SCHWAB CHARLES CORP
Form 10-K
February 23, 2017
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, 2016 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
Depositary Shares, each representing a 1/40th ownership interest in a share of 6.0% Non-Cumulative Preferred Stock, Series B	New York Stock Exchange
Depositary Shares, each representing a 1/40th ownership interest in a share of 6.0% Non-Cumulative Preferred Stock, Series C	New York Stock Exchange
Depositary Shares, each representing a 1/40th ownership interest in a share of 5.95% Non-Cumulative Preferred Stock, Series D	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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, 2016, the aggregate market value of the voting stock held by non-affiliates of the registrant was $29.7 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, 2017, was 1,334,969,258.

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 16, 2017, by reference to that document.

THE CHARLES SCHWAB CORPORATION

Annual Report On Form 10-K

For Fiscal Year Ended December 31, 2016

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PART I

Item 1. Business

General Corporate Overview

The Charles Schwab Corporation (CSC) is a savings and loan holding company, headquartered in San Francisco, California. CSC was incorporated in 1986 and engages, through its subsidiaries (collectively referred to as the Company), in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services. At December 31, 2016, the Company had $2.78 trillion in client assets, 10.2 million active brokerage accounts, 1.5 million corporate retirement plan participants, and 1.1 million banking accounts.

Significant business subsidiaries of CSC include the following:

- Charles Schwab & Co., Inc. (Schwab), which was incorporated in 1971, is a securities broker-dealer with over 335 domestic branch offices in 46 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 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 (ETFs), 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, retirement plan services, and other corporate brokerage services. The Advisor Services segment provides custodial, trading, banking, and support services as well as retirement business services. These services are further described in the segment discussion below.

As of December 31, 2016, the Company had full-time, part-time and temporary employees, and persons employed on a contract basis that represented the equivalent of approximately 16,200 full-time employees.

Business Acquisition

In December 2012, the Company acquired ThomasPartners, Inc., (ThomasPartners®) a growth and dividend income-focused asset management firm.

Business Strategy and Competitive Environment

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

Under this approach, the Company's strategic goals are focused on putting clients' perspectives, needs, and desires at the forefront. 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 meet client needs with a focus on transparency and value. In addition, management works to couple the Company's scale and resources with ongoing expense discipline to keep costs low and ensure that products and solutions are affordable as well as responsive to client needs. Finally, the Company aims to maximize its market valuation and stockholder returns over time.

Management estimates that investable wealth in the U.S. currently exceeds $30 trillion, which means the Company's $2.78 trillion in client assets represent a market share of less than ten percent, leaving substantial opportunity for growth. The

Company's strategy is based on the principle that developing trusted relationships will translate into more assets from both new and existing clients, ultimately driving more revenue and, along with expense discipline, generating earnings growth and building long-term stockholder value.

Within Investor Services, 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 the Advisor Services arena, the Company competes with institutional custodians, traditional and discount brokers, banks and investment advisory firms and trust companies.

Across both segments, the Company's key competitive advantages are:

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

Sources of Net Revenues

The Company's major sources of net revenues are net interest revenue, asset management and administration fees, and trading revenue. These revenue streams are supported by the Company's combination of bank, broker-dealer and asset management operating subsidiaries, each of which brings specific capabilities that enable the Company to provide clients with the products and services they are looking for.

Net interest revenue is the difference between interest generated on interest-earning assets and interest paid on funding sources, the majority of which is derived from client cash balances held by the Company as part of the clients' overall relationship with the Company. While certain client cash balances are held on the broker-dealer's balance sheet or swept to money market funds, a substantial amount of existing cash balances and most new client cash inflows are swept to Schwab Bank, which also offers clients checking and savings account capabilities. Over time, as supporting capital is available, the Company has been directing a growing proportion of client cash sweep balances to Schwab Bank relative to those going to the broker-dealer or money market funds. This shift has been effected through changes to default sweep options and the periodic bulk transfer of larger balances. Schwab Bank provides these balances with access to Federal Deposit Insurance Corporation (FDIC) insurance protection, as allowed, and provides the Company with greater flexibility in terms of options for investing the cash and administering the interest rate paid on client deposits. Optimizing the return on client sweep cash as part of net interest revenue supports the Company's efforts to offer clients the best possible value in the areas most important to them across their overall relationship with the Company.

The Company generates the majority of its asset management and administration fees through its proprietary and third-party mutual fund and ETF offerings, as well as fee-based advisory solutions; a portion of these fees comes from client cash balances placed in the Company's money market mutual funds.

The Company generates trading revenue through commissions earned for executing trades for clients in individual equities, options, fixed income securities, and certain third-party mutual funds and ETFs, as well as principal transaction revenue earned primarily from actions to support client trading in fixed income securities.

THE CHARLES SCHWAB CORPORATION

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 the following:

- Brokerage – an array of full-feature brokerage accounts with cash management capabilities;
- Mutual funds – third-party mutual funds through the Mutual Fund Marketplace®, including no-transaction fee mutual funds through the Mutual Fund OneSource® service, which also includes proprietary mutual funds, plus mutual fund trading and clearing services to broker-dealers;
- Exchange-traded funds – an extensive offering of ETFs, including many proprietary and third-party ETFs available without a commission through Schwab ETF OneSource™;
- Advice solutions – managed portfolios of both proprietary and third-party mutual funds and ETFs, separately managed accounts, customized personal advice for tailored portfolios, and specialized planning and full-time portfolio management;
- Banking – checking and savings accounts, certificates of deposit, first lien residential real estate mortgage loans (First Mortgages), home equity loans and lines of credit (HELOCs), and pledged asset lines (PALs); and
- Trust – trust custody services, personal trust reporting services, and administrative trustee services.

The Company's full array of investing services is 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" (Item 8) – Note 2. For financial information related to the Company's reportable segments, see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations– Results of Operations" (Item 7) and Item 8 – Note 23.

Investor Services

Through the Investor Services segment, the Company offers individual investors a multi-channel service delivery model, which includes online, mobile, telephone, 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. Financial Consultants (FCs) in Schwab's branches and regional telephone service centers focus 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. Management believes that the Company's ability to provide those clients seeking help, guidance, or advice with an individually tailored solution – ranging from occasional consultations to an ongoing relationship with a Schwab FC or an independent registered investment advisor (RIA) in the Schwab Advisor Network® – is a competitive strength compared to the more fragmented or limited offerings of other firms. The Company has been expanding advice offerings over time in response to client needs to provide a compelling and often disruptive solution in the marketplace.

The Company's service delivery model provides quick and efficient access to an extensive array of information, research, tools, trade execution, and administrative services, which clients can access according to their needs. For example, clients that trade more actively can use these channels to access highly competitive pricing, expert tools, and extensive service capabilities – including experienced, knowledgeable teams of trading specialists and integrated product offerings. 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 a range of investment and banking products.

Schwab strives to educate and assist clients in reaching their financial goals. Educational tools include workshops, interactive courses, and online information about investing, from which Schwab does not earn revenue. Additionally, Schwab provides various online research and analysis tools that are designed to help clients achieve better investment outcomes. As an example of such tools, Schwab Equity Ratings® is a quantitative model-based stock rating system that provides all clients with ratings on approximately 3,000 stocks, assigning each equity a single grade: A, B, C, D, or F. Schwab Equity Ratings International®, an international ranking methodology, covers approximately 4,000 stocks in 27 foreign equity markets.

Clients may seek specific investment recommendations, either from time to time or on an ongoing basis. The Company provides clients seeking advice with personalized 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 Client™ features a personal advice relationship with a designated Portfolio Consultant (PC), 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 Portfolios™ and Windhaven Investment Management, Inc. (Windhaven®), or equity securities and ETFs 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. Schwab Intelligent Portfolios®, available since 2015, are for clients who are looking to have their assets professionally managed via a fully automated online investment advisory service. In addition, clients who want the assistance of an independent professional in managing their financial affairs may be referred to RIAs in the Schwab Advisor Network. These RIAs provide personalized portfolio management, financial planning, and wealth management solutions.

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

For U.S. clients wishing to invest in foreign equities, 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 Mandarin-, Cantonese-, Spanish-, and Vietnamese-speaking clients through a combination of its branch offices, web-based and telephonic services.

The Investor Services segment also includes the Retirement Plan Services, Stock Plan Services, Compliance Solutions, Mutual Fund Clearing Services and Off-Platform Sales 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 addition to an open architecture investment platform, the Company offers a unique 401(k) plan utilizing low cost index mutual funds and ETFs, combined with a managed investing service to help participants reach their retirement goals. Services also include support for Roth 401(k) accounts, 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. 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.

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 software and services for compliance departments of regulated companies and firms with special requirements to monitor employee personal trading, including trade surveillance technology.

Mutual Fund Clearing Services provides custody, recordkeeping, and trading services to banks, brokerage firms and trust companies.

Off-Platform Sales offers proprietary mutual funds, ETFs, and collective trust funds outside the Company.

Advisor Services

Through the Advisor Services segment, the Company is the largest provider of custodial, trading, banking, and support services to RIAs. It also provides retirement business services to independent retirement advisors and recordkeepers. Management believes that its Advisor Services segment can maintain its market leadership position primarily through the efforts of its sales, support, and business consulting service teams, which are dedicated to helping RIAs grow, compete, and succeed in serving their clients. In addition to focusing on superior service, Advisor Services utilizes technology to provide RIAs with a highly-developed, scalable platform for administering their clients' assets easily and efficiently. Advisor Services sponsors a variety of national, regional, and local events designed to help RIAs identify and implement better ways to expand and efficiently manage their practices.

RIAs who custody client accounts at Schwab may use proprietary software that provides them with up-to-date client account information as well as trading capabilities. The Advisor Services website is the core platform for RIAs to conduct daily business activities online with Schwab, including viewing and managing client account information and accessing news and market information. The website provides account servicing capabilities for RIAs, including account opening, money movement, transfer of assets, trading, checking status and communicating with the Company's service team. The site provides multi-year archiving of statements, trade confirms, and tax reports, along with document search capabilities.

To help RIAs grow and manage their practices, the Company offers a variety of services, including business management and technology and operations consulting on a variety of topics critical to an RIA's success including strategic business planning, client segmentation, growth strategies, technological strategies and succession planning. The Advisor Services website provides interactive tools, educational content, and research reports to assist advisors thinking about establishing and managing their own independent practices.

The Company offers an array of services to help advisors establish their own independent practices through the Business Start-up Solutions package. These services include access to dedicated service teams and outsourcing of back-office operations, as well as third-party firms who provide assistance with real estate, errors and omissions

insurance, and company benefits.

The Company offers a variety of educational materials, programs, and events to RIAs seeking to expand their knowledge of industry issues and trends, as well as sharpen their individual expertise and practice management skills. 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 RIAs, including business strategies and best practices. The Company sponsors the annual IMPACT® conference, which provides a national forum for the Company, RIAs, and other industry participants to gather and share information and insights, as well as a multitude of smaller events across the country each year.

RIAs and their clients have access to a broad range of 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 and Corporate Brokerage Retirement Services business units. Retirement Business Services provides trust, custody, and retirement business services to independent retirement plan advisors and independent recordkeepers. 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®, a self-directed brokerage offering for retirement plans.

Corporate Brokerage Retirement Services serves plan sponsors, advisors and independent recordkeepers seeking a brokerage-based account to hold retirement plan assets. Plans held at Schwab are either self-trusteed or trusteed by a separate, independent trustee. Corporate Brokerage Retirement Services also offers the Schwab Personal Choice Retirement Account®,

and the Company Retirement Account, both of which are self-directed brokerage-based solutions designed to hold the assets of company-sponsored retirement plans.

Regulation

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

As a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 (Dodd-Frank), the adoption of implementing regulations by the federal regulatory agencies, and other recent regulatory reforms, the Company has experienced significant changes in the laws and regulations that apply to it, how it is regulated, and regulatory expectations in the areas of compliance, risk management, corporate governance, operations, capital and liquidity.

Holding Company and Bank Regulation

CSC is a savings and loan holding company and Schwab Bank, CSC's depository institution subsidiary, is a federal savings bank. CSC is regulated, supervised, and examined by the Board of Governors of the Federal Reserve System (Federal Reserve), and Schwab Bank is regulated, supervised, and examined by the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), and the FDIC. CSC and Schwab Bank are also subject to regulation and various requirements and restrictions under state and other federal laws.

This regulatory framework is designed to protect depositors and consumers, the safety and soundness of depository institutions and their holding companies, and the stability of the banking system as a whole. This framework affects the activities and investments of CSC, Schwab Bank and CSC's non-bank subsidiaries and gives the regulatory authorities broad discretion in connection with their supervisory, examination and enforcement activities and policies.

Financial Regulatory Reform

Following the enactment of Dodd-Frank, the federal banking agencies have adopted a number of implementing regulations and other regulatory reforms that are significant for CSC and Schwab Bank. These regulations are highlighted below.

Basel III Capital and Liquidity Framework

In 2013, the U.S. Federal banking agencies adopted strengthened regulatory capital requirements for U.S. banking organizations consistent with Basel III (Final Regulatory Capital Rules). The Final Regulatory Capital Rules established Common Equity Tier 1 (CET1) Capital as a new capital standard, increased minimum required risk-based capital ratios, narrowed the eligibility criteria for regulatory capital instruments, provided for new regulatory capital deductions and adjustments, and modified methods for calculating risk-weighted assets (the denominator of risk-based capital ratios). See Capital Management in Part II, Item 7, and Item 8 – Note 22 for more information on capital requirements.

The Final Regulatory Capital Rules provided for a one-time election which CSC and Schwab Bank made to exclude accumulated other comprehensive income (AOCI) from the calculation of all capital ratios. The Final Regulatory Capital Rules also introduced a capital conservation buffer that limits a banking organization’s ability to make capital distributions and discretionary bonus payments to executive officers if a banking organization fails to maintain a capital conservation buffer of more than 2.5%, on a fully phased-in basis, in excess of all of its minimum risk-based capital ratio requirements.

The Final Regulatory Capital Rules provide for a “standardized approach” framework for the calculation of a banking organization’s regulatory capital and risk-weighted assets. Depository institutions and their holding companies with consolidated total assets of $250 billion or more, or total on-balance-sheet foreign exposures of $10 billion or more, are also required to calculate their regulatory capital and risk-weighted assets using an “advanced approaches” framework and must satisfy the minimum capital ratios under both approaches. Such companies must also maintain a minimum supplementary leverage ratio of at least 3.0% and are subject to certain other enhanced provisions. CSC and Schwab Bank are currently only subject to the “standardized approach” framework.

The new capital requirements under the Final Regulatory Capital Rules became effective in 2015, for CSC, which had not previously been subject to any consolidated capital requirements, and Schwab Bank.

In 2014, U.S. Federal banking agencies adopted an inter-agency rule that imposes a quantitative Liquidity Coverage Ratio (LCR) requirement on large banking organizations. Banking organizations with $250 billion or more in total consolidated assets or foreign exposures of $10 billion or more must hold High Quality Liquid Assets (HQLA) in an amount equal to at least 100% of their projected net cash outflows over the 30-day period. Other bank and savings and loan holding companies with total consolidated assets of $50 billion or more, such as CSC, are subject to a modified LCR rule requiring them to hold HQLA in an amount equal to at least 70% of their projected net cash outflows over the 30-day period. The modified LCR rule went into effect on January 1, 2016, with holding companies subject to the rule required to hold at least 90% of the necessary amount of HQLA in 2016 and at least 100% starting on January 1, 2017.

Capital Stress Testing

In 2012, the OCC issued final rules implementing provisions of Dodd-Frank that require national banks and federal savings associations with total consolidated assets of more than $10 billion to conduct annual company-run stress tests. Under the Dodd-Frank Act Stress Test (DFAST) rules, Schwab Bank must conduct annual stress tests using certain scenarios and prescribed stress-testing methodologies, report the results to the OCC and the Federal Reserve and publish a summary of the results of its stress tests. In July 2016, Schwab Bank submitted its company-run stress test results to the OCC. In October 2016, Schwab Bank publicly disclosed a summary of its stress test results under the severely adverse scenario prescribed by the OCC based upon a nine-quarter timeframe beginning on January 1, 2016 and ending on March 31, 2018. In its summary, Schwab Bank reported that its 7.1% Tier 1 leverage ratio at the beginning of the forecast period declined to a low of 6.7% during the nine-quarter forecast horizon and ended at 7.2%.

Under the Federal Reserve’s DFAST regulations, CSC will be required to conduct its first stress test using financial statement data as of December 31, 2016, report the results of that stress test to the Federal Reserve by April 5, 2017, and publicly disclose a summary of its stress test results between June 15 and June 30, 2017. CSC is not subject to the annual Comprehensive Capital Analysis and Review (CCAR) process, which requires certain financial institutions to submit annual capital plans to the Federal Reserve. CSC has been taking steps to implement stress testing policies, procedures, systems, and governance structures that are designed to be consistent with regulatory expectations for a firm of its size and complexity.

Insured Depository Institution Resolution Plans

In 2011 and 2012, the FDIC issued rules requiring insured depository institutions with total consolidated assets of $50 billion or more to submit to the FDIC periodic plans providing for their resolution by the FDIC in the event of failure (resolution plans or so-called "living wills") under the receivership and liquidation provisions of the Federal Deposit Insurance Act. Under these rules, Schwab Bank is required to file with the FDIC an annual resolution plan demonstrating how the bank could be resolved in an orderly and timely manner in the event of receivership such that the FDIC would be able to: ensure that the bank's depositors receive access to their deposits within one business day; maximize the net present value of the bank's assets when disposed of; and minimize losses incurred by the bank's creditors.

Consumer Financial Protection

In 2011, pursuant to Dodd-Frank, the CFPB began operations and was given broad rulemaking, supervisory and enforcement authority for a wide range of federal consumer protection laws relating to financial products. As a federal savings bank with $10 billion or more in consolidated total assets, Schwab Bank's lending and deposit-taking activities are subject to regulation, supervision and examination by the CFPB. The CFPB has adopted many consumer protection rules since its creation and has additional authority to issue orders, guidance and policy statements, conduct examinations, and bring enforcement actions.

Deposit Insurance Assessments

The FDIC's Deposit Insurance Fund (DIF) provides insurance coverage for certain deposits, generally up to $250,000 per depositor per account ownership type, and is funded by quarterly assessments on insured depository institutions. In 2011, the FDIC established a risk-based deposit premium assessment system that, for large insured depository institutions with at least $10 billion in total consolidated assets, such as Schwab Bank, uses a scorecard method based on a number of factors, including the institution's regulatory ratings, asset quality and brokered deposits. The deposit insurance assessment base is calculated as average consolidated total assets minus average tangible equity.

The Dodd-Frank Act (i) raised the minimum reserve ratio for the DIF to 1.35% (from the former minimum of 1.15%) and (ii) required that the DIF's reserve ratio reach 1.35% by September 30, 2020.

In March 2016, the FDIC issued a final rule imposing a flat-rate surcharge on the quarterly assessments of insured depository institutions with total assets of $10 billion or more to pay for the increase. The surcharge went into effect on July 1, 2016, at the same time as a scheduled reduction in the regular FDIC insurance. As a result, the Company is now subject to a 3 basis point regular assessment on its total assessment base (down from 5 basis points) and a new 4.5 basis point surcharge on the amount of its assessment base in excess of $10 billion.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (CRA) requires Schwab Bank's primary federal bank regulatory agency, the OCC, to assess the bank's record in meeting the credit needs of the communities served by the bank, including low- and moderate-income neighborhoods and persons. Institutions are assigned one of four ratings and the assessment is reviewed in connection with any acquisition, merger or branch office application.

Source of Strength

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

Broker-Dealer and Investment Advisor Regulation

CSC's principal broker-dealers are Schwab and optionsXpress. Schwab is registered as a broker-dealer with the United States Securities and Exchange Commission (SEC), the fifty states, the District of Columbia and Puerto Rico. optionsXpress 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 are regulated by the Commodities Futures Trading Commission (CFTC) with respect to the commodity futures and trading activities they conduct as an introducing broker and futures commission merchant, respectively.

Much of the regulation of broker-dealers has been delegated to SROs. Schwab is a member of the Financial Industry Regulatory Authority, Inc. (FINRA), the Municipal Securities Rulemaking Board (MSRB), NYSE Arca, and the Chicago Board Options Exchange (CBOE). optionsXpress is also a member of FINRA and the MSRB. In addition to the SEC, the primary regulators of Schwab and optionsXpress are FINRA and, for municipal securities, the MSRB. The National Futures Association (NFA) is Schwab and optionsXpress's primary regulator for futures and commodities trading activities.

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

Schwab and optionsXpress 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 intended to ensure the general financial soundness and liquidity of broker-dealers. CSC itself is not a registered broker-dealer and it is not subject to the Uniform Net Capital Rule. If Schwab fails to maintain specified levels of net capital, such failure could constitute a default by CSC of certain debt covenants under its credit agreement.

The Uniform Net Capital Rule prohibits a broker-dealer subsidiary from paying cash dividends, making unsecured advances or loans or repaying subordinated loans if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement of $250,000.

In addition to net capital requirements, as self-clearing broker-dealers, Schwab and optionsXpress are subject to cash deposit and collateral requirements with clearing houses, such as the Depository Trust & Clearing Corporation and Options Clearing

Corporation, which may fluctuate significantly from time to time based upon the nature and size of clients' trading activity and market volatility.

Financial Service Regulation

Bank Secrecy Act of 1970 and USA PATRIOT Act of 2001

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

For additional information on Regulation, see Capital Management in Part II, Item 7 and Item 8 – Note 22.

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 https://www.sec.gov. You may read and copy any document that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at
1-800-SEC-0330.

On the Company's website, https://www.aboutschwab.com, the Company posts the following filings after they are electronically filed with or furnished to the SEC: the Company's annual reports on 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.

In addition, the Company’s website also includes the Dodd-Frank stress test results and the Company’s regulatory capital disclosures based on Basel III.

All such filings are available free of charge either on the Company’s website or by request via email (investor.relations@schwab.com), telephone (415-667-7000), 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, financial results, or stock price 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, compliance risk, credit risk, market risk, and liquidity risk, see Risk Management in Part II, Item 7.

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 results of operations and capital resources.

Extensive regulation of the Company's businesses may subject it to significant penalties or limitations on business activities.

As a participant in the securities, banking and financial services industries, the Company is subject to extensive regulation under federal, state, and foreign laws by governmental agencies, supervisory authorities and SROs. Such regulation continues to grow more extensive and complex, the costs and uncertainty related to complying with such regulations continue to increase, 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 affect the Company's business operations and impose capital, client protection and market conduct requirements.

In addition to specific banking laws and regulations, the Company's banking regulators have broad discretion in connection with their supervisory and enforcement activities and examination policies and could require CSC and/or Schwab Bank to hold more capital, increase liquidity or limit their ability to pay dividends or CSC's ability to repurchase shares. The banking regulators could also limit the Company's ability to grow, including adding assets, launching new products, making acquisitions and undertaking strategic investments, could limit Schwab Bank's ability to accept deposits swept from client brokerage accounts and brokered deposits and could prevent the Company from pursuing its business strategy.

