

SCHWAB CHARLES CORP  
Form 10-Q  
November 07, 2018

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

Commission File Number: 1-9700

THE CHARLES SCHWAB CORPORATION  
(Exact name of registrant as specified in its charter)  
Delaware 94-3025021  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

211 Main Street, San Francisco, CA 94105  
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (415) 667-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer  
Non-accelerated filer Smaller reporting company  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

1,350,452,801 shares of \$.01 par value Common Stock Outstanding on October 31, 2018

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THE CHARLES SCHWAB CORPORATION

Quarterly Report on Form 10-Q  
For the Quarter Ended September 30, 2018

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## Part I – FINANCIAL INFORMATION

### THE CHARLES SCHWAB CORPORATION

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

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### INTRODUCTION

The Charles Schwab Corporation (CSC) is a savings and loan holding company engaged, through its subsidiaries, in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services.

Significant business subsidiaries of CSC include the following:

Charles Schwab & Co., Inc. (CS&Co), a securities broker-dealer;  
Charles Schwab Bank (CSB), a federal savings bank; and  
Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds®) and Schwab's exchange-traded funds (Schwab ETFs™).

Unless otherwise indicated, the terms "Schwab," "the Company," "we," "us," or "our" mean CSC together with its consolidated subsidiaries.

Schwab provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking services to individual investors, and retirement plan services, as well as other corporate brokerage services, to businesses and their employees. The Advisor Services segment provides custodial, trading, banking, and support services, as well as retirement business services, to independent registered investment advisors (RIAs), independent retirement advisors, and recordkeepers.

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

This strategy emphasizes placing clients' perspectives, needs, and desires at the forefront. Because investing plays a fundamental role in building financial security, we strive to deliver a better investing experience for our clients – individual investors and the people and institutions who serve them – by disrupting longstanding industry practices on their behalf and providing superior service. We also aim to offer a broad range of products and solutions to meet client needs with a focus on transparency, value, and trust. In addition, management works to couple Schwab's scale and resources with ongoing expense discipline to keep costs low and ensure that products and solutions are affordable as well as responsive to client needs. In combination, these are the key elements of our "no trade-offs" approach to serving investors. We believe that following this strategy is the best way to maximize our market valuation and stockholder returns over time.

Management estimates that investable wealth in the United States (consisting of assets in defined contribution, retail wealth management and brokerage, and registered investment advisor channels, along with bank deposits) currently exceeds \$45 trillion, which means the Company's \$3.56 trillion in client assets leaves substantial opportunity for

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

This Management's Discussion and Analysis should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (2017 Form 10-K).

On our website, [www.aboutschwab.com](http://www.aboutschwab.com), we post the following filings after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC): annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy, and other information that we file electronically with the SEC.

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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)

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," "estimate," "appear," "could," "would," and other similar expressions. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances are forward-looking statements.

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

Maximizing our market valuation and stockholder returns over time; our belief that developing trusted relationships will translate into more client assets which drives revenue and, along with expense discipline, generates earnings growth and builds stockholder value (see Introduction in Part I, Item 2);

Ongoing investments to drive growth and efficiency (see Overview);

Capital expenditures in 2018 (see Results of Operations);

Consolidated balance sheet assets remaining above \$250 billion (see Risk Management and Capital Management);

The expected impact of new accounting standards not yet adopted (see New Accounting Standards in Part I, Item 1, Financial Information – Notes to Condensed Consolidated Financial Statements (Item 1) – Note 2);

The likelihood of indemnification and guarantee payment obligations (see Commitments and Contingencies in Item 1 – Note 9); and

The impact of legal proceedings and regulatory matters (see Commitments and Contingencies in Item 1 – Note 9 and Legal Proceedings in Part II, Item 1).

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 Quarterly Report on Form 10-Q or, in the case of documents incorporated by reference, as of the date of those documents.

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

General market conditions, including the level of interest rates, equity valuations, and trading activity;

Our ability to attract and retain clients, develop trusted relationships, and grow client assets;

Client use of our advice solutions and other products and services;

The level of client assets, including cash balances;

Competitive pressure on pricing, including deposit rates;

Client sensitivity to interest rates;

Regulatory guidance;

Timing and amount of transfers of certain balances from sweep money market funds into bank sweep deposits;

Capital and liquidity needs and management;

Our ability to manage expenses;

Our ability to develop and launch new products, services, and capabilities, as well as implement infrastructure, in a timely and successful manner;

The effect of adverse developments in litigation or regulatory matters and the extent of any related charges; and

Potential breaches of contractual terms for which we have indemnification and guarantee obligations.

Certain of these factors, as well as general risk factors affecting the Company, are discussed in greater detail in Part I – Item 1A – Risk Factors in the 2017 Form 10-K.

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## THE CHARLES SCHWAB CORPORATION

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

## OVERVIEW

Management focuses on several client activity and financial metrics in evaluating Schwab's financial position and operating performance. Results for the third quarters and first nine months of 2018 and 2017 are:

|   | Three Months Ended    |                       | Percent<br>Change | Nine Months Ended     |                       | Percent<br>Change |
|---|-----------------------|-----------------------|-------------------|-----------------------|-----------------------|-------------------|
|   | September 30,<br>2018 | September 30,<br>2017 |                   | September 30,<br>2018 | September 30,<br>2017 |                   |
| <b>Client Metrics</b>   |                       |                       |                   |                       |                       |                   |
| Net new client assets (in billions) <sup>(1)</sup>                                | \$53.5                | \$51.6                | 4 %               | \$78.6                | \$155.0               | (49)%             |
| Core net new client assets (in billions)  | \$53.5                | \$51.6                | 4 %               | \$172.5               | \$136.7               | 26 %              |
| Client assets (in billions, at quarter end)                                       | \$3,563.7             | \$3,181.2             | 12 %              |                       |                       |                   |
| Average client assets (in billions)   | \$3,508.1             | \$3,107.8             | 13 %              | \$3,420.2             | \$2,986.3             | 15 %              |
| New brokerage accounts (in thousands)   | 369                   | 336                   | 10 %              | 1,196                 | 1,055                 | 13 %              |
| Active brokerage accounts (in thousands, at quarter end)                          | 11,423                | 10,565                | 8 %               |                       |                       |                   |
| Assets receiving ongoing advisory services (in billions, at quarter end)          | \$1,851.9             | \$1,613.6             | 15 %              |                       |                       |                   |
| Client cash as a percentage of client assets (at quarter end)                     | 10.3 %                | 11.1 %                |                   |                       |                       |                   |
| <b>Company Financial Metrics</b>  |                       |                       |                   |                       |                       |                   |
| Total net revenues  | \$2,579               | \$2,165               | 19 %              | \$7,463               | \$6,376               | 17 %              |
| Total expenses excluding interest   | 1,360                 | 1,220                 | 11 %              | 4,111                 | 3,679                 | 12 %              |
| Income before taxes on income   | 1,219                 | 945                   | 29 %              | 3,352                 | 2,697                 | 24 %              |
| Taxes on income   | 296                   | 327                   | (9)%              | 780                   | 940                   | (17)%             |
| Net income  | 923                   | 618                   | 49 %              | 2,572                 | 1,757                 | 46 %              |
| Preferred stock dividends and other   | 38                    | 43                    | (12)%             | 128                   | 127                   | 1 %               |
| Net income available to common stockholders                                       | \$885                 | \$575                 | 54 %              | \$2,444               | \$1,630               | 50 %              |
| Earnings per common share — diluted   | \$.65                 | \$.42                 | 55 %              | \$1.79                | \$1.21                | 48 %              |
| Net revenue growth from prior year  | 19 %                  | 13 %                  |                   | 17 %                  | 16 %                  |                   |
| Pre-tax profit margin   | 47.3 %                | 43.6 %                |                   | 44.9 %                | 42.3 %                |                   |
| Return on average common stockholders' equity                                     | 20 %                  | 15 %                  |                   | 19 %                  | 15 %                  |                   |
| Expenses excluding interest as a percentage of average client assets (annualized) | 0.15 %                | 0.16 %                |                   | 0.16 %                | 0.16 %                |                   |
| Consolidated Tier 1 Leverage Ratio (at quarter end)                               | 7.5 %                 | 7.7 %                 |                   |                       |                       |                   |

<sup>(1)</sup> The first nine months of 2018 includes outflows of \$93.9 billion from certain mutual fund clearing services clients. The first nine months of 2017 includes inflows of \$18.3 billion from certain mutual fund clearing services clients.

Net income grew 49% and 46% for the third quarter and first nine months of 2018, respectively, compared to the same periods in 2017, driven primarily by business momentum, a generally favorable economic environment, and lower corporate income taxes. Total net revenues rose 19% and 17% in the third quarter and first nine months of 2018, respectively, compared to the same periods in 2017, primarily due to higher net interest revenue as a result of higher interest rates and larger client cash sweep balances. Total expenses excluding interest grew 11% and 12% during the third quarter and first nine months of 2018, respectively, compared to the same periods in 2017, reflecting hiring to support the Company's expanding client base and ongoing investments for driving growth and efficiency. Pre-tax



income increased 29% and 24% in the third quarter and first nine months of 2018, respectively, compared to the same periods in 2017, delivering a 44.9% pre-tax profit margin for the first nine months of 2018.

Taxes on income decreased 9% and 17% for the third quarter and first nine months of 2018, compared to the same periods in 2017, resulting in effective tax rates of 24.3% and 23.3% for the third quarter and first nine months of 2018, respectively. The reduction in taxes on income was due to the Tax Act of 2017, which lowered the federal corporate income tax rate from 35% to 21% effective January 1, 2018.

During the third quarter of 2018, clients opened 369,000 new brokerage accounts, helping to bring active brokerage accounts to 11.4 million at September 30, 2018. Core net new assets gathered during the third quarter of 2018 were \$53.5 billion, compared to \$51.6 billion for the same period a year ago. Client engagement remained strong during the third quarter of 2018, with daily average revenue trades rising 22% from the same period in 2017.

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THE CHARLES SCHWAB CORPORATION

Management's Discussion and Analysis of Financial Condition and Results of Operations  
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During the third quarter of 2018, we effectively managed our balance sheet to support both growth and solid financial performance. The consolidated balance sheet reached \$272 billion of assets at September 30, 2018, a \$10 billion quarterly increase, largely driven by bank sweep transfers and client activity. We transferred balances totaling \$23 billion from sweep money market funds to bank sweep in the quarter, bringing our 2018 transfers to \$68 billion and leaving \$33 billion remaining in sweep money market funds at September 30, 2018. In July 2018, the Board of Directors declared a 30% increase in the quarterly cash dividend to \$.13 per common share. We finished the quarter with a Tier 1 Leverage Ratio of 7.5%, and we lifted our return on equity to 20% and 19% for the third quarter and first nine months of 2018, respectively, compared to 15% for the same periods in 2017.

Subsequent Events

On October 25, 2018, CSC's Board of Directors terminated the existing two share repurchase authorizations and replaced them with a new authorization to repurchase up to a total of \$1.0 billion of common stock.

On October 31, 2018, CSC issued \$500 million aggregate principal amount of Senior Notes that mature in 2024 and \$600 million aggregate principal amount of Senior Notes that mature in 2029 under its universal shelf registration statement on file with the SEC. The Senior Notes due 2024 have a fixed interest rate of 3.550% with interest payable semi-annually. The Senior Notes due 2029 have a fixed interest rate of 4.000% with interest payable semi-annually.

Current Regulatory Environment and Other Developments

On October 31, 2018, the Board of Governors of the Federal Reserve System (Federal Reserve) issued a notice of proposed rulemaking and the Federal Reserve, the Office of the Comptroller of Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) jointly issued another notice of proposed rulemaking. The two proposals would establish a revised framework for applying enhanced prudential standards to large U.S. banking organizations, including savings and loan holding companies such as CSC, with four categories of standards that reflect the risks of banking organizations in each group. CSC would be in Category III based on having \$250 billion – \$700 billion in total assets. The comment period for both proposed rules ends on January 22, 2019 and we are currently evaluating the impact of the proposed rules.

## THE CHARLES SCHWAB CORPORATION

Management's Discussion and Analysis of Financial Condition and Results of Operations  
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## RESULTS OF OPERATIONS

## Total Net Revenues

The following tables present a comparison of revenue by category:

| Three Months Ended September 30,         | Percent<br>Change | 2018    |                               | 2017    |                               |
|--|-------------------|---------|-------------------------------|---------|-------------------------------|
|  |                   | Amount  | % of<br>Total Net<br>Revenues | Amount  | % of<br>Total Net<br>Revenues |
| Net interest revenue                     |                   |         |                               |         |                               |
| Interest revenue                         | 49 %              | \$1,755 | 68 %                          | \$1,176 | 54 %                          |
| Interest expense                         | 143 %             | (228 )  | (9 )%                         | (94 )   | (4 )%                         |
| Net interest revenue                     | 41 %              | 1,527   | 59 %                          | 1,082   | 50 %                          |
| Asset management and administration fees |                   |         |                               |         |                               |
| Mutual funds and ETF service fees        | (16 )%            | 435     | 17 %                          | 519     | 24 %                          |
| Advice solutions                         | 11 %              | 294     | 11 %                          | 265     | 12 %                          |
| Other                                    | 4 %               | 80      | 3 %                           | 77      | 4 %                           |
| Asset management and administration fees | (6 )%             | 809     | 31 %                          | 861     | 40 %                          |
| Trading revenue                          |                   |         |                               |         |                               |
| Commissions                              | 14 %              | 155     | 6 %                           | 136     | 6 %                           |
| Principal transactions                   | 40 %              | 21      | 1 %                           | 15      | 1 %                           |
| Trading revenue                          | 17 %              | 176     | 7 %                           | 151     | 7 %                           |
| Other                                    | (6 )%             | 67      | 3 %                           | 71      | 3 %                           |
| Total net revenues                       | 19 %              | \$2,579 | 100 %                         | \$2,165 | 100 %                         |
|  |                   | 2018    |                               | 2017    |                               |
| Nine Months Ended September 30,          | Percent<br>Change | Amount  | % of<br>Total Net<br>Revenues | Amount  | % of<br>Total Net<br>Revenues |
| Net interest revenue                     |                   |         |                               |         |                               |
| Interest revenue                         | 42 %              | \$4,766 | 64 %                          | \$3,358 | 52 %                          |
| Interest expense                         | 155 %             | (569 )  | (8 )%                         | (223 )  | (3 )%                         |
| Net interest revenue                     | 34 %              | 4,197   | 56 %                          | 3,135   | 49 %                          |
| Asset management and administration fees |                   |         |                               |         |                               |
| Mutual funds and ETF service fees        | (10 )%            | 1,386   | 19 %                          | 1,538   | 24 %                          |
| Advice solutions                         | 12 %              | 859     | 11 %                          | 765     | 12 %                          |
| Other                                    | 1 %               | 229     | 3 %                           | 226     | 4 %                           |
| Asset management and administration fees | (2 )%             | 2,474   | 33 %                          | 2,529   | 40 %                          |
| Trading revenue                          |                   |         |                               |         |                               |
| Commissions                              | 10 %              | 501     | 7 %                           | 456     | 7 %                           |
| Principal transactions                   | 27 %              | 56      | 1 %                           | 44      | 1 %                           |
| Trading revenue                          | 11 %              | 557     | 8 %                           | 500     | 8 %                           |
| Other                                    | 11 %              | 235     | 3 %                           | 212     | 3 %                           |
| Total net revenues                       | 17 %              | \$7,463 | 100 %                         | \$6,376 | 100 %                         |



## THE CHARLES SCHWAB CORPORATION

Management's Discussion and Analysis of Financial Condition and Results of Operations  
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## Net Interest Revenue

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

| Three Months Ended September 30,             | 2018            |                          |                    | 2017            |                          |                    |
|--|-----------------|--------------------------|--------------------|-----------------|--------------------------|--------------------|
|  | Average Balance | Interest Revenue/Expense | Average Yield/Rate | Average Balance | Interest Revenue/Expense | Average Yield/Rate |
| <b>Interest-earning assets</b>               |                 |                          |                    |                 |                          |                    |
| Cash and cash equivalents                    | \$ 18,623       | \$ 94                    | 1.98 %             | \$ 10,498       | \$ 33                    | 1.25 %             |
| Cash and investments segregated              | 10,253          | 51                       | 1.94 %             | 17,355          | 44                       | 1.01 %             |
| Broker-related receivables                   | 307             | 1                        | 1.94 %             | 459             | 1                        | 0.96 %             |
| Receivables from brokerage clients           | 20,224          | 217                      | 4.19 %             | 16,498          | 151                      | 3.63 %             |
| Available for sale securities <sup>(1)</sup> | 55,283          | 328                      | 2.34 %             | 45,906          | 187                      | 1.62 %             |
| Held to maturity securities                  | 137,065         | 887                      | 2.57 %             | 107,557         | 606                      | 2.24 %             |
| Bank loans                                   | 16,579          | 142                      | 3.43 %             | 16,058          | 122                      | 3.01 %             |
| Total interest-earning assets                | 258,334         | 1,720                    | 2.63 %             | 214,331         | 1,144                    | 2.12 %             |
| Other interest revenue                       |                 | 35                       |                    |                 | 32                       |                    |
| Total interest-earning assets                | \$ 258,334      | \$ 1,755                 | 2.69 %             | \$ 214,331      | \$ 1,176                 | 2.18 %             |
| <b>Funding sources</b>                       |                 |                          |                    |                 |                          |                    |
| Bank deposits                                | \$ 208,666      | \$ 158                   | 0.30 %             | \$ 163,039      | \$ 49                    | 0.12 %             |
| Payables to brokerage clients                | 20,595          | 16                       | 0.31 %             | 24,833          | 6                        | 0.10 %             |
| Short-term borrowings                        | —               | —                        | —                  | 1,695           | 6                        | 1.40 %             |
| Long-term debt                               | 5,790           | 51                       | 3.52 %             | 3,436           | 30                       | 3.46 %             |
| Total interest-bearing liabilities           | 235,051         | 225                      | 0.38 %             | 193,003         | 91                       | 0.19 %             |
| Non-interest-bearing funding sources         | 23,283          |                          |                    | 21,328          |                          |                    |
| Other interest expense                       |                 | 3                        |                    |                 | 3                        |                    |
| Total funding sources                        | \$ 258,334      | \$ 228                   | 0.36 %             | \$ 214,331      | \$ 94                    | 0.18 %             |
| Net interest revenue                         |                 | \$ 1,527                 | 2.33 %             |                 | \$ 1,082                 | 2.00 %             |
| Nine Months Ended September 30,              | 2018            |                          |                    | 2017            |                          |                    |
|  | Average Balance | Interest Revenue/Expense | Average Yield/Rate | Average Balance | Interest Revenue/Expense | Average Yield/Rate |
| <b>Interest-earning assets</b>               |                 |                          |                    |                 |                          |                    |
| Cash and cash equivalents                    | \$ 16,164       | \$ 217                   | 1.78 %             | \$ 9,375        | \$ 72                    | 1.03 %             |
| Cash and investments segregated              | 12,002          | 149                      | 1.64 %             | 19,609          | 120                      | 0.82 %             |
| Broker-related receivables                   | 324             | 4                        | 1.62 %             | 428             | 2                        | 0.74 %             |
| Receivables from brokerage clients           | 19,629          | 600                      | 4.03 %             | 15,861          | 415                      | 3.50 %             |
| Available for sale securities <sup>(1)</sup> | 52,797          | 859                      | 2.16 %             | 55,070          | 615                      | 1.49 %             |
| Held to maturity securities                  | 129,490         | 2,420                    | 2.48 %             | 99,523          | 1,691                    | 2.27 %             |
| Bank loans                                   | 16,522          | 410                      | 3.31 %             | 15,764          | 347                      | 2.94 %             |
| Total interest-earning assets                | 246,928         | 4,659                    | 2.50 %             | 215,630         | 3,262                    | 2.02 %             |
| Other interest revenue                       |                 | 107                      |                    |                 | 96                       |                    |
| Total interest-earning assets                | \$ 246,928      | \$ 4,766                 | 2.56 %             | \$ 215,630      | \$ 3,358                 | 2.08 %             |

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|                                      |            |          |        |            |          |        |  |
|--------------------------------------|------------|----------|--------|------------|----------|--------|--|
| Funding sources                      |            |          |        |            |          |        |  |
| Bank deposits                        | \$ 193,010 | \$ 339   | 0.23 % | \$ 163,475 | \$ 98    | 0.08 % |  |
| Payables to brokerage clients        | 21,591     | 37       | 0.23 % | 26,198     | 11       | 0.06 % |  |
| Short-term borrowings                | 4,488      | 54       | 1.59 % | 1,475      | 11       | 1.00 % |  |
| Long-term debt                       | 5,053      | 131      | 3.46 % | 3,349      | 89       | 3.55 % |  |
| Total interest-bearing liabilities   | 224,142    | 561      | 0.33 % | 194,497    | 209      | 0.14 % |  |
| Non-interest-bearing funding sources | 22,786     |          |        | 21,133     |          |        |  |
| Other interest expense               |            | 8        |        |            | 14       |        |  |
| Total funding sources                | \$ 246,928 | \$ 569   | 0.31 % | \$ 215,630 | \$ 223   | 0.14 % |  |
| Net interest revenue                 |            | \$ 4,197 | 2.25 % |            | \$ 3,135 | 1.94 % |  |

(1) Amounts have been calculated based on amortized cost.

