SCHWAB CHARLES CORP
Form 10-Q
November 06, 2014
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, 2014

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Yes No

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

1,305,768,922 shares of $.01 par value Common Stock

Outstanding on October 24, 2014

THE CHARLES SCHWAB CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2014

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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 Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Revenues				
Asset management and administration fees	$ 649	$ 583	$ 1,892	$ 1,707
Interest revenue	600	531	1,767	1,527
Interest expense	(27)	(25)	(79)	(79)
Net interest revenue	573	506	1,688	1,448
Trading revenue	209	224	668	682
Other	120	57	253	172
Provision for loan losses	1	4	7	(1)
Net impairment losses on securities (1)	(1)	(1)	(1)	(8)
Total net revenues	1,551	1,373	4,507	4,000
Expenses Excluding Interest				
Compensation and benefits	593	482	1,641	1,512
Professional services	117	103	335	308
Occupancy and equipment	82	77	242	231
Advertising and market development	59	57	187	198
Communications	55	55	168	165
Depreciation and amortization	49	51	145	153
Other	78	84	228	226
Total expenses excluding interest	1,033	909	2,946	2,793
Income before taxes on income	518	464	1,561	1,207
Taxes on income	197	174	590	455
Net Income	321	290	971	752
Preferred stock dividends	9	8	39	39
Net Income Available to Common Stockholders	$ 312	$ 282	$ 932	$ 713

Weighted-Average Common Shares Outstanding — Diluted	1,316	1,296	1,313	1,288
Earnings Per Common Share — Basic	$ .24	$ .22	$ .71	$ .55
Earnings Per Common Share — Diluted	$ .24	$ .22	$ .70	$ .55

(1) Net impairment losses on securities include total other-than-temporary impairment losses of $1 million and $0 recognized in other comprehensive income, net of $0 and $(1) million reclassified from other comprehensive income, for the three months ended September 30, 2014 and 2013, respectively. Net impairment losses on securities include total other-than-temporary impairment losses of $1 million and $2 million recognized in other comprehensive income, net of $0 and $(6) million reclassified from other comprehensive income, for the nine months ended September 30, 2014 and 2013, respectively.

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statements of Comprehensive Income

(In Millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Income	$ 321	$ 290	$ 971	$ 752
Other comprehensive (loss) income, before tax:				
Change in net unrealized gain on securities available for sale:				
Net unrealized (loss) gain	(25)	72	260	(408)
Reclassification of impairment charges included in net impairment losses on securities	1	1	1	8
Other reclassifications included in other revenue	(12)	(2)	(14)	(5)
Other	-	-	-	1
Other comprehensive (loss) income, before tax	(36)	71	247	(404)
Income tax effect	13	(28)	(93)	152
Other comprehensive (loss) income, net of tax	(23)	43	154	(252)
Comprehensive Income	$ 298	$ 333	$ 1,125	$ 500

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, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 8,588	$ 7,728
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $11,729 at September 30, 2014 and $14,016 at December 31, 2013)	19,890	23,553
Receivables from brokers, dealers, and clearing organizations	458	509
Receivables from brokerage clients — net	15,416	13,951
Other securities owned — at fair value	572	517
Securities available for sale	52,201	51,618
Securities held to maturity (fair value — $33,939 at September 30, 2014 and $29,490 at December 31, 2013)	34,007	30,318
Loans to banking clients — net	13,080	12,419
Equipment, office facilities, and property — net	991	790
Goodwill	1,227	1,227
Intangible assets — net	233	266
Other assets	781	746
Total assets	$ 147,444	$ 143,642
Liabilities and Stockholders' Equity		
Deposits from banking clients	$ 97,345	$ 92,972
Payables to brokers, dealers, and clearing organizations	2,099	1,467
Payables to brokerage clients	33,131	35,333
Accrued expenses and other liabilities	1,496	1,586
Long-term debt	1,900	1,903
Total liabilities	135,971	133,261
Stockholders' equity:		
Preferred stock — $.01 par value per share; aggregate liquidation preference of $885	872	869
Common stock — 3 billion shares authorized; $.01 par value per share; 1,487,543,446 shares issued	15	15

Additional paid-in capital	4,050	3,951
Retained earnings	9,949	9,253
Treasury stock, at cost — 181,992,826 shares at September 30, 2014 and 190,657,263 shares at December 31, 2013	(3,576)	(3,716)
Accumulated other comprehensive income	163	9
Total stockholders' equity	11,473	10,381
Total liabilities and stockholders' equity	$ 147,444	$ 143,642

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statements of Cash Flows

(In Millions)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income	$ 971	$ 752
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	(7)	1
Net impairment losses on securities	1	8
Stock-based compensation	80	83
Depreciation and amortization	145	153
Premium amortization, net, on securities available for sale and securities held to maturity	91	129
Other	(5)	23
Net change in:		
Cash and investments segregated and on deposit for regulatory purposes	3,663	4,949
Receivables from brokers, dealers, and clearing organizations	56	(177)
Receivables from brokerage clients	(1,469)	332
Other securities owned	(55)	154
Other assets	(49)	(48)
Payables to brokers, dealers, and clearing organizations	389	101
Payables to brokerage clients	(2,202)	(5,798)
Accrued expenses and other liabilities	(121)	163
Net cash provided by operating activities	1,488	825
Cash Flows from Investing Activities		
Purchases of securities available for sale	(10,556)	(19,910)
Proceeds from sales of securities available for sale	5,724	4,665
Principal payments on securities available for sale	4,630	9,087
Purchases of securities held to maturity	(5,612)	(13,442)
Principal payments on securities held to maturity	1,948	3,332
Net increase in loans to banking clients	(672)	(1,315)
Purchase of equipment, office facilities, and property	(310)	(176)
Other investing activities	(8)	2
Net cash used for investing activities	(4,856)	(17,757)
Cash Flows from Financing Activities		
Net change in deposits from banking clients	4,373	11,810
Repayment of commercial paper	-	(300)
Issuance of long-term debt	-	275

Repayment of long-term debt	(5)	(4)
Dividends paid	(286)	(283)
Proceeds from stock options exercised and other	138	140
Other financing activities	8	(7)
Net cash provided by financing activities	4,228	11,631
Increase (Decrease) in Cash and Cash Equivalents	860	(5,301)
Cash and Cash Equivalents at Beginning of Period	7,728	12,663
Cash and Cash Equivalents at End of Period	$ 8,588	$ 7,362
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	$ 91	$ 89
Income taxes	$ 588	$ 448
Non-cash investing activity:		
Securities purchased during the period but settled after period end	$ 243	$ 38

See Notes to Condensed Consolidated Financial Statements.

THE 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 securities brokerage, banking, money management, and financial advisory services. Charles Schwab & Co., Inc. (Schwab) is a securities broker-dealer with over 300 domestic branch offices in 45 states, as well as a branch in each of the Commonwealth of Puerto Rico and London, England. In addition, Schwab serves clients in Hong Kong through one of CSC's subsidiaries. Other subsidiaries include Charles Schwab Bank (Schwab Bank), a federal savings bank, and Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds, which are referred to as the Schwab Funds®, and for Schwab's exchange-traded funds, which are referred to as the Schwab ETFs™.

The accompanying unaudited condensed consolidated financial statements include CSC and its majority-owned subsidiaries (collectively referred to as the Company). Intercompany balances and transactions have been eliminated. These condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (U.S.), which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying financial statements. Certain estimates relate to other-than-temporary impairment of securities available for sale and securities held to maturity, valuation of goodwill, allowance for loan losses, and legal and regulatory reserves. Actual results may differ from those estimates. These condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the periods presented. These adjustments are of a normal recurring nature. The Company's results for any interim period are not necessarily indicative of results for a full year or any other interim period. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The Company's significant accounting policies are included in note "2 – Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. There have been no significant changes to these accounting policies during the first nine months of 2014.

2.New Accounting Standards

New Accounting Standards Not Yet Adopted

In January 2014, the Financial Accounting Standards Board (FASB) issued new guidance for creditors of consumer mortgage loans, which is effective January 1, 2015. The guidance clarifies when physical possession of a property underlying a consumer mortgage loan transfers to the creditor, and therefore when a loan receivable should be derecognized and the real estate property underlying the loan should be recognized. The adoption of this new guidance is not expected to have a material impact on the Company's financial position, results of operations, earnings per common share (EPS), or cash flows.

In May 2014, the FASB issued new guidance on revenue recognition, which is effective January 1, 2017. The guidance clarifies that revenue from contracts with customers should be recognized in a manner that depicts both the likelihood of payment and the timing of the related transfer of goods or performance of services. The Company is currently evaluating the impact of this new guidance on its financial position, results of operations, EPS, and cash flows.

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Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

3.Securities Available for Sale and Securities Held to Maturity

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

September 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Asset-backed securities	$ 19,419	$ 90	$ 6	$ 19,503
U.S. agency mortgage-backed securities	18,001	215	15	18,201
Corporate debt securities	7,644	46	6	7,684
U.S. agency notes	3,990	-	67	3,923
Certificates of deposit	1,533	1	-	1,534
Non-agency residential mortgage-backed securities	543	19	24	538
Treasury securities	499	1	-	500
Non-agency commercial mortgage-backed securities	311	7	-	318
Total securities available for sale	$ 51,940	$ 379	$ 118	$ 52,201
Securities held to maturity:				
U.S. agency mortgage-backed securities	$ 33,005	$ 316	$ 357	$ 32,964
Non-agency commercial mortgage-backed securities	1,002	4	31	975
Total securities held to maturity	$ 34,007	$ 320	$ 388	$ 33,939

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. agency mortgage-backed securities	$ 18,554	$ 140	$ 49	$ 18,645
Asset-backed securities	15,201	42	37	15,206
Corporate debt securities	8,973	49	15	9,007
U.S. agency notes	4,239	1	104	4,136
Certificates of deposit	3,650	4	2	3,652
Non-agency residential mortgage-backed securities	616	11	34	593
Non-agency commercial mortgage-backed securities	271	8	-	279

Other securities	100	-	-	100
Total securities available for sale	$ 51,604	$ 255	$ 241	$ 51,618
Securities held to maturity:				
U.S. agency mortgage-backed securities	$ 29,260	$ 161	$ 921	$ 28,500
Non-agency commercial mortgage-backed securities	958	-	68	890
Other securities	100	-	-	100
Total securities held to maturity	$ 30,318	$ 161	$ 989	$ 29,490

Schwab Bank pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was $132 million at September 30, 2014.