Despite the Company's efforts to comply with applicable legal requirements, there are a number of risks, particularly in areas where applicable laws or regulations may be unclear or where regulators could revise their previous guidance. Any enforcement actions or other proceedings brought by 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, disqualification 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.

While the Company maintains systems and procedures designed to ensure that it complies with applicable laws and regulations, violations could occur. In addition, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though systems and procedures reasonably designed to prevent violations were in place at the time. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a

finding may also damage the Company's reputation and its relationships with its regulators 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 affect the Company's business and financial results.

New legislation, rules, regulations and guidance, or changes in the interpretation or enforcement of existing federal, state, foreign and SRO rules, regulations and guidance, including changes relating to mutual funds, broker-dealer fiduciary duties and regulatory treatment of deposit accounts may directly affect the operation and profitability of the Company or its specific business lines. The profitability of the Company could also be affected by rules and regulations that impact the business and financial communities generally, including changes to the laws governing taxation, electronic commerce, client privacy and security of client data. In addition, the rules and regulations could result in limitations on the lines of business the Company conducts, modifications to the Company's business practices, more stringent capital and liquidity requirements, increased deposit insurance assessments or additional costs. These changes may also require the Company to invest significant management attention and resources to evaluate and make necessary changes to its compliance, risk management, treasury and operations functions.

While U.S. banking regulators have finalized many regulations to implement various provisions of Dodd-Frank and other financial reforms such as Basel III, implementation of the legislation is ongoing and significant rule-making and interpretations remain to be completed. For example, rules relating to a minimum net stable funding ratio (NSFR), which will require financial institutions to have a stable funding structure over a one-year horizon, have been proposed but have not yet been finalized. In addition, the SEC was given discretion to adopt rules regarding standards of conduct for broker-dealers providing investment advice to retail clients but has not yet made any rule proposals. The Company has incurred and will

continue to incur significant additional costs and expend a significant amount of time as it develops and integrates appropriate systems and procedures to comply with the rule-making, and then monitors, supports and refines those systems and procedures.

Failure to meet capital adequacy and liquidity guidelines could affect the Company's financial condition.

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

With $223 billion in consolidated total assets at December 31, 2016, the Company is currently only subject to the "standardized approach" framework of the Basel III capital and liquidity requirements. When the Company's consolidated total assets equal or exceed $250 billion, the Company will become subject to the "advanced approaches" framework, including being subject to a supplementary leverage ratio, the inclusion of AOCI in regulatory capital, the unmodified LCR, enhanced Basel III disclosures, and a more complex calculation of risk weighted assets that includes an assessment of the impact of operational risk. In addition, federal banking agencies have broad discretion and could require CSC or Schwab Bank to hold higher levels of capital or increase liquidity above the applicable regulatory requirements.

For a discussion of the Company's Liquidity and Capital Management, see Risk Management and Capital Management in Part II, Item 7 and Item 8 – Note 22.

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

The direction and level of interest rates are important factors in earnings. A decline in interest rates may have a negative impact on the Company's net interest revenue. A low interest rate environment may also have a negative impact on the Company's asset management and administration fee revenues if the Company has to waive a portion of its management fees for certain Schwab-sponsored money market mutual funds in order to continue providing a positive return to clients.

Overall, the Company is positioned to benefit from a rising interest rate environment. A rise in interest rates may cause the Company's funding costs to increase if market conditions or the competitive environment forces the Company to raise its interest rates to avoid losing deposits. Higher funding costs without offsetting increases in yields on interest-earning assets can reduce the Company's net interest revenue.

For additional information on the Company's net interest revenue, see Results of Operations and Risk Management in Part II, Item 7.

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, including foreign state actors. 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 client 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, employee misconduct.

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.

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

The Company must process, record and monitor a large number of transactions and its operations are highly dependent on the integrity of its technology systems and its ability to make timely enhancements and additions to its systems. System interruptions, errors or downtime can 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 and can have a significant impact on the Company's business and operations. The Company's systems are vulnerable to disruptions from human error, execution errors, errors in models such as those used for asset management, capital planning and management, risk management, stress testing and compliance, employee misconduct, unauthorized trading, external fraud, computer viruses, distributed denial of service attacks, cyber attacks, terrorist attacks, natural disaster, power outage, capacity constraints, software flaws, events impacting key business partners and vendors, and similar events. For example, 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 an extended period of time to restore full functionality to the Company's technology or other operating systems in the event of an unforeseen occurrence, which could affect the Company's ability to process

and settle client transactions. Moreover, instances of fraud or other misconduct 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 errors 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 regulatory treatment of client deposits or 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, or could cause the Company to fail to satisfy its liquidity requirements, including the modified LCR. 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 Schwab having temporary liquidity demands due to timing differences between brokerage transaction settlements and the availability of segregated cash balances, unanticipated outflows of company cash, fluctuations in cash held in banking or brokerage client accounts, a dramatic increase in the Company’s client lending activities (including margin, mortgage-related, and personal lending), increased capital requirements, changes in regulatory guidance or interpretations, other regulatory changes, or a loss of market or client confidence in the Company.

When cash generated by client activity and operating earnings is not sufficient for the Company’s liquidity needs, the Company may seek external financing. During periods of disruptions in the credit and capital markets, potential sources of external financing could be reduced, and borrowing costs could increase. Although CSC and 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 which can be used to sell securities, financing may not be available on acceptable terms or at all due to market conditions or disruptions in the credit markets. In addition, a significant downgrade in the Company’s credit ratings could increase its borrowing costs and limit its access to the capital markets.

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, futures activities, securities lending, mortgage lending, pledged asset lending, its role as a counterparty in financial contracts and investing activities, and indirectly from the investing activities of certain of the proprietary funds the Company sponsors.

When clients purchase securities on margin, borrow on lines of credit collateralized by securities, or trade options or futures, 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 investments. Those investments are subject to price fluctuations as a result of changes in the financial market's assessment of credit quality. Loss of value of securities can negatively affect earnings if management determines that such securities are other than temporarily impaired. The evaluation of whether other-than-temporary impairment (OTTI) exists is a matter of judgment, which includes the assessment of several factors. If management determines that a security is OTTI, the cost basis of the security may be adjusted and a corresponding loss may be recognized in current earnings. Deterioration in the performance of available for sale (AFS) and held to maturity (HTM) securities could result in the recognition of future impairment charges. Even if a security is not considered OTTI, if the Company was ever forced to sell the security sooner than intended prior to maturity due to liquidity needs, the Company would have to recognize any unrealized losses at that time. See Critical Accounting Estimates in Part II, Item 7 for additional information.

The Company's bank loans primarily consist of First Mortgages, HELOCs, and PALs. Increases in delinquency and default rates, housing and stock price declines, increases in the unemployment rate, and other economic factors can result in charges for loan loss reserves and write downs on such loans.

Heightened credit exposures to specific counterparties or instruments (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, pledged asset, and securities lending activities collateralized by securities of a single issuer or industry.

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.

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 significant 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 on 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. 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 – Note 14 for more information on 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.

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 (EPS).

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, expense ratios on mutual funds and ETFs and other pricing 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 Company faces competition in hiring and retaining qualified employees.

The market for qualified personnel in the Company’s business is highly competitive. At various times, different functions and roles are in especially high demand in the market, compelling the Company to pay more to attract talent. 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:

- The Company’s exposure to changes in interest rates;
- 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, expense discipline, or strategic transactions;
- The announcement of new products, services, acquisitions, or dispositions by the Company or its competitors; and
- Increases or decreases in revenue or earnings, changes in earnings estimates by the investment community, and variations between estimated financial results and actual financial results.

Changes in the stock market generally, or as it concerns the Company’s industry, as well as geopolitical, corporate, regulatory, business, and economic factors 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, among other things, to issue additional shares of common or preferred stock or securities convertible or exchangeable into equity securities, without stockholder approval.

CSC may issue additional equity or convertible securities to raise additional capital or for other purposes. The issuance of any additional equity or convertible securities could be substantially dilutive to holders of CSC's common stock and may adversely affect the market price of CSC's common stock.

Item 1B. Unresolved Securities and Exchange Commission Staff Comments

None.

Item 2. Properties

A summary of the Company's significant locations is presented in the following table. Locations are leased or owned as noted below. The square footage amounts are presented net of space that has been subleased to third parties.

December 31, 2016	Square Footage	
(amounts in thousands)	Leased	Owned
Location		
Corporate headquarters:		
San Francisco, CA	678	-
Service and other office space:		
Phoenix, AZ	28	721
Denver, CO	-	731
Austin, TX	219	191
Indianapolis, IN	-	275
Orlando, FL	148	-
Richfield, OH	-	117
El Paso, TX	-	105
Chicago, IL	83	-
Dallas, TX	56	-

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 – Note 14.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

CSC's common stock is listed on The New York Stock Exchange under the ticker symbol SCHW. The number of common stockholders of record as of January 31, 2017, was 6,366. The closing market price per share on that date was $41.24.

The quarterly high and low sales prices for CSC's common stock and the other information required to be furnished pursuant to this item are included in Item 8 – Note 19 and Note 25.

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,	2011	2012	2013	2014	2015	2016
The Charles Schwab Corporation	$ 100	$ 130	$ 238	$ 279	$ 307	$ 371
Standard & Poor's 500 Index	$ 100	$ 116	$ 154	$ 175	$ 177	$ 198
Dow Jones U.S. Investment Services Index	$ 100	$ 127	$ 205	$ 235	$ 234	$ 295

THE CHARLES SCHWAB CORPORATION

Issuer Purchases of Equity Securities

At December 31, 2016, approximately $596 million of future share repurchases are authorized under the Share Repurchase Program. There were no share repurchases during the fourth quarter. There were two authorizations under this program by CSC's Board of Directors, each covering up to $500 million of common stock that were publicly announced by the Company on April 25, 2007, and March 13, 2008. The remaining authorizations do not have an expiration date.

The following table summarizes purchases made by or on behalf of CSC of its common stock for each calendar month in the fourth quarter of 2016:

Month	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share
October: Employee transactions (1)	5	$ 31.64
November: Employee transactions (1)	894	$ 31.56
December: Employee transactions (1)	2	$ 39.33
Total: Employee transactions (1)	901	$ 31.58

(1) Includes restricted shares withheld (under the terms of grants under employee stock incentive plans) to

offset tax withholding obligations that occur upon vesting and release of restricted shares. 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 4-Year (1) 2012-2016	Annual 1-Year 2015-2016	2016	2015	2014	2013	2012
Results of Operations							
Net revenues	11 %	17 %	$ 7,478	$ 6,380	$ 6,058	$ 5,435	$ 4,883
Expenses excluding interest	7 %	9 %	$ 4,485	$ 4,101	$ 3,943	$ 3,730	$ 3,433
Net income	19 %	31 %	$ 1,889	$ 1,447	$ 1,321	$ 1,071	$ 928
Net income available to common stockholders	19 %	28 %	$ 1,746	$ 1,364	$ 1,261	$ 1,010	$ 883
Earnings per common share:							
Basic	18 %	27 %	$ 1.32	$ 1.04	$ .96	$ .78	$ .69
Diluted	17 %	27 %	$ 1.31	$ 1.03	$ .95	$ .78	$ .69
Dividends declared per common share			$ .27	$ .24	$ .24	$ .24	$ .24
Weighted average common shares outstanding:							
Basic	1 %	1 %	1,324	1,315	1,303	1,285	1,274
Diluted	1 %	1 %	1,334	1,327	1,315	1,293	1,275
Asset management and administration fees as a percentage of net revenues			41 %	41 %	42 %	43 %	42 %
			44 %	40 %	38 %	36 %	36 %

Net interest revenue as a percentage of net revenues							
Trading revenue as a percentage of net revenues			11 %	14 %	15 %	17 %	18 %
Effective income tax rate			36.9 %	36.5 %	37.5 %	37.2 %	36.0 %
Performance Measures							
Net revenue growth			17 %	5 %	11 %	11 %	4 %
Pre-tax profit margin			40.0 %	35.7 %	34.9 %	31.4 %	29.7 %
Return on average common stockholders' equity			14 %	12 %	12 %	11 %	11 %
Financial Condition (at year end)							
Total assets (2)	14 %	22 %	$ 223,383	$ 183,705	$ 154,635	$ 143,633	$ 133,609
Long-term debt (2)	15 %	-	$ 2,876	$ 2,877	$ 1,892	$ 1,894	$ 1,624
Preferred stock	34 %	91 %	$ 2,783	$ 1,459	$ 872	$ 869	$ 865
Total stockholders' equity	14 %	23 %	$ 16,421	$ 13,402	$ 11,803	$ 10,381	$ 9,589
Assets to stockholders' equity ratio			14	14	13	14	14
Debt to total capital ratio			15 %	18 %	14 %	15 %	14 %
Employee Information							
Full-time equivalent employees (in thousands, at year end)	4 %	6 %	16.2	15.3	14.6	13.8	13.8

(1) The compounded 4-year growth rate is computed using the formula: Compound annual growth rate = (Ending Value / Beginning Value) .25 – 1.
(2) Adjusted for the retrospective adoption of ASU 2015-03. See Item 8 –Note 2.

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

FORWARD-LOOKING STATEMENTS

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

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

- The Company's aim to maximize its market valuation and stockholder returns over time; the Company's belief that developing trusted relationships will translate into more client assets which drives revenue and, along with expense discipline, generates earnings growth and builds stockholder value; and the Company's ability to pursue its business strategy and maintain its market leadership position; (see Business Strategy and Competitive Environment in Part I, Item 1);
- The impact of legal proceedings and regulatory matters (see Legal Proceedings in Part I, Item 3 and Item 8 – Note 14);
- The adjustment of rates paid on client-related liabilities; the stability, rate sensitivity, and duration of client-related liabilities; the opportunity to migrate non-rate sensitive cash in sweep money market funds to Schwab Bank; increasing the duration of interest-earning assets; and the Company's positioning to benefit from an increase in interest rates and limit its exposure to falling rates; (see Net Interest Revenue in Part II, Item 7);
- Sources of liquidity, capital, and level of dividends (see Liquidity Risk in Part II, Item 7);
- Capital ratios (see Capital Management in Part II, Item 7);

- The impact of changes in management's estimates on the Company's results of operations (see Critical Accounting Estimates in Part II, Item 7);
- The expected impact of new accounting standards not yet adopted (see Item 8 – Note 2); and
- The impact of changes in the likelihood of indemnification and guarantee payment obligations on the Company's results of operations (see Item 8 – Note 14).

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

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

- General market conditions, including the level of interest rates, equity valuations and trading activity;
- The Company's ability to attract and retain clients, develop trusted relationships, and grow client assets;
- Client use of the Company's investment advisory services and other products and services;
- The level of client assets, including cash balances;
- Competitive pressure on rates and fees;
- Client sensitivity to interest rates;
- Regulatory guidance;
- Timing, amount, and impact of the migration of certain balances from brokerage accounts and sweep money market funds into Schwab Bank;
- Capital and liquidity needs and management;
- The Company's ability to manage expenses;

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- The effect of adverse developments in litigation or regulatory matters and the extent of any related charges;
- The availability and terms of external financing;
- Potential breaches of contractual terms for which the Company has indemnification and guarantee obligations; and
- The Company's ability to develop and launch new products, services and capabilities in a timely and successful manner.

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

GLOSSARY OF TERMS

Active brokerage accounts: Brokerage accounts with activity within the preceding eight months.

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

Assets receiving ongoing advisory services: Client relationships under the guidance of independent advisors and assets enrolled in one of the Company’s retail or other advisory solutions.

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

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

Cash and investments segregated and on deposit for regulatory purposes: Client cash or qualified securities balances not used for margin lending are segregated into investment accounts maintained for the exclusive benefit of clients, pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934, by the Company’s broker-dealer subsidiaries.

Client assets: The market value of all client assets in the Company’s custody and in the Company’s proprietary products, which includes both cash and securities. Average client assets are the daily average client asset balance for the period.

Client cash as a percentage of client assets: Calculated as money market fund balances, bank deposits, Schwab One® balances, and certain cash equivalents as a percentage of client assets.

Clients' daily average trades: Includes daily average revenue trades by clients, trades by clients in asset-based pricing relationships, and all commission-free trades.

Commitments to extend credit: Legally binding agreements to extend credit for unused HELOCs, PALs, and other lines of credit.

Common Equity Tier 1 Capital (CET1): The sum of common stock and related surplus net of treasury stock, retained earnings, AOCI and qualifying minority interests, less applicable regulatory adjustments and deductions. The Company made a one-time election to opt-out of the requirement to include most components of AOCI in CET1 Capital.

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

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

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

Daily average revenue trades: Total revenue trades during a certain period, divided by the number of trading days in that period. Revenue trades include all client trades that generate trading revenue (i.e., commission revenue or principal transaction revenue).

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

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

Dodd-Frank Wall Street Reform and Consumer Protection Act: Regulatory reform legislation signed into federal law in 2010 containing numerous provisions which expanded prudential regulation of large financial services companies.

Duration: The change in value of a financial instrument for a modeled 1% change in interest rates, expressed in years.

Final Regulatory Capital Rules: Refers to the regulatory capital rules issued by U.S. banking agencies in 2013 that implemented Basel III and relevant provisions of Dodd-Frank, which apply to savings and loan holding companies, as well as federal savings banks. Implementation began on January 1, 2015.

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

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

High Quality Liquid Assets (HQLA): Assets with a high potential to be converted easily and quickly into cash.

Interest-bearing liabilities: Includes bank deposits, payables to brokerage clients, short-term borrowings, and long-term debt on which the Company pays interest.

Interest-earning assets: Includes cash and cash equivalents, cash and investments segregated, broker-related receivables, receivables from brokerage clients, investment securities, and bank loans on which the Company earns interest.

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

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

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

Margin loans: Advances made to brokerage clients on a secured basis to purchase securities reflected in receivables from brokerage clients on the Company's consolidated balance sheets.

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

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

Net interest margin: Net interest revenue divided by average interest-earning assets.

Net new client assets: Total inflows of client cash and securities to the Company less client outflows.

Net Stable Funding Ratio (NSFR): Measures an organization's "available" amount of stable funding relative to its "required" amount of stable funding over a one-year time horizon.

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

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

Order flow revenue: Net compensation received from markets and firms to which Schwab and optionsXpress send equity and options orders. Reflects rebates received for certain types of orders, minus fees paid for types of orders for which exchange fees or other charges apply.

Pledged Asset Line (PAL): A non-purpose revolving line of credit from Schwab Bank secured by eligible assets held in a separate pledged asset account maintained at Schwab.

Return on average common stockholders’ equity: Calculated as net income available to common stockholders annualized divided by average common stockholders’ equity.

Risk-weighted assets: Primarily computed by assigning specific risk-weightings as specified by the U.S. federal banking agencies to assets and off-balance sheet instruments for capital adequacy calculations.

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

Tier 1 Leverage Ratio: Tier 1 Capital divided by adjusted average total consolidated assets for the quarter.

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

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

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

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OVERVIEW

Management of the Company focuses on several client activity and financial metrics in evaluating the Company's financial position and operating performance. Management believes that metrics relating to net new and total client assets, as well as client cash levels and utilization of advisory services, offer perspective on the Company's business momentum and client engagement. Data on new and total client brokerage accounts provides additional perspective on the Company's ability to attract and retain new business. Management believes that net revenue growth, pre-tax profit margin, EPS, and return on average common stockholders' equity provide broad indicators of the Company's overall financial health, operating efficiency, and ability to generate acceptable returns. Management considers expenses, excluding interest, as a percentage of average client assets to be a measure of operating efficiency. Finally, management believes the Consolidated Tier 1 Leverage Ratio is the most restrictive capital constraint currently imposed by regulators. Results for the years ended December 31, 2016, 2015, and 2014 are:

	Growth Rate 1-Year 2015-2016	2016	2015	2014
Client Metrics:				
Net new client assets (in billions)	(10) %	$ 125.5	$ 139.4	$ 124.8
Core net new client assets (in billions) (1)	(7) %	$ 125.5	$ 134.7	$ 124.8
Client assets (in billions, at year end)	11 %	$ 2,779.5	$ 2,513.8	$ 2,463.6
	3 %	$ 2,614.7	$ 2,531.8	$ 2,384.0

Average client assets (in billions)										
New brokerage accounts (in thousands)	2	%		1,093			1,070		972	
Active brokerage accounts (in thousands, at year end)	4	%		10,155			9,769		9,386	
Assets receiving ongoing advisory services (in billions, at year end)	12	%	$	1,401.4		$	1,253.7	$	1,228.1	
Client cash as a percentage of client assets (at year end)				13.0	%		13.0 %		12.3	%
Company Financial Metrics:										
Net revenues	17	%	$	7,478		$	6,380	$	6,058	
Expenses excluding interest	9	%		4,485			4,101		3,943	
Income before taxes on income	31	%		2,993			2,279		2,115	
Taxes on income	33	%		1,104			832		794	
Net income	31	%	$	1,889		$	1,447	$	1,321	
Preferred stock dividends and other	72	%		143			83		60	
Net income available to common stockholders	28	%	$	1,746		$	1,364	$	1,261	
Earnings per common share – diluted	27	%	$	1.31		$	1.03	$	.95	
Net revenue growth from				17	%		5 %		11	%

prior year						
Pre-tax profit margin	40.0	%	35.7	%	34.9	%
Return on average common stockholders' equity	14	%	12	%	12	%
Expenses excluding interest as a percentage of average client assets	0.17	%	0.16	%	0.17	%
Consolidated Tier 1 Leverage Ratio	7.2	%	7.1	%	N/A	

(1) 2015 excludes an inflow of $6.1 billion to reflect the final impact of the consolidation of its retirement plan recordkeeping platforms, an inflow of $10.2 million relating to a mutual fund clearing services client, and an outflow of $11.6 billion relating to the Company's planned resignation from an Advisor Services cash management relationship netting to an adjustment of ($4.7) billion.

N/A Not applicable.

The Company's financial results are highly correlated to the general overall strength of economic conditions and, more specifically, to the direction of the U.S. equity and fixed income markets, interest rates, the mortgage lending markets and residential credit trends. These factors, as well as political and regulatory trends and industry competition, are unpredictable.

2016 Compared to 2015

In 2016, net income available to common stockholders increased $382 million, or 28%, from the prior year, resulting in diluted EPS of $1.31 in 2016 compared to $1.03 in 2015. Net revenues improved by $1.1 billion, or 17%, while expenses excluding interest increased $384 million, or 9%, compared to 2015.

Strong client momentum continued as the Company's innovative, full-service model resonated with clients and drove growth during the year. The Company added 1.1 million new brokerage accounts to its client base during 2016, which contributed to bringing the total active brokerage accounts to 10.2 million by year-end. Core net new assets from new and existing clients totaled $125.5 billion in 2016, which helped grow total client assets to $2.78 trillion as of December 31, 2016. Also during 2016, investors increasingly turned to the Company's advice offerings resulting in a 12% increase in client assets enrolled in one of the Company's retail advisory solutions and those guided by independent advisors, to $1.40 trillion at the end of the year.