THE CHARLES SCHWAB CORPORATION

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Net interest revenue increased \$445 million, or 41%, and \$1.1 billion, or 34%, in the third quarter and first nine months of 2018, respectively, compared to the same periods in 2017, primarily due to higher interest rates and growth in interest-earning assets.

Our net interest margin improved to 2.33% and 2.25% during the third quarter and first nine months of 2018, respectively, up from 2.00% and 1.94% during the same periods in 2017, primarily as a result of the Federal Reserve's 2017 and March, June, and September 2018 interest rate increases, partially offset by higher interest rates paid on bank deposits and other interest-bearing liabilities.

During the third quarter and the first nine months of 2018, average interest earning assets grew 21% and 15%, respectively, compared to the same periods in 2017. These increases reflect higher bank deposits due to transfers from sweep money market funds to bank sweep balances, as well as other client-related deposit inflows and higher borrowings, partially offset by client purchases of other assets. During the first six months of 2018, Schwab issued senior notes and utilized Federal Home Loan Bank (FHLB) advances to provide temporary funding for additional investments ahead of deposit growth. There were no FHLB borrowings in the third quarter of 2018.

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## Asset Management and Administration Fees

The following tables present asset management and administration fees, average client assets, and average fee yields:

| Three Months Ended September 30,                           | 2018                  |          |             | 2017                  |          |             |
|--|-----------------------|----------|-------------|-----------------------|----------|-------------|
|  | Average Client Assets | Revenue  | Average Fee | Average Client Assets | Revenue  | Average Fee |
| Schwab money market funds before fee waivers               | \$ 130,202            | \$ 122   | 0.37 %      | \$ 158,927            | \$ 220   | 0.55 %      |
| Fee waivers  |                       | —        |             |                       | (1 )     |             |
| Schwab money market funds                                  | 130,202               | 122      | 0.37 %      | 158,927               | 219      | 0.55 %      |
| Schwab equity and bond funds and ETFs                      | 219,137               | 67       | 0.12 %      | 164,011               | 56       | 0.14 %      |
| Mutual Fund OneSource® and other non-transaction fee funds | 209,560               | 171      | 0.32 %      | 219,076               | 179      | 0.32 %      |
| Other third-party mutual funds and ETFs <sup>(1)</sup>     | 342,316               | 75       | 0.09 %      | 291,307               | 65       | 0.09 %      |
| Total mutual funds and ETFs <sup>(2)</sup>                 | \$ 901,215            | 435      | 0.19 %      | \$ 833,321            | 519      | 0.25 %      |
| Advice solutions <sup>(2)</sup>                            |                       |          |             |                       |          |             |
| Fee-based  | \$ 234,338            | 294      | 0.50 %      | \$ 206,854            | 265      | 0.51 %      |
| Non-fee-based  | 65,146                | —        | —           | 50,758                | —        | —           |
| Total advice solutions                                     | \$ 299,484            | 294      | 0.39 %      | \$ 257,612            | 265      | 0.41 %      |
| Other balance-based fees <sup>(3)</sup>                    | 400,048               | 63       | 0.06 %      | 424,280               | 67       | 0.06 %      |
| Other <sup>(4)</sup>                                       |                       | 17       |             |                       | 10       |             |
| Total asset management and administration fees             |                       | \$ 809   |             |                       | \$ 861   |             |
| Nine Months Ended September 30,                            | 2018                  |          |             | 2017                  |          |             |
|  | Average Client Assets | Revenue  | Average Fee | Average Client Assets | Revenue  | Average Fee |
| Schwab money market funds before fee waivers               | \$ 142,177            | \$ 451   | 0.42 %      | \$ 160,230            | \$ 675   | 0.56 %      |
| Fee waivers  |                       | —        |             |                       | (10 )    |             |
| Schwab money market funds                                  | 142,177               | 451      | 0.42 %      | 160,230               | 665      | 0.55 %      |
| Schwab equity and bond funds and ETFs                      | 206,058               | 195      | 0.13 %      | 151,579               | 163      | 0.14 %      |
| Mutual Fund OneSource® and other non-transaction fee funds | 216,699               | 524      | 0.32 %      | 214,058               | 528      | 0.33 %      |
| Other third-party mutual funds and ETFs <sup>(1)</sup>     | 329,033               | 216      | 0.09 %      | 278,479               | 182      | 0.09 %      |
| Total mutual funds and ETFs <sup>(2)</sup>                 | \$ 893,967            | 1,386    | 0.21 %      | \$ 804,346            | 1,538    | 0.26 %      |
| Advice solutions <sup>(2)</sup>                            |                       |          |             |                       |          |             |
| Fee-based  | \$ 228,326            | 859      | 0.50 %      | \$ 199,500            | 765      | 0.51 %      |
| Non-fee-based  | 62,377                | —        | —           | 46,785                | —        | —           |
| Total advice solutions                                     | \$ 290,703            | 859      | 0.40 %      | \$ 246,285            | 765      | 0.42 %      |
| Other balance-based fees <sup>(3)</sup>                    | 404,596               | 191      | 0.06 %      | 406,442               | 192      | 0.06 %      |
| Other <sup>(4)</sup>                                       |                       | 38       |             |                       | 34       |             |
| Total asset management and administration fees             |                       | \$ 2,474 |             |                       | \$ 2,529 |             |

<sup>(1)</sup> Includes Schwab ETF OneSource™.

<sup>(2)</sup> Beginning in the fourth quarter of 2017, a change was made to add non-fee-based average assets from managed portfolios. Average client assets for advice solutions may also include the asset balances contained in the mutual fund



and/or ETF categories listed above. Prior periods have been adjusted to accommodate this change.

(3) Includes various asset-related fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees.

(4) Includes miscellaneous service and transaction fees relating to mutual funds and ETFs that are not balance-based.

Asset management and administration fees decreased by \$52 million, or 6%, and \$55 million, or 2%, in the third quarter and first nine months of 2018, respectively, compared to the same periods in 2017. The decreases were due to lower money market

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fund revenue as a result of transfers to bank sweep, client asset allocation choices, and our 2017 fee reductions. Part of the declines were offset by revenue from growing asset balances in advice solutions, equity and bond funds, and ETFs.

The following tables present a roll forward of client assets for the Schwab money market funds, Schwab equity and bond funds and exchange-traded funds (ETFs), and Mutual Fund OneSource® and other non-transaction fee (NTF) funds. These funds generated 44% and 47% of the asset management and administration fees earned during the third quarter and first nine months of 2018, respectively, compared to 53% and 54% for the same periods in 2017:

|  | Schwab Money Market Funds |           | Schwab Equity and Bond Funds and ETFs |           | Mutual Fund OneSource® and Other NTF funds |           |
|--|---------------------------|-----------|---------------------------------------|-----------|--|-----------|
|  | 2018                      | 2017      | 2018                                  | 2017      | 2018                                       | 2017      |
| Three Months Ended September 30,                   |                           |           |                                       |           |  |           |
| Balance at beginning of period                     | \$134,166                 | \$156,186 | \$201,361                             | \$151,336 | \$212,513                                  | \$224,749 |
| Net inflows (outflows)                             | (6,204 )                  | 2,753     | 6,596                                 | 7,086     | (7,126 )                                   | (13,255 ) |
| Net market gains (losses) and other                | 522                       | 235       | 8,899                                 | 6,676     | 7,228                                      | 9,684     |
| Balance at end of period                           | \$128,484                 | \$159,174 | \$216,856                             | \$165,098 | \$212,615                                  | \$221,178 |
|  |                           |           |                                       |           |  |           |
|  | Schwab Money Market Funds |           | Schwab Equity and Bond Funds and ETFs |           | Mutual Fund OneSource® and Other NTF funds |           |
|  | 2018                      | 2017      | 2018                                  | 2017      | 2018                                       | 2017      |
| Nine Months Ended September 30,                    |                           |           |                                       |           |  |           |
| Balance at beginning of period                     | \$163,650                 | \$163,495 | \$181,608                             | \$125,813 | \$225,202                                  | \$198,924 |
| Net inflows (outflows)                             | (36,645 )                 | (4,832 )  | 24,867                                | 22,347    | (25,403 )                                  | (23,494 ) |
| Net market gains (losses) and other <sup>(1)</sup> | 1,479                     | 511       | 10,381                                | 16,938    | 12,816                                     | 45,748    |
| Balance at end of period                           | \$128,484                 | \$159,174 | \$216,856                             | \$165,098 | \$212,615                                  | \$221,178 |

<sup>(1)</sup> Includes net inflows from other third-party mutual funds to Mutual Fund OneSource® in the second quarter of 2017.

## Trading Revenue

The following table presents trading revenue and the related drivers:

|   | Three Months Ended September 30, |        | Percent Change | Nine Months Ended September 30, |        | Percent Change |
|---|----------------------------------|--------|----------------|---------------------------------|--------|----------------|
|   | 2018                             | 2017   |                | 2018                            | 2017   |                |
| Daily average revenue trades (DARTs) (in thousands) | 382                              | 312    | 22 %           | 406                             | 313    | 30 %           |
| Clients' daily average trades (in thousands)        | 683                              | 633    | 8 %            | 732                             | 602    | 22 %           |
| Number of trading days                              | 62.5                             | 62.5   | —              | 187.5                           | 187.5  | —              |
| Daily average revenue per revenue trade             | \$7.27                           | \$7.74 | (6 )%          | \$7.27                          | \$8.52 | (15 )%         |
| Trading revenue                                     | \$176                            | \$151  | 17 %           | \$557                           | \$500  | 11 %           |

DART volumes increased 22% and 30% in the third quarter and first nine months of 2018, respectively, compared to the prior year. This led to an increase in trading revenue of \$25 million, or 17%, and \$57 million, or 11%, in the third quarter and first nine months of 2018, respectively, compared to the same periods in 2017, as the volume growth more

than offset Schwab's commission pricing reductions implemented in the first quarter of 2017. During that time, we announced two trading price reductions which lowered standard equity, ETF, and option trade commissions from \$8.95 to \$4.95 and lowered the per contract option fee from \$.75 to \$.65.

#### Other Revenue

Other revenue includes order flow revenue, other service fees, software fees from our portfolio management solutions, exchange processing fees, and non-recurring gains. Order flow revenue was \$33 million and \$29 million during the third quarters of 2018 and 2017, respectively, and \$104 million and \$82 million during the first nine months of 2018 and 2017, respectively. These increases were primarily due to higher rates on certain types of orders and higher volume of trades.

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## Total Expenses Excluding Interest

The following table shows a comparison of expenses excluding interest:

|  | Three Months             |         | Percent Change | Nine Months              |         | Percent Change |
|--|--------------------------|---------|----------------|--------------------------|---------|----------------|
|  | Ended September 30, 2018 | 2017    |                | Ended September 30, 2018 | 2017    |                |
| Compensation and benefits                      |                          |         |                |                          |         |                |
| Salaries and wages                             | \$423                    | \$372   | 14 %           | \$1,253                  | \$1,110 | 13 %           |
| Incentive compensation                         | 193                      | 187     | 3 %            | 615                      | 580     | 6 %            |
| Employee benefits and other                    | 121                      | 103     | 17 %           | 384                      | 336     | 14 %           |
| Total compensation and benefits                | \$737                    | \$662   | 11 %           | \$2,252                  | \$2,026 | 11 %           |
| Professional services                          | 164                      | 152     | 8 %            | 476                      | 429     | 11 %           |
| Occupancy and equipment                        | 124                      | 111     | 12 %           | 368                      | 323     | 14 %           |
| Advertising and market development             | 70                       | 63      | 11 %           | 220                      | 205     | 7 %            |
| Communications                                 | 59                       | 56      | 5 %            | 179                      | 171     | 5 %            |
| Depreciation and amortization                  | 78                       | 69      | 13 %           | 226                      | 200     | 13 %           |
| Regulatory fees and assessments                | 57                       | 43      | 33 %           | 158                      | 133     | 19 %           |
| Other  | 71                       | 64      | 11 %           | 232                      | 192     | 21 %           |
| Total expenses excluding interest              | \$1,360                  | \$1,220 | 11 %           | \$4,111                  | \$3,679 | 12 %           |
| Expenses as a percentage of total net revenues |                          |         |                |                          |         |                |
| Compensation and benefits                      | 29 %                     | 31 %    |                | 30 %                     | 32 %    |                |
| Advertising and market development             | 3 %                      | 3 %     |                | 3 %                      | 3 %     |                |
| Full-time equivalent employees (in thousands)  |                          |         |                |                          |         |                |
| At quarter end                                 | 19.1                     | 17.3    | 10 %           |                          |         |                |
| Average  | 19.0                     | 17.1    | 11 %           | 18.4                     | 16.7    | 10 %           |

Total compensation and benefits increased in the third quarter and first nine months of 2018 compared to the same periods in 2017, primarily due to an increase in employee headcount to support our expanding client base.

Professional services expense increased in the third quarter and first nine months of 2018 compared to the same periods in 2017, primarily due to higher spending on technology projects, as well as an increase in asset management and administration-related expenses resulting from growth in the Schwab Funds<sup>®</sup> and Schwab ETFs<sup>™</sup>.

Occupancy and equipment expense increased in the third quarter and first nine months of 2018 compared to the same periods in 2017, primarily due to an increase in software maintenance expenses and additional licenses to support growth in the business.

Depreciation and amortization expenses grew in the third quarter and first nine months of 2018 compared to the same periods in 2017, primarily due to higher amortization of internally developed software associated with continued investments in software and technology enhancements.

Regulatory fees and assessments increased in the third quarter and first nine months of 2018 compared to the same periods in 2017, primarily due to an increase in FDIC insurance assessments, which rose as a result of higher average assets.

Other expenses increased in the first nine months of 2018 compared to the same period in 2017, primarily due to a \$15 million charge in the first quarter of 2018 associated with unsecured client margin losses in volatility-related products and other miscellaneous expense growth related to the expanding client base.

Capital expenditures were \$156 million and \$417 million in the third quarter and first nine months of 2018, respectively, compared with \$118 million and \$271 million in the third quarter and first nine months of 2017, respectively. The increases in the third quarter and year-to-date capital expenditures from the same periods in 2017 were due primarily to our office campus expansion in the U.S. and investments in technology projects. We anticipate capital expenditures for full-year 2018 will reach approximately 6-7% of total net revenues.

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## Taxes on Income

Taxes on income were \$296 million and \$327 million for the third quarters of 2018 and 2017, respectively, resulting in effective income tax rates on income before taxes of 24.3% and 34.6%, respectively. Taxes on income were \$780 million and \$940 million for the first nine months of 2018 and 2017, respectively, resulting in effective income tax rates on income before taxes of 23.3% and 34.9%, respectively. The decrease in the effective tax rate was primarily due to the Tax Act which was signed into law on December 22, 2017. Among other things, the Tax Act lowered the federal corporate income tax rate from 35% to 21%, effective for tax years including or commencing January 1, 2018.

## Segment Information

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

| Three Months Ended September 30,         | Investor Services |         | Advisor Services |                | Total   |       |                |         |         |
|--|-------------------|---------|------------------|----------------|---------|-------|----------------|---------|---------|
|  | Percent Change    | 2018    | 2017             | Percent Change | 2018    | 2017  | Percent Change | 2018    | 2017    |
| Net Revenues                             |                   |         |                  |                |         |       |                |         |         |
| Net interest revenue                     | 39%               | \$1,138 | \$818            | 47%            | \$389   | \$264 | 41%            | \$1,527 | \$1,082 |
| Asset management and administration fees | (5)%              | 565     | 595              | (8)%           | 244     | 266   | (6)%           | 809     | 861     |
| Trading revenue                          | 19%               | 112     | 94               | 12%            | 64      | 57    | 17%            | 176     | 151     |
| Other                                    | (2)%              | 53      | 54               | (18)%          | 14      | 17    | (6)%           | 67      | 71      |
| Total net revenues                       | 20%               | 1,868   | 1,561            | 18%            | 711     | 604   | 19%            | 2,579   | 2,165   |
| Expenses Excluding Interest              | 11%               | 1,015   | 918              | 14%            | 345     | 302   | 11%            | 1,360   | 1,220   |
| Income before taxes on income            | 33%               | \$853   | \$643            | 21%            | \$366   | \$302 | 29%            | \$1,219 | \$945   |
| Nine Months Ended September 30,          | Investor Services |         | Advisor Services |                | Total   |       |                |         |         |
|  | Percent Change    | 2018    | 2017             | Percent Change | 2018    | 2017  | Percent Change | 2018    | 2017    |
| Net Revenues                             |                   |         |                  |                |         |       |                |         |         |
| Net interest revenue                     | 33%               | \$3,158 | \$2,366          | 35%            | \$1,039 | \$769 | 34%            | \$4,197 | \$3,135 |
| Asset management and administration fees | (1)%              | 1,727   | 1,743            | (5)%           | 747     | 786   | (2)%           | 2,474   | 2,529   |
| Trading revenue                          | 14%               | 354     | 311              | 7%             | 203     | 189   | 11%            | 557     | 500     |
| Other                                    | 14%               | 182     | 159              | —              | 53      | 53    | 11%            | 235     | 212     |
| Total net revenues                       | 18%               | 5,421   | 4,579            | 14%            | 2,042   | 1,797 | 17%            | 7,463   | 6,376   |
| Expenses Excluding Interest              | 11%               | 3,069   | 2,762            | 14%            | 1,042   | 917   | 12%            | 4,111   | 3,679   |
| Income before taxes on income            | 29%               | \$2,352 | \$1,817          | 14%            | \$1,000 | \$880 | 24%            | \$3,352 | \$2,697 |

## Investor Services

Total net revenues rose by 20% and 18% in the third quarter and first nine months of 2018, respectively, compared to the same periods in 2017, primarily due to an increase in net interest revenue, partially offset by lower asset management and administration fees. Net interest revenue increased due to higher net interest margins and higher interest-earning assets. Asset management and administration fees decreased primarily due to lower money market fund revenue as a result of transfers to bank sweep, client asset allocation choices, and our 2017 fee reductions.

Expenses excluding interest increased by 11% in both the third quarter and first nine months of 2018 compared to the same periods in 2017, primarily due to higher compensation and benefits, technology project spend, and asset management and administration-related expenses to support our expanding client base.

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#### Advisor Services

Total net revenues rose by 18% and 14% in the third quarter and first nine months of 2018, respectively, compared to the same periods in 2017, primarily due to an increase in net interest revenue, partially offset by lower asset management and administration fees. Net interest revenue increased due to higher net interest margins and higher interest-earning assets. Asset management and administration fees decreased primarily due to lower money market fund revenue as a result of transfers to bank sweep, client asset allocation choices, and our 2017 fee reductions.