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Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

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

September 30, 2014	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Securities available for sale:						
Asset-backed securities	$ 1,928	$ 4	$ 841	$ 2	$ 2,769	$ 6
U.S agency mortgage-backed securities	2,414	6	1,629	9	4,043	15
Corporate debt securities	1,010	1	616	5	1,626	6
U.S. agency notes	249	1	3,674	66	3,923	67
Non-agency residential mortgage-backed securities	25	1	311	23	336	24
Total	$ 5,626	$ 13	$ 7,071	$ 105	$ 12,697	$ 118
Securities held to maturity:						
U.S. agency mortgage-backed securities	$ 4,421	$ 17	$ 11,565	$ 340	$ 15,986	$ 357
Non-agency commercial mortgage-backed securities	163	2	645	29	808	31
Total	$ 4,584	$ 19	$ 12,210	$ 369	$ 16,794	$ 388
Total securities with unrealized losses (1)	$ 10,210	$ 32	$ 19,281	$ 474	$ 29,491	$ 506

(1) The number of investment positions with unrealized losses totaled 209 for securities available for sale and 144 for securities held to maturity.

December 31, 2013	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Securities available for sale:						
U.S. agency mortgage-backed securities	$ 5,044	$ 47	$ 93	$ 2	$ 5,137	$ 49
Asset-backed securities	6,391	33	591	4	6,982	37

Corporate debt securities	1,802	14	499	1	2,301	15
U.S. agency notes	3,636	104	-	-	3,636	104
Certificates of deposit	-	-	299	2	299	2
Non-agency residential mortgage-backed securities	89	2	374	32	463	34
Total	$ 16,962	$ 200	$ 1,856	$ 41	$ 18,818	$ 241
Securities held to maturity:						
U.S. agency mortgage-backed securities	$ 19,175	$ 698	$ 2,345	$ 223	$ 21,520	$ 921
Non-agency commercial mortgage-backed securities	630	43	260	25	890	68
Total	$ 19,805	$ 741	$ 2,605	$ 248	$ 22,410	$ 989
Total securities with unrealized losses (1)	$ 36,767	$ 941	$ 4,461	$ 289	$ 41,228	$ 1,230

(1) The number of investment positions with unrealized losses totaled 273 for securities available for sale and 193 for securities held to maturity.

Non-agency residential mortgage-backed securities include securities collateralized by loans that are considered to be “Prime” (defined as loans to borrowers with a Fair Isaac Corporation (FICO) credit score of 620 or higher at origination), and “Alt-A” (defined as Prime loans with reduced documentation at origination). Management determined that it does not expect to recover all of the amortized cost of certain of its Alt-A and Prime residential mortgage-backed securities and therefore determined that these securities were other-than-temporarily impaired (OTTI); the Company does not intend to sell these securities and it is not “more likely than not” that the Company will be required to sell these securities before anticipated

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Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

recovery of the unrealized losses on these securities. The Company recognized an impairment charge equal to the securities' expected credit losses of $1 million during the third quarter and first nine months of 2014, based on the Company's cash flow projections for these securities. The expected credit losses are measured as the difference between the present value of expected cash flows and the amortized cost of the securities. Further deterioration in the performance of the underlying loans in the Company's non-agency residential mortgage-backed securities portfolio could result in the recognition of impairment losses.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	$ 169	$ 166	$ 169	$ 159
Credit losses recognized into current period earnings on debt securities for which an other-than-temporary impairment was not previously recognized	1	-	1	1
Credit losses recognized into current period earnings on debt securities for which an other-than-temporary impairment was previously recognized	-	1	-	7
Balance at end of period	$ 170	$ 167	$ 170	$ 167

The maturities of securities available for sale and securities held to maturity at September 30, 2014 are as follows:

	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Securities available for sale:					
Asset-backed securities	$ -	$ 2,666	$ 5,148	$ 11,689	$ 19,503
U.S. agency mortgage-backed securities (1)	-	1,312	4,425	12,464	18,201
Corporate debt securities	741	6,893	50	-	7,684

U.S. agency notes	-	3,923	-	-	3,923
Certificates of deposit	384	1,150	-	-	1,534
Non-agency residential mortgage-backed securities (1)	-	2	-	536	538
Treasury securities	-	500	-	-	500
Non-agency commercial mortgage-backed securities (1)	-	-	-	318	318
Total fair value	$ 1,125	$ 16,446	$ 9,623	$ 25,007	$ 52,201
Total amortized cost	$ 1,121	$ 16,460	$ 9,533	$ 24,826	$ 51,940
Securities held to maturity:					
U.S. agency mortgage-backed securities (1)	$ -	$ 853	$ 14,390	$ 17,721	$ 32,964
Non-agency commercial mortgage-backed securities (1)	-	-	352	623	975
Total fair value	$ -	$ 853	$ 14,742	$ 18,344	$ 33,939
Total amortized cost	$ -	$ 854	$ 14,827	$ 18,326	$ 34,007

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

THE CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

Proceeds and gross realized gains from sales of securities available for sale are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Proceeds	$ 3,679	$ 1,661	$ 5,724	$ 4,665
Gross realized gains	$ 12	$ 2	$ 14	$ 5

4.Loans to Banking Clients and Related Allowance for Loan Losses

The composition of loans to banking clients by loan segment is as follows:

	September 30, 2014	December 31, 2013
Residential real estate mortgages	$ 8,075	$ 8,006
Home equity lines of credit	2,982	3,041
Personal loans secured by securities	2,033	1,384
Other	30	36
Total loans to banking clients (1)	13,120	12,467
Allowance for loan losses	(40)	(48)
Total loans to banking clients – net	$ 13,080	$ 12,419

(1) All loans are evaluated for impairment by loan segment.

The Company has commitments to extend credit related to unused home equity lines of credit (HELOCs), personal loans secured by securities, and other lines of credit, which totaled $6.3 billion and $5.7 billion at September 30, 2014 and December 31, 2013, respectively. All of the personal loans were fully collateralized by securities with fair values in excess of borrowings at September 30, 2014 and December 31, 2013.

Schwab Bank provides a co-branded loan origination program for Schwab Bank clients (the Program) with Quicken Loans, Inc. (Quicken Loans®). Pursuant to the Program, Quicken Loans originates and services first lien residential real estate mortgage loans (First Mortgages) and HELOCs for Schwab Bank clients. Under the Program, Schwab Bank purchases certain First Mortgages and HELOCs that are originated by Quicken Loans. Schwab Bank sets the underwriting guidelines and pricing for all loans it intends to purchase for its portfolio. Schwab Bank purchased First Mortgages of $371 million and $862 million during the third quarters of 2014 and 2013, respectively, and $989 million and $3.1 billion during the first nine months of 2014 and 2013, respectively. Schwab Bank purchased HELOCs with commitments of $167 million and $248 million during the third quarters of 2014 and 2013, respectively, and $514 million and $687 million during the first nine months of 2014 and 2013, respectively. The First Mortgages purchased under the Program are included in the first mortgages loan class in the tables below.

Credit Quality

Changes in the allowance for loan losses were as follows:

Three Months Ended	September 30, 2014			September 30, 2013		
	Residential real estate mortgages	Home equity lines of credit	Total	Residential real estate mortgages	Home equity lines of credit	Total
Balance at beginning of period	$ 28	$ 13	$ 41	$ 40	$ 17	$ 57
Charge-offs	-	-	-	(1)	(1)	(2)
Recoveries	-	-	-	1	-	1
Provision for loan losses	-	(1)	(1)	(6)	2	(4)
Balance at end of period	$ 28	$ 12	$ 40	$ 34	$ 18	$ 52

THE CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

Nine Months Ended	September 30, 2014			September 30, 2013		
	Residential real estate mortgages	Home equity lines of credit	Total	Residential real estate mortgages	Home equity lines of credit	Total
Balance at beginning of period	$ 34	$ 14	$ 48	$ 36	$ 20	$ 56
Charge-offs	(1)	(2)	(3)	(4)	(4)	(8)
Recoveries	1	1	2	2	1	3
Provision for loan losses	(6)	(1)	(7)	-	1	1
Balance at end of period	$ 28	$ 12	$ 40	$ 34	$ 18	$ 52

The delinquency and nonaccrual analysis by loan class is as follows:

September 30, 2014	Current	30-59 days past due	60-89 days past due	>90 days past due and other nonaccrual loans	Total past due and other nonaccrual loans	Total loans
Residential real estate mortgages:						
First mortgages	$ 7,884	$ 5	$ 3	$ 24	$ 32	$ 7,916
Purchased first mortgages	154	1	-	4	5	159
Home equity lines of credit	2,967	3	1	11	15	2,982
Personal loans secured by securities	2,031	2	-	-	2	2,033
Other	30	-	-	-	-	30
Total loans to banking clients	$ 13,066	$ 11	$ 4	$ 39	$ 54	$ 13,120

	30-59 days	60-89 days	>90 days past	Total past due and other	Total

December 31, 2013	Current	past due	past due	due and other nonaccrual loans	nonaccrual loans	loans
Residential real estate mortgages:						
First mortgages	$ 7,808	$ 3	$ 4	$ 30	$ 37	$ 7,845
Purchased first mortgages	154	1	-	6	7	161
Home equity lines of credit	3,025	2	2	12	16	3,041
Personal loans secured by securities	1,384	-	-	-	-	1,384
Other	36	-	-	-	-	36
Total loans to banking clients	$ 12,407	$ 6	$ 6	$ 48	$ 60	$ 12,467

There were no loans accruing interest that were contractually 90 days or more past due at September 30, 2014 or December 31, 2013. Nonperforming assets, which include nonaccrual loans and other real estate owned, totaled $46 million and $53 million at September 30, 2014 and December 31, 2013, respectively. Troubled debt restructurings were not material at September 30, 2014 or December 31, 2013.

In addition to monitoring delinquency, the Company monitors the credit quality of residential real estate mortgages and HELOCs by stratifying the portfolios by the 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), as presented in the following tables. Borrowers' FICO scores are provided by an independent third-party credit reporting service and were last updated in September 2014. The Origination LTV and Estimated Current LTV ratios for a HELOC include any first lien mortgage outstanding on the same property at the time of the HELOC's origination. The Estimated Current LTV for each loan is estimated by reference to a home price appreciation index.

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	Residential real estate mortgages			
September 30, 2014	First mortgages	Purchased first mortgages	Total	Home equity lines of credit
Year of origination				
Pre-2010	$ 731	$ 49	$ 780	$ 2,131
2010	392	7	399	175
2011	588	33	621	143
2012	2,167	25	2,192	150
2013	3,109	34	3,143	248
2014	929	11	940	135
Total	$ 7,916	$ 159	$ 8,075	$ 2,982
Origination FICO				
<620	$ 10	$ 1	$ 11	$ -
620 – 679	88	11	99	18
680 – 739	1,336	31	1,367	557
>740	6,482	116	6,598	2,407
Total	$ 7,916	$ 159	$ 8,075	$ 2,982
Updated FICO				
<620	$ 46	$ 4	$ 50	$ 37
620 – 679	175	7	182	104
680 – 739	1,022	26	1,048	444
>740	6,673	122	6,795	2,397
Total	$ 7,916	$ 159	$ 8,075	$ 2,982
Origination LTV				
<70%	$ 5,401	$ 111	$ 5,512	$ 1,996
>70% – <90%	2,501	44	2,545	964
>90% – <100%	14	4	18	22
Total	$ 7,916	$ 159	$ 8,075	$ 2,982

September 30, 2014	Balance	Weighted Average Updated FICO	Utilization Rate (1)	Percent of Loans that are on Nonaccrual Status
Residential real estate mortgages:				
Estimated Current LTV				
<70%	$ 7,138	776	N/A	0.08 %

>70% – <90%	829	764	N/A	0.58	%
>90% – <100%	52	737	N/A	1.79	%
>100%	56	724	N/A	13.21	%
Total	$ 8,075	774	N/A	0.23	%
Home equity lines of credit:					
Estimated Current LTV					
<70%	$ 2,346	773	37 %	0.05	%
>70% – <90%	499	762	49 %	0.49	%
>90% – <100%	74	750	62 %	1.24	%
>100%	63	740	64 %	2.02	%
Total	$ 2,982	770	39 %	0.19	%

(1) The Utilization Rate is calculated using the outstanding HELOC balance divided by the associated total line of credit.

