
- Capital ratios (see Regulatory Capital Requirements in Part II, Item 7);
- The impact of changes in management's estimates on Schwab's results of operations (see Critical Accounting Estimates in Part II, Item 7);
- The expected impact of new accounting standards not yet adopted (see Item 8 – Note 2); and
- The impact of changes in the likelihood of indemnification and guarantee payment obligations on Schwab's results of operations (see Item 8 – Note 13).

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 the level of interest rates, equity valuations and trading activity;

- Our ability to attract and retain clients, develop trusted relationships, and grow client assets;
- Client use of our investment advisory services and other products and services;
- The level of client assets, including cash balances;
- Competitive pressure on pricing, including deposit rates;
- Client sensitivity to interest rates;
- Regulatory guidance;
- Timing, amount, and impact of the migration of certain balances from sweep money market funds into Schwab Bank;
- Changes to tax deductions;
- Capital and liquidity needs and management;
- Our ability to manage expenses;
- The effect of adverse developments in litigation or regulatory matters and the extent of any related charges;
- The availability and terms of external financing;

- Potential breaches of contractual terms for which we have indemnification and guarantee obligations; and
- Our ability to develop and launch new products, services and capabilities in a timely and successful manner.

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.

THE CHARLES SCHWAB CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Amounts in Millions, Except Ratios, or as Noted)

GLOSSARY OF TERMS

Active brokerage accounts: Brokerage accounts with activity within the preceding eight months.

Accumulated other comprehensive income (AOCI): A component of stockholders' equity which includes unrealized gains and losses on AFS securities and net gains or losses associated with pension obligations.

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

Assets receiving ongoing advisory services: Client relationships under the guidance of independent advisors and assets enrolled in one of Schwab's retail or other advisory solutions.

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 1/100th of 1%, or 0.01%.

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

Client cash as a percentage of client assets: Calculated as money market fund balances, bank deposits, Schwab One® balances, and certain cash equivalents as a percentage of client assets.

Clients' daily average trades: Includes daily average revenue trades by clients, trades by clients in asset-based pricing relationships, and all commission-free trades.

Common Equity Tier 1 Capital (CET1): 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. Schwab made a one-time election to opt-out of the requirement to include most components of AOCI in CET1 Capital under the "standardized approach" framework.

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

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.

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

Daily average revenue trades (DARTs): Total revenue trades during a certain period, divided by the number of trading days in that period. Revenue trades include all client trades that generate trading revenue (i.e., commission revenue or principal transaction revenue).

Debt to total capital ratio: Calculated as total debt divided by stockholders' equity and total debt.

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): Regulatory reform legislation containing numerous provisions which expanded prudential regulation of large financial services companies.

Duration: The expected change in value of a financial instrument for a 1% change in interest rates, expressed in years.

Final Regulatory Capital Rules: Refers to the regulatory capital rules issued by U.S. banking agencies which implemented Basel III and relevant provisions of Dodd-Frank, which apply to savings and loan holding companies, as well as federal savings banks.

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.

High quality liquid assets (HQLA): Assets with a high potential to be converted easily and quickly into cash.

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

Interest-earning assets: Includes cash and cash equivalents, cash and investments segregated, broker-related receivables, 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 "Baa" 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: Advances made to brokerage clients on a secured basis to purchase securities reflected in receivables from brokerage clients on the consolidated balance sheets.

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 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): Measures an organization's "available" amount of stable funding relative to its "required" amount of stable funding over a one-year time horizon.

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: Net compensation received from markets and firms to which the broker-dealer subsidiaries send equity and options orders. Reflects rebates received for certain types of orders, minus fees paid for types of orders for which exchange fees or other charges apply.

Pledged Asset Line® (PAL): A non-purpose revolving line of credit from Schwab Bank secured by eligible assets held in a separate pledged brokerage account maintained at the broker-dealer subsidiaries.

Return on average common stockholders' equity: Calculated as net income available to common stockholders annualized 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: Tier 1 end of period capital divided by adjusted average total consolidated assets for the quarter.

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.

THE CHARLES SCHWAB CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Amounts in Millions, Except Ratios, or as Noted)

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, and return on average common stockholders' equity 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. Finally, management believes the Consolidated Tier 1 Leverage Ratio is the most restrictive capital constraint currently imposed by regulators. Results for the years ended December 31, 2017, 2016, and 2015 are:

	Growth Rate 1-Year 2016-2017	2017	2016	2015
Client Metrics:				
Net new client assets (in billions)	86%	$ 233.1	$ 125.5	$ 139.4
Core net new client assets (in billions) [1]	58%	$ 198.6	$ 125.5	$ 134.7
Client assets (in billions, at year end)	21%	$ 3,361.8	$ 2,779.5	$ 2,513.8
Average client assets (in billions)	17%	$ 3,060.2	$ 2,614.7	$ 2,531.8
New brokerage accounts (in thousands)	32%	1,441	1,093	1,070
Active brokerage accounts (in thousands, at year end)	6%	10,755	10,155	9,769
Assets receiving ongoing advisory services (in billions, at year end)	21%	$ 1,699.8	$ 1,401.4	$ 1,253.7
Client cash as a percentage of client assets (at year end)		10.8 %	13.0 %	13.0 %
Company Financial Metrics:				
Total net revenues	15%	$ 8,618	$ 7,478	$ 6,380
Total expenses excluding interest	11%	4,968	4,485	4,101
Income before taxes on income	22%	3,650	2,993	2,279
Taxes on income	17%	1,296	1,104	832
Net income	25%	$ 2,354	$ 1,889	$ 1,447
Preferred stock dividends and other	22%	174	143	83
Net income available to common stockholders	25%	$ 2,180	$ 1,746	$ 1,364
Earnings per common share — diluted	23%	$ 1.61	$ 1.31	$ 1.03
Net revenue growth from prior year		15 %	17 %	5 %
Pre-tax profit margin		42.4 %	40.0 %	35.7 %
Return on average common stockholders' equity		15 %	14 %	12 %
Expenses excluding interest as a percentage of average client assets		0.16 %	0.17 %	0.16 %
Consolidated Tier 1 Leverage Ratio (at year end)		7.6 %	7.2 %	7.1 %

[1] 2017 excludes an inflow of $34.5 billion relating to mutual fund clearing services clients. 2015 excludes an inflow of $6.1 billion to reflect the final impact of the consolidation of its retirement plan recordkeeping platforms, an inflow of $10.2 billion relating to a mutual fund clearing services client, and an outflow of $11.6 billion relating to the Company's planned resignation from an Advisor Services cash management relationship netting to an adjustment of ($4.7) billion.

2017 Compared to 2016

Net income available to common stockholders rose in 2017 by $434 million, or 25%, from the prior year, resulting in diluted EPS of $1.61 in 2017 – an increase of 23% compared to $1.31 in 2016. Net revenues improved by $1.1 billion, or 15%, while expenses excluding interest increased $483 million, or 11%, compared to 2016.

Our steady focus on operating ‘through clients’ eyes’ and our goal to continually challenge the status quo helped Schwab achieve another strong growth year in 2017. Clients opened 1.4 million new brokerage accounts in 2017 and trusted Schwab with $198.6 billion of core net new assets in 2017, up 58% from 2016. Total assets receiving ongoing advisory services grew 21% in 2017 to $1.70 trillion. Our success with clients was bolstered by strength in the equity markets – the Standard & Poor’s 500® Index (S&P 500) finished 2017 up 19% from the prior year end. Also in 2017, the Federal Reserve increased

the overnight federal funds target interest rate three times for a total of 75 basis points. Strong client activity and the positive economic environment resulted in total client assets rising to $3.36 trillion as of December 31, 2017 – a 21% increase since the end of 2016.

Schwab's 2017 financial results demonstrate the power of our financial formula working as designed: our robust business growth supported strong revenue growth through multiple sources in 2017, which we combined with continued expense discipline to drive significantly improved profitability.

Net revenues grew by 15% in 2017 compared to 2016 through contributions from our two largest revenue sources. Net interest revenue rose 29% while asset management and administration fees grew 11% in 2017 when compared to the prior year. Trading revenue declined in 2017 by 21% due to price reductions announced early in 2017.

Consistent with our expectations, expenses grew 11% in 2017 compared to the prior year. This increase was primarily due to higher incentive compensation and higher staffing related to our strong asset gathering, as well as expenses related to project spending and third-party fees tied to higher balances in our asset management business.

This combination of revenue growth and expense discipline drove the pre-tax profit margin to 42.4% – an increase of 240 basis points over the prior year. Earnings before income taxes rose 22% to $3.7 billion in 2017 compared to $3.0 billion in the prior year.

The effective tax rate in 2017 was 35.5% compared to 36.9% in 2016 reflecting the benefit from the adoption of new accounting standards requiring the recognition of a portion of tax deductions related to equity compensation partially offset by the remeasurement of deferred tax assets and other tax adjustments associated with the enactment in 2017 of a new tax act (see Current Regulatory Environment and Other Developments for more information).

2016 Compared to 2015

In 2016, net income available to common stockholders increased $382 million, or 28%, from the prior year, resulting in diluted EPS of $1.31 in 2016 compared to $1.03 in 2015. Net revenues improved by $1.1 billion, or 17%, while expenses excluding interest increased $384 million, or 9%, compared to 2015.

Strong client momentum continued as our innovative, full-service model resonated with clients and drove growth during the year. We added 1.1 million new brokerage accounts to our client base during 2016, which contributed to bringing the total active brokerage accounts to 10.2 million by year-end. Core net new assets from new and existing clients totaled $125.5 billion in 2016, which helped grow total client assets to $2.78 trillion as of December 31, 2016. Also during 2016, investors increasingly turned to Schwab's advice offerings resulting in a 12% increase in client assets enrolled in one of our retail advisory solutions and those guided by independent advisors, to $1.40 trillion at the end of the year.

Client assets grew by 11% during an environment that had periods of marked volatility, but ultimately included improving economic conditions. The S&P 500 ended 2016 10% higher than the prior year end. After years of ultra-low interest rates, the Federal Reserve's move to increase the overnight federal funds target rate by 25 basis points in December 2015 helped throughout 2016; the Federal Reserve's subsequent additional 25 basis point increase in December 2016 had little time to impact 2016 results. Other short-term rates also rose in 2016. The one-month London Interbank Offered Rate (LIBOR) improved 34 basis points to .77% at December 31, 2016 compared to December 31, 2015.

These external drivers and the solid client growth helped produce strong net revenue growth. Schwab's 17% net revenue growth was led by increased net interest revenue and asset management and administration fees, which more than offset lower revenue from trading and other revenue. Net interest revenue improved $797 million, or 32%, in 2016 compared to 2015, and asset management and administration fees improved $405 million, or 15%.

Strong net revenue growth provided room for increased investment in people and technology, resulting in a 9% expense growth for 2016. This increase allowed for a 780 basis point gap between net revenue and expense growth and a pre-tax profit margin of 40.0% in 2016, compared to 35.7% in 2015.

Subsequent Event

On February 8, 2018, CSC redeemed all of its outstanding 1.500% Senior Notes due March 10, 2018. The aggregate principal amount of the notes was $625 million.

Current Regulatory Environment and Other Developments

On December 22, 2017, P.L.115-97, known as the Tax Cuts and Jobs Act (the Tax Act), was signed into law. Among other things, the Tax Act lowers the federal corporate income tax rate from 35% to 21%, effective for tax years including or commencing January 1, 2018.

As a result of the reduction of the federal corporate income tax rate, generally accepted accounting principles in the U.S. (GAAP) require companies to remeasure their deferred tax assets and deferred tax liabilities as of the date of enactment, with the resulting tax effects accounted for in the reporting period of enactment. Schwab has recorded a one-time non-cash charge to taxes on income associated with the remeasurement of net deferred tax assets and other tax adjustments related to the tax reform legislation in the fourth quarter of 2017. Our 2018 effective income tax rate will be reduced as a result of these changes.

In May 2016, the Federal Reserve, the OCC and the FDIC jointly issued a notice of proposed rulemaking that would impose a minimum NSFR on certain banking organizations, including CSC. The comment period for the proposed rule ended on August 5, 2016 and the impact to the Company cannot be assessed until the final rule is released.

In October 2015, the Federal Reserve issued a notice of proposed rulemaking on Total Loss-Absorbing Capacity and long-term debt that, among other things, would have required certain financial institutions that are subject to the Federal Reserve's capital rules to deduct from their regulatory capital the amount of any investments in or exposure to unsecured debt issued by U.S. bank holding companies identified as global systemically important banking organizations (GSIBs). In December 2016, the Federal Reserve issued a final rule that did not include this regulatory capital deduction proposal. At the same time, the Federal Reserve did indicate its intent to work with the OCC and FDIC to develop a proposed interagency approach towards the regulatory capital treatment of GSIB unsecured debt. The Company will evaluate any such proposal when it is issued.

RESULTS OF OPERATIONS

Total Net Revenues

Total net revenues of $8.6 billion and $7.5 billion for the years ended December 31, 2017 and 2016, respectively, grew 15% and 17% from the prior periods, reflecting significant improvements in both net interest revenue and asset management and administration fees.

Year Ended December 31,		2017		2016		2015	
	Growth Rate 2016-2017	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Net interest revenue							
Interest revenue	32 %	$ 4,624	54 %	$ 3,493	46 %	$ 2,657	42 %
Interest expense	100 %	(342)	(4 %	(171)	(2 %	(132)	(2 %
Net interest revenue	29 %	4,282	50 %	3,322	44 %	2,525	40 %
Asset management and administration fees							
Mutual fund and ETF service fees	10 %	$ 2,045	24 %	1,853	25 %	1,479	23 %
Advice solutions	14 %	1,043	12 %	915	12 %	898	14 %
Other	6 %	304	3 %	287	4 %	273	4 %
Asset management and administration fees	11 %	3,392	39 %	3,055	41 %	2,650	41 %
Trading revenue							
Commissions	(23 %	600	7 %	779	10 %	822	13 %
Principal transactions	17 %	54	1 %	46	1 %	44	1 %
Trading revenue	(21 %	654	8 %	825	11 %	866	14 %
Other	7 %	290	3 %	271	4 %	328	5 %
Provision for loan losses	(100 %	—	—	5	—	11	—
Total net revenues	15 %	$ 8,618	100 %	$ 7,478	100 %	$ 6,380	100 %

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. Revenue on interest-earning assets is affected by various factors, such as the composition of assets, prevailing interest rates at the time of origination or purchase, changes in interest rates on floating rate securities, and changes in prepayment levels for mortgage-related securities and loans. Fees earned on securities borrowing and lending activities, which are conducted by CS&Co on assets held in client brokerage accounts, are included in other interest revenue and expense.

Schwab's interest-bearing liabilities include bank deposits, payables to brokerage clients, short-term borrowings, and long-term debt. We establish the rates paid on client-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. Client-related liabilities have historically been very stable and are largely expected to remain so. Given the stability and low rate sensitivity of these liabilities, management believes their duration is relatively long, somewhere in excess of three and a half years.

Management believes that the extended period of extraordinarily low interest rates running from the financial crisis to the present has likely resulted in certain sweep cash balances retaining some level of latent rate sensitivity. To the extent short-term rates increase, management expects some sweep cash balances to migrate to purchased money

market funds or other higher-yielding alternatives. At the same time, Schwab will retain the opportunity to migrate the remaining non-rate sensitive cash in sweep money market funds to bank sweep deposits.

We have positioned Schwab to benefit from an increase in interest rates, especially short-term interest rates, by managing the duration of interest-earning assets to be shorter than that of interest-bearing liabilities, so that asset yields will move faster than liability costs.

In order to keep interest-rate sensitivity within established limits, management monitors and responds to changes in the balance sheet. As Schwab builds its client base, we attract new client sweep cash, which, along with the bulk transfer of

existing sweep cash balances from money market funds, is a primary driver of balance sheet growth. As the proportion of sweep cash balances to total liabilities has grown, the measured duration of liabilities has grown as well. By increasing the duration of interest-earning assets as necessary, we are positioned to continue to gain from increasing rates while limiting exposure to falling rates to an acceptable level. Approximately half of our investment securities and loans re-price or reset based on short-term interest rates such as one-month LIBOR.

Non-interest-bearing funding sources include certain cash balances, stockholders' equity and other miscellaneous assets and liabilities.

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,	2017			2016			2015		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets:									
Cash and cash equivalents	$ 9,931	$ 109	1.10 %	$ 11,143	$ 57	0.51 %	$ 9,358	$ 24	0.26 %
Cash and investments segregated	18,525	166	0.90 %	20,104	93	0.46 %	18,606	31	0.17 %
Broker-related receivables [1]	430	3	0.70 %	558	1	0.22 %	274	—	0.07 %
Receivables from brokerage clients	16,269	575	3.53 %	15,001	497	3.31 %	15,212	502	3.30 %
Available for sale securities [2]	53,040	815	1.54 %	72,586	883	1.22 %	62,249	629	1.01 %
Held to maturity securities	103,599	2,354	2.27 %	57,451	1,402	2.44 %	38,280	957	2.50 %
Bank loans	15,919	472	2.97 %	14,715	400	2.72 %	13,973	369	2.64 %
Total interest-earning assets	217,713	4,494	2.06 %	191,558	3,333	1.74 %	157,952	2,512	1.59 %
Other interest revenue		130			160			145	
Total interest-earning assets	$ 217,713	$ 4,624	2.12 %	$ 191,558	$ 3,493	1.82 %	$ 157,952	$ 2,657	1.68 %
Funding sources:									
Bank deposits	$ 163,998	$ 148	0.09 %	$ 141,432	$ 37	0.03 %	$ 113,464	$ 29	0.03 %
Payables to brokerage clients	25,403	16	0.06 %	26,311	3	0.01 %	25,651	2	0.01 %
Short-term borrowings [1]	3,503	41	1.17 %	1,864	9	0.48 %	21	—	0.27 %
Long-term debt	3,431	119	3.47 %	2,876	104	3.62 %	2,717	92	3.39 %
Total interest-bearing liabilities	196,335	324	0.17 %	172,483	153	0.09 %	141,853	123	0.09 %
Non-interest-bearing funding sources	21,378			19,075			16,099		
Other interest expense		18			18			9	
Total funding sources	$ 217,713	$ 342	0.15 %	$ 191,558	$ 171	0.09 %	$ 157,952	$ 132	0.08 %
Net interest revenue		$ 4,282	1.97 %		$ 3,322	1.73 %		$ 2,525	1.60 %

[1] Interest revenue or expense was less than $500,000 in the period or periods presented.
[2] Amounts calculated based on amortized cost.

Net interest revenue increased $960 million or 29%, in 2017 from 2016, and $797 million, or 32%, in 2016 from 2015, primarily due to higher interest rates and growth in interest-earning assets driven by bank deposits.

Higher short-term interest rates reflecting the Federal Reserve's December, June, and March 2017 and December 2016 interest rate hikes, coupled with growth in interest-earning assets, have resulted in a 24 basis point improvement in net interest margin to 1.97% in 2017. Net interest margin was 1.73% in 2016, representing an improvement of 13 basis points compared to 2015.

In 2017 and 2016, average interest earning assets have grown by 14% and 21%, respectively, from the prior years. This growth has been driven primarily by higher bank deposits, which increased through a combination of:

- Gathering additional assets from new and current clients;
- Transferring uninvested cash balances in certain client brokerage accounts to the bank sweep feature; and
- Establishing the bank sweep feature as the default investment option for uninvested cash balances within all new Investor and Advisor Services brokerage accounts during 2016.

In 2017, clients allocated more of their cash to equity, fixed income and other investments which affected growth in bank sweep deposits.

In March 2017, $24.7 billion of debt securities were transferred from the AFS category to the HTM category. The transfer had no effect on the overall net interest margin. For additional information on the transfer, see Item 8 – Note 5.

Asset Management and Administration Fees

Asset management and administration fees include mutual fund and ETF service fees and fees for other asset-based financial services provided to individual and institutional clients. Schwab earns mutual fund and ETF 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 and ETFs, as those amounts, net of program fees, are credited to the fund shareholders. The fair values of client assets included in proprietary and third-party mutual funds and ETFs 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, collective trust fund 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.

The following table presents a roll forward of client assets for the Schwab money market funds, Schwab equity and bond funds and ETFs, and Mutual Fund OneSource® and other non-transaction fee (NTF) funds. The following funds generated 53% of the asset management and administration fees earned during 2017 and 2016 and 47% during 2015:

	Schwab Money Market Funds			Schwab Equity and Bond Funds and ETFs			Mutual Fund OneSource® and Other NTF [1] Funds		
Year Ended December 31,	2017	2016	2015	2017	2016	2015	2017	2016	2015
Balance at beginning of period	$ 163,495	$ 166,148	$ 167,909	$ 125,813	$ 102,112	$ 88,450	$ 198,924	$ 207,654	$ 234,381
Net inflows (outflows)	(486)	(2,765)	(1,947)	30,771	13,858	15,542	(27,485)	(22,469)	(23,014)
Net market gains (losses) and other [2]	641	112	186	25,024	9,843	(1,880)	53,763	13,739	(3,713)
Balance at end of period	$ 163,650	$ 163,495	$ 166,148	$ 181,608	$ 125,813	$ 102,112	$ 225,202	$ 198,924	$ 207,654

[1] Non-transaction fee.
[2] Includes transfers from other third-party mutual funds to Mutual Fund OneSource® in the second quarter of 2017.

