SCHWAB CHARLES CORP
Form 10-K
February 24, 2014
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, 2013 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

	Name of each exchange on which registered
Common Stock - $.01 par value per share	New York Stock Exchange
Depository Shares, each representing a 1/40th ownership interest in a share of 6.0% Non-Cumulative Preferred Stock, Series B	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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

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, 2013, the aggregate market value of the voting stock held by non-affiliates of the registrant was $23.7 billion. For purposes of this information, the outstanding shares of Common Stock owned by directors and executive officers of the registrant, and certain investment companies managed by Charles Schwab Investment Management, Inc. were deemed to be shares of the voting stock held by affiliates.

The number of shares of Common Stock outstanding as of January 31, 2014, was 1,298,566,869.

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, 2014, by reference to that document.

THE CHARLES SCHWAB CORPORATION

Annual Report On Form 10-K

For Fiscal Year Ended December 31, 2013

TABLE OF CONTENTS

Part I

Item 1.	Business	1
	General Corporate Overview	1
	Business Acquisitions	1
	Business Strategy and Competitive Environment	2
	Products and Services	2
	Regulation	5
	Sources of Net Revenues	6
	Available Information	6
Item 1A.	Risk Factors	7
Item 1B.	Unresolved Securities and Exchange Commission Staff Comments	13
Item 2.	Properties	14
Item 3.	Legal Proceedings	14

Part II

Item 4.	Mine Safety Disclosures	15
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	15
Item 6.	Selected Financial Data	17
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
	Overview	18
	Current Market and Regulatory Environment and Other Developments	20
	Results of Operations	22
	Liquidity and Capital Resources	30
	Risk Management	37
	Fair Value of Financial Instruments	44
	Critical Accounting Estimates	44
	Forward-Looking Statements	46
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	48
Item 8.	Financial Statements and Supplementary Data	50
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	97
Item 9A.	Controls and Procedures	97

Item 9B.	Other Information	97

Part III

Item 10.	Directors, Executive Officers, and Corporate Governance	97
Item 11.	Executive Compensation	99
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	99
Item 13.	Certain Relationships and Related Transactions, and Director Independence	99
Item 14.	Principal Accountant Fees and Services	99

Part IV

Item 15.	Exhibits and Financial Statement Schedule	100
	Exhibit Index	100
	Signatures	105
	Index to Financial Statement Schedule	F-1

THE CHARLES SCHWAB CORPORATION

PART I

Item 1. Business

General Corporate Overview

The Charles Schwab Corporation (CSC), headquartered in San Francisco, California, was incorporated in 1986 and engages, through its subsidiaries (together referred to as the Company, and located in San Francisco except as indicated), in securities brokerage, banking, money management, and financial advisory services. At December 31, 2013, the Company had $2.25 trillion in client assets, 9.1 million active brokerage accounts(a), 1.3 million corporate retirement plan participants, and 916,000 banking accounts.

Significant business subsidiaries of CSC include:

- Charles Schwab & Co., Inc. (Schwab), which was incorporated in 1971, is a securities broker-dealer with over 300 domestic branch offices in 45 states, as well as a branch in each of the Commonwealth of Puerto Rico and London, England, and serves clients in Hong Kong through one of CSC's subsidiaries;
- Charles Schwab Bank (Schwab Bank), which commenced operations in 2003, is a federal savings bank located in Reno, Nevada; and
- Charles Schwab Investment Management, Inc. (CSIM), which is the investment advisor for Schwab's proprietary mutual funds, referred to as the Schwab Funds®, and Schwab's exchange-traded funds, referred to as the Schwab ETFs™.

The Company 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, retirement plan services, and corporate brokerage services. The Advisor Services segment provides custodial, trading, and support services to independent investment advisors (IAs), and retirement business services to independent retirement plan advisors and recordkeepers whose plan assets are held at Schwab Bank. These services are further described in the segment discussion below. For financial information by segment for the three years ended December 31, 2013, see "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 23. Segment Information."

As of December 31, 2013, the Company had full-time, part-time and temporary employees, and persons employed on a contract basis that represented the equivalent of about 13,800 full-time employees.

Business Acquisitions

On December 14, 2012, the Company acquired ThomasPartners, Inc., a growth and dividend income-focused asset management firm.

In September 2011, the Company acquired optionsXpress Holdings, Inc. (optionsXpress), an online brokerage firm primarily focused on equity options and futures. The optionsXpress® brokerage platform provides active investors and traders trading tools, analytics and education to execute a variety of investment strategies. optionsXpress, Inc., a wholly-owned subsidiary of optionsXpress, is a securities broker-dealer.

In November 2010, the Company acquired substantially all of the assets of Windward Investment Management, Inc., an investment advisory firm that managed diversified investment portfolios comprised primarily of exchange-traded fund securities. As a result of the acquisition, Windhaven Investment Management, Inc. (Windhaven®) was formed as a wholly-owned subsidiary of Schwab Holdings, Inc.

For additional information pertaining to the Company's business acquisitions, see "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 24. Business Acquisitions."

(a) Accounts with balances or activity within the preceding eight months.

THE CHARLES SCHWAB CORPORATION

Business Strategy and Competitive Environment

The Company's stated purpose is to champion every client's goals with passion and integrity, believing the best long-term strategy is one that puts clients first. Because investing plays a fundamental role in building financial security, the Company strives to deliver a better investing experience for its clients – individual investors and the people and institutions who serve them – by disrupting longstanding industry practices on their behalf and providing superior service. The Company aims to offer a broad range of products and solutions to choose from, including relevant and actionable advice, with a focus on transparency and convenience. In addition, management works to leverage Company scale and resources, as well as expense discipline, to help keep costs low and ensure that client solutions are both affordable and responsive to needs.

The Company's 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 serving these investors and competing for a growing percentage of the investable wealth in the U.S., the Company offers a multi-channel service delivery model, which includes online, mobile, telephonic, and branch capabilities. Under this model, the Company can offer personalized service at competitive prices while giving clients the choice of where, when, and how they do business with the Company. Schwab's branches and regional telephone service centers are staffed with trained and experienced financial consultants (FCs) focused on building and sustaining client relationships. The Company offers the ability to meet client investing needs through a single ongoing point of contact, even as those needs change over time. In particular, management believes that the Company's ability to provide those clients seeking help, guidance, or advice with an integrated, individually tailored solution – ranging from occasional consultations to an ongoing relationship with a Schwab FC or an IA – is a competitive strength compared to the more fragmented or limited offerings of other firms.

The Company's online, mobile, and telephonic channels provide 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. Individuals investing for retirement through 401(k) plans can take advantage of the Company's bundled offering of multiple investment choices, education, and third-party advice. 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 the extensive array of investment, banking, and lending products and services described in the following section.

In the IA arena, the Company competes with institutional custodians, traditional and discount brokers, banks, investment advisory firms, and trust companies. Management believes that its Advisor Services segment can maintain its market leadership position primarily through the efforts of its expanded sales and support teams, which are

dedicated to helping IAs grow, compete, and succeed in serving their clients. In addition to focusing on superior service, Advisor Services competes by utilizing technology to provide IAs 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 IAs identify and implement better ways to grow and manage their practices efficiently.

Another important aspect of the Company's ability to compete is its ongoing focus on efficiency and productivity, as lower costs give the Company greater flexibility in its approach to pricing and investing for growth. Management believes that this flexibility remains important in light of the competitive environment, in which a number of competitors offer reduced online trading commission rates and low expense ratios on certain classes of mutual funds and exchange-traded funds. Additionally, the Company's nationwide marketing effort is an important competitive tool because it reinforces the attributes of the Schwab® brand.

Products and Services

The Company offers a broad range of products to address individuals' varying investment and financial needs. Examples of these product offerings include:

- Brokerage – an array of full-feature brokerage accounts; individual retirement accounts; retirement plans for small to large businesses; 529 college savings accounts; designated brokerage accounts; equity incentive plan accounts; and margin loans, as well as access to fixed income securities, equity and debt offerings, options, and futures;

THE CHARLES SCHWAB CORPORATION

- Mutual funds – third-party mutual funds through Mutual Fund Marketplace®, including no-load mutual funds through the Mutual Fund OneSource® service, proprietary mutual funds from two fund families – Schwab Funds® and Laudus Funds®, other third-party mutual funds, and mutual fund trading and clearing services to broker-dealers;
- Exchange-traded funds (ETFs) – third-party and proprietary ETFs, including Schwab ETFs, Schwab ETF OneSource™, and separately managed portfolios of ETFs;
- Advice solutions – separately managed accounts, customized personal advice for tailored portfolios, and specialized planning and full-time portfolio management;
- Banking – checking accounts linked to brokerage accounts, savings accounts, certificates of deposit, demand deposit accounts, first lien residential real estate mortgage loans (First Mortgages), home equity lines of credit (HELOCs), personal loans and entity lending collateralized by securities; and
- Trust – trust custody services, personal trust reporting services, and administrative trustee services.

These products, and the Company's full array of investing services, are made available through its two segments – Investor Services and Advisor Services. The Company's major sources of revenues are generated by both of the Company's 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 Company's reportable segments are the same as those described in "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 2. Summary of Significant Accounting Policies." 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 – Segment Information," and "Item 8 – Financial Statement and Supplementary Data – Notes to the Consolidated Financial Statements – 23. Segment Information."

Investor Services

Through the Investor Services segment, the Company provides retail brokerage and banking services to individual investors. The Company offers research, analytic tools, performance reports, market analysis, and educational material to all clients. Clients looking for more guidance have access to online portfolio planning tools, professional advice from Schwab's portfolio consultants who can help develop an investment strategy and carry out investment and portfolio management decisions, as well as a range of fully delegated managed solutions that provide ongoing portfolio management.

Schwab strives to educate and assist clients in the development of investment plans. Educational tools include workshops, interactive courses, and online information about investing, from which Schwab does not earn revenue. Additionally, Schwab provides various internet-based 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 approximately 4,000 stocks in 27 foreign equity markets.

Clients may need specific investment recommendations, either from time to time or on an ongoing basis. The Company provides clients seeking advice with customized solutions. The Company's 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 ClientTM 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, the Company offers several alternatives. The Company provides investors access to professional investment management in a diversified account that is invested exclusively in either mutual funds or ETFs through the Schwab Managed PortfoliosTM and Windhaven, or equity securities through ThomasPartners® programs. The Company also refers 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. In addition, clients who want the assistance of an independent professional in managing their financial affairs may be referred to IAs in the Schwab Advisor Network®. These IAs provide personalized portfolio management, financial planning, and wealth management solutions.

To meet the specific needs of clients who trade actively, Schwab and optionsXpress, Inc. both offer integrated Web- and software-based trading platforms, which incorporate intelligent order routing technology, real-time market data, options trading, premium stock or futures research, and multi-channel access, as well as sophisticated account and trade management features, risk management tools, decision support tools, and dedicated personal support.

For clients wishing to invest in foreign equities, the Company 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, the Company 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., the Company serves Chinese-, Spanish-, and Vietnamese-speaking clients through a combination of its branch offices and Web-based and telephonic services.

The Investor Services segment also includes the Retirement Plan Services, Corporate Brokerage Services, Stock Plan Services, and Compliance Solutions business units. Retirement Plan Services offers a bundled 401(k) retirement plan product that provides plan sponsors a wide array of investment options, trustee or custodial services, and participant-level recordkeeping. 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 2012, the Company launched Schwab Index Advantage®, a unique 401(k) plan offer designed to lower costs, simplify investing and help workers better prepare for retirement. Services also include support for Roth 401(k) accounts and profit sharing and defined benefit plans. The Company provides a robust suite of tools to plan sponsors to manage their plans, including plan-specific reports, studies and research, access to legislative updates and benchmarking reports that provide perspective on their plan’s features compared with overall industry and segment-specific plans. Participants in bundled plans serviced by the Company receive targeted education materials, have access to electronic tools and resources, may attend onsite and virtual seminars, and can receive third-party advice delivered by Schwab. 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.

Corporate Brokerage Services provides specialty brokerage-related services to corporate clients through its Corporate Brokerage Retirement Services business and mutual fund clearing services to banks, brokerage firms and trust companies, and also offers proprietary mutual funds, ETFs, collective trust funds, and investment management outside the Company to institutional channels. Corporate Brokerage Retirement Services serves independent recordkeepers seeking a custodian for retirement plan assets. Schwab provides custody services tailored for retirement plans seeking a low-cost solution. 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®, a self-directed brokerage offering for retirement plans and the Company Retirement Account, a brokerage account designed to hold the assets of an individually designed business retirement plan.

Stock Plan Services offers 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.

Compliance Solutions provides solutions for compliance departments of regulated companies and firms with special requirements to monitor employee personal trading, including trade surveillance technology.

Advisor Services

Through the Advisor Services segment, the Company provides custodial, trading, and support services to IAs.

To attract and serve IAs, the Company has a dedicated sales force and service teams assigned to meet their needs. IAs 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 IAs to conduct daily business activities online with Schwab, including submitting and retrieving client account information and viewing news and market information. This platform provides IAs with a comprehensive suite of electronic and paper-based reporting capabilities. The Company offers online cashiering services, as well as internet-based eDocuments sites for both IAs and

their clients that provide multi-year archiving of online statements, trade confirms and tax reports, along with document search capabilities.

To help IAs grow and manage their practices, the Company offers a variety of services, including marketing and business development, business strategy and planning, and transition support. Regulatory compliance consulting and support services are available, as well as website design and development capabilities. The Company maintains a website that provides interactive tools, educational content, and research reports to assist advisors thinking about establishing their own independent practices.

The Company offers an array of services to help advisors establish their own independent practices through the Business Start-up Solutions package. For some IAs this includes 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.

The Company offers a variety of educational materials and events to IAs seeking to expand their knowledge of industry issues and trends, as well as sharpen their individual expertise and practice management skills. The Company updates and shares market research on an ongoing basis, and it holds a series of events and conferences every year to discuss topics of interest to IAs, including business strategies and best practices. The Company sponsors the annual IMPACT® conference, which provides a national forum for the Company, IAs, and other industry participants to gather and share information and insights.

IAs and their clients have access to a broad range of the Company's products and services, including individual securities, mutual funds, ETFs, managed accounts, and cash products.

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. 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 the Company's investment, technology, trust, and custodial services. Retirement Business Services also offers the Schwab Personal Choice Retirement Account® for retirement plans.

Regulation

CSC is a savings and loan holding company and Schwab Bank, CSC's depository institution subsidiary, is a federal savings bank. CSC is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve). CSC is currently not subject to specific statutory capital requirements; however, CSC is required to serve as a source of strength for Schwab Bank. Under the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the Dodd-Frank Act), CSC will be subject to new minimum leverage and minimum risk-based capital ratio requirements that will be set by the Federal Reserve that are at least as stringent as the current requirements generally applicable to insured depository institutions. These requirements will be phased in beginning January 1, 2015. For further information, see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Current Market and Regulatory Environment and Other Developments."

Schwab Bank is subject to supervision and regulation by the Office of the Comptroller of the Currency (OCC), as well as various requirements and restrictions under federal and state laws, including regulatory capital guidelines. For additional information on the regulations applicable to CSC, Schwab, Schwab Bank, and optionsXpress, Inc., see "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 22. Regulatory Requirements."

The securities industry in the United States is subject to extensive regulation under both federal and state laws. CSC's principal U.S. broker-dealers are Schwab and optionsXpress, Inc. Schwab is registered as a broker-dealer with the United States Securities and Exchange Commission (SEC), the fifty states, and the District of Columbia and Puerto Rico. optionsXpress, Inc. is registered as a broker-dealer with the SEC, the fifty states, the District of Columbia, Puerto Rico, and the Virgin Islands. Schwab and CSIM are registered as investment advisors with the SEC. Additionally, Schwab and optionsXpress, Inc. are regulated by the Commodities Futures Trading Commission (CFTC) with respect to the commodity

futures and commodities trading activities they conduct as an introducing broker and futures commission merchant, respectively.

Much of the regulation of broker-dealers has been delegated to self-regulatory organizations (SROs). Schwab and optionsXpress, Inc. are members of the Financial Industry Regulatory Authority, Inc. (FINRA), the Municipal Securities Rulemaking Board (MSRB), NYSE Arca, and the Chicago Board Options Exchange (CBOE). optionsXpress, Inc. is also a member of other exchanges. The primary regulators of Schwab are FINRA and, for municipal securities, the MSRB. The primary regulators of optionsXpress, Inc. are FINRA, CBOE, and for municipal securities, the MSRB. The National Futures Association (NFA) is Schwab and optionsXpress, Inc.'s primary regulator for futures and commodities trading activities. The Company's business is also subject to oversight by regulatory bodies in other countries in which the Company operates.

The principal purpose of regulating broker-dealers and investment advisors is the protection of clients and the securities markets. The regulations, to which broker-dealers and investment advisors are subject, 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.

Schwab and optionsXpress, Inc. are both 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 that are intended to ensure the general financial soundness and liquidity of broker-dealers. Because CSC itself is not a registered broker-dealer, it is not subject to the Uniform Net Capital Rule. However, if Schwab fails to maintain specified levels of net capital, such failure would constitute a default by CSC under debt covenants under CSC's credit agreement.

The Uniform Net Capital Rule limits broker-dealers' ability to transfer capital to parent companies and other affiliates. Compliance with the Uniform Net Capital Rule could limit Schwab's operations and its ability to repay subordinated debt to CSC, which in turn could limit CSC's ability to repay debt, pay cash dividends, and purchase shares of its outstanding stock.

In addition to net capital requirements, as self-clearing broker-dealers, Schwab and optionsXpress, Inc. are subject to cash deposit and collateral requirements with clearing houses, such as the Depository Trust & Clearing Corporation (DTCC) and Options Clearing Corporation, which may fluctuate significantly from time to time based upon the nature and size of clients' trading activity.

Sources of Net Revenues

The Company's major sources of net revenues are asset management and administration fees, net interest revenue, and trading revenue. The Company generates asset management and administration fees through its proprietary and third-party mutual fund offerings, as well as fee-based advisory solutions. Net interest revenue is the difference between interest earned on interest-earning assets and interest paid on funding sources. The Company generates trading revenue through commissions earned for executing trades for clients and principal transaction revenue primarily from trading activity in client fixed income securities.

For revenue information by source for the three years ended December 31, 2013, see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Net Revenues."

Available Information

The Company files annual, quarterly, and current reports, proxy statements, and other information with the SEC. The Company's SEC filings are available to the public over the Internet on the SEC's website at http://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 the Company's website, http://www.aboutschwab.com, the Company posts the following recent filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: the Company's annual reports on

THE CHARLES SCHWAB CORPORATION

Form 10-K, the Company's quarterly reports on Form 10-Q, the Company's 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. All such filings are available free of charge either on the Company's website or by request via email (investor.relations@schwab.com), telephone (415-667-1959), or mail (Charles Schwab Investor Relations at 211 Main Street, San Francisco, CA 94105).

Item 1A. Risk Factors

The Company faces a variety of risks that may affect its operations or financial results, and many of those risks are driven by factors that the Company 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 the Company's operations or financial results.

For a discussion of the Company's risk management, including operational risk, credit risk, market risk, liquidity risk, compliance risk, and legal risk, see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management."

Developments in the business, economic, and geopolitical environment could negatively impact the Company's business.

The Company's 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 the Company's control. Deterioration in the housing and credit markets, reductions in short-term interest rates, and decreases in securities valuations negatively impact the Company's net interest revenue, asset management and administration fees, and capital resources.

Extensive regulation of the Company's businesses limits the Company's activities and may subject it to significant penalties.