N/A Not applicable.

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	Residential real estate mortgages			
December 31, 2013	First mortgages	Purchased first mortgages	Total	Home equity lines of credit
Year of origination				
Pre-2010	$ 859	$ 55	$ 914	$ 2,304
2010	503	7	510	191
2011	733	38	771	155
2012	2,403	26	2,429	162
2013	3,347	35	3,382	229
Total	$ 7,845	$ 161	$ 8,006	$ 3,041
Origination FICO				
<620	$ 10	$ 1	$ 11	$ -
620 – 679	96	14	110	20
680 – 739	1,352	32	1,384	576
>740	6,387	114	6,501	2,445
Total	$ 7,845	$ 161	$ 8,006	$ 3,041
Updated FICO				
<620	$ 50	$ 5	$ 55	$ 42
620 – 679	209	10	219	106
680 – 739	1,012	29	1,041	453
>740	6,574	117	6,691	2,440
Total	$ 7,845	$ 161	$ 8,006	$ 3,041
Origination LTV				
<70%	$ 5,306	$ 110	$ 5,416	$ 2,040
>70% – <90%	2,523	45	2,568	977
>90% – <100%	16	6	22	24
Total	$ 7,845	$ 161	$ 8,006	$ 3,041

December 31, 2013	Balance	Weighted Average Updated FICO	Utilization Rate (1)	Percent of Loans that are on Nonaccrual Status
Residential real estate mortgages:				
Estimated Current LTV				

<70%	$ 6,649	775	N/A		0.05	%
>70% – <90%	1,181	763	N/A		0.34	%
>90% – <100%	86	732	N/A		4.77	%
>100%	90	730	N/A		10.50	%
Total	$ 8,006	772	N/A		0.26	%
Home equity lines of credit:						
Estimated Current LTV						
<70%	$ 2,127	773	36	%	0.13	%
>70% – <90%	664	762	48	%	0.22	%
>90% – <100%	127	752	59	%	1.22	%
>100%	123	743	63	%	1.34	%
Total	$ 3,041	769	39	%	0.24	%

(1) The Utilization Rate is calculated using the outstanding HELOC balance divided by the associated total line of credit.

N/A Not applicable.

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5.Commitments and Contingencies

The Company has clients that sell (i.e., write) listed option contracts that are cleared by the Options Clearing Corporation – a clearing house that establishes margin requirements on these transactions. The Company partially satisfies the margin requirements by arranging unsecured standby letter of credit agreements (LOCs), in favor of the Options Clearing Corporation, which are issued by multiple banks. At September 30, 2014, the aggregate face amount of these LOCs totaled $240 million. There were no funds drawn under any of these LOCs at September 30, 2014. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The Company satisfies the collateral requirements by providing cash as collateral.

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

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

The Company believes it has strong defenses in all significant matters currently pending and is contesting liability and any damages claimed. Nevertheless, some of these matters may result in adverse judgments or awards, including penalties, injunctions or other relief, and the Company may also determine to settle a matter because of the uncertainty and risks of litigation. Described below are certain matters in which there is a reasonable possibility that a material loss could be incurred or where the matter may otherwise be of significant interest to stockholders. With respect to all other pending matters, based on current information and consultation with counsel, it does not appear that the outcome of any such matter could be material to the financial condition, operating results or cash flows of the Company. However, 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. Often, as in the case of the Auction Rate Securities Regulatory Inquiries and Total Bond Market Fund Litigation matters described below, it is not possible to reasonably estimate potential liability, if any, or a range of potential liability until the matter is closer to resolution – pending, for example, further proceedings, the outcome of key motions or appeals, or discussions among the parties. Numerous issues may have to be developed, such as discovery of important factual matters and determination of threshold legal issues, which may include novel or unsettled questions of law. Reserves are established or adjusted or further disclosure and estimates of potential loss are provided as the matter progresses and more information becomes available.

Auction Rate Securities Regulatory Inquiries: Schwab has been responding to industry wide inquiries from federal and state regulators regarding sales of auction rate securities to clients who were unable to sell their holdings when the normal auction process for those securities froze unexpectedly in February 2008. On August 17, 2009, a civil complaint was filed against Schwab in New York state court by the Attorney General of the State of New York (NYAG) alleging material misrepresentations and omissions by Schwab regarding the risks of auction rate securities, and seeking restitution, disgorgement, penalties and other relief, including repurchase of securities held in client accounts. As reflected in a statement issued August 17, 2009, Schwab has responded that the allegations are without merit, and has been contesting all charges. By order dated October 24, 2011, the court granted Schwab's motion to dismiss the complaint with prejudice. The NYAG appealed, and in a decision issued August 29, 2013, the Appellate Division reinstated two of the NYAG's four causes of action. A petition by the NYAG for reconsideration of part of the Appellate Division's decision was subsequently denied. On June 10, 2014, Schwab filed a motion for summary judgment of the NYAG's remaining two causes of action.

Total Bond Market Fund Litigation: On August 28, 2008, a class action lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of investors in the Schwab Total Bond Market Fund™. The lawsuit, which alleges violations of state law and federal securities law in connection with the fund's investment policy, names Schwab Investments

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(registrant and issuer of the fund's shares) and CSIM as defendants. Allegations include that the fund improperly deviated from its stated investment objectives by investing in collateralized mortgage obligations (CMOs) and investing more than 25% of fund assets in CMOs and mortgage-backed securities without obtaining a shareholder vote. Plaintiffs seek unspecified compensatory and rescission damages, unspecified equitable and injunctive relief, costs and attorneys' fees. Plaintiffs' federal securities law claim and certain of plaintiffs' state law claims were dismissed in proceedings before the court and following a successful petition by defendants to the Ninth Circuit Court of Appeals. On August 8, 2011, the court dismissed plaintiffs' remaining claims with prejudice. Plaintiffs have again appealed to the Ninth Circuit, where the case is currently pending.

Other Regulatory Matters: On April 16, 2012, optionsXpress, Inc. was charged by the SEC in an administrative proceeding alleging violations of the firm's close-out obligations under Regulation SHO (short sale delivery rules) in connection with certain customer trading activity that predated the Company's acquisition of the firm. Following trial, in a decision issued June 7, 2013, the judge held that the firm had violated Regulation SHO and aided and abetted fraudulent trading activity by its customer, and ordered the firm and the customer to pay disgorgement and penalties. The Company continues to dispute the allegations and is appealing the decision. The Company has a contingent liability associated with this matter, which was not material at September 30, 2014.

6.Fair Values of Assets and Liabilities

For a description of the fair value hierarchy and the Company's fair value methodologies, including the use of independent third-party pricing services, see note "2 – Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. There were no significant changes in these methodologies during the quarter ended September 30, 2014. The Company did not transfer any assets or liabilities between Level 1, Level 2, or Level 3 during the quarter ended September 30, 2014, or the year ended December 31, 2013. In addition, the Company did not adjust prices received from the primary independent third-party pricing service at September 30, 2014 or December 31, 2013.

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Financial Instruments Recorded at Fair Value

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

September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 1,667	$ -	$ -	$ 1,667
Commercial paper	-	56	-	56
Total cash equivalents	1,667	56	-	1,723
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	-	3,776	-	3,776
U.S. Government securities	-	-	-	-
Total investments segregated and on deposit for regulatory purposes	-	3,776	-	3,776
Other securities owned:				
Schwab Funds® money market funds	293	-	-	293
Equity and bond mutual funds	210	-	-	210
State and municipal debt obligations	-	44	-	44
Equity, U.S. Government and corporate debt, and other securities	1	24	-	25
Total other securities owned	504	68	-	572
Securities available for sale:				
Asset-backed securities	-	19,503	-	19,503
U.S. agency mortgage-backed securities	-	18,201	-	18,201
Corporate debt securities	-	7,684	-	7,684
U.S. agency notes	-	3,923	-	3,923
Certificates of deposit	-	1,534	-	1,534
Non-agency residential mortgage-backed securities	-	538	-	538

Treasury securities	-	500	-	500
Non-agency commercial mortgage-backed securities	-	318	-	318
Total securities available for sale	-	52,201	-	52,201
Total	$ 2,171	$ 56,101	$ -	$ 58,272

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December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 1,141	$ -	$ -	$ 1,141
Commercial paper	-	22	-	22
Total cash equivalents	1,141	22	-	1,163
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	-	2,737	-	2,737
U.S. Government securities	-	2,539	-	2,539
Total investments segregated and on deposit for regulatory purposes	-	5,276	-	5,276
Other securities owned:				
Schwab Funds® money market funds	261	-	-	261
Equity and bond mutual funds	208	-	-	208
State and municipal debt obligations	-	32	-	32
Equity, U.S. Government and corporate debt, and other securities	1	15	-	16
Total other securities owned	470	47	-	517
Securities available for sale:				
U.S. agency mortgage-backed securities	-	18,645	-	18,645
Asset-backed securities	-	15,206	-	15,206
Corporate debt securities	-	9,007	-	9,007
U.S. agency notes	-	4,136	-	4,136
Certificates of deposit	-	3,652	-	3,652
Non-agency residential mortgage-backed securities	-	593	-	593
Non-agency commercial mortgage-backed securities	-	279	-	279
Other securities	-	100	-	100
Total securities available for sale	-	51,618	-	51,618
Total	$ 1,611	$ 56,963	$ -	$ 58,574

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Financial Instruments Not Recorded at Fair Value

Descriptions of the valuation methodologies and assumptions used to estimate the fair value of financial instruments not recorded at fair value are also described in note "2 – Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. There were no significant changes in these methodologies or assumptions during the quarter ended September 30, 2014. The following tables present the fair value hierarchy for financial instruments not recorded at fair value:

September 30, 2014	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 6,865	$ -	$ 6,865	$ -	$ 6,865
Cash and investments segregated and on deposit for regulatory purposes	16,111	-	16,111	-	16,111
Receivables from brokers, dealers, and clearing organizations	458	-	458	-	458
Receivables from brokerage clients – net	15,413	-	15,413	-	15,413
Securities held to maturity:					
U.S. agency mortgage-backed securities	33,005	-	32,964	-	32,964
Non-agency commercial mortgage-backed securities	1,002	-	975	-	975
Total securities held to maturity	34,007	-	33,939	-	33,939
Loans to banking clients: (1)					
Residential real estate mortgages	8,075	-	8,056	-	8,056
Home equity lines of credit	2,982	-	3,046	-	3,046
Personal loans secured by securities	2,033	-	2,033	-	2,033
Other	30	-	29	-	29
Total loans to banking clients	13,120	-	13,164	-	13,164
Other assets	75	-	75	-	75

Total	$ 86,049	$ -	$ 86,025	$ -	$ 86,025
Liabilities:					
Deposits from banking clients	$ 97,345	$ -	$ 97,345	$ -	$ 97,345
Payables to brokers, dealers, and clearing organizations	2,099	-	2,099	-	2,099
Payables to brokerage clients	33,131	-	33,131	-	33,131
Accrued expenses and other liabilities	471	-	471	-	471
Long-term debt	1,900	-	2,012	-	2,012
Total	$ 134,946	$ -	$ 135,058	$ -	$ 135,058

(1) The carrying value of loans to banking clients excludes the allowance for loan losses of $40 million at September 30, 2014.