Expenses excluding interest increased by 14% in both the third quarter and first nine months of 2018 compared to the same periods in 2017, primarily due to higher compensation and benefits, technology project spend, and asset management and administration-related expenses to support our expanding client base.

#### RISK MANAGEMENT

Schwab's business activities expose us to a variety of risks, including operational, credit, market, liquidity, and compliance risk. The Company has a comprehensive risk management program to identify and manage these risks and their associated potential for financial and reputational impact. For a discussion of our risk management programs, see Item 7 – Risk Management in the 2017 Form 10-K.

#### Net Interest Revenue Simulation

For Schwab's net interest revenue sensitivity analysis, we use net interest revenue simulation modeling techniques to evaluate and manage the effect of changing interest rates. The simulation includes all interest-sensitive assets and liabilities. Key variables in the simulation include the repricing of financial instruments, prepayment, reinvestment, and product pricing assumptions. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely estimate the impact of changes in interest rates on net interest revenue. Actual results may differ from simulated results due to balance growth or decline and the timing, magnitude, and frequency of interest rate changes, as well as changes in market conditions and management strategies, including changes in asset and liability mix.

If our guidelines for net interest revenue sensitivity are breached, management must report the breach to the Financial Risk Oversight Committee and establish a plan to address the interest rate risk. There were no breaches of Schwab's net interest revenue sensitivity risk limits during the nine months ended September 30, 2018, or year ended December 31, 2017.

As represented by the simulations presented below, our investment strategy is structured to produce an increase in net interest revenue when interest rates rise and, conversely, a decrease in net interest revenue when interest rates fall.

The simulations in the following table assume that the asset and liability structure of the consolidated balance sheets would not be changed as a result of the simulated changes in interest rates. As we actively manage the consolidated balance sheets and interest rate exposure, in all likelihood we would take steps to manage additional interest rate exposure that could result from changes in the interest rate environment. The following table shows the simulated net interest revenue change over the next 12 months beginning September 30, 2018 and December 31, 2017 of a gradual 100 basis point increase or decrease in market interest rates relative to prevailing market rates at the end of each reporting period:



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|                              | September 30, 2018 |    | December 31, 2017 |    |
|------------------------------|--------------------|----|-------------------|----|
| Increase of 100 basis points | 4.1                | %  | 3.3               | %  |
| Decrease of 100 basis points | (4.7)              | )% | (6.2)             | )% |

The change in net interest revenue sensitivities as of September 30, 2018 reflects the increase in interest rates across all maturities.

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## Liquidity Risk

Schwab's primary source of funds is cash generated by client activity: bank deposits and cash balances in client brokerage accounts. These funds are used to purchase investment securities and extend loans to clients.

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

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

In addition to internal sources of liquidity, Schwab has access to external funding. The following table describes external debt facilities available at September 30, 2018:

| Description  | Borrower             | Outstanding | Available |
|--|----------------------|-------------|-----------|
| Committed, unsecured credit facility with various external banks   | CSC                  | \$ —        | \$ 750    |
| Uncommitted, unsecured lines of credit with various external banks | CSC, CS&Co           | —           | 1,432     |
| Federal Reserve Bank discount window <sup>(1)</sup>                | CSB                  | —           | 2,422     |
| Federal Home Loan Bank secured credit facility <sup>(2)</sup>      | Banking subsidiaries | —           | 30,002    |
| Unsecured commercial paper <sup>(3)</sup>                          | CSC                  | —           | 750       |

<sup>(1)</sup> Amounts available are dependent on the fair value of certain investment securities that are pledged as collateral.

<sup>(2)</sup> Amounts available are dependent on the amount of first lien residential real estate mortgage loans (First Mortgages), home equity lines of credit (HELOCs), and the fair value of certain investment securities that are pledged as collateral.

<sup>(3)</sup> CSC has authorization from its Board of Directors to issue Commercial Paper Notes to not exceed \$1.5 billion. Management has set a current limit not to exceed the amount of the committed, unsecured credit facility.

CSC's ratings for Commercial Paper Notes are P1 by Moody's Investor Service (Moody's), A1 by Standard & Poor's Rating Group (Standard & Poor's), and F1 by Fitch Ratings, Ltd (Fitch).

## Borrowings

The following are details of the Senior Notes and short-term borrowings:

| September 30, 2018    | Par Outstanding | Maturity    | Weighted Average Interest Rate | Moody's | Standard & Poor's | Fitch |
|-----------------------|-----------------|-------------|--------------------------------|---------|-------------------|-------|
| Senior Notes          | \$ 5,781        | 2020 - 2028 | 3.31%                          | A2      | A                 | A     |
| Short-term borrowings | \$ —            | N/A         | N/A                            | N/A     | N/A               | N/A   |

N/A Not applicable.

## New Debt Issuances

All debt issuances in 2018 were senior unsecured obligations with interest payable quarterly or semi-annually. Additional details are as follows:

| Issuance Date | Issuance Amount | Maturity Date | Interest Rate | Interest Payable |
|---------------|-----------------|---------------|---------------|------------------|
|---------------|-----------------|---------------|---------------|------------------|

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|                     |           |                           |               |
|---------------------|-----------|---------------------------|---------------|
| May 22, 2018 \$ 600 | 5/21/2021 | Three-month LIBOR + 0.32% | Quarterly     |
| May 22, 2018 \$ 600 | 5/21/2021 | 3.25%                     | Semi-annually |
| May 22, 2018 \$ 750 | 5/21/2025 | 3.85%                     | Semi-annually |

Schwab is subject to, and was in compliance with, the modified liquidity coverage ratio (LCR) rule at September 30, 2018. Schwab expects consolidated balance sheet assets to remain above \$250 billion in 2018, and as a result, would become subject to the full LCR rule in 2019.

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## CAPITAL MANAGEMENT

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

## Regulatory Capital Requirements

CSC and CSB are subject to various capital requirements set by regulatory agencies as discussed in further detail in the 2017 Form 10-K and in Item 1 – Note 16. As of September 30, 2018, CSC and CSB are considered well capitalized.

The following table details CSC's consolidated and CSB's capital ratios as of September 30, 2018 and December 31, 2017:

|   | September 30, 2018 |          | December 31, 2017 |          |   |
|---|--------------------|----------|-------------------|----------|---|
|   | CSC                | CSB      | CSC               | CSB      |   |
| Total stockholders' equity  | \$20,834           | \$14,899 | \$18,525          | \$13,224 |   |
| Less:   |                    |          |                   |          |   |
| Preferred stock   | 2,793              | —        | 2,793             | —        |   |
| Common Equity Tier 1 Capital before regulatory adjustments                    | \$18,041           | \$14,899 | \$15,732          | \$13,224 |   |
| Less:   |                    |          |                   |          |   |
| Goodwill, net of associated deferred tax liabilities                          | \$1,191            | \$13     | \$1,191           | \$13     |   |
| Other intangible assets, net of associated deferred tax liabilities           | 127                | —        | 61                | —        |   |
| Deferred tax assets, net of valuation allowances and deferred tax liabilities | 2                  | —        | 2                 | —        |   |
| AOCI adjustment <sup>(1)</sup>  | (304 )             | (278 )   | (152 )            | (144 )   |   |
| Common Equity Tier 1 Capital  | \$17,025           | \$15,164 | \$14,630          | \$13,355 |   |
| Tier 1 Capital  | \$19,818           | \$15,164 | \$17,423          | \$13,355 |   |
| Total Capital   | 19,846             | 15,191   | 17,452            | 13,382   |   |
| Risk-Weighted Assets  | 86,830             | 75,224   | 75,866            | 66,519   |   |
| Common Equity Tier 1 Capital/Risk-Weighted Assets                             | 19.6               | % 20.2   | % 19.3            | % 20.1   | % |
| Tier 1 Capital/Risk-Weighted Assets   | 22.8               | % 20.2   | % 23.0            | % 20.1   | % |
| Total Capital/Risk-Weighted Assets  | 22.9               | % 20.2   | % 23.0            | % 20.1   | % |
| Tier 1 Leverage Ratio   | 7.5                | % 7.1    | % 7.6             | % 7.1    | % |

<sup>(1)</sup> CSC and CSB have elected to opt out of the requirement to include most components of accumulated other comprehensive income (AOCI) in Common Equity Tier 1 Capital. Schwab expects consolidated balance sheet assets to remain above \$250 billion in 2018, and as a result, would no longer exclude AOCI from regulatory capital beginning in 2019.

CSB is also subject to regulatory requirements that restrict and govern the terms of affiliate transactions. In addition, CSB is required to provide notice to, and may be required to obtain approval from, the Office of the Comptroller of

the Currency and the Federal Reserve to declare dividends to CSC.

Schwab's primary broker-dealer subsidiary, CS&Co, is subject to regulatory requirements of the Uniform Net Capital Rule. At September 30, 2018, CS&Co exceeded its net capital requirements.

In addition to the capital requirements above, Schwab's subsidiaries are subject to other regulatory requirements intended to ensure financial soundness and liquidity. See Item 1 – Note 16 for additional information on the components of stockholders' equity and information on the capital requirements of significant subsidiaries.

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## 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)

## Dividends

On July 25, 2018, the Board of Directors of the Company declared a three cent, or 30%, increase in the quarterly cash dividend to \$.13 per common share.

Cash dividends paid and per share amounts for the first nine months of 2018 and 2017 are as follows:

| Nine Months Ended September 30,           | 2018      |                  | 2017      |                  |
|---|-----------|------------------|-----------|------------------|
|   | Cash Paid | Per Share Amount | Cash Paid | Per Share Amount |
| Common Stock                              | \$448     | \$ .33           | \$323     | \$ .24           |
| Series A Preferred Stock <sup>(1)</sup>   | 28        | 70.00            | 28        | 70.00            |
| Series B Preferred Stock <sup>(2,5)</sup> | N/A       | N/A              | 22        | 45.00            |
| Series C Preferred Stock <sup>(2)</sup>   | 27        | 45.00            | 27        | 45.00            |
| Series D Preferred Stock <sup>(2)</sup>   | 33        | 44.64            | 33        | 44.64            |
| Series E Preferred Stock <sup>(3)</sup>   | 28        | 4,625.00         | 23        | 3,867.01         |
| Series F Preferred Stock <sup>(4)</sup>   | 15        | 2,930.56         | N/A       | N/A              |

<sup>(1)</sup> Dividends paid semi-annually until February 1, 2022 and quarterly thereafter.

<sup>(2)</sup> Dividends paid quarterly.

<sup>(3)</sup> Dividends paid semi-annually until March 1, 2022 and quarterly thereafter.

<sup>(4)</sup> Series F Preferred Stock was issued on October 31, 2017. Dividends paid semi-annually beginning on June 1, 2018 until December 1, 2027, and quarterly thereafter.

<sup>(5)</sup> Series B Preferred Stock was redeemed on December 1, 2017.

N/A Not applicable.

## OTHER

## Foreign Holdings

At September 30, 2018, Schwab had exposure to non-sovereign financial and non-financial institutions in foreign countries, as well as agencies of foreign governments. At September 30, 2018, the fair value of these holdings totaled \$7.4 billion, with the top three exposures being to issuers and counterparties domiciled in France at \$2.3 billion, Sweden at \$1.8 billion, and Canada at \$0.8 billion.

In addition to the direct holdings in foreign companies and securities issued by foreign government agencies, Schwab has indirect exposure to foreign countries through its investments in CSIM money market funds (collectively, the Funds) resulting from brokerage clearing activities. At September 30, 2018, Schwab had \$21 million in investments in these Funds. Certain of the Funds' positions include certificates of deposit, time deposits, commercial paper, and corporate debt securities issued by counterparties in foreign countries. Additionally, at September 30, 2018, Schwab had outstanding margin loans to foreign residents of \$816 million.

## Off-Balance Sheet Arrangements

Schwab enters into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of its clients. These arrangements include firm commitments to extend credit. Additionally, Schwab enters into guarantees and other similar arrangements in the ordinary course of business. For information on each of these

arrangements, see Item 1 – Note 5, Note 6, Note 8, Note 9, and Note 10, and Item 8 – Note 13 in the 2017 Form 10-K.

#### CRITICAL ACCOUNTING ESTIMATES

Certain of our accounting policies that involve a higher degree of judgment and complexity are discussed in Part II – Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates in the 2017 Form 10-K. There have been no changes to critical accounting estimates during the first nine months of 2018.

THE CHARLES SCHWAB CORPORATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For discussion of the quantitative and qualitative disclosures about market risk, see Risk Management in Item 2.

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## Part I - FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## THE CHARLES SCHWAB CORPORATION

## Condensed Consolidated Statements of Income

(In Millions, Except Per Share Amounts)

(Unaudited)

|   | Three Months<br>Ended<br>September 30,<br>2018 |         | Nine Months<br>Ended<br>September 30,<br>2017 |         |
|---|--|---------|---|---------|
| Net Revenues                                |  |         |   |         |
| Interest revenue                            | \$1,755  | \$1,176 | \$4,766                                       | \$3,358 |
| Interest expense                            | (228 )   | (94 )   | (569 )  | (223 )  |
| Net interest revenue                        | 1,527  | 1,082   | 4,197   | 3,135   |
| Asset management and administration fees    | 809  | 861     | 2,474   | 2,529   |
| Trading revenue                             | 176  | 151     | 557   | 500     |
| Other                                       | 67   | 71      | 235   | 212     |
| Total net revenues                          | 2,579  | 2,165   | 7,463   | 6,376   |
| Expenses Excluding Interest                 |  |         |   |         |
| Compensation and benefits                   | 737  | 662     | 2,252   | 2,026   |
| Professional services                       | 164  | 152     | 476   | 429     |
| Occupancy and equipment                     | 124  | 111     | 368   | 323     |
| Advertising and market development          | 70   | 63      | 220   | 205     |
| Communications                              | 59   | 56      | 179   | 171     |
| Depreciation and amortization               | 78   | 69      | 226   | 200     |
| Regulatory fees and assessments             | 57   | 43      | 158   | 133     |
| Other                                       | 71   | 64      | 232   | 192     |
| Total expenses excluding interest           | 1,360  | 1,220   | 4,111   | 3,679   |
| Income before taxes on income               | 1,219  | 945     | 3,352   | 2,697   |
| Taxes on income                             | 296  | 327     | 780   | 940     |
| Net Income                                  | 923  | 618     | 2,572   | 1,757   |
| Preferred stock dividends and other         | 38   | 43      | 128   | 127     |
| Net Income Available to Common Stockholders | \$885  | \$575   | \$2,444                                       | \$1,630 |
| Weighted-Average Common Shares Outstanding: |  |         |   |         |
| Basic                                       | 1,351  | 1,339   | 1,349   | 1,338   |
| Diluted                                     | 1,364  | 1,353   | 1,363   | 1,352   |
| Earnings Per Common Shares Outstanding:     |  |         |   |         |
| Basic                                       | \$.66  | \$.43   | \$1.81  | \$1.22  |
| Diluted                                     | \$.65  | \$.42   | \$1.79  | \$1.21  |
| Dividends Declared Per Common Share         | \$.13  | \$.08   | \$.33   | \$.24   |

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION  
Condensed Consolidated Statements of Comprehensive Income  
(In Millions)  
(Unaudited)

|   | Three<br>Months<br>Ended<br>September<br>30, |       | Nine Months<br>Ended<br>September 30, |         |
|---|--|-------|---------------------------------------|---------|
|   | 2018   | 2017  | 2018                                  | 2017    |
| Net income  | \$923  | \$618 | \$2,572                               | \$1,757 |
| Other comprehensive income (loss), before tax:                                    |  |       |                                       |         |
| Change in net unrealized gain (loss) on available for sale securities:            |  |       |                                       |         |
| Net unrealized gain (loss)  | (43 )  | —     | (184 )                                | 81      |
| Reclassification of net unrealized loss transferred to held to maturity           | —  | —     | —                                     | 227     |
| Other reclassifications included in other revenue                                 | —  | —     | —                                     | (7 )    |
| Change in net unrealized gain (loss) on held to maturity securities:              |  |       |                                       |         |
| Reclassification of net unrealized loss transferred from available for sale       | —  | —     | —                                     | (227 )  |
| Amortization of amounts previously recorded upon transfer from available for sale | 8  | 10    | 26                                    | 21      |
| Other   | —  | —     | —                                     | (3 )    |
| Other comprehensive income (loss), before tax                                     | (35 )  | 10    | (158 )                                | 92      |
| Income tax effect   | 9  | (4 )  | 39                                    | (35 )   |
| Other comprehensive income (loss), net of tax                                     | (26 )  | 6     | (119 )                                | 57      |
| Comprehensive Income  | \$897  | \$624 | \$2,453                               | \$1,814 |

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION  
Condensed Consolidated Balance Sheets  
(In Millions, Except Per Share and Share Amounts)  
(Unaudited)

|  | September 30,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Cash and cash equivalents  | \$ 21,830             | \$ 14,217            |
| Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of \$4,424 at September 30, 2018 and \$6,596 at December 31, 2017) | 8,487                 | 15,139               |
| Receivables from brokers, dealers, and clearing organizations  | 798                   | 649                  |
| Receivables from brokerage clients — net   | 22,411                | 20,576               |
| Other securities owned — at fair value   | 500                   | 539                  |
| Available for sale securities  | 57,558                | 49,995               |
| Held to maturity securities  | 138,952               | 120,926              |
| Bank loans — net   | 16,564                | 16,478               |
| Equipment, office facilities, and property — net   | 1,683                 | 1,471                |
| Goodwill   | 1,227                 | 1,227                |
| Other assets   | 2,092                 | 2,057                |
| Total assets   | \$ 272,102            | \$ 243,274           |
| Liabilities and Stockholders' Equity   |                       |                      |
| Bank deposits  | \$ 213,408            | \$ 169,656           |
| Payables to brokers, dealers, and clearing organizations   | 1,522                 | 1,287                |
| Payables to brokerage clients  | 27,851                | 31,243               |
| Accrued expenses and other liabilities   | 2,697                 | 2,810                |
| Short-term borrowings  | —                     | 15,000               |
| Long-term debt   | 5,790                 | 4,753                |
| Total liabilities  | 251,268               | 224,749              |
| Stockholders' equity:  |                       |                      |
| Preferred stock — \$.01 par value per share; aggregate liquidation preference of \$2,850   | 2,793                 | 2,793                |
| Common stock — 3 billion shares authorized; \$.01 par value per share; 1,487,543,446 shares issued   | 15                    | 15                   |
| Additional paid-in capital   | 4,484                 | 4,353                |
| Retained earnings  | 16,615                | 14,408               |
| Treasury stock, at cost — 135,806,047 shares at September 30, 2018 and 142,210,890 shares at December 31, 2017   | (2,769)               | (2,892)              |
| Accumulated other comprehensive income (loss)  | (304)                 | (152)                |
| Total stockholders' equity   | 20,834                | 18,525               |
| Total liabilities and stockholders' equity   | \$ 272,102            | \$ 243,274           |