As a participant in the securities, banking and financial services industries, the Company is subject to extensive regulation under both federal and state laws by governmental agencies, supervisory authorities, and SROs. Such regulation continues to grow more extensive and complex, and regulatory proceedings continue to become more frequent and sanctions more severe. The requirements imposed by the Company's regulators are designed to ensure the integrity of the financial markets, the safety and soundness of financial institutions, and the protection of clients. These regulations often serve to limit the Company's activities by way of capital, customer protection and market conduct requirements, and restrictions on the businesses activities that the Company may conduct. Despite the Company's efforts to comply with applicable regulations, there are a number of risks, particularly in areas where applicable regulations may be unclear or where regulators revise their previous guidance. Any enforcement actions or other proceedings brought by the Company's regulators against the Company or its affiliates, officers or employees could result in fines, penalties, cease and desist orders, enforcement actions, suspension or expulsion, or other disciplinary sanctions, including limitations on the Company's business activities, any of which could harm the Company's reputation and adversely affect the Company's results of operations and financial condition.

The Company maintains systems and procedures designed to ensure that it complies with applicable laws and regulations. However, 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 there was in place at the time systems and procedures reasonably designed to prevent violations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage the Company's reputation and could restrict the ability of institutional investment managers to invest in the Company's securities.

Legislation or changes in rules and regulations could negatively impact the Company's business and financial results.

New legislation, rule changes, or changes in the interpretation or enforcement of existing federal, state and SRO rules and regulations, including changes relating to money market mutual funds, broker-dealer fiduciary duties and mortgage products and services, may directly affect the operation and profitability of the Company or its specific business lines. The profitability

of the Company could also be affected by rules and regulations which 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 the Company conducts, modifications to the Company's business practices, increased capital requirements, or additional costs.

Financial reforms and related regulations may affect the Company's business activities, financial position and profitability.

The Dodd-Frank Act was signed into law in July 2010 and implementation is ongoing. This legislation makes extensive changes to the laws regulating financial services firms and significant rule-making and interpretation remains. In addition, the legislation mandates multiple studies, which could result in additional legislative or regulatory action. Among other things, the legislation authorizes various assessments and fees and requires the establishment of minimum leverage and risk-based capital requirements for insured depository institutions, and requires the SEC to complete studies and develop rules regarding various investor protection issues. The legislation also charges the Federal Reserve with drafting enhanced regulatory requirements for non-bank financial institutions designated as "systemically important." CSC has not been designated as "systemically important," but could be designated in the future. The legislation also eliminated the Office of Thrift Supervision (OTS) effective July 21, 2011 and, as a result, the Federal Reserve became CSC's primary regulator and the OCC became the primary regulator of Schwab Bank. CSC will continue to review the impact that proposed rule-making will have on the Company's business, financial condition, and results of operations, as such rule-making is issued.

In July 2013, the U.S. banking agencies issued regulatory capital rules that implement Basel III and relevant provisions of the Dodd-Frank Act which are applicable to savings and loan holding companies, such as CSC, and federal savings banks, such as Schwab Bank. The rules, which will be phased in beginning on January 1, 2015, will subject CSC to consolidated capital requirements. The rules also establish more restrictive capital definitions, higher risk-weightings for certain asset classes, higher minimum capital ratios and capital buffers. Failure to meet the minimum capital requirements could result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a negative impact on the Company.

In October 2013, the Federal Reserve, in collaboration with the OCC and the Federal Deposit Insurance Corporation, issued a joint notice of proposed rulemaking that would implement a quantitative liquidity requirement generally consistent with the liquidity coverage ratio (LCR) standard established by Basel III. The LCR would apply to all internationally active banking organizations. The Federal Reserve also proposed a modified LCR standard, which would apply to the Company. Under the modified LCR, a depository institution holding company would be required to maintain high-quality liquid assets in an amount related to its total net cash outflows over a prospective period. The proposed transition period for the rule would begin on January 1, 2015, and institutions would be required to be fully compliant by January 1, 2017. The Company is currently evaluating the impact of the proposed rule, which may be

subject to further modification.

The legislation also established a new independent Consumer Financial Protection Bureau (CFPB), which has broad rulemaking, supervisory and enforcement authority over consumer products, including mortgages, home-equity loans and credit cards. States will be permitted to adopt stricter consumer protection laws and state attorney generals can enforce consumer protection rules issued by the CFPB. These rules may negatively impact the range of products offered and profitability of our loan products.

The legislation gives the SEC discretion to adopt rules regarding standards of conduct for broker-dealers providing investment advice to retail customers. The various studies required by the legislation could result in additional rulemaking or legislative action, which could impact the Company's business and financial results.

The changes resulting from the legislation may impact the profitability of the Company's business activities, require changes to certain of its business practices, impose upon the Company more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect the Company's business. These changes may also require the Company to invest significant management attention and resources to evaluate and make necessary changes.

Technology and operational failures or errors could subject the Company to losses, litigation, and regulatory actions.

The Company faces operational risk, which is the potential for loss due to inadequate or failed internal processes, systems, and firms or exchanges handling client orders, or from external events and relationships impacting the Company and/or any of its key business partners and vendors. This risk also includes the risk of human error, execution errors, employee misconduct, unauthorized trading, external fraud, computer viruses, distributed denial of service attacks, terrorist attacks, natural disaster, power outage, capacity constraints, software flaws and similar events. For example, the Company 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 several hours or more to restore full functionality to the Company's technology or other operating systems in the event of an unforeseen event which could affect the Company's ability to process and settle client transactions. Moreover, instances of fraud or other misconduct, including improper use or disclosure of confidential client, employee, or company information, might also negatively impact the Company's reputation and client confidence in the Company, in addition to any direct losses that might result from such instances. Despite the Company's 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 the Company will not suffer unexpected losses, reputational damage or regulatory action due to technology or other operational failures or errors, including those of its vendors or other third parties.

While the Company devotes substantial attention and resources to the reliability, capacity and scalability of its systems, extraordinary trading volumes could cause the Company's computer systems to operate at unacceptably slow speeds or even fail, affecting the Company's 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. The Company is 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. Systems failures and constraints and transaction error at such intermediaries could result in delays and erroneous or unanticipated execution prices, cause substantial losses for the Company and for its clients, and subject the Company to claims from its clients for damages.

A significant decrease in the Company's liquidity could negatively affect the Company's business and financial management as well as reduce client confidence in the Company.

Maintaining adequate liquidity is crucial to the business operations of the Company, including margin lending, mortgage lending, and transaction settlement, among other liquidity needs. The Company meets its 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 market conditions, may affect the Company's ability to meet its liquidity needs. A reduction in the Company's liquidity position could reduce client

confidence in the Company, which could result in the loss of client accounts. In addition, if the Company's 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 the Company's liquidity position include a reduction in cash held in banking or brokerage client accounts, a dramatic increase in the Company's client lending activities (including margin, mortgage-related, and personal lending), unanticipated outflows of company cash, increased capital requirements, other regulatory changes or a loss of market or customer confidence in the Company. Schwab may also experience temporary liquidity demands due to timing differences between clients' transaction settlements and the availability of segregated cash balances.

When cash generated by client activity and operating earnings is not sufficient for the Company's liquidity needs, the Company must 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 Schwab 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, 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.

The Company may suffer significant losses from its credit exposures.

The Company's 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 the Company has policies and procedures designed to manage this risk, the policies and procedures may not be fully effective. The Company's exposure mainly results from margin lending, clients' options trading, securities lending, mortgage lending, its role as a counterparty in financial contracts and investing activities, and indirectly from the investing activities of certain of the proprietary funds that the Company sponsors.

When clients purchase securities on margin or trade options, the Company is 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.

The Company has exposure to credit risk associated with its securities available for sale and securities held to maturity portfolios, which include U.S. agency and non-agency mortgage-backed securities, asset-backed securities, corporate debt securities, U.S. agency notes, certificates of deposit, and commercial paper among other investments. These instruments are also subject to price fluctuations as a result of changes in the financial market's assessment of issuer credit quality, increases in the unemployment rate, delinquency and default rates, housing price declines, changes in prevailing interest rates and other economic factors. A failure to raise the U.S. debt limit and/or a downgrade of the U.S. government's credit rating could decrease the value of the Company's securities in both the available for sale and held to maturity portfolios.

Loss of value of securities available for sale and securities held to maturity can negatively affect earnings if management determines that such securities are other than temporarily impaired. The evaluation of whether other-than-temporary impairment exists is a matter of judgment, which includes the assessment of several factors. See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates." If management determines that a security is other-than-temporarily impaired, the cost basis of the security may be adjusted and a corresponding loss may be recognized in current earnings. Certain securities available for sale experienced continued credit deterioration in 2013, which resulted in impairment charges. Deterioration in the performance of securities available for sale and securities held to maturity could result in the recognition of future impairment charges.

The Company's loans to banking clients primarily consist of First Mortgages and HELOCs. Increases in delinquency and default rates, housing 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 (concentration risk) can increase the Company's risk of loss. Examples of the Company's credit concentration risk 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
- margin and securities lending activities collateralized by securities of a single issuer or industry.

The Company may also be subject to concentration risk when lending to a particular counterparty, borrower or issuer.

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

Significant interest rate changes could affect the Company's profitability and financial condition.

The Company is exposed to interest rate risk primarily from changes in the interest rates on its interest-earning assets (such as cash equivalents, short- and long-term investments, and mortgage and margin loans) relative to changes in the costs of its funding sources (including deposits in banking and uninvested cash in brokerage accounts, short-term borrowings, and long-term debt). Changes in interest rates generally affect the interest earned on interest-earning assets differently than the interest the Company pays on its interest-bearing liabilities. In addition, certain funding sources do not bear interest and their cost therefore does not vary. Overall, the Company is positioned to benefit from a rising interest rate environment; the Company could be adversely affected by a decline in interest rates if the rates that the Company earns on interest-earning assets decline more than the rates that the Company pays on its funding sources, or if prepayment rates increase on the mortgages and mortgage-backed securities that the Company holds. The Company may also be limited in the amount it can reduce interest rates on funding sources, such as deposit accounts, and still offer a competitive return.

As a result of the low interest rate environment, the Company has been waiving and may continue to waive a portion of its management fees for certain Schwab-sponsored money market mutual funds. To the extent the overall yield on certain Schwab-sponsored money market mutual funds falls to a level at or below the management fees on those funds, the Company may waive a portion of its fee in order to continue providing some return to clients. Such fee waivers negatively impact the Company's asset management and administration fees.

The Company is subject to litigation and regulatory investigations and proceedings and may not be successful in defending itself against claims or proceedings.

The financial services industry faces substantial litigation and regulatory risks. The Company 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.

Litigation and arbitration claims include those brought by the Company's clients and the clients of third party advisors whose assets are custodied at the Company. 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 the Company were found to have infringed a third-party patent, or other intellectual property rights, it could incur substantial damages, and in some circumstances could be enjoined from using certain technology, or providing certain products or services.

Actions brought against the Company may result in settlements, awards, injunctions, fines, penalties or other results adverse to the Company including reputational harm. Even if the Company is successful in defending against these actions, the defense of such matters may result in the Company incurring significant expenses. Predicting the outcome of matters is inherently difficult, particularly where claims are brought on behalf of various classes of claimants, claimants seek substantial or unspecified damages, or when investigations or legal proceedings are at an early stage. A substantial judgment, settlement, fine, or penalty could be material to the Company's operating results or cash flows for a particular future period, depending on the Company's 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. See "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 14. Commitments and Contingencies."

The Company relies on outsourced service providers to perform key functions.

The Company relies 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 the Company's confidential client, employee, or company information, could cause the Company to incur losses and could harm the Company'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 the Company's inability to make alternative arrangements in a timely manner could disrupt the Company's

operations, impact the Company's ability to offer certain products and services, and result in financial losses to the Company. Switching to an alternative service provider may require a transition period and result in less efficient operations.

Security breaches of the Company's systems, or those of its clients or third parties, may subject the Company to significant liability and damage the Company's reputation.

The Company's business involves the secure processing, storage and transmission of confidential information about the Company and its clients. 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. The Company's 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 customer information), account takeovers, unavailability of service or other events. Despite the Company's efforts to ensure the integrity of its systems, the Company 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, actions by a suborned employee.

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

The Company also faces risk related to external fraud involving the compromise of clients' personal electronic devices that can facilitate the unauthorized access to login and password information for their various online financial accounts, including those at the Company. 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. For example, these parties send fraudulent "phishing" emails to the Company's clients in order to misappropriate user names, passwords or other personal information. Losses reimbursed to clients under the Company's guarantee against unauthorized account activity could have a negative impact on the Company's business, financial condition and results of operations.

Potential strategic transactions could have a negative impact on the Company's financial position.

The Company evaluates potential strategic transactions, including business combinations, acquisitions, and dispositions. Any such transaction could have a material impact on the Company's 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 the Company to assume liabilities or become subject to litigation or regulatory proceedings. Further, the Company may not realize the anticipated benefits from an acquisition, and any future acquisition could be dilutive to the Company's current stockholders' percentage ownership or to earnings per common share.

The Company's 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 the Company enters 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, the Company's stock price could decline.

The Company's industry is characterized by aggressive price competition.

The Company continually monitors its pricing in relation to competitors and periodically adjusts trade commission rates, interest rates on deposits and loans, fees for advisory services, and other fee structures to enhance its competitive position.

Increased price competition from other financial services firms, such as reduced commissions to attract trading volume or higher deposit rates to attract client cash balances, could impact the Company's results of operations and financial condition.

The industry in which the Company competes has undergone a period of consolidation.

The Company faces intense competition for the clients that it serves and the products and services it offers. There has been significant consolidation as financial institutions with which the Company competes have been acquired by or merged into or acquired other firms. This consolidation may continue. Competition is based on many factors, including the range of products and services offered, pricing, customer service, brand recognition, reputation, and perceived financial strength. Consolidations may enable other firms to offer a broader range of products and services than the Company does, or offer such products at more competitive prices.

The Company faces competition in hiring and retaining qualified employees, especially for employees who are key to the Company's ability to build and enhance client relationships.

The market for quality professionals and other personnel in the Company's business is highly competitive. Competition is particularly strong for financial consultants who build and sustain the Company's client relationships. The Company's ability to continue to compete effectively will depend upon its ability to attract new employees and retain existing employees while managing compensation costs.

The Company's stock price has fluctuated historically, and may continue to fluctuate.

The Company's stock price can be volatile. Among the factors that may affect the volatility of the Company's stock price are the following:

- speculation in the investment community or the press about, or actual changes in, the Company's competitive position, organizational structure, executive team, operations, financial condition, financial reporting and results, effectiveness of cost reduction initiatives, or strategic transactions;
- the announcement of new products, services, acquisitions, or dispositions by the Company or its 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.

Changes in the stock market generally or as it concerns the Company's industry, as well as geopolitical, economic, and business factors unrelated to the Company, may also affect the Company's 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 to, among other things, 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.

THE CHARLES SCHWAB CORPORATION

Item 2. Properties

A summary of the Company's significant locations at December 31, 2013, 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.

	Square Footage	
(amounts in thousands)	Leased	Owned
Location		
Corporate office space:		
San Francisco, CA (1)	779	-
Service centers:		
Phoenix, AZ (2)	37	669
Denver, CO	383	-
Indianapolis, IN	-	274
Austin, TX	252	-
Orlando, FL	148	-
Richfield, OH	-	117

(1) Includes the Company's headquarters.
(2) Includes two data centers.

Substantially all of the Company's branch offices are located in leased premises. The corporate headquarters, data centers, offices, and service centers support both of the Company's segments.

Item 3. Legal Proceedings

For a discussion of legal proceedings, see "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 14. Commitments and Contingencies."

14

THE CHARLES SCHWAB CORPORATION

PART II

Item 4. Mine Safety Disclosures

Not applicable.

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, 2014, was 7,191. The closing market price per share on that date was $24.82.

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 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 27. Quarterly Financial Information (Unaudited) and 19. Employee Incentive, Retirement, and Deferred Compensation Plans."

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.

December 31,	2008	2009	2010	2011	2012	2013
The Charles Schwab Corporation	$ 100	$ 118	$ 109	$ 73	$ 95	$ 173
Dow Jones U.S. Investment Services Index	$ 100	$ 160	$ 165	$ 108	$ 137	$ 222

Standard & Poor's 500 Index	$ 100	$ 126	$ 146	$ 149	$ 172	$ 228

THE CHARLES SCHWAB CORPORATION

Issuer Purchases of Equity Securities

The following table summarizes purchases made by or on behalf of CSC of its common stock for each calendar month in the fourth quarter of 2013:

Month	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1) (in thousands)	Approximate Dollar Value of Shares that May Yet be Purchased under the Program (in millions)
October:				
Share Repurchase Program (1)	-	$ -	-	$ 596
Employee transactions (2)	21	$ 21.24	N/A	N/A
November:				
Share Repurchase Program (1)	-	$ -	-	$ 596
Employee transactions (2)	1,052	$ 22.96	N/A	N/A
December:				
Share Repurchase Program (1)	-	$ -	-	$ 596
Employee transactions (2)	7	$ 24.82	N/A	N/A
Total:				
Share Repurchase Program (1)	-	$ -	-	$ 596
Employee transactions (2)	1,080	$ 22.94	N/A	N/A

N/A Not applicable.

(1) There were no share repurchases under the Share Repurchase Program during the fourth quarter. Repurchases under this program would occur under two authorizations by CSC's Board of Directors, each covering up to $500 million of common stock that were publicly announced by the Company on April 25, 2007, and March 13, 2008. The remaining authorizations do 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. The Company 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.

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 Annual															
	4-Year (1) 2009-2013		1-Year 2012-2013		2013		2012		2011		2010		2009			
Results of Operations																
Net revenues	7	%	11	%	$ 5,435		$ 4,883		$ 4,691		$ 4,248		$ 4,193			
Expenses excluding interest	6	%	9	%	$ 3,730		$ 3,433		$ 3,299		$ 3,469		$ 2,917			
Net income	8	%	15	%	$ 1,071		$ 928		$ 864		$ 454		$ 787			
Net income available to common stockholders	6	%	14	%	$ 1,010		$ 883		$ 864		$ 454		$ 787			
Basic earnings per common share	3	%	13	%	$ .78		$ .69		$ .70		$ .38		$ .68			
Diluted earnings per common share	3	%	13	%	$ .78		$ .69		$ .70		$ .38		$ .68			
Dividends declared per common share	-		-		$ .24		$ .24		$ .24		$ .24		$ .24			
Weighted-average common shares outstanding — diluted	3	%	1	%	1,293		1,275		1,229		1,194		1,160			
Asset management and administration fees as a percentage of net revenues					43	%	42	%	41	%	43	%	45	%		
Net interest revenue as a percentage of net revenues					36	%	36	%	37	%	36	%	30	%		
Trading revenue as a percentage of net					17	%	18	%	20	%	20	%	24	%		

revenues (2)																
Effective income tax rate					37.2	%	36.0	%	37.9	%	41.7	%	38.3	%
Capital expenditures — purchases of equipment, office facilities, and property, net	18	%	95	%	$ 269		$ 138		$ 190		$ 127		$ 139	
Capital expenditures, net, as a percentage of net revenues					5	%	3	%	4	%	3	%	3	%
Performance Measures														
Net revenue growth (decline)					11	%	4	%	10	%	1	%	(19)	%
Pre-tax profit margin					31.4	%	29.7	%	29.7	%	18.3	%	30.4	%
Return on average common stockholders' equity (3)					11	%	11	%	12	%	8	%	17	%
Financial Condition (at year end)														
Total assets	17	%	8	%	$ 143,642		$ 133,617		$ 108,553		$ 92,568		$ 75,431	
Long-term debt	6	%	17	%	$ 1,903		$ 1,632		$ 2,001		$ 2,006		$ 1,512	
Stockholders' equity (4)	20	%	8	%	$ 10,381		$ 9,589		$ 7,714		$ 6,226		$ 5,073	
Assets to stockholders' equity ratio					14		14		14		15		15	
Long-term debt to total financial capital (long-term debt plus stockholders' equity)					15	%	15	%	21	%	24	%	23	%
Employee Information														
Full-time equivalent employees (in thousands, at year end)	3	%	-		13.8		13.8		14.1		12.8		12.4	
Net revenues per average full-time equivalent employee (in thousands)	4	%	10	%	$ 391		$ 354		$ 350		$ 337		$ 338	

(1) The compounded 4-year growth rate is computed using the following formula: Compound annual growth rate = (Ending Value / Beginning Value) .25 - 1.
(2) Trading revenue includes commission and principal transaction revenues.
(3) Return on average common stockholders' equity is calculated using net income available to common stockholders divided by average common stockholders' equity.
(4) In 2012, the Company issued non-cumulative perpetual preferred stock, Series B, for a total liquidation preference of $485 million and non-cumulative perpetual preferred stock, Series A, with a total liquidation preference of $400 million.