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

Year Ended December 31,	2017			2016			2015		
	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	$ 160,735	$ 875	0.54 %	$ 164,120	$ 962	0.59 %	$ 161,381	$ 947	0.59 %
Fee waivers		(10)			(224)			(672)	
Schwab money market funds	160,735	865	0.54 %	164,120	738	0.45 %	161,381	275	0.17 %
Schwab equity and bond funds and ETFs	158,625	223	0.14 %	115,849	217	0.19 %	102,486	217	0.21 %
Mutual Fund OneSource® and other NTF funds	215,333	706	0.33 %	199,389	676	0.34 %	225,347	764	0.34 %
Other third-party mutual funds and ETFs [1]	286,111	251	0.09 %	254,584	222	0.09 %	251,491	223	0.09 %
Total mutual funds and ETFs [2]	$ 820,804	2,045	0.25 %	$ 733,942	1,853	0.25 %	$ 740,705	1,479	0.20 %
Advice solutions [2] :									
Fee-based	$ 203,794	1,043	0.51 %	$ 177,409	915	0.52 %	$ 172,302	898	0.52 %
Non-fee-based	48,936	—	—	35,262	—	—	29,118	—	—
Total advice solutions	$ 252,730	1,043	0.41 %	$ 212,671	915	0.43 %	$ 201,420	898	0.45 %
Other balance-based fees [3]	417,659	258	0.06 %	339,071	235	0.07 %	324,701	226	0.07 %
Other [4]		46			52			47	
Total asset management and administration fees		$ 3,392			$ 3,055			$ 2,650	

[1] Includes Schwab ETF OneSource™.
[2] Beginning in the fourth quarter of 2017, a change was made to add non-fee based average assets from managed portfolios. Average client assets for advice solutions may also include the asset balances contained in the mutual fund and/or ETF categories listed above. Prior periods have been adjusted to accommodate this change.
[3] Includes various asset-related fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees. Beginning in the first quarter of 2017, a prospective methodology change was made to average client assets relating to 401(k) recordkeeping fees to provide improved insight into the associated fee driver, which resulted in an increase of approximately $25 billion. There was no impact to revenue or the average fee.
[4] Includes miscellaneous service and transaction fees relating to mutual funds and ETFs that are not balance-based.

Asset management and administration fees increased by $337 million, or 11%, in 2017 from 2016, primarily due to higher average client assets invested in advice solutions, mutual funds, and ETFs, and lower fee waivers on money market funds. Partially offsetting these increases were lower fee rates on proprietary money funds and other indexed mutual funds and ETFs due to fee reductions implemented by Schwab in 2017.

Asset management and administration fees increased by $405 million, or 15%, in 2016 from 2015 due to higher net yields on money market fund assets as short-term interest rates rose in 2016, and growth in client assets enrolled in advisory offers, partially offset by a reduction in client assets in Mutual Fund OneSource.

Trading Revenue

Trading revenue includes commission and principal transaction revenues. Commission revenue is affected by the number of revenue trades executed and the average revenue earned per revenue trade. Principal transaction revenue is primarily comprised of revenue from trading activity in fixed income securities with clients. To accommodate clients' fixed income trading activity, Schwab maintains positions in fixed income securities, including U.S. state and municipal debt obligations, U.S. Government and corporate debt, and other securities. The difference between the price at which the Company buys and sells securities to and from its clients and other broker-dealers is recognized as

principal transaction revenue. Principal transaction revenue also includes adjustments to the fair value of these securities positions.

The following table presents trading revenue and the related drivers:

Year Ended December 31,	Growth Rate 2016-2017	2017	2016	2015
DARTs (in thousands)	10 %	321.3	291.6	292.0
Clients' daily average trades (in thousands)	8 %	608.8	561.8	536.9
Number of trading days	(1 %)	250.0	251.5	251.0
Daily average revenue per revenue trade	(27 %)	$ 8.20	$ 11.23	$ 11.83
Trading revenue	(21 %)	$ 654	$ 825	$ 866

Trading revenue decreased by $171 million and $41 million in 2017 and 2016, respectively, when compared to the prior years primarily due to lower commissions rates on DARTs.

During the first quarter of 2017, we announced two trading price reductions which lowered standard equity, ETF, and option trade commissions from $8.95 to $4.95 and lowered the per contract option fee from $.75 to $.65. These reductions in commission rates reflect our continuing belief that pricing should never be an obstacle for choosing Schwab and our commitment to share the benefits of scale with clients.

With these changes, trading revenue has declined from a peak of 50%-60% of total revenue in the early 1990's to the current low of 8% in 2017, 11% in 2016 and 14% in 2015.

Other Revenue

Other revenue includes order flow revenue, other service fees, software fees from our portfolio management solutions, exchange processing fees, and nonrecurring gains.

Order flow revenue was $114 million during 2017, and $103 million for both 2016 and 2015. In 2016 and 2015, other revenue also included net litigation proceeds of $16 and $75 million, respectively, relating to our non-agency residential mortgage-backed securities portfolios.

Total Expenses Excluding Interest

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

	Growth Rate 2016-2017	2017	2016	2015
Compensation and benefits				
Salaries and wages	9 %	$ 1,496	$ 1,368	$ 1,258
Incentive compensation	16 %	797	689	618
Employee benefits and other	9 %	444	409	365
Total compensation and benefits	11 %	$ 2,737	$ 2,466	$ 2,241
Professional services	15 %	580	506	459
Occupancy and equipment	10 %	436	398	353
Advertising and market development	1 %	268	265	249
Communications	(3 %)	231	237	233
Depreciation and amortization	15 %	269	234	224
Regulatory fees and assessments	24 %	179	144	107
Other	14 %	268	235	235
Total expenses excluding interest	11 %	$ 4,968	$ 4,485	$ 4,101
Expenses as a percentage of total net revenues:				
Compensation and benefits		32 %	33 %	35 %
Advertising and market development		3 %	4 %	4 %
Full-time equivalent employees (in thousands):				
At year end	9 %	17.6	16.2	15.3
Average	6 %	16.9	15.9	15.1

Expenses excluding interest increased in 2017 and 2016 from the prior years by 11% and 9%, respectively. The largest drivers of the increase in both years were compensation and benefits and professional services.

Salaries and wages increased in 2017 and 2016 from the prior years, primarily due to increases in employee headcount to support the growth in the business and annual salary increases.

Incentive compensation increased in 2017 and 2016 from the prior years, primarily due to increased net client asset flows and increased employee headcount.

Employee benefits and other expenses increased in 2017 and 2016 from the prior years as a result of the increases in employee headcount, salaries, wages and incentive compensation.

Professional services expense increased in 2017 and 2016 from the prior years, primarily due to higher spending on technology projects and an increase in asset management and administration related expenses resulting from growth in the Schwab Funds® and Schwab ETFs™.

Occupancy and equipment expense increased in 2017 and 2016 from the prior years, primarily due to increased software maintenance expense relating to information technology systems and increases in facility operational expenses attributable to growth in Schwab's geographic footprint.

Depreciation and amortization expenses were higher in 2017 and 2016 from the prior years, due to higher amortization of internally developed software associated with our investment in software and technology enhancements.

Regulatory fees assessments increased in 2017 and 2016 from the prior years, primarily due to an increase in FDIC insurance assessments which rose as a result of higher bank deposits and the effect of a new surcharge that commenced in the third quarter of 2016.

Other expenses have increased in 2017 from the prior year due to travel and entertainment, asset volume-related increases, and some miscellaneous items.

Capital expenditures were $412 million, $353 million, and $285 million in 2017, 2016, and 2015, respectively. The increase in capital expenditures in both 2017 and 2016 from the prior years was due to our growing geographical expansion in the U.S. and investments in technology projects. The largest component of capital expenditures was capitalized costs for developing internal-use software of $157 million, $130 million, and $107 million in 2017, 2016, and 2015, respectively.

Taxes on Income

Effective January 1, 2017, Schwab adopted Accounting Standards Update (ASU) 2016-09, which prospectively changes the accounting treatment of a portion of the tax deductions relating to equity compensation. These deductions were previously reflected directly in additional paid-in capital, a component of stockholders' equity, and are now included in taxes on income, a component of net income. As a result of this change, our tax expense was reduced by approximately $87 million in 2017. Future effects will depend on our share price, restricted stock vesting, and the volume of equity incentive options exercised.

As previously discussed under Current Regulatory Environment and Other Developments, the Tax Act was signed into law during 2017. Among other things, the Tax Act lowers the federal corporate income tax rate from 35% to 21%, effective for tax years including or commencing January 1, 2018.

In connection with our initial analysis of the impact of the Tax Act, Schwab recognized a $46 million one-time non-cash charge to taxes on income in the fourth quarter of 2017 associated with the remeasurement of net deferred tax assets and other tax adjustments related to the Tax Act.

Schwab's effective income tax rate on income before taxes was 35.5% in 2017 compared to 36.9% in 2016. The decrease in rates between the two years reflects the net impact of the above two items. The effective rate in 2015 was 36.5%.

We estimate our effective income tax rate to be between 23% and 24% in 2018 as a result of the Tax Act.

Segment Information

Schwab provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking services, retirement plan services, and other corporate brokerage services to individual investors. The Advisor Services segment provides custodial, trading, banking, 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. 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 platform.

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

	Investor Services				Advisor Services				Total			
Year Ended December 31,	Growth Rate 2016-2017	2017	2016	2015	Growth Rate 2016-2017	2017	2016	2015	Growth Rate 2016-2017	2017	2016	2015
Net Revenues												
Net interest revenue	25 %	$ 3,231	$ 2,591	$ 2,133	44 %	$ 1,051	$731	$ 392	29 %	$ 4,282	$ 3,322	$ 2,525
Asset management and administration fees	12 %	2,344	2,093	1,837	9 %	1,048	962	813	11 %	3,392	3,055	2,650
Trading revenue	(22 %)	408	524	556	(18 %)	246	301	310	(21 %)	654	825	866
Other	9 %	217	199	234	1 %	73	72	94	7 %	290	271	328
Provision for loan losses	(100 %)	—	4	11	(100 %)	—	1	—	(100 %)	—	5	11
Total net revenues	15 %	6,200	5,411	4,771	17 %	2,418	2,067	1,609	15 %	8,618	7,478	6,380
Expenses Excluding Interest	10 %	3,725	3,380	3,090	12 %	1,243	1,105	1,011	11 %	4,968	4,485	4,101
Income before taxes on income	22 %	$ 2,475	$ 2,031	$ 1,681	22 %	$ 1,175	$962	$ 598	22 %	$ 3,650	$ 2,993	$ 2,279

Investor Services

Total net revenues increased by $789 million, or 15%, in 2017 from 2016 primarily due to increases in net interest revenue and asset management and administration fees, partially offset by a decrease in trading revenue. Net interest revenue increased primarily due to higher net interest margins and higher balances of interest-earning assets. Asset management and administration fees increased primarily due to higher client assets enrolled in advisory solutions and higher net fees on money market fund assets. Trading revenue decreased primarily due to lower commission rates. Expenses excluding interest increased by $345 million, or 10%, in 2017 from 2016 primarily due to higher compensation and benefits, technology project spend, asset management and administration related expenses and regulatory fee assessments.

Total net revenues increased by $640 million, or 13%, in 2016 from 2015 primarily due to increases in net interest revenue and asset management and administration fees. Net interest revenue increased primarily due to higher balances of interest-earning assets and higher interest rates on those assets. Asset management and administration fees increased primarily due to higher net yields on money market fund assets, partially offset by a reduction in client assets in Mutual Fund OneSource®. Expenses excluding interest increased by $290 million, or 9%, in 2016 from 2015 primarily due to growth in the business resulting in increases in compensation and benefits, depreciation and amortization, and occupancy and equipment expenses.

Advisor Services

Total net revenues increased by $351 million, or 17%, in 2017 from 2016 primarily due to increases in net interest revenue and asset management and administration fees, partially offset by a decrease in trading revenue. Net interest revenue increased primarily due to higher balances of interest-earning assets and higher net interest margins. Asset management and administration fees increased primarily due to higher fees from growth in client assets invested in ETFs and equity and bond funds, and higher net fees on money market fund assets. Trading revenue decreased primarily due to lower commission rates. Expenses excluding interest increased by $138 million, or 12%, in 2017 from 2016 primarily due to higher compensation and benefits, technology project spend, asset management and administration related expenses, and regulatory fee assessments.

Total net revenues increased by $458 million, or 28%, in 2016 from 2015 primarily due to increases in net interest revenue and asset management and administration fees. Net interest revenue increased primarily due to higher balances of interest-earning assets and higher interest rates on those assets. This growth in assets was bolstered by the migration of more uninvested client cash balances in the segment to Schwab Bank. Asset management and administration fees increased primarily due to higher net yields on money market fund assets. Expenses excluding interest increased by $94 million, or 9%, in 2016 from 2015 primarily due to increases in growth in the business resulting in increases in compensation and benefits, occupancy and equipment, and other expenses.

RISK MANAGEMENT

Schwab's business activities expose it to a variety of risks, including operational, credit, market, liquidity, and compliance risk. 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 measurement, risk monitoring and reporting, and risk mitigation. The activities and governance that comprise the risk management process are described below.

Culture

The Board of Directors has approved an Enterprise Risk Management (ERM) framework that incorporates our purpose, vision, and values that 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 Global Risk Committee reports, through the Chief Risk Officer, regularly to the Risk Committee of the Board of Directors. The Risk Committee in turn assists the Board of Directors in fulfilling its oversight responsibilities with respect 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 risk management, legal, compliance, and internal audit.

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

- Compliance Risk Committee – provides oversight of compliance risk management programs and policies providing an aggregate view of compliance risk exposure;
- Financial Risk Oversight Committee – provides oversight of and approves credit, liquidity, capital and market risk policies, limits, and exposures;
- 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; and

- 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 Fiduciary, Data, Information Security, Model Governance, and Third-Party risk.

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 compliance, 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 risks arise due to potential inadequacies or failures related to people, internal processes, and systems, or from external events or relationships impacting the Company and/or any of its key business partners and third parties. 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 periodic risk and control self-assessments, 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 resiliency 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, and power failures), our business and operations could be negatively impacted. To minimize business interruptions, 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.

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 limit the number of employees who have access to clients' personal information and internal authentication measures are enforced to protect against the potential for social engineering. All employees who handle sensitive information are trained in privacy and security. Schwab's fraud and cyber security teams monitor activity looking for suspicious behavior. These capabilities allow us to identify and quickly act on any attempted intrusions.

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 through contractual provisions, control standards, ongoing monitoring of third party performance, and appropriate testing. We maintain policies and procedures regarding the standard of care expected with all data, whether the data is internal company information, employee information, or non-public client information. We clearly define for employees, contractors, and third parties the expected standards of care for confidential data. We also provide regular training on data security.

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.

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 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 business conduct and ethics, sales and trading practices, marketing and communications, extension of credit, client funds and securities, books and records, anti-money laundering, client privacy, and employment policies.

Credit Risk

Credit risk is the potential for loss due to a borrower, counterparty, or issuer failing to perform on 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 establishing 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, and commercial paper.

At December 31, 2017, 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-sponsored enterprises.

Mortgage Lending Portfolio

The bank loan portfolio includes First Mortgages, HELOCs, 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 loan 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 6.

Securities and Instrument-Based Lending Portfolios

Collateral arrangements relating to margin loans, PALs, option and futures positions, securities lending agreements, and 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.

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 Schwab.

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. We are exposed to interest rate risk primarily from changes in market interest rates on our interest-earning assets relative to changes in the costs of its funding sources that finance these assets.

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 primarily include investment securities, margin loans and bank loans. 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.

To mitigate the risk of declining interest revenue, we have established policies and procedures, which include setting guidelines on the amount of net interest revenue at risk, and monitoring the net interest margin and average maturity of our interest-earning assets and funding sources. To remain within these guidelines, we manage the maturity, repricing, and cash flow characteristics of the investment portfolios.

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.

Net Interest Revenue Simulation

For Schwab's net interest revenue sensitivity analysis, we use net interest revenue simulation modeling techniques to evaluate and manage the effect of changing interest rates. The simulation includes all interest-sensitive assets and liabilities. Key variables in the simulation include the repricing of financial instruments, prepayment, reinvestment, and product pricing assumptions. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely estimate net interest revenue or predict the impact of changes in interest rates on net interest revenue. 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.

If our guidelines for net interest revenue sensitivity are breached, management must report the breach to the Financial Risk Oversight Committee and establish a plan to address the interest rate risk. There were no breaches of our net interest revenue sensitivity risk limits during the years ended December 31, 2017 or 2016.

As represented by the simulations presented below, our investment strategy is structured to produce an increase in net interest revenue when interest rates rise and, conversely, a decrease in net interest revenue when interest rates fall.

The simulations in the following table assume that the asset and liability structure of the consolidated balance sheets would not be changed as a result of the simulated changes in interest rates. As we actively manage the consolidated balance sheets 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. The following table shows the simulated net interest revenue change over the next 12 months beginning December 31, 2017 and 2016 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,	2017	2016
Increase of 100 basis points	3.3 %	6.5 %
Decrease of 100 basis points	(6.2 %)	(9.8 %)

The change in net interest revenue sensitivities as of December 31, 2017 reflects the increase in short-term interest rates. An increase in short-term interest rates positively impacts net interest revenue as yields on interest-earning assets rise faster than the cost of funding sources. A decline in interest rates could negatively impact the yield on the investment and loan portfolio to a greater degree than any offsetting reduction in interest expense from funding sources, compressing net interest margin.

Liquidity Risk

Liquidity risk is the potential that Schwab will be unable to 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, the capital needs of the bank subsidiaries, the amount of dividend payments on CSC's common and preferred stock and principal and interest due on corporate debt. The liquidity needs of CS&Co are primarily driven by client activity including trading and margin borrowing activities and capital expenditures, and the capital needs of the bank subsidiaries are primarily driven by client deposits. 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 scenarios to support liquidity levels during both business as usual and stressed conditions.

We employ a variety of methodologies to monitor and manage liquidity. We conduct regular liquidity stress testing to develop a consolidated view of liquidity risk exposures and to ensure our ability to maintain sufficient liquidity

during market-related or company-specific liquidity stress events. Liquidity is also tested at key subsidiaries 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.

The Company is subject to and was in compliance with the modified LCR rule at December 31, 2017.

Primary Funding Sources

Schwab's primary source of funds is cash generated by client activity: 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, and cash provided by external financing or equity offerings.

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

Additional Funding Sources

In addition to internal sources of liquidity, Schwab has access to external funding. The need for short-term borrowings from these 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 are available at December 31, 2017:

Description	Borrower	Outstanding	Available
Committed, unsecured credit facility with various external banks [1]	CSC	$ —	$ 750
Uncommitted, unsecured lines of credit with various external banks	CSC, CS&Co	—	1,199
Federal Reserve Bank discount window [2]	Schwab Bank	—	2,458
Federal Home Loan Bank secured credit facility [3]	Schwab Bank	15,000	17,301
Unsecured commercial paper [4]	CSC	—	750

[1] Other than an overnight borrowing to test availability, this facility was unused during 2017.
[2] Amounts available are dependent on the fair value of certain investment securities that are pledged as collateral.
[3] Amounts available are dependent on the amount of First Mortgages, HELOCs, and the fair value of certain investment securities that are pledged as collateral.
[4] CSC has authorization from its Board of Directors to issue Commercial Paper Notes to not exceed $1.5 billion. Management has set a current limit not to exceed the amount of the committed, unsecured credit facility.

The financial covenants for the $750 million committed credit facility require CS&Co to maintain a minimum net capital ratio, Schwab Bank to be well capitalized, and CSC to maintain a minimum level of stockholders' equity, adjusted to exclude AOCI. At December 31, 2017, the minimum level of stockholders' equity required under this facility was $12.5 billion (CSC's stockholders' equity, excluding AOCI, at December 31, 2017 was $18.7 billion). Management believes these restrictions will not have a material effect on CSC's ability to meet foreseeable dividend or funding requirements.

Schwab Bank has access to short-term secured funding through the Federal Reserve's discount window. Amounts available under the Federal Reserve discount window are dependent on the fair value of certain of Schwab Bank's investment securities that are pledged as collateral.