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION  
Condensed Consolidated Statements of Stockholders' Equity  
(In Millions)  
(Unaudited)

|  | Preferred Stock | Common<br>Shares | Common<br>Amount | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock,<br>at cost | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total     |
|--|-----------------|------------------|------------------|----------------------------------|----------------------|-------------------------------|---|-----------|
| Balance at December 31, 2016                           | \$ 2,783        | 1,488            | \$ 15            | \$ 4,267                         | \$ 12,649            | \$(3,130)                     | \$ (163)  | \$ 16,421 |
| Net income   | —               | —                | —                | —                                | 1,757                | —                             | —   | 1,757     |
| Other comprehensive income (loss),<br>net of tax       | —               | —                | —                | —                                | —                    | —                             | 57  | 57        |
| Dividends declared on preferred<br>stock               | —               | —                | —                | —                                | (120)                | —                             | —   | (120)     |
| Dividends declared on common stock                     | —               | —                | —                | —                                | (323)                | —                             | —   | (323)     |
| Stock option exercises and other                       | —               | —                | —                | (30)                             | —                    | 128                           | —   | 98        |
| Share-based compensation and<br>related tax<br>effects | —               | —                | —                | 105                              | —                    | —                             | —   | 105       |
| Other  | —               | —                | —                | 23                               | —                    | 9                             | —   | 32        |
| Balance at September 30, 2017                          | \$ 2,783        | 1,488            | \$ 15            | \$ 4,365                         | \$ 13,963            | \$(2,993)                     | \$ (106)  | \$ 18,027 |
| Balance at December 31, 2017                           | \$ 2,793        | 1,488            | \$ 15            | \$ 4,353                         | \$ 14,408            | \$(2,892)                     | \$ (152)  | \$ 18,525 |
| Adoption of accounting standards<br>(Note 2)           | —               | —                | —                | —                                | 200                  | —                             | (33)  | 167       |
| Net income   | —               | —                | —                | —                                | 2,572                | —                             | —   | 2,572     |
| Other comprehensive income (loss),<br>net of tax       | —               | —                | —                | —                                | —                    | —                             | (119)   | (119)     |
| Dividends declared on preferred<br>stock               | —               | —                | —                | —                                | (117)                | —                             | —   | (117)     |
| Dividends declared on common stock                     | —               | —                | —                | —                                | (448)                | —                             | —   | (448)     |
| Stock option exercises and other                       | —               | —                | —                | (8)                              | —                    | 116                           | —   | 108       |
| Share-based compensation and<br>related tax<br>effects | —               | —                | —                | 106                              | —                    | —                             | —   | 106       |
| Other  | —               | —                | —                | 33                               | —                    | 7                             | —   | 40        |
| Balance at September 30, 2018                          | \$ 2,793        | 1,488            | \$ 15            | \$ 4,484                         | \$ 16,615            | \$(2,769)                     | \$ (304)  | \$ 20,834 |

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION  
Condensed Consolidated Statements of Cash Flows  
(in Millions)  
(Unaudited)

|  | Nine Months<br>Ended<br>September 30, |                     |
|--|---------------------------------------|---------------------|
|  | 2018                                  | 2017 <sup>(1)</sup> |
| Cash Flows from Operating Activities   |                                       |                     |
| Net income   | \$2,572                               | \$1,757             |
| Adjustments to reconcile net income to net cash (used for) provided by operating activities: |                                       |                     |
| Share-based compensation   | 113                                   | 111                 |
| Depreciation and amortization  | 226                                   | 200                 |
| Premium amortization, net, on available for sale and held to maturity securities             | 276                                   | 240                 |
| Other  | 108                                   | 35                  |
| Net change in:   |                                       |                     |
| Investments segregated and on deposit for regulatory purposes                                | 6,973                                 | 6,864               |
| Receivables from brokers, dealers, and clearing organizations                                | (147 )                                | 61                  |
| Receivables from brokerage clients   | (1,858 )                              | (1,310 )            |
| Other securities owned   | 39                                    | 22                  |
| Other assets   | (143 )                                | (76 )               |
| Payables to brokers, dealers, and clearing organizations                                     | 43                                    | (957 )              |
| Payables to brokerage clients  | (3,392 )                              | (4,414 )            |
| Accrued expenses and other liabilities   | (155 )                                | (82 )               |
| Net cash provided by operating activities  | 4,655                                 | 2,451               |
| Cash Flows from Investing Activities   |                                       |                     |
| Purchases of available for sale securities   | (19,781 )                             | (6,375 )            |
| Proceeds from sales of available for sale securities   | 115                                   | 5,773               |
| Principal payments on available for sale securities  | 12,091                                | 6,532               |
| Purchases of held to maturity securities   | (30,639 )                             | (19,886 )           |
| Principal payments on held to maturity securities  | 12,382                                | 7,927               |
| Net increase in bank loans   | (86 )                                 | (829 )              |
| Purchases of equipment, office facilities, and property                                      | (400 )                                | (267 )              |
| Purchases of Federal Home Loan Bank stock  | (156 )                                | (160 )              |
| Proceeds from sales of Federal Home Loan Bank stock  | 528                                   | 106                 |
| Other investing activities   | (74 )                                 | (52 )               |
| Net cash provided by (used for) investing activities   | (26,020 )                             | (7,231 )            |
| Cash Flows from Financing Activities   |                                       |                     |
| Net change in bank deposits  | 43,752                                | 1,809               |
| Net change in short-term borrowings  | (15,000 )                             | 5,000               |
| Issuance of long-term debt   | 1,936                                 | 643                 |
| Repayment of long-term debt  | (906 )                                | (256 )              |
| Dividends paid   | (579 )                                | (456 )              |
| Proceeds from stock options exercised and other  | 108                                   | 98                  |
| Other financing activities   | (12 )                                 | (10 )               |
| Net cash provided by (used for) financing activities   | 29,299                                | 6,828               |
| Increase (Decrease) in Cash and Cash Equivalents, including Amounts Restricted               | 7,934                                 | 2,048               |

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|   |          |          |
|---|----------|----------|
| Cash and Cash Equivalents including Amounts Restricted at Beginning of Year | 19,160   | 17,873   |
| Cash and Cash Equivalents, including Amounts Restricted at End of Period    | \$27,094 | \$19,921 |

<sup>(1)</sup>Adjusted for the retrospective adoption of ASU 2016-18. See Note 2.

Continued on following page

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THE CHARLES SCHWAB CORPORATION  
Condensed Consolidated Statements of Cash Flows  
(in Millions)  
(Unaudited)

Continued from previous page

|   | Nine Months Ended<br>September 30,<br>2018 | 2017 <sup>(1)</sup> |
|---|--|---------------------|
| Supplemental Cash<br>Flow Information   |  |                     |
| Cash paid during the<br>period for:   |  |                     |
| Interest  | \$ 550                                     | \$ 233              |
| Income taxes  | \$ 649                                     | \$ 890              |
| Non-cash investing<br>activity:   |  |                     |
| Securities purchased<br>during the period but<br>settled after period<br>end  | \$ 221                                     | \$ 3,977            |
|   | September 30, 2018                         | September 30, 2017  |
| Reconciliation of<br>cash, cash equivalents<br>and amounts reported<br>within the balance<br>sheet <sup>(2)</sup>                                 |  |                     |
| Cash and cash<br>equivalents  | \$ 21,830                                  | \$ 12,253           |
| Restricted cash and<br>cash equivalents<br>amounts included in<br>cash and investments<br>segregated<br>and on deposit for<br>regulatory purposes | 5,264                                      | 7,668               |
| Total cash and cash<br>equivalents, including<br>amounts restricted<br>shown in the<br>statement of cash<br>flows                                 | \$ 27,094                                  | \$ 19,921           |

<sup>(1)</sup> Adjusted for the retrospective adoption of ASU 2016-18. See Note 2.

<sup>(2)</sup> For more information on the nature of restrictions on restricted cash and cash equivalents see Note 16.

See Notes to Condensed Consolidated Financial Statements.





CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

1. Introduction and Basis of Presentation

The Charles Schwab Corporation (CSC) is a savings and loan holding company engaged, through its subsidiaries, in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services.

Significant business subsidiaries of CSC include the following:

Charles Schwab & Co., Inc. (CS&Co), a securities broker-dealer;

Charles Schwab Bank (CSB), a federal savings bank; and

Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds®) and Schwab's exchange-traded funds (Schwab ETFs™).

Unless otherwise indicated, the terms "Schwab," "the Company," "we," "us," or "our" mean CSC together with its consolidated subsidiaries.

These unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the U.S. (GAAP), which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying financial statements, and in the related disclosures. These estimates are based on information available as of the date of the condensed consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. In the opinion of management, all normal, recurring adjustments have been included for a fair statement of this interim financial information.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, included in Schwab's 2017 Form 10-K.

The significant accounting policies are included in Note 2 in the 2017 Form 10-K. There have been no significant changes to these accounting policies during the first nine months of 2018, except as described in Note 2 below.

Principles of Consolidation

Schwab evaluates all entities in which it has financial interests for consolidation, except for money market funds, which are specifically excluded from consolidation guidance. When an entity is evaluated for consolidation, Schwab determines whether its interest in the entity constitutes a controlling financial interest under either the variable interest entity (VIE) model or a voting interest entity (VOE) model. In evaluating whether Schwab's interest in a VIE is a controlling financial interest, we consider whether our involvement, in the context of the design, purpose, and risks of the VIE, as well as any involvement of related parties, provides us with (i) the power to direct the most significant activities of the VIE, and (ii) the obligation to absorb losses or receive benefits that are significant to the VIE. If both of these conditions exist, then Schwab would be the primary beneficiary of that VIE, and consolidate it. Based upon the assessments for all of our interests in VIEs, there are no cases where Schwab is the primary beneficiary; therefore, we are not required to consolidate any VIEs. Schwab consolidates all VOEs in which it has majority-voting interests. Investments in entities in which Schwab does not have a controlling financial interest are accounted for under the equity method of accounting when we have the ability to exercise significant influence over operating and financing decisions of the entity. Investments in entities for which Schwab does not have the ability to exercise significant influence are generally carried at cost and adjusted for impairment and observable price changes of the identical or similar investments of the same issuer (adjusted cost method), except for certain investments in qualified affordable housing projects which are accounted for under the proportional amortization method. All equity method, adjusted cost method, and proportional amortization method investments are included in other assets on the condensed consolidated balance sheets.



## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

## 2. New Accounting Standards

## Adoption of New Accounting Standards

| Standard  | Description  | Date of Adoption | Effects on the Financial Statements or Other Significant Matters  |
|---|--|------------------|---|
| Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606) and related ASUs  | Clarifies that revenue from contracts with clients should be recognized in a manner that depicts the timing of the related transfer of goods or performance of services at an amount that reflects the expected consideration.<br><br>Adoption allows either full or modified retrospective transition. Full retrospective transition required a cumulative effect adjustment to retained earnings as of the earliest comparative period presented. Modified retrospective transition required a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance. | January 1, 2018  | The guidance does not apply to revenue earned from the Company's loans and securities. Accordingly, net interest revenue was not impacted. The primary impact for the Company was the capitalization on the consolidated balance sheets of sales commissions paid to employees for obtaining new contracts with clients. These capitalized costs resulted in an asset of \$219 million and a related deferred tax liability of \$52 million upon adoption. The asset is being amortized to expense over time as the related revenues are recognized.<br><br>The Company adopted the revenue recognition guidance using the modified retrospective method for all contracts that were not completed as of January 1, 2018. Further details of the impact of adoption are included below in this Note as well as in Note 3. |
| ASU 2016-01, "Financial Instruments Overall (Subtopic 825-10)" and ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10)" | Requires: (i) equity investments to be measured at fair value, with changes in fair value recognized in net income, unless the equity method is applied or the equity investments do not have readily determinable fair values in which case a practical alternative may be elected; (ii) use of an exit price when measuring the fair value of financial instruments for disclosures; (iii) separate presentation of financial assets and liabilities by measurement category and form of instrument on the balance sheet or in the accompanying notes.<br><br>Adoption requires a cumulative effect adjustment to the balance sheet as of the    | January 1, 2018  | The Company adopted this guidance on a prospective basis for its equity securities that do not have readily determinable fair values. No other significant changes resulted from adoption. Therefore, there was no material impact on the Company's financial statements.<br><br>The Company elected to use the alternative to fair value measurement for its equity securities that do not have readily determinable fair values. These equity securities will be adjusted for impairment and observable price changes of the identical or similar investments of the same issuer, as applicable. Schwab refers to this approach as the adjusted   |

beginning of the year of initial application, except for certain changes that require prospective adoption.

cost method. This method was applied to an immaterial amount of Community Reinvestment Act (CRA) investments included in other assets on the consolidated balance sheets.

The Company adopted this guidance on a retrospective basis. The Company has significant amounts of restricted cash and cash equivalents due to its business as a broker-dealer.

ASU 2016-18,  
“Statement of Cash  
Flows (Topic 230) –  
Restricted Cash a  
Consensus of the  
Emerging Issues Task  
Force”

Requires that the statement of cash flows explain the change during the period in the total cash and cash equivalents, including restricted cash and cash equivalents.

Adoption requires retrospective presentation of the statement of cash flows to include restricted cash and cash equivalents in the beginning and ending amounts.

As a result of the adoption, changes in restricted cash and cash equivalents January 1, 2018, included within cash and investments segregated and on deposit for regulatory purposes in the consolidated balance sheets are now presented with changes in cash and cash equivalents throughout the consolidated statements of cash flows. The amount of restricted cash and cash equivalents is included in a separate table in the consolidated statements of cash flows.

## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

| Standard  | Description   | Date of Adoption | Effects on the Financial Statements or Other Significant Matters   |
|---|---|------------------|--|
| ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" | Permits reclassification of the impacts on certain tax affected items included in AOCI that were adjusted through income from continuing operations rather than AOCI upon the effective date of the Tax Act.<br><br>Adoption provides for retrospective adoption to all periods presented and impacted by the Tax Act or as of the beginning of the period of adoption. | January 1, 2018  | The Company adopted this guidance as of January 1, 2018. The Company elected to reclassify the income tax effects of the Tax Act from items in AOCI into retained earnings as of the beginning of the period of adoption.<br><br>Adoption resulted in a reduction in AOCI and a corresponding increase in retained earnings of \$33 million. |

## New Accounting Standards Not Yet Adopted

| Standard                          | Description  | Required Date of Adoption | Effects on the Financial Statements or Other Significant Matters  |
|-----------------------------------|--|---------------------------|---|
| ASU 2016-02, "Leases (Topic 842)" | Amends the accounting for leases by lessees and lessors. The primary change from the new guidance is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases. Additional changes include accounting for lease origination and executory costs, required lessee reassessments during the lease term due to changes in circumstances, and expanded lease disclosures.<br><br>Adoption provides for modified retrospective transition as of the beginning of the earliest comparative period presented in the financial statements in which the entity first applies the new standard or prospectively with an adjustment as of the beginning of the period of adoption. Certain transition relief is permitted if elected by the entity. | January 1, 2019           | The Company plans to adopt the new lease accounting guidance prospectively as of January 1, 2019 with a cumulative-effect adjustment to the opening balance of retained earnings (i.e., prior periods will not be adjusted). The Company does not expect this guidance will have a material impact on its earnings per common share (EPS). However, it will result in a gross up of the consolidated balance sheet due to recognition of right-of-use assets and lease liabilities primarily related to leases of office space and branches. These amounts will be based on the present value of our remaining operating lease payments (see Note 13 in the 2017 10-K for the undiscounted rental commitments for operating leases).<br><br>The Company is refining its methodology to estimate the right-of-use assets and lease liabilities. We are also testing system updates and refining internal controls for applying the lease accounting changes. Based upon our current population of leases, we expect the right-of-use asset and corresponding lease liability to be less than 0.5% of our total assets. |



CHARLES SCHWAB CORPORATION

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

(Unaudited)

| Standard  | Description  | Required Date of Adoption                  | Effects on the Financial Statements or Other Significant Matters  |
|---|--|--|---|
| ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"                       | <p>Provides guidance for recognizing impairment of most debt instruments measured at amortized cost, including loans and held to maturity (HTM) debt securities. Requires estimating current expected credit losses (CECL) over the remaining life of an instrument or a portfolio of instruments with similar risk characteristics based on relevant information about past events, current conditions, and reasonable forecasts. The initial estimate of, and the subsequent changes in, CECL will be recognized as credit loss expense through current earnings and will be reflected as an allowance for credit losses offsetting the carrying value of the financial instrument(s) on the balance sheet. Amends the OTTI model for available for sale (AFS) debt securities by requiring the use of an allowance, rather than directly reducing the carrying value of the security, and eliminating consideration of the length of time such security has been in an unrealized loss position as a factor in concluding whether a credit loss exists.</p> <p>Adoption requires a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the entity applies the new guidance except that a prospective transition is required for AFS debt securities for which an OTTI has been recognized prior to the effective date.</p> | January 1, 2020 (early adoption permitted) | <p>The Company continues to evaluate the impact of this guidance on its financial statements, including EPS. The Company has finished the majority of its scoping work and assessment of the current state of data and systems. Work is transitioning to designing and building out approaches to address certain asset classes with a focus primarily on a subset of our securities, including corporate debt securities. The Company expects that a large portion of its securities will have zero expectation of credit losses based on industry and regulator views for U.S. treasury and certain government agency-backed securities. We are currently working on in-depth analysis for the other asset types that do not have zero expectation of credit losses to determine our methods and any needed changes to policies and procedures.</p> |
| ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities" | <p>Shortens the amortization period for the premium on certain callable debt securities to the earliest call date. The amendments are applicable to any purchased individual debt security with an explicit and noncontingent call feature with a fixed price on a preset date. ASU 2017-08 does not impact the accounting for callable debt securities held at a discount.</p> <p>Adoption requires modified retrospective</p>  | January 1, 2019 (early adoption permitted) | <p>While still under evaluation, the Company does not expect this guidance will have a material impact on its financial statements, including EPS.</p>  |

transition as of the beginning of the period of adoption through a cumulative-effect adjustment to retained earnings.



## CHARLES SCHWAB CORPORATION

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| Standard  | Description   | Required Date of Adoption                  | Effects on the Financial Statements or Other Significant Matters  |
|---|---|--|---|
| ASU 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)" | <p>Aligns the criteria for capitalizing implementation costs for cloud computing arrangements (CCA) that are service contracts with internal-use software that is developed or purchased and CCAs that include an internal-use software license. This guidance requires that the capitalized implementation costs be recognized over the period of the CCA service contract, subject to impairment evaluation on an ongoing basis.</p> <p>The guidance prescribes the balance sheet, income statement, and statement of cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures.</p> <p>Adoption provides for retrospective or prospective application to all implementation costs incurred after the date of adoption.</p> | January 1, 2020 (early adoption permitted) | Historically, Schwab has expensed implementation costs as they are incurred for CCAs that are service contracts. Therefore, adopting this guidance will change the Company's accounting treatment for these types of implementation costs. The Company is evaluating the impacts of this guidance on its financial statements, including EPS. |

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASU 2014-09, "Revenue – Revenue from Contracts with Customers" and ASU 2018-02, "Other Comprehensive Income – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" were as follows:

|  | Balance at December 31, 2017 | Adjustments Due to ASU 2014-09 | Adjustments Due to ASU 2018-02 | Balance at January 1, 2018 |
|--|------------------------------|--------------------------------|--------------------------------|----------------------------|
| Assets                                 |                              |                                |                                |                            |
| Other assets <sup>(1)</sup>            | \$ 2,057                     | \$ 167                         | \$ —                           | \$2,224                    |
| Stockholders' Equity                   |                              |                                |                                |                            |
| Retained earnings                      | 14,408                       | 167                            | 33                             | 14,608                     |
| Accumulated other comprehensive income | (152 )                       | —                              | (33 )                          | (185 )                     |

(1) Adjustment is comprised of an increase in capitalized contract costs of \$219 million, partially offset by an increase in deferred tax liabilities of \$52 million.