17

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)

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

OVERVIEW

Management of the Company focuses on several key client activity and financial metrics in evaluating the Company's financial position and operating performance. Management believes that earnings per common share, net revenue growth, pre-tax profit margin, and return on common stockholders' equity provide broad indicators of the Company's overall financial health, operating efficiency, and ability to generate acceptable returns within the context of a given operating environment. Expenses excluding interest as a percentage of average client assets is considered by management to be a measure of operating efficiency. Results for the years ended December 31, 2013, 2012, and 2011 are:

Year Ended December 31,	Growth Rate 1-Year 2012-2013	2013	2012	2011
Client Activity Metrics:				
Net new client assets (1) (in billions)	(70) %	$ 41.6	$ 139.7	$ 145.9
Client assets (2) (in billions, at year end)	15 %	$ 2,249.4	$ 1,951.6	$ 1,677.7
New brokerage accounts (3) (in thousands)	7 %	960	900	1,138
Active brokerage accounts (4) (in thousands, at year end)	3 %	9,093	8,787	8,552
Company Financial Metrics:				
Net revenues	11 %	$ 5,435	$ 4,883	$ 4,691
Expenses excluding interest	9 %	3,730	3,433	3,299
Income before taxes on income	18 %	1,705	1,450	1,392
Taxes on income	21 %	634	522	528
Net income	15 %	$ 1,071	$ 928	$ 864
Net income available to common stockholders	14 %	$ 1,010	$ 883	$ 864
Earnings per common share – diluted	13 %	$ .78	$ .69	$ .70
Net revenue growth from prior year		11 %	4 %	10 %
Pre-tax profit margin		31.4 %	29.7 %	29.7 %
Return on common stockholders' equity (5)		11 %	11 %	12 %
Expenses excluding interest as a percentage of				

average client assets	0.18 %	0.19 %	0.20 %

(1) Net new client assets is defined as the total inflows of client cash and securities to the firm less client outflows. Management believes that this metric along with core net new assets depicts how well the Company's products and services appeal to new and existing clients in a given operating environment. Core net new assets totaled $140.8 billion, $112.4 billion, and $82.3 billion in 2013, 2012, and 2011, respectively. See below for items excluded from core net new assets.

(2) Client assets is the market value of all client assets custodied at the Company. Management considers client assets to be indicative of the Company's appeal in the marketplace. Additionally, fluctuations in certain components of client assets (e.g., Mutual Fund OneSource funds) directly impact asset management and administration fees.

(3) New brokerage accounts include all brokerage accounts opened during the period, as well as any accounts added via acquisition. This metric measures the Company's effectiveness in attracting new clients and building stronger relationships with existing clients. See below comparisons of 2013 to 2012 and 2012 to 2011 for additional detail.

(4) Active brokerage accounts include accounts with balances or activity within the preceding eight months. This metric is an indicator of the Company's success in both attracting and retaining clients. See below comparisons of 2013 to 2012 and 2012 to 2011 for additional detail.

(5) Calculated as net income available to common stockholders divided by common stockholders' equity.

N/M Not meaningful.

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)

Core net new client assets is defined as net new client assets before significant one-time flows. Management considers this to be a useful metric when comparing period-to-period client asset flows. The following one-time flows were excluded from core net new assets.

- 2013 excludes outflows of $74.5 billion relating to the planned transfer of a mutual fund clearing services client. The Company also reduced its reported total for overall client assets by $24.7 billion in 2013 to reflect the estimated impact of the consolidation of its retirement plan recordkeeping technology platforms and subsequent resignation from certain retirement plan clients.
- 2012 excludes inflows of $27.7 billion from mutual fund clearing services clients and $900 million from the acquisition of ThomasPartners, Inc., and outflows of $1.3 billion from the closure and/or sale of certain subsidiaries of optionsXpress.
- 2011 excludes inflows of $56.1 billion from a mutual fund clearing services client and $7.5 billion from the acquisition of optionsXpress.

The Company's major sources of net revenues are asset management and administration fees, net interest revenue, and trading revenue. The Company generates asset management and administration fees through its proprietary and third-party mutual fund offerings, as well as fee-based advisory solutions. Net interest revenue is the difference between interest earned on interest-earning assets and interest paid on funding sources. Asset management and administration fees and net interest revenue are impacted by securities valuations, interest rates, the amount and mix of interest-earning assets and interest-bearing funding sources, the Company's ability to attract new clients, and client activity levels. The Company generates trading revenue through commissions earned for executing trades for clients and principal transaction revenue primarily from trading activity in client fixed income securities. Trading revenue is impacted by trading volumes, the volatility of prices in the equity and fixed income markets, and commission rates.

2013 Compared to 2012

Valuations in the broad equity markets improved during 2013 compared to 2012, as the Nasdaq Composite Index, Standard & Poor's 500 Index, and Dow Jones Industrial Average increased 38%, 30%, and 26%, respectively. While the federal funds target rate remained unchanged at a range of zero to 0.25%, the average 10-year Treasury yield increased by 55 basis points to 2.33% during 2013 compared to 2012. In the same period however, the average three-month Treasury Bill yield decreased by 3 basis points to 0.05%.

The Company continued to experience growth in its client base during 2013 – core net new client assets totaled $140.8 billion, up 25% from $112.4 billion in 2012. Total client assets ended the year at a record $2.25 trillion, up

15% from 2012. In addition, the Company added almost 1 million new brokerage accounts during 2013, and active brokerage accounts reached 9.1 million, up 3% from 2012.

As a result of the Company's strong key client activity metrics, the Company achieved a pre-tax profit margin of 31.4% in 2013. Overall, net income increased by 15% in 2013 from 2012 and the return on average common stockholders' equity was 11% in 2013.

Along with the growth in its client base, enrollments in client advisory solutions and stability in the economic environment helped the Company achieve increases in all three major revenue lines in 2013 compared to 2012. Overall, net revenues increased by 11% in 2013 from 2012, primarily due to increases in asset management and administration fees, net interest revenue, and trading revenue, partially offset by a decrease in other revenue – net. Asset management and administration fees increased primarily due to increases in mutual fund service fees and advice solutions fees. Net interest revenue increased primarily due to higher balances of interest-earning assets and higher interest rates on new fixed-rate investments. This increase was partially offset by the effect lower average short-term interest rates and the maturity of short-term interest-earning assets had on the Company's average net interest margin. Trading revenue increased primarily due to higher daily average revenue trades and two additional trading days during the year. Other revenue – net decreased primarily due to a non-recurring gain of $70 million relating to a confidential resolution of a vendor dispute in 2012.

Expenses excluding interest increased by 9% in 2013 from 2012 primarily due to increases in compensation and benefits, professional services, advertising and market development, and other expense. Compensation and benefits expense increased

in 2013 from 2012 primarily due to higher incentive compensation relating to the transition to a new payout schedule for field incentive plans, increased individual sales performance compensation as a result of field sales volume, increased and accelerated health savings account (HSA) contributions, equity incentive plan changes to vesting for retirement-eligible employees, and increased funding for the corporate bonus plan commensurate with achieving higher earnings per common share. Advertising and market development expense increased primarily due to investment in the Company's new advertising and branding initiative, Own your tomorrow™.

2012 Compared to 2011

Valuations in the broad equity markets improved during 2012 compared to 2011, as the Nasdaq Composite Index, Standard & Poor's 500 Index, and Dow Jones Industrial Average increased 16%, 13%, and 7%, respectively. While the federal funds target rate remained unchanged at a range of zero to 0.25%, the average three-month Treasury Bill yield increased by 4 basis points to 0.08% during 2012 compared to 2011. At the same time, the average 10-year Treasury yield decreased by 98 basis points to 1.78%.

Despite continuing economic and interest rate challenges during the year, the Company's sustained client focus helped deliver strong key client activity metrics in 2012. While net new client assets decreased slightly by 4% to $139.7 billion in 2012, core net new client assets totaled $112.4 billion, up 37% from $82.3 billion in 2011. Total client assets ended the year at a record $1.95 trillion, up 16% from 2011. In addition, the Company added 900,000 new brokerage accounts to its client base during 2012, a decrease of 21% from the prior year due to the removal of approximately 30,000 accounts due to escheatment and other factors in 2012, and the addition of 315,000 new brokerage accounts from the acquisition of optionsXpress in 2011. Active brokerage accounts reached a record 8.8 million, up 3% from 2011.

Net revenues increased by 4% in 2012 from 2011 primarily due to increases in asset management and administration fees, net interest revenue, and other revenue – net, partially offset by a decrease in trading revenue. Asset management and administration fees increased primarily due to increases in advice solutions fees and other asset management and administration fees. Net interest revenue increased primarily due to higher average balances of interest-earning assets, partially offset by the effect of low overall interest rates and higher amortization of premiums relating to mortgage-backed securities. Other revenue – net increased primarily due to a non-recurring gain of $70 million relating to a confidential resolution of a vendor dispute in the second quarter of 2012. Trading revenue decreased primarily due to lower daily average revenue trades, partially offset by the inclusion of optionsXpress' trading activity from its acquisition in September 2011.

Expenses excluding interest were higher by 4% in 2012 compared to 2011 primarily due to the inclusion of a full year of optionsXpress' expenses. Taxes on income in 2012 include a non-recurring state tax benefit of $20 million recorded in the third quarter of 2012. Overall, growth in the Company's client base and ongoing expense discipline helped the Company increase net income by 7% in 2012 from 2011, and achieve a pre-tax profit margin of 29.7% and return on common stockholders' equity of 11% in 2012.

CURRENT MARKET AND REGULATORY ENVIRONMENT AND OTHER DEVELOPMENTS

To the extent short-term interest rates remain at current low levels, the Company's net interest revenue will continue to be constrained, even as growth in average balances helps to increase such revenue. The low short-term interest rate environment also affects asset management and administration fees. The Company continues to waive a portion of its management fees, as the overall yields on certain Schwab-sponsored money market mutual funds have remained at levels at or below the management fees on those funds. These and certain other Schwab-sponsored money market mutual funds may not be able to replace maturing securities with securities of equal or higher yields. As a result, the yields on such funds may remain around or decline from their current levels, and therefore below the stated management fees on those funds. To the extent this occurs, asset management and administration fees may continue to be negatively affected.

In July 2013, the U.S. banking agencies issued regulatory capital rules that implemented BASEL III and relevant provisions of the Dodd-Frank Act (Final Regulatory Capital Rules), which are applicable to savings and loan holding companies, such as CSC, and federal savings banks, such as Schwab Bank. The rules will be phased in beginning on January 1, 2015.

The Final Regulatory Capital Rules, among other things:

- subject savings and loan holding companies to consolidated capital requirements;
- revise the required minimum risk-based and leverage capital requirements by (1) establishing a new minimum Common Equity Tier 1 Risk-Based Capital Ratio (common equity Tier 1 capital to total risk-weighted assets) of 4.5%; (2) raising the minimum Tier 1 Risk-Based Capital Ratio from 4.0% to 6.0%; (3) maintaining the minimum Total Risk-Based Capital Ratio of 8.0%; and (4) maintaining a minimum Tier 1 Leverage Ratio (Tier 1 capital to adjusted average consolidated assets) of 4.0%;
- add a requirement to maintain a minimum capital conservation buffer, composed of common equity Tier 1 capital, of 2.5% of risk-weighted assets, which means that banking organizations, on a fully phased-in basis no later than January 1, 2019, must maintain a Common Equity Tier 1 Risk-Based Capital Ratio greater than 7.0%; a Tier 1 Risk-Based Capital Ratio greater than 8.5% and a Total Risk-Based Capital Ratio greater than 10.5%; and
- change the definition of capital categories for insured depository: to be considered "well-capitalized", Schwab Bank must have a Common Equity Tier 1 Risk-Based Capital Ratio of at least 6.5%, a Tier 1 Risk-Based Capital Ratio of at least 8%, a Total Risk-Based Capital Ratio of at least 10% and a Tier 1 Leverage Ratio of at least 5%.

The new minimum regulatory capital ratios and changes to the calculation of risk-weighted assets are effective beginning January 1, 2015. The required minimum capital conservation buffer will be phased in incrementally, starting at 0.625% on January 1, 2016 and increasing to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on January 1, 2019.

The Final Regulatory Capital Rules provide that the failure to maintain the minimum capital conservation buffer will result in restrictions on capital distributions and discretionary cash bonus payments to executive officers. The Company does not expect the Final Regulatory Capital Rules to have a material impact on the Company's business, financial condition, and results of operations.

On October 24, 2013, the Federal Reserve, in collaboration with the OCC and the Federal Deposit Insurance Corporation, issued a joint notice of proposed rulemaking that would implement a quantitative liquidity requirement generally consistent with the LCR standard established by Basel III. The LCR would apply to all internationally active banking organizations. The Federal Reserve also proposed a modified LCR standard, which would apply to the Company. Under the modified LCR, a depository institution holding company would be required to maintain high-quality liquid assets in an amount related to its total net cash outflows over a prospective period. The proposed transition period for the rule would begin on January 1, 2015, and institutions would be required to be fully compliant by January 1, 2017. The Company is currently evaluating the impact of the proposed rule, which may be subject to

further modification.

In April 2013, the SEC published notice of a National Securities Clearing Corporation (NSCC) proposed rule change that would impose a supplemental liquidity funding obligation on certain NSCC participants. The NSCC is a subsidiary of DTCC. The stated purpose was to provide the NSCC with sufficient liquidity and financial resources to withstand a default by one of its members. The rule change, as proposed, could have required the Company to provide a supplemental liquidity deposit relating to options activity (Special SLD) and a supplemental liquidity deposit relating to equities activity (Regular SLD). The proposed rule change with regard to the Special SLD was approved and went into effect on February 1, 2014, and the Company does not expect the rule change to have a material impact on the Company's business, financial condition, and results of operations. However, the proposed rule change with regard to the Regular SLD was withdrawn and alternative proposals are currently being discussed.

The Company is pursuing lawsuits in state court in San Francisco for rescission and damages against issuers, underwriters, and dealers of individual non-agency residential mortgage-backed securities on which the Company has experienced realized and unrealized losses. The lawsuits allege that offering documents for the securities contained material untrue and misleading statements about the securities and the underwriting standards and credit quality of the underlying loans. On January 27, 2012, and July 24, 2012, the court denied defendants' motions to dismiss the claims with respect to all but 3 of the 51 securities, and discovery is proceeding.

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)

RESULTS OF OPERATIONS

The following discussion is an analysis of the Company's results of operations for the years ended December 31, 2013, 2012, and 2011.

Net Revenues

The Company's major sources of net revenues are asset management and administration fees, net interest revenue, and trading revenue. Asset management and administration fees, net interest revenue, and trading revenue all increased in 2013 as compared to 2012. Asset management and administration fees and net interest revenue increased, while trading revenue decreased in 2012 as compared to 2011.

Year Ended December 31,		2013		2012		2011	
	Growth Rate 2012-2013	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Asset management and administration fees							
Schwab money market funds before fee waivers	5 %	$ 936		$ 891		$ 865	
Fee waivers	15 %	(674)		(587)		(568)	
Schwab money market funds after fee waivers	(14) %	262	5 %	304	6 %	297	6 %
Equity and bond funds	26 %	157	3 %	125	3 %	118	3 %
Mutual Fund OneSource®	14 %	774	14 %	680	14 %	680	14 %
Total mutual fund service fees	8 %	1,193	22 %	1,109	23 %	1,095	23 %
Advice solutions	24 %	718	13 %	580	12 %	522	11 %
Other	14 %	404	8 %	354	7 %	311	7 %
Asset management and administration fees	13 %	2,315	43 %	2,043	42 %	1,928	41 %
Net interest revenue							
Interest revenue	9 %	2,085	38 %	1,914	39 %	1,900	41 %

Interest expense	(30)	%	(105)	(2)	%	(150)	(3)	%	(175)	(4)	%
Net interest revenue	12	%	1,980	36	%	1,764	36	%	1,725	37	%
Trading revenue											
Commissions	6	%	864	16	%	816	17	%	866	19	%
Principal transactions	(6)	%	49	1	%	52	1	%	61	1	%
Trading revenue	5	%	913	17	%	868	18	%	927	20	%
Other – net	(8)	%	236	4	%	256	5	%	160	3	%
Provision for loan losses	(106)	%	1	-		(16)	-		(18)	-	
Net impairment losses on securities	(69)	%	(10)	-		(32)	(1)	%	(31)	(1)	%
Total net revenues	11	%	$ 5,435	100	%	$ 4,883	100	%	$ 4,691	100	%

Asset Management and Administration Fees

Asset management and administration fees include mutual fund service fees and fees for other asset-based financial services provided to individual and institutional clients. The Company earns mutual fund service fees for shareholder services, administration, and investment management provided to its proprietary funds, and recordkeeping and shareholder services provided to third-party funds. These fees are based upon the daily balances of client assets invested in these funds. The Company also earns asset management fees for advice solutions, which include advisory and managed account services that are based on the daily balances of client assets subject to the specific fee for service. The fair values of client assets included in proprietary and third-party mutual funds are based on quoted market prices and other observable market data. Other asset management and administration fees include various asset based fees, such as third-party mutual fund service fees, trust fees, 401(k) record keeping fees, and mutual fund clearing and other service fees. Asset management and administration fees vary with changes in the balances of client assets due to market fluctuations and client activity. For a discussion of the impact of current market conditions on asset management and administration fees, see “Current Market and Regulatory Environment and Other Developments.”

Asset management and administration fees increased by $272 million, or 13%, in 2013 from 2012 primarily due to increases in mutual fund service fees and advice solutions fees. Asset management and administration fees increased by $115 million,

or 6%, in 2012 from 2011 primarily due to an increase in advice solutions fees and other asset management and administration fees.

Mutual fund service fees increased by $84 million, or 8%, in 2013 from 2012, due to market appreciation and growth in client assets invested in the Company's Mutual Fund OneSource funds and equity and bond funds, partially offset by a decrease in net money market mutual fund fees as a result of lower yields on fund assets. Mutual fund service fees were relatively flat in 2012 from 2011, which reflected growth in client assets invested in money market mutual funds, equity and bond funds, and Mutual Fund OneSource funds, offset by the effect of lower yields on certain fund assets.