Schwab Bank also maintains a secured credit facility with the Federal Home Loan Bank of San Francisco (FHLB). Amounts available under this facility are dependent on the amount of Schwab Bank's First Mortgages, HELOCs, and the fair value of certain of Schwab Bank's investment securities that are pledged as collateral. During 2017, Schwab Bank used borrowings under this agreement to purchase investment securities prior to bulk transfers. This credit facility is also available as backup financing in the event of the outflow of client cash from Schwab Bank's balance sheet.

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 are P1 by Moody's, A1 by Standard & Poor's, and F1 by Fitch. CSC had no Commercial Paper Notes outstanding at December 31, 2017 or 2016.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, CS&Co has unsecured standby letter of credit agreements (LOCs) with several banks in favor of the Options Clearing Corporation aggregating $225 million at December 31, 2017. There were no funds drawn under any of these LOCs during 2017 or 2016. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The collateral requirements were satisfied by providing cash as collateral.

CSC has a universal automatic shelf registration statement (Shelf Registration Statement) on file with the SEC, which enables it to issue debt, equity, and other securities.

Borrowings

Long-term debt outstanding was $4.8 billion and $2.9 billion at December 31, 2017 and 2016, respectively. Short-term borrowings outstanding from FHLB were $15.0 billion at December 31, 2017 and there were none at December 31, 2016.

The following are details of the Senior Notes and short-term borrowings:

December 31, 2017	Par Outstanding	Maturity	Weighted Average Interest Rate	Moody's	Standard & Poor's	Fitch
Senior Notes	$ 4,731	2018 - 2028	3.01% fixed	A2	A	A
Short-term borrowings	$ 15,000	2018	1.53% fixed	N/A	N/A	N/A

N/A Not Applicable.

New Debt Issuances

All debt issuances in 2017 were senior unsecured obligations with interest payable semi-annually. Additional details are as follows:

Issuance Date	Issuance Amount	Maturity Date	Interest Rate
March 2, 2017	$ 650	2027	3.200%
December 7, 2017	$ 700	2028	3.200%
December 7, 2017	$ 800	2023	2.650%

Equity Issuances and Redemptions

CSC's preferred stock issued and net proceeds for the years ending December 31, 2017 and 2016 are as follows:

	Date Issued and Sold	Net Proceeds
Series D	March 7, 2016	$ 725
Series E	October 31, 2016	$ 591
Series F	October 31, 2017	$ 492

On December 1, 2017, CSC redeemed all of the 485,000 outstanding shares of its 6.00% Non-Cumulative Perpetual Preferred Stock, Series B ("Series B Preferred Stock"), and the corresponding 19,400,000 depositary shares, each representing a 1/40th interest in a share of the Series B Preferred Stock.

For further discussion of CSC's long-term debt and information on the equity offerings, see Item 8 – Note 12 and Note 16.

Off-Balance Sheet Arrangements

Schwab enters into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients. These arrangements include firm commitments to extend credit. Additionally, Schwab enters into guarantees and other similar arrangements in the ordinary course of business. For information on each of these arrangements, see Item 8 – Note 6, Note 10, Note 12, Note 13, and Note 14.

Contractual Obligations

Schwab's principal contractual obligations as of December 31, 2017 are shown in the following table. We believe that funds generated by continuing operations, as well as cash provided by external financing, will continue to be the primary funding sources in meeting these obligations. Excluded from this table are liabilities recorded on the consolidated balance sheets that are generally short-term in nature (e.g., payables to brokers, dealers, and clearing organizations and short-term borrowings) or without contractual payment terms (e.g., bank deposits, payables to brokerage clients, and deferred compensation).

December 31, 2017	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Credit-related financial instruments [1]	$ 1,622	$ 2,842	$ 4,254	$ 1,945	$ 10,663
Long-term debt [2]	1,022	954	192	3,429	5,597
Purchase obligations [3]	305	219	48	181	753
Leases [4]	127	194	120	289	730
Total	$ 3,076	$ 4,209	$ 4,614	$ 5,844	$ 17,743

[1] Represents Schwab Bank's commitments to extend credit to banking clients, purchase mortgage loans, and commitments to fund CRA investments.
[2] Includes estimated future interest payments through 2028 for Senior Notes. Amounts exclude maturities under a finance lease obligation and unamortized discounts and premiums.
[3] Consists of purchase obligations for services such as advertising and marketing, telecommunications, professional services, and hardware- and software-related agreements. Includes purchase obligations that can be canceled by the Company without penalty.
[4] Represents minimum rental commitments, net of sublease commitments, and includes facilities under past restructuring initiatives and rental commitments under a finance lease obligation.

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, providing financial support to the 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 Schwab Bank. 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. When subsidiaries have need of additional capital, funds are provided by CSC as equity investments and also as subordinated loans (in a form approved as regulatory capital by regulators) for CS&Co. 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 must 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 Schwab Bank and to provide financial assistance if Schwab Bank experiences financial distress. Schwab is required to maintain a Tier 1 Leverage Ratio for CSC of at least 4%; however, management seeks to maintain the ratio of at least 6%. Due to the relatively low risk of our balance sheet assets and risk-based capital ratios at CSC and Schwab Bank that are well in excess of regulatory requirements, the Tier 1 Leverage Ratio is the most restrictive capital constraint on CSC's asset growth.

Banking subsidiaries are subject to capital requirements set by their regulators that are substantially similar to those imposed on CSC by the Federal Reserve. 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 bank. Schwab's principal banking subsidiary, Schwab Bank, is required to maintain a Tier 1 Leverage Ratio of at least 5% to be well capitalized, but seeks to maintain the ratio of at least 6.25%. Based on its regulatory capital ratios at December 31, 2017, Schwab Bank is considered well capitalized.

The following table details CSC's consolidated and Schwab Bank's capital ratios:

December 31,	2017		2016	
	CSC	Schwab Bank	CSC	Schwab Bank
Total stockholders' equity	$ 18,525	$ 13,224	$ 16,421	$ 11,726
Less:				
Preferred Stock	2,793	—	2,783	—
Common Equity Tier 1 Capital before regulatory adjustments	$ 15,732	$ 13,224	$ 13,638	$ 11,726
Less:				
Goodwill, net of associated deferred tax liabilities	$ 1,191	$ 13	$ 1,175	$ 11
Other intangible assets, net of associated deferred tax liabilities	61	—	52	—
Deferred tax assets, net of valuation allowances and deferred tax liabilities	2	—	—	—
AOCI adjustment [1]	(152)	(144)	(163)	(163)
Common Equity Tier 1 Capital	$ 14,630	$ 13,355	$ 12,574	$ 11,878
Tier 1 Capital	$ 17,423	$ 13,355	$ 15,357	$ 11,878
Total Capital	17,452	13,382	15,384	11,904
Risk-Weighted Assets	75,866	66,519	68,179	59,915
Common Equity Tier 1 Capital/Risk-Weighted Assets	19.3 %	20.1 %	18.4 %	19.8 %
Tier 1 Capital/Risk-Weighted Assets	23.0 %	20.1 %	22.5 %	19.8 %
Total Capital/Risk-Weighted Assets	23.0 %	20.1 %	22.6 %	19.9 %
Tier 1 Leverage Ratio	7.6 %	7.1 %	7.2 %	7.0 %

[1] CSC and Schwab Bank have elected to opt-out of the requirement to include most components of AOCI in CET1 Capital.

Schwab Bank is also subject to regulatory requirements that restrict and govern the terms of affiliate transactions. In addition, Schwab Bank is required to provide notice to, and may be required to obtain approval from, the OCC and the Federal Reserve to declare dividends to the parent company.

As a broker-dealer, CS&Co is subject to regulatory requirements of the Uniform Net Capital Rule. The rule is intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit CS&Co from paying cash dividends, making unsecured advances and loans to the parent company and employees, and repaying subordinated borrowings from CSC 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 of $250,000. As such, CS&Co is required to maintain, at all times, at least the minimum level of net capital required under Rule 15c3-1. At December 31, 2017, CS&Co exceeded the net capital requirements.

In addition to the capital requirements above, the Company's subsidiaries are subject to various regulatory requirements that are intended to ensure financial soundness and liquidity. See Item 8 – Note 21 for additional information on the components of stockholders' equity and information on the capital requirements of each of the subsidiaries.

Dividends

Since the initial dividend in 1989, CSC has paid 115 consecutive quarterly dividends and has increased the quarterly dividend rate 21 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 stock cash dividend at approximately 20% to 30% of net income.

On April 21, 2016 the Board of Directors of the Company declared a one cent, or 17%, increase in the quarterly cash dividend to $0.07 per common share. On January 26, 2017, the Board of Directors of the Company declared a one cent, or 14%, increase in the quarterly cash dividend to $0.08 per common share.

On January 25, 2018, the Board of Directors of the Company declared a two cent, or 25% increase in the quarterly cash dividend to $0.10 per common share.

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

Year Ended December 31,	2017		2016	
	Cash Paid	Per Share Amount	Cash Paid	Per Share Amount
Common Stock	$ 431	$ 0.32	$ 360	$ 0.27
Series A Preferred Stock [1]	28	70.00	28	70.00
Series B Preferred Stock [2,6]	29	60.00	29	60.00
Series C Preferred Stock [2]	36	60.00	36	60.00
Series D Preferred Stock [2,3]	45	59.52	33	43.65
Series E Preferred Stock [4]	23	3,867.01	N/A	N/A
Series F Preferred Stock [5]	N/A	N/A	N/A	N/A

[1] Dividends paid semi-annually until February 1, 2022 and quarterly thereafter.
[2] Dividends paid quarterly.
[3] Series D Preferred Stock was issued on March 7, 2016.
[4] Series E Preferred Stock was issued on October 31, 2016. Dividends paid semi-annually until March 1, 2022 and quarterly thereafter.
[5] Series F Preferred Stock was issued on October 31, 2017. Dividends paid semi-annually beginning on June 1, 2018 until December 1, 2027, and quarterly thereafter.
[6] Series B Preferred Stock was redeemed on December 1, 2017.
N/A Not applicable.

Share Repurchases

There were no repurchases of CSC's common stock in 2017 or 2016. As of December 31, 2017, CSC had remaining authority from the Board of Directors to repurchase up to $596 million of its common stock, which is not subject to expiration.

FOREIGN HOLDINGS

At December 31, 2017, Schwab had exposure to non-sovereign financial and non-financial institutions in foreign countries of $5.7 billion, with the fair value of the top three exposures being to issuers and counterparties domiciled in Sweden at $1.6 billion, France at $1.3 billion and Canada at $0.8 billion.

At December 31, 2017, Schwab held AFS and HTM securities with a total fair value of $99 million issued by agencies of foreign governments. These securities are explicitly guaranteed by governments of issuing agencies.

In addition to the direct holdings in foreign companies and securities issued by foreign government agencies, Schwab has indirect exposure to foreign countries through its investments in CSIM money market funds (collectively, the Funds) resulting from brokerage clearing activities. At December 31, 2017, the Company had $135 million in investments in these Funds. Certain of the Funds' positions include certificates of deposits, time deposits, commercial paper and corporate debt securities issued by counterparties in foreign countries. Schwab had outstanding margin loans to foreign residents of $660 million at December 31, 2017.

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 – Note 2 and Note 15 for more information on our assets and liabilities recorded at fair value.

When available, Schwab uses quoted prices in active markets to measure the fair value of assets and liabilities. When utilizing market data and bid-ask spread, we use the price within the bid-ask spread that best represents fair value. When quoted prices do not exist, prices are obtained from independent third-party pricing services to measure the fair value of investment assets. We generally obtain prices from at least three independent pricing sources for assets recorded at fair value. Our primary independent pricing service provides prices based on observable trades 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. The prices obtained from its primary independent pricing service are compared to the prices obtained from the additional independent pricing services to determine if the price obtained from the primary independent pricing service is reasonable. We do 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 a material difference in the recorded amounts. At December 31, 2017 and 2016, we did not adjust prices received from the primary independent third-party pricing service.

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 connection with its application of 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 reported 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 19 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, insurance coverage and indemnification, 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 13 for more information on the Company's contingencies related to legal and regulatory reserves.

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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Consolidated Statements of Income

(In Millions, Except Per Share Amounts)

Year Ended December 31,	2017	2016	2015
Net Revenues			
Interest revenue	$ 4,624	$ 3,493	$ 2,657
Interest expense	(342)	(171)	(132)
Net interest revenue	4,282	3,322	2,525
Asset management and administration fees [1]	3,392	3,055	2,650
Trading revenue	654	825	866
Other	290	271	328
Provision for loan losses	—	5	11
Total net revenues	8,618	7,478	6,380
Expenses Excluding Interest			
Compensation and benefits	2,737	2,466	2,241
Professional services	580	506	459
Occupancy and equipment	436	398	353
Advertising and market development	268	265	249
Communications	231	237	233
Depreciation and amortization	269	234	224
Regulatory fees and assessments	179	144	107
Other	268	235	235
Total expenses excluding interest	4,968	4,485	4,101
Income before taxes on income	3,650	2,993	2,279
Taxes on income [2]	1,296	1,104	832
Net Income	2,354	1,889	1,447
Preferred stock dividends and other [3]	174	143	83
Net Income Available to Common Stockholders	$ 2,180	$ 1,746	$ 1,364
Weighted-Average Common Shares Outstanding:			
Basic	1,339	1,324	1,315
Diluted	1,353	1,334	1,327
Earnings Per Common Share:			
Basic	$ 1.63	$ 1.32	$ 1.04
Diluted	$ 1.61	$ 1.31	$ 1.03
Dividends Declared Per Common Share	$ .32	$ .27	$ .24

[1] Includes fee waivers of $10 million, $224 million, and $672 million during the years ended December 31, 2017, 2016, and 2015, respectively, relating to Schwab-sponsored money market funds.

[2] Includes the prospective adoption of ASU 2016-09 in 2017. See New Accounting Standards in Note 2 for additional information. Taxes on income were increased by approximately $46 million in December 2017 due to the enactment of the Tax Cuts and Jobs Act legislation resulting in the remeasurement of deferred tax assets and other tax adjustments.

[3] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(In Millions)

Year Ended December 31,	2017	2016	2015
Net income	$ 2,354	$ 1,889	$ 1,447
Other comprehensive income (loss), before tax:			
Change in net unrealized gain (loss) on available for sale securities:			
Net unrealized gain (loss)	13	(44)	(477)
Reclassification of net unrealized loss transferred to held to maturity	227	—	—
Other reclassifications included in other revenue	(12)	(4) —	—
Change in net unrealized gain (loss) on held to maturity securities:			
Reclassification of net unrealized loss transferred from available for sale	(227)	—	—
Amortization of amounts previously recorded upon transfer from available for sale	31	—	—
Other	(11)	1	—
Other comprehensive income (loss), before tax	21	(47)	(477)
Income tax effect	(10)	18	178
Other comprehensive income (loss), net of tax	11	(29)	(299)
Comprehensive Income	$ 2,365	$ 1,860	$ 1,148

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(In Millions, Except Per Share and Share Amounts)

December 31,	2017	2016
Assets		
Cash and cash equivalents	$ 14,217	$ 10,828
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $6,596 and $9,547 at December 31, 2017 and 2016, respectively)	15,139	22,174
Receivables from brokers, dealers, and clearing organizations	649	728
Receivables from brokerage clients — net	20,576	17,155
Other securities owned — at fair value	539	449
Available for sale securities	49,995	77,365
Held to maturity securities (fair value — $120,373 and $74,444 at December 31, 2017 and 2016, respectively)	120,926	75,203
Bank loans — net	16,478	15,403
Equipment, office facilities, and property — net	1,471	1,299
Goodwill	1,227	1,227
Intangible assets — net	108	144
Other assets	1,949	1,408
Total assets	$ 243,274	$ 223,383
Liabilities and Stockholders' Equity		
Bank deposits	$ 169,656	$ 163,454
Payables to brokers, dealers, and clearing organizations	1,287	2,407
Payables to brokerage clients	31,243	35,894
Accrued expenses and other liabilities	2,810	2,331
Short-term borrowings	15,000	—
Long-term debt	4,753	2,876
Total liabilities	224,749	206,962
Stockholders' equity:		
Preferred stock — $.01 par value per share; aggregate liquidation preference of $2,850 and $2,835 at December 31, 2017 and 2016, respectively	2,793	2,783
Common stock — 3 billion shares authorized; $.01 par value per share; 1,487,543,446 shares issued	15	15
Additional paid-in capital	4,353	4,267
Retained earnings	14,408	12,649
Treasury stock, at cost — 142,210,890 and 154,793,560 shares at December 31, 2017 and 2016, respectively	(2,892)	(3,130)
Accumulated other comprehensive income	(152)	(163)
Total stockholders' equity	18,525	16,421
Total liabilities and stockholders' equity	$ 243,274	$ 223,383

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Cash Flows

(In Millions)

Year Ended December 31,	2017	2016	2015
Cash Flows from Operating Activities			
Net income	$ 2,354	$ 1,889	$ 1,447
Adjustments to reconcile net income to net cash (used for) provided by operating activities:			
Provision for loan losses	—	(5)	(11)
Share-based compensation	153	141	135
Depreciation and amortization	269	234	224
Provision (Benefit) for deferred income taxes	58	15	(7)
Premium amortization, net, on available for sale and held to maturity securities	342	266	162
Other	51	9	(4)
Net change in:			
Cash and investments segregated and on deposit for regulatory purposes	7,035	(2,576)	1,183
Receivables from brokers, dealers, and clearing organizations	74	(147)	(108)
Receivables from brokerage clients	(3,428)	150	(1,652)
Other securities owned	(90)	84	(17)
Other assets	(177)	(93)	(98)
Payables to brokers, dealers, and clearing organizations	(1,148)	(181)	808
Payables to brokerage clients	(4,651)	2,709	(1,120)
Accrued expenses and other liabilities	421	167	304
Net cash provided by operating activities	1,263	2,662	1,246
Cash Flows from Investing Activities			
Purchases of available for sale securities	(15,033)	(29,248)	(21,351)
Proceeds from sales of available for sale securities	8,617	5,537	2,424
Principal payments on available for sale securities	9,095	11,903	7,340
Purchases of held to maturity securities	(32,925)	(31,162)	(19,303)
Principal payments on held to maturity securities	11,627	5,747	3,540
Net increase in bank loans	(1,071)	(1,103)	(980)
Purchase of equipment, office facilities, and property	(400)	(346)	(266)
Purchases of Federal Home Loan Bank stock	(430)	(152)	—
Proceeds from sales of Federal Home Loan Bank stock	106	88	8
Other investing activities	(59)	(39)	(35)
Net cash used for investing activities	(20,473)	(38,775)	(28,623)
Cash Flows from Financing Activities			
Net change in bank deposits	6,186	33,952	26,687
Net proceeds from short-term borrowings	15,000	—	—
Issuance of long-term debt	2,129	—	1,346
Repayment of long-term debt	(257)	(7)	(357)
Net proceeds from preferred stock offerings	492	1,316	581
Redemption of preferred stock	(485)	—	—
Dividends paid	(592)	(486)	(387)
Proceeds from stock options exercised and other	171	144	90
Other financing activities	(45)	44	32
Net cash provided by financing activities	22,599	34,963	27,992

Increase (Decrease) in Cash and Cash Equivalents	3,389	(1,150)	615
Cash and Cash Equivalents at Beginning of Year	10,828	11,978	11,363
Cash and Cash Equivalents at End of Year	$ 14,217	$ 10,828	$ 11,978
Supplemental Cash Flow Information			
Cash paid during the year for:			
Interest	$ 327	$ 160	$ 121
Income taxes	$ 1,212	$ 991	$ 810
Non-cash investing activity:			
Securities purchased during the year but settled after year end	$ 29	$ —	$ —

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

(In Millions)

	Preferred Stock	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Income (Loss)	Total
		Shares	Amount					
Balance at December 31, 2014	$ 872	1,488	$ 15	$ 4,050	$ 10,198	$ (3,497)	$ 165	$ 11,803
Net income	—	—	—	—	1,447	—	—	1,447
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(299)	(299)
Issuance of preferred stock, net	587	—	—	—	—	—	—	587
Dividends declared on preferred stock	—	—	—	—	(69)	—	—	(69)
Dividends declared on common stock	—	—	—	—	(318)	—	—	(318)
Stock option exercises and other	—	—	—	(87)	—	177	—	90
Share-based compensation and related tax effects	—	—	—	172	—	—	—	172
Other	—	—	—	17	(5)	(23)	—	(11)
Balance at December 31, 2015	1,459	1,488	15	4,152	11,253	(3,343)	(134)	13,402
Net income	—	—	—	—	1,889	—	—	1,889
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(29)	(29)
Issuance of preferred stock, net	1,324	—	—	—	—	—	—	1,324
Dividends declared on preferred stock	—	—	—	—	(126)	—	—	(126)
Dividends declared on common stock	—	—	—	—	(360)	—	—	(360)
Stock option exercises and other	—	—	—	(80)	—	224	—	144
Share-based compensation and related tax effects	—	—	—	177	—	—	—	177
Other	—	—	—	18	(7)	(11)	—	—
Balance at December 31, 2016	2,783	1,488	15	4,267	12,649	(3,130)	(163)	16,421
Net income	—	—	—	—	2,354	—	—	2,354
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	11	11
Issuance of preferred stock, net	492	—	—	—	—	—	—	492
Redemption of preferred stock	(482)	—	—	—	(3)	—	—	(485)
Dividends declared on preferred stock	—	—	—	—	(161)	—	—	(161)
Dividends declared on common stock	—	—	—	—	(431)	—	—	(431)
Stock option exercises and other	—	—	—	(88)	—	259	—	171
Share-based compensation and related tax effects	—	—	—	144	—	—	—	144
Other	—	—	—	30	—	(21)	—	9
Balance at December 31, 2017	$ 2,793	1,488	$ 15	$ 4,353	$ 14,408	$ (2,892)	$ (152)	$ 18,525

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, headquartered in San Francisco, California. CSC was incorporated in 1986 and engages, through its subsidiaries, in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services. Charles Schwab & Co., Inc. (CS&Co) is a securities broker-dealer with over 345 domestic branch offices in 46 states, as well as a branch in the Commonwealth of Puerto Rico. In addition, Schwab serves clients in England, Hong Kong, Singapore, and Australia through various subsidiaries. Other significant subsidiaries include Schwab Bank, a federal savings bank, and Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds®), and for Schwab's exchange-traded funds (Schwab ETFs™).