The Company expanded client assets by 11% during an environment that had periods of marked volatility, but ultimately included improving economic conditions. The Standard & Poor's 500 Index ended 2016 10% higher than the prior year end. After years of ultra-low interest rates, the Federal Reserve's move to increase the overnight federal funds target rate by 25 basis points in December 2015 helped throughout 2016; the Federal Reserve's subsequent additional 25 basis point increase in December 2016 had little time to impact 2016 results. Other short-term rates also rose in 2016. The one-month London Interbank Offered Rate (LIBOR) improved 34 basis points to .77% at December 31, 2016 compared to December 31, 2015.

These external drivers and the solid client growth helped produce strong net revenue growth. The Company's 17% net revenue growth was led by increased net interest revenue and asset management and administration fees, which more than offset lower revenue from trading and other revenue. Net interest revenue improved $797 million, or 32%, in 2016 compared to 2015 primarily due to a 21% increase in average interest earning assets and a 13 basis point improvement in the average net interest margin from year to year, to 1.73%. The lift in interest-earning assets was due to a combination of the Company's ongoing asset gathering efforts, additional bulk transfers of client cash sweep balances from money market funds to Schwab Bank, and the designation of Schwab Bank as the default sweep option for virtually all new brokerage accounts as of June 2016. Asset management and administration fees improved $405 million, or 15%, primarily due to higher short-term interest rates affecting the yield on money market funds.

Strong net revenue growth provided room for increased investment in people and technology, resulting in a 9% expense growth for 2016. This increase allowed for a 780 basis point gap between net revenue and expense growth and a pre-tax profit margin of 40.0% in 2016, compared to 35.7% in 2015.

2015 Compared to 2014

In 2015, the Company's net revenue and net income grew despite an environment that included significant equity market volatility and continued low interest rates. The Standard & Poor's 500 Index declined as much as 9% during the year and ultimately ended the year down 1% when compared to the prior year. The overnight federal funds target rate increased 25 basis points in December 2015; however, the increase had limited effect on 2015 results. The year end 2015 one-month LIBOR yield improved 28 basis points to .43% compared to 2014. Long-term interest rates decreased in 2015 compared to the same period in 2014. The average 10-year U.S. Treasury yield during 2015 was 2.13%, 40 basis points lower than the average yield during 2014.

Core net new assets totaled $134.7 billion in 2015 compared to $124.8 billion in 2014. Total client assets ended 2015 at $2.51 trillion, up 2% from the year ended 2014, despite the $89.2 billion impact of reduced market valuation on client assets during the year.

The Company added 1.1 million new brokerage accounts to its client base during 2015, up 10% compared to 2014. Active brokerage accounts ended 2015 at 9.8 million, up 4% on a year-over-year basis. Faced with economic uncertainty and the resulting market volatility, investors increasingly turned to advice offerings throughout the year. Over 155,000 accounts enrolled in one of the Company's retail advisory solutions during 2015, 60% more than the year-earlier period, and total accounts using these solutions reached 560,000, up 14% year-over-year.

During 2015, the Company's net revenues increased 5% compared to 2014 primarily due to increases in net interest revenue and asset management and administration fees, partially offset by a decrease in trading revenue.

Growth in expenses excluding interest was limited to a 4% increase in 2015 primarily reflecting business growth related increases in compensation, benefits and other expenses.

The combined effect of market conditions, strong business growth, and the Company's overall spending discipline resulted in a pre-tax profit margin of 35.7% in 2015.

Subsequent Event

On January 26, 2017, the Company announced that Mr. Peter Crawford, Executive Vice President – Finance, will succeed Mr. Joseph R. Martinetto as the Company's Chief Financial Officer, effective May 16, 2017.

Mr. Martinetto will continue as Senior Executive Vice President at CSC, maintaining oversight of several functions including the Company's banking, technology and operations units.

Current Regulatory Environment and Other Developments

In September 2016, the OCC issued final guidelines for recovery planning by national banks and federal savings banks with total consolidated assets of $50 billion or more. The guidelines require each bank to develop and maintain a recovery plan that describes how the bank will restore itself to financial health and viability in response to a wide range of external and internal financial and operational stress scenarios. The guidelines went into effect on January 1, 2017, and Schwab Bank has until the end of 2017 to develop and prepare a recovery plan.

In May 2016, the Federal Reserve, the OCC and the FDIC jointly issued a notice of proposed rulemaking that would impose a minimum NSFR on certain banking organizations, including CSC. The effective date of the rule would be January 1, 2018. The comment period for the proposed rule ended on August 5, 2016 and the impact to the Company cannot be assessed until the final rule is released.

In October 2015, the Federal Reserve issued a notice of proposed rulemaking on Total Loss-Absorbing Capacity and long-term debt that, among other things, would have required certain financial institutions that are subject to the Federal Reserve's capital rules to deduct from their regulatory capital the amount of any investments in or exposure to unsecured debt issued by U.S. bank holding companies identified as global systemically important banking organizations (GSIBs). In December 2016, the Federal Reserve issued a final rule that did not include this regulatory capital deduction proposal. At the same time, the Federal Reserve did indicate its intent to work with the OCC and FDIC to develop a proposed interagency approach towards the regulatory capital treatment of GSIB unsecured debt. The Company will evaluate any such proposal when it is issued.

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RESULTS OF OPERATIONS

Net Revenues

Year Ended December 31,		2016		2015		2014	
	Growth Rate 2015-2016	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Asset management and administration fees							
Mutual fund and ETF service fees	25 %	$ 1,853	25 %	$ 1,479	23 %	$ 1,413	23 %
Advice solutions	2 %	915	12 %	898	14 %	840	14 %
Other	5 %	287	4 %	273	4 %	280	5 %
Asset management and administration fees	15 %	3,055	41 %	2,650	41 %	2,533	42 %
Net interest revenue							
Interest revenue	31 %	3,493	46 %	2,657	42 %	2,374	39 %
Interest expense	30 %	(171)	(2) %	(132)	(2) %	(102)	(1) %
Net interest revenue	32 %	3,322	44 %	2,525	40 %	2,272	38 %
Trading revenue							
Commissions	(5) %	779	10 %	822	13 %	857	14 %
Principal transactions	5 %	46	1 %	44	1 %	50	1 %
Trading revenue	(5) %	825	11 %	866	14 %	907	15 %
Other	(17) %	271	4 %	328	5 %	343	5 %
Provision for loan losses	(55) %	5	-	11	-	4	-
Net impairment losses on securities	-	-	-	-	-	(1)	-
Total net revenues	17 %	$ 7,478	100 %	$ 6,380	100 %	$ 6,058	100 %

Asset Management and Administration Fees

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

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

Asset management and administration fees vary with changes in the balances of client assets due to market fluctuations and client activity. For a discussion of the impact of current market conditions on asset management and administration fees, see Risk Management in Part II, Item 7.

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The following table presents a roll forward of client assets for the Schwab money market funds, Schwab equity and bond funds and ETFs, and Mutual Fund OneSource®:

	Schwab Money Market Funds			Schwab Equity and Bond Funds and ETFs			Mutual Fund OneSource®		
Year Ended December 31,	2016	2015	2014	2016	2015	2014	2016	2015	2014
Balance at beginning of period	$ 166,148	$ 167,909	$ 167,738	$ 102,112	$ 88,450	$ 71,249	$ 207,654	$ 234,381	$ 234,777
Net inflows (outflows)	(2,765)	(1,947)	287	13,858	15,542	11,398	(22,469)	(23,014)	(8,925)
Net market gains (losses) and other	112	186	(116)	9,843	(1,880)	5,803	13,739	(3,713)	8,529
Balance at end of period	$ 163,495	$ 166,148	$ 167,909	$ 125,813	$ 102,112	$ 88,450	$ 198,924	$ 207,654	$ 234,381

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

Year Ended December 31,	2016			2015			2014		
	Average Client Assets	Revenue	Average Fee	Average Client Assets	Revenue	Average Fee	Average Client Assets	Revenue	Average Fee
Schwab money market funds	$ 164,120	$ 962	0.59%	$ 161,381	$ 947	0.59%	$ 164,564	$ 957	0.58%

before fee waivers									
Fee waivers		(224)			(672)			(751)	
Schwab money market funds	164,120	738	0.45%	161,381	275	0.17%	164,564	206	0.13%
Schwab equity and bond funds and ETFs	115,849	217	0.19%	102,486	217	0.21%	83,916	192	0.23%
Mutual Fund OneSource®	199,389	676	0.34%	225,347	764	0.34%	236,003	805	0.34%
Other third-party mutual funds and ETFs (1)	254,584	222	0.09%	251,491	223	0.09%	241,314	210	0.09%
Total mutual funds and ETFs (2)	$ 733,942	1,853	0.25%	$ 740,705	1,479	0.20%	$ 725,797	1,413	0.19%
Advice solutions (2) :									
Fee-based	$ 177,409	915	0.52%	$ 172,302	898	0.52%	$ 160,721	840	0.52%
Intelligent Portfolios	8,377	-	-	3,274	-	-	-	-	-
Legacy Non-Fee	16,969	-	-	16,463	-	-	15,794	-	-
Total advice solutions	$ 202,755	915	0.45%	$ 192,039	898	0.47%	$ 176,515	840	0.48%
Other balance-based fees (3)	339,071	235	0.07%	324,701	226	0.07%	297,499	234	0.08%
Other (4)		52			47			46	
Total asset management and administration fees		$ 3,055			$ 2,650			$ 2,533	

(1) Includes Schwab ETF OneSourceTM.
(2) Average client assets for advice solutions may also include the asset balances contained in the mutual fund and/or ETF categories listed above.
(3) Includes various asset-based fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees.
(4) Includes miscellaneous service and transaction fees relating to mutual funds and ETFs that are not balance-based.

Asset management and administration fees increased by $405 million, or 15%, in 2016 from 2015, and by $117 million, or 5%, in 2015 from 2014. The increases in both years were due to higher net yields on money market fund assets as short-term interest rates rose in 2016 and 2015, and growth in client assets enrolled in advisory offers,

partially offset by a reduction in client assets in Mutual Fund OneSource.

The average fee rate on advice solutions decreased in 2016 and 2015 from the prior years primarily due to the growth in Intelligent Portfolios, which do not charge advisory fees.

Net Interest Revenue

The Company's primary interest-earning assets include cash and cash equivalents; segregated cash and investments; margin loans, which constitute the majority of receivables from brokerage clients; investment securities; and bank loans. Revenue on interest-earning assets is affected by various factors, such as the composition of assets, prevailing interest rates at the time of origination or purchase, changes in interest rates on floating rate securities, and changes in prepayment levels for mortgage-related securities and loans. Fees earned on securities borrowing and lending activities, which are conducted by the

Company's broker-dealer subsidiaries on assets held in client brokerage accounts, are included in other interest revenue and expense.

The Company's interest-bearing liabilities include bank deposits, payables to brokerage clients, short-term borrowings, and long-term debt. The Company establishes the rates paid on client-related liabilities, and management expects that it will generally adjust the rates paid on these liabilities at some fraction of any movement in short-term rates. Client-related liabilities have historically been very stable and are largely expected to remain so. Given the stability and low rate sensitivity of these liabilities, management believes their duration is relatively long, somewhere in excess of three and a half years.

Management believes that the extended period of extraordinarily low interest rates running from the financial crisis to the present has likely resulted in certain sweep cash balances retaining some level of latent rate sensitivity. To the extent short-term rates increase, management expects some sweep cash balances to migrate to purchased money market funds or other higher-yielding alternatives. At the same time, the Company will retain the opportunity to migrate the remaining non-rate sensitive cash in sweep money market funds to Schwab Bank.

Management has positioned the Company to benefit from an increase in interest rates, especially short-term interest rates, by managing the duration of interest-earning assets to be shorter than that of interest-bearing liabilities, so that asset yields will move faster than liability costs.

In order to keep the Company's interest-rate sensitivity within established limits, management monitors and responds to changes in the balance sheet. As the Company builds its client base, it attracts a significant amount of new client sweep cash, which, along with the bulk transfer of existing sweep cash balances from money market funds, is a primary driver of balance sheet growth. As the proportion of sweep cash balances to total liabilities has grown, the measured duration of liabilities has grown as well. By increasing the duration of interest-earning assets as necessary, management has kept the Company positioned to continue to gain from increasing rates while limiting its exposure to falling rates to an acceptable level. Management currently manages the balance sheet so that just over half of the Company's investment securities and loans re-price or reset based on short-term interest rates such as one-month LIBOR.

Non-interest-bearing funding sources include certain cash balances, stockholders' equity and other miscellaneous assets and liabilities.

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

Year Ended December 31,	2016			2015			2014		
	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	$ 11,143	$ 57	0.51 %	$ 9,358	$ 24	0.26 %	$ 7,179	$ 16	0.22 %
Cash and investments segregated	20,104	93	0.46 %	18,606	31	0.17 %	20,268	24	0.12 %
Broker-related receivables (1)	558	1	0.22 %	274	-	0.07 %	325	-	0.09 %
Receivables from brokerage clients	15,001	497	3.31 %	15,212	502	3.30 %	13,778	482	3.50 %
Available for sale securities (2)	72,586	883	1.22 %	62,249	629	1.01 %	52,057	546	1.05 %
Held to maturity securities	57,451	1,402	2.44 %	38,280	957	2.50 %	32,361	828	2.56 %
Bank loans	14,715	400	2.72 %	13,973	369	2.64 %	12,906	355	2.75 %
Total interest-earning assets	191,558	3,333	1.74 %	157,952	2,512	1.59 %	138,874	2,251	1.62 %
Other interest revenue		160			145			123	
Total interest-earning assets	$ 191,558	$ 3,493	1.82 %	$ 157,952	$ 2,657	1.68 %	$ 138,874	$ 2,374	1.71 %
Funding sources:									
Bank deposits	$ 141,432	$ 37	0.03 %	$ 113,464	$ 29	0.03 %	$ 95,842	$ 30	0.03 %
Payables to brokerage clients	26,311	3	0.01 %	25,651	2	0.01 %	26,731	2	0.01 %
Short-term borrowings (1,3)	1,864	9	0.48 %	21	-	0.27 %	5	-	0.15 %

Long-term debt (4)	2,876	104	3.62 %	2,717	92	3.39 %	1,893	73	3.86 %
Total interest-bearing liabilities (4)	172,483	153	0.09 %	141,853	123	0.09 %	124,471	105	0.08 %
Non-interest-bearing funding sources (3)	19,075			16,099			14,403		
Other interest expense		18			9			(3)	
Total funding sources	$ 191,558	$ 171	0.09 %	$ 157,952	$ 132	0.08 %	$ 138,874	$ 102	0.07 %
Net interest revenue		$ 3,322	1.73 %		$ 2,525	1.60 %		$ 2,272	1.64 %

(1) Interest revenue or expense was less than $500,000 in the period or periods presented.
(2) Amounts calculated based on amortized cost.
(3) Certain prior period amounts were reclassified to conform to the 2016 presentation.
(4) Adjusted for the retrospective adoption of Accounting Standards Update (ASU) 2015-03. See Item 8 – Note 2.

Net interest revenue increased $797 million, or 32%, in 2016 from 2015 due primarily to higher interest-earning assets driven by growth in bank deposits. The Company has grown bank deposits through a combination of:

- Gathering additional assets from new and current clients;
- Transferring uninvested cash balances in certain client brokerage accounts to Schwab Bank; and
- Establishing the Schwab Bank sweep feature as the default investment option for uninvested cash balances within all new brokerage accounts as of June 2016.

The Company has invested the cash from the growth in bank deposits and from recent short-term borrowings in investment securities. These incremental investments, coupled with an increase in short-term interest rates, have resulted in a 13 basis point improvement in the net interest margin to 1.73% in 2016.

Net interest revenue increased $253 million, or 11%, in 2015 from 2014 primarily due to higher average balances of interest-earning assets, partially offset by the effect of lower net interest margins. The growth in the average balances in bank deposits resulted from an increase in the uninvested cash balances in certain client brokerage accounts swept to Schwab Bank.

Trading Revenue

Trading revenue includes commission and principal transaction revenues. Commission revenue is affected by the number of revenue trades executed and the average revenue earned per revenue trade. Principal transaction revenue is primarily comprised of revenue from trading activity in fixed income securities with clients. To accommodate clients' fixed income trading activity, the Company maintains positions in fixed income securities, including U.S. state and

municipal debt obligations, U.S. Government and corporate debt, and other securities. The difference between the price at which the

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Company buys and sells securities to and from its clients and other broker-dealers is recognized as principal transaction revenue. Principal transaction revenue also includes adjustments to the fair value of these securities positions.

The following table presents trading revenue and the related drivers:

Year Ended December 31,	Growth Rate 2015-2016		2016	2015	2014
Daily average revenue trades (in thousands)	-		291.6	292.0	298.2
Clients' daily average trades (in thousands)	5	%	561.8	536.9	516.8
Number of trading days	-		251.5	251.0	250.5
Average revenue per revenue trade	(5)	%	$ 11.23	$ 11.83	$ 12.13
Trading revenue	(5)	%	$ 825	$ 866	$ 907

Trading revenue decreased in both 2016 and 2015 by $41 million primarily due to a decrease in commission revenue as a result of lower commissions per revenue trade.

Daily average revenue trades remained relatively flat in 2016 from 2015. Daily average revenue trades decreased in 2015 from 2014 primarily due to a lower volume of equity trades. Average revenue per revenue trade decreased 5% in 2016 compared to 2015, due to a higher proportion of trades from active traders, who typically pay a lower commission rate, as well as increased client utilization of discounted trade offers. Average revenue per revenue trade decreased 2% in 2015 compared to 2014. Over time, the percentage of trading revenue has declined from a peak of 50%-60% of total net revenue in the early 1990s to the current low of 11% at December 31, 2016.

Other Revenue

Other revenue includes order flow revenue, other service fees, software fees from the Company's portfolio management solutions, exchange processing fees, and nonrecurring gains.

Other revenue decreased by $57 million, or 17%, in 2016 compared to 2015, primarily due to lower litigation proceeds of $16 million in 2016 compared to $75 million in 2015 related to the Company's non-agency residential mortgage-backed securities (RMBS) portfolio. Order flow revenue was $103 million during both 2016 and 2015.

Other revenue decreased by $15 million, or 4%, in 2015 compared to 2014 primarily due to lower order flow revenue. Order flow revenue was $103 million during 2015 compared to $114 million during 2014. The decrease was primarily due to changes in the composition and volume of different types of orders and the fees and rebates for such orders. Other revenue in 2015 also includes net litigation proceeds of $75 million related to the Company's non-agency RMBS portfolio. Other revenue in 2014 includes a net insurance settlement of $45 million and net litigation proceeds of $28 million related to the Company's non-agency RMBS portfolio.

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Expenses Excluding Interest

The following table shows a comparison of expenses excluding interest:

Year Ended December 31,	Growth Rate 2015-2016	2016	2015	2014
Compensation and benefits	10 %	$ 2,466	$ 2,241	$ 2,184
Professional services	10 %	506	459	457
Occupancy and equipment	13 %	398	353	324
Advertising and market development	6 %	265	249	245
Communications	2 %	237	233	223
Depreciation and amortization	4 %	234	224	199
Other	11 %	379	342	311
Total expenses excluding interest	9 %	$ 4,485	$ 4,101	$ 3,943
Expenses as a percentage of total net revenues:				
Compensation and benefits		33 %	35 %	36 %
Advertising and market development		4 %	4 %	4 %

Compensation and Benefits

Compensation and benefits expense includes salaries and wages, incentive compensation, and related employee benefits. Incentive compensation includes variable compensation, discretionary bonuses, and share-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 EPS. Share-based compensation primarily includes employee and board of director stock options and restricted stock.

The following table shows a comparison of certain compensation and benefits components and employee data:

Year Ended December 31,	Growth Rate 2015-2016		2016	2015	2014
Salaries and wages	9	%	$ 1,368	$ 1,258	$ 1,245
Incentive compensation	11	%	689	618	605
Employee benefits and other	12	%	409	365	334
Total compensation and benefits expense	10	%	$ 2,466	$ 2,241	$ 2,184
Full-time equivalent employees (in thousands)					
At year end	6	%	16.2	15.3	14.6
Average	5	%	15.9	15.1	14.2

Salaries and wages increased in 2016 from 2015 primarily due to higher employee headcount to support the growth in the business and annual salary increases. Incentive compensation increased in 2016 from 2015 primarily due to higher discretionary bonus expenses, long-term incentive plan costs, and field incentive plan costs relating to increased net client asset flows. Employee benefits and other expense increased in 2016 from 2015 due to increases in healthcare costs and higher employee headcount.

Salaries and wages increased in 2015 from 2014 primarily due to higher employee headcount and annual salary increases, partially offset by a $68 million charge in 2014 for estimated future severance benefits resulting from changes in the Company’s geographic footprint. Incentive compensation increased in 2015 from 2014 primarily due to the earlier recognition of certain equity-based incentives due to plan changes offset by a reduction in long-term incentive plan expenses. Employee benefits and other expense increased in 2015 from 2014 due to increases in healthcare costs and higher employee headcount.

Expenses Excluding Compensation and Benefits

Professional services expense increased in 2016 compared to 2015 primarily due to higher spending on technology services and an increase in fees paid to outsourced service providers and consultants as the Company continued to invest in the business. Professional services remained relatively flat in 2015 compared to 2014.

Occupancy and equipment expense increased in 2016 and 2015 from the prior year primarily due to increased software maintenance expense relating to the Company's information technology systems and an increase in property taxes and rent attributable to the ongoing growth in the Company's geographic footprint.

Advertising and market development, communications, and depreciation and amortization expenses combined grew a modest 4% in 2016 and 6% in 2015, from the prior years as a result of growth in the business, new product media campaigns and higher amortization of internally developed software associated with the Company's investment in software and technology enhancements.

The Company's capital expenditures were $353 million, $285 million, and $405 million in 2016, 2015, and 2014, respectively. The increase in capital expenditures in 2016 from 2015 was primarily due to higher investment in land and internal-use software, partially offset by a decrease in investment in buildings. The decrease in capital expenditures in 2015 from 2014 was primarily due to lower investment in buildings and land relating to the growth in the Company's geographic footprint beginning in 2014. Capitalized costs for developing internal-use software were $130 million, $107 million, and $81 million in 2016, 2015, and 2014.

Other expense increased in 2016 and 2015 from the prior year primarily due to an increase in the Company's FDIC insurance assessments which rose as a result of higher bank deposits and the effect of a new surcharge that commenced in the third quarter of 2016.

Taxes on Income

The Company’s effective income tax rate was 36.9% in 2016, 36.5% in 2015, and 37.5% in 2014. The 2016 effective income tax rate includes tax benefits on tax exempt income from investments in U.S. state and municipal securities.

The 2015 effective income tax rate includes the recognition of net tax benefits relating to certain current and prior-year matters.