Advice solutions fees increased by $138 million, or 24%, in 2013 from 2012 and by $58 million, or 11%, in 2012 from 2011 primarily due to growth in client assets enrolled in advisory and managed account programs, including Windhaven®, Schwab Private ClientTM, and ThomasPartners.

Other asset management and administration fees increased by $50 million, or 14%, in 2013 from 2012 and $43 million, or 14%, in 2012 from 2011 primarily due to an increase in third-party mutual fund service fees as a result of an increase in client asset balances invested in other third-party mutual funds.

Net Interest Revenue

Net interest revenue is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest revenue is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. The majority of the Company's interest-earnings assets and interest-bearing liabilities are sensitive to changes in short-term interest rates. The Company's 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. When interest rates fall, the Company may attempt to mitigate some of this negative impact by extending the maturities of assets in investment portfolios to lock in asset yields, and by lowering rates paid to clients on interest-bearing liabilities. Since the Company establishes the rates paid on certain brokerage client cash balances and deposits from banking clients, as well as the rates charged on receivables from brokerage clients, and also controls the composition of its investment securities, it has some ability to manage its net interest spread. However, the spread is influenced by external factors such as the interest rate environment and competition. The current low interest rate environment limits the extent to which the Company can reduce interest

expense paid on funding sources. To a lesser degree, the Company is sensitive to changes in long-term interest rates through some of its investment portfolios. To mitigate the related risk, the Company may alter the types of investments purchased. For discussion of the impact of current market conditions on net interest revenue, see “Current Market and Regulatory Environment and Other Developments.”

The Company’s interest-earning assets are financed primarily by brokerage client cash balances and deposits from banking clients. Non-interest-bearing funding sources include non-interest-bearing brokerage client cash balances, stockholders’ equity, and proceeds from stock-lending activities. Revenue from stock-lending activities is included in other interest revenue.

Schwab Bank maintains available for sale and held to maturity investment portfolios for liquidity as well as to invest funds from deposits that are in excess of loans to banking clients and liquidity requirements. Schwab Bank lends funds to banking clients primarily in the form of mortgage loans, HELOCs, and personal loans secured by securities. These loans are largely funded by interest-bearing deposits from banking clients.

In clearing their clients’ trades, Schwab and optionsXpress, Inc. hold cash balances payable to clients. In most cases, Schwab and optionsXpress, Inc. pay their clients interest on cash balances awaiting investment, and in turn invest these funds and earn interest revenue. Receivables from brokerage clients consist primarily of margin loans to brokerage clients. Margin loans are loans made to clients on a secured basis to purchase securities. Pursuant to applicable regulations, client cash balances that are not used for margin lending are generally segregated into investment accounts that are maintained for the exclusive benefit of clients, which are recorded in cash and investments segregated on the Company’s consolidated balance sheets. When investing segregated client cash balances, Schwab and optionsXpress, Inc. must adhere to applicable regulations that restrict investments to securities guaranteed by the full faith and credit of the U.S. government, participation

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)

certificates, mortgage-backed securities guaranteed by the Government National Mortgage Association, deposits held at U.S. banks and thrifts, and resale agreements collateralized by qualified securities. Additionally, Schwab and optionsXpress, Inc. have established policies for the minimum credit quality and maximum maturity of these investments.

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,	2013			2012			2011		
	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	$ 6,943	$ 16	0.23 %	$ 7,130	$ 18	0.25 %	$ 5,554	$ 13	0.23 %
Cash and investments segregated	25,419	35	0.14 %	25,263	46	0.18 %	25,831	39	0.15 %
Broker-related receivables (1)	377	-	0.04 %	351	-	0.04 %	310	-	0.05 %
Receivables from brokerage clients	11,800	434	3.68 %	10,928	446	4.08 %	10,637	467	4.39 %
Securities available for sale (2)	49,114	557	1.13 %	39,745	583	1.47 %	27,486	456	1.66 %
Securities held to maturity	24,915	610	2.45 %	15,371	397	2.58 %	16,050	492	3.07 %
Loans to banking clients	11,758	329	2.80 %	10,053	309	3.07 %	9,472	310	3.27 %
Loans held for sale	-	-	-	18	1	4.12 %	65	3	4.62 %
Total interest-earning assets	130,326	1,981	1.52 %	108,859	1,800	1.65 %	95,405	1,780	1.87 %
Other interest revenue		104			114			120	

Total interest-earning assets	$ 130,326	$ 2,085	1.60 %	$ 108,859	$ 1,914	1.76 %	$ 95,405	$ 1,900	1.99 %
Funding sources:									
Deposits from banking clients	$ 85,465	$ 31	0.04 %	$ 65,546	$ 42	0.06 %	$ 52,701	$ 62	0.12 %
Payables to brokerage clients	30,258	3	0.01 %	29,831	3	0.01 %	29,992	3	0.01 %
Long-term debt	1,751	69	3.94 %	1,934	103	5.33 %	2,004	108	5.39 %
Total interest-bearing liabilities	117,474	103	0.09 %	97,311	148	0.15 %	84,697	173	0.20 %
Non-interest-bearing funding sources	12,852			11,548			10,708		
Other interest expense		2			2			2	
Total funding sources	$ 130,326	$ 105	0.08 %	$ 108,859	$ 150	0.14 %	$ 95,405	$ 175	0.18 %
Net interest revenue		$ 1,980	1.52 %		$ 1,764	1.62 %		$ 1,725	1.81 %

(1) Interest revenue was less than $500,000 in the period or periods presented.
(2) Amounts have been calculated based on amortized cost.

Net interest revenue increased in 2013 from 2012 primarily due to higher balances of interest-earning assets and higher interest rates on new fixed-rate investments, including securities available for sale and securities held to maturity, partially offset by the effect lower average short-term interest rates and the maturity of short-term interest-earning assets had on the Company's average net interest margin. The growth in the average balance of deposits from banking clients funded the increase in the balance of securities available for sale and securities held to maturity. Net interest revenue also increased due to the redemption of higher rate trust preferred securities and the exchange of higher rate Senior Notes during the third quarter of 2012.

Net interest revenue increased in 2012 from 2011 primarily due to higher balances of interest-earning assets, primarily securities available for sale, partially offset by the effect of low overall interest rates and higher amortization of premiums relating to mortgage-backed securities. Growth in the average balance of deposits from banking clients funded the increase in the balance of securities available for sale.

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 client fixed income securities. To accommodate clients' fixed income trading activity, the Company maintains positions in fixed income securities, including state and municipal debt obligations, U.S. Government, 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. Factors that influence principal transaction revenue include the volume of client trades and market price volatility.

Trading revenue increased by $45 million, or 5%, in 2013 from 2012 primarily due to higher daily average revenue trades and two additional trading days in 2013. Trading revenue decreased by $59 million, or 6%, in 2012 from 2011 primarily due to lower daily average revenue trades, partially offset by the inclusion of optionsXpress' trading activity for the full year.

Daily average revenue trades increased by 4% in 2013 from 2012 primarily due to a higher volume of equity and mutual fund trades, partially offset by a lower volume of future and option trades. Daily average revenue trades decreased by 7% in 2012 from 2011 primarily due to a lower volume of equity and mutual fund trades, partially offset by a higher volume of option and future trades as a result of the inclusion of optionsXpress. Average revenue per revenue trade remained relatively flat from 2011 to 2013.

	Growth Rate			
Year Ended December 31,	2012-2013	2013	2012	2011
Daily average revenue trades (1) (in thousands)	4 %	295.0	282.7	303.8
Clients' daily average trades (2) (in thousands)	11 %	490.5	440.9	451.1
Number of trading days (3)	1 %	250.5	248.5	251.5
Average revenue per revenue trade	-	$ 12.31	$ 12.35	$ 12.15

(1) Includes all client trades that generate trading revenue (i.e., commission revenue or principal transaction revenue).
(2) Includes daily average revenue trades, trades by clients in asset-based pricing relationships, and all commission-free trades, including the Company's Mutual Fund OneSource funds and ETFs, and other proprietary products. Clients' daily average trades is an indicator of client engagement with securities markets.
(3) October 29 and 30, 2012, were not included as trading days due to weather-related market closures.

Other Revenue – Net

Other revenue – net includes order flow revenue, nonrecurring gains, software fees from the Company's portfolio management services, exchange processing fees, realized gains or losses on sales of securities available for sale, and other service fees.

Other revenue – net decreased by $20 million, or 8%, in 2013 compared to 2012 primarily due to a non-recurring gain of $70 million relating to a confidential resolution of a vendor dispute in the second quarter of 2012 and realized gains of $35 million from the sales of securities available for sale in 2012, partially offset by an increase in order flow revenue that Schwab began receiving in November 2012.

Other revenue – net increased by $96 million, or 60%, in 2012 compared to 2011 primarily due to a non-recurring gain of $70 million relating to a confidential resolution of a vendor dispute mentioned above. In November 2012, the Company began receiving additional order flow rebates from market venues to which client orders are routed for execution. Order flow revenue increased by $23 million due to this revenue and the inclusion of a full year of optionsXpress' order flow revenue. In December 2012, CSC redeemed the remaining outstanding portion of its 4.950% Senior Notes of $494 million that were due in 2014, which resulted in the payment of a make-whole premium of $31 million that was recorded in other revenue – net. Other revenue – net also included realized gains of $35 million from the sales of securities available for sale.

Provision for Loan Losses

The provision for loan losses decreased by $17 million in 2013, from $16 million to $(1) million in 2012 and 2013, respectively, primarily due to improved residential real estate mortgage and HELOC credit quality in the Company's loan portfolio. The provision for loan losses was relatively flat in 2012 from 2011, reflecting stable levels of delinquencies and nonaccrual loans experienced in 2012. Charge-offs were $11 million, $16 million, and $19 million in 2013, 2012, and 2011, respectively. For further discussion on the Company's credit risk and the allowance for loan losses, see "Risk Management – Credit Risk" and "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 6. Loans to Banking Clients and Related Allowance for Loan Losses."

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)

Net Impairment Losses on Securities

Net impairment losses on securities were $10 million, $32 million, and $31 million in 2013, 2012, and 2011, respectively. These charges were lower in 2013 compared to 2012, reflecting a stabilization of the credit characteristics of certain non-agency residential mortgage-backed securities' underlying loans. For further discussion, see "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 5. Securities Available for Sale and Securities Held to Maturity."

Expenses Excluding Interest

As shown in the table below, expenses excluding interest were higher in 2013 compared to 2012 primarily due to increases in compensation and benefits, professional services, advertising and market development, and other expense. Expenses excluding interest were higher in 2012 compared to 2011, which was primarily due to the inclusion of a full year of optionsXpress' expenses and amortization of intangible assets relating to the optionsXpress acquisition.

Year Ended December 31,	Growth Rate 2012-2013	2013	2012	2011
Compensation and benefits	12 %	$ 2,027	$ 1,803	$ 1,732
Professional services	7 %	415	388	387
Occupancy and equipment	(1) %	309	311	301
Advertising and market development	7 %	257	241	228
Communications	-	220	220	220
Depreciation and amortization	3 %	202	196	155
Class action litigation and regulatory reserve (1)	-	-	-	7
Other	9 %	300	274	269
Total expenses excluding interest	9 %	$ 3,730	$ 3,433	$ 3,299
Expenses as a percentage of total net revenues:				
Total expenses excluding interest		69 %	70 %	70 %
Advertising and market development		5 %	5 %	5 %

(1) Relates to Schwab YieldPlus Fund®.

Compensation and Benefits

Compensation and benefits expense includes salaries and wages, incentive compensation, and related employee benefits and taxes. Incentive compensation includes variable compensation, discretionary bonuses, and stock-based compensation. Variable compensation includes payments to certain individuals based on their sales performance. Discretionary bonuses are based on the Company's overall performance as measured by earnings per common share, and therefore will fluctuate with this measure. Stock-based compensation primarily includes employee and board of director stock options, restricted stock units, and restricted stock awards.

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)

Compensation and benefits expense increased by $224 million, or 12%, in 2013 from 2012, and $471 million, or 4%, in 2012 from 2011, due to increases in salaries and wages, incentive compensation and employee benefits and other expense. The following table shows a comparison of certain compensation and benefits components and employee data:

Year Ended December 31,	Growth Rate 2012-2013	2013	2012	2011
Salaries and wages	6 %	$ 1,110	$ 1,043	$ 1,012
Incentive compensation	29 %	599	466	444
Employee benefits and other	8 %	318	294	276
Total compensation and benefits expense	12 %	$ 2,027	$ 1,803	$ 1,732
Compensation and benefits expense as a percentage of total net revenues:				
Salaries and wages		20 %	21 %	22 %
Incentive compensation		11 %	10 %	9 %
Employee benefits and other		6 %	6 %	6 %
Total compensation and benefits expense		37 %	37 %	37 %
Full-time equivalent employees (in thousands) (1)				
At year end	-	13.8	13.8	14.1
Average	1 %	13.9	13.8	13.4

(1) Includes full-time, part-time and temporary employees, and persons employed on a contract basis, and excludes employees of outsourced service providers.

Salaries and wages increased in 2013 from 2012 primarily due to annual salary increases. Incentive compensation increased in 2013 from 2012 primarily due to the transition to a new payout schedule for field incentive plans, increased individual sales performance compensation as a result of higher field sales volume, and increased funding for the corporate bonus plan commensurate with achieving higher earnings per common share. Employee benefits and other expense increased in 2013 from 2012 primarily due to payroll taxes related to the increase in incentive compensation, and increased contributions to new employee HSAs. The Company was converting to HSA-based healthcare and employee enrollment in these plans rose significantly in 2013.

Salaries and wages increased in 2012 from 2011 primarily due to an increase in average full-time employees from the inclusion of a full year of optionsXpress' employees. The increase in salaries and wages was partially offset by a decrease in persons employed on a contract basis. Incentive compensation increased in 2012 from 2011 primarily due to higher variable compensation resulting from product sales performance in the Company's branch offices. Employee benefits and other expense increased in 2012 from 2011 primarily due to increases in payroll taxes and the Company's 401(k) plan expense due to increases in average full-time employees and incentive compensation, and an increase in the Company's deferred compensation plan expense as a result of improvement in the broad equity markets.

Expenses Excluding Compensation and Benefits

Professional services expense increased in 2013 from 2012 primarily due to an increase in fees paid to outsourced service providers and consultants and higher spending on printing and fulfillment services. Professional services expense was relatively flat in 2012 compared to 2011.

Occupancy and equipment expense was relatively flat in 2013 compared to 2012. Occupancy and equipment expense increased in 2012 from 2011 primarily due to an increase in software maintenance expense relating to the Company's information technology systems.

Advertising and market development expense increased in 2013 from 2012 primarily due to higher spending on media relating to the launch of the Company's new advertising and branding initiative, Own your tomorrowTM. Advertising and market development expense increased in 2012 from 2011 primarily due to the inclusion of a full year of optionsXpress' expenses, which includes media, and the Company's increased spending on customer promotions.

Depreciation and amortization expense was relatively flat in 2013 compared to 2012. Depreciation and amortization expense increased in 2012 from 2011 primarily due to the amortization of intangible assets relating to the optionsXpress acquisition.

Other expense increased in 2013 from 2012 primarily due to an increase in regulatory assessments. Other expense was relatively flat in 2012 compared to 2011.

Taxes on Income

The Company's effective income tax rate on income before taxes was 37.2% in 2013, 36.0% in 2012, and 37.9% in 2011. The increase in 2013 from 2012 was primarily due to the impact of a non-recurring state tax benefit of $20 million in 2012, partially offset by the recognition of an additional state tax benefit of $4 million in 2013. The decrease in 2012 from 2011 was primarily due to the recognition of the non-recurring state tax benefit discussed above.

Segment Information

The Company 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, retirement plan services, and corporate brokerage services. The Advisor Services segment provides custodial, trading, and support services to independent investment advisors, and retirement business services to independent retirement plan advisors and recordkeepers whose plan assets are held at Schwab Bank. Banking revenues and expenses are allocated to the Company's two segments based on which segment services the client. The Company evaluates the performance of its segments on a pre-tax basis, excluding items such as significant nonrecurring gains, impairment charges on non-financial assets, discontinued operations, extraordinary items, and significant restructuring and other charges. Segment assets and liabilities are not used for evaluating segment performance or in deciding how to allocate resources to segments.

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)

Financial information for the Company's reportable segments is presented in the following tables:

	Investor Services Growth Rate				Advisor Services Growth Rate			
Year Ended December 31,	2012-2013	2013	2012	2011	2012-2013	2013	2012	2011
Net Revenues								
Asset management and administration fees	13 %	$ 1,627	$ 1,436	$ 1,357	14 %	$ 689	$ 607	$ 571
Net interest revenue	13 %	1,756	1,559	1,542	9 %	224	205	183
Trading revenue	1 %	621	612	667	15 %	292	255	260
Other – net	45 %	178	123	98	(8) %	57	62	62
Provision for loan losses	(107) %	1	(15)	(16)	(100) %	-	(1)	(2)
Net impairment losses on securities	(69) %	(9)	(29)	(29)	(67) %	(1)	(3)	(2)
Total net revenues	13 %	4,174	3,686	3,619	12 %	1,261	1,125	1,072
Expenses Excluding Interest	8 %	2,899	2,693	2,569	12 %	831	739	731
Income before taxes on income	28 %	$ 1,275	$ 993	$ 1,050	11 %	$ 430	$ 386	$ 341

	Unallocated Growth Rate				Total Growth Rate			
Year Ended December 31,	2012-2013	2013	2012	2011	2012-2013	2013	2012	2011
Net Revenues								
Asset management and administration fees	N/M	$ (1)	$ -	$ -	13 %	$ 2,315	$ 2,043	$ 1,928
Net interest revenue	N/M	-	-	-	12 %	1,980	1,764	1,725
Trading revenue	N/M	-	1	-	5 %	913	868	927
Other – net	N/M	1	71	-	(8) %	236	256	160
Provision for loan losses	N/M	-	-	-	(106) %	1	(16)	(18)
Net impairment losses on securities	N/M	-	-	-	(69) %	(10)	(32)	(31)
Total net revenues	N/M	-	72	-	11 %	5,435	4,883	4,691
Expenses Excluding Interest	N/M	-	1	(1)	9 %	3,730	3,433	3,299

Income before taxes on income	N/M	$ -	$ 71	$ 1	18	%	$ 1,705	$ 1,450	$ 1,392

N/M Not meaningful.

Investor Services

Net revenues increased by $488 million, or 13%, in 2013 from 2012 primarily due to increases in net interest revenue, asset management and administration fees, and other revenue. Net interest revenue increased primarily due to higher balances of interest-earning assets, partially offset by the effect lower average short-term interest rates had on the Company's average net interest margin. Asset management and administration fees increased primarily due to increases in advice solutions fees and mutual fund service fees. Advice solutions fees increased due to growth in client assets enrolled in advisory offers, including Windhaven and Schwab Private Client. Mutual fund service fees increased due to market appreciation and growth in client assets invested in the Company's Mutual Fund OneSource funds, and equity and bond funds, partially offset by a decrease in net money market mutual fund fees as a result of lower yields on fund assets. Other revenue – net increased primarily due to an increase in order flow revenue that Schwab began receiving in November 2012. Expenses excluding interest increased by $206 million, or 8%, in 2013 from 2012 primarily due to increases in compensation and benefits, professional services, advertising and market development, and other expenses.