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. Certain estimates relate to taxes on income and legal and regulatory reserves. Actual results may differ from those estimates.

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

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 10 for further information about VIEs. The Company 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. Investments in entities for which the Company does not have the ability to exercise significant influence are generally carried at cost, except for certain investments in qualified affordable housing projects which are accounted for under the proportional amortization method. All equity method, cost method, and proportional amortization method investments are included in other assets on the consolidated balance sheets.

2. Summary of Significant Accounting Policies

Interest revenue

Interest revenue is recognized as earned on interest-earning assets such as cash and cash equivalents, cash and investments segregated, receivables from brokerage clients, investment securities, and bank loans. Interest revenue from these assets is based upon average or daily balances and the applicable interest rates. Interest revenue is also recognized from securities lending activities when earned based upon the securities and amounts lent and the applicable rates.

Asset management and administration fees

Asset management and administration fees are recognized as services are performed. Such fees are generally based on a percentage of the daily average asset balances, which are based on quoted market prices and other observable market data.

The Company's policy is to recognize revenue subject to refunds because management can estimate refunds based on Company-specific experience. Actual refunds were immaterial for all periods presented.

Trading revenue

Schwab generates the majority of its trading revenue through commissions earned for executing trades for clients. Commission revenues are recognized as services are performed at the time of execution (i.e., on the trade date).

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 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 Schwab Bank maintains at the Federal Reserve Bank (FRB).

Cash and investments segregated and on deposit for regulatory purposes

Cash and investments segregated and on deposit for regulatory purposes include securities purchased under agreements to resell (resale agreements), which are collateralized by U.S. Government and agency securities. Resale agreements are accounted for as collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The Company obtains control of collateral with a market value equal to or in excess of the principal amount loaned and accrued interest under resale agreements. Collateral is valued daily by the Company, with additional collateral obtained to ensure full collateralization. Cash and investments segregated also include certificates of deposit and U.S. Government securities. Certificates of deposit and U.S. Government securities are recorded at fair value. Pursuant to the SEC's Customer Protection Rule, cash balances not collateralizing margin positions and not swept to money market funds or bank deposit accounts, are segregated by Schwab for the exclusive benefit of clients.

Receivables from brokerage clients

Receivables from brokerage clients include margin loans to securities brokerage clients and other trading receivables from clients. Margin loans are collateralized by client securities and are carried at the amount receivable, net of an allowance for doubtful accounts. The Company monitors margin levels and requires clients to deposit additional collateral, or reduce margin positions to meet minimum collateral requirements if the fair value of the collateral changes. Receivables from brokerage clients that remain unsecured or partially secured for more than 30 days are fully reserved for in the allowance for doubtful accounts, except in the case of confirmed fraud, which is reserved immediately. 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. The allowance for doubtful accounts for brokerage clients and related activity was immaterial for all periods presented.

Other securities owned

Other securities owned are recorded at fair value based on quoted market prices or other observable market data. Unrealized gains and losses are included in trading revenue.

Investment securities

AFS securities are recorded at fair value and unrealized gains and losses are reported, net of taxes, in AOCI included in stockholders' equity. HTM securities are recorded at amortized cost based on the Company's positive intent and ability to hold these securities to maturity. Realized gains and losses from sales of AFS securities are determined on a specific identification basis and are included in other revenue.

Management evaluates whether investment securities are OTTI on a quarterly basis. Debt securities with unrealized losses are considered OTTI if the Company intends to sell the security or if it is more likely than not that the

Company will be required to sell such security before any anticipated recovery. If management determines that a security is OTTI under these circumstances, the impairment recognized in earnings is measured as the entire difference between amortized cost and fair value.

A security is also OTTI if management does not expect to recover all of the amortized cost of the security. In this circumstance, the impairment recognized in earnings represents the estimated credit loss, and is measured by the difference between the present value of expected cash flows and the amortized cost of the security. Where appropriate, models are utilized to estimate the credit loss on a discounted cash flow basis using the security's effective interest rate.

The evaluation of whether we expect to recover the amortized cost of a security is inherently judgmental. The evaluation considers multiple factors including: the magnitude and duration of the unrealized loss; the financial condition of the issuer; the payment structure of the security; external credit ratings; our internal credit ratings; 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.

Securities borrowed and securities loaned

Securities borrowed require Schwab to deliver cash to the lender in exchange for securities and are included in receivables from brokers, dealers, and clearing organizations. 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. Securities loaned are included in payables to brokers, dealers, and clearing organizations. The market value of securities borrowed and loaned are monitored, with additional collateral obtained or refunded to ensure full collateralization. Fees received or paid are recorded in interest revenue or interest expense.

Bank loans and related allowance for loan losses

Bank loans are recorded at their contractual principal amounts and include 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, loans are recorded net of an allowance for loan losses. The loan portfolio includes four loan types: First Mortgages, HELOCs, PALs and other loans. We use these segments when developing and documenting our methodology for determining the allowance for loan losses.

PALs are collateralized by marketable securities with liquid markets. Credit lines are over-collateralized dependent on the type of security pledged. Collateral market value is monitored on a daily basis and a borrower's committed line may be reduced or collateral may be liquidated if the collateral is in danger of falling below specified levels. As such, the loss inherent within this portfolio is limited.

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

The methodology to establish an allowance for loan losses utilizes statistical models that estimate prepayments, defaults, and probable losses for the loan segments based on predicted behavior of individual loans within the segments. The methodology considers the effects of borrower behavior and a variety of factors including, but not limited to, interest rates, housing price movements as measured by a housing price index, economic conditions, estimated defaults and foreclosures measured by historical and expected delinquencies, changes in prepayment speeds, LTV ratios, past loss experience, estimates of future loss severities, borrower credit risk, and the adequacy of collateral. The methodology also evaluates concentrations in the loan types, including loan products within those types, year of origination, and geographical distribution of collateral.

Probable 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 (Estimated Current LTV) of each loan, the term and structure of each loan, current key interest rates including U.S. Treasury and LIBOR rates, and borrower FICO scores. The more significant variables in the simulation include delinquency roll rates, loss severity, housing prices, and interest rates.

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. Loss severity estimates are based on our historical loss experience and

market trends. The estimated loss severity (i.e., loss given default) used in the allowance for loan loss methodology for HELOC loans is higher than that used in the methodology for First Mortgages. 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. This methodology results in loss factors that are applied to the outstanding balances to determine the allowance for loan loss for each loan type.

Schwab considers loan modifications in which it makes an economic concession to a borrower experiencing financial difficulty to be troubled debt restructurings (TDRs).

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. Nonaccrual loans, other real estate owned, and TDRs are considered impaired assets, as it is probable we will not collect all amounts due.

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 loan 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 or not 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.

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:

Equipment and office facilities	5 to 10 years
Buildings	20 to 40 years
Software	3 or 5 years [1]
Leasehold improvements	Lesser of useful life or lease term

[1] 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.

Goodwill

Goodwill represents the fair value of acquired businesses in excess of the fair value of the individually identified net assets acquired. Goodwill is not amortized but is tested for impairment annually or whenever indications of impairment exist. Impairment exists when the carrying amount of goodwill exceeds its implied fair value, resulting in an impairment charge for this excess. Our annual impairment testing date is April 1st. 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.

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.

Low-Income Housing Tax Credit (LIHTC) Investments

As part of our community reinvestment initiatives, Schwab invests with other institutional investors in funds that make equity investments in multifamily affordable housing properties. The Company receives tax credits and other tax benefits for these 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.

Guarantees and indemnifications

Schwab recognizes, at the inception of a guarantee, a liability equal to the estimated fair value of the obligation undertaken in issuing the guarantee. The fair values of obligations relating to guarantees are estimated based on transactions for similar guarantees or expected present value measures.

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. Such costs are generally expensed 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 during which such changes are

enacted. Unrecognized tax benefits, which are included in accrued expenses and other liabilities, represent the difference between positions taken on tax return filings and estimated potential tax settlement outcomes. Accrued interest relating to unrecognized tax benefits is recorded in taxes on income and penalties are recorded in other expense.

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 fair value of the share-based award is recognized over the vesting period as share-based compensation. Share-based compensation expense is based on 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. Beginning January 1, 2017, 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 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 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.

The Company's policy is to recognize transfers of financial instruments between levels as of the beginning of the reporting period in which a transfer occurs.

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, other securities owned, and AFS securities. 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. 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 do not exist, the Company uses prices obtained from independent third-party pricing services to measure the fair value of investment assets. We generally obtain prices from at least three independent pricing sources for assets recorded at fair value.

Our primary independent pricing service provides prices based on observable trades 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 a material difference in the recorded amounts.

Fair value of other financial instruments

Descriptions of the valuation methodologies and assumptions used to estimate the fair value of other financial instruments are described below. Our financial instruments not recorded at fair value but for which fair value can be approximated and disclosed include:

- *Cash and cash equivalents* are short-term in nature and accordingly are recorded at amounts that approximate fair value.

- *Cash and investments segregated and on deposit for regulatory purposes* include cash and securities purchased under resale agreements. Securities purchased under resale agreements are short-term in nature and are backed by collateral that both exceeds the carrying value of the resale agreement and is highly liquid in nature. Accordingly, the carrying values of these financial instruments approximate their fair values.

- *Receivables from/payables to brokers, dealers, and clearing organizations* are short-term in nature, recorded at contractual amounts and historically have been settled at those values. Accordingly, the carrying values of these financial instruments approximate their fair values.

- *Receivables from/payables to brokerage clients — net* are short-term in nature, recorded at contractual amounts and historically have been settled at those values. Accordingly, the carrying values of these financial instruments approximate their fair values.

- *HTM securities* – The fair values of HTM securities are obtained using an independent third-party pricing service similar to investment assets recorded at fair value as discussed above.

- *Bank loans* – The fair values of First Mortgages and HELOCs are estimated based on prices of mortgage-backed securities collateralized by similar types of loans. PALs are non-purpose revolving lines of credit secured by eligible assets; accordingly, the carrying values of these loans approximate their fair values.

- *Financial instruments included in other assets* primarily consist of LIHTC investments, cost method investments and FHLB stock, whose carrying values approximate their fair values. FHLB stock is recorded at par, which approximates its fair value.

- *Bank deposits* – Substantially all bank deposits have no stated maturity and are recorded at the amount payable on demand as of the balance sheet date. The carrying values of these deposits approximate their fair values.

- *Financial instruments included in accrued expenses and other liabilities* consist of drafts payable and certain amounts due under contractual obligations, including unfunded LIHTC commitments. The carrying values of these instruments approximate their fair values.

- *Short-term borrowings* consist of commercial paper, borrowings on Schwab's uncommitted, unsecured bank credit lines, and funds drawn on Schwab Bank's secured credit facility with the Federal Home Loan Bank of San Francisco. Due to the short-term nature of these borrowings, carrying value approximates fair value.

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Long-term debt – Except for the finance lease obligation, the fair values of long-term debt are estimated using indicative, non-binding quotes from independent brokers. The Company validates indicative prices for its debt through comparison to other independent non-binding quotes. The finance lease obligation is recorded at carrying value, which approximates fair value.

- *Firm commitments to extend credit* – Schwab extends credit to banking clients through HELOCs and PALs. The Company considers the fair value of these unused commitments to not be material because the interest rates earned on these balances are based on floating interest rates that reset monthly.

New Accounting Standards

Adoption of New Accounting Standards

Standard	Description	Required Date of Adoption	Effects on the Financial Statements or Other Significant Matters
ASU 2016-09, "Stock Compensation - Improvements to Employee Share-Based Payment Accounting (Topic 718)"	Requires entities to recognize the income tax effects for the difference between GAAP and federal income tax treatment (i.e., excess tax benefit or deficiency) of share-based awards in the income statement when the awards vest or are settled, rather than recording such effects in additional paid-in capital. Provides entities with an accounting policy election to account for the impact of forfeitures of awards on compensation expense as they occur or continue with the current practice of estimating forfeitures at the grant date to determine the number of awards expected to vest and adjusting that estimate as necessary.	January 1, 2017	The Company's taxes on income were reduced by approximately $87 million in 2017. Future effects will depend on the Company's share price, restricted stock vesting, and the volume of equity incentive options exercised. The Company made an accounting policy election to continue its current practice of estimating forfeitures.

New Accounting Standards Not Yet Adopted

Standard	Description	Required Date of Adoption	Effects on the Financial Statements or Other Significant Matters
ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" and related ASUs	Clarifies that revenue from contracts with clients should be recognized in a manner that depicts the timing of the related transfer of goods or performance of services at an amount that reflects the expected consideration. Adoption allows either full or modified retrospective transition. Full retrospective transition will require a cumulative effect adjustment to retained earnings as of the earliest comparative period presented. Modified retrospective transition will require a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance.	January 1, 2018	The guidance does not apply to revenue earned from the Company's loans and securities. Accordingly, net interest revenue will not be impacted. The primary impact for the Company will be the capitalization of sales commissions paid to employees for obtaining new contracts with clients on the consolidated balance sheets. These capitalized costs will result in an asset of $219 million and a related deferred tax liability of $51 million upon adoption. The asset will subsequently be amortized to expense over time as the related revenues are recognized. The Company does not expect this guidance will have a material impact on its EPS. The Company adopted the revenue recognition guidance as of January 1, 2018 using the modified retrospective method. The Company's implementation work is now substantially complete.

Standard	Description	Required Date of Adoption	Effects on the Financial Statements or Other Significant Matters
ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10)"	Requires: (i) equity investments to be measured at fair value, with changes in fair value recognized in net income, unless the equity method is applied or the equity investments do not have readily determinable fair values in which case a practical alternative may be elected; (ii) use of an exit price when measuring the fair value of financial instruments for disclosures; (iii) separate presentation of financial assets and liabilities by measurement category and form of instrument on the balance sheet or in the accompanying notes. Adoption requires a cumulative effect adjustment to the balance sheet as of the beginning of the year of initial application, except for certain changes that require prospective adoption.	January 1, 2018	The Company does not expect this guidance will have a material impact on its financial statements, including EPS.
ASU 2016-02, "Leases (Topic 842)"	Amends the accounting for leases by lessees and lessors. The primary change from the new guidance is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases. Additional changes include accounting for lease origination and executory costs, required lessee reassessments during the lease term due to changes in circumstances, and expanded lease disclosures. Adoption requires modified retrospective transition as of the beginning of the earliest comparative period presented in the financial statements in which the entity first applies the new standard. Certain transition relief is permitted if elected by the entity.	January 1, 2019	The Company does not expect this guidance will have a material impact on its EPS, but it will result in a gross up of the consolidated balance sheets due to recognition of right-of-use assets and lease liabilities based on the present value of remaining operating lease payments (see Note 13 for the undiscounted rental commitments for operating leases). The Company is evaluating its adoption method due to a recently proposed ASU that provides an alternative adoption method. The Company is refining its methodology to estimate the right of use assets and lease liabilities and working on system updates to apply the lease accounting changes. The full population of contracts that may be subject to balance sheet recognition is still being evaluated, but is nearly complete. The Company has further work to perform related to disclosures.

Standard	Description	Required Date of Adoption	Effects on the Financial Statements or Other Significant Matters
ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"	Provides guidance for recognizing impairment of most debt instruments measured at amortized cost, including loans and HTM debt securities. Requires estimating current expected credit losses (CECL) over the remaining life of an instrument or a portfolio of instruments with similar risk characteristics based on relevant information about past events, current conditions, and reasonable forecasts. The initial estimate of, and the subsequent changes in, CECL will be recognized as credit loss expense through current earnings and will be reflected as an allowance for credit losses offsetting the carrying value of the financial instrument(s) on the balance sheet. Amends the OTTI model for AFS debt securities by requiring the use of an allowance, rather than directly reducing the carrying value of the security, and eliminating consideration of the length of time such security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. Adoption requires a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the entity applies the new guidance except that a prospective transition is required for AFS debt securities for which an OTTI has been recognized prior to the effective date.	January 1, 2020 (early adoption permitted)	The Company is currently evaluating the impact of this guidance on its financial statements, including EPS. Initial implementation work performed to date has focused on evaluating the Company's impacted assets, including loans and investment securities. The Company has also been evaluating its current data and system capabilities and considering additional data sources and system enhancements. Additional work to be completed includes an in-depth analysis for each impacted asset type, selection of methods, and changes to policies and procedures.
ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities"	Shortens the amortization period for the premium on certain callable debt securities to the earliest call date. The amendments are applicable to any purchased individual debt security with an explicit and noncontingent call feature with a fixed price on a preset date. ASU 2017-08 does not impact the accounting for callable debt securities held at a discount. Adoption requires modified retrospective transition as of the beginning of the period of adoption	January 1, 2019 (early adoption permitted)	The Company is currently evaluating the impact of adopting this guidance on its financial statements, including EPS.

	through a cumulative-effect adjustment to retained earnings.		

3. Receivables from and Payables to Brokerage Clients

Receivables from and payables to brokerage clients are detailed below:

December 31,	2017	2016
Receivables		
Margin loans, net of allowance for doubtful accounts	$ 18,331	$ 15,257
Other brokerage receivables	2,245	1,898
Receivables from brokerage clients — net	$ 20,576	$ 17,155
Payables		
Interest-bearing payables	$ 22,840	$ 28,336
Non-interest-bearing payables	8,403	7,558
Payables to brokerage clients	$ 31,243	$ 35,894

At December 31, 2017 and 2016, approximately 22% and 23%, respectively, of CS&Co's total client accounts were located in California.

4. Other Securities Owned

A summary of other securities owned is as follows:

December 31,	2017	2016
Equity and bond mutual funds	$ 318	$ 272
Schwab Funds® money market funds	135	108
State and municipal debt obligations	52	41
Equity, U.S. Government and corporate debt, and other securities	34	28
Total other securities owned	$ 539	$ 449

Equity and bond mutual funds include inventory maintained to facilitate certain Schwab Funds and third-party mutual fund clients' transactions, and investments made relating to our deferred compensation plan. The positions in Schwab Funds® money market funds arise from certain overnight funding of clients' redemption, check-writing, and debit card activities. State and municipal debt obligations, equity, U.S. Government and corporate debt, and other securities include securities held to meet clients' trading activities.