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December 31, 2013	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 6,565	$ -	$ 6,565	$ -	$ 6,565
Cash and investments segregated and on deposit for regulatory purposes	18,273	-	18,273	-	18,273
Receivables from brokers, dealers, and clearing organizations	509	-	509	-	509
Receivables from brokerage clients – net	13,949	-	13,949	-	13,949
Securities held to maturity:					
U.S. agency mortgage-backed securities	29,260	-	28,500	-	28,500
Non-agency commercial mortgage-backed securities	958	-	890	-	890
Other securities	100	-	100	-	100
Total securities held to maturity	30,318	-	29,490	-	29,490
Loans to banking clients: (1)					
Residential real estate mortgages	8,006	-	7,930	-	7,930
Home equity lines of credit	3,041	-	3,043	-	3,043
Personal loans secured by securities	1,384	-	1,384	-	1,384
Other	36	-	35	-	35
Total loans to banking clients	12,467	-	12,392	-	12,392
Other assets	64	-	64	-	64
Total	$ 82,145	$ -	$ 81,242	$ -	$ 81,242
Liabilities:					
Deposits from banking clients	$ 92,972	$ -	$ 92,972	$ -	$ 92,972
Payables to brokers, dealers, and clearing organizations	1,467	-	1,467	-	1,467
Payables to brokerage clients	35,333	-	35,333	-	35,333
Accrued expenses and other liabilities	680	-	680	-	680
Long-term debt	1,903	-	1,989	-	1,989
Total	$ 132,355	$ -	$ 132,441	$ -	$ 132,441

(1) The carrying value of loans to banking clients excludes the allowance for loan losses of $48 million at December 31, 2013.

Securities lending: Payables to brokers, dealers, and clearing organizations include securities loaned. The Company loans client securities temporarily to other brokers in connection with its securities lending activities and receives cash as collateral for the securities loaned. The fair value of client securities pledged in securities lending transactions to other broker-dealers was $1.4 billion at September 30, 2014 and $1.1 billion at December 31, 2013. The Company has also pledged a portion of its securities owned in connection with securities lending transactions to other broker-dealers. Additionally, the Company borrows securities from other broker-dealers to fulfill short sales by clients, which are included in receivables from brokers, dealers, and clearing organizations. The fair value of these borrowed securities was $123 million at September 30, 2014 and $276 million at December 31, 2013. All of the Company's securities lending transactions are subject to enforceable master netting arrangements with other broker-dealers. However, the Company does not net securities lending transactions and therefore, the Company's securities loaned and securities borrowed are presented gross in the condensed consolidated balance sheets.

Resale agreements: Cash and investments segregated and on deposit for regulatory purposes include securities purchased under agreements to resell (resale agreements), which are collateralized by U.S. Government and agency securities. 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. Schwab utilizes the collateral provided under these resale agreements to meet obligations under broker-dealer client

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protection rules, which place limitations on its ability to access such segregated securities. The Company's resale agreements are not subject to master netting arrangements.

7.Accumulated Other Comprehensive Income

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

Three Months Ended September 30,	2014			2013		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Change in net unrealized gain on securities available for sale:						
Net unrealized (loss) gain	$ (25)	$ 9	$ (16)	$ 72	$ (28)	$ 44
Reclassification of impairment charges included in net impairment losses on securities	1	(1)	-	1	-	1
Other reclassifications included in other revenue	(12)	5	(7)	(2)	-	(2)
Change in net unrealized gain on securities available for sale	(36)	13	(23)	71	(28)	43
Other comprehensive (loss) income	$ (36)	$ 13	$ (23)	$ 71	$ (28)	$ 43

Nine Months Ended September 30,	2014			2013		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax

Change in net unrealized gain on securities available for sale:						
Net unrealized gain (loss)	$ 260	$ (97)	$ 163	$ (408)	$ 153	$ (255)
Reclassification of impairment charges included in net impairment losses on securities	1	(1)	-	8	(2)	6
Other reclassifications included in other revenue	(14)	5	(9)	(5)	1	(4)
Change in net unrealized gain on securities available for sale	247	(93)	154	(405)	152	(253)
Other	-	-	-	1	-	1
Other comprehensive income (loss)	$ 247	$ (93)	$ 154	$ (404)	$ 152	$ (252)

Accumulated other comprehensive income balances are as follows:

	Net unrealized gain on securities available for sale	Other	Total accumulated other comprehensive income
Balance at December 31, 2012	$ 299	$ (1)	$ 298
Other net changes	(253)	1	(252)
Balance at September 30, 2013	$ 46	$ -	$ 46
Balance at December 31, 2013	$ 9	$ -	$ 9
Other net changes	154	-	154
Balance at September 30, 2014	$ 163	$ -	$ 163

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8.Earnings Per Common Share

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. Dilutive potential common shares include, if dilutive, the effect of outstanding stock options and unvested restricted stock awards and units. EPS under the basic and diluted computations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$ 321	$ 290	$ 971	$ 752
Preferred stock dividends	(9)	(8)	(39)	(39)
Net income available to common stockholders	$ 312	$ 282	$ 932	$ 713
Weighted-average common shares outstanding — basic	1,304	1,287	1,302	1,282
Common stock equivalent shares related to stock incentive plans	12	9	11	6
Weighted-average common shares outstanding — diluted (1)	1,316	1,296	1,313	1,288
Basic EPS	$ .24	$ .22	$ .71	$ .55
Diluted EPS	$ .24	$ .22	$ .70	$ .55

(1) Antidilutive stock options and restricted stock awards excluded from the calculation of diluted EPS totaled 12 million and 19 million shares for the third quarters of 2014 and 2013, respectively, and 18 million and 31 million shares for the first nine months of 2014 and 2013, respectively.

9.Regulatory Requirements

CSC is a savings and loan holding company and Schwab Bank, CSC's depository institution subsidiary, is a federal savings bank. CSC is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (Federal Reserve) and Schwab Bank is subject to supervision and regulation by the Office of the Comptroller of the Currency (OCC). CSC is currently not subject to specific statutory capital requirements, however, CSC is required to serve as a source of strength for Schwab Bank. CSC will be subject to new capital requirements set by the Federal Reserve that will be phased in beginning January 1, 2015.

Schwab Bank is subject to regulation and supervision and to various requirements and restrictions under federal and state laws, including regulatory capital guidelines. Among other things, these requirements also restrict and govern the terms of affiliate transactions, such as extensions of credit and repayment of loans between Schwab Bank and CSC or CSC's other subsidiaries. In addition, Schwab Bank is required to provide notice to and may be required to obtain approval of the OCC and the Federal Reserve to declare dividends to CSC. The federal banking agencies have broad powers to enforce these regulations, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. Under the Federal Deposit Insurance Act, Schwab Bank could be subject to restrictive actions if it were to fall within one of the lowest three of five capital categories. Schwab Bank is required to maintain minimum capital levels as specified in federal banking laws and regulations. Failure to meet the minimum levels could result in certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on Schwab Bank. At September 30, 2014, CSC and Schwab Bank met the capital level requirements.

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The regulatory capital and ratios for Schwab Bank at September 30, 2014 are as follows:

	Actual		Minimum to be Well Capitalized		Minimum Capital Requirement	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Risk-Based Capital	$ 7,450	21.7 %	$ 2,061	6.0 %	$ 1,374	4.0 %
Total Risk-Based Capital	$ 7,491	21.8 %	$ 3,436	10.0 %	$ 2,749	8.0 %
Tier 1 Leverage	$ 7,450	7.1 %	$ 5,265	5.0 %	$ 4,212	4.0 %
Tangible Equity	$ 7,450	7.1 %	N/A		$ 2,106	2.0 %

N/A Not applicable.

Based on its regulatory capital ratios at September 30, 2014, Schwab Bank is considered well capitalized (the highest category) pursuant to banking regulatory guidelines. There are no conditions or events since September 30, 2014, that management believes have changed Schwab Bank’s capital category.

CSC’s principal U.S. broker-dealers are Schwab and optionsXpress, Inc. Schwab and optionsXpress, Inc. are both subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the Uniform Net Capital Rule). Schwab and optionsXpress, Inc. compute net capital under the alternative method permitted by the Uniform Net Capital Rule. This method requires the maintenance of minimum net capital, as defined, of the greater of 2% of aggregate debit balances arising from client transactions or a minimum dollar requirement ($250,000), which is based on the type of business conducted by the broker-dealer. Under the alternative method, a broker-dealer may not repay subordinated borrowings, pay cash dividends, or make any unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement.

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

(as defined in Reg. 1.17).

Net capital and net capital requirements for Schwab and optionsXpress, Inc. at September 30, 2014 are as follows:

	Net Capital	% of Aggregate Debit Balances	Minimum Net Capital Required	2% of Aggregate Debit Balances	Net Capital in Excess of Required Net Capital	Net Capital in Excess of 5% of Aggregate Debit Balances
Schwab	$ 1,589	10 %	$ 0.250	$ 324	$ 1,265	$ 778
optionsXpress, Inc.	$ 121	33 %	$ 1	$ 7	$ 114	$ 103

10.Segment Information

The Company’s two reportable segments are Investor Services and Advisor Services. The Company structures its 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, retirement plan services, and corporate brokerage services. The Advisor Services segment provides custodial, trading, and support services to independent investment advisors, and retirement business services to independent retirement plan advisors and recordkeepers whose plan assets are held at Schwab Bank. Revenues and expenses are allocated to the Company’s two segments based on which segment services the client.

The Company evaluates the performance of its segments on a pre-tax basis, excluding extraordinary or significant non-recurring items and results of discontinued operations. 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.