Net revenues were relatively flat in 2012 compared to 2011 as the increases in asset management and administration fees, net interest revenue, and other revenue – net were largely offset by a decrease in trading revenue. Asset management and administration fees increased primarily due to an increase in advice solutions fees relating to Windhaven, partially offset by a decrease in net money market mutual fund fees. Net interest revenue increased primarily due to higher average balances of interest-earning assets, partially offset by the effect of low overall interest rates and higher amortization of premiums relating to mortgage-backed securities. Other revenue – net increased primarily due to the inclusion of a full year of optionsXpress’ order flow revenue and other fees. Trading revenue decreased primarily due to lower daily average revenue trades, partially offset by the inclusion of optionsXpress’ trading activity for the full year. Expenses excluding interest increased by $124 million, or 5%, in 2012 from 2011 primarily due to the inclusion of a full year of optionsXpress’ compensation and benefits, depreciation and amortization, and advertising and market development expenses.

Advisor Services

Net revenues increased by $136 million, or 12%, in 2013 from 2012 primarily due to increases in asset management and administration fees, trading revenue, and net interest revenue. Asset management and administration fees increased primarily due to increases in mutual fund service fees and advice solutions fees. Mutual fund service fees increased due to market appreciation and growth in client assets invested in the Company’s Mutual Fund OneSource funds, and equity and bond funds. Advice solutions fees increased due to growth in client assets enrolled in advisory offers. Trading revenue increased primarily due to higher daily average revenue trades and two additional trading days in 2013. Net interest revenue increased primarily due to higher balances of interest-earning assets, partially offset by the effect lower average short-term interest rates had on the Company’s average net interest margin. Expenses excluding interest increased by $92 million, or 12%, in 2013 from 2012 primarily due to increases in compensation and benefits, professional services, advertising and market development expenses, and other expenses.

Net revenues increased by $53 million, or 5%, in 2012 from 2011 primarily due to increases in asset management and administration fees and net interest revenue, partially offset by a decrease in trading revenue. Asset management and administration fees increased primarily due to an increase in third-party mutual fund service fees. Net interest revenue increased primarily due to higher average balances of interest-earning assets, partially offset by the effect of low overall interest rates and higher amortization of premiums relating to mortgage-backed securities. Trading revenue decreased primarily due to lower daily average revenue trades. Expenses excluding interest were relatively flat in 2012 compared to 2011.

Unallocated

Other revenue – net in 2012 includes a non-recurring gain of $70 million relating to a confidential resolution of a vendor dispute.

LIQUIDITY AND CAPITAL RESOURCES

CSC conducts substantially all of its business through its wholly-owned subsidiaries. The Company's capital structure is designed to provide each subsidiary with capital and liquidity to meet its operational needs and regulatory requirements.

CSC is a savings and loan holding company and Schwab Bank, CSC's depository institution, is a federal savings bank. CSC is subject to supervision and regulation by the Federal Reserve and Schwab Bank is subject to supervision and regulation by the OCC.

Liquidity

CSC

CSC's liquidity needs arise from funding its subsidiaries' operations, including margin and mortgage lending, and transaction settlement, in addition to funding cash dividends, acquisitions, investments, short- and long-term debt, and managing statutory capital requirements.

THE CHARLES SCHWAB CORPORATION

Management's Discussion and Analysis of Financial Condition and Results of Operations

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CSC's liquidity needs are generally met through cash generated by its subsidiaries, as well as cash provided by external financing. CSC has a universal automatic shelf registration statement (Shelf Registration Statement) on file with the SEC which enables CSC to issue debt, equity, and other securities. CSC maintains excess liquidity in the form of overnight cash deposits and short-term investments to cover daily funding needs and to support growth in the Company's business. Generally, CSC does not hold liquidity at its subsidiaries in excess of amounts deemed sufficient to support the subsidiaries' operations, including any regulatory capital requirements. Schwab, Schwab Bank, and optionsXpress, Inc. are subject to regulatory requirements that may restrict them from certain transactions with CSC, as further discussed below. Management believes that funds generated by the operations of CSC's subsidiaries will continue to be the primary funding source in meeting CSC's liquidity needs, providing adequate liquidity to meet Schwab Bank's capital guidelines, and maintaining Schwab and optionsXpress, Inc.'s net capital.

On July 25, 2013, CSC issued $275 million of Senior Notes that mature in 2018 under its Shelf Registration Statement. The Senior Notes have a fixed interest rate of 2.20% with interest payable semi-annually.

While CSC is not currently subject to specific statutory capital requirements, CSC is required to serve as a source of strength for Schwab Bank and must have the ability to provide financial assistance if Schwab Bank experiences financial distress. To manage capital adequacy, the Company currently utilizes a target Tier 1 Leverage Ratio for CSC, as currently defined by the Federal Reserve, of at least 6%. At December 31, 2013, CSC's Tier 1 Leverage Ratio was 6.4%, Tier 1 Capital Ratio was 16.7%, and Total Capital Ratio was 16.8%.

The following are details of CSC's long-term debt:

December 31, 2013	Par Outstanding	Maturity	Interest Rate	Moody's	Standard & Poor's	Fitch
Senior Notes	$ 1,581	2015 – 2022	0.850% to 4.45% fixed	A2	A	A
Medium Term Notes	$ 250	2017	6.375% fixed	A2	A	A

CSC has authorization from its Board of Directors to issue unsecured commercial paper notes (Commercial Paper Notes) not to exceed $1.5 billion. Management has set a current limit for the commercial paper program of

$800 million. The maturities of the Commercial Paper Notes may vary, but are not to exceed 270 days from the date of issue. The commercial paper is not redeemable prior to maturity and cannot be voluntarily prepaid. The proceeds of the commercial paper program are to be used for general corporate purposes. There were no borrowings of Commercial Paper Notes outstanding at December 31, 2013. CSC's ratings for these short-term borrowings are P1 by Moody's, A1 by Standard & Poor's, and F1 by Fitch.

CSC maintains an $800 million committed, unsecured credit facility with a group of 12 banks, which is scheduled to expire in June 2014. This facility replaced a similar facility that expired in June 2013 and both facilities were unused in 2013. The funds under this facility are available for general corporate purposes. The financial covenants under this facility require Schwab to maintain a minimum net capital ratio, as defined, Schwab Bank to be well capitalized, as defined, and CSC to maintain a minimum level of stockholders' equity. At December 31, 2013, the minimum level of stockholders' equity required under this facility was $7.1 billion (CSC's stockholders' equity at December 31, 2013, was $10.4 billion). Management believes that these restrictions will not have a material effect on CSC's ability to meet foreseeable dividend or funding requirements.

CSC also has direct access to $647 million of the $942 million uncommitted, unsecured bank credit lines discussed below, that are primarily utilized by Schwab to manage short-term liquidity. These lines were not used by CSC during 2013.

In addition, Schwab provides CSC with a $1.0 billion credit facility, which is scheduled to expire in December 2014. There were no funds drawn under this facility at December 31, 2013.

THE CHARLES SCHWAB CORPORATION

Management’s Discussion and Analysis of Financial Condition and Results of Operations

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Schwab

Schwab’s liquidity needs relating to client trading and margin borrowing activities are met primarily through cash balances in brokerage client accounts, which were $33.2 billion and $37.4 billion at December 31, 2013 and 2012, respectively. Management believes that brokerage client cash balances and operating earnings will continue to be the primary sources of liquidity for Schwab.

Schwab is subject to regulatory requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 (the Uniform Net Capital Rule) that are intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit Schwab from repaying subordinated borrowings from CSC, paying cash dividends, or making unsecured advances or loans to its parent company or employees 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. At December 31, 2013, Schwab’s net capital was $1.4 billion (10% of aggregate debit balances), which was $1.2 billion in excess of its minimum required net capital and $707 million in excess of 5% of aggregate debit balances.

Schwab is also subject to Rule 15c3-3 under the Securities Exchange Act of 1934 and other applicable regulations that require it to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of clients. These funds are included in cash and investments segregated and on deposit for regulatory purposes in the Company’s consolidated balance sheets and are not available as a general source of liquidity.

Most of Schwab’s assets are readily convertible to cash, consisting primarily of short-term (i.e., less than 150 days) investment-grade, interest-earning investments (the majority of which are segregated for the exclusive benefit of clients pursuant to regulatory requirements), receivables from brokerage clients, and receivables from brokers, dealers, and clearing organizations. Client margin loans are demand loan obligations secured by readily marketable securities. Receivables from and payables to brokers, dealers, and clearing organizations primarily represent current open transactions, which usually settle, or can be closed out, within a few business days.

Schwab has a finance lease obligation related to an office building and land under a 20-year lease. The remaining finance lease obligation of $89 million at December 31, 2013, is being reduced by a portion of the lease payments over the remaining lease term of 11 years.

To manage short-term liquidity, Schwab maintains uncommitted, unsecured bank credit lines with a group of six banks totaling $942 million at December 31, 2013. The need for short-term borrowings arises primarily from timing differences between cash flow requirements, scheduled liquidation of interest-earnings investments, and movements of cash to meet regulatory brokerage client cash segregation requirements. Schwab used such borrowings for ten days in 2013, with average daily amounts borrowed of $64 million. There were no borrowings outstanding under these lines at December 31, 2013.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, Schwab has unsecured standby letter of credit agreements (LOCs) with five banks in favor of the Options Clearing Corporation aggregating $225 million at December 31, 2013. There were no funds drawn under any of these LOCs during 2013. In connection with its securities lending activities, Schwab is required to provide collateral to certain brokerage clients. Schwab satisfies the collateral requirements by providing cash as collateral.

To manage Schwab's regulatory capital requirement, CSC provides Schwab with a $1.4 billion subordinated revolving credit facility, which is scheduled to expire in March 2014. Schwab plans to renew this facility when it expires. The amount outstanding under this facility at December 31, 2013, was $315 million. Borrowings under this subordinated lending arrangement qualify as regulatory capital for Schwab.

In addition, CSC provides Schwab with a $2.5 billion credit facility, which is scheduled to expire in December 2014. Borrowings under this facility do not qualify as regulatory capital for Schwab. The amount outstanding under this facility at December 31, 2013, was $605 million.

THE CHARLES SCHWAB CORPORATION

Management's Discussion and Analysis of Financial Condition and Results of Operations

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Schwab Bank

Schwab Bank's liquidity needs are met through deposits from banking clients and equity capital.

Deposits from banking clients at December 31, 2013 were $93.0 billion, which includes the excess cash held in certain Schwab and optionsXpress, Inc. brokerage accounts that is swept into deposit accounts at Schwab Bank. At December 31, 2013, these balances totaled $72.2 billion.

Schwab Bank is subject to regulatory requirements that restrict and govern the terms of affiliate transactions, such as extensions of credit and repayment of loans between Schwab Bank and CSC or CSC's other subsidiaries. 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.

Schwab Bank is required to maintain capital levels as specified in federal banking laws and 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 Schwab Bank. The Company currently utilizes a target Tier 1 Leverage Ratio for Schwab Bank of at least 6.25%. Based on its regulatory capital ratios at December 31, 2013, Schwab Bank is considered well capitalized. Schwab Bank's regulatory capital and ratios are as follows:

	Actual		Minimum to be Well Capitalized		Minimum Capital Requirement	
December 31, 2013	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Risk-Based Capital	$ 6,550	19.0 %	$ 2,074	6.0 %	$ 1,383	4.0 %
Total Risk-Based Capital	$ 6,599	19.1 %	$ 3,457	10.0 %	$ 2,766	8.0 %
Tier 1 Leverage	$ 6,550	6.6 %	$ 4,993	5.0 %	$ 3,994	4.0 %
Tangible Equity	$ 6,550	6.6 %	N/A		$ 1,997	2.0 %

N/A Not applicable.

Schwab Bank has access to traditional funding sources such as deposits, federal funds purchased, and repurchase agreements. Additionally, Schwab Bank has access to short-term funding through the Federal Reserve Bank (FRB) discount window. Amounts available under the FRB discount window are dependent on the fair value of certain of Schwab Bank's securities available for sale and/or securities held to maturity that are pledged as collateral to the FRB. Schwab Bank maintains policies and procedures necessary to access this funding and tests discount window borrowing procedures annually. At December 31, 2013, $2.6 billion was available under this arrangement. There were no funds drawn under this arrangement during 2013.

Schwab Bank maintains a credit facility with the Federal Home Loan Bank System. Amounts available under this facility are dependent on the amount of Schwab Bank's residential real estate mortgages and HELOCs that are pledged as collateral. Schwab Bank maintains policies and procedures necessary to access this funding and tests borrowing procedures annually. At December 31, 2013, $6.8 billion was available under this facility. There were no funds drawn under this facility during 2013.

optionsXpress, Inc.

optionsXpress, Inc.'s liquidity needs relating to client trading and margin borrowing activities are met primarily through cash balances in brokerage client accounts, which were $1.1 billion at December 31, 2013. Management believes that brokerage client cash balances and operating earnings will continue to be the primary sources of liquidity for optionsXpress, Inc.

optionsXpress, Inc., is subject to regulatory requirements of the Uniform Net Capital Rule that are intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit optionsXpress, Inc. from paying cash dividends or making unsecured advances or loans to its parent company or employees 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. At December 31, 2013, optionsXpress Inc.'s net capital was $102 million (36% of aggregate debit balances), which was $96 million in excess of its minimum required net capital and $88 million in excess of 5% of aggregate debit balances.

optionsXpress, Inc. is also subject to Commodity Futures Trading Commission Regulation 1.17 (Reg. 1.17) under the Commodity Exchange Act, which also requires the maintenance of minimum net capital. optionsXpress, Inc. as a futures commission merchant, is required to maintain minimum net capital equal to the greater of its net capital requirement under Reg. 1.17 ($1 million), or the sum of 8% of the total risk margin requirements for all positions carried in customer accounts and 8% of the total risk margin requirements for all positions carried in non-customer accounts (as defined in Reg. 1.17). At December 31, 2013, optionsXpress, Inc. met the requirements of Reg. 1.17.

Additionally, optionsXpress, Inc. is subject to Rule 15c3-3 under the Securities Exchange Act of 1934 and other applicable regulations that require it to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of clients. These funds are included in cash and investments segregated and on deposit for regulatory purposes in the Company's consolidated balance sheets and are not available as a general source of liquidity.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, optionsXpress, Inc. has an unsecured standby LOC with one bank in favor of the Options Clearing Corporation in the amount of $15 million at December 31, 2013. There were no funds drawn under this LOC during 2013.

CSC provides optionsXpress, Inc. with a $200 million credit facility, which is scheduled to expire in December 2014. The amount outstanding under this facility at December 31, 2013, was $25 million. Borrowings under this facility do not qualify as regulatory capital for optionsXpress, Inc.

optionsXpress Holdings, Inc., optionsXpress, Inc.'s parent company, has a term loan with CSC, of which $35 million was outstanding at December 31, 2013, and it matures in December 2017.

Capital Resources

The Company monitors both the relative composition and absolute level of its capital structure. Management is focused on optimizing the Company's use of capital and currently targets a long-term debt to total financial capital ratio not to exceed 30%. The Company's total financial capital (long-term debt plus stockholders' equity) at December 31, 2013 was $12.3 billion, up $1.1 billion, or 9%, from December 31, 2012.

The Company's cash position (reported as cash and cash equivalents on its consolidated balance sheets) and cash flows are affected by changes in brokerage client cash balances and the associated amounts required to be segregated under regulatory guidelines. Timing differences between cash and investments actually segregated on a given date and the amount required to be segregated for that date may arise in the ordinary course of business and are addressed by the Company in accordance with applicable regulations. Other factors which affect the Company's cash position and cash flows include investment activity in security portfolios, levels of capital expenditures, acquisition and divestiture activity, banking client deposit activity, brokerage and banking client loan activity, financing activity in long-term debt, payments of dividends, and repurchases and issuances of CSC's preferred and common stock. The combination of these factors can cause significant fluctuations in the cash position during specific time periods.

Long-term Debt

At December 31, 2013, the Company had long-term debt of $1.9 billion, or 15% of total financial capital, that bears interest at a weighted-average rate of 3.61%. At December 31, 2012, the Company had long-term debt of $1.6 billion, or 15% of total financial capital. On July 25, 2013, CSC issued $275 million of Senior Notes that mature in 2018 under its Shelf Registration Statement. The Senior Notes have a fixed interest rate of 2.20% with interest payable semi-annually. The Company repaid $6 million of other long-term debt in 2013. For further discussion of the Company's long-term debt, see "Liquidity and Capital Resources – Liquidity" and "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 13. Borrowings."

Capital Expenditures

The Company's capital expenditures were $270 million (5% of net revenues) and $138 million (3% of net revenues) in 2013 and 2012, respectively. Capital expenditures in 2013 were primarily for buildings and land, capitalized costs for developing internal-use software, and software and equipment relating to the Company's information technology systems. Capital expenditures in 2012 were primarily for capitalized costs for developing internal-use software, software and equipment relating to the Company's information technology systems, and leasehold improvements. Capitalized costs for developing internal-use software were $74 million and $61 million in 2013 and 2012, respectively.

Management currently anticipates that 2014 capital expenditures will be approximately 20% higher than 2013 primarily due to increased spending on buildings and land, furniture and equipment, and leasehold improvements. A majority of this planned increase is related to the continued consolidation and relocation of the Company's existing office campus in Denver, Colorado. As in recent years, the Company adjusts its capital expenditures periodically as business conditions change. Management believes that funds generated by its operations will continue to be the primary funding source of its capital expenditures.

Equity Offerings

In January 2012, the Company issued and sold 400,000 shares of fixed-to-floating rate (currently fixed at 7.000%) non-cumulative perpetual preferred stock, Series A, with a liquidation preference of $1,000 per share for net proceeds of $394 million (Series A Preferred Stock). In June 2012, the Company issued and sold 485,000 shares of 6.00% non-cumulative perpetual preferred stock, Series B, with a liquidation preference of $1,000 per share for net proceeds of $469 million (Series B Preferred Stock). Net proceeds received from these sales were used for general corporate purposes. For further discussion of these equity offerings, see "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 17. Stockholders' Equity."

Dividends

CSC paid common stock cash dividends of $311 million ($0.24 per share) and $308 million ($0.24 per share) in 2013 and 2012, respectively. Since the initial dividend in 1989, CSC has paid 99 consecutive quarterly dividends and has increased the quarterly dividend rate 19 times, resulting in a 22% 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, the Company currently targets its common stock cash dividend at approximately 20% to 30% of net income.

CSC paid Series A Preferred Stock cash dividends of $28 million ($70.00 per share) and $14 million ($36.17 per share) in 2013 and 2012, respectively. CSC paid Series B Preferred Stock cash dividends of $29 million ($60.00 per share) and $14 million ($29.17 per share) in 2013 and 2012, respectively.

Share Repurchases

There were no repurchases of CSC's common stock in 2013 or 2012. As of December 31, 2013, CSC had remaining authority from the Board of Directors to repurchase up to $596 million of its common stock, which does not have an expiration date.

Business Acquisitions

On December 14, 2012, the Company acquired ThomasPartners, Inc., a growth and dividend income-focused asset management firm, for $85 million in cash.

On September 1, 2011, the Company acquired optionsXpress, an online brokerage firm primarily focused on equity option securities and futures, for total consideration of $714 million. Under the terms of the merger agreement, optionsXpress stockholders received 1.02 shares of the Company's common stock for each share of optionsXpress stock. As a result, the

Company issued 59 million shares of the Company's common stock valued at $710 million, based on the closing price of the Company's common stock on September 1, 2011. The Company also assumed optionsXpress' stock-based compensation awards valued at $4 million.

For more information on these acquisitions, see "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 24. Business Acquisitions."