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our condensed consolidated statement of income and condensed consolidated balance sheet were as follows:

|                             | Three Months Ended September<br>30, 2018 |  |                                       |
|-----------------------------|--|--|---------------------------------------|
|                             | Balances                                 |  |                                       |
| Statement of Income         | As<br>Reported                           | Without<br>Adoption<br>of ASU<br>2014-09 | Effect of<br>Change<br>Higher/(Lower) |
| Expenses Excluding Interest |  |  |                                       |
| Compensation and benefits   | \$737                                    | \$ 744                                   | \$ (7 )                               |
| Taxes on income             | 296                                      | 294                                      | 2                                     |
| Net Income                  | 923                                      | 918                                      | 5                                     |

## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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| Statement of Income         | Nine Months Ended September 30,<br>2018 |  |                                       |
|-----------------------------|---|--|---------------------------------------|
|                             | As<br>Reported                          | Balances<br>Without<br>Adoption<br>of ASU<br>2014-09 | Effect of<br>Change<br>Higher/(Lower) |
| Expenses Excluding Interest |   |  |                                       |
| Compensation and benefits   | \$2,252                                 | \$ 2,279   | \$ (27 )                              |
| Taxes on income             | 780                                     | 773  | 7                                     |
| Net Income                  | 2,572                                   | 2,552  | 20                                    |

| Balance Sheet               | As of September 30, 2018 |  |                                       |
|-----------------------------|--------------------------|--|---------------------------------------|
|                             | As<br>Reported           | Balances<br>Without<br>Adoption<br>of ASU<br>2014-09 | Effect of<br>Change<br>Higher/(Lower) |
| Assets                      |                          |  |                                       |
| Other assets <sup>(1)</sup> | \$2,092                  | \$ 1,905   | \$ 187                                |
| Stockholders' Equity        |                          |  |                                       |
| Retained earnings           | 16,615                   | 16,428   | 187                                   |

<sup>(1)</sup> Adjustment is comprised of an increase in capitalized contract costs of \$246 million, partially offset by an increase in deferred tax liabilities of \$59 million.

## 3. Revenue Recognition

## Disaggregated Revenue

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

|  | Three Months<br>Ended September<br>30,<br>2018 |         | Nine Months<br>Ended<br>September 30,<br>2017 |         |
|--|--|---------|---|---------|
|  | 2018   | 2017    | 2018  | 2017    |
| Net interest revenue                     |  |         |   |         |
| Interest revenue                         | \$1,755  | \$1,176 | \$4,766                                       | \$3,358 |
| Interest expense                         | (228 )   | (94 )   | (569 )  | (223 )  |
| Net interest revenue                     | 1,527  | 1,082   | 4,197   | 3,135   |
| Asset management and administration fees |  |         |   |         |
| Mutual funds and ETF service fees        | 435  | 519     | 1,386   | 1,538   |
| Advice solutions                         | 294  | 265     | 859   | 765     |
| Other                                    | 80   | 77      | 229   | 226     |
| Asset management and administration fees | 809  | 861     | 2,474   | 2,529   |
| Trading revenue                          |  |         |   |         |
| Commissions                              | 155  | 136     | 501   | 456     |
| Principal transactions                   | 21   | 15      | 56  | 44      |

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|                    |         |         |         |         |
|--------------------|---------|---------|---------|---------|
| Trading revenue    | 176     | 151     | 557     | 500     |
| Other              | 67      | 71      | 235     | 212     |
| Total net revenues | \$2,579 | \$2,165 | \$7,463 | \$6,376 |

For a summary of revenue provided by our reportable segments, see Note 17. The recognition of revenue is not impacted by the operating segment in which revenue is generated.

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CHARLES SCHWAB CORPORATION

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(Unaudited)

Net interest revenue

Net interest revenue, which is generated from financial instruments covered by various other areas of GAAP, is not within the scope of Accounting Standards Codification (ASC) 606, Revenue From Contracts With Customers (ASC 606), and is included in the table above in order to reconcile to total net revenues per the condensed consolidated statement of income. Net interest revenue is the difference between interest generated on interest earning assets and interest paid on funding sources. Our primary interest earning assets include cash and cash equivalents; segregated cash and investments; margin loans, which constitute the majority of receivables from brokerage clients; investment securities; and bank loans. Revenue on interest earning assets is affected by various factors, such as the composition of assets, prevailing interest rates at the time of origination or purchase, changes in interest rates on floating rate securities, and changes in prepayment levels for mortgage related securities and loans. Fees earned on securities borrowing and lending activities, which are conducted by CS&Co on assets held in client brokerage accounts, are included in other interest revenue and expense.

Asset management and administration fees

The majority of asset management and administration fees are generated through our proprietary and third-party mutual fund and ETF offerings, as well as fee-based advisory solutions. Mutual fund and ETF service fees are charged for investment management, shareholder, and administration services provided to Schwab Funds® and Schwab ETFs™, as well as recordkeeping, shareholder, and administration services provided to third-party funds. Advice solutions fees are charged for brokerage and asset management services provided to advice solutions clients. Both mutual fund and ETF service fees and advice solutions fees are earned and recognized over time. Fees are generally based on a percentage of the daily value of assets under management and are collected on a monthly or quarterly basis.

Trading revenue

Substantially all trading revenue is generated through commissions earned for executing trades for clients in individual equities, options, fixed income securities, and certain third-party mutual funds and ETFs. This revenue is earned and collected when the trades are executed.

Other revenue

Other revenue includes order flow revenue, other service fees, software fees from our portfolio management solutions, exchange processing fees, and nonrecurring gains. Generally, the most significant portion of other revenue is order flow revenue, which are payments received from execution venues to which CS&Co sends equity and option orders. Order flow revenue is recognized when the trades are executed.

Capitalized contract costs

Deferred contract costs relate to sales commissions paid to employees for obtaining contracts with clients and are included in other assets on the condensed consolidated balance sheets. These costs are amortized to expense on a straight-line basis over a period that is consistent with how the related revenue is recognized. At September 30, 2018 and January 1, 2018, we had \$246 million and \$219 million of deferred contract costs, respectively. Amortization expense related to deferred contract costs was \$12 million and \$34 million for the third quarter and first nine months of 2018, respectively, which was recorded in compensation and benefits expense on the condensed consolidated statements of income.

Contract balances

Receivables from contracts with customers within the scope of ASC 606 were \$353 million at January 1, 2018 and \$359 million at September 30, 2018 and were recorded in other assets on the condensed consolidated balance sheets. Schwab does not have any other significant contract assets or contract liability balances as of September 30, 2018 and January 1, 2018.

Unsatisfied performance obligations

We do not have any unsatisfied performance obligations other than those that are subject to an elective practical expedient under ASC 606. The practical expedient applies to and is elected for contracts where we recognize revenue at the amount to which we have the right to invoice for services performed.

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## CHARLES SCHWAB CORPORATION

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## 4. Investment Securities

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

| September 30, 2018                               | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| Available for sale securities                    |                   |                              |                               |               |
| U.S. agency mortgage-backed securities           | \$ 24,010         | \$ 47                        | \$ 102                        | \$ 23,955     |
| U.S. Treasury securities                         | 12,412            | —                            | 169                           | 12,243        |
| Asset-backed securities <sup>(1)</sup>           | 9,378             | 19                           | 10                            | 9,387         |
| Corporate debt securities <sup>(2)</sup>         | 6,921             | 10                           | 9                             | 6,922         |
| Certificates of deposit                          | 2,765             | 4                            | —                             | 2,769         |
| U.S. agency notes                                | 1,688             | —                            | 6                             | 1,682         |
| Commercial paper <sup>(2,3)</sup>                | 518               | —                            | —                             | 518           |
| Foreign government agency securities             | 50                | —                            | 2                             | 48            |
| Non-agency commercial mortgage-backed securities | 34                | —                            | —                             | 34            |
| Total available for sale securities              | \$ 57,776         | \$ 80                        | \$ 298                        | \$ 57,558     |
| Held to maturity securities                      |                   |                              |                               |               |
| U.S. agency mortgage-backed securities           | \$ 113,453        | \$ 26                        | \$ 3,483                      | \$ 109,996    |
| Asset-backed securities <sup>(1)</sup>           | 17,964            | 122                          | 12                            | 18,074        |
| Corporate debt securities <sup>(2)</sup>         | 4,578             | 8                            | 55                            | 4,531         |
| U.S. state and municipal securities              | 1,330             | 6                            | 7                             | 1,329         |
| Non-agency commercial mortgage-backed securities | 1,149             | 1                            | 25                            | 1,125         |
| U.S. Treasury securities                         | 223               | —                            | 11                            | 212           |
| Certificates of deposit                          | 200               | 1                            | —                             | 201           |
| Foreign government agency securities             | 50                | —                            | 2                             | 48            |
| Other  | 5                 | —                            | —                             | 5             |
| Total held to maturity securities                | \$ 138,952        | \$ 164                       | \$ 3,595                      | \$ 135,521    |
| December 31, 2017                                |                   |                              |                               |               |
| Available for sale securities                    |                   |                              |                               |               |
| U.S. agency mortgage-backed securities           | \$ 20,915         | \$ 53                        | \$ 39                         | \$ 20,929     |
| U.S. Treasury securities                         | 9,583             | —                            | 83                            | 9,500         |
| Asset-backed securities <sup>(1)</sup>           | 9,019             | 34                           | 6                             | 9,047         |
| Corporate debt securities <sup>(2)</sup>         | 6,154             | 16                           | 1                             | 6,169         |
| Certificates of deposit                          | 2,040             | 2                            | 1                             | 2,041         |
| U.S. agency notes                                | 1,914             | —                            | 8                             | 1,906         |
| Commercial paper <sup>(2)</sup>                  | 313               | —                            | —                             | 313           |
| Foreign government agency securities             | 51                | —                            | 1                             | 50            |
| Non-agency commercial mortgage-backed securities | 40                | —                            | —                             | 40            |
| Total available for sale securities              | \$ 50,029         | \$ 105                       | \$ 139                        | \$ 49,995     |
| Held to maturity securities                      |                   |                              |                               |               |
| U.S. agency mortgage-backed securities           | \$ 101,197        | \$ 290                       | \$ 1,034                      | \$ 100,453    |
| Asset-backed securities <sup>(1)</sup>           | 12,937            | 127                          | 2                             | 13,062        |
| Corporate debt securities <sup>(2)</sup>         | 4,078             | 13                           | 5                             | 4,086         |
| U.S. state and municipal securities              | 1,247             | 57                           | —                             | 1,304         |

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|  |            |        |          |            |
|--|------------|--------|----------|------------|
| Non-agency commercial mortgage-backed securities | 994        | 10     | 5        | 999        |
| U.S. Treasury securities                         | 223        | —      | 3        | 220        |
| Certificates of deposit                          | 200        | —      | —        | 200        |
| Foreign government agency securities             | 50         | —      | 1        | 49         |
| Total held to maturity securities                | \$ 120,926 | \$ 497 | \$ 1,050 | \$ 120,373 |

(1) Approximately 37% and 42% of asset-backed securities held as of September 30, 2018 and December 31, 2017, respectively, were Federal Family Education Loan Program Asset-Backed Securities. Asset-backed securities collateralized by credit card receivables represented approximately 43% and 40% of the asset-backed securities held as of September 30, 2018 and December 31, 2017, respectively.

(2) As of September 30, 2018 and December 31, 2017, approximately 31% and 41%, respectively, of the total AFS and HTM investments in corporate debt securities and commercial paper were issued by institutions in the financial services industry. Approximately 18% and 22% of the holdings of these securities were issued by institutions in the information technology industry as of September 30, 2018 and December 31, 2017, respectively.

(3) Included in cash and cash equivalents on the condensed consolidated balance sheet, but excluded from this table is \$2.0 billion of AFS commercial paper. These holdings have maturities of three months or less and an aggregate market value equal to amortized cost.



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At September 30, 2018, certain banking subsidiaries had pledged securities with a fair value of \$21.5 billion as collateral to secure borrowing capacity on secured credit facilities with the FHLB (see Note 8). We also pledge certain investment securities as collateral to secure borrowing capacity at the Federal Reserve Bank discount window, and had pledged securities with a fair value of \$2.4 billion as collateral for this facility at September 30, 2018. CSB also pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was \$898 million at September 30, 2018.

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

|  | Less than<br>12 months |                      | 12 months<br>or longer |                      | Total         |                      |
|--|------------------------|----------------------|------------------------|----------------------|---------------|----------------------|
|  | Fair<br>Value          | Unrealized<br>Losses | Fair<br>Value          | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| September 30, 2018                                     |                        |                      |                        |                      |               |                      |
| Available for sale securities                          |                        |                      |                        |                      |               |                      |
| U.S. agency mortgage-backed securities                 | \$10,119               | \$ 68                | \$1,988                | \$ 34                | \$12,107      | \$ 102               |
| U.S. Treasury securities                               | 7,770                  | 72                   | 4,374                  | 97                   | 12,144        | 169                  |
| Asset-backed securities                                | 1,841                  | 4                    | 601                    | 6                    | 2,442         | 10                   |
| Corporate debt securities                              | 3,030                  | 8                    | 229                    | 1                    | 3,259         | 9                    |
| U.S. agency notes                                      | 566                    | 2                    | 1,116                  | 4                    | 1,682         | 6                    |
| Foreign government agency securities                   | —                      | —                    | 48                     | 2                    | 48            | 2                    |
| Total  | \$23,326               | \$ 154               | \$8,356                | \$ 144               | \$31,682      | \$ 298               |
| Held to maturity securities                            |                        |                      |                        |                      |               |                      |
| U.S. agency mortgage-backed securities                 | \$59,643               | \$ 1,247             | \$40,279               | \$ 2,236             | \$99,922      | \$ 3,483             |
| Asset-backed securities                                | 2,115                  | 12                   | 39                     | —                    | 2,154         | 12                   |
| Corporate debt securities                              | 2,862                  | 52                   | 77                     | 3                    | 2,939         | 55                   |
| U.S. state and municipal securities                    | 471                    | 5                    | 14                     | 2                    | 485           | 7                    |
| Non-agency commercial mortgage-backed securities       | 651                    | 15                   | 279                    | 10                   | 930           | 25                   |
| U.S. Treasury securities                               | —                      | —                    | 212                    | 11                   | 212           | 11                   |
| Foreign government agency securities                   | —                      | —                    | 48                     | 2                    | 48            | 2                    |
| Total  | \$65,742               | \$ 1,331             | \$40,948               | \$ 2,264             | \$106,690     | \$ 3,595             |
| Total securities with unrealized losses <sup>(1)</sup> | \$89,068               | \$ 1,485             | \$49,304               | \$ 2,408             | \$138,372     | \$ 3,893             |
| December 31, 2017                                      |                        |                      |                        |                      |               |                      |
| Available for sale securities                          |                        |                      |                        |                      |               |                      |
| U.S. agency mortgage-backed securities                 | \$5,696                | \$21                 | \$2,548                | \$18                 | \$8,244       | \$39                 |
| U.S. Treasury securities                               | 4,625                  | 11                   | 4,875                  | 72                   | 9,500         | 83                   |
| Asset-backed securities                                | 904                    | 3                    | 424                    | 3                    | 1,328         | 6                    |
| Corporate debt securities                              | 736                    | 1                    | 120                    | —                    | 856           | 1                    |
| Certificates of deposit                                | 799                    | 1                    | —                      | —                    | 799           | 1                    |
| U.S. agency notes                                      | 99                     | —                    | 1,807                  | 8                    | 1,906         | 8                    |
| Foreign government agency securities                   | 50                     | 1                    | —                      | —                    | 50            | 1                    |
| Total  | \$12,909               | \$38                 | \$9,774                | \$101                | \$22,683      | \$139                |
| Held to maturity securities                            |                        |                      |                        |                      |               |                      |
| U.S. agency mortgage-backed securities                 | \$42,102               | \$310                | \$24,753               | \$724                | \$66,855      | \$1,034              |
| Asset-backed securities                                | 1,124                  | 2                    | 72                     | —                    | 1,196         | 2                    |
| Corporate debt securities                              | 1,078                  | 5                    | —                      | —                    | 1,078         | 5                    |
| Non-agency commercial mortgage-backed securities       | 607                    | 5                    | —                      | —                    | 607           | 5                    |
| U.S. Treasury securities                               | 220                    | 3                    | —                      | —                    | 220           | 3                    |
| Foreign government agency securities                   | 49                     | 1                    | —                      | —                    | 49            | 1                    |
| Total  | \$45,180               | \$326                | \$24,825               | \$724                | \$70,005      | \$1,050              |
| Total securities with unrealized losses <sup>(2)</sup> | \$58,089               | \$364                | \$34,599               | \$825                | \$92,688      | \$1,189              |

<sup>(1)</sup> The number of investment positions with unrealized losses totaled 413 for AFS securities and 1,800 for HTM securities.

(2) The number of investment positions with unrealized losses totaled 251 for AFS securities and 938 for HTM securities.

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At September 30, 2018, substantially all securities in the investment portfolios were rated investment grade. U.S. agency mortgage-backed securities do not have explicit credit ratings; however, management considers these to be of the highest credit quality and rating given the guarantee of principal and interest by the U.S. government or U.S. government-sponsored enterprises.

Management evaluates whether investment securities are other-than-temporarily impaired (OTTI) on a quarterly basis as described in Note 2 in the 2017 Form 10-K. No amounts were recognized as OTTI in earnings or other comprehensive income in 2018 or 2017. As of September 30, 2018 and December 31, 2017, Schwab did not hold any securities on which OTTI was previously recognized.

The maturities of AFS and HTM securities are as follows:

| September 30, 2018  | Within<br>1 year | After 1<br>year<br>through<br>5 years | After 5 years<br>through<br>10 years | After<br>10 years | Total      |
|---|------------------|---------------------------------------|--------------------------------------|-------------------|------------|
| Available for sale securities                                   |                  |                                       |                                      |                   |            |
| U.S. agency mortgage-backed securities <sup>(1)</sup>           | \$ 169           | \$ 3,669                              | \$ 10,571                            | \$ 9,546          | \$ 23,955  |
| U.S. Treasury securities  | 5,999            | 6,244                                 | —                                    | —                 | 12,243     |
| Asset-backed securities   | 250              | 6,968                                 | 1,750                                | 419               | 9,387      |
| Corporate debt securities                                       | 1,621            | 5,301                                 | —                                    | —                 | 6,922      |
| Certificates of deposit   | 866              | 1,903                                 | —                                    | —                 | 2,769      |
| U.S. agency notes   | 1,311            | 371                                   | —                                    | —                 | 1,682      |
| Commercial paper  | 518              | —                                     | —                                    | —                 | 518        |
| Foreign government agency securities                            | —                | 48                                    | —                                    | —                 | 48         |
| Non-agency commercial mortgage-backed securities <sup>(1)</sup> | —                | —                                     | —                                    | 34                | 34         |
| Total fair value  | \$ 10,734        | \$ 24,504                             | \$ 12,321                            | \$ 9,999          | \$ 57,558  |
| Total amortized cost  | \$ 10,762        | \$ 24,632                             | \$ 12,368                            | \$ 10,014         | \$ 57,776  |
| Held to maturity securities                                     |                  |                                       |                                      |                   |            |
| U.S. agency mortgage-backed securities <sup>(1)</sup>           | \$ 383           | \$ 14,370                             | \$ 31,785                            | \$ 63,458         | \$ 109,996 |
| Asset-backed securities   | 5                | 1,611                                 | 9,373                                | 7,085             | 18,074     |
| Corporate debt securities                                       | 238              | 3,550                                 | 743                                  | —                 | 4,531      |
| U.S. state and municipal securities                             | —                | 59                                    | 254                                  | 1,016             | 1,329      |
| Non-agency commercial mortgage-backed securities <sup>(1)</sup> | —                | 353                                   | —                                    | 772               | 1,125      |
| U.S. Treasury securities  | —                | —                                     | 212                                  | —                 | 212        |
| Certificates of deposit   | —                | 201                                   | —                                    | —                 | 201        |
| Foreign government agency securities                            | —                | 48                                    | —                                    | —                 | 48         |
| Other   | —                | —                                     | —                                    | 5                 | 5          |
| Total fair value  | \$ 626           | \$ 20,192                             | \$ 42,367                            | \$ 72,336         | \$ 135,521 |
| Total amortized cost  | \$ 628           | \$ 20,540                             | \$ 43,339                            | \$ 74,445         | \$ 138,952 |

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

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

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|                      | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine Months<br>Ended<br>September<br>30,<br>2018 | 2017     |
|----------------------|--|--|----------|
| Proceeds             | \$ —   | \$ 288   | \$ 5,773 |
| Gross realized gains | —  | —  | 7        |

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## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

## 5. Bank Loans and Related Allowance for Loan Losses

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

| September 30, 2018               | Current  | 30-59 days<br>past due | 60-89 days<br>past due | >90 days<br>past<br>due and<br>other<br>nonaccrual<br>loans <sup>(3)</sup> | Total past<br>due<br>and other<br>nonaccrual<br>loans | Total<br>loans | Allowance<br>for loan<br>losses | Total<br>bank<br>loans –<br>net |
|----------------------------------|----------|------------------------|------------------------|--|---|----------------|---------------------------------|---------------------------------|
| First Mortgages <sup>(1,2)</sup> | \$10,217 | \$ 24                  | \$ 2                   | \$ 13  | \$ 39   | \$10,256       | \$ 17                           | \$10,239                        |
| HELOCs <sup>(1,2)</sup>          | 1,589    | 2                      | 1                      | 10   | 13  | 1,602          | 7                               | 1,595                           |
| Pledged asset lines              | 4,552    | 3                      | 1                      | —  | 4   | 4,556          | —                               | 4,556                           |
| Other                            | 176      | —                      | —                      | —  | —   | 176            | 2                               | 174                             |
| Total bank loans                 | \$16,534 | \$ 29                  | \$ 4                   | \$ 23  | \$ 56   | \$16,590       | \$ 26                           | \$16,564                        |
| December 31, 2017                |          |                        |                        |  |   |                |                                 |                                 |
| First Mortgages <sup>(1,2)</sup> | \$9,983  | \$ 14                  | \$ 2                   | \$ 17  | \$ 33   | \$10,016       | \$ 16                           | \$10,000                        |
| HELOCs <sup>(1,2)</sup>          | 1,928    | —                      | 3                      | 12   | 15  | 1,943          | 8                               | 1,935                           |
| Pledged asset lines              | 4,361    | 4                      | 4                      | —  | 8   | 4,369          | —                               | 4,369                           |
| Other                            | 176      | —                      | —                      | —  | —   | 176            | 2                               | 174                             |
| Total bank loans                 | \$16,448 | \$ 18                  | \$ 9                   | \$ 29  | \$ 56   | \$16,504       | \$ 26                           | \$16,478                        |

<sup>(1)</sup> First Mortgages and HELOCs include unamortized premiums and discounts and direct origination costs of \$73 million and \$77 million at September 30, 2018 and December 31, 2017, respectively.