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, retirement plan services, and other corporate brokerage services. The Advisor Services segment provides custodial, trading, banking, and support services as well as retirement business services. Revenues and expenses are attributed 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. Segment assets and liabilities are not used for evaluating segment performance or in deciding how to allocate resources to segments. Net revenues in both segments are generated from the underlying client assets and trading activity; differences in the composition of net revenues between the segments are based on the composition of client assets, client trading frequency, and pricing unique to each. While both segments leverage the scale and efficiency of the Company’s platforms, segment expenses reflect the dynamics of serving millions of clients in Investor Services versus the thousands of RIAs on the advisor platform.

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

	Investor Services (1)				Advisor Services (1)			
	Growth Rate				Growth Rate			
Year Ended December 31,	2015-2016	2016	2015	2014	2015-2016	2016	2015	2014
Net Revenues								
Asset management and administration fees	14 %	$ 2,093	$ 1,837	$ 1,742	18 %	$ 962	$ 813	$ 791
Net interest revenue	21 %	2,591	2,133	2,028	86 %	731	392	244
Trading revenue	(6) %	524	556	606	(3) %	301	310	301
Other	(15) %	199	234	218	(23) %	72	94	74
Provision for loan losses	(64) %	4	11	4	-	1	-	-
Net impairment losses on securities	-	-	-	(1)	-	-	-	-
Total net revenues	13 %	5,411	4,771	4,597	28 %	2,067	1,609	1,410
Expenses Excluding Interest	9 %	3,380	3,090	2,937	9 %	1,105	1,011	938
Income before taxes on income	21 %	$ 2,031	$ 1,681	$ 1,660	61 %	$ 962	$ 598	$ 472

	Unallocated				Total			
	Growth Rate				Growth Rate			
Year Ended December 31,	2015-2016	2016	2015	2014	2015-2016	2016	2015	2014
Net Revenues								
Asset management and administration fees		$ -	$ -	$ -	15 %	$ 3,055	$ 2,650	$ 2,533
Net interest revenue		-	-	-	32 %	3,322	2,525	2,272
Trading revenue		-	-	-	(5) %	825	866	907
Other		-	-	51	(17) %	271	328	343
Provision for loan losses		-	-	-	(55) %	5	11	4
Net impairment losses on securities		-	-	-	-	-	-	(1)
Total net revenues		-	-	51	17 %	7,478	6,380	6,058
Expenses Excluding Interest		-	-	68	9 %	4,485	4,101	3,943
Income before taxes on income		$ -	$ -	$ (17)	31 %	$ 2,993	$ 2,279	$ 2,115

(1) The Corporate Brokerage Retirement Services business was transferred from the Investor Services segment to the Advisor Services segment in the fourth quarter of 2015. Prior period information has been recast to reflect these changes.

Investor Services

Net revenues increased by $640 million, or 13%, in 2016 from 2015 primarily due to increases in net interest revenue and asset management and administration fees. Net interest revenue increased primarily due to higher balances of interest-earning assets and higher interest rates on those assets. Asset management and administration fees increased primarily due to higher net yields on money market fund assets, partially offset by a reduction in client assets in Mutual Fund OneSource®. Expenses excluding interest increased by $290 million, or 9%, in 2016 from 2015 primarily due to growth in the business resulting in increases in compensation and benefits, depreciation and amortization, and occupancy and equipment expenses.

Net revenues increased by $174 million, or 4%, in 2015 from 2014 primarily due to increases in net interest revenue, asset management and administration fees, and other revenue, partially offset by a decrease in trading revenue. Net interest revenue increased mainly due to higher balances of interest-earning assets, partially offset by the effect of lower net interest margins.

Asset management and administration fees increased primarily due to fees from advice solutions, which increased mainly due to growth in client assets enrolled in advisory offers. Other revenue increased primarily due to litigation proceeds relating to the Company's non-agency RMBS portfolio. Trading revenue decreased in 2015 from 2014 largely due to lower commissions per revenue trade and lower daily average revenue trades. Expenses excluding interest increased by $153 million, or 5%, in 2015 from 2014 primarily due to growth in the business resulting in increases in compensation and benefits and other expenses.

Advisor Services

Net revenues increased by $458 million, or 28%, in 2016 from 2015 primarily due to increases in net interest revenue and asset management and administration fees. Net interest revenue increased primarily due to higher balances of interest-earning assets and higher interest rates on those assets. This growth in assets was bolstered by the migration of more uninvested client cash balances in the segment to Schwab Bank. Asset management and administration fees increased primarily due to higher net yields on money market fund assets. Expenses excluding interest increased by $94 million, or 9%, in 2016 from 2015 primarily due to increases in growth in the business resulting in increases in compensation and benefits, occupancy and equipment, and other expenses.

Net revenues increased by $199 million, or 14%, in 2015 from 2014 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 of lower net interest margins. Interest-earning assets have grown due to growth in brokerage client cash swept to Schwab Bank. Asset management and administration fees increased primarily due to higher net yields on money market fund assets and growth in client assets in equity and bond funds. Other revenue increased primarily due to litigation proceeds relating to the Company's non-agency RMBS portfolio. Expenses excluding interest increased by $73 million, or 8%, in 2015 from 2014 primarily due to increases in growth in the business resulting in increases in compensation and benefits, advertising and marketing, other expenses.

Unallocated

Other revenue decreased in 2015 from 2014 due to a net insurance settlement of $45 million in 2014.

Expenses excluding interest decreased in 2015 from 2014 as a result of a $68 million charge in 2014 for estimated future severance benefits resulting from changes in the Company's geographic footprint.

Risk MANAGEMENT

The Company’s business activities expose it to a variety of risks, including operational, credit, market, liquidity, and compliance risk. The Company has a comprehensive risk management program to identify and manage these risks and their associated potential for financial and reputational impact. Despite 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.

Culture

The Board of Directors has approved an Enterprise Risk Management (ERM) framework that incorporates the Company’s purpose, vision, and values that form the bedrock of its corporate culture and set the tone for the organization.

The ERM Framework and governance structure constitute a comprehensive approach to managing risks encountered by the Company in its business activities. The framework incorporates key concepts commensurate with the size, risk profile, complexity, and continuing growth of the Company. Risk appetite, which is defined as the amount of risk the Company is

willing to accept in pursuit of its corporate strategy, is developed by executive management and approved by the Board of Directors.

Risk Governance

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

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

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

The Global Risk Committee reports regularly to the Risk Committee of the Board of Directors. The Risk Committee in turn assists the Board of Directors in fulfilling its oversight responsibilities with respect to 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 to the Global Risk Committee. These sub-committees include the:

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Asset-Liability Management and Pricing Committee – establishes strategies and policies for the management of corporate capital, liquidity, interest rate risk, and investments;

- Compliance Risk Committee – provides oversight of compliance risk management programs and policies providing an aggregate view of compliance risk exposure;
- Credit and Market Risk Oversight Committee – 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 – provides oversight of, and approves corporate policy and procedures relating to the risk governance of new products and services; and
- Operational Risk Oversight Committee – provides oversight of and approves operational risk management policies, risk tolerance levels, and operational risk governance processes, and includes sub-committees covering Fiduciary, Data, Information Security, Model Governance, and Third-Party risk.

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

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 disclosure controls and procedures and internal control over financial reporting as of the end of each fiscal quarter. The Disclosure Committee reports on this evaluation to the CEO and CFO prior to their certification required by Sections 302 and 906 of the Sarbanes Oxley Act of 2002.

Operational Risk

Operational risks arise due to 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 third-parties. While operational risk is inherent in all business activities, the Company relies on a system of internal controls and risk management practices designed to keep operational risk and operational losses within the Company’s risk appetite. The Company has specific policies and procedures to identify and manage operational risk, and uses periodic risk and control self-assessments, control testing programs, and internal audit reviews to evaluate the effectiveness of these internal controls. Where appropriate, the Company manages the impact of operational loss and litigation expense through the purchase of insurance. The insurance program is specifically designed to address the key operational risks of the Company, and to maintain compliance with local laws and regulation.

The Company’s operations are highly dependent on the integrity and resiliency of its critical business functions and technology systems. To the extent the Company experiences business or system interruptions, errors or downtime (which could result from a variety of causes, including natural disasters, terrorist attacks, technological failure, cyber attacks, changes to systems, linkages with third-party systems, and power failures), the Company’s business and operations could be negatively impacted. To minimize business interruptions, the Company maintains a backup and recovery infrastructure which includes facilities for backup and communications, a geographically dispersed workforce, and routine testing of business continuity and disaster recovery plans.

Information Security risk is the potential for unauthorized access, use, disclosure, disruption, modification, perusal, inspection, recording or destruction of the Company’s information or systems. The Company has designed and implemented an information security program that knits together complementary tools, controls and technologies to protect systems, client accounts and data. The Company continuously monitors the systems and works collaboratively with government agencies, law enforcement and other financial institutions to address potential threats. The Company uses advanced monitoring systems to identify suspicious activity and deter unauthorized access by internal or external actors. The Company limits the number of employees who have access to clients’ personal information and enforces internal authentication measures to protect against the potential for social engineering. All employees who handle sensitive information are trained in privacy and security. Schwab’s fraud and cyber security teams monitor activity looking for suspicious behavior. These capabilities allow the Company to identify and quickly act on any attempted intrusions.

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.

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.

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 determines the scope of model governance activities.

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, and 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.

Credit and Concentration Risk

Credit risk is the potential for loss due to a borrower, counterparty, or issuer failing to perform on its contractual obligations. The Company's exposure to credit risk mainly results from margin lending and client option and futures activities, securities lending activities, mortgage lending activities, pledged asset lending, 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, PAL, option, and futures requirements for certain securities. Collateral arrangements relating to margin loans, PALs, option positions, securities lending agreements, and resale agreements

include provisions that require additional collateral in the event market fluctuations result in declines in the value of collateral received. Additionally, for margin loan, PAL and securities lending agreements, collateral arrangements require that the fair value of such collateral exceeds the amounts loaned.

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

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

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

The Company does not originate or purchase residential loans that allow for negative amortization and does not originate or purchase subprime loans (generally defined as extensions of credit to borrowers with a FICO score of less than 620 at origination), unless the borrower has compensating credit factors.

The Company's bank loans include $8.2 billion of adjustable rate First Mortgage loans at December 31, 2016. The Company's adjustable rate mortgages have initial fixed interest rates for three to ten years and interest rates that adjust

annually thereafter. Approximately 36% of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 58% 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.

The Company’s HELOC product has a 30-year loan term with an initial draw period of ten years from the date of origination. After the initial draw period, the balance outstanding at such time is converted to a 20-year amortizing loan. The interest rate during the initial draw period and the 20-year amortizing period is a floating rate based on the prime rate plus a margin. HELOCs that convert to an amortizing loan may experience higher delinquencies and higher loss rates than those in the initial draw period. The Company’s allowance for loan loss methodology takes this increased inherent risk into consideration.

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

December 31, 2016	Balance
Converted to amortizing loan by period end	$ 469
Within 1 year	133
> 1 year – 3 years	855
> 3 years – 5 years	203
> 5 years	690
Total	$ 2,350

At December 31, 2016, $1.8 billion of the HELOC portfolio was secured by second liens on the associated properties. Second lien mortgage loans typically possess a higher degree of credit risk given the subordination to the first lien holder in the event of default. In addition to the credit monitoring activities described previously, the Company also monitors credit risk by reviewing the delinquency status of the first lien loan on the associated property. At December 31, 2016, approximately 39% of the HELOC borrowers that had a balance only paid the minimum amount of interest due.

For more information on the Company’s credit quality indicators relating to its bank loans, see Item 8 – Note 6.

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

At December 31, 2016, substantially all securities in the investment portfolios were rated investment grade. U.S. agency mortgage-backed securities do not have explicit credit ratings; however, management considers these to be of the highest credit quality and rating given the guarantee of principal and interest by the U.S. government-sponsored enterprises.

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 within a particular industry or geographical area.

The fair value of the Company's investments in mortgage-backed securities totaled $105.9 billion at December 31, 2016. Of these, $104.9 billion were issued by U.S. agencies and $1.0 billion were issued by private entities (non-agency securities).

The fair value of the Company's investments in asset-backed securities totaled $21.3 billion at December 31, 2016. Schwab holds $10.1 billion floating rate Federal Family Education Loan Program Asset-Backed Securities (FFELP ABS). Beginning in 2015, two Nationally Recognized Statistical Rating Organizations began placing a portion of FFELP ABS on review for downgrade. At December 31, 2016, five securities with an aggregate fair value of $1.2 billion were below investment grade. Both agencies have indicated that additional classes could be downgraded below investment grade due to the risk that some remainder of the securities could be outstanding after their legal final maturity dates. The timing of FFELP ABS principal payment is inherently uncertain given the variety of payment options available to student loan borrowers. Loans collateralizing these securities continue to be covered by a guarantee from the Department of Education of at least 97% of principal and interest. The Company holds only senior class notes that have additional credit enhancement of 3% or more

that, together with the Department of Education guarantee, provide 100% or more credit enhancement. The Company has an independent credit assessment function and does not consider these securities to be impaired because it expects full payment of principal and interest. Therefore, the Company continues to assign them the highest internal credit rating.

The fair value of the Company's investments in corporate debt securities and commercial paper totaled $10.6 billion at December 31, 2016, with 48% issued by institutions in the financial services industry. These securities are included in AFS securities, 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.

Foreign Holdings

At December 31, 2016, the Company had exposure to non-sovereign financial and non-financial institutions in foreign countries of $6.8 billion, with the fair value of the top three exposures being to issuers and counterparties domiciled in France at $1.9 billion, Sweden at $1.3 billion and Australia at $1.0 billion. The Company has no direct exposure to sovereign foreign governments. The Company does not have unfunded commitments to counterparties in foreign countries, nor does it have exposure as a result of credit default protection purchased or sold separately as of December 31, 2016.

In addition to the direct holdings in foreign companies, the Company has indirect exposure to foreign countries through its investments in CSIM money market funds (collectively, the Funds) resulting from brokerage clearing activities. At December 31, 2016, the Company had $108 million in investments in these Funds. Certain of the Funds' positions include certificates of deposits, time deposits, commercial paper and corporate debt securities issued by counterparties in foreign countries. Additionally, at December 31, 2016, the Company had outstanding margin loans to foreign residents of $366 million, which are fully collateralized.

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. A portion of the Company's investment portfolios is sensitive to changes in long-term interest rates.

Net interest revenue is affected by various factors, such as the distribution and composition of interest-earning assets and interest-bearing liabilities, the spread between yields earned on interest-earning assets and rates paid on interest-bearing liabilities, which may reprice at different times or by different amounts, and the spread between short and long-term interest rates. Interest-earning assets primarily include investment securities, margin loans and bank loans. These assets are sensitive to changes in interest rates and changes in prepayment levels that tend to increase in a declining rate environment and decrease in a rising rate environment. Because the Company establishes the rates paid on certain brokerage client cash balances and bank deposits and the rates charged on certain margin loans and bank loans, 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 declining interest revenue, the Company has established policies and procedures, which include setting guidelines on the amount of net interest revenue at risk, and monitoring the net interest margin and average maturity of 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.

Financial instruments held by the Company are also subject to the risk that valuations will be negatively affected by changes in demand and the underlying market for a financial instrument. The Company is indirectly exposed to option, futures, and equity market fluctuations in connection with client option and futures accounts, securities collateralizing margin loans to brokerage customers, and client securities loaned out as part of the Company's brokerage 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 and ETF service fees and asset management fees based upon daily balances of certain client assets. Fluctuations in these client asset balances caused by changes in equity valuations directly impact the amount of fee revenue earned by the Company.

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 and establish a plan to address the interest rate risk. There were no breaches of the Company’s net interest revenue sensitivity guidelines during the years ended December 31, 2016 or 2015.

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 additional interest rate exposure that could result from changes in the interest rate environment. The following table shows the simulated net interest revenue change over the next 12 months beginning December 31, 2016 and 2015 of a gradual 100 basis point increase or decrease in market interest rates relative to prevailing market rates at the end of each reporting period.

December 31,	2016	2015
Increase of 100 basis points	6.5 %	8.2 %
Decrease of 100 basis points	(9.8) %	(9.5) %

The change in net interest revenue sensitivities as of December 31, 2016 reflects the increase in interest rates across all terms. The low client deposit rates under current Federal fund levels limits the extent to which the Company can reduce interest expense paid on funding sources. A decline in interest rates could negatively impact the yield on the Company's investment and loan portfolio to a greater degree than any offsetting reduction in interest expense, further compressing net interest margin. The increase of short-term interest rates positively impacts net interest revenue as yields on interest-earning assets rise faster than the cost of funding sources.

Liquidity Risk

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

Due to its role as a source of financial strength, CSC's liquidity needs are primarily driven by the liquidity and capital needs of the brokerage subsidiaries, the capital needs of Schwab Bank, the amount of dividend payments on CSC's common and preferred stock and principal and interest due on corporate debt. The liquidity needs of its brokerage subsidiaries are

primarily driven by client activity including trading and margin borrowing activities and capital expenditures, and the capital needs of its bank subsidiary are primarily driven by client deposits.

The Company has established liquidity policies to support the successful execution of its business strategies, while ensuring ongoing and sufficient liquidity to meet its operational needs and satisfy applicable regulatory requirements under both normal and stress conditions. 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 Company to meet its obligations. To this end, the Company has established limits and contingency funding scenarios to support liquidity levels during both expected and stressed scenarios.

The Company employs a variety of methodologies to monitor and manage liquidity. The Company conducts regular liquidity stress testing to develop a consolidated view of liquidity risk exposures and to ensure the Company’s ability to maintain sufficient liquidity during market-related or company-specific liquidity stress events. Liquidity is also tested at key subsidiaries and results are reported on a monthly basis to the Company’s Corporate Asset-Liability Management and Pricing Committee. A number of early warning indicators are monitored to help identify emerging liquidity stresses in the market or within the Company and are reviewed with management as appropriate.

Beginning on January 1, 2016, the Company became subject to the modified LCR rule, which was fully phased in on January 1, 2017 and requires CSC to hold HQLAs equal to at least 70% of projected net cash outflows over a 30-day period, as defined by the rule. At December 31, 2016, the Company was in compliance with the fully phased-in modified LCR rule.

Primary Funding Sources

The Company’s primary source of funds is cash generated by client activity: bank deposits and cash balances in client brokerage accounts. In 2016, bank deposits swept from brokerage accounts increased $33.0 billion. These funds were used to purchase investment securities, thereby funding a significant portion of the 22% growth in the Company’s consolidated balance sheet.

Other sources of funds may include cash flows from operations, maturities and sales of investment securities, repayments on loans, securities lending of assets held in client brokerage accounts, and cash provided by external financing or equity offerings.

To meet daily funding needs, the Company maintains liquidity in the form of overnight cash deposits and short-term investments. For unanticipated liquidity needs, the Company maintains a buffer of highly liquid investments, currently comprised of U.S. Treasury notes.

Additional Funding Sources

In addition to internal sources of liquidity, the Company has sources of external funding. CSC maintains a $750 million committed, unsecured credit facility with a group of banks that is scheduled to expire in June 2017. Other than an overnight borrowing to test the availability of this facility, it was unused during 2016. The funds under this facility are available for general corporate purposes. The financial covenants require Schwab to maintain a minimum net capital ratio, Schwab Bank to be well capitalized, and CSC to maintain a minimum level of stockholders' equity, adjusted to exclude AOCI. At December 31, 2016, the minimum level of stockholders' equity required under this facility was $10.2 billion (CSC's stockholders' equity, excluding AOCI, at December 31, 2016 was $16.6 billion). Management believes these restrictions will not have a material effect on CSC's ability to meet foreseeable dividend or funding requirements.

CSC and Schwab also have access to uncommitted, unsecured bank credit lines with several banks. The need for short-term borrowings from these sources arises primarily from timing differences between cash flow requirements, scheduled liquidation of interest-earning investments, and movements of cash to meet regulatory brokerage client cash segregation requirements. These lines were not used by CSC during 2016. Schwab used such borrowings for one day in 2016, for $15 million and there were no borrowings outstanding under these lines at December 31, 2016.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, the broker-dealer subsidiaries have unsecured standby letter of credit agreements (LOCs) with several banks in favor of the Options Clearing Corporation aggregating $295 million at December 31, 2016. There were no funds drawn under any of these LOCs during 2016 or 2015. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The collateral requirements were satisfied by providing cash as collateral.

Schwab Bank has access to short-term secured funding through the Federal Reserve's discount window. Amounts available under the Federal Reserve discount window are dependent on the fair value of certain of Schwab Bank's investment securities that are pledged as collateral. Schwab Bank maintains policies and procedures necessary to access this funding and tests discount window borrowing procedures on a periodic basis. At December 31, 2016, $849 million was available under this arrangement. Schwab Bank used such borrowings for one day during 2016 for $1 million and there were no borrowings outstanding under these lines at December 31, 2016.

Schwab Bank also maintains a secured credit facility with the Federal Home Loan Bank of San Francisco (FHLB). Amounts available under this facility are dependent on the amount of Schwab Bank's First Mortgages, HELOCs, and the fair value of certain of Schwab Bank's investment securities that are pledged as collateral. Schwab Bank maintains policies and procedures necessary to access this funding and tests borrowing procedures on a periodic basis. During 2016, Schwab Bank used borrowings under this agreement to purchase investment securities prior to bulk transfers. As the bulk transfers were completed, the proceeds were used to pay down advances. There were no amounts outstanding under this facility at December 31, 2016 with $16.5 billion available based on the loans and securities currently pledged. This credit facility is also available as backup financing in the event of unexpected client cash outflow from Schwab Bank's balance sheet.

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 not to exceed the amount of the committed, unsecured credit facility, which was $750 million at December 31, 2016. 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. CSC's ratings for these short-term borrowings are P1 by Moody's, A1 by Standard & Poor's, and F1 by Fitch. CSC had no Commercial Paper Notes outstanding at December 31, 2016 or 2015.

CSC had long-term debt of $2.9 billion at December 31, 2016 and 2015 bearing a weighted-average interest rate of 3.37%. CSC has a universal automatic shelf registration statement (Shelf Registration Statement) on file with the SEC, which enables it to issue debt, equity, and other securities.

On March 10, 2015, CSC issued $625 million aggregate principal amount of Senior Notes that mature in 2018 and $375 million aggregate principal amount of Senior Notes that mature in 2025. The Senior Notes due 2018 and 2025 have a fixed interest rate of 1.50% and 3.00%, respectively, with interest payable semi-annually. Additionally, on November 13, 2015, CSC issued $350 million aggregate amount of 3.450% Senior Notes that mature in 2026, with interest payable semi-annually.

The following are details of CSC's Senior and Medium-Term Notes:

December 31, 2016	Par Outstanding		Maturity	Weighted Average Interest Rate	Moody's	Standard & Poor's	Fitch
Senior Notes	$	2,581	2018 - 2026	3.03% fixed	A2	A	A
Medium-Term Notes	$	250	2017	6.375% fixed	A2	A	A

On October 31, 2016, the Company issued and sold 600,000 depositary shares, each representing a 1/100th ownership interest in a share of fixed-to-floating rate non-cumulative perpetual preferred stock (Series E Preferred Stock), $0.01 par value, with a liquidation preference of $100,000 per share (equivalent to $1,000 per depositary share). The Series E Preferred Stock has a fixed dividend rate of 4.625% through February 28, 2022, payable semi-annually, and thereafter at a floating rate of three-month LIBOR plus a fixed spread of 3.315%, payable quarterly. Net proceeds received from the sale were $591 million.