Off-Balance Sheet Arrangements

The Company enters into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of its clients. These arrangements include firm commitments to extend credit. Additionally, the Company enters into guarantees and other similar arrangements as part of transactions in the ordinary course of business. For information on each of these arrangements, see "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 14. Commitments and Contingencies. and "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 15. Financial Instruments Subject to Off-Balance Sheet Credit Risk or Concentration Risk."

Contractual Obligations

The Company's principal contractual obligations as of December 31, 2013, are shown in the following table. Management believes that funds generated by its 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 sheet that are generally short-term in nature (e.g., payables to brokers, dealers, and clearing organizations) or without contractual payment terms (e.g., deposits from banking clients, payables to brokerage clients, and deferred compensation).

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total

Credit-related financial instruments (1)	$ 732	$ 1,054	$ 1,967	$ 2,269	$ 6,022
Long-term debt (2)	64	476	632	1,051	2,223
Leases (3)	100	156	113	158	527
Purchase obligations (4)	233	172	9	1	415
Total	$ 1,129	$ 1,858	$ 2,721	$ 3,479	$ 9,187

(1) Represents Schwab Bank's commitments to extend credit to banking clients and purchase mortgage loans.

(2) Includes estimated future interest payments through 2017 for Medium-Term Notes and through 2022 for Senior Notes. Amounts exclude maturities under a finance lease obligation and unamortized discounts and premiums.

(3) Represents minimum rental commitments, net of sublease commitments, and includes facilities under the Company's past restructuring initiatives and rental commitments under a finance lease obligation.

(4) 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.

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)

Risk MANAGEMENT

The Company’s business activities expose it to a variety of risks, including operational, credit, market, liquidity, compliance and legal 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 the Company’s efforts to identify areas of risk and implement risk management policies and procedures, there can be no assurance that the Company will not suffer unexpected losses due to these risks.

The Company’s risk management process is comprised of risk identification and assessment, risk measurement, risk monitoring and reporting and risk mitigation. The activities and organizations that comprise the risk management process are described below.

Risk Culture

The Company’s Board of Directors sets the tone for effective risk management and has approved an Enterprise Risk Management (ERM) Framework commensurate with the size, risk profile, complexity, and continuing growth of the Company. The ERM Framework and governance structure constitute a comprehensive approach to managing risks encountered by the Company in its business activities. Risk appetite, which is defined as the amount of risk the Company is willing to accept in pursuit of its corporate strategy, is set by executive management and approved by the Board of Directors.

The Company has established risk metrics and reporting that enable the 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.

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 Company, and escalating significant issues to the Board of Directors.

The Global Risk Committee reports regularly to the Risk Committee of the Board of Directors. The Risk Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to the Company's risk management program, including approving risk appetite statements 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 into the Global Risk Committee. These sub-committees include the:

- Asset-Liability Management and Pricing Committee, which establishes strategies and policies for the management of corporate capital, liquidity, interest rate risk, and investments;
- Credit and Market Risk Oversight Committee, which provides oversight of and approves credit and market risk policies, limits, and exposures in loan, investment, and positioning portfolios;
- New Products and Services Risk Oversight Committee, which provides oversight of, and approves corporate policy and procedures relating to the risk governance of new products and services; and the
- Operational Risk Oversight Committee, which provides oversight of and approves operational risk management policies, risk tolerance levels, and operational risk governance processes, and includes the following sub-committees:
  - Information Security and Privacy Sub-Committee, which provides oversight of the information security and privacy programs and policies;

- Model Governance Sub-Committee, which provides oversight of model risk throughout the Company; and the
- Vendor Management Sub-Committee, which provides oversight of the Company's vendor management and outsourcing program and policies.

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 the Company's risk management.

In addition, the Company's Disclosure Committee is responsible for monitoring and evaluating the effectiveness of the Company's (a) disclosure controls and procedures and (b) 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 potentially inadequate or failed internal processes, people, and systems or from external events and relationships impacting the Company and/or any of its key business partners and vendors. Operational risk includes model and fiduciary risk, and each is also described in detail below.

The Company's operations are highly dependent on the integrity of its technology systems and the Company's success depends, in part, on its ability to make timely enhancements and additions to its technology in anticipation of evolving client needs. To the extent the Company experiences system interruptions, errors or downtime (which could result from a variety of causes, including changes in client use patterns, technological failure, changes to its systems, linkages with third-party systems, and power failures), the Company's business and operations could be significantly negatively impacted. To minimize business interruptions, Schwab has two data centers intended, in part, to further improve the recovery of business processing in the event of an emergency. The Company is committed to an ongoing process of upgrading, enhancing, and testing its technology systems. This effort is focused on meeting client needs, meeting market and regulatory changes, and deploying standardized technology platforms.

Operational risk also includes the risk of human error, employee misconduct, external fraud, computer viruses, distributed denial of service attacks, terrorist attacks, and natural disaster. Employee misconduct could include fraud

and misappropriation of client or Company assets, improper use or disclosure of confidential client or Company information, and unauthorized activities, such as transactions exceeding acceptable risks or authorized limits. External fraud includes misappropriation of client or Company assets by third parties, including through unauthorized access to Company systems and data and client accounts. The frequency and sophistication of such fraud attempts continue to increase.

Operational risk is mitigated through a system of internal controls and risk management practices that are designed to keep operational risk and operational losses at levels appropriate to the inherent risk of the business in which the Company operates. The Company has specific policies and procedures to identify and manage operational risk, and uses periodic risk self-assessments and internal audit reviews to evaluate the effectiveness of these internal controls. The Company maintains backup and recovery functions, including facilities for backup and communications, and conducts periodic testing of disaster recovery plans. The Company also maintains policies and procedures and technology to protect against fraud and unauthorized access to systems and data.

Despite the Company's risk management efforts, it is not always possible to deter or prevent technological or operational failure, or fraud or other misconduct, and the precautions taken by the Company may not be effective in all cases. The Company may be subject to litigation, losses, and regulatory actions in such cases, and may be required to expend significant additional resources to remediate vulnerabilities or other exposures.

The Company also faces operational risk when it employs the services of various external vendors, including domestic and international outsourcing of certain technology, processing, servicing, and support functions. The Company manages its exposure to external vendor risk through contractual provisions, control standards, and ongoing monitoring of vendor performance. The Company maintains policies and procedures regarding the standard of care expected with Company data,

whether the data is internal company information, employee information, or non-public client information. The Company clearly defines for employees, contractors, and vendors the Company’s expected standards of care for confidential data. Regular training is provided by the Company in regard to data security.

The Company is actively engaged in the research and development of new technologies, services, and products. The Company endeavors to protect its research and development efforts, and its brands, through the use of copyrights, patents, trade secrets, and contracts.

Model Risk

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 Company, 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. The Company has established a policy to describe the roles and responsibilities of all key stakeholders in model development, management, and use. All models at the Company 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 informs the scope of all model governance activities.

Fiduciary Risk

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. The Company attempts to manage this risk by establishing 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 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. The Company's direct exposure to credit risk mainly results from margin lending and client option activities, securities lending activities, mortgage lending activities, its role as a counterparty in financial contracts and other investing activities. To manage the risks of such losses, the Company has established policies and procedures which include: establishing and reviewing credit limits, monitoring of credit limits and quality of counterparties, and adjusting margin and option requirements for certain securities. Collateral arrangements relating to margin loans, option positions, securities lending agreements, and resale agreements include provisions that require additional collateral in the event that market fluctuations result in declines in the value of collateral received. Additionally, for margin loan and securities lending agreements, collateral arrangements require that the fair value of such collateral exceeds the amounts loaned.

The Company's credit risk exposure related to loans to banking clients is actively managed through individual and portfolio reviews performed by management. Management regularly reviews asset quality, including concentrations, delinquencies, nonaccrual loans, charge-offs, and recoveries. All are factors in management's quarterly determination of an appropriate allowance for loan losses. The Company's mortgage loan portfolios primarily include First Mortgages of $8.0 billion and HELOCs of $3.0 billion at December 31, 2013.

The Company's underwriting guidelines include maximum loan-to-value (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 is conforming or jumbo). These credit underwriting standards have limited the exposure to the types of loans that experienced high foreclosures and loss rates elsewhere in the industry in recent years. There were no significant changes to the LTV ratio or FICO credit score underwriting guidelines related to the Company's First Mortgage or HELOC portfolios during 2013. In January 2014, the

Company revised its First Mortgage underwriting criteria in conformance with the CFPB's new guidance on Qualified Mortgage lending and a borrower's ability to repay. Revisions were made to requirements affecting Debt to Income Ratio, Loan to Value Ratio, and liquid asset holdings. The Company does not purchase loans that allow for negative amortization and does not 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. At December 31, 2013, approximately 1% of both the First Mortgage and HELOC portfolios consisted of loans to borrowers with updated FICO scores of less than 620.

At December 31, 2013, the weighted-average originated LTV ratio was 59% for both the First Mortgage and HELOC portfolios. The computation of the origination LTV ratio for a HELOC includes any first lien mortgage outstanding on the same property at the time of origination. At December 31, 2013, 22% of HELOCs ($680 million of the HELOC portfolio) were in a first lien position. The weighted-average originated FICO credit score was 769 and 768 for the First Mortgage and HELOC portfolios, respectively.

The Company monitors the estimated current LTV ratios of its First Mortgage and HELOC portfolios on an ongoing basis. At December 31, 2013, the weighted-average estimated current LTV ratios were 53% and 59% for the First Mortgage and HELOC portfolios, respectively. The computation of the estimated current LTV ratio for a HELOC includes any first lien mortgage outstanding on the same property at the time of the HELOC's origination. The Company estimates the current LTV ratio for each loan by reference to a home price appreciation index. The Company also monitors updated borrower FICO scores, delinquency trends, and verified liquid assets held by individual borrowers. At December 31, 2013, the weighted-average updated FICO scores were 772 and 769 for the First Mortgage and HELOC portfolios, respectively.

A portion of the Company's HELOC portfolio is secured by second liens on the associated properties. Second lien mortgage loans possess a higher degree of credit risk given the subordination to the first lien holder in the event of default. At December 31, 2013, $2.4 billion, or 78%, of the HELOC portfolio was in a second lien position. In addition to the credit monitoring activities described above, the Company also monitors credit risk on second lien HELOC loans by reviewing the delinquency status of the first lien loan on the associated property. Additionally, at December 31, 2013, approximately 30% of the HELOC borrowers that had a balance only paid the minimum amount due.

For more information on the Company's credit quality indicators relating to its First Mortgage and HELOC portfolios, including delinquency characteristics, borrower FICO scores at origination, updated borrower FICO scores, LTV

ratios at origination, and estimated current LTV ratios, see “Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 6. Loans to Banking Clients and Related Allowance for Loan Losses.”

The following table presents certain of the Company’s loan quality metrics as a percentage of total outstanding loans:

December 31,	2013	2012
Loan delinquencies (1)	0.48 %	0.77 %
Nonaccrual loans	0.39 %	0.45 %
Allowance for loan losses	0.39 %	0.52 %

(1) Loan delinquencies include loans that are 30 days or more past due and other nonaccrual loans.

The Company has exposure to credit risk associated with its securities available for sale and securities held to maturity portfolios, whose fair values totaled $51.6 billion and $29.5 billion at December 31, 2013, respectively. These portfolios include U.S. agency and non-agency mortgage-backed securities, asset-backed securities, corporate debt securities, U.S. agency notes, certificates of deposit, and other securities. 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.

At December 31, 2013, with the exception of one corporate bond (with an amortized cost of $100 million) and certain non-agency residential mortgage-backed securities, all securities in the available for sale and held to maturity portfolios were rated investment grade (defined as a rating equivalent to a Moody’s rating of “Baa” or higher, or a Standard & Poor’s rating of “BBB-” or higher). The one non-investment grade corporate bond, which matures in April 2014, was not considered other than temporarily impaired at December 31, 2013. Although the Company has recognized net impairment losses on certain

non-agency residential mortgage-backed securities, at December 31, 2013 the amortized cost of all non-agency residential mortgage-backed securities represented less than 1% of the securities available for sale and securities held to maturity portfolios.

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 client or a counterparty fails to meet its obligations to Schwab.

Concentration Risk

The Company has exposure to concentration risk when holding large positions in financial instruments collateralized by assets with similar economic characteristics or in securities of a single issuer or industry.

The fair value of the Company’s investments in mortgage-backed securities totaled $48.9 billion at December 31, 2013. Of these, $47.1 billion were issued by U.S. agencies and $1.8 billion were issued by private entities (non-agency securities). These U.S. agency and non-agency securities are included in securities available for sale and securities held to maturity.

The fair value of the Company’s investments in corporate debt securities and commercial paper totaled $9.2 billion at December 31, 2013, with the majority issued by institutions in the financial services industry. These securities are included in securities available for sale, securities held to maturity, cash and cash equivalents, and other securities owned in the Company’s consolidated balance sheets. Issuer, geographic, and sector concentrations are controlled by established credit policy limits to each concentration type.

The Company’s loans to banking clients include $7.3 billion of adjustable rate first lien residential real estate mortgage loans at December 31, 2013. The Company’s adjustable rate mortgages have initial fixed interest rates for three to ten years and interest rates that adjust annually thereafter. Approximately 40% of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 70% of these interest-only loans are not scheduled to reset for three or more years. The Company’s mortgage loans do not include interest terms described as temporary

introductory rates below current market rates. At December 31, 2013, 46% of the residential real estate mortgages and 51% of the HELOC balances were secured by properties which are located in California.

The Company's HELOC product has a 30-year loan term with an initial draw period of 10 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, 2013	Balance
Converted to amortizing loan as of period end	$ 134
Within 1 year	227
> 1 year – 3 years	498
> 3 years – 5 years	1,185
> 5 years	997
Total	$ 3,041

The Company also has exposure to concentration risk from its margin and securities lending activities collateralized by securities of a single issuer or industry. This concentration risk is mitigated by collateral arrangements that require the fair value of such collateral exceeds the amounts loaned.

The Company has indirect exposure to U.S. Government and agency securities held as collateral to secure its resale agreements. The Company's primary credit exposure on these resale transactions is with its counterparty. The Company would have exposure to the U.S. Government and agency securities only in the event of the counterparty's default on the resale agreements. The fair value of U.S. Government and agency securities held as collateral for resale agreements totaled $14.3 billion at December 31, 2013.

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)

European Holdings

The Company has exposure to non-sovereign financial and non-financial institutions in Europe. The following table shows the balances of this exposure by each country in Europe in which the issuer or counterparty is domiciled. The Company has no direct exposure to sovereign governments in Europe. The Company does not have unfunded commitments to counterparties in Europe, nor does it have exposure as a result of credit default protection purchased or sold separately as of December 31, 2013.

The determination of the domicile of exposure varies by the type of investment. For time deposits and certificates of deposit, the exposure is grouped in the country in which the financial institution is chartered under the regulatory framework of the European country. For asset-backed commercial paper, the exposure is grouped by the country of the sponsoring bank that provides the credit and liquidity support for such instruments. For corporate debt securities, the exposure is grouped by the country in which the issuer is domiciled. In situations in which the Company invests in a corporate debt security of a U.S. subsidiary of a European parent company, such holdings will be attributable to the European country only if significant reliance is placed on the European parent company for credit support underlying the security. For substantially all of the holdings listed below, the issuers or counterparties were financial institutions. All of the Company’s resale agreements, which are included in investments segregated and on deposit for regulatory purposes, are collateralized by U.S. government securities. Additionally, the Company’s securities lending activities are collateralized by cash. Therefore, the Company’s resale agreements and securities lending activities are not included in the table below even if the counterparty is a European institution.

	Fair Value as of December 31, 2013								
	France	Germany	Italy	Netherlands	Norway	Sweden	Switzerland	United Kingdom	Total
Cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 200	$ 200
Cash and investments segregated and on deposit for regulatory purposes	-	400	-	-	-	-	-	-	400
Securities available for sale	356	-	100	235	175	1,247	725	1,202	4,040
	-	-	-	-	-	-	100	-	100

Securities held to maturity									
Total fair value	$ 356	$ 400	$ 100	$ 235	$ 175	$ 1,247	$ 825	$ 1,402	$ 4,740
Total amortized cost	$ 355	$ 400	$ 100	$ 234	$ 175	$ 1,245	$ 825	$ 1,401	$ 4,735
Maturities:									
Overnight	$ -	$ 400	$ -	$ -	$ -	$ -	$ -	$ 200	$ 600
1 day – < 6 months	-	-	100	-	100	100	75	692	1,067
6 months – < 1 year	200	-	-	100	-	300	200	123	923
1 year – 2 years	-	-	-	-	-	426	400	387	1,213
> 2 years	156	-	-	135	75	421	150	-	937
Total fair value	$ 356	$ 400	$ 100	$ 235	$ 175	$ 1,247	$ 825	$ 1,402	$ 4,740

In addition to the direct holdings of European companies listed above, the Company also has indirect exposure to Europe through its investments in Schwab sponsored money market funds (collectively, the Funds) resulting from clearing activities. At December 31, 2013, the Company had $261 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 Europe.

Management mitigates exposure to European holdings by employing a separate team of credit analysts that evaluate each issuer, counterparty, and country. Management monitors its exposure to European issuers by 1) performing risk assessments of the foreign countries, which include evaluating the size of the country and economy, currency trends, political landscape and the countries' regulatory environment and developments; 2) performing ad hoc stress tests that evaluate the impact of sovereign governments' debt write-downs on financial issuers and counterparties the Company has exposure to through its investments; 3) reviewing publicly available stress tests that are published by various regulators in the European market; 4) establishing credit and maturity limits by issuer; and 5) establishing and monitoring aggregate credit limits by geography and sector.

Market Risk

Market risk is the potential for changes in earnings or the value of financial instruments held by the Company as a result of fluctuations in interest rates, equity prices or market conditions. Included in market risk is interest rate risk, which is the risk to earnings or capital arising from movement of interest rates. For discussion of the Company's market risk, see "Item 7A – Quantitative and Qualitative Disclosures About Market Risk."

Liquidity Risk

Liquidity risk arises from the inability to meet obligations when they come due without incurring unacceptable losses. It is the risk that valuations will be negatively affected by changes in demand and the underlying market for a financial instrument. Limits and contingency funding scenarios have been established for the Company to support liquidity levels and quality during both expected and stressed scenarios. The Company seeks to maintain client confidence in its balance sheet and the safety of client assets by maintaining liquidity and diversity of funding sources to allow the firm to meet its obligations under both expected and stressed scenarios. See Item 7 – Management's Discussion and Analysis – Liquidity and Capital Resources" for additional detail on the Company's liquidity requirements.

Compliance Risk

The Company faces significant compliance risk in its business, that is, the risk of 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 Company products and services, supervision of employees, and the adequacy of the Company's controls. The Company and its affiliates are subject to extensive regulation by federal, state and foreign regulatory authorities, including SROs. Such regulation is becoming increasingly extensive and complex, regulatory proceedings and sanctions against financial services firms continue to increase.

The Company attempts to 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. Despite the Company's efforts to maintain an effective compliance program and internal controls, legal breaches and rule violations could result in reputational harm, significant losses and disciplinary sanctions, including limitations on the Company's business activities.

Legal Risk

Legal risk is a consequence of operational failure – the risk of a claim for damages brought by clients, employees or other third parties, alleging error that amounts to a breach of legal requirements or other duties under law. The financial services industry is subject to substantial litigation risk, and the firm incurs legal claims in the ordinary course of business. Increased litigation costs or substantial legal liability relating to an extraordinary claim or incidence of claims could have a material adverse effect on the Company's business and financial condition. For information about the Company's legal risk, see "Item 1A – Risk Factors," and "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 14. Commitments and Contingencies."