<sup>(2)</sup> At September 30, 2018 and December 31, 2017, 47% and 48%, respectively, of the First Mortgage and HELOC portfolios were concentrated in California. These loans have performed in a manner consistent with the portfolio as a whole.

<sup>(3)</sup> There were no loans accruing interest that were contractually 90 days or more past due at September 30, 2018 or December 31, 2017.

At September 30, 2018, CSB had pledged \$11.1 billion of First Mortgages and HELOCs as collateral to secure borrowing capacity on a secured credit facility with the FHLB (see Note 8).

Substantially all of the bank loans were collectively evaluated for impairment at September 30, 2018 and December 31, 2017.

Changes in the allowance for loan losses were as follows:

| Three Months Ended             | September 30, 2018 |        |       |              | September 30, 2017 |        |       |              |
|--------------------------------|--------------------|--------|-------|--------------|--------------------|--------|-------|--------------|
|                                | First<br>Mortgages | HELOCs | Other | Total<br>(1) | First<br>Mortgages | HELOCs | Other | Total<br>(1) |
| Balance at beginning of period | \$17               | \$ 7   | \$ 2  | \$26         | \$17               | \$ 8   | \$ 1  | \$26         |
| Charge-offs                    | —                  | —      | —     | —            | (1 )               | —      | —     | (1 )         |
| Recoveries                     | —                  | 1      | —     | 1            | —                  | —      | 1     | 1            |
| Provision for loan losses      | —                  | (1 )   | —     | (1 )         | —                  | —      | —     | —            |
| Balance at end of period       | \$17               | \$ 7   | \$ 2  | \$26         | \$16               | \$ 8   | \$ 2  | \$26         |
| Nine Months Ended              |                    |        |       |              |                    |        |       |              |
| Balance at beginning of period | \$16               | \$8    | \$2   | \$26         | \$17               | \$8    | \$1   | \$26         |

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|                           |      |     |     |      |      |     |     |      |
|---------------------------|------|-----|-----|------|------|-----|-----|------|
| Charge-offs               | —    | —   | (1) | (1)  | (2)  | (1) | —   | (3)  |
| Recoveries                | —    | 2   | —   | 2    | 1    | 1   | 1   | 3    |
| Provision for loan losses | 1    | (3) | 1   | (1)  | —    | —   | —   | —    |
| Balance at end of period  | \$17 | \$7 | \$2 | \$26 | \$16 | \$8 | \$2 | \$26 |

<sup>(1)</sup> All pledged asset lines (PALs) were fully collateralized by securities with fair values in excess of borrowings at September 30, 2018 and December 31, 2017.

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## CHARLES SCHWAB CORPORATION

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A summary of impaired bank loan-related assets is as follows:

|  | September 30, December 31, |       |
|--|----------------------------|-------|
|  | 2018                       | 2017  |
| Nonaccrual loans <sup>(1)</sup>        | \$ 23                      | \$ 28 |
| Other real estate owned <sup>(2)</sup> | 3                          | 3     |
| Total nonperforming assets             | 26                         | 31    |
| Troubled debt restructurings           | 4                          | 11    |
| Total impaired assets                  | \$ 30                      | \$ 42 |

<sup>(1)</sup> Nonaccrual loans include nonaccrual troubled debt restructurings.<sup>(2)</sup> Included in other assets on the condensed consolidated balance sheets.

## Credit Quality

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

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

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



## CHARLES SCHWAB CORPORATION

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

| September 30, 2018                   | Balance  | Weighted<br>Average<br>Updated<br>FICO | Utilization<br>Rate <sup>(1)</sup> | Percent of<br>Loans that are on<br>Nonaccrual Status |      |
|--------------------------------------|----------|--|------------------------------------|--|------|
| <b>First Mortgages</b>               |          |  |                                    |  |      |
| Estimated Current LTV                |          |  |                                    |  |      |
| <70%                                 | \$9,383  | 777                                    | N/A                                | 0.05   | %    |
| >70% – <90%                          | 868      | 771                                    | N/A                                | 0.24   | %    |
| >90% – <100%                         | 4        | 713                                    | N/A                                | 8.70   | %    |
| >100%                                | 1        | 742                                    | N/A                                | —  |      |
| Total                                | \$10,256 | 776                                    | N/A                                | 0.07   | %    |
| <b>HELOCs</b>                        |          |  |                                    |  |      |
| Estimated Current LTV <sup>(2)</sup> |          |  |                                    |  |      |
| <70%                                 | \$1,509  | 771                                    | 31                                 | %  | 0.18 |
| >70% – <90%                          | 84       | 752                                    | 47                                 | %  | 0.90 |
| >90% – <100%                         | 5        | 746                                    | 77                                 | %  | 0.90 |
| >100%                                | 4        | 704                                    | 81                                 | %  | 5.28 |
| Total                                | \$1,602  | 770                                    | 31                                 | %  | 0.24 |
| <b>Pledged asset lines</b>           |          |  |                                    |  |      |
| Weighted-Average LTV <sup>(2)</sup>  |          |  |                                    |  |      |
| =70%                                 | \$4,556  | 766                                    | 36                                 | %  | —    |
| December 31, 2017                    | Balance  | Weighted<br>Average<br>Updated<br>FICO | Utilization<br>Rate <sup>(1)</sup> | Percent of<br>Loans that are on<br>Nonaccrual Status |      |
| <b>First Mortgages</b>               |          |  |                                    |  |      |
| Estimated Current LTV                |          |  |                                    |  |      |
| <70%                                 | \$9,046  | 775                                    | N/A                                | 0.09   | %    |
| >70% – <90%                          | 961      | 769                                    | N/A                                | 0.46   | %    |
| >90% – <100%                         | 5        | 714                                    | N/A                                | 10.49  | %    |
| >100%                                | 4        | 713                                    | N/A                                | 6.23   | %    |
| Total                                | \$10,016 | 775                                    | N/A                                | 0.14   | %    |
| <b>HELOCs</b>                        |          |  |                                    |  |      |
| Estimated Current LTV <sup>(2)</sup> |          |  |                                    |  |      |
| <70%                                 | \$1,773  | 772                                    | 32                                 | %  | 0.18 |
| >70% – <90%                          | 148      | 755                                    | 47                                 | %  | 0.84 |
| >90% – <100%                         | 14       | 742                                    | 64                                 | %  | 2.85 |
| >100%                                | 8        | 718                                    | 72                                 | %  | 4.91 |
| Total                                | \$1,943  | 770                                    | 33                                 | %  | 0.27 |
| <b>Pledged asset lines</b>           |          |  |                                    |  |      |
| Weighted-Average LTV <sup>(2)</sup>  |          |  |                                    |  |      |
| =70%                                 | \$4,369  | 765                                    | 41                                 | %  | —    |

<sup>(1)</sup> The Utilization Rate is calculated using the outstanding balance divided by the associated total line of credit.<sup>(2)</sup> Represents the LTV for the full line of credit (drawn and undrawn).

N/A Not applicable.

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## CHARLES SCHWAB CORPORATION

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| September 30, 2018  | First<br>Mortgages | HELOCs   |
|---------------------|--------------------|----------|
| Year of origination |                    |          |
| Pre-2014            | \$ 2,144           | \$ 1,156 |
| 2014                | 436                | 93       |
| 2015                | 1,087              | 110      |
| 2016                | 2,662              | 96       |
| 2017                | 2,420              | 101      |
| 2018                | 1,507              | 46       |
| Total               | \$ 10,256          | \$ 1,602 |
| Origination FICO    |                    |          |
| <620                | \$ 5               | —        |
| 620 – 679           | 83                 | 8        |
| 680 – 739           | 1,595              | 305      |
| >740                | 8,573              | 1,289    |
| Total               | \$ 10,256          | \$ 1,602 |
| Origination LTV     |                    |          |
| <70%                | \$ 7,737           | \$ 1,127 |
| >70% – <90%         | 2,514              | 468      |
| >90% – <100%        | 5                  | 7        |
| Total               | \$ 10,256          | \$ 1,602 |

| December 31, 2017   | First<br>Mortgages | HELOCs   |
|---------------------|--------------------|----------|
| Year of origination |                    |          |
| Pre-2014            | \$ 2,804           | \$ 1,496 |
| 2014                | 530                | 116      |
| 2015                | 1,218              | 128      |
| 2016                | 2,886              | 111      |
| 2017                | 2,578              | 92       |
| Total               | \$ 10,016          | \$ 1,943 |
| Origination FICO    |                    |          |
| <620                | \$ 6               | \$ 1     |
| 620 – 679           | 89                 | 10       |
| 680 – 739           | 1,569              | 365      |
| >740                | 8,352              | 1,567    |
| Total               | \$ 10,016          | \$ 1,943 |
| Origination LTV     |                    |          |
| <70%                | \$ 7,569           | \$ 1,360 |
| >70% – <90%         | 2,441              | 574      |
| >90% – <100%        | 6                  | 9        |
| Total               | \$ 10,016          | \$ 1,943 |

At September 30, 2018, First Mortgage loans of \$9.3 billion had adjustable interest rates. These mortgages have initial fixed interest rates for three to ten years and interest rates that adjust annually thereafter. Approximately 31% of the balance of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately

64% of the balance of these interest-only loans are not scheduled to reset for three or more years. Schwab's mortgage loans do not include interest terms described as temporary introductory rates below current market rates.

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

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

| September 30, 2018                            | Balance  |
|---|----------|
| Converted to an amortizing loan by period end | \$ 640   |
| Within 1 year                                 | 186      |
| > 1 year – 3 years                            | 133      |
| > 3 years – 5 years                           | 163      |
| > 5 years                                     | 480      |
| Total   | \$ 1,602 |

At September 30, 2018, \$1.3 billion of the HELOC portfolio was secured by second liens on the associated properties. Second lien mortgage loans typically possess a higher degree of credit risk given the subordination to the first lien holder in the event of default. In addition to the credit monitoring activities described previously, Schwab also monitors credit risk by reviewing the delinquency status of the first lien loan on the associated property.

At September 30, 2018, the borrowers on approximately 54% of HELOC loan balances outstanding only paid the minimum amount due.

## 6. Variable Interest Entities

As of September 30, 2018 and December 31, 2017, all of Schwab's involvement with variable interest entities (VIEs) is through CSB's Community Reinvestment Act-related investments and most of those are related to Low-Income Housing Tax Credit (LIHTC) investments. As part of CSB's community reinvestment initiatives, CSB generally invests with other institutional investors in funds that make equity investments in multifamily affordable housing properties. CSB receives tax credits and other tax benefits for these investments. CSB's LIHTC investments are accounted for using the proportional amortization method, which amortizes the cost of the investment over the period in which the investor expects to receive tax credits and other tax benefits, and the resulting amortization is included in taxes on income on the consolidated statements of income.

Aggregate assets, liabilities, and maximum exposure to loss

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

|                                      | September 30, 2018 |                       |                          | December 31, 2017 |                       |                          |
|--------------------------------------|--------------------|-----------------------|--------------------------|-------------------|-----------------------|--------------------------|
|                                      | Aggregate assets   | Aggregate liabilities | Maximum exposure to loss | Aggregate assets  | Aggregate liabilities | Maximum exposure to loss |
| LIHTC investments <sup>(1)</sup>     | \$ 347             | \$ 204                | \$ 347                   | \$ 304            | \$ 203                | \$ 304                   |
| Other CRA investments <sup>(2)</sup> | 68                 | —                     | 116                      | 69                | —                     | 125                      |
| Total                                | \$ 415             | \$ 204                | \$ 463                   | \$ 373            | \$ 203                | \$ 429                   |

<sup>(1)</sup> Aggregate assets and aggregate liabilities are included in other assets and accrued expenses and other liabilities, respectively, on the condensed consolidated balance sheets.

<sup>(2)</sup> Other CRA investments are recorded using either the adjusted cost method, equity method, or as HTM securities. Aggregate assets are included in HTM securities, bank loans – net, or other assets on the condensed consolidated

balance sheets.

Schwab's maximum exposure to loss would result from the loss of the investments, including any committed amounts. During the nine months ended September 30, 2018 and 2017, Schwab did not provide or intend to provide financial or other support to the VIEs that it was not contractually required to provide. CSB's funding of these remaining commitments is dependent upon the occurrence of certain conditions, and CSB expects to pay substantially all of these commitments between 2018 and 2021.

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## CHARLES SCHWAB CORPORATION

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## 7. Bank Deposits

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

|  | September 30,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
| Interest-bearing deposits:             |                       |                      |
| Deposits swept from brokerage accounts | \$ 194,337            | \$ 148,212           |
| Checking                               | 12,230                | 13,388               |
| Savings and other                      | 6,153                 | 7,264                |
| Total interest-bearing deposits        | 212,720               | 168,864              |
| Non-interest-bearing deposits          | 688                   | 792                  |
| Total bank deposits                    | \$ 213,408            | \$ 169,656           |

## 8. Borrowings

CSC's Senior Notes are unsecured obligations and rank equally with the other unsecured senior debt. CSC may redeem some or all of the Senior Notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances. Interest is payable semi-annually for the fixed-rate Senior Notes and quarterly for the floating-rate Senior Notes. The following table lists long-term debt by instrument outstanding as of September 30, 2018 and December 31, 2017.

|  | Date of<br>Issuance | Principal Amount<br>Outstanding<br>September 30,<br>2018 | December 31,<br>2017 |
|--|---------------------|--|----------------------|
| Fixed-rate Senior Notes:                       |                     |  |                      |
| 1.500% due March 10, 2018 <sup>(1)</sup>       | 03/10/15            | \$ —   | \$ 625               |
| 2.200% due July 25, 2018 <sup>(2)</sup>        | 07/25/13            | —  | 275                  |
| 4.450% due July 22, 2020                       | 07/22/10            | 700  | 700                  |
| 3.250% due May 21, 2021                        | 05/22/18            | 600  | —                    |
| 3.225% due September 1, 2022                   | 08/29/12            | 256  | 256                  |
| 2.650% due January 25, 2023                    | 12/07/17            | 800  | 800                  |
| 3.000% due March 10, 2025                      | 03/10/15            | 375  | 375                  |
| 3.850% due May 21, 2025                        | 05/22/18            | 750  | —                    |
| 3.450% due February 13, 2026                   | 11/13/15            | 350  | 350                  |
| 3.200% due March 2, 2027                       | 03/02/17            | 650  | 650                  |
| 3.200% due January 25, 2028                    | 12/07/17            | 700  | 700                  |
| Floating-rate Senior Notes:                    |                     |  |                      |
| Three-month LIBOR + 0.32% due May 21, 2021     | 05/22/18            | 600  | —                    |
| Total Senior Notes                             |                     | 5,781  | 4,731                |
| 5.450% Finance lease obligation <sup>(3)</sup> | 06/04/04            | 55   | 61                   |
| Unamortized discount — net                     |                     | (13)   | (14)                 |
| Debt issuance costs                            |                     | (33)   | (25)                 |
| Total long-term debt                           |                     | \$5,790  | \$ 4,753             |

<sup>(1)</sup> Redeemed on February 8, 2018.

(2) Redeemed on June 25, 2018.

(3) Schwab has a finance lease obligation related to an office building and land under a 20-year lease. The remaining finance lease obligation is being reduced by a portion of the lease payments over the remaining lease term through June 30, 2024.

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Annual maturities on long-term debt outstanding at September 30, 2018 are as follows:

|                            | Maturities |
|----------------------------|------------|
| 2018                       | \$ 2       |
| 2019                       | 8          |
| 2020                       | 709        |
| 2021                       | 1,209      |
| 2022                       | 266        |
| Thereafter                 | 3,642      |
| Total maturities           | 5,836      |
| Unamortized discount — net | (13 )      |
| Debt issuance costs        | (33 )      |
| Total long-term debt       | \$ 5,790   |

Short-term borrowings: Certain banking subsidiaries maintain secured credit facilities with the FHLB. Amounts available under these facilities are dependent on the value of our First Mortgages, HELOCs, and the fair value of certain of their investment securities that are pledged as collateral. As of September 30, 2018, the collateral pledged provided a total borrowing capacity of \$30.0 billion of which no amounts were outstanding. As of December 31, 2017, the collateral pledged by CSB provided a total borrowing capacity of \$32.3 billion, of which \$15.0 billion was outstanding.

As a condition of the FHLB borrowings, we are required to hold FHLB stock, which was recorded in other assets on the condensed consolidated balance sheets. The investment in FHLB was \$32 million at September 30, 2018 and \$405 million at December 31, 2017.

## 9. Commitments and Contingencies

Loan Portfolio: CSB provides a co-branded loan origination program for CSB clients (the Program) with Quicken Loans, Inc. (Quicken Loans®). Pursuant to the Program, Quicken Loans originates and services First Mortgages and HELOCs for CSB clients. Under the Program, CSB purchases certain First Mortgages and HELOCs that are originated by Quicken Loans. CSB purchased First Mortgages of \$491 million and \$696 million during the third quarters of 2018 and 2017, respectively, and \$1.6 billion and \$2.0 billion during the first nine months of 2018 and 2017, respectively. Schwab purchased HELOCs with commitments of \$104 million and \$115 million during the third quarters of 2018 and 2017, respectively, and \$311 million and \$344 million during the first nine months of 2018 and 2017, respectively.

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

|  | September 30, December 31, |           |
|--|----------------------------|-----------|
|  | 2018                       | 2017      |
| Commitments to extend credit related to unused HELOCs, PALs, and other lines of credit | \$ 11,028                  | \$ 10,060 |
| Commitments to purchase First Mortgage loans   | 355                        | 308       |
| Total  | \$ 11,383                  | \$ 10,368 |

Guarantees and indemnifications: Schwab has clients that sell (i.e., write) listed option contracts that are cleared by the Options Clearing Corporation – a clearing house that establishes margin requirements on these transactions. We partially satisfy the margin requirements by arranging unsecured standby letter of credit agreements (LOCs), in favor of the Options Clearing Corporation, which are issued by several banks. At September 30, 2018, the aggregate face amount of these LOCs totaled \$225 million. There were no funds drawn under any of these LOCs at September 30, 2018. In connection with its securities lending activities, Schwab is required to provide collateral to certain brokerage

clients. The Company satisfies the collateral requirements by providing cash as collateral. Schwab also provides guarantees to securities clearing houses and exchanges under standard membership agreements, which require members to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing houses and exchanges, other members would be required to meet shortfalls. Schwab's liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. The

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potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these guarantees.