5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of AFS and HTM securities are as follows:

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. agency mortgage-backed securities	$ 20,915	$ 53	$ 39	$ 20,929
U.S. Treasury securities	9,583	—	83	9,500
Asset-backed securities [1]	9,019	34	6	9,047
Corporate debt securities [2]	6,154	16	1	6,169
Certificates of deposit	2,040	2	1	2,041
U.S. agency notes	1,914	—	8	1,906
Commercial paper [2]	313	—	—	313
Foreign government agency securities	51	—	1	50
Non-agency commercial mortgage-backed securities	40	—	—	40
Total available for sale securities	$ 50,029	$ 105	$ 139	$ 49,995
Held to maturity securities:				
U.S. agency mortgage-backed securities	$ 101,197	$ 290	$ 1,034	$ 100,453
Asset-backed securities [1]	12,937	127	2	13,062
Corporate debt securities [2]	4,078	13	5	4,086
U.S. state and municipal securities	1,247	57	—	1,304
Non-agency commercial mortgage-backed securities	994	10	5	999
U.S. Treasury securities	223	—	3	220
Certificates of deposit	200	—	—	200
Foreign government agency securities	50	—	1	49
Total held to maturity securities	$ 120,926	$ 497	$ 1,050	$ 120,373
December 31, 2016				
Available for sale securities:				
U.S. agency mortgage-backed securities	$ 33,167	$ 120	$ 92	$ 33,195
U.S. Treasury securities	8,679	3	59	8,623
Asset-backed securities [1]	20,520	29	214	20,335
Corporate debt securities [2]	9,850	20	18	9,852
Certificates of deposit	2,070	2	1	2,071
U.S. agency notes	1,915	—	8	1,907
Commercial paper [2]	214	—	—	214
Non-agency commercial mortgage-backed securities	45	—	—	45
U.S. state and municipal securities	1,167	2	46	1,123
Total available for sale securities	$ 77,627	$ 176	$ 438	$ 77,365
Held to maturity securities:				
U.S. agency mortgage-backed securities	$ 72,439	$ 324	$ 1,086	$ 71,677
Asset-backed securities [1]	941	—	—	941
Corporate debt securities [2]	436	—	—	436
U.S. state and municipal securities	68	1	1	68
Non-agency commercial mortgage-backed securities	997	11	4	1,004

U.S. Treasury securities	223	—	4	219
Commercial paper [2]	99	—	—	99
Total held to maturity securities	$ 75,203	$ 336	$ 1,095	$ 74,444

[1] Approximately 42% and 47% of Asset-backed securities held as of December 31, 2017 and 2016, respectively, were Federal Family Education Loan Program Asset-Backed Securities. Asset-backed securities collateralized by credit cards represented approximately 40% and 36% of the asset-backed securities held as of December 31, 2017 and 2016, respectively.

[2] As of December 31, 2017 and 2016, approximately 41% and 49%, respectively, of the total AFS and HTM investments in Corporate debt securities and Commercial paper were issued by institutions in the financial services industry. As of December 31, 2017 and 2016, approximately 22% and 19% of the holdings of these securities were issued by institutions in the information technology industry.

The increase in the HTM portfolio at December 31, 2017 compared to December 31, 2016 was primarily attributable to the transfer of $24.7 billion of investment securities from the AFS category to the HTM category during the first quarter of 2017. These securities had a total net unrealized loss of $227 million before income tax in AOCI on the date of transfer. The transfer was made to mitigate the potential volatility in regulatory capital from changes in market values in the AFS securities portfolio and the related impact to AOCI once Schwab crosses $250 billion in consolidated assets. The year after Schwab surpasses $250 billion in consolidated assets, it can no longer exclude AOCI from regulatory capital. The transfer included U.S. agency mortgage-backed securities, asset-backed securities, corporate debt securities, and U.S. state and municipal securities. The unrealized holding gains and losses on the date of transfer, are reported as a separate component of AOCI and as an adjustment to the purchase premium and discount on the securities transferred. The separate component of AOCI will be amortized or accreted into interest income over the remaining life of the securities transferred, offsetting the revised premium or discount amortization or accretion on the transferred assets.

Schwab Bank maintains a secured credit facility with the FHLB, and certain investment securities are pledged as collateral in order to secure borrowing capacity. At December 31, 2017, the Company had pledged securities with a fair value of $24.2 billion with the FHLB. Schwab Bank also pledges certain investment securities as collateral to secure borrowing capacity at the FRB discount window, and had pledged securities with a fair value of $2.5 billion as collateral for this facility at December 31, 2017. In addition, Schwab Bank pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was $923 million at December 31, 2017.

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

	Less than 12 months		12 months or longer		Total	
December 31, 2017	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
U.S. agency mortgage-backed securities	$ 5,696	$ 21	$ 2,548	$ 18	$ 8,244	$ 39
U.S. Treasury securities	4,625	11	4,875	72	9,500	83
Asset-backed securities	904	3	424	3	1,328	6
Corporate debt securities	736	1	120	—	856	1
Certificates of deposit	799	1	—	—	799	1
U.S. agency notes	99	—	1,807	8	1,906	8
Foreign government agency securities	50	1	—	—	50	1
Total	$ 12,909	$ 38	$ 9,774	$ 101	$ 22,683	$ 139
Held to maturity securities:						
U.S. agency mortgage-backed securities	$ 42,102	$ 310	$ 24,753	$ 724	$ 66,855	$ 1,034
Asset-backed securities	1,124	2	72	—	1,196	2
Corporate debt securities	1,078	5	—	—	1,078	5
Non-agency commercial mortgage-backed securities	607	5	—	—	607	5
U.S. Treasury securities	220	3	—	—	220	3
Foreign government agency securities	49	1	—	—	49	1
Total	$ 45,180	$ 326	$ 24,825	$ 724	$ 70,005	$ 1,050
Total securities with unrealized losses [1]	$ 58,089	$ 364	$ 34,599	$ 825	$ 92,688	$ 1,189
December 31, 2016						
Available for sale securities:						
U.S. agency mortgage-backed securities	$ 14,816	$ 69	$ 2,931	$ 23	$ 17,747	$ 92
U.S. Treasury securities	6,926	59	—	—	6,926	59
Asset-backed securities	1,670	13	9,237	201	10,907	214
Corporate debt securities	2,407	17	653	1	3,060	18
Certificates of deposit	474	—	100	1	574	1
U.S. agency notes	1,907	8	—	—	1,907	8
U.S. state and municipal securities	956	46	—	—	956	46
Total	$ 29,156	$ 212	$ 12,921	$ 226	$ 42,077	$ 438
Held to maturity securities:						
U.S. agency mortgage-backed securities	$ 51,361	$ 1,086	$ —	$ —	$ 51,361	$ 1,086
Non-agency commercial mortgage-backed securities	591	4	—	—	591	4
U.S. Treasury securities	219	4	—	—	219	4
U.S. state and municipal securities	14	1	—	—	14	1
Total	$ 52,185	$ 1,095	$ —	$ —	$ 52,185	$ 1,095
Total securities with unrealized losses [2]	$ 81,341	$ 1,307	$ 12,921	$ 226	$ 94,262	$ 1,533

[1] The number of investment positions with unrealized losses totaled 251 for AFS securities and 938 for HTM securities.
[2] The number of investment positions with unrealized losses totaled 627 for AFS securities and 612 for HTM securities.

At December 31, 2017, 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.

Management evaluates whether investment securities are OTTI on a quarterly basis as described in Note 2. Amounts recognized as OTTI in earnings or other comprehensive income were immaterial in 2017, 2016, and 2015. As of December 31, 2017 and 2016, the Company did not hold any securities on which OTTI was previously recognized.

The maturities of AFS and HTM securities are as follows:

December 31, 2017	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Available for sale securities:					
U.S. agency mortgage-backed securities [1]	$ 61	$ 2,253	$ 8,282	$ 10,333	$ 20,929
U.S. Treasury securities	2,515	6,985	—	—	9,500
Asset-backed securities	251	6,924	1,261	611	9,047
Corporate debt securities	3,135	3,034	—	—	6,169
Certificates of deposit	575	1,466	—	—	2,041
U.S. agency notes	1,658	248	—	—	1,906
Commercial paper	313	—	—	—	313
Foreign government agency securities	—	50	—	—	50
Non-agency commercial mortgage-backed securities [1]	—	—	—	40	40
Total fair value	$ 8,508	$ 20,960	$ 9,543	$ 10,984	$ 49,995
Total amortized cost	$ 8,517	$ 20,999	$ 9,546	$ 10,967	$ 50,029
Weighted-average yield [2]	1.53 %	1.63 %	1.72 %	1.79 %	1.66 %
Held to maturity securities:					
U.S. agency mortgage-backed securities [1]	$ 441	$ 12,680	$ 29,511	$ 57,821	$ 100,453
Asset-backed securities	—	1,003	6,245	5,814	13,062
Corporate debt securities	351	3,206	454	75	4,086
U.S. state and municipal securities	—	—	121	1,183	1,304
Non-agency commercial mortgage-backed securities [1]	—	362	—	637	999
U.S. Treasury securities	—	—	220	—	220
Certificates of deposit	—	200	—	—	200
Foreign government agency securities	—	49	—	—	49
Total fair value	$ 792	$ 17,500	$ 36,551	$ 65,530	$ 120,373
Total amortized cost	$ 792	$ 17,486	$ 36,544	$ 66,104	$ 120,926
Weighted-average yield [2]	1.97 %	2.45 %	2.35 %	2.16 %	2.26 %

[1] Mortgage-backed securities have been allocated to maturity groupings based on final contractual maturities. Actual maturities will differ from final contractual maturities because borrowers on a certain portion of loans underlying these securities have the right to prepay their obligations.
[2] The weighted-average yield is computed using the amortized cost at December 31, 2017.

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

Year Ended December 31,	2017	2016	2015
Proceeds	$ 8,617	$ 5,537	$ 2,424
Gross realized gains	12	4	1
Gross realized losses	—	—	1

6. Bank Loans and Related Allowance for Loan Losses

The composition of bank loans and delinquency analysis by loan type is as follows:

December 31, 2017	Current	30-59 days past due	60-89 days past due	>90 days past due and other nonaccrual loans [3]	Total past due and other nonaccrual loans	Total loans	Allowance for loan losses	Total bank loans - net
First Mortgages [1,2]	$ 9,983	$ 14	$ 2	$ 17	$ 33	$ 10,016	$ 16	$ 10,000
HELOCs [1,2]	1,928	—	3	12	15	1,943	8	1,935
Pledged asset lines	4,361	4	4	—	8	4,369	—	4,369
Other	176	—	—	—	—	176	2	174
Total bank loans	$ 16,448	$ 18	$ 9	$ 29	$ 56	$ 16,504	$ 26	$ 16,478
December 31, 2016								
First Mortgages [1,2]	$ 9,100	$ 15	$ 3	$ 16	$ 34	$ 9,134	$ 17	$ 9,117
HELOCs [1,2]	2,336	2	2	10	14	2,350	8	2,342
Pledged asset lines	3,846	4	1	—	5	3,851	—	3,851
Other	94	—	—	—	—	94	1	93
Total bank loans	$ 15,376	$ 21	$ 6	$ 26	$ 53	$ 15,429	$ 26	$ 15,403

[1] First Mortgages and HELOCs include unamortized premiums and discounts and direct origination costs of $77 million and $78 million at December 31, 2017 and 2016, respectively.
[2] At December 31, 2017 and 2016, 48% 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.
[3] There were no loans accruing interest that were contractually 90 days or more past due at December 31, 2017 or 2016.

Schwab Bank maintains a secured credit facility with the FHLB and loan collateral, including First Mortgages and HELOCs, is pledged at the FHLB in order to secure borrowing capacity. The amount of loan collateral pledged was $11.1 billion at December 31, 2017.

Substantially all of the bank loans were collectively evaluated for impairment at both December 31, 2017 and 2016.

Changes in the allowance for loan losses were as follows:

	December 31, 2017				December 31, 2016				December 31, 2015		
	First Mortgages	HELOCs	Other	Total [1]	First Mortgages	HELOCs	Other	Total [1]	First Mortgages	HELOCs	Total [1]
Balance at beginning of year	$ 17	$ 8	$ 1	$ 26	$ 20	$ 11	$ —	$ 31	$ 29	$ 13	$ 42
Charge-offs	(2)	(1)	—	(3)	(1)	(1)	—	(2)	(1)	(2)	(3)
Recoveries	1	1	1	3	1	1	—	2	1	2	3
Provision for loan losses	—	—	—	—	(3)	(3)	1	(5)	(9)	(2)	(11)
Balance at end of year	$ 16	$ 8	$ 2	$ 26	$ 17	$ 8	$ 1	$ 26	$ 20	$ 11	$ 31

[1] All PALs were fully collateralized by securities with fair values in excess of borrowings at December 31, 2017, 2016, and 2015.

A summary of impaired bank loan related assets is as follows:

December 31,	2017	2016
Nonaccrual loans [1]	$ 28	$ 26
Other real estate owned [2]	3	5

Total nonperforming assets		31		31
Troubled debt restructurings		11		14
Total impaired assets	$	42	$	45

(1) Nonaccrual loans include nonaccrual troubled debt restructurings.
(2) Included in Other assets on the consolidated balance sheets.

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 ratios at origination (Origination LTV); and
- Estimated current LTV.

Borrowers' FICO scores are provided by an independent third-party credit reporting service and were last updated in December 2017. 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 estimated by reference to a home price appreciation index.

The credit quality indicators of the bank loan portfolio are detailed below:

December 31, 2017	Balance	Weighted Average Updated FICO	Utilization Rate [1]	Percent of Loans that are on Nonaccrual Status
First Mortgages:				
Estimated Current LTV				
≤70%	$ 9,046	775	N/A	0.09 %
>70% – ≤90%	961	769	N/A	0.46 %
>90% – ≤100%	5	714	N/A	10.49 %
>100%	4	713	N/A	6.23 %
Total	$ 10,016	775	N/A	0.14 %
HELOCs:				
Estimated Current LTV [2]				
≤70%	$ 1,773	772	32 %	0.18 %
>70% – ≤90%	148	755	47 %	0.84 %
>90% – ≤100%	14	742	64 %	2.85 %
>100%	8	718	72 %	4.91 %
Total	$ 1,943	770	33 %	0.27 %
Pledged asset lines:				
Weighted Average LTV [2]				
= 70%	$ 4,369	765	41 %	—

December 31, 2016	Balance	Weighted Average Updated FICO	Utilization Rate [1]	Percent of Loans that are on Nonaccrual Status
First Mortgages:				
Estimated Current LTV				
≤70%	$ 8,350	774	N/A	0.04 %
>70% – ≤90%	743	768	N/A	0.35 %
>90% – ≤100%	21	747	N/A	2.08 %
>100%	20	709	N/A	14.50 %
Total	$ 9,134	773	N/A	0.10 %
HELOCs:				
Estimated Current LTV [2]				
≤70%	$ 2,070	771	35 %	0.12 %
>70% – ≤90%	234	757	50 %	0.40 %
>90% – ≤100%	29	747	66 %	1.74 %
>100%	17	728	70 %	3.73 %
Total	$ 2,350	769	36 %	0.20 %
Pledged asset lines:				
Weighted Average LTV [2]				
= 70%	$ 3,851	763	46 %	—

[1] The Utilization Rate is calculated using the outstanding balance divided by the associated total line of credit.
[2] Represents the LTV for the full line of credit (drawn and undrawn).
N/A Not applicable.

December 31, 2017	First Mortgages	HELOCs
Year of origination		
Pre-2013	$ 1,478	$ 1,349
2013	1,326	147
2014	530	116
2015	1,218	128
2016	2,886	111
2017	2,578	92
Total	$ 10,016	$ 1,943
Origination FICO		
<620	$ 6	$ 1
620 – 679	89	10
680 – 739	1,569	365
≥740	8,352	1,567
Total	$ 10,016	$ 1,943
Origination LTV		
≤70%	$ 7,569	$ 1,360
>70% – ≤90%	2,441	574
>90% – ≤100%	6	9
Total	$ 10,016	$ 1,943

December 31, 2016	First Mortgages	HELOCs
Year of origination		
Pre-2013	$ 2,136	$ 1,765
2013	1,746	193
2014	685	152
2015	1,458	146
2016	3,109	94
Total	$ 9,134	$ 2,350
Origination FICO		
<620	$ 8	$ —
620 – 679	92	13
680 – 739	1,427	432
≥740	7,607	1,905
Total	$ 9,134	$ 2,350
Origination LTV		
≤70%	$ 6,865	$ 1,628
>70% – ≤90%	2,260	709
>90% – ≤100%	9	13
Total	$ 9,134	$ 2,350

At December 31, 2017, First Mortgage loans of $9.0 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 33% of the balance of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 58% 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.

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. HELOCs that convert to an amortizing loan may experience higher delinquencies and higher loss rates than those in the initial draw period. The allowance for loan loss methodology takes this increased inherent risk into consideration.

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

December 31, 2017	Balance
Converted to amortizing loan by period end	$ 437
Within 1 year	559
> 1 year – 3 years	204
> 3 years – 5 years	149
> 5 years	594
Total	$ 1,943

At December 31, 2017, $1.5 billion 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, 2017, the borrowers on approximately 38% of HELOC loan balances outstanding only paid the minimum amount of interest due.

7. Equipment, Office Facilities, and Property

Equipment, office facilities, and property are detailed below:

December 31,	2017	2016
Software	$ 1,490	$ 1,335
Buildings	810	807
Leasehold improvements	357	342
Information technology equipment	326	299
Furniture and equipment	193	190
Land	167	168
Construction in progress	142	26
Telecommunications equipment	66	67
Total equipment, office facilities, and property	3,551	3,234
Accumulated depreciation and amortization	(2,080)	(1,935)
Total equipment, office facilities, and property — net	$ 1,471	$ 1,299

Depreciation and amortization expense for equipment, office facilities, and property was $232 million, $197 million, and $179 million in 2017, 2016, and 2015, respectively.

8. Intangible Assets and Goodwill

Intangible assets and goodwill are detailed below:

	December 31, 2017			December 31, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Client relationships	$ 274	$ 189	$ 85	$ 274	$ 169	$ 105
Technology	89	66	23	89	56	33
Trade name	15	15	—	16	10	6
Total intangible assets	$ 378	$ 270	$ 108	$ 379	$ 235	$ 144

Amortization expense for intangible assets was $37 million in both 2017 and 2016, and $45 million in 2015.

Estimated future annual amortization expense for intangible assets as of December 31, 2017, is as follows:

2018	$ 30
2019	27
2020	22
2021	15
2022	11
Thereafter	2
Total	$ 107

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

	Investor Services	Advisor Services	Total
Balance at December 31, 2015	$ 1,096	$ 131	$ 1,227
Goodwill acquired and other changes during the period	—	—	—
Balance at December 31, 2016	1,096	131	1,227
Goodwill acquired and other changes during the period	—	—	—
Balance at December 31, 2017	$ 1,096	$ 131	$ 1,227

In 2017, Schwab elected to bypass the qualitative goodwill impairment assessment. As of April 1, 2017, we have determined through quantitative testing that the fair value significantly exceeded the carrying value of each of the reporting units, and concluded that goodwill was not impaired. Schwab did not recognize any goodwill impairment in any of the years presented.

9. Other Assets

The components of other assets are as follows:

December 31,	2017	2016
Accounts receivable [1]	$ 461	$ 451
Interest and dividends receivable	413	325
FHLB stock [2]	405	81
Other investments [3]	376	243
Prepaid expenses	126	90
Deferred tax asset — net	76	143
Other	92	75
Total other assets	$ 1,949	$ 1,408

[1] Accounts receivable includes accrued service fee income and a receivable from our loan servicer.
[2] Investments in stock of the FHLB can only be sold to the issuer at its par value. Any cash dividends received from these investments are recognized as interest income in the consolidated statements of income.
[3] Predominantly CRA-related, including LIHTC investments.

10. Variable Interest Entities

As of December 31, 2017 and 2016, all of Schwab's involvement with VIEs is through Schwab Bank's CRA-related investments and most of those related to LIHTC investments. As part of Schwab Bank's community reinvestment initiatives, Schwab Bank invests with other institutional investors in funds that make equity investments in multifamily affordable housing properties. Schwab Bank receives tax credits and other tax benefits for these investments. Schwab Bank's LIHTC investments are accounted for using the proportional amortization method which 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 included in taxes on income on the consolidated statements of income.

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 as to which we have concluded it is not the primary beneficiary, are summarized in the table below:

	December 31, 2017			December 31, 2016		
	Aggregate assets	Aggregate liabilities	Maximum exposure to loss	Aggregate assets	Aggregate liabilities	Maximum exposure to loss
LIHTC Investments [1]	$ 304	$ 203	$ 304	$ 189	$ 135	$ 189
Other CRA Investments [2]	69	—	125	60	—	80
Total	$ 373	$ 203	$ 429	$ 249	$ 135	$ 269

[1] Aggregate assets and aggregate liabilities are included in other assets and accrued expenses and other liabilities, respectively, on the consolidated balance sheets.
[2] Other CRA investments are recorded using either the cost method, equity method, or as HTM securities. Aggregate assets are included in other assets, HTM securities, or bank loans – net on the consolidated balance sheets.

Schwab's maximum exposure to loss would result from the loss of the investments, including any committed amounts. During the years ended December 31, 2017 and 2016, Schwab did not provide or intend to provide financial or other support to the VIEs that it was not contractually required to provide. Schwab Bank's funding of these remaining commitments is dependent upon the occurrence of certain conditions, and Schwab Bank expects to pay substantially all of these commitments between 2018 and 2021.