On March 7, 2016, CSC completed an equity offering of 30 million depositary shares, each representing a 1/40th ownership interest in a share of 5.95% non-cumulative perpetual preferred stock (Series D Preferred Stock). The net proceeds from the sale were $725 million.

On August 3, 2015, CSC completed an equity offering of 24 million depositary shares, each representing a 1/40th ownership interest in a share of 6.00% non-cumulative perpetual preferred stock (Series C Preferred Stock). The net proceeds from the sale were $581 million. CSC's preferred stock is rated Baa2 by Moody's, BBB by Standard & Poor's and BB+ by Fitch.

For further discussion of CSC's long-term debt and information on the equity offerings, see Item 8 – Note 13 and Note 17.

Off-Balance Sheet Arrangements

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 in the ordinary course of business. For information on each of these arrangements, see Item 8 – Note 6, Note 10, Note 13, Note 14, and Note 15.

Contractual Obligations

The Company's principal contractual obligations as of December 31, 2016 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., bank deposits, payables to brokerage clients, and deferred compensation).

December 31, 2016	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Credit-related financial instruments (1)	$ 1,047	$ 2,543	$ 3,597	$ 1,904	$ 9,091
Long-term debt (2)	344	1,036	795	1,084	3,259
Leases (3)	110	165	103	282	660
Purchase obligations (4)	211	132	41	200	584
Total	$ 1,712	$ 3,876	$ 4,536	$ 3,470	$ 13,594

(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 2026 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.

CAPITAL MANAGEMENT

The Company seeks to manage capital to a level and composition sufficient to support execution of its business strategy, including anticipated balance sheet growth, providing financial support to its subsidiaries, and sustained access to the capital markets, while at the same time meeting its regulatory capital requirements and serving as a source of financial strength to Schwab Bank. The Company's primary sources of capital are funds generated by the operations of its subsidiaries and securities issuances by CSC in the capital markets. To ensure that it has a sufficient amount of capital to absorb unanticipated losses or declines in asset values, the Company has adopted a policy to remain well capitalized even in stressed scenarios.

Internal guidelines are set, for both the Company and its regulated subsidiaries, to ensure capital levels are in line with the Company's strategy and regulatory requirements, and capital forecasts are reviewed monthly at Capital Planning and Asset-

Liability Management and Pricing Committee meetings. A number of early warning indicators are monitored to help identify potential problems that could impact capital. In addition, the Company monitors its subsidiaries’ capital levels and requirements. Subject to regulatory capital requirements and any required approvals, any excess capital held by subsidiaries is transferred to CSC in the form of dividends and returns of capital. When subsidiaries have need of additional capital, funds are provided by CSC as equity investments and also as subordinated loans (in a form approved as regulatory capital by regulators) for Schwab. The details and method used for each cash infusion are based on an analysis of the particular entity’s needs and financing alternatives. The amounts and structure of infusions must take into consideration maintenance of regulatory capital requirements, debt/equity ratios, and equity double leverage ratios.

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

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

Regulatory Capital Requirements

CSC is subject to capital requirements set by the Federal Reserve and is required to serve as a source of strength for Schwab Bank and to provide financial assistance if Schwab Bank experiences financial distress. The Company is required to maintain a Tier 1 Leverage Ratio for CSC of at least 4%; however, management seeks to maintain the ratio of at least 6%. Due to the relatively low risk of the Company’s balance sheet assets and risk-based capital ratios at CSC and Schwab Bank that are well in excess of regulatory requirements, the Tier 1 Leverage Ratio is the most restrictive capital constraint on CSC’s asset growth.

Schwab Bank is subject to capital requirements set by the OCC that are substantially similar to those imposed on CSC by the Federal Reserve. Schwab Bank's failure to remain well capitalized could result in certain mandatory and possibly additional discretionary actions by the regulators that could have a direct material effect on the bank. The Company is required to maintain a Tier 1 Leverage Ratio for Schwab Bank of at least 5% to be well capitalized, but seeks to maintain the ratio of at least 6.25%. Based on its regulatory capital ratios at December 31, 2016, Schwab Bank is considered well capitalized.

See Item 8 – Note 22 for a summary of both CSC and Schwab Bank's capital ratios.

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)

The following table details CSC's and Schwab Bank's capital ratios:

December 31, 2016	CSC	Schwab Bank
Total stockholders' equity	$ 16,421	$ 11,726
Less:		
Preferred Stock	2,783	-
Common Equity Tier 1 Capital before regulatory adjustments	$ 13,638	$ 11,726
Less:		
Goodwill, net of associated deferred tax liabilities	$ 1,175	$ 11
Other intangible assets, net of associated deferred tax liabilities	52	-
AOCI adjustment (1)	(163)	(163)
Common Equity Tier 1 Capital	$ 12,574	$ 11,878
Tier 1 Capital	$ 15,357	$ 11,878
Total Capital	15,384	11,904
Risk-Weighted Assets	68,179	59,915
Common Equity Tier 1 Capital/Risk-Weighted Assets	18.4 %	19.8 %
Tier 1 Capital/Risk-Weighted Assets	22.5 %	19.8 %
Total Capital/Risk-Weighted Assets	22.6 %	19.9 %
Tier 1 Leverage Ratio	7.2 %	7.0 %

(1) CSC and Schwab Bank have elected to opt-out of the requirement to include most components of AOCI in CET1 Capital.

Schwab Bank is also subject to regulatory requirements that restrict and govern the terms of affiliate transactions. In addition, Schwab Bank is required to provide notice to, and may be required to obtain approval from, the OCC and the Federal Reserve to declare dividends to CSC.

The Company's broker-dealer subsidiaries (Schwab and optionsXpress) are subject to regulatory requirements of the Uniform Net Capital Rule. The rule is intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit the broker-dealer subsidiaries from paying cash dividends, making unsecured advances and loans to their parent company and employees, and repaying subordinated borrowings from CSC if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than

120% of its minimum dollar requirement of $250,000. As such, the broker-dealer subsidiaries are required to maintain, at all times, at least the minimum level of net capital required under Rule 15c3-1. At December 31, 2016, Schwab and optionsXpress met and exceeded their net capital requirements.

In addition to the capital requirements above, the Company's subsidiaries are subject to various regulatory requirements that are intended to ensure financial soundness and liquidity. See Item 8 – Note 22 for additional information on the components of stockholders' equity and information on the capital requirements of each of the subsidiaries.

Dividends

Since the initial dividend in 1989, CSC has paid 111 consecutive quarterly dividends and has increased the quarterly dividend rate 20 times, resulting in a 20% compounded annual growth rate, excluding the special cash dividend of $1.00 per common share in 2007. While the payment and amount of dividends are at the discretion of the Board of Directors, subject to certain regulatory and other restrictions, CSC currently targets its common stock cash dividend at approximately 20% to 30% of net income.

On April 21, 2016 the Board of Directors of the Company declared a one cent, or 17%, increase in the quarterly cash dividend to $0.07 per common share. On January 26, 2017, the Board of Directors of the Company declared a one cent, or 14%, increase in the quarterly cash dividend to $0.08 per common share.

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)

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

Year Ended December 31,	2016		2015	
	Cash Paid	Per Share Amount	Cash Paid	Per Share Amount
Common Stock	$ 360	$ 0.27	$ 318	$ 0.24
Series A Preferred Stock (1)	28	70.00	28	70.00
Series B Preferred Stock (2)	29	60.00	29	60.00
Series C Preferred Stock (2)	36	60.00	12	19.67
Series D Preferred Stock (2,3)	33	43.65	-	-
Series E Preferred Stock (4)	-	-	-	-

(1) Dividends paid semi-annually until February 1, 2022 and quarterly thereafter.
(2) Dividends paid quarterly.
(3) Series D Preferred Stock was issued on March 7, 2016.
(4) Series E Preferred Stock was issued on October 31, 2016. Dividends paid semi-annually until March 1, 2022 and quarterly thereafter.

Share Repurchases

There were no repurchases of CSC's common stock in 2016 or 2015. As of December 31, 2016, CSC had remaining authority from the Board of Directors to repurchase up to $596 million of its common stock, which is not subject to expiration.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses the market approach to determine the fair value of certain financial assets and liabilities recorded at fair value, and to determine fair value disclosures. See Item 8 – Note 2 and Note 16 for more information on 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 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. 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, 2016 and 2015, 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 Investment Securities

The Company internally conducts pre-purchase analyses and ongoing, post-purchase monitoring of investments that it owns. The Company assigns a risk rating to each issuer of the securities in the Company’s investment securities portfolio based on these analyses. On an ongoing basis, the Company monitors credit indicators related to its securities portfolio and adjusts the internal ratings accordingly.

Management evaluates whether investment securities are OTTI on a quarterly basis. Debt securities with unrealized losses are considered OTTI if the Company intends to sell the security or if it is more likely than not that the Company will be required to sell such security before any anticipated recovery. If management determines that a security is OTTI under these circumstances, the impairment recognized in earnings is measured as the entire difference between 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 the estimated credit loss, and is measured by the difference between the present value of expected cash flows and the amortized cost of the security. 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 consideration of multiple factors including: the magnitude and duration of the unrealized loss; the financial condition of the issuer; the payment structure of the security; external credit ratings; internal credit ratings; for asset-backed securities, the amount of credit support provided by the structure of the security to absorb credit losses on the underlying collateral; recent events specific to the issuer and the issuer’s industry; and whether the Company has received all scheduled principal and interest payments.

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 can elect to qualitatively assess goodwill for impairment if it is more likely than not that the fair value of a reporting unit exceeds its carrying value. A qualitative assessment considers macroeconomic and other industry-specific factors, such as trends in short-term and long-term interest rates and the ability to access capital, and Company specific factors such as market capitalization in excess of net assets, trends in revenue generating activities, and merger or acquisition activity. If the Company elects to bypass qualitatively assessing goodwill, or it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, management estimates the fair values of each of the Company's reporting units (defined as the Company's businesses for which financial information is available and reviewed regularly by management) and compares it to their carrying values. The estimated fair values of the reporting units are established using an income approach based on a discounted cash flow model that includes significant assumptions about the future operating results and cash flows of each reporting unit, a market approach which compares each reporting unit to comparable companies in their respective industries, as well as a market capitalization analysis.

The Company's annual goodwill impairment testing date is April 1st. In 2016, the Company elected to bypass the qualitative assessment. As of April 1, 2016, the Company determined through quantitative testing that the fair value significantly exceeded the carrying value of each of the Company's reporting units, 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 portfolios.

The methodology to establish an allowance for loan losses related to the First Mortgage and HELOC portfolios utilizes statistical models that estimate prepayments, defaults, and probable losses for the loan types based on predicted behavior of individual loans within the types. The methodology considers the effects of borrower behavior and a variety of factors including, but not limited to, interest rates, housing price movements as measured by a housing price index, economic conditions, estimated defaults and foreclosures measured by historical and expected delinquencies, changes in prepayment speeds, LTV ratios, past loss experience, estimates of future loss severities, borrower credit risk, and the adequacy of collateral. The methodology also evaluates concentrations in the loan types, including loan products within those types, year of origination, and geographical distribution of collateral.

Probable losses are forecast using a loan-level simulation of the delinquency status of the loans over the term of the loans. The simulation starts with the current relevant risk indicators, including the current delinquent status of each loan, the estimated current LTV ratio of each loan, the term and structure of each loan, current key interest rates including U.S. Treasury and LIBOR rates, and borrower FICO scores. The more significant variables in the simulation include delinquency roll rates, loss severity, housing prices, and interest rates. Delinquency roll rates are estimated from the Company's historical loss experience adjusted for current trends and market information. 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 for HELOCs is higher than that used for First Mortgages. Housing price trends are derived from historical home price indices and econometric forecasts of future home values. Factors affecting the home price index include housing inventory, unemployment, interest rates, and inflation expectations. Interest rate projections are based on the current term structure of interest rates and historical volatilities to project various possible future interest rate paths. This methodology results in loss factors that are applied to the outstanding balances to determine the allowance for loan loss for each loan type.

Legal and Regulatory Reserves

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

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.

See Item 8 – Note 2 for more information on critical accounting estimates.

Item 7A.Quantitative and Qualitative Disclosures About Market Risk

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

THE CHARLES SCHWAB CORPORATION

Item 8. Financial Statements and Supplementary Data

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THE CHARLES SCHWAB CORPORATION

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

Year Ended December 31,	2016	2015	2014
Net Revenues			
Asset management and administration fees (1)	$ 3,055	$ 2,650	$ 2,533
Interest revenue	3,493	2,657	2,374
Interest expense	(171)	(132)	(102)
Net interest revenue	3,322	2,525	2,272
Trading revenue	825	866	907
Other	271	328	343
Provision for loan losses	5	11	4
Net impairment losses on securities	-	-	(1)
Total net revenues	7,478	6,380	6,058
Expenses Excluding Interest			
Compensation and benefits	2,466	2,241	2,184
Professional services	506	459	457
Occupancy and equipment	398	353	324
Advertising and market development	265	249	245
Communications	237	233	223
Depreciation and amortization	234	224	199
Other	379	342	311
Total expenses excluding interest	4,485	4,101	3,943
Income before taxes on income	2,993	2,279	2,115
Taxes on income	1,104	832	794
Net Income	1,889	1,447	1,321
Preferred stock dividends and other (2)	143	83	60
Net Income Available to Common Stockholders	$ 1,746	$ 1,364	$ 1,261
Weighted-Average Common Shares Outstanding:			
Basic	1,324	1,315	1,303
Diluted	1,334	1,327	1,315
Earnings Per Common Share:			
Basic	$ 1.32	$ 1.04	$ .96
Diluted	$ 1.31	$ 1.03	$ .95
Dividends Declared Per Common Share	$ .27	$ .24	$ .24

(1) Includes fee waivers of $224, $672, and $751 during the years ended December 31, 2016, 2015, and 2014, respectively,

relating to Schwab-sponsored money market funds.

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

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income
(In Millions)

Year Ended December 31,	2016	2015	2014
Net income	$ 1,889	$ 1,447	$ 1,321
Other comprehensive income (loss), before tax:			
Change in net unrealized gain (loss) on available for sale securities:			
Net unrealized gain (loss)	(44)	(477)	255
Reclassification of impairment charges included in net impairment losses on securities	-	-	1
Other reclassifications included in other revenue	(4)	-	(7)
Other	1	-	-
Other comprehensive income (loss), before tax	(47)	(477)	249
Income tax effect	18	178	(93)
Other comprehensive income (loss), net of tax	(29)	(299)	156
Comprehensive Income	$ 1,860	$ 1,148	$ 1,477

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

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

December 31,	2016	2015 (1)
Assets		
Cash and cash equivalents	$ 10,828	$ 11,978
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $9,547 and $8,088 at December 31, 2016 and 2015, respectively)	22,174	19,598
Receivables from brokers, dealers, and clearing organizations	728	582
Receivables from brokerage clients — net	17,155	17,313
Other securities owned — at fair value	449	533
Available for sale securities	77,365	65,646
Held to maturity securities (fair value — $74,444 and $50,088 at December 31, 2016 and 2015, respectively)	75,203	50,007
Bank loans — net	15,403	14,334
Equipment, office facilities, and property — net	1,299	1,145
Goodwill	1,227	1,227
Intangible assets — net	144	181
Other assets	1,408	1,161
Total assets	$ 223,383	$ 183,705
Liabilities and Stockholders' Equity		
Bank deposits	$ 163,454	$ 129,502
Payables to brokers, dealers, and clearing organizations	2,407	2,588
Payables to brokerage clients	35,894	33,185
Accrued expenses and other liabilities	2,331	2,151
Long-term debt	2,876	2,877
Total liabilities	206,962	170,303
Stockholders' equity:		
Preferred stock — $.01 par value per share; aggregate liquidation preference of $2,835 and $1,485 at December 31, 2016 and 2015, respectively	2,783	1,459
Common stock — 3 billion shares authorized; $.01 par value per share; 1,487,543,446 shares issued	15	15
Additional paid-in capital	4,267	4,152
Retained earnings	12,649	11,253
Treasury stock, at cost — 154,793,560 and 167,205,881 shares at December 31, 2016 and 2015, respectively	(3,130)	(3,343)
Accumulated other comprehensive income	(163)	(134)
Total stockholders' equity	16,421	13,402
Total liabilities and stockholders' equity	$ 223,383	$ 183,705

(1) Adjusted for the retrospective adoption of ASU 2015-03. See New Accounting Standards in Note 2 for additional information.

See Notes to Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Cash Flows
(In Millions)

Year Ended December 31,	2016	2015	2014
Cash Flows from Operating Activities			
Net income	$ 1,889	$ 1,447	$ 1,321
Adjustments to reconcile net income to net cash (used for) provided by operating activities:			
Provision for loan losses	(5)	(11)	(4)
Net impairment losses on securities	-	-	1
Share-based compensation	141	135	115
Depreciation and amortization	234	224	199
(Benefit) provision for deferred income taxes	15	(7)	(25)
Premium amortization, net, on available for sale and held to maturity securities	266	162	125
Other	9	(4)	(7)
Net change in:			
Cash and investments segregated and on deposit for regulatory purposes	(2,576)	1,183	2,772
Receivables from brokers, dealers, and clearing organizations	(147)	(108)	44
Receivables from brokerage clients	150	(1,652)	(1,725)
Other securities owned	84	(17)	1
Other assets	(93)	(98)	(30)
Payables to brokers, dealers, and clearing organizations	(181)	808	393
Payables to brokerage clients	2,709	(1,120)	(1,028)
Accrued expenses and other liabilities	167	304	196
Net cash provided by operating activities	2,662	1,246	2,348
Cash Flows from Investing Activities			
Purchases of available for sale securities	(29,248)	(21,351)	(15,134)
Proceeds from sales of available for sale securities	5,537	2,424	6,556
Principal payments on available for sale securities	11,903	7,340	5,843
Purchases of held to maturity securities	(31,162)	(19,303)	(6,920)
Principal payments on held to maturity securities	5,747	3,540	2,687
Net increase in bank loans	(1,103)	(980)	(1,016)
Purchase of equipment, office facilities, and property	(346)	(266)	(400)
Purchases of Federal Home Loan Bank stock	(152)	-	-
Proceeds from sales of Federal Home Loan Bank stock	88	8	-
Other investing activities	(39)	(35)	(11)
Net cash used for investing activities	(38,775)	(28,623)	(8,395)
Cash Flows from Financing Activities			
Net change in bank deposits	33,952	26,687	9,843
Proceeds from short-term Federal Home Loan Bank borrowings	8,504	-	-
Repayment of short-term Federal Home Loan Bank borrowings	(8,504)	-	-
Issuance of long-term debt	-	1,346	-
Repayment of long-term debt	(7)	(357)	(6)
Net proceeds from preferred stock offerings	1,316	581	-

Dividends paid	(486)	(387)	(373)
Proceeds from stock options exercised and other	144	90	189
Other financing activities	44	32	29
Net cash provided by financing activities	34,963	27,992	9,682
Increase (Decrease) in Cash and Cash Equivalents	(1,150)	615	3,635
Cash and Cash Equivalents at Beginning of Year	11,978	11,363	7,728
Cash and Cash Equivalents at End of Year	$ 10,828	$ 11,978	$ 11,363
Supplemental Cash Flow Information			
Cash paid during the year for:			
Interest	$ 160	$ 121	$ 103
Income taxes	$ 991	$ 810	$ 778
Non-cash investing activity:			
Securities purchased during the year but settled after year end	$ -	$ -	$ 143

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, 2013	$ 869	1,488	$ 15	$ 3,951	$ 9,253	$ (3,716)	$ 9	$ 10,381
Net income	-	-	-	-	1,321	-	-	1,321
Other comprehensive income (loss), net of tax	-	-	-	-	-	-	156	156
Dividends declared on preferred stock	-	-	-	-	(57)	-	-	(57)
Dividends declared on common stock	-	-	-	-	(316)	-	-	(316)
Stock option exercises and other	-	-	-	(53)	-	240	-	187
Share-based compensation and related tax effects	-	-	-	139	-	-	-	139
Other	3	-	-	13	(3)	(21)	-	(8)
Balance at December 31, 2014	872	1,488	15	4,050	10,198	(3,497)	165	11,803
Net income	-	-	-	-	1,447	-	-	1,447
Other comprehensive income (loss), net of tax	-	-	-	-	-	-	(299)	(299)
Issuance of preferred stock	581	-	-	-	-	-	-	581
Dividends declared on preferred stock	-	-	-	-	(69)	-	-	(69)
Dividends declared on common stock	-	-	-	-	(318)	-	-	(318)
Stock option exercises and other	-	-	-	(87)	-	177	-	90
Share-based compensation and related tax effects	-	-	-	172	-	-	-	172

Other	6	-	-	17	(5)	(23)	-	(5)
Balance at December 31, 2015	1,459	1,488	15	4,152	11,253	(3,343)	(134)	13,402
Net income	-	-	-	-	1,889	-	-	1,889
Other comprehensive income (loss), net of tax	-	-	-	-	-	-	(29)	(29)
Issuance of preferred stock	1,316	-	-	-	-	-	-	1,316
Dividends declared on preferred stock	-	-	-	-	(126)	-	-	(126)
Dividends declared on common stock	-	-	-	-	(360)	-	-	(360)
Stock option exercises and other	-	-	-	(80)	-	224	-	144
Share-based compensation and related tax effects	-	-	-	177	-	-	-	177
Other	8	-	-	18	(7)	(11)	-	8
Balance at December 31, 2016	$ 2,783	1,488	$ 15	$ 4,267	$ 12,649	$ (3,130)	$ (163)	$ 16,421

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

CSC is a savings and loan holding company engaged, through its subsidiaries, in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services. Schwab is a securities broker-dealer with over 335 domestic branch offices in 46 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 Schwab Bank, a federal savings bank, and 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 ETFs™.

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 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 OTTI of investment securities, valuation of goodwill, allowance for loan losses, and legal and regulatory reserves. Actual results may differ from those estimates.

Principles of Consolidation

The Company evaluates for consolidation all entities in which it has financial interests, except for money market funds, which are specifically excluded from consolidation guidance. For an entity subject to consolidation, the Company evaluates whether the Company's interest in the entity constitutes a controlling financial interest under either the variable interest entity (VIE) model or the voting interest entity (VOE) model. Based upon the Company's assessments, the Company is not deemed to have a controlling financial interest in and, therefore, is not required to consolidate any VIEs. See Note 10 for further information about VIEs. The Company consolidates all VOEs in which it has majority voting interests.

For investments in entities in which the Company does not have a controlling financial interest, the Company accounts for those investments under the equity method of accounting when the Company has the ability to exercise significant influence over operating and financing decisions of the entity. Investments in entities for which the Company does not have the ability to exercise significant influence are generally carried at cost. Both equity method and cost method investments are included in other assets on the consolidated balance sheets.