Capital Planning

The capital plan considers significant risks to meeting the Company's capital goals over time and through evolving economic, financial, and business environments. Internal guidelines are set, for both the Company and regulated subsidiaries, to ensure continued regulatory compliance as well as to meet expectations of investors and rating agencies.

The capital plan also considers the potential effects of a sudden and sustained systemic economic downturn, idiosyncratic events which are uniquely impactful to the Company, and sensitivity analyses applied to significant assumptions that are either quantitative or qualitative in nature. The comprehensive Capital Contingency Plan was developed by the Company to

address the action plans for certain capital events with low probability, but high severity, that the Company might face. The Capital Contingency Plan is issued under the authority of the Asset-Liability Management and Pricing 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.

Capital forecasts are reviewed monthly at Capital Planning and Asset-Liability Management and Pricing Committee meetings and semi-annually at the Company's Board of Directors meetings. Exceptions to internal guidelines are also reviewed at quarterly Global Risk Committee meetings.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses the market and income approaches to determine the fair value of certain financial assets and liabilities recorded at fair value, and to determine fair value disclosures. See "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 2. Summary of Significant Accounting Policies and 16. Fair Values of Assets and Liabilities" for more information on the Company's assets and liabilities recorded at fair value.

When available, the Company uses quoted prices in active markets to measure the fair value of assets and liabilities. When utilizing market data with a 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. The Company generally obtains prices from at least three independent pricing sources for assets recorded at fair value and may obtain up to five prices on assets with higher risk of limited observable information, such as non-agency residential mortgage-backed securities. The Company's 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 Company compares the prices obtained from its 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. The Company 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. At December 31, 2013 and 2012, the Company did not adjust prices received from the primary independent

third-party pricing service.

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the U.S. While the majority of the Company's 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 the Company'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 Company's financial statements for reasonableness and adequacy.

Other-than-Temporary Impairment of Securities Available for Sale and Securities Held to Maturity

Management evaluates whether securities available for sale and securities held to maturity 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 the amortized cost and the then-current fair value.

A security is also OTTI if management does not expect to recover the amortized cost of the security. In this circumstance, the impairment recognized in earnings represents estimated credit loss, and is measured by the difference between the present

value of expected cash flows and the amortized cost of the security. Management utilizes cash flow models to estimate the expected future cash flow from the securities and to estimate the credit loss. Expected cash flows are discounted using the security's effective interest rate.

The evaluation of whether the Company expects to recover the amortized cost of a security is inherently judgmental. The evaluation includes the assessment of several bond performance indicators including: the portion of the underlying loans that are delinquent (30 days, 60 days, 90+ days), in bankruptcy, in foreclosure or converted to real estate owned; the actual amount of loss incurred on the underlying loans in which the property has been foreclosed and sold; the amount of credit support provided by the structure of the security available to absorb credit losses on the underlying loans; the current price and magnitude of the unrealized loss; and whether the Company has received all scheduled principal and interest payments. Management uses cash flow models to further assess the likelihood of other-than-temporary impairment for the Company's non-agency residential mortgage-backed securities. To develop the cash flow models, the Company uses forecasted loss severity, prepayment speeds (i.e. the rate at which the principal on underlying loans are paid down), and default rates over the securities' expected remaining maturities.

Valuation of Goodwill

The Company tests goodwill for impairment at least 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. Adverse changes in the Company's planned business operations such as unanticipated competition, a loss of key personnel, the sale of a reporting unit or a significant portion of a reporting unit, or other unforeseen developments could result in an impairment of the Company's recorded goodwill.

The Company's annual goodwill impairment testing date is April 1st. In testing for a potential impairment of goodwill on April 1, 2013, management performed a qualitative assessment of each of the Company's reporting units (generally defined as the Company's businesses for which financial information is available and reviewed regularly by management) and concluded that goodwill was not impaired.

Allowance for Loan Losses

The appropriateness of the allowance is reviewed quarterly by management, taking into consideration current economic conditions, the existing loan portfolio composition, past loss experience, and risks inherent in the portfolio.

The methodology to establish an allowance for loan losses related to the First Mortgage and HELOC portfolio 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 measured by FICO scores, and the adequacy of collateral. The methodology also evaluates concentrations in the loan segments including loan products, 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 of each loan, the term and structure of each loan, current key interest rates including U.S. Treasury and London Interbank Offered Rate (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 the Company’s historical loss experience adjusted for current trends and market information. Further, the delinquency roll rates within the loan-level simulation discussed above are calibrated to match a moving average of the delinquency roll rates actually experienced in the respective First Mortgage and HELOC portfolios. Loss severity estimates are based on the Company’s historical loss experience and market trends. The estimated loss severity (i.e. loss given default) used in the allowance for loan 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. As a result, the current state of house prices and the current state of delinquencies unique to the Company’s First Mortgage and HELOC portfolios are considered in the allowance for loan loss methodology. This methodology results in loss factors that are applied to the outstanding balances to determine the allowance for loan loss for each loan segment.

The allowance for personal loans secured by securities is established on a loan by loan basis. The market value of collateral pledged by borrowers is regularly reviewed to ensure the Company’s commitment to extend credit is over-collateralized. If collateral is in danger of falling below specified levels, the Company may reduce a borrower’s committed line or may liquidate collateral. At December 31, 2013 and 2012, the allowance for loan losses related to personal loans secured by securities was immaterial.

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 or when an event occurs requiring a change. Significant judgment is required in making these estimates, and the actual cost of resolving a matter may ultimately differ materially from the amount reserved.

The Company’s management has discussed the development and selection of these critical accounting estimates with the Audit Committee. 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.

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,” “could,” 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 necessarily estimates based on the best judgment of the Company’s senior management. These statements relate to, among other things:

- the Company’s ability to pursue its business strategy and maintain its market leadership position (see “Part I – Item 1. – Business – Business Strategy and Competitive Environment”);
- the expected impact of the final regulatory capital rules, which implemented Basel III and relevant provisions of the Dodd-Frank Act, the Federal Reserve notice of proposed rulemaking regarding quantitative liquidity requirements, and the NSCC rule issuance (see “Part I – Item 1A. – Risk Factors” and “Current Market and Regulatory Environment and Other Developments”);
- the impact of legal proceedings and regulatory matters (see “Part I – Item 3. – Legal Proceedings” and “Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements –14. Commitments and Contingencies – Legal contingencies”);
- the impact of current market conditions on the Company’s results of operations (see “Current Market and Regulatory Environment and Other Developments,” “Results of Operations – Net Interest Revenue,” and “Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 5. Securities Available for Sale and Securities Held to Maturity”);

- sources of liquidity, capital, and level of dividends (see "Part I – Item 1. – Business – Regulation," "Liquidity and Capital Resources," "Contractual Obligations," and "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 22. Regulatory Requirements");
- target capital and debt ratios (see "Liquidity and Capital Resources" and "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 22. Regulatory Requirements");
- capital expenditures (see "Liquidity and Capital Resources – Capital Resources – Capital Expenditures");
- the impact of changes in management's estimates on the Company's results of operations (see "Critical Accounting Estimates");
- the impact of changes in the likelihood of indemnification and guarantee payment obligations on the Company's results of operations (see "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 14. Commitments and Contingencies"); and
- the impact on the Company's results of operations of recording stock option expense (see "Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – 19. Employee Incentive, Retirement, and Deferred Compensation Plans").

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:

- changes in general economic and financial market conditions;
- changes in revenues and profit margin due to changes in interest rates;
- adverse developments in litigation or regulatory matters;
- the extent of any charges associated with litigation and regulatory matters;
- amounts recovered on insurance policies;
- the Company's ability to attract and retain clients and grow client assets and relationships;
- the Company's ability to develop and launch new products, services and capabilities in a timely and successful manner;
- fluctuations in client asset values due to changes in equity valuations;
- the Company's ability to monetize client assets;
- the performance or valuation of securities available for sale and securities held to maturity;
- trading activity;
    - the level of interest rates, including yields available on money market mutual fund eligible instruments;
- the adverse impact of financial reform legislation and related regulations;

- the amount of loans to the Company's brokerage and banking clients;
- the level of the Company's stock repurchase activity;
- the level of brokerage client cash balances and deposits from banking clients;
- the availability and terms of external financing;
- capital needs and management;
- the level of field sales volume and related incentive compensation;
- level of expenses;
- the Company's ability to manage expenses;
- regulatory guidance;
- the level of client assets, including cash balances;
- competitive pressures on rates and fees;
- acquisition integration costs;
- the timing and impact of changes in the Company's level of investments in buildings, land, and leasehold improvements; and
- potential breaches of contractual terms for which the Company has indemnification and guarantee obligations.

Certain of these factors, as well as general risk factors affecting the Company, are discussed in greater detail in this Annual Report on Form 10-K, including "Item 1A – Risk Factors."

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential for changes in earnings or the value of financial instruments held by the Company as a result of fluctuations in interest rates, equity prices or market conditions.

The Company is exposed to interest rate risk primarily from changes in market interest rates on its interest-earning assets relative to changes in the costs of its funding sources that finance these assets. The majority of the Company's interest-earning assets and interest-bearing liabilities are sensitive to changes in short-term interest rates. To a lesser degree, the Company is sensitive to changes in long-term interest rates through some of its investment portfolios. To manage the Company's market risk related to interest rates, management utilizes simulation models, which include the net interest revenue sensitivity analysis described below.

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 residential real estate loans and mortgage-backed securities. These assets are sensitive to changes in interest rates and to changes to prepayment levels, which tend to increase in a declining rate environment. Because the Company establishes the rates paid on certain brokerage client cash balances and deposits from banking clients and the rates charged on margin loans and loans to banking clients, and controls the composition of its investment securities, it has some ability to manage its net interest spread, depending on competitive factors and market conditions.

To mitigate the risk of loss, the Company has established policies and procedures that include setting guidelines on the amount of net interest revenue at risk, and monitoring the net interest margin and average maturity of its interest-earning assets and funding sources. To remain within these guidelines, the Company manages the maturity, repricing, and cash flow characteristics of the investment portfolios.

The Company is also subject to market risk as a result of fluctuations in option and equity prices. The Company's direct holdings of option and equity securities and its associated exposure to option and equity prices are not material. The Company is indirectly exposed to option and equity market fluctuations in connection with client option accounts,

securities collateralizing margin loans to brokerage customers, and customer securities loaned out as part of the Company's securities lending activities. Equity market valuations may also affect the level of brokerage client trading activity, margin borrowing, and overall client engagement with the Company. Additionally, the Company earns mutual fund 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 earned by the Company.

Financial instruments held by the Company are also subject to liquidity risk – that is, the risk that valuations will be negatively affected by changes in demand and the underlying market for a financial instrument. Recent conditions in the credit markets have significantly reduced market liquidity in a wide range of financial instruments, including certain instruments held by the Company, and fair value can differ significantly from the value implied by the credit quality and actual performance of the instrument's underlying cash flows.

For discussion of the impact of current market conditions on asset management and administration fees and net interest revenue, see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Current Market and Regulatory Environment and Other Developments."

The Company's market risk related to financial instruments held for trading is not material.

Net Interest Revenue Simulation

For the Company's net interest revenue sensitivity analysis, the Company uses 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 Company uses constant balances and market rates in the simulation assumptions in order to

minimize the number of variables and to better isolate risks. 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 the Company's guidelines for its net interest revenue sensitivity are breached, management must report the breach to the Company's Corporate Asset-Liability Management and Pricing Committee (Corporate ALCO) and establish a plan to address the interest rate risk. This plan could include, but is not limited to, rebalancing certain investment portfolios or using derivative instruments to mitigate the interest rate risk. Depending on the severity and expected duration of the breach, as well as the then current interest rate environment, the plan could also be to take no action. Any plan that recommends taking action is required to be approved by the Company's Corporate ALCO. There were no breaches of the Company's net interest revenue sensitivity guidelines during the years ending December 31, 2013 or 2012.

As represented by the simulations presented below, the Company's 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 sheet would not be changed as a result of the simulated changes in interest rates. As the Company actively manages its consolidated balance sheet and interest rate exposure, in all likelihood the Company would take steps to manage any additional interest rate exposure that could result from changes in the interest rate environment. The following table shows the results of a gradual 100 basis point increase or decrease in market interest rates relative to the Company's current market rates forecast on simulated net interest revenue over the next 12 months beginning December 31, 2013 and 2012.

December 31,	2013	2012
Increase of 100 basis points	11.0 %	19.2 %
Decrease of 100 basis points	(4.5) %	(10.0) %

The sensitivities shown in the simulation reflect the fact that short-term interest rates in 2013 remained at historically low levels, including the federal funds target rate, which was unchanged at a range of zero to 0.25%. The year-over-year decrease in net interest income sensitivity reflects the baseline assumption of higher medium and longer-term rates at December 31, 2013 relative to those assumed at December 31, 2012 resulting in a higher basis for comparison. The current low interest rate environment limits the extent to which the Company can reduce interest expense paid on funding sources in a declining interest rate scenario. A decline in interest rates could therefore negatively impact the yield on the Company's investment portfolio to a greater degree than any offsetting reduction in interest expense, further compressing net interest margin. Any increases in short-term interest rates result in a greater impact as yields on interest-earning assets are expected to rise faster than the cost of funding sources.

THE CHARLES SCHWAB CORPORATION

Item 8. Financial Statements and Supplementary Data

TABLE OF CONTENTS

Consolidated Statements of Income		51
Consolidated Statements of Comprehensive Income		52
Consolidated Balance Sheets		53
Consolidated Statements of Cash Flows		54
Consolidated Statements of Stockholders' Equity		55
Notes to Consolidated Financial Statements		56
Note 1.	Introduction and Basis of Presentation	56
Note 2.	Summary of Significant Accounting Policies	56
Note 3.	Receivables from Brokerage Clients	62
Note 4.	Other Securities Owned	62
Note 5.	Securities Available for Sale and Securities Held to Maturity	63
Note 6.	Loans to Banking Clients and Related Allowance for Loan Losses	66
Note 7.	Equipment, Office Facilities, and Property	70
Note 8.	Intangible Assets and Goodwill	70
Note 9.	Other Assets	71
Note 10.	Deposits from Banking Clients	71
Note 11.	Payables to Brokers, Dealers, and Clearing Organizations	71
Note 12.	Payables to Brokerage Clients	72
Note 13.	Borrowings	72
Note 14.	Commitments and Contingencies	74
Note 15.	Financial Instruments Subject to Off-Balance Sheet Credit Risk or Concentration Risk	76
Note 16.	Fair Values of Assets and Liabilities	78
Note 17.	Stockholders' Equity	81

Note 18.	Accumulated Other Comprehensive Income	82
Note 19.	Employee Incentive, Retirement, and Deferred Compensation Plans	83
Note 20.	Taxes on Income	85
Note 21.	Earnings Per Common Share	87
Note 22.	Regulatory Requirements	87
Note 23.	Segment Information	89
Note 24.	Business Acquisitions	90
Note 25.	Subsequent Events	91
Note 26.	The Charles Schwab Corporation – Parent Company Only Financial Statements	91
Note 27.	Quarterly Financial Information (Unaudited)	94
Report of Independent Registered Public Accounting Firm		95
Management's Report on Internal Control Over Financial Reporting		96

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Income
(In Millions, Except Per Share Amounts)

Year Ended December 31,	2013	2012	2011
Net Revenues			
Asset management and administration fees	$ 2,315	$ 2,043	$ 1,928
Interest revenue	2,085	1,914	1,900
Interest expense	(105)	(150)	(175)
Net interest revenue	1,980	1,764	1,725
Trading revenue	913	868	927
Other — net	236	256	160
Provision for loan losses	1	(16)	(18)
Net impairment losses on securities (1)	(10)	(32)	(31)
Total net revenues	5,435	4,883	4,691
Expenses Excluding Interest			
Compensation and benefits	2,027	1,803	1,732
Professional services	415	388	387
Occupancy and equipment	309	311	301
Advertising and market development	257	241	228
Communications	220	220	220
Depreciation and amortization	202	196	155
Class action litigation and regulatory reserve	-	-	7
Other	300	274	269
Total expenses excluding interest	3,730	3,433	3,299
Income before taxes on income	1,705	1,450	1,392
Taxes on income	634	522	528
Net Income	1,071	928	864
Preferred stock dividends	61	45	-
Net Income Available to Common Stockholders	$ 1,010	$ 883	$ 864
Weighted-Average Common Shares Outstanding — Diluted	1,293	1,275	1,229
Earnings Per Common Share — Basic	$ .78	$ .69	$ .70
Earnings Per Common Share — Diluted	$ .78	$ .69	$ .70
Dividends Declared Per Common Share	$ .24	$ .24	$ .24

(1) Net impairment losses on securities include total other-than-temporary impairment losses of $2 million, $15 million, and $18 million recognized in other comprehensive (loss) income, net of $(8) million, $(17) million, and $(13) million reclassified from other comprehensive (loss) income in 2013, 2012, and 2011, respectively.