11. Bank Deposits

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

December 31,	2017	2016
Interest-bearing deposits:		
Deposits swept from brokerage accounts	$ 148,212	$ 141,146
Checking	13,388	13,842
Savings and other	7,264	7,792
Total interest-bearing deposits	168,864	162,780
Non-interest-bearing deposits	792	674
Total bank deposits	$ 169,656	$ 163,454

12. Borrowings

CSC's senior notes are unsecured obligations and rank equally with the other unsecured senior debt. 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 senior notes. The following table lists long-term debt by instrument outstanding as of December 31, 2017 and 2016.

	Date of Issuance	Principal Amount Outstanding 2017	2016
Fixed-Rate Senior Notes:			
1.500% due March 10, 2018 [1]	03/10/15	$ 625	$ 625
2.200% due July 25, 2018	07/25/13	275	275
4.450% due July 22, 2020	07/22/10	700	700
3.225% due September 1, 2022	08/29/12	256	256
2.650% due January 25, 2023	12/07/17	800	—
3.000% due March 10, 2025	03/10/15	375	375
3.450% due February 13, 2026	11/13/15	350	350
3.200% due March 2, 2027	03/02/17	650	—
3.200% due January 25, 2028	12/07/17	700	—
Total fixed-rate senior notes		4,731	2,581
6.375% Medium-Term Notes		—	250
5.450% Finance lease obligation [2]	06/04/04	61	68
Unamortized discount, net		(14)	(13)
Debt issuance costs		(25)	(10)
Total long-term debt		$ 4,753	$ 2,876

[1] Redeemed on February 8, 2018. See Note 25.
[2] Schwab has a finance lease obligation related to an office building and land under a 20-year lease. The remaining finance lease obligation is being reduced by a portion of the lease payments over the remaining lease term through June 30, 2024.

Annual maturities on long-term debt outstanding at December 31, 2017, are as follows:

2018	$	908
2019		8
2020		709
2021		9
2022		266
Thereafter		2,892
Total maturities		4,792
Unamortized discount, net		(14)
Debt issuance costs		(25)
Total long-term debt	$	4,753

Short-term borrowings: Schwab Bank maintains a secured credit facility with the FHLB. Amounts available under this facility are dependent on the amount of Schwab Bank's First Mortgages, HELOCs, and the fair value of certain of Schwab Bank's investment securities that are pledged as collateral. As of December 31, 2017, the collateral pledged by Schwab Bank provided a total borrowing capacity of $32.3 billion of which $15.0 billion was outstanding. No amounts were outstanding under this facility as of December 31, 2016. The Company could increase its borrowing capacity by pledging additional securities.

As a condition of the FHLB borrowings, Schwab Bank is required to hold FHLB stock, with the investment recorded in other assets on the consolidated balance sheets. The investment in FHLB was $405 million and $81 million at December 31, 2017 and 2016, respectively.

13. Commitments and Contingencies

Loan Portfolio: Schwab Bank provides a co-branded loan origination program for Schwab Bank clients (the Program) with Quicken Loans, Inc. (Quicken Loans®). Pursuant to the Program, Quicken Loans originates and services First Mortgages and HELOCs for Schwab Bank clients. Under the Program, Schwab Bank purchases certain First Mortgages and HELOCs that are originated by Quicken Loans. Schwab Bank purchased First Mortgages of $2.8 billion and $3.3 billion during 2017 and 2016, respectively. Schwab purchased HELOCs with commitments of $461 million and $440 million during 2017 and 2016, respectively.

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

December 31,		2017		2016
Commitments to extend credit related to unused HELOCs, PALs, and other lines of credit	$	10,060	$	8,445
Commitments to purchase First Mortgage loans		308		466
Total	$	10,368	$	8,911

Operating leases: Schwab has non-cancelable operating leases for office space and equipment. Future annual minimum rental commitments under these leases, net of contractual subleases are as follows:

December 31, 2017	Operating Leases	Subleases	Net
2018	$ 137	$ 6	$ 131
2019	119	4	115
2020	109	4	105
2021	86	4	82
2022	68	2	66
Thereafter	310	1	309
Total	$ 829	$ 21	$ 808

Certain leases contain provisions for renewal options, purchase options, and rent escalations based on increases in certain costs incurred by the lessor. Rent expense relating to operating leases was $136 million, $123 million, and $116 million in 2017, 2016, and 2015, respectively.

Purchase obligations: Schwab has purchase obligations for services such as advertising and marketing, telecommunications, professional services, and hardware- and software-related agreements. The Company has purchase obligations as follows:

December 31, 2017	
2018	$ 305
2019	148
2020	71
2021	26
2022	22
Thereafter	181
Total	$ 753

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 partially satisfy the margin requirements by arranging unsecured standby LOCs, in favor of the Options Clearing Corporation, which are issued by several banks. At December 31, 2017, the aggregate face amount of these LOCs totaled $225 million. There were no funds drawn under any of these LOCs at December 31, 2017. 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.

Schwab 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 cash and securities it has posted as collateral. The potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these guarantees.

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; potential opportunities for settlement and the status of any

settlement discussions; and potential insurance coverage and indemnification. 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 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 certain 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.

Total Bond Market Fund Litigation: On August 28, 2008, a class action lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of investors in the Schwab Total Bond Market Fund™. The lawsuit, which alleged violations of state law and federal securities law in connection with the fund's investment policy, named CSIM, Schwab Investments (registrant and issuer of the fund's shares), and certain current and former fund trustees as defendants. Allegations include that the fund improperly deviated from its stated investment objectives by investing in collateralized mortgage obligations (CMOs) and investing more than 25% of fund assets in CMOs and mortgage-backed securities without obtaining a fundholder vote. Plaintiff seeks unspecified compensatory and rescission damages, unspecified equitable and injunctive relief, costs, and attorneys' fees on behalf of a putative class of investors who held shares as of August 31, 2007, and a putative class of investors who purchased the shares between September 1, 2017 and February 27, 2009. Plaintiff's federal securities law claim and certain of plaintiff's state law claims were dismissed. On August 8, 2011, the court dismissed plaintiff's remaining claims with prejudice. Plaintiff appealed to the Ninth Circuit, which issued a ruling on March 9, 2015 reversing the district court's dismissal of the case and remanding the case for further proceedings. Plaintiff filed a fourth amended complaint on June 25, 2015, and in decisions issued October 6, 2015 and February 23, 2016, the court dismissed all claims with prejudice. Plaintiff has appealed to the Ninth Circuit, where the case is again pending.

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. 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. Defendants have answered the complaint to deny all allegations, and intend to vigorously contest the lawsuit.

14. Financial Instruments Subject to Off-Balance Sheet Credit Risk

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. We also set standards for the credit quality of the counterparty, monitor the fair value of the underlying securities as compared to the related receivable, including accrued interest, and require additional collateral where deemed appropriate.

Schwab utilizes the collateral provided under these resale agreements to meet obligations under broker-dealer client protection rules, which place limitations on its ability to access such segregated securities. For Schwab to repledge or sell this collateral, it would be required to deposit cash and/or securities of an equal amount into its segregated reserve bank accounts in order to meet its segregated cash and investment requirement. Schwab's resale agreements are 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. 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 $215 million and $213 million at December 31, 2017 and 2016, respectively. All of our securities lending transactions are through a program with a clearing organization, which guarantees the return of cash to us and is 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.

The following table presents information about our resale agreements and securities lending activity depicting the potential effect of rights of setoff between these recognized assets and recognized liabilities at December 31, 2017 and 2016.

				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Assets/ Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Counterparty Offsetting	Collateral	Net Amount
December 31, 2017						
Assets:						
Resale agreements [1]	$ 6,596	$ —	$ 6,596	$ —	$ (6,596) [2]	$ —
Securities borrowed [3]	222	—	222	(199)	(22)	1
Total	$ 6,818	$ —	$ 6,818	$ (199)	$ (6,618)	$ 1
Liabilities:						
Securities loaned [4,5]	$ 966	$ —	$ 966	$ (199)	$ (670)	$ 97
Total	$ 966	$ —	$ 966	$ (199)	$ (670)	$ 97
December 31, 2016						
Assets:						
Resale agreements [1]	$ 9,547	$ —	$ 9,547	$ —	$ (9,547) [2]	$ —
Securities borrowed [3]	393	—	393	(200)	(189)	4
Total	$ 9,940	$ —	$ 9,940	$ (200)	$ (9,736)	$ 4
Liabilities:						
Securities loaned [4,5]	$ 1,996	$ —	$ 1,996	$ (200)	$ (1,660)	$ 136
Total	$ 1,996	$ —	$ 1,996	$ (200)	$ (1,660)	$ 136

[1] Included in cash and investments segregated and on deposit for regulatory purposes in the consolidated balance sheets.
[2] Actual collateral was greater than or equal to 102% of the related assets. At December 31, 2017 and 2016, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was $6.7 billion and $9.8 billion, respectively.
[3] Included in receivables from brokers, dealers, and clearing organizations in the consolidated balance sheets.
[4] Included in payables to brokers, dealers, and clearing organizations 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, 2017 and 2016.
[5] Securities loaned are predominantly comprised of equity securities held in client brokerage accounts with overnight and continuous remaining contractual maturities.

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.

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, and the amounts that we had pledged:

December 31,	2017	2016
Fair value of client securities available to be pledged	$ 25,905	$ 21,516
Fair value of client securities pledged for:		
Fulfillment of requirements with the Options Clearing Corporation [1]	2,280	1,519
Fulfillment of client short sales	2,011	2,048
Securities lending to other broker-dealers	784	1,626
Total collateral pledged	$ 5,075	$ 5,193

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 $78 million as of December 31, 2017 and $58 million as of December 31, 2016.

[1] Client securities pledged to fulfill client margin requirements for open option contracts established with the Options Clearing Corporation.

15. 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. We did not transfer any assets or liabilities between Level 1, Level 2, or Level 3 during 2017 or 2016. In addition, the Company did not adjust prices received from the primary independent third-party pricing service at December 31, 2017 or 2016.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the fair value hierarchy for assets measured at fair value on a recurring basis. Liabilities recorded at fair value were not material, and therefore are not included in the following tables:

December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 2,727	$ —	$ —	$ 2,727
Total cash equivalents	2,727	—	—	2,727
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	2,198	—	2,198
U.S. Government securities	—	3,658	—	3,658
Total investments segregated and on deposit for regulatory purposes	—	5,856	—	5,856
Other securities owned:				
Equity and bond mutual funds	318	—	—	318
Schwab Funds® money market funds	135	—	—	135
State and municipal debt obligations	—	52	—	52
Equity, U.S. Government and corporate debt, and other securities	2	32	—	34
Total other securities owned	455	84	—	539
Available for sale securities:				
U.S. agency mortgage-backed securities	—	20,929	—	20,929
U.S. Treasury securities	—	9,500	—	9,500
Asset-backed securities	—	9,047	—	9,047
Corporate debt securities	—	6,169	—	6,169
Certificates of deposit	—	2,041	—	2,041
U.S. agency notes	—	1,906	—	1,906
Commercial paper	—	313	—	313
Foreign government agency securities	—	50	—	50
Non-agency commercial mortgage-backed securities	—	40	—	40
Total available for sale securities	—	49,995	—	49,995
Total	$ 3,182	$ 55,935	$ —	$ 59,117

December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 1,514	$ —	$ —	$ 1,514
Total cash equivalents	1,514	—	—	1,514
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	2,525	—	2,525
U.S. Government securities	—	6,111	—	6,111
Total investments segregated and on deposit for regulatory purposes	—	8,636	—	8,636
Other securities owned:				
Equity and bond mutual funds	272	—	—	272
Schwab Funds® money market funds	108	—	—	108
State and municipal debt obligations	—	41	—	41
Equity, U.S. Government and corporate debt, and other securities	2	26	—	28
Total other securities owned	382	67	—	449
Available for sale securities:				
U.S. agency mortgage-backed securities	—	33,195	—	33,195
U.S. Treasury securities	—	8,623	—	8,623
Asset-backed securities	—	20,335	—	20,335
Corporate debt securities	—	9,852	—	9,852
Certificates of deposit	—	2,071	—	2,071
U.S. agency notes	—	1,907	—	1,907
Commercial paper	—	214	—	214
U.S. state and municipal securities	—	1,123	—	1,123
Non-agency commercial mortgage-backed securities	—	45	—	45
Total available for sale securities	—	77,365	—	77,365
Total	$ 1,896	$ 86,068	$ —	$ 87,964

Fair Value of Other Financial Instruments

Descriptions of the valuation methodologies and assumptions used to estimate the fair value of other financial instruments are also described in Note 2. There were no significant changes in these methodologies or assumptions during 2017. The following tables present the fair value hierarchy for other financial instruments:

December 31, 2017	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 11,490	$ —	$ 11,490	$ —	$ 11,490
Cash and investments segregated and on deposit for regulatory purposes	9,277	—	9,277	—	9,277
Receivables from brokers, dealers, and clearing organizations	649	—	649	—	649
Receivables from brokerage clients — net	20,568	—	20,568	—	20,568
Held to maturity securities:					
U.S. agency mortgage-backed securities	101,197	—	100,453	—	100,453
Asset-backed securities	12,937	—	13,062	—	13,062
Corporate debt securities	4,078	—	4,086	—	4,086
U.S. state and municipal securities	1,247	—	1,304	—	1,304
Non-agency commercial mortgage-backed securities	994	—	999	—	999
U.S. Treasury securities	223	—	220	—	220
Certificates of deposit	200	—	200	—	200
Foreign government agency securities	50	—	49	—	49
Total held to maturity securities	120,926	—	120,373	—	120,373
Bank loans — net:					
First Mortgages	10,000	—	9,917	—	9,917
HELOCs	1,935	—	2,025	—	2,025
Pledged asset lines	4,369	—	4,369	—	4,369
Other	174	—	174	—	174
Total bank loans — net	16,478	—	16,485	—	16,485
Other assets	781	—	781	—	781
Total	$ 180,169	$ —	$ 179,623	$ —	$ 179,623
Liabilities:					
Bank deposits	$ 169,656	$ —	$ 169,656	$ —	$ 169,656
Payables to brokers, dealers, and clearing organizations	1,287	—	1,287	—	1,287
Payables to brokerage clients	31,243	—	31,243	—	31,243
Accrued expenses and other liabilities	1,463	—	1,463	—	1,463
Short-term borrowings	15,000	—	15,000	—	15,000
Long-term debt	4,753	—	4,811	—	4,811
Total	$ 223,402	$ —	$ 223,460	$ —	$ 223,460

December 31, 2016	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 9,314	$ —	$ 9,314	$ —	$ 9,314
Cash and investments segregated and on deposit for regulatory purposes	13,533	—	13,533	—	13,533
Receivables from brokers, dealers, and clearing organizations	728	—	728	—	728
Receivables from brokerage clients — net	17,151	—	17,151	—	17,151
Held to maturity securities:					
U.S. agency mortgage-backed securities	72,439	—	71,677	—	71,677
Asset-backed securities	941	—	941	—	941
Corporate debt securities	436	—	436	—	436
U.S. state and municipal securities	68	—	68	—	68
Non-agency commercial mortgage-backed securities	997	—	1,004	—	1,004
U.S. Treasury securities	223	—	219	—	219
Commercial paper	99	—	99	—	99
Total held to maturity securities	75,203	—	74,444	—	74,444
Bank loans — net:					
First Mortgages	9,117	—	9,064	—	9,064
HELOCs	2,342	—	2,458	—	2,458
Pledged asset lines	3,851	—	3,851	—	3,851
Other	93	—	94	—	94
Total bank loans — net	15,403	—	15,467	—	15,467
Other assets	328	—	328	—	328
Total	$ 131,660	$ —	$ 130,965	$ —	$ 130,965
Liabilities:					
Bank deposits	$ 163,454	$ —	$ 163,454	$ —	$ 163,454
Payables to brokers, dealers, and clearing organizations	2,407	—	2,407	—	2,407
Payables to brokerage clients	35,894	—	35,894	—	35,894
Accrued expenses and other liabilities	1,169	—	1,169	—	1,169
Long-term debt	2,876	—	2,941	—	2,941
Total	$ 205,800	$ —	$ 205,865	$ —	$ 205,865

16. Stockholders' Equity

CSC did not issue any shares of common stock during 2017, 2016, or 2015.

CSC was authorized to issue 9,940,000 shares of preferred stock, $0.01 par value, at December 31, 2017 and 2016. The following is a summary of CSC's non-cumulative perpetual preferred stock outstanding as of such dates:

	Shares Issued and Outstanding (In thousands) at December 31,[1]		Liquidation Preference Per Share	Carrying Value at December 31,		Issue Date	Dividend Rate in Effect at December 31, 2017	Earliest Redemption Date	Date at Which Dividend Rate Becomes Floating	Floating Annual Rate of Three-month LIBOR plus:
	2017	2016		2017	2016					
Fixed-rate:										
Series B [2]	—	485	1,000	$ —	$ 482	06/06/12	—	—	N/A	N/A
Series C	600	600	1,000	585	585	08/03/15	6.000 %	12/01/20	N/A	N/A
Series D	750	750	1,000	728	728	03/07/16	5.950 %	06/01/21	N/A	N/A
Fixed-to-floating-rate:										
Series A	400	400	1,000	397	397	01/26/12	7.000 %	02/01/22	02/01/22	4.820 %
Series E	6	6	100,000	591	591	10/31/16	4.625 %	03/01/22	03/01/22	3.315 %
Series F	5	—	100,000	492	—	10/31/17	5.000 %	12/01/27	12/01/27	2.575 %
Total Preferred Stock	1,761	2,241		$ 2,793	$ 2,783					

[1] Represented by depositary shares, except for Series A
[2] On December 1, 2017, CSC redeemed all of the outstanding shares of its 6.00% Non-Cumulative Preferred Stock, Series B at their stated redemption value.

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 preferred stock are payable quarterly. Dividends on fixed-to-floating-rate preferred stock are payable semiannually while at a fixed rate, and will become payable quarterly after converting to a floating rate.

Redemption Rights

Each series of CSC's stock may be redeemed at CSC's option on any dividend payment date on or after the earliest redemption date for that series. All outstanding preferred stock series may also be redeemed following a "capital treatment event," as described in the terms of each series. Any redemption of CSC's preferred stock is subject to approval from the Federal Reserve.

17. Accumulated Other Comprehensive Income

AOCI represents cumulative gains and losses that are not reflected in earnings. The components of other comprehensive income (loss) are as follows:

Year Ended December 31,	2017			2016			2015		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Change in net unrealized gain (loss) on available for sale securities:									
Net unrealized gain (loss)	$ 13	$ (7)	$ 6	$ (44)	$ 16	$ (28)	$ (477)	$ 178	$ (299)
Reclassification of net unrealized loss on securities transferred to held to maturity [1]	227	(85)	142	—	—	—	—	—	—
Other reclassifications included in other revenue	(12)	4	(8)	(4)	2	(2)	—	—	—
Change in net unrealized gain (loss) on held to maturity securities:									
Reclassification of net unrealized loss on securities transferred from available for sale [1]	(227)	85	(142)	—	—	—	—	—	—
Amortization of amounts previously recorded upon transfer from available for sale	31	(11)	20	—	—	—	—	—	—
Other	(11)	4	(7)	1	—	1	—	—	—
Other comprehensive income (loss)	$ 21	$ (10)	$ 11	$ (47)	$ 18	$ (29)	$ (477)	$ 178	$ (299)

[1] See Note 5 for discussion of the transfer of securities from the AFS category to the HTM category during the first quarter of 2017.

AOCI balances are as follows:

	Total Accumulated Other Comprehensive Income
Balance at December 31, 2014	$ 165
Net unrealized gain (loss) on available for sale securities	(299)
Balance at December 31, 2015	$ (134)
Net unrealized gain (loss) on available for sale securities	(30)
Other	$ 1
Balance at December 31, 2016	$ (163)
Available for sale securities:	
Net unrealized gain (loss)	6
Reclassification of net unrealized loss on securities transferred to held to maturity	142
Other reclassifications included in other revenue	(8)
Held to maturity securities:	
Reclassification of net unrealized loss on securities transferred from available for sale	(142)
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	20
Other	(7)
Balance at December 31, 2017	$ (152)

18. 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, officers, and 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,	2017	2016	2015
Stock option expense	$ 50	$ 45	$ 46
Restricted stock unit expense	94	89	83
Employee stock purchase plan expense	9	7	6
Total share-based compensation expense	$ 153	$ 141	$ 135
Income tax benefit on share-based compensation expense [1]	$ (57)	$ (53)	$ (51)

[1] Excludes the 2017 income tax benefit of $87 million due to the adoption of ASU 2016-09, as disclosed in Note 2.