2.Summary of Significant Accounting Policies

Asset management and administration fees

Asset management and administration fees include mutual fund and ETF service fees and fees for other asset-based financial services provided to individual and institutional clients, and are recognized as revenue over the period that the related service is provided, based upon daily 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, 2016 and for all years presented. The Company earns mutual fund and ETF service fees for shareholder services, administration, and investment management provided to its proprietary funds, and recordkeeping and shareholder services provided to third-party funds. Asset management and administration fees are based upon the daily balances of client assets invested in these funds. The fair values of client assets included in proprietary and third-party mutual funds and ETFs are based on quoted market prices and other observable market data. The Company also earns asset management fees for advice solutions, which include managed portfolios, specialized strategies and customized investment advice. Other asset management and administration fees include various asset-based fees, such as trust fees, 401(k) recordkeeping fees, mutual fund clearing fees, collective trust fund fees, and non-balance based service and transaction fees.

Interest revenue

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

THE CHARLES SCHWAB CORPORATION

Notes to Consolidated Financial Statements

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

Trading revenue

Trading revenue includes commission and principal transaction revenues. Commission revenue is affected by the number of revenue trades executed and the average revenue earned per revenue trade. Principal transaction revenue is primarily comprised of revenue from trading activity in fixed income securities with clients. To accommodate clients' fixed income trading activity, the Company maintains positions in fixed income securities, including U.S. state and municipal debt obligations, U.S. Government and corporate debt, and other securities. The difference between the price at which the Company buys and sells securities to and from its clients and other broker-dealers is recognized as principal transaction revenue. Principal transaction revenue also includes adjustments to the fair value of these securities positions.

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 U.S. 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 financing transactions that are recorded at their contractual amounts plus accrued interest. The Company obtains control of collateral with a market value equal to or in excess of the principal amount loaned and accrued interest under resale agreements. Collateral is valued daily by the Company, with additional collateral obtained to ensure full collateralization. Cash and investments segregated also include certificates of deposit and U.S. Government securities. Certificates of deposit and U.S. Government securities are recorded at fair value. Pursuant to applicable regulations, client cash balances not used for margin lending are segregated into investment accounts maintained for the exclusive benefit of clients by the Company's broker-dealer subsidiaries.

Receivables from brokerage clients

Receivables from brokerage clients includes margin loans to securities brokerage clients and other trading receivables from clients. Margin loans are collateralized by client securities and are carried at the amount receivable, net of an allowance for doubtful accounts. The Company monitors margin levels and requires clients to deposit additional collateral, or reduce margin positions to meet minimum collateral requirements if the fair value of the collateral changes. Receivables from brokerage clients that remain unsecured or partially secured for more than 30 days are fully reserved for in the allowance for doubtful accounts, except in the case of confirmed fraud, which is reserved immediately. Clients with margin loans have agreed to allow the Company to pledge collateralized securities in accordance with federal regulations. The collateral is not reflected in the consolidated financial statements.

Other securities owned

Other securities owned are recorded at fair value based on quoted market prices or other observable market data. Unrealized gains and losses are included in trading revenue.

Investment Securities

AFS securities are recorded at fair value and unrealized gains and losses are reported, net of taxes, in AOCI included in stockholders' equity. HTM securities are recorded at amortized cost based on the Company's positive intent and ability to hold these securities to maturity. Realized gains and losses from sales of AFS securities are determined on a specific identification basis and are included in other revenue.

Management evaluates whether investment securities are OTTI on a quarterly basis. Debt securities with unrealized losses are considered OTTI if the Company intends to sell the security or if it is more likely than not that the Company will be required to sell such security before any anticipated recovery. If management determines that a security is OTTI under these circumstances, the impairment recognized in earnings is measured as the entire difference between amortized cost and fair value.

A security is also OTTI if management does not expect to recover all of the amortized cost of the security. In this circumstance, the impairment recognized in earnings represents the estimated credit loss, and is measured by the difference between the present value of expected cash flows and the amortized cost of the security. Where appropriate, 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 consideration of multiple factors including: the magnitude and duration of the unrealized loss; the financial condition of the issuer; the payment structure of the security; external credit ratings; internal credit ratings; for asset-backed securities, the amount of credit support provided by the structure of the security to absorb credit losses on the underlying collateral; recent events specific to the issuer and the issuer's industry; and whether the Company has received all scheduled principal and interest payments.

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.

Bank loans and related allowance for loan losses

Bank loans are recorded at their contractual principal amounts and include unamortized direct origination costs or net purchase discounts or premiums. Direct origination costs and premiums and discounts are recognized in interest revenue using the effective interest method over the contractual life of the loan and are adjusted for actual prepayments. Additionally, loans are recorded net of an allowance for loan losses. The Company’s loan portfolio includes four loan types: First Mortgages, HELOCs, PALs and other loans. Loan segments are defined as the level to which the Company disaggregates its loan types when developing and documenting a methodology for determining the allowance for loan losses.

PALs are collateralized by marketable securities with liquid markets. Credit lines are over-collateralized dependent on the type of security pledged. Collateral market value is monitored on a daily basis and a borrower’s committed line may be reduced or collateral may be liquidated if the collateral is in danger of falling below specified levels. As such, the loss inherent within this portfolio is limited.

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, LTV ratios, past loss experience, estimates of future loss severities, borrower credit risk, and the adequacy of collateral. The methodology also evaluates concentrations in the loan types, including loan products within those types, year of origination, and geographical distribution of collateral.

Probable losses are forecast using a loan-level simulation of the delinquency status of the loans over the term of the loans. The simulation starts with the current relevant risk indicators, including the current delinquent status of each loan, the estimated current LTV ratio of each loan, the term and structure of each loan, current key interest rates including U.S. Treasury and LIBOR rates, and borrower FICO scores. The more significant variables in the simulation include delinquency roll rates, loss severity, housing prices, and interest rates. Delinquency roll rates (i.e., the rates at which loans transition through delinquency stages and ultimately result in a loss) are estimated from the Company's historical loss experience adjusted for current trends and market information. 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.

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

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

Nonaccrual, Nonperforming and Impaired loans

First Mortgages, HELOCs, PALs, and other loans are placed on nonaccrual status upon becoming 90 days past due as to interest or principal (unless the loans are well-secured and in the process of collection), or when the full timely collection of interest or principal becomes uncertain, including loans to borrowers who have filed for bankruptcy. 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 until qualifying for return to accrual status. Generally, a nonaccrual loan may be returned to accrual status when all delinquent interest and principal is repaid and the borrower demonstrates a sustained period of performance, or when the loan is both well-secured and in the process of collection and collectability is no longer doubtful. Loans on nonaccrual status and other real estate owned are considered nonperforming assets. Nonaccrual loans, other real estate owned, and TDRs are considered impaired assets, as it is probable the Company will not collect all amounts due.

Loan Charge-Offs

The Company charges off a loan in the period that it is deemed uncollectible and records a reduction in the allowance for loan losses and the loan balance. The Company's charge-off policy for First Mortgage and HELOC loans is to assess the value of the property when the loan has been delinquent for 180 days or has been discharged in bankruptcy proceedings, regardless of whether or not the property is in foreclosure, and charge-off the amount of the loan balance in excess of the estimated current value of the underlying property less estimated costs to sell.

Equipment, office facilities, and property

Equipment, office facilities, and property are recorded at cost net of accumulated depreciation and amortization, except for land, which is recorded at cost. Equipment 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.

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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.

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. Based on the Company's analysis, fair value significantly exceeded the carrying value for all reporting units as of its annual testing date.

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.

Low-Income Housing Tax Credit (LIHTC) Investments

As part of the Company's community reinvestment initiatives, the Company invests with other institutional investors in funds that make equity investments in multifamily affordable housing properties. The Company receives tax credits and other tax benefits for these investments. The Company accounts for investments in qualified affordable housing projects using the proportional amortization method if certain criteria are met. The proportional amortization method amortizes the cost of the investment over the period in which the investor expects to receive tax credits and other tax benefits, and the resulting amortization is recognized as a component of income tax expense attributable to continuing operations. The carrying value of LIHTC investments is included in other assets on the consolidated balance sheets. Unfunded commitments related to LIHTC investments are included in accrued expenses and other liabilities on the consolidated balance sheets.

Guarantees and indemnifications

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 obligations relating to guarantees are estimated based on transactions for similar guarantees or expected present value measures.

Advertising and market development

Advertising and market development activities include the cost to produce and distribute marketing campaigns as well as client incentives and discounts. Such costs are generally expensed when incurred.

Income taxes

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. Accrued interest relating to unrecognized tax benefits is recorded in income tax expense and penalties are recorded in other expense.

Share-based compensation

Share-based compensation includes employee and board of director stock options and restricted stock units. The Company measures compensation expense for these share-based payment arrangements based on their estimated fair values as of the unit's grant date. The fair value of the share-based award is recognized over the vesting period as share-based compensation. Share-based compensation expense is based on units expected to vest and therefore is reduced for estimated forfeitures. 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 units 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.

The Company's policy is to recognize transfers of financial instruments between levels as of the beginning of the reporting period in which a transfer occurs.

Assets and liabilities measured at fair value on a recurring basis

The Company's assets and liabilities measured at fair value on a recurring basis include certain cash equivalents, certain investments segregated and on deposit for regulatory purposes, other securities owned, and AFS securities. The Company uses the market approach to determine the fair value of assets and liabilities. When available, the Company uses quoted prices in active markets to measure the fair value of assets and liabilities. When utilizing market data and bid-ask spread, the Company uses the price within the bid-ask spread that best represents fair value. When quoted prices do not exist, the Company uses prices obtained from independent third-party pricing services to measure the fair value of investment assets. The Company generally obtains prices from at least three independent pricing sources for assets recorded at fair value.

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.

Fair value of other financial instruments

Descriptions of the valuation methodologies and assumptions used to estimate the fair value of other financial instruments are described below. 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 values of these financial instruments approximate their fair values.

- Receivables from/payables to brokers, dealers, and clearing organizations are short-term in nature, recorded at contractual amounts and historically have been settled at those values. Accordingly, the carrying values of these financial instruments approximate their fair values.

- Receivables from/payables to brokerage clients — net are short-term in nature, recorded at contractual amounts and historically have been settled at those values. Accordingly, the carrying values of these financial instruments approximate their fair values.

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

- Bank loans – The fair values of the Company's First Mortgages and HELOCs are estimated based on prices of mortgage-backed securities collateralized by similar types of loans. PALs are non-purpose revolving lines of credit secured by eligible assets; accordingly, the carrying values of these loans approximate their fair values.

· Financial instruments included in other assets primarily consist of LIHTC investments, cost method investments and FHLB stock, whose carrying values approximate their fair values. FHLB stock is recorded at par, which approximates its fair value.

· Bank deposits have no stated maturity and are recorded at the amount payable on demand as of the balance sheet date. The Company considers the carrying values of these deposits to approximate their fair values.

· Financial instruments included in accrued expenses and other liabilities consist of drafts payable and certain amounts due under contractual obligations, including unfunded LIHTC commitments. The carrying values of these instruments approximate their fair values.

· Short-term borrowings consist of commercial paper and funds drawn on Schwab Bank's secured credit facility with the Federal Home Loan Bank of San Francisco. Due to the short-term nature of these borrowings, carrying value approximates fair value.

· 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.

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- Firm commitments to extend credit – The Company extends credit to banking clients through HELOCs and PALs. The Company considers the fair value of these unused commitments to not be material because the interest rates earned on these balances are based on floating interest rates that reset monthly.

New Accounting Standards

Adoption of New Accounting Standards

On January 1, 2016, the Company adopted ASU 2015-02, "Consolidation (Topic 810)," which amends the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance is applicable to all entities but provides an exception for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The adoption of ASU 2015-02 did not have an impact on the Company's consolidated financial statements or EPS, as the new guidance did not change any consolidation conclusions reached in accordance with the previous guidance.

On January 1, 2016, the Company adopted ASU 2015-03, "Interest – Imputation of Interest (Subtopic 835-30)." ASU 2015-03 requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Previously, debt issuance costs were presented as a separate asset on the balance sheet. The guidance in ASU 2015-03 has been applied on a retrospective basis, which requires the adjustment of all prior period consolidated balance sheets. The effect of the adoption on the Company's December 31, 2015 consolidated balance sheet was to decrease other assets and total assets by $13 million and to decrease long-term debt and total liabilities by $13 million. The Company considers the reclassifications immaterial.

On January 1, 2016, the Company also adopted ASU 2015-05, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)," which provides new guidance that clarifies customers' accounting for fees paid in a cloud computing arrangement. Under the new guidance, if a cloud computing arrangement includes a software license, the customer shall account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, the customer shall account for the arrangement as a service contract. The guidance applies to all new arrangements entered into after January 1, 2016. The adoption of ASU 2015-05 did not have an impact on the Company's financial statements or EPS.

New Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which provides new guidance on revenue recognition. The guidance clarifies that revenue from contracts with customers should be recognized in a manner that depicts the timing of the related transfer of goods or performance of services at an amount that reflects the expected consideration. The FASB has subsequently issued several amendments to the standard, including deferral of the effective date until January 1, 2018, clarification of principal versus agent considerations, narrow scope improvements and other technical corrections. Entities may elect either full or modified retrospective transition. Full retrospective transition will require a cumulative effect adjustment to retained earnings as of the earliest comparative period presented. Modified retrospective transition will require a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance.

The Company plans to adopt the revenue recognition guidance in the first quarter of 2018. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other U.S. GAAP. Accordingly, the Company does not expect an impact to net interest revenue. While the Company has not yet identified any changes in the timing of revenue recognition, the Company's review is ongoing. The Company is evaluating the impact the new standard will have on the presentation of certain revenue streams (gross versus net reporting) and the capitalization of contract costs. The Company has not yet selected a transition method and continues to evaluate the impact the new guidance will have on its financial statements and EPS.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10)," which will become effective January 1, 2018. This new guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The main provisions of the guidance include (i) most equity investments are to be measured at fair value with changes in fair value recognized in net income, except for those accounted for under the equity method or those that do not have readily determinable fair values for which a practical expedient can be elected, (ii) requires

the use of an exit price notion when measuring the fair value of financial instruments for disclosure purposes, and (iii) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial instrument on the balance sheet or in the accompanying notes. The Company does not expect the adoption of ASU 2016-01 will have a material impact on its financial statements and EPS.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” which amends the accounting for leases by lessees and lessors. The primary change as a result of the new standard is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases. Additional changes include accounting for lease origination and executory costs, required lessee reassessments during the lease term due to changes in circumstances and expanded lease disclosures. ASU 2016-02 will become effective January 1, 2019, with early adoption permitted, and requires entities to apply the new guidance using a modified retrospective transition. Modified retrospective transition requires entities to apply the new guidance as of the beginning of the earliest comparative period presented in the financial statements in which the entity first applies the new standard. Certain transition reliefs are permitted if elected by the entity. The adoption of ASU 2016-02 will result in the Company recognizing a right-of-use asset and lease liability on the consolidated balance sheet based on the present value of remaining operating lease payments (see Note 14 for the undiscounted future annual minimum rental commitments for operating leases). The Company does not expect the adoption of ASU 2016-02 will have a material impact on its EPS.

In March 2016, the FASB issued ASU 2016-09, “Stock Compensation – Improvements to Employee Share-Based Payment Accounting (Topic 718)” which amends certain aspects of how an entity accounts for share-based payments to employees. The new guidance requires entities to recognize the income tax effects for the difference between GAAP and federal income tax treatment of share-based awards in the income statement when the awards vest or are settled, rather than recording such effects in additional paid-in capital. Entities will also be permitted to elect to account for forfeitures of share-based payments as they occur or continue with current practice, which requires estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change. ASU 2016-09 became effective January 1, 2017. The change in recognition of income tax effects of share-based awards will be applied prospectively. If an entity elects to account for forfeitures of share-based payments as they occur, such change will be applied using a modified retrospective transition method, with a cumulative-effect adjustment to retained earnings. The adoption of ASU 2016-09 will result in the Company recognizing the income tax effects of share-based awards in the income statement, thus impacting the Company’s EPS on a prospective basis. The impact of this new guidance is largely dependent on the Company’s future share price at the date of restricted stock unit vest or option exercise and, thus, is not practicable to estimate. The impact of ASU 2016-09 will likely disproportionately occur during the fourth quarter of each year due to the Company’s historic practice of granting the majority of equity compensation in that period. For historical perspective only, if ASU 2016-09 had been in effect for year ended 2016, the Company’s taxes on income as presented in the consolidated statements of income would have been reduced by $48 million and EPS increased by $0.04.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” which provides new guidance for recognizing impairment of most debt instruments measured at amortized cost, including loans and HTM debt securities. The new guidance will require estimating expected credit losses (CECL) over the remaining life of an instrument or a portfolio of instruments with similar risk characteristics based on relevant information about past events, current conditions and reasonable forecasts. The initial estimate of and the subsequent changes in CECL will be recognized as credit loss expense through current earnings and will be reflected as an allowance for credit losses offsetting the carrying value of the financial instrument(s) on the balance sheet. The new guidance also amends the OTTI model for AFS debt securities by requiring the use of an allowance, rather than directly reducing the carrying value of the security, and eliminating consideration of the length of time such security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. ASU 2016-13 will become effective January 1, 2020, with early adoption permitted as of January 1, 2019. The new guidance will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the entity applies the new guidance except that a prospective transition is required for AFS debt securities for which an OTTI had been recognized before the effective date. The Company is currently evaluating the impact of this new guidance on its financial statements and EPS.

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3.Receivables from and Payables to Brokerage Clients

Receivables from and payables to brokerage clients are detailed below:

December 31,	2016	2015
Receivables		
Margin loans, net of allowance for doubtful accounts	$ 15,257	$ 15,818
Other brokerage receivables	1,898	1,495
Receivables from brokerage clients – net	$ 17,155	$ 17,313
Payables		
Interest-bearing payables	$ 28,336	$ 26,584
Non-interest-bearing payables	7,558	6,601
Payables to brokerage clients	$ 35,894	$ 33,185

4.Other Securities Owned

A summary of other securities owned is as follows:

December 31,	2016	2015
Equity and bond mutual funds	$ 272	$ 205
Schwab Funds® money market funds	108	261
State and municipal debt obligations	41	50
Equity, U.S. Government and corporate debt, and other securities	28	17
Total other securities owned	$ 449	$ 533

Equity and bond mutual funds include inventory maintained to facilitate certain Schwab Funds and third-party mutual fund clients' transactions, and investments made by the Company relating to its deferred compensation plan. The Company's positions in Schwab Funds® money market funds arise from certain overnight funding of clients'

redemption, check-writing, and debit card activities. State and municipal debt obligations, equity, U.S. Government and corporate debt, and other securities include securities held to meet clients' trading activities.

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5.Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of AFS and HTM securities are as follows:

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. agency mortgage-backed securities	$ 33,167	$ 120	$ 92	$ 33,195
Asset-backed securities	20,520	29	214	20,335
Corporate debt securities	9,850	20	18	9,852
U.S. Treasury securities	8,679	3	59	8,623
Certificates of deposit	2,070	2	1	2,071
U.S. agency notes	1,915	-	8	1,907
U.S. state and municipal securities	1,167	2	46	1,123
Commercial paper	214	-	-	214
Non-agency commercial mortgage-backed securities	45	-	-	45
Total available for sale securities	$ 77,627	$ 176	$ 438	$ 77,365
Held to maturity securities:				
U.S. agency mortgage-backed securities	$ 72,439	$ 324	$ 1,086	$ 71,677
Non-agency commercial mortgage-backed securities	997	11	4	1,004
Asset-backed securities	941	-	-	941
Corporate debt securities	436	-	-	436
U.S. Treasury securities	223	-	4	219
Commercial paper	99	-	-	99
U.S. state and municipal securities	68	1	1	68
Total held to maturity securities	$ 75,203	$ 336	$ 1,095	$ 74,444

December 31, 2015				
Available for sale securities:				
U.S. agency mortgage-backed securities	$ 22,014	$ 183	$ 48	$ 22,149
Asset-backed securities	21,784	7	306	21,485
Corporate debt securities	10,764	14	31	10,747
U.S. Treasury securities	5,719	2	17	5,704

Certificates of deposit	1,685	1	3	1,683
U.S. agency notes	3,177	-	27	3,150
U.S. state and municipal securities	414	10	-	424
Non-agency commercial mortgage-backed securities	298	1	-	299
Other securities	5	-	-	5
Total available for sale securities	$ 65,860	$ 218	$ 432	$ 65,646
Held to maturity securities:				
U.S. agency mortgage-backed securities	$ 48,785	$ 391	$ 293	$ 48,883
Non-agency commercial mortgage-backed securities	999	6	20	985
U.S. Treasury securities	223	-	3	220
Total held to maturity securities	$ 50,007	$ 397	$ 316	$ 50,088

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Schwab Bank pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was $181 million at December 31, 2016.

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	
December 31, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
U.S. agency mortgage-backed securities	$ 14,816	$ 69	$ 2,931	$ 23	$ 17,747	$ 92
Asset-backed securities	1,670	13	9,237	201	10,907	214
Corporate debt securities	2,407	17	653	1	3,060	18
U.S. Treasury securities	6,926	59	-	-	6,926	59
Certificates of deposit	474	-	100	1	574	1
U.S. agency notes	1,907	8	-	-	1,907	8
U.S. state and municipal securities	956	46	-	-	956	46
Total	$ 29,156	$ 212	$ 12,921	$ 226	$ 42,077	$ 438
Held to maturity securities:						
U.S. agency mortgage-backed securities	$ 51,361	$ 1,086	$ -	$ -	$ 51,361	$ 1,086
Non-agency commercial mortgage-backed securities	591	4	-	-	591	4
U.S. Treasury securities	219	4	-	-	219	4
U.S. state and municipal securities	14	1	-	-	14	1
Total	$ 52,185	$ 1,095	$ -	$ -	$ 52,185	$ 1,095
Total securities with unrealized losses (1)	$ 81,341	$ 1,307	$ 12,921	$ 226	$ 94,262	$ 1,533

December 31, 2015						
Available for sale securities:						
U.S. agency mortgage-backed securities	$ 8,541	$ 47	$ 813	$ 1	$ 9,354	$ 48
Asset-backed securities	17,127	240	2,743	66	19,870	306
Corporate debt securities	5,433	25	942	6	6,375	31

U.S. Treasury securities	5,010	17	-	-	5,010	17
Certificates of deposit	773	2	599	1	1,372	3
U.S. agency notes	1,281	10	1,547	17	2,828	27
Total	$ 38,165	$ 341	$ 6,644	$ 91	$ 44,809	$ 432
Held to maturity securities:						
U.S. agency mortgage-backed securities	$ 24,219	$ 253	$ 1,842	$ 40	$ 26,061	$ 293
Non-agency commercial mortgage-backed securities	729	20	-	-	729	20
U.S. Treasury securities	220	3	-	-	220	3
Total	$ 25,168	$ 276	$ 1,842	$ 40	$ 27,010	$ 316
Total securities with unrealized losses (2)	$ 63,333	$ 617	$ 8,486	$ 131	$ 71,819	$ 748

(1) The number of investment positions with unrealized losses totaled 627 for AFS securities and 612 for HTM securities.
(2) The number of investment positions with unrealized losses totaled 409 for AFS securities and 286 for HTM securities.