THE CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

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

	Investor Services		Advisor Services		Unallocated		Total	
Three Months Ended September 30,	2014	2013	2014	2013	2014	2013	2014	2013
Net Revenues:								
Asset management and administration fees	$ 455	$ 410	$ 194	$ 173	$ -	$ -	$ 649	$ 583
Net interest revenue	513	450	60	56	-	-	573	506
Trading revenue	144	153	65	71	-	-	209	224
Other	57	44	18	13	45	-	120	57
Provision for loan losses	1	3	-	1	-	-	1	4
Net impairment losses on securities	(1)	-	-	(1)	-	-	(1)	(1)
Total net revenues	1,169	1,060	337	313	45	-	1,551	1,373
Expenses Excluding Interest	741	705	224	204	68	-	1,033	909
Income before taxes on income	$ 428	$ 355	$ 113	$ 109	$ (23)	$ -	$ 518	$ 464
Taxes on income							197	174
Net Income							$ 321	$ 290

	Investor Services		Advisor Services		Unallocated		Total	
Nine Months Ended September 30,	2014	2013	2014	2013	2014	2013	2014	2013
Net Revenues:								
Asset management and administration fees	$ 1,324	$ 1,199	$ 568	$ 508	$ -	$ -	$ 1,892	$ 1,707
Net interest revenue	1,512	1,281	176	167	-	-	1,688	1,448
Trading revenue	460	462	208	220	-	-	668	682
Other	155	129	53	43	45	-	253	172
Provision for loan losses	6	(1)	1	-	-	-	7	(1)
Net impairment losses on securities	(1)	(7)	-	(1)	-	-	(1)	(8)
Total net revenues	3,456	3,063	1,006	937	45	-	4,507	4,000
Expenses Excluding Interest	2,213	2,178	665	615	68	-	2,946	2,793
Income before taxes on income	$ 1,243	$ 885	$ 341	$ 322	$ (23)	$ -	$ 1,561	$ 1,207
Taxes on income							590	455

Net Income	$ 971	$ 752

11.Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to September 30, 2014, through the date the condensed consolidated financial statements were filed with the SEC. Based on this evaluation, other than as recorded or disclosed within these condensed consolidated financial statements and related notes, the Company has determined none of these events were required to be recognized or disclosed.

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

OVERVIEW

Management of The Charles Schwab Corporation (CSC) and its subsidiaries (collectively referred to as the Company) focuses on several key client activity and financial metrics in evaluating the Company's financial position and operating performance. Management believes that earnings per common share (EPS), net revenue growth, pre-tax profit margin, and return on average common stockholders' equity provide broad indicators of the Company's overall financial health, operating efficiency, and ability to generate acceptable returns. Expenses excluding interest as a percentage of average client assets is considered by management to be another measure of operating efficiency. Results for the third quarters and first nine months of 2014 and 2013 are:

	Three Months Ended September 30,		Percent	Nine Months Ended September 30,		Percent
	2014	2013	Change	2014	2013	Change
Client Metrics:						
Net new client assets (1) (in billions)	$ 34.7	$ 18.1	92 %	$ 91.6	$ 39.8	130 %
Client assets (2) (in billions, at quarter end)	$ 2,403.7	$ 2,145.0	12 %			
New brokerage accounts (3) (in thousands)	229	223	3 %	729	710	3 %
Active brokerage accounts (4) (in thousands, at quarter end)	9,309	9,013	3 %			
Assets receiving ongoing advisory services (5) (in billions, at quarter end)	$ 1,192.6	$ 1,036.1	15 %			
Client cash as a percentage of client assets (6) (at quarter end)	12.2 %	13.5 %				
Company Financial Metrics:						
Net revenues	$ 1,551	$ 1,373	13 %	$ 4,507	$ 4,000	13 %
Expenses excluding interest	1,033	909	14 %	2,946	2,793	5 %
Income before taxes on income	518	464	12 %	1,561	1,207	29 %

Taxes on income	197		174		13	%	590		455		30	%
Net income	$ 321		$ 290		11	%	$ 971		$ 752		29	%
Preferred stock dividends	$ 9		$ 8		13	%	$ 39		$ 39		-	
Net income available to common stockholders	$ 312		$ 282		11	%	$ 932		$ 713		31	%
Earnings per common share – diluted	$ .24		$ .22		9	%	$ .70		$ .55		27	%
Net revenue growth from prior year	13	%	15	%			13	%	9	%		
Pre-tax profit margin	33.4	%	33.8	%			34.6	%	30.2	%		
Return on average common stockholders' equity (annualized) (7)	12	%	13	%			12	%	11	%		
Expenses excluding interest as a percentage of average client assets (annualized)	0.18	%	0.17	%			0.17	%	0.17	%		

(1) Net new client assets is defined as the total inflows of client cash and securities to the firm less client outflows. Management believes that this metric, along with core net new assets, depicts how well the Company's products and services appeal to new and existing clients. Core net new assets, defined as net new client assets before significant one-time flows, is a useful metric when comparing period-to-period client asset flows. There were no significant one-time flows during the third quarter and first nine months of 2014. Core net new assets were $42.8 billion and $108.8 billion during the third quarter and first nine months of 2013, respectively. See below for items excluded from core net new assets.

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

(3) New brokerage accounts include all brokerage accounts opened during the period, as well as any accounts added via acquisition. This metric measures the Company's effectiveness in attracting new clients and building stronger relationships with existing clients.

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)

(4) Active brokerage accounts include accounts with balances or activity within the preceding eight months. This metric is an indicator of the Company's success in both attracting and retaining clients.
(5) Assets receiving ongoing advisory services include relationships under the guidance of independent advisors and assets enrolled in one of the Company's retail or other advisory solutions. This metric depicts how well the Company's advisory products and services appeal to new and existing clients.
(6) Client cash as a percentage of client assets includes Schwab One®, certain cash equivalents, deposits from banking clients and money market fund balances, as a percentage of client assets. This measure is an indicator of clients' engagement in the market.
(7) Calculated as net income available to common stockholders divided by average common stockholders' equity.

The following one-time flows were excluded from core net new assets.

- First nine months of 2013 include outflows of $44.3 billion relating to the planned transfer of a mutual fund clearing services client.
- The Company reduced its reported total for overall client assets by $24.7 billion in the third quarter and first nine months of 2013 to reflect the estimated impact of the consolidation of its retirement plan recordkeeping technology platforms and subsequent resignation from certain retirement plan clients.

The Company operated in an environment of mixed market conditions during the third quarter of 2014. The Nasdaq Composite Index, Standard & Poor's 500 Index, and Dow Jones Industrial Average fluctuated during the third quarter of 2014, yet ended the quarter up 19%, 17%, and 13% from the third quarter of 2013, respectively. Meanwhile, short-term interest rates continued to be constrained as the federal funds target rate remained unchanged at a range of zero to 0.25% and the average three-month Treasury Bill yield remained flat at 0.02% compared to the third quarter of 2013. In addition, long-term interest rates, including the average 10-year Treasury yield, decreased compared to the third quarter of 2013.

The Company's full-service investing model continued to resonate with clients and drive growth during the third quarter of 2014. Total client assets ended the third quarter of 2014 at $2.40 trillion, up 12% from the third quarter of 2013, despite a 19% decline from core net new assets of $42.8 billion in the third quarter of 2013 to net new client assets of $34.7 billion in the third quarter of 2014. The Company added 229,000 new brokerage accounts to its client base during the third quarter of 2014, up 3% compared to the third quarter of 2013. Active brokerage accounts ended the third quarter of 2014 at 9.3 million, also up 3% on a year-over-year basis.

For the third quarter of 2014, the Company's net revenues increased 13% compared to the third quarter of 2013, primarily due to increases in net interest revenue, asset management and administration fees, and other revenue,

partially offset by a decrease in trading revenue. Net interest revenue increased primarily due to higher balances of interest-earning assets, including margin loans and the Company's investment portfolio (securities available for sale and securities held to maturity), and the effect higher average interest rates on securities held to maturity had on the Company's average net interest margin. Asset management and administration fees increased primarily due to growth in client assets enrolled in advisory offers and client assets invested in Mutual Fund OneSource funds and equity and bond funds, and due to other asset management and administration fee revenue. Other revenue increased primarily due to a net insurance settlement of $45 million and gains on sales of securities available for sale of $12 million. Trading revenue decreased primarily due to lower daily average revenue trades.

For the first nine months of 2014, net revenues increased by 13% compared to the first nine months of 2013 primarily due to increases in net interest revenue, asset management and administration fees, and other revenue. Net interest revenue increased primarily due to higher balances of interest-earning assets, including margin loans and the Company's investment portfolio (securities available for sale and securities held to maturity), and the effect higher average interest rates on securities held to maturity had on the Company's average net interest margin. Asset management and administration fees increased primarily due to growth in client assets enrolled in advisory offers and client assets invested in Mutual Fund OneSource funds and equity and bond funds, and due to other asset management and administration fee revenue. Other revenue increased primarily due to a net insurance settlement in the third quarter of 2014 and increases in payments from order flow and gains on sales of securities available for sale.

Expenses excluding interest increased 14% and 5% in the third quarter and first nine months of 2014 compared to the same periods in 2013, respectively, primarily due to an increase in compensation and benefits expense as a result of a charge of $68 million in the third quarter of 2014 for estimated future severance benefits resulting from changes in the Company's

geographic footprint and an increase in professional services expense. The increase in expenses excluding interest in the first nine months of 2014 was partially offset by a decrease in advertising and market development expense.

As a result of the Company's strong key client metrics, diversified revenue sources, and sustained expense discipline, the Company achieved a pre-tax profit margin of 33.4% and 34.6% in the third quarter and first nine months of 2014, respectively. Overall, net income increased by 11% and 29% in the third quarter and first nine months of 2014 compared to the same periods in 2013, respectively. The return on average common stockholders' equity was 12% in both the third quarter and first nine months of 2014.

CURRENT MARKET AND REGULATORY ENVIRONMENT AND OTHER DEVELOPMENTS

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

In July 2013, the U.S. banking agencies issued regulatory capital rules that implemented Basel III and relevant provisions of the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the Dodd-Frank Act) (Final Regulatory Capital Rules), which are applicable to savings and loan holding companies, such as CSC, and federal savings banks, such as Charles Schwab Bank (Schwab Bank). The rules will be phased in beginning on January 1, 2015. The Company does not expect the Final Regulatory Capital Rules to have a material impact on the Company's business, financial condition, and results of operations.

In September 2014, the Board of Governors of the Federal Reserve System (Federal Reserve), in collaboration with the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation, issued a rule implementing a quantitative liquidity requirement generally consistent with the liquidity coverage ratio (LCR) standard established by Basel III. The LCR applies to all internationally active banking organizations. The Federal Reserve also issued a modified LCR that applies to the Company. Under the modified LCR, a depository institution holding company is required to maintain high-quality liquid assets in an amount related to its total net cash outflows over a prospective period. The Company is required to be fully compliant with the final rule by January 2017. The Company is currently evaluating the impact of the final rule but does not expect a material impact to the Company's business, financial condition, and results of operations.