The Company issues shares for stock options and restricted stock units from treasury stock. At December 31, 2017, the Company was authorized to grant up to 44 million common shares under its existing stock incentive plans. Additionally, at December 31, 2017, the Company had 37 million shares reserved for future issuance under its employee stock purchase plan.

As of December 31, 2017, there was $268 million of total unrecognized compensation cost related to outstanding stock options and restricted stock units, which is expected to be recognized through 2021 with a remaining weighted-average service period of 1.9 years for stock options, 2.4 years for restricted stock units, and 0.3 years for performance stock units.

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.

Stock option activity is summarized below:

	Number of Options (In millions)	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2016	37	$ 22.12	6.50	$ 649
Granted	4	43.71		
Exercised	(9)	18.20		
Forfeited	—	31.02		
Expired	—	24.82		
Outstanding at December 31, 2017	32	$ 26.16	6.38	$ 814
Vested and expected to vest at December 31, 2017	31	$ 26.02	6.35	$ 811
Vested and exercisable at December 31, 2017	20	$ 20.82	5.02	$ 612

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,	2017	2016	2015
Weighted-average fair value of options granted per share	$ 13.04	$ 8.73	$ 8.56
Cash received from options exercised	171	144	90
Tax benefit realized on options exercised	70	38	22
Aggregate intrinsic value of options exercised	241	149	90

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 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 Black-Scholes model is used to solve for the expected life of options. The assumptions used to value the options granted during the years presented and their expected lives were as follows:

Year Ended December 31,	2017	2016	2015
Weighted-average expected dividend yield	1.06 %	1.22 %	1.22 %
Weighted-average expected volatility	34 %	30 %	28 %
Weighted-average risk-free interest rate	2.1 %	1.8 %	2.2 %
Expected life (in years)	4.1 - 5.3	4.7 - 7.3	4.7 - 7.5

Restricted Stock Units

Restricted stock units are awards that entitle the holder to receive shares of CSC's common stock following a vesting period. Restricted stock units are restricted from transfer or sale and generally vest annually over a three- to five-year period, while performance-based restricted stock units also require the Company 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 grant date fair value is amortized to compensation expense on a straight-line basis over the requisite service period. The fair value of the restricted stock units that vested during each of the years 2017, 2016, and 2015 was $127 million, $105 million, and $126 million, respectively.

The Company's restricted stock units activity is summarized below:

	Number of Units (In millions)	Weighted-Average Grant Date Fair Value per Unit
Outstanding at December 31, 2016	8	$ 29.41
Granted	2	44.23
Vested	(3)	28.15
Forfeited	—	30.86
Outstanding at December 31, 2017	7	$ 35.16

Retirement Plan

Employees can participate in the 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 $92 million, $83 million, and $78 million in 2017, 2016, and 2015, respectively.

Deferred Compensation Plans

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 to serve 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 $160 million and $135 million at December 31, 2017 and 2016, respectively.

FC Career Achievement Plan

The FC career achievement plan was implemented in January 2014 and is a noncontributory, unfunded, nonqualified plan for eligible FCs. An FC 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 completed annually by the Company and are subject to general creditors of the Company. Based on the performance level achieved, an FC will receive an award calculated as a percentage of eligible compensation. Full vesting occurs when an FC reaches 60 years of age and has at least ten years of service with the Company. The Company is using the Society of Actuaries MP-2017 mortality improvement scale for its mortality assumptions.

The following table presents the changes in projected benefit obligation:

December 31,	2017	2016
Projected benefit obligation at beginning of year	$ 26	$ 17
Benefit cost	9	7
Actuarial (gain)/loss	9	2
Projected benefit obligation at end of year [1]	$ 44	$ 26

[1] This amount is recognized as a liability on the consolidated balance sheets and also depicts the accumulated benefit obligation.

The following table presents the net benefit cost and assumptions used to determine the net benefit cost:

December 31,	2017	2016	2015
Service cost	$ 8	$ 6	$ 8
Interest cost	1	1	—
Net benefit cost	$ 9	$ 7	$ 8

Assumptions used to determine net benefit cost:			
Discount rate	3.71 %	4.62 %	4.19 %
Rate of compensation increase	3.00 %	3.00 %	3.00 %
Investment crediting rate for notional account balances	6.50 %	6.50 %	6.50 %

The following tables present the change in AOCI attributable to the components of the net cost and the change in benefit obligation and the amounts recognized in AOCI:

December 31,	2017	2016
Change in AOCI:		
Beginning balance	$ 1	$ —
Actuarial gain/(loss)	(11)	1
Ending balance	$ (10)	$ 1

December 31,	2017	2016
Components in AOCI:		
Net gain/(loss)	$ (10)	$ 1
Amount recognized in AOCI	$ (10)	$ 1
Tax effect	$ 4	$ —
Net amount recognized in AOCI	$ (6)	$ 1

19. Taxes on Income

On December 22, 2017, P.L. 115-97, known as the Tax Cuts and Jobs Act (the Tax Act), was signed into law. Among other things, the Tax Act lowers the federal corporate income tax rate from 35% to 21%, effective for tax years including or commencing January 1, 2018. The SEC staff issued Staff Accounting Bulletin (SAB) 118, which provides guidance on accounting for the effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the enactment date for companies to complete the accounting under ASC 740 Income Taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with our initial analysis of the impact of the Tax Act, Schwab recognized a $46 million one-time non-cash charge to taxes on income in the fourth quarter of 2017 associated with the remeasurement of net deferred tax assets and other tax adjustments related to the Tax Act. While we were able to make a reasonable estimate of the impact of the reduction in the corporate tax rate, our accounting for various elements of the Tax Act may be affected by other related analysis including, but not limited to, bonus depreciation that will allow for immediate expensing of qualified property and the state tax effect of adjustments made to federal temporary differences. As such, the impact of the Tax Act is an estimate pending further information and the analysis noted.

The components of taxes on income are as follows:

Year Ended December 31,	2017	2016	2015
Current:			
Federal	$ 1,132	$ 980	$ 740
State	106	109	99
Total current	1,238	1,089	839
Deferred:			
Federal	58	13	(6)
State	—	2	(1)
Total deferred	58	15	(7)
Taxes on income	$ 1,296	$ 1,104	$ 832

The temporary differences that created deferred tax assets and liabilities are detailed below:

December 31,	2017	2016
Deferred tax assets:		
Employee compensation, severance, and benefits	$ 133	$ 216
Net unrealized loss on available for sale securities	57	97
Reserves and allowances	15	25
Facilities lease commitments	14	25
State and local taxes	12	17
Net operating loss carryforwards	5	5
Other	3	—
Total deferred tax assets	239	385
Valuation allowance	(2)	(3)
Deferred tax assets — net of valuation allowance	237	382
Deferred tax liabilities:		
Capitalized internal-use software development costs	(89)	(118)
Depreciation and amortization	(72)	(114)
Other	—	(7)
Total deferred tax liabilities	(161)	(239)
Deferred tax asset — net [1]	$ 76	$ 143

[1] Amounts are included in other assets on the consolidated balance sheets at both December 31, 2017 and 2016.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

Year Ended December 31,	2017	2016	2015
Federal statutory income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	2.2	2.4	2.6
Equity compensation benefit	(2.4)	—	—
Other [1]	0.7	(0.5)	(1.1)
Effective income tax rate	35.5 %	36.9 %	36.5 %

[1] Includes the impact of one-time charge to taxes on income associated with the Tax Act.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

December 31,	2017	2016
Balance at beginning of year	$ 93	$ 48
Additions for tax positions related to the current year	22	16
Additions for tax positions related to prior years	15	32
Reductions for tax positions related to prior years	(2)	(2)
Reductions due to lapse of statute of limitations	—	—
Reductions for settlements with tax authorities	(17)	(1)
Balance at end of year	$ 111	$ 93

Unrecognized tax benefits totaled $111 million and $93 million as of December 31, 2017 and 2016, respectively, $104 million and $85 million of which if recognized would affect the annual effective tax rate.

Interest was accrued related to unrecognized tax benefits in tax expense and penalties in other expense. Approximately $5 million and $8 million for the payment of interest and penalties was accrued at December 31, 2017 and 2016, respectively.

The Company and its subsidiaries are subject to routine examinations by the respective federal, state and applicable local jurisdictions' taxing authorities. Federal returns for 2011 through 2016 remain subject to examination. The years open to examination by state and local governments vary by jurisdiction.

20. 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. The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. Dilutive potential common shares include, if dilutive, the effect of outstanding stock options and non-vested restricted stock units. EPS under the basic and diluted computations is as follows:

Year Ended December 31,	2017	2016	2015
Net income	$ 2,354	$ 1,889	$ 1,447
Preferred stock dividends and other [1]	(174)	(143)	(83)
Net income available to common stockholders	$ 2,180	$ 1,746	$ 1,364
Weighted-average common shares outstanding — basic	1,339	1,324	1,315
Common stock equivalent shares related to stock incentive plans	14	10	12
Weighted-average common shares outstanding — diluted [2]	1,353	1,334	1,327
Basic EPS	$ 1.63	$ 1.32	$ 1.04
Diluted EPS	$ 1.61	$ 1.31	$ 1.03

[1] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.
[2] Antidilutive stock options and restricted stock units excluded from the calculation of diluted EPS totaled 15 million, 26 million, and 23 million shares in 2017, 2016, and 2015, respectively.

21. Regulatory Requirements

CSC is a savings and loan holding company and Schwab Bank, CSC's primary depository institution subsidiary, is a federal savings bank. CSC is subject to examination, supervision, and regulation by the Federal Reserve. Schwab Bank is subject to examination, supervision, and regulation by the OCC, as its primary regulator, the FDIC as its deposit insurer, and the CFPB. CSC is required to serve as a source of strength for Schwab Bank.

Schwab Bank 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 Schwab Bank. In addition, Schwab Bank is required to provide notice to and may be required to obtain approval of the OCC and the Federal Reserve to declare dividends to CSC. The federal banking agencies have broad powers to enforce these 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 Federal Deposit Insurance Act, Schwab Bank could be subject to restrictive actions if it were to fall within one of the lowest three of five capital categories. CSC and Schwab Bank 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 Schwab Bank. At December 31, 2017, both CSC and Schwab Bank met all of their respective capital requirements.

The regulatory capital and ratios for CSC (consolidated) and Schwab Bank are as follows:

	Actual		Minimum to be Well Capitalized		Minimum Capital Requirement	
December 31, 2017	Amount	Ratio	Amount	Ratio	Amount	Ratio
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 14,630	19.3 %	N/A		$ 3,414	4.5 %
Tier 1 Risk-Based Capital	17,423	23.0 %	N/A		4,552	6.0 %
Total Risk-Based Capital	17,452	23.0 %	N/A		6,069	8.0 %
Tier 1 Leverage	17,423	7.6 %	N/A		9,218	4.0 %
Schwab Bank						
Common Equity Tier 1 Risk-Based Capital	$ 13,355	20.1 %	$ 4,324	6.5 %	$ 2,993	4.5 %
Tier 1 Risk-Based Capital	13,355	20.1 %	5,321	8.0 %	3,991	6.0 %
Total Risk-Based Capital	13,382	20.1 %	6,652	10.0 %	5,321	8.0 %
Tier 1 Leverage	13,355	7.1 %	9,462	5.0 %	7,569	4.0 %
December 31, 2016						
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 12,574	18.4 %	N/A		$ 3,068	4.5 %
Tier 1 Risk-Based Capital	15,357	22.5 %	N/A		4,091	6.0 %
Total Risk-Based Capital	15,384	22.6 %	N/A		5,454	8.0 %
Tier 1 Leverage	15,357	7.2 %	N/A		8,516	4.0 %
Schwab Bank						
Common Equity Tier 1 Risk-Based Capital	$ 11,878	19.8 %	$ 3,894	6.5 %	$ 2,696	4.5 %
Tier 1 Risk-Based Capital	11,878	19.8 %	4,793	8.0 %	3,595	6.0 %
Total Risk-Based Capital	11,904	19.9 %	5,992	10.0 %	4,793	8.0 %
Tier 1 Leverage	11,878	7.0 %	8,456	5.0 %	6,765	4.0 %

N/A Not Applicable.

Based on its regulatory capital ratios at December 31, 2017, Schwab Bank is considered well capitalized (the highest category) under its respective regulatory capital rules. There are no conditions or events since December 31, 2017 that management believes have changed Schwab Bank's capital category.

The Federal Reserve requires Schwab Bank to maintain reserve balances at the Federal Reserve based on its deposits that are considered to be transaction accounts. Schwab Bank's average reserve requirements were $1.6 billion and $1.5 billion in 2017 and 2016, respectively.

Beginning on January 1, 2016, CSC and Schwab Bank became subject to a new capital conservation buffer requirement of 0.625% of risk-weighted assets, increasing each year by 0.625% until fully implemented at 2.5% of risk-weighted assets in January 2019. The capital conservation buffer is in addition to the minimum risk-based capital requirements described above. Failure to maintain the capital conservation buffer would limit an entity's ability to make capital distributions and discretionary bonus payments to executive officers. At December 31, 2017, both CSC's and Schwab Bank's capital levels exceeded the fully implemented capital conservation buffer requirement.

CS&Co, a securities broker-dealer, is subject to the Uniform Net Capital Rule. CS&Co computes its net capital under the alternative method permitted by the Uniform Net Capital Rule. This method 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 of $250,000, 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.

During 2017, optionsXpress, Inc., a wholly-owned subsidiary of the Company, was renamed as Charles Schwab Futures (CS Futures). In October 2017, CS Futures transferred all of its retail brokerage customer accounts along with the related operations to CS&Co. CS Futures was de-registered as a securities broker-dealer with the SEC but remains a registered Futures Commission Merchant with the Commodity Futures Trading Commission.

Net capital and net capital requirements for CS&Co are as follows:

December 31,	2017	2016
Net capital	$ 2,118	$ 1,846
Minimum net capital required	0.250	0.250
2% of aggregate debit balances	435	355
Net capital in excess of required net capital	1,683	1,491

In accordance with the SEC Customer Protection Rule, CS&Co had portions of its cash and investments segregated for the exclusive benefit of clients at December 31, 2017. The SEC 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, 2017 for CS&Co totaled $15.3 billion. On January 3, 2018, CS&Co deposited a net amount of $704 million of cash into its segregated reserve accounts. Cash and investments required to be segregated and on deposit for regulatory purposes at December 31, 2016 for CS&Co totaled $22.5 billion. On January 4, 2017, a net amount of $1.6 billion of cash was deposited into the segregated reserve accounts.

22. 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 and banking 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 support services, as well as retirement business services, to independent RIAs, independent retirement advisors, and recordkeepers. Revenues and expenses are allocated to the Company's two segments based on which segment services the client.

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 its 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:

	Investor Services			Advisor Services			Total		
Year Ended December 31,	2017	2016	2015	2017	2016	2015	2017	2016	2015
Net Revenues:									
Net interest revenue	$ 3,231	$ 2,591	$ 2,133	$ 1,051	$ 731	$ 392	$ 4,282	$ 3,322	$ 2,525
Asset management and administration fees	2,344	2,093	1,837	1,048	962	813	3,392	3,055	2,650
Trading revenue	408	524	556	246	301	310	654	825	866
Other	217	199	234	73	72	94	290	271	328
Provision for loan losses	—	4	11	—	1	—	—	5	11
Total net revenues	6,200	5,411	4,771	2,418	2,067	1,609	8,618	7,478	6,380
Expenses Excluding Interest	3,725	3,380	3,090	1,243	1,105	1,011	4,968	4,485	4,101
Income before taxes on income	$ 2,475	$ 2,031	$ 1,681	$ 1,175	$ 962	$ 598	$ 3,650	$ 2,993	$ 2,279
Capital expenditures	$ 265	$ 234	$ 195	$ 147	$ 119	$ 90	$ 412	$ 353	$ 285
Depreciation and amortization	$ 203	$ 180	$ 171	$ 66	$ 54	$ 53	$ 269	$ 234	$ 224

23. The Charles Schwab Corporation – Parent Company Only Financial Statements

Condensed Statements of Income

Year Ended December 31,	2017	2016	2015
Interest revenue	$ 33	$ 22	$ 12
Interest expense	(114)	(100)	(86)
Net interest expense	(81)	(78)	(74)
Other	3	1	4
Expenses excluding interest	(32)	(21)	(27)
Loss before income tax benefit and equity in net income of subsidiaries	(110)	(98)	(97)
Income tax benefit	27	34	41
Loss before equity in net income of subsidiaries	(83)	(64)	(56)
Equity in net income of subsidiaries:			
Equity in undistributed net income of subsidiaries	1,479	1,690	1,287
Dividends from bank subsidiary	625	—	—
Dividends from non-bank subsidiaries	333	263	216
Net Income	2,354	1,889	1,447
Preferred stock dividends and other [1]	174	143	83
Net Income Available to Common Stockholders	$ 2,180	$ 1,746	$ 1,364

[1] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

Condensed Balance Sheets

December 31,	2017	2016
Assets		
Cash and cash equivalents	$ 2,825	$ 1,189
Receivables from subsidiaries	571	503
Available for sale securities	573	569
Held to maturity securities	223	223
Other securities owned — at fair value	76	75
Loans to non-bank subsidiaries	448	—
Investment in non-bank subsidiaries	5,393	5,044
Investment in bank subsidiary	13,224	11,726
Other assets	160	124
Total assets	$ 23,493	$ 19,453
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	$ 276	$ 219
Payables to subsidiaries	—	6
Long-term debt	4,692	2,807
Total liabilities	4,968	3,032
Stockholders' equity	18,525	16,421
Total liabilities and stockholders' equity	$ 23,493	$ 19,453

Condensed Statements of Cash Flows

Year Ended December 31,	2017	2016	2015
Cash Flows from Operating Activities			
Net income	$ 2,354	$ 1,889	$ 1,447
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(1,479)	(1,690)	(1,287)
Other	5	(37)	(31)
Net change in:			
Other securities owned	(1)	(10)	9
Other assets	(26)	(27)	(32)
Accrued expenses and other liabilities	44	30	4
Net cash provided by (used for) operating activities	897	155	110
Cash Flows from Investing Activities			
Due from (to) subsidiaries — net	(374)	95	93
Increase in investments in subsidiaries	(342)	(1,547)	(611)
Repayments (Advances) of subordinated loan to CS&Co	—	465	(150)
Purchases of available for sale securities	(201)	(2)	(842)
Proceeds from sales of available for sale securities	197	2	200
Principal payments on available for sale securities	—	—	75
Purchases of held to maturity securities	—	—	(223)
Other investing activities	(6)	(4)	—
Net cash provided by (used for) investing activities	(726)	(991)	(1,458)
Cash Flows from Financing Activities			
Issuance of long-term debt	2,129	—	1,346
Repayment of long-term debt	(250)	—	(350)
Net proceeds from preferred stock offerings	492	1,316	581
Redemption of preferred stock	(485)	—	—
Dividends paid	(592)	(486)	(387)
Proceeds from stock options exercised and other	171	144	90
Other financing activities	—	44	32
Net cash provided by (used for) financing activities	1,465	1,018	1,312
Increase (Decrease) in Cash and Cash Equivalents	1,636	182	(36)
Cash and Cash Equivalents at Beginning of Year	1,189	1,007	1,043
Cash and Cash Equivalents at End of Year	$ 2,825	$ 1,189	$ 1,007

24. Quarterly Financial Information (Unaudited)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Year Ended December 31, 2017:				
Total Net Revenues	$ 2,242	$ 2,165	$ 2,130	$ 2,081
Total Expenses Excluding Interest	$ 1,289	$ 1,220	$ 1,221	$ 1,238
Net Income	$ 597	$ 618	$ 575	$ 564
Net Income Available to Common Stockholders	$ 550	$ 575	$ 530	$ 525
Weighted-Average Common Shares Outstanding — Basic	1,343	1,339	1,338	1,336
Weighted-Average Common Shares Outstanding — Diluted	1,358	1,353	1,351	1,351
Earnings Per Common Share — Basic	$ .41	$ .43	$ .40	$ .39
Earnings Per Common Share — Diluted	$ .41	$ .42	$ .39	$ .39
Dividends Declared Per Common Share	$ .08	$ .08	$ .08	$ .08
Range of Common Stock Price Per Share:				
High	$ 52.52	$ 44.35	$ 44.10	$ 43.65
Low	$ 42.20	$ 38.06	$ 37.16	$ 37.62
Range of Price/Earnings Ratio [1]:				
High	33	28	30	31
Low	26	24	25	27
Year Ended December 31, 2016:				
Total Net Revenues	$ 1,972	$ 1,914	$ 1,828	$ 1,764
Total Expenses Excluding Interest	$ 1,148	$ 1,120	$ 1,108	$ 1,109
Net Income	$ 522	$ 503	$ 452	$ 412
Net Income Available to Common Stockholders	$ 478	$ 470	$ 406	$ 392
Weighted-Average Common Shares Outstanding — Basic	1,329	1,324	1,322	1,321
Weighted-Average Common Shares Outstanding — Diluted	1,341	1,334	1,333	1,330
Earnings Per Common Share — Basic	$ .36	$ .36	$ .31	$ .30
Earnings Per Common Share — Diluted	$ .36	$ .35	$ .30	$ .29
Dividends Declared Per Common Share	$ .07	$ .07	$ .07	$ .06
Range of Common Stock Price Per Share:				
High	$ 40.58	$ 31.87	$ 31.07	$ 32.23
Low	$ 30.66	$ 23.83	$ 24.02	$ 21.51
Range of Price/Earnings Ratio [1]:				
High	31	26	27	29
Low	24	20	21	20

[1] Price/earnings ratio is computed by dividing the high and low market prices by diluted earnings per common share for the preceding 12-month period ending on the last day of the quarter presented.