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Management evaluates whether investment securities are OTTI on a quarterly basis as described in Note 2.

The following table is a roll forward of the amount of credit losses recognized in earnings for OTTI securities held by the Company during the period for which a portion of the impairment was reclassified from or recognized in other comprehensive income (loss):

Year Ended December 31,	2016	2015	2014
Balance at beginning of year	$ 1	$ 2	$ 169
Credit losses recognized into current year earnings on debt securities for which an OTTI was not previously recognized	-	-	1
Reductions due to sale of debt securities for which an OTTI was previously recognized	(1)	(1)	(168)
Balance at end of year	$ -	$ 1	$ 2

The maturities of AFS and HTM securities are as follows:

December 31, 2016	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Available for sale securities:					
U.S. agency mortgage-backed securities (1)	$ 47	$ 3,475	$ 16,847	$ 12,826	$ 33,195
Asset-backed securities	-	8,728	3,799	7,808	20,335
Corporate debt securities	2,332	7,520	-	-	9,852
U.S. Treasury securities	1,199	6,707	717	-	8,623
Certificates of deposit	651	1,420	-	-	2,071
U.S. agency notes	-	1,907	-	-	1,907
U.S. state and municipal securities	-	-	72	1,051	1,123
Commercial paper	214	-	-	-	214
Non-agency commercial mortgage-backed securities (1)	-	-	-	45	45
Total fair value	$ 4,443	$ 29,757	$ 21,435	$ 21,730	$ 77,365
Total amortized cost	$ 4,440	$ 29,741	$ 21,519	$ 21,927	$ 77,627
Held to maturity securities:					

U.S. agency mortgage-backed securities (1)	$ -	$ 5,080	$ 22,954	$ 43,643	$ 71,677
Non-agency commercial mortgage-backed securities (1)	-	-	364	640	1,004
Asset-backed securities	-	150	791	-	941
Corporate debt securities	-	436	-	-	436
U.S. Treasury securities	-	-	219	-	219
Commercial paper	99	-	-	-	99
U.S. state and municipal securities	-	-	6	62	68
Total fair value	$ 99	$ 5,666	$ 24,334	$ 44,345	$ 74,444
Total amortized cost	$ 99	$ 5,559	$ 24,500	$ 45,045	$ 75,203

(1) Mortgage-backed securities have been allocated to maturity groupings based on final contractual maturities. Actual maturities will differ from final contractual maturities because borrowers on a certain portion of loans underlying these securities have the right to prepay their obligations.

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

Year Ended December 31,	2016	2015	2014
Proceeds	$ 5,537	$ 2,424	$ 6,556
Gross realized gains	4	1	30
Gross realized losses	-	1	23

6.Bank Loans and Related Allowance for Loan Losses

The composition of bank loans and delinquency analysis by loan type is as follows:

December 31, 2016	Current	30-59 days past due	60-89 days past due	>90 days past due and other nonaccrual loans	Total past due and other nonaccrual loans	Total loans	Allowance for loan losses	Total bank loans - net
Residential real estate mortgages	$ 9,100	$ 15	$ 3	$ 16	$ 34	$ 9,134	$ 17	$ 9,117
Home equity loans and lines of credit	2,336	2	2	10	14	2,350	8	2,342
Pledged asset lines	3,846	4	1	-	5	3,851	-	3,851
Other	94	-	-	-	-	94	1	93
Total bank loans	$ 15,376	$ 21	$ 6	$ 26	$ 53	$ 15,429	$ 26	$ 15,403
December 31, 2015								
Residential real estate mortgages	$ 8,304	$ 11	$ 1	$ 18	$ 30	$ 8,334	$ 20	$ 8,314
Home equity loans and lines of credit	2,720	4	1	10	15	2,735	11	2,724
Pledged asset lines	3,228	3	1	-	4	3,232	-	3,232
Other	64	-	-	-	-	64	-	64

Total bank loans	$ 14,316	$ 18	$ 3	$ 28	$ 49	$ 14,365	$ 31	$ 14,334

First Mortgages and HELOCs include unamortized premiums and discounts and direct origination costs of $78 million and $80 million at December 31, 2016 and 2015, respectively. The Company had commitments to extend credit related to unused HELOCs, PALs, and other lines of credit, which totaled $8.4 billion and $7.4 billion at December 31, 2016 and 2015, respectively. The Company had commitments to purchase First Mortgage loans of $466 million and $260 million at December 31, 2016 and 2015, respectively. All PALs were fully collateralized by securities with fair values in excess of borrowings at December 31, 2016 and 2015.

Schwab Bank provides a co-branded loan origination program for Schwab Bank clients (the Program) with Quicken Loans, Inc. (Quicken Loans®). Pursuant to the Program, Quicken Loans originates and services First Mortgages and HELOCs for Schwab Bank clients. Under the Program, Schwab Bank purchases certain First Mortgages and HELOCs that are originated by Quicken Loans. Schwab Bank purchased First Mortgages of $3.3 billion and $2.0 billion during 2016 and 2015, respectively. Schwab purchased HELOCs with commitments of $440 million and $573 million during 2016 and 2015, respectively.

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Credit Quality

Changes in the allowance for loan losses were as follows:

	December 31, 2016				December 31, 2015			December 31, 2014		
	Residential real estate mortgages	Home equity loans and lines of credit	Other	Total	Residential real estate mortgages	Home equity loans and lines of credit	Total	Residential real estate mortgages	Home equity loans and lines of credit	Total
Balance at beginning of year	$ 20	$ 11	$ -	$ 31	$ 29	$ 13	$ 42	$ 34	$ 14	$ 48
Charge-offs	(1)	(1)	-	(2)	(1)	(2)	(3)	(3)	(2)	(5)
Recoveries	1	1	-	2	1	2	3	2	1	3
Provision for loan losses	(3)	(3)	1	(5)	(9)	(2)	(11)	(4)	-	(4)
Balance at end of year	$ 17	$ 8	$ 1	$ 26	$ 20	$ 11	$ 31	$ 29	$ 13	$ 42

Substantially all of the bank loans were collectively evaluated for impairment at both December 31, 2016 and 2015. There were no loans accruing interest that were contractually 90 days or more past due at December 31, 2016 or 2015. Nonperforming assets, which include nonaccrual loans and other real estate owned, totaled $31 million and $36 million at December 31, 2016 and 2015, respectively. Impaired assets, which include nonaccrual loans, other real estate owned and TDRs, totaled $45 million and $50 million at December 31, 2016 and 2015, respectively. TDRs were not material at December 31, 2016 or 2015.

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

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

· Estimated current LTV ratios (Estimated Current LTV).

Borrowers' FICO scores are provided by an independent third-party credit reporting service and were last updated in December 2016. The Origination LTV and Estimated Current LTV for a HELOC include any first lien mortgage outstanding on the same property at the time of the HELOC's origination. The Estimated Current LTV for each loan is estimated by reference to a home price appreciation index.

As of December 31, 2016 and 2015, 48% of the Company's HELOC and First Mortgage portfolio was concentrated in California. These loans have performed in a manner consistent with the portfolio as a whole.

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The credit quality indicators of the Company's bank loan portfolio are detailed below:

December 31, 2016	Balance	Weighted Average Updated FICO	Utilization Rate (1)		Percent of Loans that are on Nonaccrual Status	
Residential real estate mortgages:						
Estimated Current LTV						
<70%	$ 8,350	774	N/A		0.04	%
>70% – <90%	743	768	N/A		0.35	%
>90% – <100%	21	747	N/A		2.08	%
>100%	20	709	N/A		14.50	%
Total	$ 9,134	773	N/A		0.10	%
Home equity loans and lines of credit:						
Estimated Current LTV (2)						
<70%	$ 2,070	771	35	%	0.12	%
>70% – <90%	234	757	50	%	0.40	%
>90% – <100%	29	747	66	%	1.74	%
>100%	17	728	70	%	3.73	%
Total	$ 2,350	769	36	%	0.20	%
Pledged asset lines:						
Weighted Average LTV (2)						
=70%	$ 3,851	763	46	%	-	

(1) The Utilization Rate is calculated using the outstanding balance divided by the associated total line of credit.
(2) Represents the LTV for the full line of credit (drawn and undrawn).
N/A Not applicable.

December 31, 2016	Residential real estate mortgages	Home equity loans and lines of credit
Year of origination		

Pre-2012	$ 1,010	$ 1,660
2012	1,126	105
2013	1,746	193
2014	685	152
2015	1,458	146
2016	3,109	94
Total	$ 9,134	$ 2,350
Origination FICO		
<620	$ 8	$ -
620 – 679	92	13
680 – 739	1,427	432
>740	7,607	1,905
Total	$ 9,134	$ 2,350
Origination LTV		
<70%	$ 6,865	$ 1,628
>70% – <90%	2,260	709
>90% – <100%	9	13
Total	$ 9,134	$ 2,350

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December 31, 2015	Balance	Weighted Average Updated FICO	Utilization Rate (1)	Percent of Loans that are on Nonaccrual Status
Residential real estate mortgages:				
Estimated Current LTV				
<70%	$ 7,508	774	N/A	0.03 %
>70% – <90%	759	764	N/A	0.31 %
>90% – <100%	37	736	N/A	5.54 %
>100%	30	713	N/A	7.72 %
Total	$ 8,334	773	N/A	0.11 %
Home equity loans and lines of credit:				
Estimated Current LTV (2)				
<70%	$ 2,277	772	37 %	0.09 %
>70% – <90%	373	760	50 %	0.48 %
>90% – <100%	48	748	63 %	1.02 %
>100%	37	739	67 %	1.79 %
Total	$ 2,735	770	39 %	0.18 %
Pledged asset lines:				
Weighted Average LTV (2)				
=70%	$ 3,232	764	49 %	-

(1) The Utilization Rate is calculated using the outstanding balance divided by the associated total line of credit.
(2) Represents the LTV for the full line of credit (drawn and undrawn).
N/A Not applicable.

December 31, 2015	Residential real estate mortgages	Home equity loans and lines of credit
Year of origination		
Pre-2012	$ 1,306	$ 2,048
2012	1,644	125
2013	2,450	232
2014	1,021	188

2015	1,913	142
Total	$ 8,334	$ 2,735
Origination FICO		
<620	$ 10	$ -
620 – 679	88	16
680 – 739	1,381	498
>740	6,855	2,221
Total	$ 8,334	$ 2,735
Origination LTV		
<70%	$ 5,913	$ 1,858
>70% – <90%	2,408	860
>90% – <100%	13	17
Total	$ 8,334	$ 2,735

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7.Equipment, Office Facilities, and Property

Equipment, office facilities, and property are detailed below:

December 31,	2016	2015
Software	$ 1,335	$ 1,183
Buildings	807	771
Leasehold improvements	342	322
Information technology equipment	299	273
Furniture and equipment	190	177
Telecommunications equipment	67	78
Construction in progress	26	18
Land	168	110
Total equipment, office facilities, and property	3,234	2,932
Accumulated depreciation and amortization	(1,935)	(1,787)
Total equipment, office facilities, and property – net	$ 1,299	$ 1,145

Depreciation and amortization expense for equipment, office facilities, and property was $197 million, $179 million, and $155 million in 2016, 2015, and 2014, respectively.

8.Intangible Assets and Goodwill

Intangible assets and goodwill are detailed below:

	December 31, 2016			December 31, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value

Client relationships	$ 274	$ 169	$ 105	$ 274	$ 144	$ 130
Technology	89	56	33	89	47	42
Trade name	16	10	6	16	7	9
Total intangible assets	$ 379	$ 235	$ 144	$ 379	$ 198	$ 181

Amortization expense for intangible assets was $37 million, $45 million, and $44 million, in 2016, 2015, and 2014, respectively.

Estimated future annual amortization expense for intangible assets as of December 31, 2016, is as follows:

2017	$ 37
2018	30
2019	27
2020	22
2021	15
Thereafter	13
Total intangible assets	$ 144

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The changes in the carrying amount of goodwill, as allocated to the Company's reportable segments for purposes of testing goodwill for impairment going forward, are presented in the following table:

	Investor Services	Advisor Services	Total
Balance at December 31, 2014	$ 1,127	$ 100	$ 1,227
Goodwill acquired and other changes during the period (1)	(31)	31	-
Balance at December 31, 2015	1,096	131	1,227
Goodwill acquired and other changes during the period	-	-	-
Balance at December 31, 2016	$ 1,096	$ 131	$ 1,227

(1) During 2015, the Corporate Brokerage Retirement Services business was transferred from the Investor Services segment to the Advisor Services segment. Related goodwill amounts were transferred from the Investor Services segment to the Advisor Services segment.

In testing for potential impairment of goodwill on April 1, 2016, management performed an assessment of each of the Company's reporting units. As a result of this assessment, management concluded that goodwill was not impaired. The Company did not recognize any goodwill impairment in 2016, 2015, or 2014.

9.Other Assets

The components of other assets are as follows:

December 31,	2016	2015
Accounts receivable (1)	$ 451	$ 388
Interest and dividends receivable	325	241
Other investments (2)	324	180
Deferred tax asset – net	143	145
Prepaid expenses	90	101

Other (3)	75	106
Total other assets	$ 1,408	$ 1,161

(1) Accounts receivable includes accrued service fee income and a receivable from the Company's loan servicer.
(2) Other investments include LIHTC investments and investments in stock of the Federal Home Loan Bank of San Francisco. FHLB stock can only be sold to the issuer at its par value. Any cash dividends received from these investments are recognized as interest income in the Consolidated Statements of Income.
(3) Adjusted for retrospective adoption of ASU 2015-03. See New Accounting Standards in Note 2 for additional information.

10.Variable Interest Entities

A VIE requires consolidation by the entity's primary beneficiary. The Company evaluates all entities in which it has a financial interest to determine if the entity is a VIE and if so, whether the Company is the primary beneficiary. See "Principles of Consolidation" in Note 1 for discussion of the Company's evaluations of VIEs and whether it is deemed to be the primary beneficiary of any VIEs in which it holds an interest. The Company was not the primary beneficiary of, and therefore, not required to consolidate any VIEs during 2016, 2015, or 2014.

Community Reinvestment Act investments

Schwab Bank is subject to the CRA. The CRA is intended to encourage banks to help meet the credit needs of the communities in which they operate, including low and moderate income neighborhoods, consistent with safe and sound banking operations. As part of Schwab Bank's community reinvestment initiatives, Schwab Bank invests with other institutional investors in funds that make equity investments in multifamily affordable housing properties. Schwab Bank receives tax credits and other tax benefits for these investments. Schwab Bank's LIHTC investments are accounted for using

the proportional amortization method. See Note 2 for discussion of the application of the proportional amortization method. Amortization, tax credits, and other tax benefits recognized in relation to LIHTC investments are included in taxes on income on the consolidated statements of income. As of December 31, 2016 and 2015, the majority of the Company's VIEs related to Schwab Bank's LIHTC investments.

The carrying value of the LIHTC investments was $189 million and $104 million as of December 31, 2016 and 2015, respectively, which is included in other assets on the consolidated balance sheets. Schwab Bank recorded liabilities of $135 million and $84 million for unfunded commitments related to LIHTC investments at December 31, 2016 and 2015, respectively, which are included in accrued expenses and other liabilities on the consolidated balance sheets. Schwab Bank's funding of these remaining commitments is dependent upon the occurrence of certain conditions and Schwab Bank expects to pay substantially all of these commitments between 2017 and 2020.

Aggregate assets, liabilities and maximum exposure to loss

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

	December 31, 2016			December 31, 2015		
	Aggregate assets	Aggregate liabilities	Maximum exposure to loss	Aggregate assets	Aggregate liabilities	Maximum exposure to loss
LIHTC Investments	$ 189	$ 135	$ 189	$ 104	$ 84	$ 104
Other CRA Investments (1)	60	-	80	57	-	66
Total	$ 249	$ 135	$ 269	$ 161	$ 84	$ 170

(1) Other CRA investments are recorded using either the cost method or the equity method. Aggregate assets are included in either other assets or bank loans – net on the consolidated balance sheets.

The Company’s maximum exposure to loss would result from the loss of the investments, including any committed amounts. During the years ended December 31, 2016 and 2015, the Company did not provide or intend to provide financial or other support to the VIEs that it was not contractually required to provide.

11.Bank Deposits

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

December 31,	2016	2015
Interest-bearing deposits:		
Deposits swept from brokerage accounts	$ 141,146	$ 108,137
Checking	13,842	12,822
Savings and other	7,792	7,896
Total interest-bearing deposits	162,780	128,855
Non-interest-bearing deposits	674	647
Total bank deposits	$ 163,454	$ 129,502

12.Payables to Brokers, Dealers, and Clearing Organizations

Payables to brokers, dealers, and clearing organizations include securities loaned of $2.0 billion and $2.2 billion at December 31, 2016 and 2015, respectively. The cash collateral received from counterparties under securities lending transactions was equal to or greater than the market value of the securities loaned at December 31, 2016 and 2015.

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13.Borrowings

Long-term debt was net of unamortized debt discounts/premiums and debt issuance costs of $24 million and $29 million at December 31, 2016 and 2015, respectively.

December 31,		2016		2015
Senior Notes	$	2,558	$	2,553 (1)
Medium-Term Notes, Series A		250		249 (1)
Finance lease obligation		68		75
Total long-term debt	$	2,876	$	2,877

(1) Balances as of December 31, 2015 have been recast as a result of the adoption of ASU 2015-03, to present debt issuance costs of $13 million as a direct deduction from the carrying amount of the associated debt liability, consistent with the recording of debt discounts.

CSC has a Shelf Registration Statement on file with the SEC, which enables CSC to issue debt, equity, and other securities.

The Senior Notes outstanding at December 31, 2016, have maturities ranging from 2018 to 2026 and bear interest at a weighted-average rate of 3.03% with interest payable semi-annually.

On November 13, 2015, CSC issued $350 million aggregate principal amount of Senior Notes that mature in 2026. The Senior Notes have a fixed interest rate of 3.450% with interest payable semi-annually.

On March 10, 2015, CSC issued $625 million aggregate principal amount of Senior Notes that mature in 2018 and $375 million aggregate principal amount of Senior Notes that mature in 2025. The Senior Notes due 2018 and 2025 have a fixed interest rate of 1.50% and 3.00%, respectively, with interest payable semi-annually.

The Medium-Term Notes, Series A (Medium-Term Notes) outstanding at December 31, 2016, mature in 2017 and have a fixed interest rate of 6.375% with interest payable semi-annually.

Schwab has a finance lease obligation related to an office building and land under a 20-year lease. The remaining finance lease obligation of $68 million at December 31, 2016, is being reduced by a portion of the lease payments over the remaining lease term of eight years.

Annual maturities on long-term debt outstanding at December 31, 2016, are as follows:

2017	$ 258
2018	908
2019	8
2020	709
2021	9
Thereafter	1,008
Total maturities	2,900
Unamortized discount, net	(14)
Debt issuance costs	(10)
Total long-term debt	$ 2,876

Short-term borrowings: Schwab Bank maintains a secured credit facility with the FHLB. Amounts available under this facility are dependent on the amount of Schwab Bank’s First Mortgages, HELOCs, and the fair value of certain of Schwab Bank’s investment securities that are pledged as collateral. During 2016, Schwab Bank used borrowings under this agreement to purchase investment securities prior to bulk transfers. No amounts were outstanding under this facility as of December 31, 2016 or 2015. As a condition of the borrowings, Schwab Bank purchased $152 million of FHLB stock, recorded at par, and sold $88 million of FHLB stock in 2016, with the net investment recorded in other assets on the consolidated balance sheets. Schwab Bank sold $8 million of FHLB stock during 2015.

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CSC has authorization from its Board of Directors to issue Commercial Paper Notes not to exceed $1.5 billion. Management has set a current limit for the commercial paper program not to exceed the amount of the committed, unsecured credit facility, which was $750 million at December 31, 2016. 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. CSC had no borrowings of Commercial Paper Notes outstanding at December 31, 2016 or 2015.

CSC maintains a $750 million committed, unsecured credit facility with a group of banks, which is scheduled to expire in June 2017. This facility replaced a similar facility that expired in June 2016. The funds under this facility are available for general corporate purposes. The financial covenants 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, adjusted to exclude AOCI. At December 31, 2016, the minimum level of stockholders' equity required under this facility was $10.2 billion (CSC's stockholders' equity, excluding AOCI, at December 31, 2016, was $16.6 billion). There were no borrowings outstanding under these facilities at December 31, 2016 or 2015.

To manage short-term liquidity, Schwab maintains uncommitted, unsecured bank credit lines with several banks. There were no borrowings outstanding under these lines at December 31, 2016 or 2015.

14.Commitments and Contingencies

Operating leases: The Company has non-cancelable operating leases for office space and equipment. Future annual minimum rental commitments under these leases, net of contractual subleases are as follows:

December 31, 2016	Operating Leases	Subleases	Net
2017	$ 137	$ 29	$ 108
2018	109	8	101
2019	84	4	80
2020	73	4	69

2021	64	5	59
Thereafter	318	2	316
Total	$ 785	$ 52	$ 733

Certain leases contain provisions for renewal options, purchase options, and rent escalations based on increases in certain costs incurred by the lessor. Rent expense relating to operating leases was $123 million, $116 million, and $114 million in 2016, 2015, and 2014, respectively.

Purchase obligations: The Company has purchase obligations for services such as advertising and marketing, telecommunications, professional services, and hardware- and software-related agreements. The Company has purchase obligations as follows:

December 31, 2016	
2017	$ 211
2018	88
2019	44
2020	21
2021	20
Thereafter	200
Total	$ 584

Guarantees and indemnifications: The Company has clients that sell (i.e., write) listed option contracts that are cleared by the Options Clearing Corporation – a clearing house that establishes margin requirements on these transactions. The Company partially satisfies the margin requirements by arranging unsecured standby LOCs, in favor of the Options Clearing

Corporation, which are issued by several banks. At December 31, 2016, the aggregate face amount of these LOCs totaled $295 million. There were no funds drawn under any of these LOCs at December 31, 2016. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The Company satisfies the collateral requirements by providing cash as collateral.

The Company also provides guarantees to securities clearing houses and exchanges under standard membership agreements, which require members to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing houses and exchanges, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. The potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these guarantees.

Legal contingencies: 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.

The Company believes it has strong defenses in all significant matters currently pending and is contesting liability and any damages claimed. Nevertheless, some of these matters may result in adverse judgments or awards, including penalties, injunctions or other relief, and the Company may also determine to settle a matter because of the uncertainty and risks of litigation. Described below are certain matters in which there is a reasonable possibility that a material loss could be incurred or where the matter may otherwise be of significant interest to stockholders. Unless otherwise noted, the Company is unable to provide a reasonable estimate of any potential liability given the stage of proceedings in the matter.