The Company is pursuing lawsuits in state court in San Francisco for rescission and damages against issuers, underwriters, and dealers of individual non-agency residential mortgage-backed securities on which the Company has experienced realized and unrealized losses. The lawsuits allege that offering documents for the securities contained material untrue and misleading statements about the securities and the underwriting standards and credit quality of the underlying loans. On January 27, 2012 and July 24, 2012, the court denied defendants' motions to dismiss the claims and discovery is proceeding. A trial date for claims relating to an initial group of securities and defendants is set for July 2015.

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

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

Results of Operations

The following discussion presents an analysis of the Company's results of operations for the third quarter and first nine months of 2014 compared to the same periods in 2013.

Net Revenues

The Company's major sources of net revenues are asset management and administration fees, net interest revenue, and trading revenue. Asset management and administration fees and net interest revenue increased, while trading revenue decreased in the third quarter and first nine months of 2014 compared to the same periods in 2013.

Three Months Ended September 30,		2014		2013	
	Percent Change	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Asset management and administration fees					
Schwab money market funds before fee waivers	-	$ 240		$ 239	
Fee waivers	6 %	(190)		(180)	
Schwab money market funds after fee waivers	(15) %	50	3 %	59	4 %
Equity and bond funds	22 %	50	3 %	41	3 %
Mutual Fund OneSource®	11 %	216	14 %	195	14 %
Total mutual funds	7 %	316	20 %	295	21 %
Advice solutions	17 %	215	14 %	183	14 %
Other	12 %	118	8 %	105	8 %
Asset management and administration fees	11 %	649	42 %	583	43 %
Net interest revenue					
Interest revenue	13 %	600	39 %	531	39 %
Interest expense	8 %	(27)	(2) %	(25)	(2) %
Net interest revenue	13 %	573	37 %	506	37 %
Trading revenue					

Commissions	(6)	%	197	12	%	210	15	%
Principal transactions	(14)	%	12	1	%	14	1	%
Trading revenue	(7)	%	209	13	%	224	16	%
Other	111	%	120	8	%	57	4	%
Provision for loan losses	(75)	%	1	-		4	-	
Net impairment losses on securities	-		(1)	-		(1)	-	
Total net revenues	13	%	$ 1,551	100	%	$ 1,373	100	%

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Nine Months Ended September 30,	Percent Change		2014 Amount	2014 % of Total Net Revenues		2013 Amount	2013 % of Total Net Revenues	
Asset management and administration fees								
Schwab money market funds before fee waivers	3	%	$ 714			$ 695		
Fee waivers	13	%	(558)			(492)		
Schwab money market funds after fee waivers	(23)	%	156	4	%	203	5	%
Equity and bond funds	25	%	142	3	%	114	3	%
Mutual Fund OneSource®	11	%	631	14	%	570	14	%
Total mutual funds	5	%	929	21	%	887	22	%
Advice solutions	19	%	623	14	%	523	13	%
Other	14	%	340	7	%	297	8	%
Asset management and administration fees	11	%	1,892	42	%	1,707	43	%
Net interest revenue								
Interest revenue	16	%	1,767	39	%	1,527	38	%
Interest expense	-		(79)	(2)	%	(79)	(2)	%
Net interest revenue	17	%	1,688	37	%	1,448	36	%
Trading revenue								
Commissions	(3)	%	630	14	%	647	16	%
Principal transactions	9	%	38	1	%	35	1	%
Trading revenue	(2)	%	668	15	%	682	17	%
Other	47	%	253	6	%	172	4	%
Provision for loan losses	N/M		7	-		(1)	-	
Net impairment losses on securities	(88)	%	(1)	-		(8)	-	
Total net revenues	13	%	$ 4,507	100	%	$ 4,000	100	%

N/M Not meaningful.

Asset Management and Administration Fees

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

Asset management and administration fees increased by $66 million, or 11%, and $185 million, or 11%, in the third quarter and first nine months of 2014 compared to the same periods in 2013, due to fees from mutual fund services, advice solutions, and other asset management and administration services.

Mutual fund service fees increased by $21 million, or 7%, and $42 million, or 5%, in the third quarter and first nine months of 2014 compared to the same periods in 2013, primarily due to growth in client assets invested in the Company’s Mutual Fund OneSource funds and equity and bond funds, partially offset by a decrease in net money market mutual fund fees as a result of continued low yields on fund assets.

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Advice solutions fees increased by $32 million, or 17%, and $100 million, or 19%, in the third quarter and first nine months of 2014 compared to the same periods in 2013, primarily due to growth in client assets enrolled in advisory offers, including Schwab Private Client™, ThomasPartners®, and Schwab Managed Portfolios™.

Other asset management and administration fees increased by $13 million, or 12%, and $43 million, or 14%, in the third quarter and first nine months of 2014 compared to the same periods in 2013, primarily due to third-party mutual fund service fees on higher client asset balances invested in other third-party mutual funds.

Net Interest Revenue

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

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

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

In clearing their clients' trades, Charles Schwab & Co., Inc. (Schwab) and optionsXpress, Inc., a securities broker-dealer and wholly-owned subsidiary of optionsXpress Holdings, Inc. (optionsXpress), hold cash balances payable to clients. In most cases, Schwab and optionsXpress, Inc. pay their clients interest on cash balances awaiting investment, and in turn invest these funds and earn interest revenue. Receivables from brokerage clients consist primarily of margin loans to brokerage clients. Margin loans are loans made to clients on a secured basis to purchase securities. Pursuant to applicable regulations, client cash balances that are not used for margin lending are generally segregated into investment accounts that are maintained for the exclusive benefit of clients, which are recorded in cash and investments segregated on the Company's condensed consolidated balance sheets.

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

Three Months Ended September 30,	2014			2013		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets:						
Cash and cash equivalents	$ 7,961	$ 4	0.20 %	$ 8,034	$ 4	0.20 %
Cash and investments segregated	19,542	6	0.12 %	24,425	8	0.13 %
Broker-related receivables (1)	363	-	0.01 %	351	-	0.01 %
Receivables from brokerage clients	13,965	122	3.47 %	11,846	109	3.65 %
Securities available for sale (2)	51,425	135	1.04 %	49,205	138	1.11 %
Securities held to maturity	32,609	208	2.53 %	26,819	166	2.46 %
Loans to banking clients	13,001	89	2.72 %	12,004	84	2.78 %
Total interest-earning assets	138,866	564	1.61 %	132,684	509	1.52 %
Other interest revenue		36			22	
Total interest-earning assets	$ 138,866	$ 600	1.72 %	$ 132,684	$ 531	1.59 %
Funding sources:						
Deposits from banking clients	$ 96,114	$ 7	0.03 %	$ 87,793	$ 7	0.03 %
Payables to brokerage clients	26,403	1	0.01 %	29,312	1	0.01 %
Long-term debt	1,900	19	3.97 %	1,833	17	3.68 %
Total interest-bearing liabilities	124,417	27	0.09 %	118,938	25	0.08 %
Non-interest-bearing funding sources	14,449			13,746		
Total funding sources	$ 138,866	$ 27	0.08 %	$ 132,684	$ 25	0.08 %
Net interest revenue		$ 573	1.64 %		$ 506	1.51 %

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

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

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

Nine Months Ended September 30,	2014			2013		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets:						
Cash and cash equivalents	$ 6,892	$ 11	0.21 %	$ 7,094	$ 12	0.23 %
Cash and investments segregated	20,251	18	0.12 %	26,148	29	0.15 %
Broker-related receivables (1)	323	-	0.10 %	370	-	0.09 %
Receivables from brokerage clients	13,589	358	3.52 %	11,588	321	3.70 %
Securities available for sale (2)	51,984	413	1.06 %	48,250	413	1.14 %
Securities held to maturity	31,839	613	2.57 %	23,601	430	2.44 %
Loans to banking clients	12,776	264	2.76 %	11,569	243	2.81 %
Total interest-earning assets	137,654	1,677	1.63 %	128,620	1,448	1.51 %
Other interest revenue		90			79	
Total interest-earning assets	$ 137,654	$ 1,767	1.72 %	$ 128,620	$ 1,527	1.59 %
Funding sources:						
Deposits from banking clients	$ 94,951	$ 22	0.03 %	$ 83,492	$ 24	0.04 %
Payables to brokerage clients	26,652	2	0.01 %	30,847	2	0.01 %
Long-term debt	1,901	55	3.87 %	1,699	51	4.01 %
Total interest-bearing liabilities	123,504	79	0.09 %	116,038	77	0.09 %
Non-interest-bearing funding sources	14,150			12,582		
Other interest expense (1)		-			2	
Total funding sources	$ 137,654	$ 79	0.08 %	$ 128,620	$ 79	0.08 %
Net interest revenue		$ 1,688	1.64 %		$ 1,448	1.51 %

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

Net interest revenue increased in the third quarter and first nine months of 2014 compared to the same periods in 2013, primarily due to higher balances of interest-earning assets, including margin loans and the Company's investment portfolio, and the effect higher average interest rates on securities held to maturity had on the Company's average net interest margin. The growth in the average balance of deposits from banking clients funded the increase in the balances of securities held to maturity and securities available for sale.

Trading Revenue

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

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Trading revenue decreased by $15 million, or 7%, in the third quarter of 2014 compared to the third quarter of 2013, primarily due to lower daily average revenue trades. Trading revenue remained relatively flat in the first nine months of 2014 compared to the first nine months of 2013. Daily average revenue trades decreased in the third quarter of 2014 primarily due to a lower volume of mutual fund, equity, future, and option trades. Daily average revenue trades were relatively flat in the first nine months of 2014 primarily due to a lower volume of mutual fund trades, offset by a higher volume of future, option, and equity trades. Average revenue per revenue trade remained relatively flat in the third quarter and first nine months of 2014 compared to the same periods in 2013.

	Three Months Ended September 30,		Percent	Nine Months Ended September 30,		Percent
	2014	2013	Change	2014	2013	Change
Daily average revenue trades (1) (in thousands)	269	283	(5) %	293	294	-
Clients' daily average trades (2) (in thousands)	469	479	(2) %	501	491	2 %
Number of trading days	63.5	63.5	-	187.5	187.5	-
Average revenue per revenue trade	$ 12.24	$ 12.39	(1) %	$ 12.17	$ 12.30	(1) %

(1) Includes all client trades that generate trading revenue (i.e., commission revenue or principal transaction revenue).
(2) Includes daily average revenue trades, trades by clients in asset-based pricing relationships, and all commission-free trades, including the Company's Mutual Fund OneSource funds and exchange-traded funds (ETFs), and other proprietary products. Clients' daily average trades is an indicator of client engagement with securities markets.