25. Subsequent Event

On February 8, 2018, CSC redeemed all of its outstanding 1.500% Senior Notes due March 10, 2018. The aggregate principal amount of the notes was $625 million.

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, 2017 and 2016, 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, 2017, 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, 2017, 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, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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, 2017, 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.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
February 22, 2018

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, 2017, 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, 2017.

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, 2017, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing on the previous page.

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, 2017. 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, 2017.

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, 2017, that has materially affected, or is reasonably 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.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information 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, 2018 (the Proxy Statement) under "Members of the Board of Directors," "Corporate Governance," "Director Nominations," "Executive Officers," and "Section 16(a) Beneficial Ownership Reporting Compliance." 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.

Item 11. Executive Compensation

The information required to be furnished pursuant to this item is incorporated by reference from portions of the Proxy Statement under "Compensation Discussion and Analysis," "Executive Compensation Tables – 2017 Summary Compensation Table," "Executive Compensation Tables – 2017 Grants of Plan-Based Awards Table," "Executive Compensation Tables – Narrative to Summary Compensation and Grants of Plan-Based Awards Tables," "Executive Compensation Tables – 2017 Termination and Change in Control Benefits Table," "Executive Compensation Tables – Outstanding Equity Awards as of December 31, 2017," "Executive Compensation Tables – 2017 Option Exercises and Stock Vested Table," "Executive Compensation Tables – 2017 Nonqualified Deferred Compensation Table," "Director Compensation," and "Compensation Committee Interlocks and Insider Participation." 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 under “Security Ownership of Certain Beneficial Owners and Management,” and “Securities Authorized for Issuance under Equity Compensation Plans.”

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 under “Transactions with Related Persons” and “Director Independence.”

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 under “Auditor Fees.”

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 Cash Flows
Consolidated Statements of Stockholders' Equity
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
3.11	Fifth Restated Certificate of Incorporation, effective May 7, 2001, of the Registrant, re-filed as Exhibit 3.11 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.14	Fourth Restated Bylaws, as amended on January 27, 2010, of the Registrant, re-filed as Exhibit 3.14 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.15	Certificate of Designations of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A of The Charles Schwab Corporation, re-filed as Exhibit 3.15 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.16	Certificate of Designations of 6.00% Non-Cumulative Perpetual Preferred Stock, Series B, of the Charles Schwab Corporation, re-filed as Exhibit 3.16 to the Registrant's Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.17	Certificate of Designations of 6.00% Non-Cumulative Perpetual Preferred Stock, Series C, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated August 3, 2015, 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.
3.19	Certificate of Designations of 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 October 31, 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 Elimination of the 6.00% Non-Cumulative Perpetual Preferred Stock, Series B of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant's Form 8-K dated December 15, 2017, and incorporated herein by reference.
4.1	Deposit Agreement, dated June 6, 2012, 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 10-K for the year ended December 31, 2016, and incorporated herein by reference.
4.2	Deposit Agreement, dated August 3, 2015, 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 August 3, 2015 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.
4.4	Deposit Agreement, dated October 31, 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 October 31, 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.

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
4.6	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.	
10.271	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-Q for the quarter ended March 31, 2013, and incorporated herein by reference.	(2)
10.322	The Charles Schwab Corporation Deferred Compensation Plan II, as amended and restated as of October 23, 2008, filed as Exhibit 10.322 to the Registrant's Form 10-K for the year ended December 31, 2013, 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)
10.349	The Charles Schwab Severance Pay Plan, as Amended and Restated Effective May 1, 2012, filed as Exhibit 10.349 to the Registrant's Form 10-Q for the quarter ended June 30, 2017, and incorporated herein by reference.	(2)
10.352	Form of Performance-Based Cash Long-Term Incentive Award Agreement under The Charles Schwab Corporation 2004 Stock Incentive Plan and successor plans, filed as Exhibit 10.352 to the Registrant's Form 8-K dated January 24, 2013, and incorporated herein by reference.	(2)
10.360	The Charles Schwab Corporation 2013 Stock Incentive Plan, as approved at the Annual Meeting of Stockholders on May 16, 2013, filed as Exhibit 10.360 to the Registrant's Form 8-K dated May 16, 2013, and incorporated herein by reference.	(2)

10.362	The Charles Schwab Corporation Directors' Deferred Compensation Plan II, as amended and restated as of April 24, 2013, filed as Exhibit 10.362 to the Registrant's Form 10-Q for the quarter ended June 30, 2013, and incorporated herein by reference.	(2)
10.365	The Charles Schwab Corporation Corporate Executive Bonus Plan, restated to include amendments approved at the Annual Meeting of Stockholders on May 13, 2015, filed as Exhibit 10.365 to the Registrant's Form 10-Q for the quarter ended June 30, 2015, and incorporated herein by reference.	(2)
10.367	Summary of Non-Employee Director Compensation, filed as Exhibit 10.367 to the Registrant's Form 10-K for the year ended December 31, 2015, and incorporated herein by reference.	(2)
10.368	Credit Agreement (364 – Day Commitment) dated as of June 5, 2016, between the Registrant and financial institutions therein, filed as Exhibit 10.368 to the Registrant's Form 10-Q for the quarter ended June 30, 2016, and incorporated herein by reference.	

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
10.369	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 10.369 to the Registrant's Form 10-Q for the quarter ended September 30, 2016, 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)
10.371	Form of Notice and Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.371 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)
10.373	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 10.373 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 10.374 to the Registrant's Form 10-Q for the quarter ended September 30, 2016, and 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, and incorporated herein by reference.	(2)
10.376	Credit Agreement (364 – Day Commitment) dated as of June 2, 2017, between the Registrant and financial institutions therein (supersedes Exhibit 10.368), filed as Exhibit 10.376 to the Registrant's Form 10-Q for the quarter ended June 30, 2017, and incorporated herein by reference.	(2)
10.377	The Charles Schwab Corporation Deferred Compensation Plan II, as amended and restated as of October 19, 2017 (supersedes Exhibit 10.322), filed as Exhibit 10.377 to the Registrant's Form 8-K dated October 24, 2017, and incorporated herein by reference.	(2)
10.378	Form of Notice and Performance-Based Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans (supersedes Exhibit 10.369), filed as Exhibit 10.378 to the Registrant's Form 10-Q for the quarter ended September 30, 2017, and 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 (supersedes Exhibit 10.370), 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)
10.380		(2)

	Form of Notice and Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans (supersedes Exhibit 10.371), filed as Exhibit 10.380 to the Registrant's Form 10-Q for the quarter ended September 30, 2017, and incorporated herein by reference.	
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 (supersedes Exhibit 10.372), 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)

THE CHARLES SCHWAB CORPORATION

Exhibit Number	Exhibit	
10.382	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 (supersedes Exhibit 10.373), filed as Exhibit 10.382 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 (supersedes Exhibit 10.374), 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 (supersedes Exhibit 10.375), 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)
10.385	The Charles Schwab Corporation Deferred Compensation Plan II, as amended and restated as of December 13, 2017 (supersedes Exhibit 10.377).	(1),(2)
10.386	Form of Notice and Performance-Based Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, as amended and restated as of December 13, 2017(supersedes Exhibit 10.378).	(1),(2)
10.387	Form of Notice and Nonqualified Stock Option Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, as amended and restated as of December 13, 2017 (supersedes Exhibit 10.379).	(1),(2)
10.388	Form of Notice and Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans as amended and restated as of December 13, 2017 (supersedes Exhibit 10.380).	(1),(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 (supersedes Exhibit 10.365).	(1),(2)
10.390	Summary of Non-Employee Director Compensation.	(1),(2)
12.1	Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.	
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	XBRL Instance Document	(3)
101.SCH	XBRL Taxonomy Extension Schema	(3)
101.CAL	XBRL Taxonomy Extension Calculation	(3)
101.DEF	XBRL Extension Definition	(3)
101.LAB	XBRL Taxonomy Extension Label	(3)
101.PRE	XBRL Taxonomy Extension Presentation	(3)

Exhibit Number	Exhibit
(1)	*Furnished as an exhibit to this annual report on Form 10-K.*
(2)	*Management contract or compensatory plan.*
(3)	*Attached as Exhibit 101 to this Annual Report on Form 10-K for the annual period ended December 31, 2017, 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.*

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 22, 2018.

THE CHARLES SCHWAB CORPORATION
(Registrant)

BY: /s/ Walter W. Bettinger II
Walter W. Bettinger II
President 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 22, 2018.

Signature / Title	Signature / Title
/s/ Walter W. Bettinger II Walter W. Bettinger II, President and Chief Executive Officer and Director	/s/ Peter Crawford Peter Crawford, Executive Vice President and Chief Financial Officer (principal financial and accounting officer)
/s/ Charles R. Schwab Charles R. Schwab, Chairman of the Board	/s/ John K. Adams, Jr. John K. Adams, Jr., Director
/s/ C. Preston Butcher C. Preston Butcher, 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. Herringer Frank C. Herringer, Director	/s/ Stephen T. McLin Stephen T. McLin, Director
/s/ Arun Sarin Arun Sarin, Director	/s/ Paula A. Sneed Paula A. Sneed, Director
/s/ Roger O. Walther Roger O. Walther, Director	/s/ Robert N. Wilson Robert N. Wilson, Director

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

The following table outlines the information required by the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies." Beginning in 2017, these disclosures are presented at the consolidated holding company level. Comparative prior period amounts are also presented at a consolidated level.

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THE CHARLES SCHWAB CORPORATION
Supplemental Financial Data (Unaudited)
(Dollars in Millions)

The following supplemental financial data is consistent with the Securities Exchange Act of 1934, Industry Guide 3 – Statistical Disclosure by Bank Holding Companies.

1. Three-year Net Interest Revenue and Average Balances

For the Year Ended December 31,	2017			2016			2015		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:									
Cash and cash equivalents	$ 9,931	$ 109	1.10 %	$ 11,143	$ 57	0.51 %	$ 9,358	$ 24	0.26 %
Cash and investments segregated	18,525	166	0.90 %	20,104	93	0.46 %	18,606	31	0.17 %
Broker-related receivables [1]	430	3	0.70 %	558	1	0.22 %	274	—	0.07 %
Receivables from brokerage clients	16,269	575	3.53 %	15,001	497	3.31 %	15,212	502	3.30 %
Available for sale securities [2]	53,040	815	1.54 %	72,586	883	1.22 %	62,249	629	1.01 %
Held to maturity securities	103,599	2,354	2.27 %	57,451	1,402	2.44 %	38,280	957	2.50 %
Bank loans [6]	15,919	472	2.97 %	14,715	400	2.72 %	13,973	369	2.64 %
Total interest-earning assets	217,713	4,494	2.06 %	191,558	3,333	1.74 %	157,952	2,512	1.59 %
Other interest revenue		130			160			145	
Total interest-earning assets	217,713	4,624	2.12 %	191,558	3,493	1.82 %	157,952	2,657	1.68 %
Noninterest-earning assets [3,4]	9,968			9,354			8,061		
Total assets	$ 227,681			$ 200,912			$ 166,013		
Liabilities and Stockholders' Equity:									
Bank deposits	$ 163,998	$ 148	0.09 %	$ 141,432	$ 37	0.03 %	$ 113,464	$ 29	0.03 %
Payables to brokerage clients	25,403	16	0.06 %	26,311	3	0.01 %	25,651	2	0.01 %
Short-term borrowings [1]	3,503	41	1.17 %	1,864	9	0.48 %	21	—	0.27 %
Long-term debt	3,431	119	3.47 %	2,876	104	3.62 %	2,717	92	3.39 %
Total interest-bearing liabilities	196,335	324	0.17 %	172,483	153	0.09 %	141,853	123	0.09 %
Other interest expense		18			18			9	
Noninterest-bearing liabilities [3,5]	13,787			13,375			11,529		
Total liabilities [7]	210,122	342	0.15 %	185,858	171	0.09 %	153,382	132	0.08 %
Stockholders' equity [3]	17,559			15,054			12,631		
Total liabilities and stockholders' equity	$ 227,681			$ 200,912			$ 166,013		
Net interest revenue		$ 4,282			$ 3,322			$ 2,525	
Net yield on interest-earning assets			1.97 %			1.73 %			1.60 %

[1] Interest revenue or expense was less than $500,000 in the period or periods presented.
[2] Amounts calculated based on amortized cost.
[3] Average balance calculation based on month end balances.
[4] Noninterest-earning assets include equipment, office facilities, and property – net, goodwill, intangible assets – net, and other assets that do not generate interest income.
[5] Noninterest-bearing liabilities consist of other liabilities that do not generate interest expense.
[6] Includes average principal balances of nonaccrual loans.
[7] Average rate calculation based on total funding sources.

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2. Analysis of Change 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:

	2017 Compared to 2016 Increase (Decrease) Due to Change in:			2016 Compared to 2015 Increase (Decrease) Due to Change in:		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest-earning assets:						
Cash and cash equivalents [1]	$ (6)	$ 58	$ 52	$ 5	$ 28	$ 33
Cash and investments segregated	(7)	80	73	3	59	62
Broker-related receivables	—	2	2	—	1	1
Receivables from brokerage clients	42	36	78	(7)	2	(5)
Available for sale securities [2]	(238)	170	(68)	104	150	254
Held to maturity securities	1,126	(174)	952	479	(34)	445
Bank loans [3]	33	39	72	20	11	31
Other interest revenue	—	(30)	(30)	—	15	15
Total interest-earning assets	$ 950	$ 181	$ 1,131	$ 604	$ 232	$ 836
Interest-bearing sources of funds:						
Bank deposits	$ 7	$ 104	$ 111	$ 8	$ —	$ 8
Payables to brokerage clients	—	13	13	—	1	1
Short-term borrowings	8	24	32	5	4	9
Long-term debt	20	(5)	15	5	7	12
Other interest expense	—	—	—	—	9	9
Total sources on which interest is paid	35	136	171	18	21	39
Change in net interest revenue	$ 915	$ 45	$ 960	$ 586	$ 211	$ 797

Changes that are not due solely to volume or rate have been allocated to rate.
[1] Includes deposits with banks and short-term investments.
[2] Amounts have been calculated based on amortized cost.
[3] Includes average principal balances of nonaccrual loans.

3. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of AFS and HTM securities for 2015 are as follows:

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. agency mortgage-backed securities	$ 22,014	$ 183	$ 48	$ 22,149
U.S. Treasury securities	5,719	2	17	5,704
Asset-backed securities	21,784	7	306	21,485
Corporate debt securities	10,764	14	31	10,747
Certificates of deposit	1,685	1	3	1,683
U.S. agency notes	3,177	—	27	3,150
U.S. state and municipal securities	414	10	—	424
Non-agency commercial mortgage-backed securities	298	1	—	299
Other securities	5	—	—	5
Total available for sale securities	$ 65,860	$ 218	$ 432	$ 65,646
Held to maturity securities:				
U.S. agency mortgage-backed securities	$ 48,785	$ 391	$ 293	$ 48,883
Non-agency commercial mortgage-backed securities	999	6	20	985
U.S. Treasury securities	223	—	3	220
Total held to maturity securities	$ 50,007	$ 397	$ 316	$ 50,088

For additional information on 2017 and 2016 investments, see Item 8 – Note 5.

As of December 31, 2017, in addition to holdings of securities issued by the U.S. Government and U.S. Government agencies and corporations, the Company's holdings of investment securities from single issuers with aggregate book values in excess of ten percent of stockholders' equity were as follows:

Issuer	Aggregate Amortized Cost	Aggregate Fair Value
Citibank Credit Card Issuance Trust [1]	$ 1,850	$ 1,863

[1] Included in AFS and HTM securities in the Company's consolidated balance sheets.

4. Cross-border Holdings

The below information describes Schwab's cross-border holdings, based on fair value, as of December 31, 2017, 2016, and 2015. Such holdings, by country, that exceed 0.75% of total assets are disclosed separately.

There were no cross-border holdings that exceeded 0.75% of total assets at December 31, 2017.

December 31, 2016	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets
Country:				
France	$ 1,784	$ 110	$ 1,894	0.8 %
Total	$ 1,784	$ 110	$ 1,894	

December 31, 2015	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets
Country:				
Canada	$ 1,499	$ —	$ 1,499	0.8 %
Australia	1,376	60	1,436	0.8 %
Total	$ 2,875	$ 60	$ 2,935	

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5. Bank Loans and Related Allowance for Loan Losses

The composition of the loan portfolio is as follows:

December 31,	2017	2016	2015	2014	2013
First Mortgages	$ 10,016	$ 9,134	$ 8,334	$ 8,127	$ 8,006
HELOCs	1,943	2,350	2,735	2,955	3,041
Pledged asset lines	4,369	3,851	3,232	2,320	1,384
Other	176	94	64	39	36
Total bank loans	$ 16,504	$ 15,429	$ 14,365	$ 13,441	$ 12,467

An analysis of nonaccrual loans is as follows:

December 31,	2017	2016	2015	2014	2013
Nonaccrual loans	$ 28	$ 26	$ 28	$ 35	$ 48
Average nonaccrual loans	$ 27	$ 27	$ 30	$ 39	$ 43

There were no loans accruing interest that were contractually 90 days or more past due as of any period presented.

Changes in the allowance for loan losses were as follows:

December 31,	2017	2016	2015	2014	2013
Balance at beginning of year	$ 26	$ 31	$ 42	$ 48	$ 56
Charge-offs	(3)	(2)	(3)	(5)	(11)
Recoveries	3	2	3	3	4
Provision for loan losses	—	(5)	(11)	(4)	(1)
Balance at end of year	$ 26	$ 26	$ 31	$ 42	$ 48

The maturities of the loan portfolio are as follows:

December 31, 2017	Within 1 year	After 1 year through 5 years	After 5 years	Total
First Mortgages [1]	$ —	$ —	$ 10,016	$ 10,016
HELOCs [2]	980	365	598	1,943
Pledged asset lines	341	4,024	4	4,369
Other	10	162	4	176
Total	$ 1,331	$ 4,551	$ 10,622	$ 16,504

[1] Maturities are based upon the contractual terms of the loans.
[2] Maturities are based on an initial draw period of ten years.

The interest sensitivity of loans with contractual maturities in excess of one year is as follows:

December 31, 2017	After 1 year
Loans with floating or adjustable interest rates	$ 14,086
Loans with predetermined interest rates	1,087
Total	$ 15,173

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6. Summary of Loan Loss on Banking Loans Experience

December 31,	2017	2016	2015	2014	2013
Average loans	$ 15,919	$ 14,715	$ 13,973	$ 12,906	$ 11,758
Allowance to year end loans	.16 %	.17 %	.21 %	.31 %	.39 %
Allowance to nonperforming loans	93 %	101 %	110 %	120 %	100 %
Nonperforming assets to average loans and real estate owned	.20 %	.21 %	.26 %	.31 %	.45 %

7. 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 deposits from banking clients:

	2017		2016		2015	
	Amount	Rate	Amount	Rate	Amount	Rate
Analysis of average daily deposits:						
Money market and other savings deposits	$ 148,679	0.09 %	$ 126,719	0.02 %	$ 99,881	0.02 %
Interest-bearing demand deposits	15,319	0.14 %	14,713	0.07 %	13,583	0.07 %
Total	$ 163,998		$ 141,432		$ 113,464	

At December 31, 2017, bank deposits included one domestic-issued certificate of deposit of $100,000 or more, in the amount of $116,579, with a contractual maturity of greater than twelve months.

8. Ratios

December 31,	2017	2016	2015
Return on average total stockholders' equity	13.41 %	12.55 %	11.45 %
Return on average total assets	1.03 %	0.94 %	0.87 %
Average total stockholders' equity as a percentage of average total assets	7.71 %	7.49 %	7.61 %
Dividend payout ratio [1]	19.88 %	20.61 %	23.30 %

Note: Average balance calculations based on month end balances.

[1] Dividends declared per common share divided by diluted EPS.