Legal contingencies: Schwab is subject to claims and lawsuits in the ordinary course of business, including arbitrations, class actions and other litigation, some of which include claims for substantial or unspecified damages. The Company is also the subject of inquiries, investigations, and proceedings by regulatory and other governmental agencies.

Predicting the outcome of a litigation or regulatory matter is inherently difficult, requiring significant judgment and evaluation of various factors, including the procedural status of the matter and any recent developments; prior experience and the experience of others in similar cases; available defenses, including potential opportunities to dispose of a case on the merits or procedural grounds before trial (e.g., motions to dismiss or for summary judgment); the progress of fact discovery; the opinions of counsel and experts regarding potential damages; potential opportunities for settlement and the status of any settlement discussions; and potential insurance coverage and indemnification. It may not be reasonably possible to estimate a range of potential liability until the matter is closer to resolution – pending, for example, further proceedings, the outcome of key motions or appeals, or discussions among the parties. Numerous issues may have to be developed, such as discovery of important factual matters and determination of threshold legal issues, which may include novel or unsettled questions of law. Reserves are established or adjusted or further disclosure and estimates of potential loss are provided as the matter progresses and more information becomes available.

Schwab believes it has strong defenses in all significant matters currently pending and is contesting liability and any damages claimed. Nevertheless, some of these matters may result in adverse judgments or awards, including penalties, injunctions or other relief, and the Company may also determine to settle a matter because of the uncertainty and risks of litigation. Described below are certain matters in which there is a reasonable possibility that a material loss could be incurred or where the matter may otherwise be of significant interest to stockholders. Unless otherwise noted, the Company is unable to provide a reasonable estimate of any potential liability given the stage of proceedings in the matter. With respect to all other pending matters, based on current information and consultation with counsel, it does not appear reasonably possible that the outcome of any such matter would be material to the financial condition, operating results, or cash flows of the Company.

**Total Bond Market Fund Litigation:** On August 28, 2008, a class action lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of investors in the Schwab Total Bond Market Fund.<sup>TM</sup> Plaintiff's fourth amended complaint, filed on June 25, 2015, asserts state law breach of contract and fiduciary duty claims and names CSIM, Schwab Investments (registrant and issuer of the fund's shares), and certain current and former fund trustees as defendants. Allegations include that the fund improperly deviated from its stated investment objectives by investing in collateralized mortgage obligations (CMOs) and investing more than 25% of fund assets in CMOs and mortgage-backed securities without obtaining a fundholder vote. Plaintiff seeks unspecified compensatory and rescission damages, unspecified equitable and injunctive relief, costs, and attorneys' fees on behalf of a putative class of investors who held shares as of August 31, 2007, and a putative class of investors who purchased the shares between September 1, 2017 and February 27, 2009. In decisions issued October 6, 2015 and February 23, 2016, the court dismissed all claims with prejudice, holding that federal securities law precluded plaintiff from pursuing such claims as a class action. Plaintiff appealed to the Ninth Circuit, and on September 14, 2018, a 3-judge panel upheld dismissal, with leave for plaintiff to pursue the claims in its individual capacity. Action by plaintiff, including further appeal, remains pending.

Crago Order Routing Litigation: On July 13, 2016, a securities class action lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of a putative class of customers executing equity orders through CS&Co. The lawsuit names CS&Co and CSC as defendants and alleges that an agreement under which CS&Co routed orders to UBS Securities LLC between July 13, 2011 and December 31, 2014 violated CS&Co's duty to seek best execution. Plaintiffs seek unspecified damages, interest, injunctive and equitable relief, and attorneys' fees and costs. After a first amended complaint was dismissed with leave to amend, plaintiffs filed a second amended complaint on August 14, 2017. Defendants again moved to dismiss, and in a decision issued December 5, 2017, the court denied the motion. Defendants have answered the complaint to deny all allegations, and intend to vigorously contest the lawsuit.

CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

10. Financial Instruments Subject to Off-Balance Sheet Credit Risk

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

Securities lending: Schwab loans brokerage client securities temporarily to other brokers and clearing houses in connection with its securities lending activities and receives cash as collateral for the securities loaned. Increases in security prices may cause the fair value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities or provide additional cash collateral, we may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy our client obligations. Schwab mitigates this risk by requiring credit approvals for counterparties, monitoring the fair value of securities loaned, and requiring additional cash as collateral when necessary. We also borrow securities from other broker-dealers to fulfill short sales by brokerage clients and deliver cash to the lender in exchange for the securities. The fair value of these borrowed securities was \$338 million and \$215 million at September 30, 2018 and December 31, 2017, respectively. All of our securities lending transactions are through a program with a clearing organization, which guarantees the return of cash to us and is subject to enforceable master netting arrangements with other broker-dealers; however, we do not net securities lending transactions. Therefore, the securities loaned and securities borrowed are presented gross in the condensed consolidated balance sheets.

## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

The following table presents information about our resale agreements and securities lending activity depicting the potential effect of rights of setoff between these recognized assets and recognized liabilities at September 30, 2018 and December 31, 2017.

|                                    |                                 |   |  | Gross Amounts Not<br>Offset in the<br>Condensed<br>Consolidated<br>Balance Sheets |                          |               |
|------------------------------------|---------------------------------|---|--|---|--------------------------|---------------|
|                                    | Gross<br>Assets/<br>Liabilities | Gross<br>Amounts<br>Offset in the<br>Condensed<br>Consolidated<br>Balance<br>Sheets | Net Amounts<br>Presented in<br>the<br>Condensed<br>Consolidated<br>Balance<br>Sheets | Counterparty<br>Offsetting  | Collateral               | Net<br>Amount |
| September 30, 2018                 |                                 |   |  |   |                          |               |
| Assets                             |                                 |   |  |   |                          |               |
| Resale agreements <sup>(1)</sup>   | \$ 4,424                        | \$  | —\$ 4,424  | \$—   | \$(4,424) <sup>(2)</sup> | \$ —          |
| Securities borrowed <sup>(3)</sup> | 346                             | —   | 346  | (316 )  | (30 )                    | —             |
| Total                              | \$ 4,770                        | \$  | —\$ 4,770  | \$(316)   | \$(4,454)                | \$ —          |
| Liabilities                        |                                 |   |  |   |                          |               |
| Securities loaned <sup>(4,5)</sup> | \$ 1,062                        | \$  | —\$ 1,062  | \$(316)   | \$(652 )                 | \$ 94         |
| Total                              | \$ 1,062                        | \$  | —\$ 1,062  | \$(316)   | \$(652 )                 | \$ 94         |
| December 31, 2017                  |                                 |   |  |   |                          |               |
| Assets                             |                                 |   |  |   |                          |               |
| Resale agreements <sup>(1)</sup>   | \$ 6,596                        | \$  | —\$ 6,596  | \$—   | \$(6,596) <sup>(2)</sup> | \$ —          |
| Securities borrowed <sup>(3)</sup> | 222                             | —   | 222  | (199 )  | (22 )                    | 1             |
| Total                              | \$ 6,818                        | \$  | —\$ 6,818  | \$(199)   | \$(6,618)                | \$ 1          |
| Liabilities                        |                                 |   |  |   |                          |               |
| Securities loaned <sup>(4,5)</sup> | \$ 966                          | \$  | —\$ 966  | \$(199)   | \$(670 )                 | \$ 97         |
| Total                              | \$ 966                          | \$  | —\$ 966  | \$(199)   | \$(670 )                 | \$ 97         |

<sup>(1)</sup> Included in cash and investments segregated and on deposit for regulatory purposes in the condensed consolidated balance sheets.

<sup>(2)</sup> Actual collateral was greater than or equal to 102% of the related assets. At September 30, 2018 and December 31, 2017, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was \$4.5 billion and \$6.7 billion, respectively.

<sup>(3)</sup> Included in receivables from brokers, dealers, and clearing organizations in the condensed consolidated balance sheets.

<sup>(4)</sup> Included in payables to brokers, dealers, and clearing organizations in the condensed consolidated balance sheets. The cash collateral received from counterparties under securities lending transactions was equal to or greater than the market value of the securities loaned at September 30, 2018 and December 31, 2017.

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



CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

Margin lending: Clients with margin loans have agreed to allow Schwab to pledge collateralized securities in their brokerage accounts in accordance with federal regulations. The following table summarizes the fair value of client securities that were available, under such regulations, that could have been used as collateral, and the amounts that we had pledged:

|   | September 30,<br>2018 | December 31,<br>2017 |
|---|-----------------------|----------------------|
| Fair value of client securities available to be pledged | \$ 28,806             | \$ 25,905            |
| Fair value of client securities pledged for:            |                       |                      |
| Fulfillment of requirements with the                    | 3,036                 | 2,280                |
| Options Clearing Corporation (1)                        |                       |                      |
| Fulfillment of client short sales                       | 1,923                 | 2,011                |
| Securities lending to other broker-dealers              | 872                   | 784                  |
| Total collateral pledged                                | \$ 5,831              | \$ 5,075             |



Note: Excludes amounts available and pledged for securities lending from fully-paid client securities. The fair value of fully-paid client securities available and pledged was \$88 million as of September 30, 2018 and \$78 million as of December 31, 2017.

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

## 11. Fair Values of Assets and Liabilities

Assets and liabilities measured at fair value on a recurring basis

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

Our primary independent pricing service provides prices based on observable trades and discounted cash flows that incorporate observable information such as yields for similar types of securities (a benchmark interest rate plus observable spreads) and weighted-average maturity for the same or similar "to-be-issued" securities. We compare the prices obtained from the primary independent pricing service to the prices obtained from the additional independent pricing sources to determine if the price obtained from the primary independent pricing service is reasonable. Schwab does not adjust the prices received from independent third-party pricing services unless such prices are inconsistent with the definition of fair value and result in a material difference in the recorded amounts.

For a description of the fair value hierarchy and Schwab's fair value methodologies, including the use of independent third-party pricing services, see Note 2 in the 2017 Form 10-K. We did not transfer any assets or liabilities between Level 1, Level 2, or Level 3 during the nine months ended September 30, 2018, or the year ended December 31, 2017. In addition, the Company did not adjust prices received from the primary independent third-party pricing service at September 30, 2018 or December 31, 2017.

## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

| September 30, 2018  | Level<br>1 | Level 2   | Level 3 | Balance at<br>Fair Value |
|---|------------|-----------|---------|--------------------------|
| Cash equivalents:   |            |           |         |                          |
| Money market funds  | \$ 552     | \$—       | \$      | —\$ 552                  |
| Commercial paper  | —          | 1,988     | —       | 1,988                    |
| Total cash equivalents  | 552        | 1,988     | —       | 2,540                    |
| Investments segregated and on deposit for regulatory purposes:      |            |           |         |                          |
| Certificates of deposit   | —          | 1,950     | —       | 1,950                    |
| Total investments segregated and on deposit for regulatory purposes | —          | 1,950     | —       | 1,950                    |
| Other securities owned:   |            |           |         |                          |
| Equity and bond mutual funds  | 394        | —         | —       | 394                      |
| Schwab Funds® money market funds                                    | 21         | —         | —       | 21                       |
| State and municipal debt obligations                                | —          | 44        | —       | 44                       |
| Equity, U.S. Government and corporate debt, and other securities    | 3          | 38        | —       | 41                       |
| Total other securities owned  | 418        | 82        | —       | 500                      |
| Available for sale securities:                                      |            |           |         |                          |
| U.S. agency mortgage-backed securities                              | —          | 23,955    | —       | 23,955                   |
| U.S. Treasury securities  | —          | 12,243    | —       | 12,243                   |
| Asset-backed securities   | —          | 9,387     | —       | 9,387                    |
| Corporate debt securities   | —          | 6,922     | —       | 6,922                    |
| Certificates of deposit   | —          | 2,769     | —       | 2,769                    |
| U.S. agency notes   | —          | 1,682     | —       | 1,682                    |
| Commercial paper  | —          | 518       | —       | 518                      |
| Foreign government agency securities                                | —          | 48        | —       | 48                       |
| Non-agency commercial mortgage-backed securities                    | —          | 34        | —       | 34                       |
| Total available for sale securities                                 | —          | 57,558    | —       | 57,558                   |
| Total   | \$ 970     | \$ 61,578 | \$      | —\$ 62,548               |

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## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

| December 31, 2017   | Level<br>1 | Level 2  | Level 3 | Balance at<br>Fair Value |
|---|------------|----------|---------|--------------------------|
| Cash equivalents:   |            |          |         |                          |
| Money market funds  | \$2,727    | \$—      | \$      | —\$ 2,727                |
| Total cash equivalents  | 2,727      | —        | —       | 2,727                    |
| Investments segregated and on deposit for regulatory purposes:      |            |          |         |                          |
| Certificates of deposit   | —          | 2,198    | —       | 2,198                    |
| U.S. Government securities  | —          | 3,658    | —       | 3,658                    |
| Total investments segregated and on deposit for regulatory purposes | —          | 5,856    | —       | 5,856                    |
| Other securities owned:   |            |          |         |                          |
| Equity and bond mutual funds  | 318        | —        | —       | 318                      |
| Schwab Funds® money market funds                                    | 135        | —        | —       | 135                      |
| State and municipal debt obligations                                | —          | 52       | —       | 52                       |
| Equity, U.S. Government and corporate debt, and other securities    | 2          | 32       | —       | 34                       |
| Total other securities owned  | 455        | 84       | —       | 539                      |
| Available for sale securities:                                      |            |          |         |                          |
| U.S. agency mortgage-backed securities                              | —          | 20,929   | —       | 20,929                   |
| U.S. Treasury securities  | —          | 9,500    | —       | 9,500                    |
| Asset-backed securities   | —          | 9,047    | —       | 9,047                    |
| Corporate debt securities   | —          | 6,169    | —       | 6,169                    |
| Certificates of deposit   | —          | 2,041    | —       | 2,041                    |
| U.S. agency notes   | —          | 1,906    | —       | 1,906                    |
| Commercial paper  | —          | 313      | —       | 313                      |
| Foreign government agency securities                                | —          | 50       | —       | 50                       |
| Non-agency commercial mortgage-backed securities                    | —          | 40       | —       | 40                       |
| Total available for sale securities                                 | —          | 49,995   | —       | 49,995                   |
| Total   | \$3,182    | \$55,935 | \$      | —\$ 59,117               |

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## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

## Fair Value of Other Financial Instruments

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

| September 30, 2018   | Carrying Amount | Level 1 | Level 2 | Level 3 | Balance at Fair Value |
|--|-----------------|---------|---------|---------|-----------------------|
| <b>Assets</b>  |                 |         |         |         |                       |
| Cash and cash equivalents  | \$19,290        | \$ —    | \$ —    | \$ —    | \$ —                  |
| Cash and investments segregated and on deposit for regulatory purposes | 6,526           | —       | 6,526   | —       | 6,526                 |
| Receivables from brokers, dealers, and clearing organizations          | 798             | —       | 798     | —       | 798                   |
| Receivables from brokerage clients — net                               | 22,402          | —       | 22,402  | —       | 22,402                |
| Held to maturity securities:   |                 |         |         |         |                       |
| U.S. agency mortgage-backed securities                                 | 113,453         | —       | 109,996 | —       | 109,996               |
| Asset-backed securities  | 17,964          | —       | 18,074  | —       | 18,074                |
| Corporate debt securities  | 4,578           | —       | 4,531   | —       | 4,531                 |
| U.S. state and municipal securities                                    | 1,330           | —       | 1,329   | —       | 1,329                 |
| Non-agency commercial mortgage-backed securities                       | 1,149           | —       | 1,125   | —       | 1,125                 |
| U.S. Treasury securities   | 223             | —       | 212     | —       | 212                   |
| Certificates of deposit  | 200             | —       | 201     | —       | 201                   |
| Foreign government agency securities                                   | 50              | —       | 48      | —       | 48                    |
| Other  | 5               | —       | 5       | —       | 5                     |
| Total held to maturity securities                                      | 138,952         | —       | 135,521 | —       | 135,521               |
| Bank loans — net:  |                 |         |         |         |                       |
| First Mortgages  | 10,239          | —       | 9,963   | —       | 9,963                 |
| HELOCs   | 1,595           | —       | 1,664   | —       | 1,664                 |
| Pledged asset lines  | 4,556           | —       | 4,556   | —       | 4,556                 |
| Other  | 174             | —       | 174     | —       | 174                   |
| Total bank loans — net   | 16,564          | —       | 16,357  | —       | 16,357                |
| Other assets   | 463             | —       | 463     | —       | 463                   |
| Total  | \$204,995       | \$ —    | \$ —    | \$ —    | \$ —                  |
| <b>Liabilities</b>   |                 |         |         |         |                       |
| Bank deposits  | \$213,408       | \$ —    | \$ —    | \$ —    | \$ —                  |
| Payables to brokers, dealers, and clearing organizations               | 1,522           | —       | 1,522   | —       | 1,522                 |
| Payables to brokerage clients  | 27,851          | —       | 27,851  | —       | 27,851                |
| Accrued expenses and other liabilities                                 | 1,177           | —       | 1,177   | —       | 1,177                 |
| Long-term debt   | 5,790           | —       | 5,687   | —       | 5,687                 |
| Total  | \$249,748       | \$ —    | \$ —    | \$ —    | \$ —                  |

## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

| December 31, 2017  | Carrying<br>Amount | Level<br>1 | Level 2    | Level<br>3 | Balance<br>at<br>Fair<br>Value |
|--|--------------------|------------|------------|------------|--------------------------------|
| <b>Assets</b>  |                    |            |            |            |                                |
| Cash and cash equivalents  | \$11,490           | \$         | —\$11,490  | \$         | —\$11,490                      |
| Cash and investments segregated and on deposit for regulatory purposes | 9,277              | —          | 9,277      | —          | 9,277                          |
| Receivables from brokers, dealers, and clearing organizations          | 649                | —          | 649        | —          | 649                            |
| Receivables from brokerage clients — net                               | 20,568             | —          | 20,568     | —          | 20,568                         |
| Held to maturity securities:   |                    |            |            |            |                                |
| U.S. agency mortgage-backed securities                                 | 101,197            | —          | 100,453    | —          | 100,453                        |
| Asset-backed securities  | 12,937             | —          | 13,062     | —          | 13,062                         |
| Corporate debt securities  | 4,078              | —          | 4,086      | —          | 4,086                          |
| U.S. state and municipal securities                                    | 1,247              | —          | 1,304      | —          | 1,304                          |
| Non-agency commercial mortgage-backed securities                       | 994                | —          | 999        | —          | 999                            |
| U.S. Treasury securities   | 223                | —          | 220        | —          | 220                            |
| Certificates of deposit  | 200                | —          | 200        | —          | 200                            |
| Foreign government agency securities                                   | 50                 | —          | 49         | —          | 49                             |
| Total held to maturity securities                                      | 120,926            | —          | 120,373    | —          | 120,373                        |
| Bank loans — net:  |                    |            |            |            |                                |
| First Mortgages  | 10,000             | —          | 9,917      | —          | 9,917                          |
| HELOCs   | 1,935              | —          | 2,025      | —          | 2,025                          |
| Pledged asset lines  | 4,369              | —          | 4,369      | —          | 4,369                          |
| Other  | 174                | —          | 174        | —          | 174                            |
| Total bank loans — net   | 16,478             | —          | 16,485     | —          | 16,485                         |
| Other assets   | 781                | —          | 781        | —          | 781                            |
| Total  | \$180,169          | \$         | —\$179,623 | \$         | —\$179,623                     |
| <b>Liabilities</b>   |                    |            |            |            |                                |
| Bank deposits  | \$169,656          | \$         | —\$169,656 | \$         | —\$169,656                     |
| Payables to brokers, dealers, and clearing organizations               | 1,287              | —          | 1,287      | —          | 1,287                          |
| Payables to brokerage clients  | 31,243             | —          | 31,243     | —          | 31,243                         |
| Accrued expenses and other liabilities                                 | 1,463              | —          | 1,463      | —          | 1,463                          |
| Short-term borrowings  | 15,000             | —          | 15,000     | —          | 15,000                         |
| Long-term debt   | 4,753              | —          | 4,811      | —          | 4,811                          |
| Total  | \$223,402          | \$         | —\$223,460 | \$         | —\$223,460                     |

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Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

12. Stockholders' Equity

The Company's preferred stock issued and outstanding is as follows:

|                         | Shares Issued and Outstanding (In thousands) |                   | Liquidation Preference at Per Share | Carrying Value at  |                   |            | Dividend Rate in Effect at September 30, 2018 | Earliest Redemption Date | Date at Which Dividend Rate Becomes Floating | Floating Annual Rate of Three-Month LIBOR plus: |
|-------------------------|--|-------------------|-------------------------------------|--------------------|-------------------|------------|---|--------------------------|--|---|
|                         | September 30, 2018                           | December 31, 2017 |                                     | September 30, 2018 | December 31, 2017 | Issue Date |   |                          |  |   |
| Fixed-rate:             |  |                   |                                     |                    |                   |            |   |                          |  |   |
| Series C                | 600  | 600               | \$ 1,000                            | \$ 585             | \$ 585            | 08/03/15   | 6.000 %                                       | 12/01/20                 | N/A  | N/A   |
| Series D                | 750  | 750               | 1,000                               | 728                | 728               | 03/07/16   | 5.950 %                                       | 06/01/21                 | N/A  | N/A   |
| Fixed-to-floating-rate: |  |                   |                                     |                    |                   |            |   |                          |  |   |
| Series A                | 400  | 400               | 1,000                               | 397                | 397               | 01/26/12   | 7.000 %                                       | 02/01/22                 | 02/01/22                                     | 4.820 %   |
| Series E                | 6  | 6                 | 100,000                             | 591                | 591               | 10/31/16   | 4.625 %                                       | 03/01/22                 | 03/01/22                                     | 3.315 %   |
| Series F                | 5  | 5                 | 100,000                             | 492                | 492               | 10/31/17   | 5.000 %                                       | 12/01/27                 | 12/01/27                                     | 2.575 %   |
| Total preferred stock   | 1,761  | 1,761             |                                     | \$ 2,793           | \$ 2,793          |            |   |                          |  |   |

(1) Represented by depositary shares, except for Series A.