Other Revenue

Other revenue includes payments from order flow, nonrecurring gains, software fees from the Company's portfolio management services, exchange processing fees, realized gains or losses on sales of securities available for sale, and other service fees. Other revenue increased by $63 million, or 111%, in the third quarter of 2014 compared to the third quarter of 2013, primarily due to a net insurance settlement of $45 million and gains on sales of securities available for sale of $12 million. Other revenue increased by $81 million, or 47%, in the first nine months of 2014 compared to the first nine months of 2013, primarily due to a net insurance settlement in the third quarter of 2014 and increases in payments for order flow and gains on sales of securities available for sale.

Expenses Excluding Interest

As shown in the table below, expenses excluding interest increased in the third quarter and first nine months of 2014 compared to the same periods in 2013, primarily due to increases in compensation and benefits and professional services expense.

	Three Months Ended September 30,		Percent	Nine Months Ended September 30,		Percent
	2014	2013	Change	2014	2013	Change
Compensation and benefits	$ 593	$ 482	23 %	$ 1,641	$ 1,512	9 %
Professional services	117	103	14 %	335	308	9 %
Occupancy and equipment	82	77	6 %	242	231	5 %
Advertising and market development	59	57	4 %	187	198	(6) %
Communications	55	55	-	168	165	2 %
Depreciation and amortization	49	51	(4) %	145	153	(5) %
Other	78	84	(7) %	228	226	1 %
Total expenses excluding interest	$ 1,033	$ 909	14 %	$ 2,946	$ 2,793	5 %
Expenses as a percentage of total net revenues:						
Total expenses excluding interest	67 %	66 %		65 %	70 %	
Advertising and market development	4 %	4 %		4 %	5 %	

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Compensation and Benefits

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

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

	Three Months Ended September 30,		Percent	Nine Months Ended September 30,		Percent
	2014	2013	Change	2014	2013	Change
Salaries and wages	$ 359	$ 272	32 %	$ 947	$ 836	13 %
Incentive compensation	152	137	11 %	446	440	1 %
Employee benefits and other	82	73	12 %	248	236	5 %
Total compensation and benefits expense	$ 593	$ 482	23 %	$ 1,641	$ 1,512	9 %
Compensation and benefits expense as a percentage of total net revenues:						
Salaries and wages	23 %	20 %		21 %	21 %	
Incentive compensation	10 %	10 %		10 %	11 %	
Employee benefits and other	5 %	5 %		5 %	6 %	
Total compensation and benefits expense	38 %	35 %		36 %	38 %	
Full-time equivalent employees (1) (in thousands)						
At quarter end	14.3	13.8	4 %			
Average	14.2	13.8	3 %	14.1	13.9	1 %

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

Salaries and wages increased in the third quarter and first nine months of 2014 compared to the same periods in 2013, primarily due to a $68 million charge in the third quarter of 2014 for estimated future severance benefits resulting from changes in the Company's geographic footprint and due to annual salary increases.

Incentive compensation increased in the third quarter and first nine months of 2014 compared to the same periods in 2013, primarily due to an increase in discretionary bonus costs, partially offset by higher 2013 expense related to a new payout schedule for field incentive plans.

Expenses Excluding Compensation and Benefits

Professional services expense increased in the third quarter and first nine months of 2014 compared to the same periods in 2013, primarily due to higher spending on technology services and an increase in fees paid to outsourced service providers and consultants.

Advertising and market development expense was relatively flat in the third quarter of 2014 compared to the third quarter of 2013. Advertising and market development expense decreased in the first nine months of 2014 compared to the first nine months of 2013, primarily due to production costs incurred in the first nine months of 2013 relating to the development of the Company's advertising and branding initiative, Own your tomorrow™, partially offset by higher 2014 spending on customer promotions.

Taxes on Income

The Company's effective income tax rate on income before taxes was 38.0% and 37.5% for the third quarters of 2014 and 2013, respectively. The Company's effective income tax rate on income before taxes was 37.8% and 37.7% for the first nine months of 2014 and 2013, respectively.

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Segment Information

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

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

	Investor Services			Advisor Services		
Three Months Ended September 30,	Percent Change	2014	2013	Percent Change	2014	2013
Net Revenues:						
Asset management and administration fees	11 %	$ 455	$ 410	12 %	$ 194	$ 173
Net interest revenue	14 %	513	450	7 %	60	56
Trading revenue	(6) %	144	153	(8) %	65	71
Other	30 %	57	44	38 %	18	13
Provision for loan losses	(67) %	1	3	(100) %	-	1
Net impairment losses on securities	N/M	(1)	-	(100) %	-	(1)
Total net revenues	10 %	1,169	1,060	8 %	337	313
Expenses Excluding Interest	5 %	741	705	10 %	224	204
Income before taxes on income	21 %	$ 428	$ 355	4 %	$ 113	$ 109

	Unallocated			Total		
Three Months Ended September 30,	Percent Change	2014	2013	Percent Change	2014	2013

Net Revenues:							
Asset management and administration fees	-	$ -	$ -	11	%	$ 649	$ 583
Net interest revenue	-	-	-	13	%	573	506
Trading revenue	-	-	-	(7)	%	209	224
Other	N/M	45	-	111	%	120	57
Provision for loan losses	-	-	-	(75)	%	1	4
Net impairment losses on securities	-	-	-	-		(1)	(1)
Total net revenues	N/M	45	-	13	%	1,551	1,373
Expenses Excluding Interest	N/M	68	-	14	%	1,033	909
Income before taxes on income	N/M	$ (23)	$ -	12	%	$ 518	$ 464
Taxes on income				13	%	197	174
Net Income				11	%	$ 321	$ 290

N/M Not meaningful.

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	Investor Services			Advisor Services		
Nine Months Ended September 30,	Percent Change	2014	2013	Percent Change	2014	2013
Net Revenues:						
Asset management and administration fees	10 %	$ 1,324	$ 1,199	12 %	$ 568	$ 508
Net interest revenue	18 %	1,512	1,281	5 %	176	167
Trading revenue	-	460	462	(5) %	208	220
Other	20 %	155	129	23 %	53	43
Provision for loan losses	N/M	6	(1)	N/M	1	-
Net impairment losses on securities	(86) %	(1)	(7)	(100) %	-	(1)
Total net revenues	13 %	3,456	3,063	7 %	1,006	937
Expenses Excluding Interest	2 %	2,213	2,178	8 %	665	615
Income before taxes on income	40 %	$ 1,243	$ 885	6 %	$ 341	$ 322

	Unallocated			Total		
Nine Months Ended September 30,	Percent Change	2014	2013	Percent Change	2014	2013
Net Revenues:						
Asset management and administration fees	-	$ -	$ -	11 %	$ 1,892	$ 1,707
Net interest revenue	-	-	-	17 %	1,688	1,448
Trading revenue	-	-	-	(2) %	668	682
Other	N/M	45	-	47 %	253	172
Provision for loan losses	-	-	-	N/M	7	(1)
Net impairment losses on securities	-	-	-	(88) %	(1)	(8)
Total net revenues	N/M	45	-	13 %	4,507	4,000
Expenses Excluding Interest	N/M	68	-	5 %	2,946	2,793
Income before taxes on income	N/M	$ (23)	$ -	29 %	$ 1,561	$ 1,207
Taxes on income				30 %	590	455
Net Income				29 %	$ 971	$ 752

N/M Not meaningful.

Investor Services

Net revenues increased by $109 million, or 10%, and $393 million, or 13%, in the third quarter and first nine months of 2014 compared to the same periods in 2013 primarily due to increases in net interest revenue, asset management and administration fees, and other revenue. The increase in net revenues for the third quarter of 2014 was partially offset by a decrease in trading revenue. Net interest revenue increased primarily due to higher balances of interest-earning assets, including margin loans and the Company's investment portfolio, and the effect higher average interest rates on securities held to maturity had on the Company's average net interest margin. Asset management and administration fees increased due to fees from mutual fund services, advice solutions, and other asset management and administration services. Mutual fund service fees increased primarily due to growth in client assets invested in the Company's Mutual Fund OneSource funds and equity and bond funds, partially offset by a decrease in net money market mutual fund fees as a result of lower yields on fund assets. Advice solutions fees increased primarily due to growth in client assets enrolled in advisory offers. Other asset management and administration fees increased primarily due to third-party mutual fund service fees on higher client asset balances invested in other third-party mutual funds. Other revenue increased primarily due to gains on sales of securities available for sale. Other revenue in the first nine months of 2014 also increased compared to the first nine months of 2013 due to payments for order flow. Trading revenue decreased primarily due to lower daily average revenue trades.

Expenses excluding interest increased by $36 million, or 5%, and $35 million, or 2%, in the third quarter and first nine months of 2014 compared to the same periods in 2013, primarily due to increases in compensation and benefits and professional services expense. The increase in expenses excluding interest in the first nine months of 2014 was partially offset by a decrease in advertising and market development expense.

Advisor Services

Net revenues increased by $24 million, or 8%, and $69 million, or 7%, in the third quarter and first nine months of 2014 compared to the same periods in 2013 primarily due to an increase in asset management and administration fees, partially offset by a decrease in trading revenue. Asset management and administration fees increased due to fees from mutual fund services, advice solutions, and other asset management and administration services. Mutual fund service fees increased primarily due to growth in client assets invested in the Company's Mutual Fund OneSource funds and equity and bond funds, partially offset by a decrease in net money market mutual fund fees as a result of lower yields on fund assets. Advice solutions fees increased primarily due to growth in client assets enrolled in advisory offers. Other asset management and administration fees increased primarily due to third-party mutual fund service fees on higher client asset balances invested in other third-party mutual funds. Trading revenue decreased primarily due to lower daily average revenue trades.

Expenses excluding interest increased by $20 million, or 10%, and $50 million, or 8%, in the third quarter and first nine months of 2014 compared to the same periods in 2013 primarily due to increases in compensation and benefits and professional services expense.

Unallocated

Other revenue increased in the third quarter and first nine months of 2014 compared to the same periods in 2013 due to a net insurance settlement of $45 million in the third quarter of 2014.

Expenses excluding interest increased in the third quarter and first nine months of 2014 compared to the same periods in 2013 as a result of a charge of $68 million in the third quarter of 2014 for estimated future severance benefits resulting from changes in the Company's geographic footprint.

Liquidity and Capital Resources

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

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

Liquidity

CSC

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

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

While CSC is not currently subject to specific statutory capital requirements, CSC is required to serve as a source of strength for Schwab Bank and must have the ability to provide financial assistance if Schwab Bank experiences financial distress. To manage capital adequacy, the Company currently utilizes a target Tier 1 Leverage Ratio for CSC, as currently defined by the

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Federal Reserve, of at least 6%. At September 30, 2014, CSC's Tier 1 Leverage Ratio was 6.9%, Tier 1 Capital Ratio was 17.8%, and Total Capital Ratio was 17.9%. Beginning in 2015, CSC will be subject to new capital requirements set by the Federal Reserve.

