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	(I.R.S. Employer Identification No.)
of incorporation or organization)	

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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THE CHARLES SCHWAB CORPORATION

PART I

Item 1. Business

General Corporate Overview

The Charles Schwab Corporation (CSC) is a savings and loan holding company, headquartered in San Francisco, California. CSC was incorporated in 1986 and engages, through its subsidiaries (collectively referred to as 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.

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;

- 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.

THE CHARLES SCHWAB CORPORATION

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

(Tabular Amounts in Millions, Except Ratios, or as Noted)

OVERVIEW

Management 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	11	%	$ 2,779.5	$ 2,513.8	$ 2,463.6

year end)					
Average client assets (in billions)	3	%	$ 2,614.7	$ 2,531.8	$ 2,384.0
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					