N/A Not applicable.

13. Accumulated Other Comprehensive Income

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

| Three Months Ended September 30,  | 2018       |            | 2017       |            |
|---|------------|------------|------------|------------|
|   | Before Tax | Net of Tax | Before Tax | Net of Tax |
| Change in net unrealized gain (loss) on available for sale securities:            |            |            |            |            |
| Net unrealized gain (loss)  | \$(43)     | \$ 11      | \$(32)     | \$ —       |
| Change in net unrealized gain (loss) on held to maturity securities:              |            |            |            |            |
| Amortization of amounts previously recorded upon transfer from available for sale | 8          | (2)        | 10         | (4)        |
| Other comprehensive income (loss)   | \$(35)     | \$ 9       | \$(26)     | \$ 6       |
|   |            |            |            |            |
|   |            |            |            |            |
| Nine Months Ended September 30,   | 2018       |            | 2017       |            |
|   | Before Tax | Net of Tax | Before Tax | Net of Tax |
| Change in net unrealized gain (loss) on available for sale securities:            |            |            |            |            |
| Net unrealized gain (loss)  | \$(184)    | \$ 45      | \$(139)    | \$ 51      |
|   | —          | —          | 227        | (85)       |

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|  |         |       |         |       |        |       |
|--|---------|-------|---------|-------|--------|-------|
| Reclassification of net unrealized loss on securities transferred to held to maturity <sup>(1)</sup>     |         |       |         |       |        |       |
| Other reclassifications included in other revenue  | —       | —     | —       | (7 )  | 3      | (4 )  |
| Change in net unrealized gain (loss) on held to maturity securities:                                     |         |       |         |       |        |       |
| Reclassification of net unrealized loss on securities transferred from available for sale <sup>(1)</sup> | —       | —     | —       | (227) | 85     | (142) |
| Amortization of amounts previously recorded upon transfer from available for sale                        | 26      | (6 )  | 20      | 21    | (9 )   | 12    |
| Other  | —       | —     | —       | (3 )  | 1      | (2 )  |
| Other comprehensive income (loss)  | \$(158) | \$ 39 | \$(119) | \$92  | \$(35) | \$57  |

<sup>(1)</sup> See Note 5 in the 2017 10-K for discussion of the transfer of securities from the AFS category to the HTM category during the first quarter of 2017.

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## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

AOCI balances are as follows:

|   | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income |
|---|--|
| Balance at December 31, 2016  | \$ (163 )  |
| Available for sale securities:  |  |
| Net unrealized gain (loss)  | 51   |
| Reclassification of net unrealized loss on securities transferred to held to maturity                 | 142  |
| Other reclassifications included in other revenue   | (4 )   |
| Held to maturity securities:  |  |
| Reclassification of net unrealized loss on securities transferred from available for sale             | (142 )   |
| Amortization of amounts previously recorded upon transfer to held to maturity from available for sale | 12   |
| Other   | (2 )   |
| Balance at September 30, 2017   | \$ (106 )  |
| Balance at December 31, 2017  | \$ (152 )  |
| Adoption of accounting standards (Note 2)   | (33 )  |
| Available for sale securities:  |  |
| Net unrealized gain (loss)  | (139 )   |
| Held to maturity securities:  |  |
| Amortization of amounts previously recorded upon transfer to held to maturity from available for sale | 20   |
| Balance at September 30, 2018   | \$ (304 )  |

## 14. Taxes on Income

On December 22, 2017, the Tax Act was signed into law. Among other things, the Tax Act lowered the federal corporate income tax rate from 35% to 21%, effective for tax years including or commencing January 1, 2018. Schwab's effective tax rate for the three and nine months ended September 30, 2018 was 24.3% and 23.3%, respectively, compared to 34.6% and 34.9% for the three and nine months ended September 30, 2017, respectively, resulting from the impact of the Tax Act of 2017.

Also as a result of the Tax Act, Schwab recognized a \$46 million one-time non-cash charge to taxes on income in the fourth quarter of 2017 associated with the remeasurement of net deferred tax assets and other tax adjustments related to the Tax Act. While we were able to make a reasonable estimate of the impact of the reduction in the corporate tax rate in the fourth quarter of 2017, our accounting for various elements of the Tax Act may be affected by clarifications of the Tax Act and other related analysis.

During the second quarter of 2018, Schwab concluded its analysis of the effect of bonus depreciation that allows for immediate expensing of qualified property related to the Tax Act. The impact of the true-up adjustment from this analysis was determined to be immaterial. We are continuing to gather additional information to complete the accounting for the remaining estimated items, including the state tax effect of adjustments made to federal temporary



differences, and expect to complete the accounting within the prescribed measurement period. As such, the impact of the Tax Act is an estimate pending further information and the analysis noted.

As of January 1, 2018, Schwab adopted new accounting guidance that decreased AOCI and increased retained earnings by \$33 million for the reclassification of certain impacts of the Tax Act as described in Note 2.

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## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

## 15. Earnings Per Common Share

EPS under the basic and diluted computations is as follows:

|   | Three<br>Months<br>Ended<br>September<br>30, |       | Nine Months<br>Ended<br>September 30, |         |
|---|--|-------|---------------------------------------|---------|
|   | 2018   | 2017  | 2018                                  | 2017    |
| Net income  | \$923  | \$618 | \$2,572                               | \$1,757 |
| Preferred stock dividends and other <sup>(1)</sup>                  | (38 )  | (43 ) | (128 )                                | (127 )  |
| Net income available to common stockholders                         | \$885  | \$575 | \$2,444                               | \$1,630 |
| Weighted-average common shares outstanding — basic                  | 1,351  | 1,339 | 1,349                                 | 1,338   |
| Common stock equivalent shares related to stock incentive plans     | 13   | 14    | 14                                    | 14      |
| Weighted-average common shares outstanding — diluted <sup>(2)</sup> | 1,364  | 1,353 | 1,363                                 | 1,352   |
| Basic EPS   | \$.66  | \$.43 | \$1.81                                | \$1.22  |
| Diluted EPS   | \$.65  | \$.42 | \$1.79                                | \$1.21  |

<sup>(1)</sup> Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

<sup>(2)</sup> Antidilutive stock options and restricted stock units excluded from the calculation of diluted EPS totaled 11 million and 9 million shares for the third quarters of 2018 and 2017, respectively, and 12 million and 10 million shares for the first nine months of 2018 and 2017, respectively.

## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

## 16. Regulatory Requirements

At September 30, 2018, Schwab and CSB met all of their respective capital requirements. The regulatory capital and ratios for CSC (consolidated) and CSB are as follows:

|   | Actual   |       | Minimum to be Well Capitalized |        | Minimum Capital Requirement |       |
|---|----------|-------|--------------------------------|--------|-----------------------------|-------|
|   | Amount   | Ratio | Amount                         | Ratio  | Amount                      | Ratio |
| September 30, 2018                      |          |       |                                |        |                             |       |
| CSC                                     |          |       |                                |        |                             |       |
| Common Equity Tier 1 Risk-Based Capital | \$17,025 | 19.6% | N/A                            |        | \$3,907                     | 4.5%  |
| Tier 1 Risk-Based Capital               | 19,818   | 22.8% | N/A                            |        | 5,210                       | 6.0%  |
| Total Risk-Based Capital                | 19,846   | 22.9% | N/A                            |        | 6,946                       | 8.0%  |
| Tier 1 Leverage                         | 19,818   | 7.5 % | N/A                            |        | 10,622                      | 4.0%  |
| CSB                                     |          |       |                                |        |                             |       |
| Common Equity Tier 1 Risk-Based Capital | \$15,164 | 20.2% | \$4,890                        | 6.5 %  | \$3,385                     | 4.5%  |
| Tier 1 Risk-Based Capital               | 15,164   | 20.2% | 6,018                          | 8.0 %  | 4,513                       | 6.0%  |
| Total Risk-Based Capital                | 15,191   | 20.2% | 7,522                          | 10.0 % | 6,018                       | 8.0%  |
| Tier 1 Leverage                         | 15,164   | 7.1 % | 10,668                         | 5.0 %  | 8,534                       | 4.0%  |
| December 31, 2017                       |          |       |                                |        |                             |       |
| CSC                                     |          |       |                                |        |                             |       |
| Common Equity Tier 1 Risk-Based Capital | \$14,630 | 19.3% | N/A                            |        | \$3,414                     | 4.5%  |
| Tier 1 Risk-Based Capital               | 17,423   | 23.0% | N/A                            |        | 4,552                       | 6.0%  |
| Total Risk-Based Capital                | 17,452   | 23.0% | N/A                            |        | 6,069                       | 8.0%  |
| Tier 1 Leverage                         | 17,423   | 7.6 % | N/A                            |        | 9,218                       | 4.0%  |
| CSB                                     |          |       |                                |        |                             |       |
| Common Equity Tier 1 Risk-Based Capital | \$13,355 | 20.1% | \$4,324                        | 6.5 %  | \$2,993                     | 4.5%  |
| Tier 1 Risk-Based Capital               | 13,355   | 20.1% | 5,321                          | 8.0 %  | 3,991                       | 6.0%  |
| Total Risk-Based Capital                | 13,382   | 20.1% | 6,652                          | 10.0 % | 5,321                       | 8.0%  |
| Tier 1 Leverage                         | 13,355   | 7.1 % | 9,462                          | 5.0 %  | 7,569                       | 4.0%  |

N/A Not applicable.

At September 30, 2018, CSB is considered well capitalized (the highest category) under its regulatory capital rules. At September 30, 2018, CSC's and CSB's capital levels exceeded the fully implemented capital conservation buffer requirement. Certain events, such as growth in bank deposits and regulatory discretion, could adversely affect our ability to meet future capital requirements.

In late 2017, Schwab acquired a federal savings bank charter and changed the name to Charles Schwab Signature Bank (CSSB). At September 30, 2018, CSSB's balance sheet consisted primarily of investment securities with total assets of \$13.1 billion. CSSB is subject to similar regulatory guidelines and requirements, and seeks to maintain a Tier 1 Leverage Ratio similar to CSB.

Net capital and net capital requirements for CS&Co are as follows:

|             | September 30, 2018 | December 31, 2017 |
|-------------|--------------------|-------------------|
| Net Capital | \$ 2,280           | \$ 2,118          |

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|   |          |          |
|---|----------|----------|
| Minimum net capital required                  | 0.250    | 0.250    |
| 2% of aggregate debit balances                | 476      | 435      |
| Net Capital in excess of required net capital | \$ 1,804 | \$ 1,683 |

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## CHARLES SCHWAB CORPORATION

## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

In accordance with the SEC Customer Protection Rule, CS&Co had portions of its cash and investments segregated for the exclusive benefit of clients at September 30, 2018. The SEC Customer Protection Rule requires broker-dealers to segregate client fully paid securities and cash balances not collateralizing margin positions and not swept to money market funds or bank deposit accounts. Amounts included in cash and investments segregated and on deposit for regulatory purposes represent actual balances on deposit. Cash and cash equivalents included in cash and investments segregated and on deposit for regulatory purposes are presented as part of Schwab's cash balances in the consolidated statements of cash flows.

## 17. Segment Information

Schwab's two reportable segments are Investor Services and Advisor Services. Schwab structures the operating segments according to its clients and the services provided to those clients. The Investor Services segment provides retail brokerage and banking services to individual investors and retirement plan services, as well as other corporate brokerage services, to businesses and their employees. The Advisor Services segment provides custodial, trading, banking, and support services, as well as retirement business services to independent RIAs, independent retirement advisors, and recordkeepers. Revenues and expenses are allocated to the two segments based on which segment services the client.

Management evaluates the performance of the segments on a pre-tax basis. Segment assets and liabilities are not used for evaluating segment performance or in deciding how to allocate resources to segments. There are no revenues from transactions between the segments.

Financial information for the segments is presented in the following tables:

|  | Investor Services |          | Advisor Services |        | Total    |          |
|--|-------------------|----------|------------------|--------|----------|----------|
| Three Months Ended September 30,         | 2018              | 2017     | 2018             | 2017   | 2018     | 2017     |
| Net Revenues                             |                   |          |                  |        |          |          |
| Net interest revenue                     | \$ 1,138          | \$ 818   | \$ 389           | \$ 264 | \$ 1,527 | \$ 1,082 |
| Asset management and administration fees | 565               | 595      | 244              | 266    | 809      | 861      |
| Trading revenue                          | 112               | 94       | 64               | 57     | 176      | 151      |
| Other                                    | 53                | 54       | 14               | 17     | 67       | 71       |
| Total net revenues                       | 1,868             | 1,561    | 711              | 604    | 2,579    | 2,165    |
| Expenses Excluding Interest              | 1,015             | 918      | 345              | 302    | 1,360    | 1,220    |
| Income before taxes on income            | \$ 853            | \$ 643   | \$ 366           | \$ 302 | \$ 1,219 | \$ 945   |
|  | Investor Services |          | Advisor Services |        | Total    |          |
| Nine Months Ended September 30,          | 2018              | 2017     | 2018             | 2017   | 2018     | 2017     |
| Net Revenues                             |                   |          |                  |        |          |          |
| Net interest revenue                     | \$ 3,158          | \$ 2,366 | \$ 1,039         | \$ 769 | \$ 4,197 | \$ 3,135 |
| Asset management and administration fees | 1,727             | 1,743    | 747              | 786    | 2,474    | 2,529    |
| Trading revenue                          | 354               | 311      | 203              | 189    | 557      | 500      |
| Other                                    | 182               | 159      | 53               | 53     | 235      | 212      |
| Total net revenues                       | 5,421             | 4,579    | 2,042            | 1,797  | 7,463    | 6,376    |
| Expenses Excluding Interest              | 3,069             | 2,762    | 1,042            | 917    | 4,111    | 3,679    |
| Income before taxes on income            | \$ 2,352          | \$ 1,817 | \$ 1,000         | \$ 880 | \$ 3,352 | \$ 2,697 |



CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

18. Subsequent Events

On October 25, 2018, CSC's Board of Directors terminated the existing two share repurchase authorizations and replaced them with a new authorization to repurchase up to a total of \$1.0 billion of common stock.

On October 31, 2018, CSC issued \$500 million aggregate principal amount of Senior Notes that mature in 2024 and \$600 million aggregate principal amount of Senior Notes that mature in 2029 under its universal shelf registration statement on file with the SEC. The Senior Notes due 2024 have a fixed interest rate of 3.550% with interest payable semi-annually. The Senior Notes due 2029 have a fixed interest rate of 4.000% with interest payable semi-annually.

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THE CHARLES SCHWAB CORPORATION

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures: The management of the Company, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of September 30, 2018. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018.

Changes in internal control over financial reporting: No change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) was identified during the quarter ended September 30, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



## THE CHARLES SCHWAB CORPORATION

## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

For a discussion of legal proceedings, see Item 1 – Note 9.

## Item 1A. Risk Factors

During the first nine months of 2018, there have been no material changes to the risk factors in Part I – Item 1A – Risk Factors in the 2017 Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

At September 30, 2018, approximately \$596 million of future share repurchases remained authorized under the Share Repurchase Program. There were two authorizations under this program by CSC's Board of Directors, each covering up to \$500 million of common stock, that were publicly announced by CSC on April 25, 2007 and March 13, 2008. There were no share repurchases during the third quarter of 2018. On October 25, 2018, CSC publicly announced that its Board of Directors terminated the existing authorizations and replaced them with a new authorization to repurchase up to a total of \$1.0 billion of common stock. The authorization does not have an expiration date.

The following table summarizes purchases made by or on behalf of CSC of its common stock for each calendar month in the third quarter of 2018:

| Month                                | Total<br>number of<br>shares<br>purchased<br>(in<br>thousands) | Average<br>price<br>paid per<br>share |
|--------------------------------------|--|---------------------------------------|
| July:                                |  |                                       |
| Employee transactions <sup>(1)</sup> | 3  | \$ 51.24                              |
| August:                              |  |                                       |
| Employee transactions <sup>(1)</sup> | 5  | \$ 50.57                              |
| September:                           |  |                                       |
| Employee transactions <sup>(1)</sup> | 5  | \$ 50.99                              |
| Total:                               |  |                                       |
| Employee Transactions <sup>(1)</sup> | 13   | \$ 50.89                              |

<sup>(1)</sup> 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.

## Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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THE CHARLES SCHWAB CORPORATION

Item 6. Exhibits

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

Exhibit  
Exhibit  
Number

- 12. Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
- 31. Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
- 31. Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
- 32. Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002. (1)
- 32. Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002. (1)
- 101 ~~XBRL~~ Instance Document (2)
- 101 ~~XBRL~~ Taxonomy Extension Schema (2)
- 101 ~~XBRL~~ Taxonomy Extension Calculation (2)
- 101 ~~XBRL~~ Extension Definition (2)
- 101 ~~XBRL~~ Taxonomy Extension Label (2)
- 101 ~~XBRL~~ Taxonomy Extension Presentation (2)

(1)Furnished as an exhibit to this Quarterly Report on Form 10-Q.

Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 are the following materials formatted in XBRL (Extensible Business Reporting Language) (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive (2) Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE CHARLES SCHWAB CORPORATION  
(Registrant)

Date: November 7, 2018 /s/ Peter Crawford  
Peter Crawford  
Executive Vice President and Chief Financial Officer

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