With respect to all other pending matters, based on current information and consultation with counsel, it does not appear reasonably possible that the outcome of any such matter would be material to the financial condition, operating results or cash flows of the Company. Predicting the outcome of a litigation or regulatory matter is inherently difficult, requiring significant judgment and evaluation of various factors, including the procedural status of the matter and any recent developments; prior experience and the experience of others in similar cases; available defenses, including potential opportunities to dispose of a case on the merits or procedural grounds before trial (e.g., motions to dismiss or for summary judgment); the progress of fact discovery; the opinions of counsel and experts regarding potential damages; potential opportunities for settlement and the status of any settlement discussions; and potential insurance coverage and indemnification. It may not be possible to reasonably estimate potential liability, if any, or a range of potential liability until the matter is closer to resolution – pending, for example, further proceedings, the outcome of

key motions or appeals, or discussions among the parties. Numerous issues may have to be developed, such as discovery of important factual matters and determination of threshold legal issues, which may include novel or unsettled questions of law. Reserves are established or adjusted or further disclosure and estimates of potential loss are provided as the matter progresses and more information becomes available.

Total Bond Market Fund Litigation: On August 28, 2008, a class action lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of investors in the Schwab Total Bond Market Fund™. The lawsuit, which alleged violations of state law and federal securities law in connection with the fund's investment policy, named CSIM, Schwab Investments (registrant and issuer of the fund's shares) and certain current and former fund trustees as defendants. Allegations include that the fund improperly deviated from its stated investment objectives by investing in collateralized mortgage obligations (CMOs) and investing more than 25% of fund assets in CMOs and mortgage-backed securities without obtaining a shareholder vote. Plaintiff seeks unspecified compensatory and rescission damages, unspecified equitable and injunctive relief, costs and attorneys' fees. Plaintiff's federal securities law claim and certain of plaintiff's state law claims were dismissed. On August 8, 2011, the court dismissed plaintiff's remaining claims with prejudice. Plaintiff appealed to the Ninth Circuit, which issued a ruling on March 9, 2015 reversing the district court's dismissal of the case and remanding the case for further proceedings. Plaintiff filed a fourth amended complaint on June 25, 2015, and in decisions issued October 6, 2015 and February 23, 2016, the court dismissed all claims with prejudice. Plaintiff has appealed to the Ninth Circuit, where the case is again pending.

Other Matters: On April 16, 2012, optionsXpress was charged by the SEC in an administrative proceeding alleging violations of its close-out obligations under Regulation SHO (short sale delivery rules) in connection with certain customer trading

activity. Following trial, in a decision issued June 7, 2013, the judge held that optionsXpress had violated Regulation SHO and aided and abetted fraudulent trading activity by its customer, and ordered optionsXpress and the customer to pay disgorgement and penalties in an amount that would not be material. The Company appealed to the SEC, and in a decision issued August 18, 2016 and amended September 13, 2016, the SEC dismissed all fraud charges but affirmed the violations of Regulation SHO and the financial sanctions imposed by its administrative law judge. This matter is now concluded.

15.Financial Instruments Subject to Off-Balance Sheet Credit Risk or Concentration Risk

Off-Balance Sheet Credit Risk

Resale and repurchase agreements: Schwab enters into collateralized resale agreements principally with other broker-dealers, which could result in losses in the event the counterparty fails to purchase the securities held as collateral for the cash advanced and the fair value of the securities declines. To mitigate this risk, Schwab requires that the counterparty deliver securities to a custodian, to be held as collateral, with a fair value at or in excess of the resale price. Schwab also sets standards for the credit quality of the counterparty, monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest, and requires additional collateral where deemed appropriate. Schwab utilizes the collateral provided under these resale agreements to meet obligations under broker-dealer client protection rules, which place limitations on its ability to access such segregated securities. For Schwab to repledge or sell this collateral, it would be required to deposit cash and/or securities of an equal amount into its segregated reserve bank accounts in order to meet its segregated cash and investment requirement. The Company’s resale agreements are not subject to master netting arrangements.

Securities lending: The Company loans brokerage client securities temporarily to other brokers in connection with its securities lending activities and receives cash as collateral for the securities loaned. Increases in security prices may cause the fair value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities or provide additional cash collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its client obligations. The Company mitigates this risk by requiring credit approvals for counterparties, monitoring the fair value of securities loaned, and requiring additional cash as collateral when necessary. The Company borrows securities from other broker-dealers to fulfill short sales by brokerage clients and delivers cash to the lender in exchange for the securities. The fair value of these borrowed securities was $213 million and $72 million at December 31, 2016 and 2015, respectively. All of the Company’s securities lending transactions are subject to

enforceable master netting arrangements with other broker-dealers; however, the Company does not net securities lending transactions. Therefore, the Company's securities loaned and securities borrowed are presented gross in the consolidated balance sheets.

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The following table presents information about the Company's resale agreements and securities lending activity to enable the users of the Company's financial statements to evaluate the potential effect of rights of setoff between these recognized assets and recognized liabilities at December 31, 2016 and 2015.

	Gross Assets/ Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Counterparty Offsetting	Collateral	
December 31, 2016						
Assets:						
Resale agreements (1)	$ 9,547	$ -	$ 9,547	$ -	$ (9,547) (2)	$ -
Securities borrowed (3)	393	-	393	(200)	(189)	4
Total	$ 9,940	$ -	$ 9,940	$ (200)	$ (9,736)	$ 4
Liabilities:						
Securities loaned (4,5)	$ 1,996	$ -	$ 1,996	$ (200)	$ (1,660)	$ 136
Total	$ 1,996	$ -	$ 1,996	$ (200)	$ (1,660)	$ 136
December 31, 2015						
Assets:						
Resale agreements (1)	$ 8,088	$ -	$ 8,088	$ -	$ (8,088) (2)	$ -
Securities borrowed (3)	198	-	198	(70)	(127)	1
Total	$ 8,286	$ -	$ 8,286	$ (70)	$ (8,215)	$ 1
Liabilities:						
Securities loaned (4,5)	$ 2,233	$ -	$ 2,233	$ (70)	$ (1,990)	$ 173
Total	$ 2,233	$ -	$ 2,233	$ (70)	$ (1,990)	$ 173

(1) Included in cash and investments segregated and on deposit for regulatory purposes in the Company's consolidated balance sheets.
(2) Actual collateral was greater than or equal to 102% of the related assets. At December 31, 2016 and 2015, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was $9.8 billion and $8.2 billion, respectively.
(3) Included in receivables from brokers, dealers, and clearing organizations in the Company's consolidated balance sheets.
(4) Included in payables to brokers, dealers, and clearing organizations in the Company's consolidated balance sheets.

(5) Securities loaned are predominantly comprised of equity securities held in client brokerage accounts with overnight and continuous remaining contractual maturities.

Client trade settlement: The Company is obligated to settle transactions with brokers and other financial institutions even if the Company's clients fail to meet their obligations to the Company. Clients are required to complete their transactions on settlement date, generally three business days after the trade date. If clients do not fulfill their contractual obligations, the Company may incur losses. The Company has established procedures to reduce this risk by requiring deposits from clients in excess of amounts prescribed by regulatory requirements for certain types of trades, and therefore the potential to make payments under these client transactions is remote. Accordingly, no liability has been recognized for these transactions.

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Margin lending: Clients with margin loans have agreed to allow the Company to pledge collateralized securities in their brokerage accounts in accordance with federal regulations. The following table summarizes the fair value of client securities available, under such regulations, for the Company to utilize as collateral, and the amounts pledged by the Company.

December 31,	2016	2015
Fair value of client securities available to be pledged	$ 21,516	$ 22,385
Fair value of client securities pledged for:		
Securities lending to other broker-dealers	1,626	1,935
Fulfillment of client short sales	2,048	1,344
Fulfillment of requirements with the Options Clearing Corporation (1)	1,519	1,450
Total collateral pledged	$ 5,193	$ 4,729

Note: Excludes amounts available and pledged for securities lending from fully-paid client securities. The fair value of fully-paid client securities available and pledged was $58 million as of December 31, 2016 and $43 million as of December 31, 2015.

(1) Client securities pledged to fulfill client margin requirements for open option contracts established with the Options Clearing Corporation.

Financial Guarantees: See Note 14 for additional information.

Concentration Risk

The Company has exposure to concentration risk when holding large positions of 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 $105.9 billion at December 31, 2016. Of these, $104.9 billion were issued by U.S. agencies and $1.0 billion were issued by private entities (non-agency securities). The fair value of the Company's investments in mortgage-backed securities totaled $72.3 billion at December 31, 2015. Of these, $71.0 billion were issued by U.S. agencies and $1.3 billion were non-agency securities. These U.S. agency and non-agency securities are included in investment securities in the consolidated balance sheets.

The fair value of the Company's investments in corporate debt securities and commercial paper totaled $10.6 billion and $11.1 billion at December 31, 2016 and 2015, respectively. At December 31, 2016, approximately 48% of these investments were issued by institutions in the financial services industry. These securities are included in investment securities, cash and cash equivalents, and other securities owned.

The Company's bank loans include $8.2 billion and $7.5 billion of adjustable rate First Mortgages at December 31, 2016 and 2015, respectively. At December 31, 2016, approximately 36% of these mortgages consisted of loans with interest-only payment terms. At December 31, 2016, the interest rates on approximately 58% of these interest-only loans are not scheduled to reset for three or more years. For additional detail on concentrations in bank loans, see Note 6.

Fees received from Schwab's proprietary mutual funds and ETFs represented 13%, 8%, and 7% of the Company's net revenues in 2016, 2015, and 2014, respectively. Except for Schwab's proprietary mutual funds and ETFs, which are considered a single client for purposes of this computation, no single client accounted for more than 10% of the Company's net revenues in 2016, 2015, or 2014. Substantially all of the Company's revenues and assets are generated or located in the U.S. The percentage of Schwab's total client accounts located in California was 23% at December 31, 2016, 2015, and 2014.

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, as described above.

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16.Fair Values of Assets and Liabilities

For a description of the fair value hierarchy and the Company's fair value methodologies, including the use of independent third-party pricing services, see Note 2. The Company did not transfer any assets or liabilities between Level 1, Level 2, or Level 3 during 2016 or 2015. In addition, the Company did not adjust prices received from the primary independent third-party pricing service at December 31, 2016 or 2015.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the fair value hierarchy for assets measured at fair value on a recurring basis. Liabilities recorded at fair value were not material, and therefore are not included in the following tables:

December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 1,514	$ -	$ -	$ 1,514
Total cash equivalents	1,514	-	-	1,514
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	-	2,525	-	2,525
U.S. Government securities	-	6,111	-	6,111
Total investments segregated and on deposit for regulatory purposes	-	8,636	-	8,636
Other securities owned:				
Equity and bond mutual funds	272	-	-	272
Schwab Funds® money market funds	108	-	-	108
State and municipal debt obligations	-	41	-	41
Equity, U.S. Government and corporate debt, and				

other securities	2	26	-	28
Total other securities owned	382	67	-	449
Available for sale securities:				
U.S. agency mortgage-backed securities	-	33,195	-	33,195
Asset-backed securities	-	20,335	-	20,335
Corporate debt securities	-	9,852	-	9,852
U.S. Treasury securities	-	8,623	-	8,623
Certificates of deposit	-	2,071	-	2,071
U.S. agency notes	-	1,907	-	1,907
U.S. state and municipal securities	-	1,123	-	1,123
Commercial paper	-	214	-	214
Non-agency commercial mortgage-backed securities	-	45	-	45
Total available for sale securities	-	77,365	-	77,365
Total	$ 1,896	$ 86,068	$ -	$ 87,964

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December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 1,968	$ -	$ -	$ 1,968
Commercial paper	-	360	-	360
Total cash equivalents	1,968	360	-	2,328
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	-	3,430	-	3,430
U.S. Government securities	-	4,517	-	4,517
Total investments segregated and on deposit for regulatory purposes	-	7,947	-	7,947
Other securities owned:				
Equity and bond mutual funds	205	-	-	205
Schwab Funds® money market funds	261	-	-	261
State and municipal debt obligations	-	50	-	50
Equity, U.S. Government and corporate debt, and other securities	1	16	-	17
Total other securities owned	467	66	-	533
Available for sale securities:				
U.S. agency mortgage-backed securities	-	22,149	-	22,149
Asset-backed securities	-	21,485	-	21,485
Corporate debt securities	-	10,747	-	10,747
U.S. Treasury securities	-	5,704	-	5,704
Certificates of deposit	-	1,683	-	1,683
U.S. agency notes	-	3,150	-	3,150
U.S. state and municipal securities	-	424	-	424
Non-agency commercial mortgage-backed securities	-	299	-	299
Other securities	-	5	-	5
Total available for sale securities	-	65,646	-	65,646
Total	$ 2,435	$ 74,019	$ -	$ 76,454

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Fair Value of Other Financial Instruments

Descriptions of the valuation methodologies and assumptions used to estimate the fair value of other financial instruments are also described in Note 2. There were no significant changes in these methodologies or assumptions during 2016. The following tables present the fair value hierarchy for other financial instruments:

December 31, 2016	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 9,314	$ -	$ 9,314	$ -	$ 9,314
Cash and investments segregated and on deposit for regulatory purposes	13,533	-	13,533	-	13,533
Receivables from brokers, dealers, and clearing organizations	728	-	728	-	728
Receivables from brokerage clients – net	17,151	-	17,151	-	17,151
Held to maturity securities:					
U.S. agency mortgage-backed securities	72,439	-	71,677	-	71,677
Non-agency commercial mortgage-backed securities	997	-	1,004	-	1,004
Asset-backed securities	941	-	941	-	941
Corporate debt securities	436	-	436	-	436
U.S. Treasury securities	223	-	219	-	219
Commercial paper	99	-	99	-	99
U.S. state and municipal securities	68	-	68	-	68
Total held to maturity securities	75,203	-	74,444	-	74,444
Bank loans: (1)					
Residential real estate mortgages	9,134	-	9,064	-	9,064
Home equity loans and lines of credit	2,350	-	2,458	-	2,458
Pledged asset lines	3,851	-	3,851	-	3,851
Other	94	-	94	-	94
Total bank loans	15,429	-	15,467	-	15,467

Other assets	328	-	328	-	328
Total	$ 131,686	$ -	$ 130,965	$ -	$ 130,965
Liabilities:					
Bank deposits	$ 163,454	$ -	$ 163,454	$ -	$ 163,454
Payables to brokers, dealers, and clearing organizations	2,407	-	2,407	-	2,407
Payables to brokerage clients	35,894	-	35,894	-	35,894
Accrued expenses and other liabilities	1,169	-	1,169	-	1,169
Long-term debt	2,876	-	2,941	-	2,941
Total	$ 205,800	$ -	$ 205,865	$ -	$ 205,865

(1) The carrying value of bank loans excludes the allowance for loan losses of $26 million at December 31, 2016.

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December 31, 2015	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 9,650	$ -	$ 9,650	$ -	$ 9,650
Cash and investments segregated and on deposit for regulatory purposes	11,647	-	11,647	-	11,647
Receivables from brokers, dealers, and clearing organizations	582	-	582	-	582
Receivables from brokerage clients – net	17,310	-	17,310	-	17,310
Held to maturity securities:					
U.S. agency mortgage-backed securities	48,785	-	48,883	-	48,883
Non-agency commercial mortgage-backed securities	999	-	985	-	985
U.S. Treasury securities	223	-	220	-	220
Total held to maturity securities	50,007	-	50,088	-	50,088
Bank loans: (1)					
Residential real estate mortgages	8,334	-	8,347	-	8,347
Home equity loans and lines of credit	2,735	-	2,857	-	2,857
Pledged asset lines	3,232	-	3,232	-	3,232
Other	64	-	64	-	64
Total bank loans	14,365	-	14,500	-	14,500
Other assets	184	-	184	-	184
Total	$ 103,745	$ -	$ 103,961	$ -	$ 103,961
Liabilities:					
Bank deposits	$ 129,502	$ -	$ 129,502	$ -	$ 129,502
Payables to brokers, dealers, and clearing organizations	2,588	-	2,588	-	2,588
Payables to brokerage clients	33,185	-	33,185	-	33,185
Accrued expenses and other liabilities	1,115	-	1,115	-	1,115
Long-term debt (2)	2,877	-	2,967	-	2,967
Total	$ 169,267	$ -	$ 169,357	$ -	$ 169,357

(1) The carrying value of bank loans excludes the allowance for loan losses of $31 million at December 31, 2015.
(2) The amounts as of December 31, 2015 have been recast as a result of the adoption of ASU 2015-03, to present debt issuance costs of $13 million as a direct deduction from the carrying amount of the associated debt liability,

consistent with the recording of debt discounts.

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17.Stockholders' Equity

The Company did not issue any shares of common stock during 2016, 2015, and 2014, respectively.

The Company was authorized to issue 9,940,000 shares of preferred stock, $0.01 par value, at December 31, 2016 and 2015. The Company's preferred stock issued and outstanding is as follows:

December 31,	2016				2015			
	Shares Issued and Outstanding (In thousands)	Liquidation Preference Per Share	Liquidation Preference	Carrying Value	Shares Issued and Outstanding (In thousands)	Liquidation Preference Per Share	Liquidation Preference	Carrying Value
Series A	400	$ 1,000	$ 400	$ 397	400	$ 1,000	$ 400	$ 396
Series B	485	1,000	485	482	485	1,000	485	480
Series C	600	1,000	600	585	600	1,000	600	583
Series D	750	1,000	750	728	-	-	-	-
Series E	6	100,000	600	591	-	-	-	-
Total Preferred Stock	2,241		$ 2,835	$ 2,783	1,485		$ 1,485	$ 1,459

The Series A Preferred Stock has no stated maturity and has a fixed dividend rate of 7.000% until February 2022 and a floating rate equal to three-month LIBOR plus 4.820% thereafter. During the fixed rate period, dividends, if declared, will be payable semi-annually in arrears. During the floating rate period, dividends, if declared, will be payable quarterly in arrears. Dividends are not cumulative. Under the terms of the Series A Preferred Stock, the Company's ability to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the Series A Preferred Stock, is subject to restrictions in the event that the Company does not declare and either pay or set aside a sum sufficient for payment of dividends on the Series A Preferred Stock for the immediately preceding dividend period. The Series A Preferred Stock is redeemable at the Company's option, in whole or in part, on any dividend payment date on or after February 1, 2022 or, in whole but not in part, within 90 days following a regulatory capital treatment event as defined in its Certificate of Designations.

The Series B Preferred Stock has no stated maturity and has a fixed dividend rate of 6.00%. Dividends, if declared, will be payable quarterly in arrears. Dividends are not cumulative. Under the terms of the Series B Preferred Stock, the Company's ability to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the Series B Preferred Stock, is subject to restrictions in the event that the Company does not declare and either pay or set aside a sum sufficient for payment of dividends on the Series B Preferred Stock for the immediately preceding dividend period. The Series B Preferred Stock is redeemable at the Company's option, in whole or in part, on any dividend payment date on or after September 1, 2017 or, in whole but not in part, within 90 days following a regulatory capital treatment event as defined in its Certificate of Designations.

On August 3, 2015, the Company issued and sold 24 million depositary shares, each representing a 1/40th ownership interest in a share of 6.00% non-cumulative perpetual preferred stock, Series C, $0.01 par value, with a liquidation preference of $1,000 per share (equivalent to $25 per depositary share).

The Series C Preferred Stock has no stated maturity and a fixed dividend rate of 6.00%. Dividends, if declared, will be payable quarterly in arrears. Dividends are not cumulative. Under the terms of the Series C Preferred Stock, the Company's ability to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the Series C Preferred Stock, is subject to restrictions in the event that the Company does not declare and either pay or set aside a sum sufficient for payment of dividends on the Series C Preferred Stock for the immediately preceding dividend period. The Series C Preferred Stock is redeemable at the Company's option, in whole or in part, on any dividend payment date on or after December 1, 2020 or, in whole but not in part, within 90 days following a regulatory capital treatment event as defined in its Certificate of Designations.

On March 7, 2016, the Company issued and sold 30 million depositary shares, each representing a 1/40th ownership interest in a share of 5.95% non-cumulative perpetual preferred stock, Series D, $0.01 par value, with a liquidation preference of $1,000 per share (equivalent to $25 per depositary share).

The Series D Preferred Stock has no stated maturity and a fixed dividend rate of 5.95%. Dividends, if declared, will be payable quarterly in arrears. Dividends are not cumulative. Under the terms of the Series D Preferred Stock, the Company's ability to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the Series D Preferred Stock, is subject to restrictions in the event that the Company does not declare and either pay or set aside a sum sufficient for payment of dividends on the Series D Preferred Stock for the immediately preceding dividend period. The Series D Preferred Stock is redeemable at the Company's option, in whole or in part, on any dividend payment date on or after June 1, 2021 or, in whole but not in part, within 90 days following a regulatory capital treatment event as defined in its Certificate of Designations.

On October 31, 2016, the Company issued and sold 600,000 depositary shares, each representing a 1/100th ownership interest in a share of fixed-to-floating rate non-cumulative perpetual preferred stock, Series E, $0.01 par value, with a liquidation preference of $100,000 per share (equivalent to $1,000 per depositary share).

The Series E Preferred Stock has no stated maturity and a fixed dividend rate of 4.625% through February 28, 2022, payable semi-annually in arrears, and thereafter at a floating rate of three-month LIBOR plus a fixed spread of 3.315%, payable quarterly in arrears. Dividends are not cumulative. Under the terms of the Series E Preferred Stock, the Company's ability to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the Series E Preferred Stock, is subject to restrictions in the event that the Company does not declare and either pay or set aside a sum sufficient for payment of dividends on the Series E Preferred Stock for the immediately preceding dividend period. The Series E Preferred Stock is redeemable at the Company's option, in whole or in part, on any dividend payment date on or after March 1, 2022 or, in whole but not in part, within 90 days following a regulatory capital treatment event as defined in its Certificate of Designations.

18. Accumulated Other Comprehensive Income

AOCI represents cumulative gains and losses that are not reflected in earnings. The components of other comprehensive income (loss) are as follows:

Year Ended December 31,	2016			2015			2014		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Change in net unrealized gain (loss) on available for sale securities:									
Net unrealized gain (loss)	$ (44)	$ 16	$ (28)	$ (477)	$ 178	$ (299)	$ 255	$ (95)	$ 160
Reclassification of impairment charges included in net impairment losses on securities	-	-	-	-	-	-	1	(1)	-
Other reclassifications included in other revenue	(4)	2	(2)	-	-	-	(7)	3	(4)
Change in net unrealized gain (loss) on available for sale securities	(48)	18	(30)	(477)	178	(299)	249	(93)	156
Other	1	-	1	-	-	-	-	-	-
Other comprehensive income (loss)	$ (47)	$ 18	$ (29)	$ (477)	$ 178	$ (299)	$ 249	$ (93)	$ 156

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AOCI balances are as follows:

	Total Accumulated Other Comprehensive Income
Balance at December 31, 2013	$ 9
Net unrealized gain (loss) on available for sale securities	