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Comprehensive Income
(In Millions)

Year Ended December 31,	2013	2012	2011
Net income	$ 1,071	$ 928	$ 864
Other comprehensive (loss) income, before tax:			
Change in net unrealized gain on securities available for sale:			
Net unrealized (loss) gain	(468)	470	(43)
Reclassification of impairment charges included in net impairment losses on securities	10	32	31
Other reclassifications included in other revenue	(7)	(38)	1
Other	1	1	(1)
Other comprehensive (loss) income, before tax	(464)	465	(12)
Income tax effect	175	(175)	4
Other comprehensive (loss) income, net of tax	(289)	290	(8)
Comprehensive Income	$ 782	$ 1,218	$ 856

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Consolidated Balance Sheets
(In Millions, Except Per Share and Share Amounts)

December 31,	2013	2012
Assets		
Cash and cash equivalents	$ 7,728	$ 12,663
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $14,016 and $19,325 at December 31, 2013 and 2012, respectively)	23,553	28,469
Receivables from brokers, dealers, and clearing organizations	509	333
Receivables from brokerage clients — net	13,951	13,458
Other securities owned — at fair value	517	636
Securities available for sale	51,618	46,123
Securities held to maturity (fair value — $29,490 and $18,732 at December 31, 2013 and 2012, respectively)	30,318	18,194
Loans to banking clients — net	12,419	10,726
Equipment, office facilities, and property — net	790	675
Goodwill	1,227	1,228
Intangible assets — net	266	319
Other assets	746	813
Total assets	$ 143,642	$ 133,637
Liabilities and Stockholders' Equity		
Deposits from banking clients	$ 92,972	$ 79,377
Payables to brokers, dealers, and clearing organizations	1,467	1,068
Payables to brokerage clients	35,333	40,330
Accrued expenses and other liabilities	1,586	1,641
Long-term debt	1,903	1,632
Total liabilities	133,261	124,048
Stockholders' equity:		
Preferred stock — $.01 par value per share; aggregated liquidation preference of $885	869	865
Common stock — 3 billion shares authorized; $.01 par value per share; 1,487,543,446 shares issued	15	15
Additional paid-in capital	3,951	3,881
Retained earnings	9,253	8,554
Treasury stock, at cost — 190,657,263 shares and 210,014,305 shares		

at December 31, 2013 and 2012, respectively	(3,716)	(4,024)
Accumulated other comprehensive income	9	298
Total stockholders' equity	10,381	9,589
Total liabilities and stockholders' equity	$ 143,642	$ 133,637

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Cash Flows
(In Millions)

Year Ended December 31,	2013	2012	2011
Cash Flows from Operating Activities			
Net income	$ 1,071	$ 928	$ 864
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	(1)	16	18
Net impairment losses on securities	10	32	31
Stock-based compensation	116	105	99
Depreciation and amortization	202	196	155
(Benefit) provision for deferred income taxes	(21)	5	52
Premium amortization, net, on securities available for sale and securities held to maturity	162	222	136
Other	15	26	9
Originations of loans held for sale	-	(441)	(1,574)
Proceeds from sales of loans held for sale	-	513	1,703
Net change in:			
Cash and investments segregated and on deposit for regulatory purposes	4,916	(2,549)	(2,211)
Receivables from brokers, dealers, and clearing organizations	(175)	(104)	220
Receivables from brokerage clients	(496)	(2,391)	341
Other securities owned	119	(43)	(231)
Other assets	17	10	(15)
Payables to brokers, dealers, and clearing organizations	318	28	(357)
Payables to brokerage clients	(4,997)	4,950	3,407
Accrued expenses and other liabilities	400	(237)	(183)
Net cash provided by operating activities	1,656	1,266	2,464
Cash Flows from Investing Activities			
Purchases of securities available for sale	(22,942)	(29,035)	(18,434)
Proceeds from sales of securities available for sale	6,167	3,336	500
Principal payments on securities available for sale	10,772	13,867	7,978
Purchases of securities held to maturity	(16,061)	(8,678)	(2,253)
Principal payments on securities held to maturity	3,895	5,453	4,786
Net increase in loans to banking clients	(1,634)	(978)	(1,125)

Purchase of equipment, office facilities, and property	(249)	(148)	(180)
Cash (paid) acquired in business acquisitions — net	-	(80)	54
Other investing activities	2	3	7
Net cash used for investing activities	(20,050)	(16,260)	(8,667)
Cash Flows from Financing Activities			
Net change in deposits from banking clients	13,595	18,523	10,264
Issuance of commercial paper	-	300	-
Repayment of commercial paper	(300)	-	-
Issuance of long-term debt	275	350	-
Repayment of long-term debt	(6)	(732)	(116)
Premium paid on debt exchange	-	(19)	-
Net proceeds from preferred stock offerings	-	863	-
Dividends paid	(368)	(337)	(295)
Proceeds from stock options exercised and other	258	35	96
Other financing activities	5	(5)	2
Net cash provided by financing activities	13,459	18,978	9,951
(Decrease) Increase in Cash and Cash Equivalents	(4,935)	3,984	3,748
Cash and Cash Equivalents at Beginning of Year	12,663	8,679	4,931
Cash and Cash Equivalents at End of Year	$ 7,728	$ 12,663	$ 8,679
Supplemental Cash Flow Information			
Cash paid during the year for:			
Interest	$ 99	$ 143	$ 168
Income taxes	$ 624	$ 508	$ 517
Non-cash investing activities:			
Common stock issued and equity awards assumed for business acquisitions (See note			
“24 – Business Acquisitions”)	$ -	$ -	$ 714
Securities purchased during the year but settled after year end	$ 81	$ -	$ 58
Non-cash financing activity:			
Exchange of Senior Notes (See note “13 – Borrowings”)	$ -	$ 256	$ -

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Stockholders' Equity
(In Millions)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2010	$ -	1,429	$ 14	$ 3,034	$ 7,409	$ (4,247)	$ 16	$ 6,226
Net income	-	-	-	-	864	-	-	864
Other comprehensive income, net of tax	-	-	-	-	-	-	(8)	(8)
Issuance of common stock for business acquisition	-	59	1	713	-	-	-	714
Dividends declared on common stock	-	-	-	-	(295)	-	-	(295)
Stock option exercises and other	-	-	-	(24)	-	122	-	98
Stock-based compensation and related tax effects	-	-	-	99	-	-	-	99
Other	-	-	-	4	-	12	-	16
Balance at December 31, 2011	-	1,488	15	3,826	7,978	(4,113)	8	7,714
Net income	-	-	-	-	928	-	-	928
Other comprehensive income, net of tax	-	-	-	-	-	-	290	290
Issuance of preferred stock	863	-	-	-	-	-	-	863
Dividends declared on preferred stock	-	-	-	-	(43)	-	-	(43)
Dividends declared on common stock	-	-	-	-	(308)	-	-	(308)

Stock option exercises and other	-	-	-	(40)	-	76	-	36
Stock-based compensation and related tax effects	-	-	-	98	-	-	-	98
Other	2	-	-	(3)	(1)	13	-	11
Balance at December 31, 2012	865	1,488	15	3,881	8,554	(4,024)	298	9,589
Net income	-	-	-	-	1,071	-	-	1,071
Other comprehensive loss, net of tax	-	-	-	-	-	-	(289)	(289)
Dividends declared on preferred stock	-	-	-	-	(57)	-	-	(57)
Dividends declared on common stock	-	-	-	-	(311)	-	-	(311)
Stock option exercises and other	-	-	-	(54)	-	314	-	260
Stock-based compensation and related tax effects	-	-	-	119	-	-	-	119
Other	4	-	-	5	(4)	(6)	-	(1)
Balance at December 31, 2013	$ 869	1,488	$ 15	$ 3,951	$ 9,253	$ (3,716)	$ 9	$ 10,381

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 engaged, through its subsidiaries, in securities brokerage, banking, money management, and financial advisory services. Charles Schwab & Co., Inc. (Schwab) is a securities broker-dealer with over 300 domestic branch offices in 45 states, as well as a branch in each of the Commonwealth of Puerto Rico and London, England. In addition, Schwab serves clients in Hong Kong through one of CSC's subsidiaries. Other subsidiaries include 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, which are referred to as the Schwab Funds®, and for Schwab's exchange-traded funds, which are referred to as the Schwab ETFsTM.

The accompanying consolidated financial statements include CSC and its majority-owned subsidiaries (collectively referred to as the Company). Intercompany balances and transactions have been eliminated. These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (U.S.), which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying financial statements. Certain estimates relate to other-than-temporary impairment of securities available for sale and securities held to maturity, valuation of goodwill, allowance for loan losses, and legal and regulatory reserves. Actual results may differ from those estimates.

2.Summary of Significant Accounting Policies

Asset management and administration fees

Asset management and administration fees include mutual fund service fees and fees for other asset-based financial services provided to individual and institutional clients, and are recognized as revenue over the period that the related service is provided, based upon average asset balances. The Company's policy is to recognize revenue subject to refunds because management can estimate refunds based on Company specific experience. Actual refunds were not material as of December 31, 2013. The Company earns mutual fund service fees for shareholder services, administration, and investment management provided to its proprietary funds, and recordkeeping and shareholder services provided to third-party funds. These fees are based upon the daily balances of client assets invested in these funds. The Company also earns asset management fees for advice solutions, which include advisory and managed

account services that are based on the daily balances of client assets subject to the specific fee for service. The fair values of client assets included in proprietary and third-party mutual funds are based on quoted market prices and other observable market data. Other asset management and administration fees include various asset based fees, such as third-party mutual fund service fees, trust fees, 401(k) record keeping fees, and mutual fund clearing and other service fees.

In 2013, 2012, and 2011, the Company waived a portion of its asset management fees earned from certain Schwab-sponsored money market mutual funds in order to provide a positive return to clients. Under agreements with these funds, the Company may recover such fee waivers depending on the future performance of the funds and approval by the boards of the respective funds until the third anniversary of the end of the fiscal year in which such fee waiver occurs, subject to certain limitations. Recoveries of previously-waived asset management fees are recognized as revenue when substantially all uncertainties about timing and amount of realization are resolved.

Interest revenue

Interest revenue represents interest earned on cash and cash equivalents, cash and investments segregated, receivables from brokers, dealers, and clearing organizations, receivables from brokerage clients, other securities owned, securities available for sale, securities held to maturity, and loans to banking clients. Interest revenue is recognized in the period earned based upon average or daily asset balances and respective interest rates.

Trading revenue

Trading revenue includes commission and principal transaction revenues. Clients' securities transactions are recorded on the date that they settle, while the related commission revenues and expenses are recorded on the date that the trade occurs.

THE CHARLES SCHWAB CORPORATION

Notes to Consolidated Financial Statements

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

Principal transaction revenue is primarily comprised of revenue from trading activity in client fixed income securities, which is recorded on a trade date basis. To accommodate clients' fixed income trading activity, the Company maintains positions in fixed income securities, including state and municipal debt obligations, U.S. Government, 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.

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less 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 treasury securities. Cash and cash equivalents also include balances that Schwab Bank maintains at the Federal Reserve Bank.

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 investing 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 applicable regulations, client cash balances that are not used for margin lending are generally segregated into investment accounts that are maintained for the exclusive benefit of clients.

Receivables from brokerage clients

Receivables from brokerage clients include margin loans to clients and are recorded net of an allowance for doubtful accounts. Receivables from brokerage clients that remain unsecured or partially secured for more than 30 days are fully reserved.

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.

Securities available for sale and securities held to maturity

Securities available for sale are recorded at fair value and unrealized gains and losses are reported, net of taxes, in accumulated other comprehensive income (loss) included in stockholders' equity. Securities held to maturity 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 securities available for sale are determined on a specific identification basis and are included in other revenue – net.

Management evaluates whether securities available for sale and securities held to maturity 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 the amortized cost and the then-current 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 estimated credit loss, and is measured by the difference between the present value of expected cash flows and the amortized cost of the security. Management utilizes cash flow

models to estimate the expected future cash flow from the securities to estimate the credit loss. Expected cash flows are discounted using the security's effective interest rate.

The evaluation of whether the Company expects to recover the amortized cost of a security is inherently judgmental. The evaluation includes the assessment of several bond performance indicators including: the portion of the underlying loans that are delinquent (30 days, 60 days, 90+ days), in bankruptcy, in foreclosure or converted to real estate owned; the actual amount of loss incurred on the underlying loans in which the property has been foreclosed and sold; the amount of credit support provided by the structure of the security available to absorb credit losses on the underlying loans; the current price and magnitude of the unrealized loss; and whether the Company has received all scheduled principal and interest payments. Management uses cash flow models to further assess the likelihood of other-than-temporary impairment for the Company's non-agency residential mortgage-backed securities. To develop the cash flow models, the Company uses forecasted loss severity, prepayment speeds (i.e. the rate at which the principal on underlying loans are paid down), and default rates over the securities' expected remaining maturities.

Securities borrowed and securities loaned

Securities borrowed require the Company to deliver cash to the lender in exchange for securities and are included in receivables from brokers, dealers, and clearing organizations. For securities loaned, the Company 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 Company monitors the market value of securities borrowed and loaned, with additional collateral obtained or refunded to ensure full collateralization. Fees received or paid are recorded in interest revenue or interest expense.

Loans to banking clients and related allowance for loan losses

Loans to banking clients are recorded at their contractual principal amounts and include unamortized direct origination costs or net purchase premiums. Additionally, loans are recorded net of an allowance for loan losses. The Company's loan portfolio includes four loan segments: residential real estate mortgages, home equity lines of credit (HELOC), personal loans secured by securities and other loans. Residential real estate mortgages include two loan classes: first mortgages and purchased first mortgages. Loan segments are defined as the level to which the Company disaggregates its loan portfolio when developing and documenting a methodology for determining the allowance for loan losses. A loan class is defined as a group of loans within a loan segment that has homogeneous risk characteristics.

The Company records an allowance for loan losses through a charge to earnings based on management's estimate of probable losses in the existing portfolio. Management reviews 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, loan-to-value (LTV) ratios, past loss experience, estimates of future loss severities, borrower credit risk measured by Fair Isaac Corporation (FICO) scores, and the adequacy of collateral. The methodology also evaluates concentrations in the loan segments, including loan products, 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 of each loan, the term and structure of each loan, current key interest rates including U.S. Treasury and London Interbank Offered Rate (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 the Company's historical loss experience adjusted for current trends and market information. Further, the delinquency roll rates within the

loan-level simulation discussed above are calibrated to match a moving average of the delinquency roll rates actually experienced in the respective first lien residential real estate mortgage loan (First Mortgage) and home equity line of credit (HELOC) portfolios. Loss severity estimates are based on the Company's 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. As a result, the current state of house prices, including the decrease in general house prices experienced over the last several years, as well as the current state of delinquencies unique to the Company's First Mortgage and HELOC portfolios, are considered in the allowance for loan loss methodology.

This methodology results in loss factors that are applied to the outstanding balances to determine the allowance for loan loss for each loan segment.

The Company considers loan modifications in which it makes an economic concession to a borrower experiencing financial difficulty to be a troubled debt restructuring.

Nonaccrual loans

Residential real estate mortgages, HELOC, personal, 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. For the portion of the HELOC portfolio for which the Company is able to track the delinquency status on the associated first lien loan, the Company places a HELOC on non-accrual status if the associated first mortgage 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 thereafter, 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.

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. The Company's charge-off policy for residential real estate first mortgages 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 and office facilities are depreciated on a straight-line basis over an estimated useful life of five to ten years. Buildings are depreciated on a straight-line basis over 20 to 40 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the term of the lease. Software and certain costs incurred for purchasing or developing software for internal use are amortized on a straight-line basis over an estimated useful life of three or five 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. The

Company's annual impairment testing date is April 1st. The Company 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 may consider macroeconomic and other industry-specific factors, such as trends in short-term and long-term interest rates and the ability to access capital, or 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, and a market capitalization analysis.

Intangible assets

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

Guarantees and indemnifications

The Company 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 the obligations relating to standby letter of credit agreements (LOCs) are estimated based on fees charged to enter into similar agreements, considering the creditworthiness of the counterparties. The fair values of the obligations relating to other guarantees are estimated based on transactions for similar guarantees or expected present value measures.

Income taxes

The Company 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. The Company's 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. Interest and penalties relating to unrecognized tax benefits are recorded in income tax expense.

Stock-based compensation

Stock-based compensation includes employee and board of director stock options, restricted stock units, and restricted stock awards. The Company measures compensation expense for these share-based payment arrangements based on their estimated fair values as of the awards' grant date. The fair value of the share-based award is recognized over the vesting period as stock-based compensation. Stock-based compensation expense is based on awards expected to vest and therefore is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant based on the Company's historical forfeiture experience and revised in subsequent periods if actual forfeitures differ from those estimates. The excess tax benefits from the exercise of stock options and the vesting of restricted stock awards are recorded in additional paid-in capital.

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.

Assets and liabilities recorded at fair value

The Company uses the market and income approaches 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. The Company generally obtains prices from at least three independent pricing sources for assets recorded at fair value and may obtain up to five prices on assets with higher risk of limited observable information, such as non-agency residential mortgage-backed securities. The Company's 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 Company compares the prices obtained from its 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. The Company 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.

Financial instruments not recorded at fair value

Descriptions of the valuation methodologies and assumptions used to estimate the fair value of financial instruments not recorded at fair value are described below. The Company's 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 value approximates fair value.

- Receivables from/payables to brokers, dealers, and clearing organizations are recorded at contractual amounts and historically have been settled at those values and are short-term in nature, and therefore approximate fair value.

- Receivables from/payables to brokerage clients — net are recorded at contractual amounts and historically have been settled at those values and are short-term in nature, and therefore approximate fair value.

- Securities held to maturity – The fair values of securities held to maturity are obtained using an independent third-party pricing service similar to investment assets recorded at fair value as discussed above.

- Loans to banking clients – The fair values of the Company's loans to banking clients are estimated based on prices of mortgage-backed securities collateralized by similar types of loans.

- Financial instruments included in other assets primarily consist of cost method investments and Federal Home Loan Bank (FHLB) stock, whose carrying values approximate their fair values. FHLB stock is recorded at par, which approximates fair value.

- Deposits from banking clients have no stated maturity and are recorded at the amount payable on demand as of the balance sheet date. The Company considers the carrying value of these deposits to approximate their fair values.

- Financial instruments included in accrued expenses and other liabilities consist of commercial paper, drafts payable and certain amounts due under contractual obligations which are short-term in nature and accordingly are recorded at amounts that approximate fair value.

- 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 – The Company extends credit to banking clients through HELOC and personal loans secured by securities. The Company considers the fair value of these unused commitments to be not material because the interest rates earned on these balances are based on floating interest rates that reset monthly. The Company does not charge a fee to maintain a HELOC or personal loan.

3.Receivables from Brokerage Clients

Receivables from brokerage clients consist primarily of margin loans to brokerage clients of $12.8 billion and $11.6 billion at December 31, 2013 and 2012, respectively. Securities owned by brokerage clients are held as collateral for margin loans. Such collateral is not reflected in the consolidated financial statements. The average yield earned on margin loans was 3.68% and 4.08% in 2013 and 2012, respectively.

4.Other Securities Owned

A summary of other securities owned is as follows:

December 31,	2013	2012
Schwab Funds® money market funds	$ 261	$ 329
Equity and bond mutual funds	208	217
State and municipal debt obligations	32	48
Equity, U.S. Government and corporate debt, and other securities	16	42
Total other securities owned	$ 517	$ 636

The Company’s positions in Schwab Funds® money market funds arise from certain overnight funding of clients’ redemption, check-writing, and debit card activities. Equity and bond mutual funds include mutual fund investments held at CSC, investments made by the Company relating to its deferred compensation plan, and inventory maintained to facilitate certain Schwab Funds and third-party mutual fund clients’ transactions. State and municipal debt obligations, equity, U.S. Government and corporate debt, and other securities include securities held to meet clients’ trading activities.

THE CHARLES SCHWAB CORPORATION

Notes to Consolidated Financial Statements

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

5.Securities Available for Sale and Securities Held to Maturity

The amortized cost, gross unrealized gains and losses, and fair value of securities available for sale and securities held to maturity are as follows:

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. agency mortgage-backed securities	$ 18,554	$ 140	$ 49	$ 18,645
Asset-backed securities	15,201	42	37	15,206
Corporate debt securities	8,973	49	15	9,007
U.S. agency notes	4,239	1	104	4,136
Certificates of deposit	3,650	4	2	3,652
Non-agency residential mortgage-backed securities	616	11	34	593
Non-agency commercial mortgage-backed securities	271	8	-	279
Other securities	100	-	-	100
Total securities available for sale	$ 51,604	$ 255	$ 241	$ 51,618
Securities held to maturity:				
U.S. agency mortgage-backed securities	$ 29,260	$ 161	$ 921	$ 28,500
Non-agency commercial mortgage-backed securities	958	-	68	890
Other securities	100	-	-	100
Total securities held to maturity	$ 30,318	$ 161	$ 989	$ 29,490

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. agency mortgage-backed securities	$ 20,080	$ 396	$ -	$ 20,476
Asset-backed securities	8,104	62	2	8,164
Corporate debt securities	6,197	61	2	6,256
Certificates of deposit	6,150	12	1	6,161
U.S. agency notes	3,465	2	3	3,464
Non-agency residential mortgage-backed securities	796	2	65	733
Commercial paper	574	-	-	574
Other securities	278	17	-	295

Total securities available for sale	$ 45,644	$ 552	$ 73	$ 46,123
Securities held to maturity:				
U.S. agency mortgage-backed securities	$ 17,750	$ 558	$ 19	$ 18,289
Other securities	444	-	1	443
Total securities held to maturity	$ 18,194	$ 558	$ 20	$ 18,732

THE CHARLES SCHWAB CORPORATION

Notes to Consolidated Financial Statements

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

A summary of securities with unrealized losses, aggregated by category and period of continuous unrealized loss, is as follows:

Less than 12 months		12 months or longer		Total	
Fair	Unrealized				