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

September 30, 2014	Par Outstanding	Maturity	Interest Rate	Moody's	Standard & Poor's	Fitch
Senior Notes	$ 1,581	2015 – 2022	0.850% to 4.45% fixed	A2	A	A
Medium-Term Notes	$ 250	2017	6.375% fixed	A2	A	A

CSC has authorization from its Board of Directors to issue unsecured commercial paper notes (Commercial Paper Notes) not to exceed $1.5 billion. Management has set a current limit for the commercial paper program of $800 million. The maturities of the Commercial Paper Notes may vary, but are not to exceed 270 days from the date of issue. The commercial paper is not redeemable prior to maturity and cannot be voluntarily prepaid. The proceeds of the commercial paper program are to be used for general corporate purposes. There were no borrowings of Commercial Paper Notes outstanding at September 30, 2014. CSC's ratings for these short-term borrowings are P1 by Moody's, A1 by Standard & Poor's, and F1 by Fitch.

CSC maintains an $800 million committed, unsecured credit facility with a group of 12 banks, which is scheduled to expire in June 2015. This facility replaced a similar facility that expired in June 2014 and was unused during the first nine months of 2014. The funds under this facility are available for general corporate purposes. The financial covenants under this facility require Schwab to maintain a minimum net capital ratio, as defined, Schwab Bank to be well capitalized, as defined, and CSC to maintain a minimum level of stockholders' equity, excluding accumulated other comprehensive income. At September 30, 2014, the minimum level of stockholders' equity required under this facility was $7.6 billion (CSC's stockholders' equity, excluding accumulated other comprehensive income, at September 30, 2014 was $11.3 billion). Management believes that these restrictions will not have a material effect on CSC's ability to meet foreseeable dividend or funding requirements.

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

months of 2014.

In addition, Schwab provided CSC with a $1.0 billion credit facility, which was scheduled to expire in December 2014. Schwab terminated this credit facility in July 2014.

Schwab

Schwab's liquidity needs relating to client trading and margin borrowing activities are met primarily through cash balances in brokerage client accounts, which were $31.1 billion and $33.2 billion at September 30, 2014 and December 31, 2013, respectively. Management believes that brokerage client cash balances and operating earnings will continue to be the primary sources of liquidity for Schwab.

Schwab is subject to regulatory requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 (the Uniform Net Capital Rule) that are intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit Schwab from repaying subordinated borrowings from CSC, paying cash dividends, or making unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement of $250,000. At September 30, 2014, Schwab's net capital was $1.6 billion (10% of aggregate debit balances), which was $1.3 billion in excess of its minimum required net capital and $778 million in excess of 5% of aggregate debit balances.

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

Most of Schwab's assets are readily convertible to cash, consisting primarily of short-term investment-grade, interest-earning investments (the majority of which are segregated for the exclusive benefit of clients pursuant to regulatory requirements),

receivables from brokerage clients, and receivables from brokers, dealers, and clearing organizations. Client margin loans are demand loan obligations secured by readily marketable securities. Receivables from and payables to brokers, dealers, and clearing organizations primarily represent current open transactions, which usually settle, or can be closed out, within a few business days.

Schwab has a finance lease obligation related to an office building and land under a 20-year lease. The remaining finance lease obligation of $84 million at September 30, 2014 is being reduced by a portion of the lease payments over the remaining lease term of 10 years.

To manage short-term liquidity, Schwab maintains uncommitted, unsecured bank credit lines with a group of banks. The need for short-term borrowings arises primarily from timing differences between cash flow requirements, scheduled liquidation of interest-earning investments, and movements of cash to meet regulatory brokerage client cash segregation requirements. Schwab used such borrowings for three days during the first nine months of 2014, with average daily amounts borrowed of $25 million. There were no borrowings outstanding under these lines at September 30, 2014.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, Schwab has unsecured standby letter of credit agreements (LOCs) with five banks in favor of the Options Clearing Corporation aggregating $225 million at September 30, 2014. There were no funds drawn under any of these LOCs during the first nine months of 2014. In connection with its securities lending activities, Schwab is required to provide collateral to certain brokerage clients. Schwab satisfies the collateral requirements by providing cash as collateral.

To manage Schwab's regulatory capital requirement, CSC provides Schwab with a $1.4 billion subordinated revolving credit facility, which is scheduled to expire in March 2016. The amount outstanding under this facility at September 30, 2014 was $315 million. Borrowings under this subordinated lending arrangement qualify as regulatory capital for Schwab.

In addition, CSC provides Schwab with a $2.5 billion credit facility, which is scheduled to expire in December 2014. Borrowings under this facility do not qualify as regulatory capital for Schwab. There were no funds drawn under this facility at September 30, 2014.

Schwab Bank

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

Deposits from banking clients at September 30, 2014 were $97.3 billion, which includes the excess cash held in certain Schwab and optionsXpress, Inc. brokerage client accounts that is swept into deposit accounts at Schwab Bank. At September 30, 2014, these balances totaled $77.1 billion.

Schwab Bank is subject to regulatory requirements that restrict and govern the terms of affiliate transactions, such as extensions of credit and repayment of loans between Schwab Bank and CSC or CSC's other subsidiaries. In addition, Schwab Bank is required to provide notice to and may be required to obtain approval of the OCC and the Federal Reserve to declare dividends to CSC.

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Schwab Bank is required to maintain capital levels as specified in federal banking laws and regulations. Failure to meet the minimum levels could result in certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on Schwab Bank. The Company currently utilizes a target Tier 1 Leverage Ratio for Schwab Bank of at least 6.25%. Beginning in 2015, Schwab Bank will be subject to new capital requirements set by the OCC. Based on its regulatory capital ratios at September 30, 2014, Schwab Bank is considered well capitalized. Schwab Bank's regulatory capital and ratios are as follows:

	Actual		Minimum to be Well Capitalized		Minimum Capital Requirement	
September 30, 2014	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Risk-Based Capital	$ 7,450	21.7 %	$ 2,061	6.0 %	$ 1,374	4.0 %
Total Risk-Based Capital	$ 7,491	21.8 %	$ 3,436	10.0 %	$ 2,749	8.0 %
Tier 1 Leverage	$ 7,450	7.1 %	$ 5,265	5.0 %	$ 4,212	4.0 %
Tangible Equity	$ 7,450	7.1 %	N/A		$ 2,106	2.0 %

N/A Not applicable.

Schwab Bank has access to traditional funding sources such as deposits, federal funds purchased, and repurchase agreements. Additionally, Schwab Bank has access to short-term funding through the Federal Reserve Bank (FRB) discount window. Amounts available under the FRB discount window are dependent on the fair value of certain of Schwab Bank's securities available for sale and/or securities held to maturity that are pledged as collateral to the FRB. Schwab Bank maintains policies and procedures necessary to access this funding and tests discount window borrowing procedures annually. At September 30, 2014, $2.4 billion was available under this arrangement. There were no funds drawn under this arrangement during the first nine months of 2014.

Schwab Bank maintains a credit facility with the Federal Home Loan Bank System. Amounts available under this facility are dependent on the amount of Schwab Bank's residential real estate mortgages and HELOCs that are pledged as collateral. Schwab Bank maintains policies and procedures necessary to access this funding and tests borrowing procedures annually. At September 30, 2014, $8.2 billion was available under this facility. There were no funds drawn under this facility during the first nine months of 2014.

optionsXpress, Inc.

optionsXpress, Inc.'s liquidity needs relating to client trading and margin borrowing activities are met primarily through cash balances in brokerage client accounts, which were $1.1 billion at both September 30, 2014 and December 31, 2013. Management believes that brokerage client cash balances and operating earnings will continue to be the primary sources of liquidity for optionsXpress, Inc.

optionsXpress, Inc. is subject to regulatory requirements of the Uniform Net Capital Rule that are intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit optionsXpress, Inc. from paying cash dividends or making unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement of $250,000. At September 30, 2014, optionsXpress, Inc.'s net capital was $121 million (33% of aggregate debit balances), which was $114 million in excess of its minimum required net capital and $103 million in excess of 5% of aggregate debit balances.

optionsXpress, Inc. is also subject to Commodity Futures Trading Commission Regulation 1.17 (Reg. 1.17) under the Commodity Exchange Act, which also requires the maintenance of minimum net capital. optionsXpress, Inc. as a futures commission merchant, is required to maintain minimum net capital equal to the greater of its net capital requirement under Reg. 1.17 ($1 million), or the sum of 8% of the total risk margin requirements for all positions carried in customer accounts and 8% of the total risk margin requirements for all positions carried in non-customer accounts (as defined in Reg. 1.17). At September 30, 2014, optionsXpress, Inc. met the requirements of Reg. 1.17.

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

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To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, optionsXpress, Inc. has an unsecured standby LOC with one bank in favor of the Options Clearing Corporation in the amount of $15 million at September 30, 2014. There were no funds drawn under this LOC during the first nine months of 2014.

CSC provides optionsXpress, Inc. with a $200 million credit facility, which is scheduled to expire in December 2014. Borrowings under this facility do not qualify as regulatory capital for optionsXpress, Inc. There were no borrowings outstanding under this facility at September 30, 2014.

optionsXpress has a term loan with CSC, of which $22 million was outstanding at September 30, 2014, and it matures in December 2017.

Capital Resources

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

The Company monitors both the relative composition and absolute level of its capital structure. Management is focused on optimizing the Company's use of capital and currently targets a long-term debt to total financial capital ratio not to exceed 30%. The Company's total financial capital (long-term debt plus stockholders' equity) at September 30, 2014 was $13.4 billion, up $1.1 billion, or 9%, from December 31, 2013.

Long-term Debt

At September 30, 2014, the Company had long-term debt of $1.9 billion, or 14% of total financial capital, that bears interest at a weighted-average rate of 3.60%. At December 31, 2013, the Company had long term debt of $1.9 billion, or 15% of total financial capital. The Company repaid $5 million of long-term debt in the first nine months of 2014.

Capital Expenditures

The Company's capital expenditures were $314 million and $180 million in the first nine months of 2014 and 2013, respectively. Capital expenditures in the first nine months of 2014 were primarily for buildings, developing internal-use software, software and equipment relating to the Company's information technology systems, and land. Capital expenditures for the first nine months of 2013 were primarily for developing internal-use software, software and equipment relating to the Company's information technology systems, buildings, and land. Capitalized costs for developing internal-use software were $56 million and $55 million in the first nine months of 2014 and 2013, respectively.

As discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, management anticipated that 2014 capital expenditures would be approximately 20% higher than 2013. However, management has revised the Company's estimated full-year 2014 capital expenditures to be approximately 50% higher than 2013 levels primarily due to the decision to revise timing of the planned acquisition of additional facilities and land to support future growth and expansion.

Dividends

CSC paid common stock cash dividends of $236 million ($0.18 per share) and $233 million ($0.18 per share) in the first nine months of 2014 and 2013, respectively.

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CSC paid Series A Preferred Stock cash dividends of $28 million ($70.00 per share) in both the first nine months of 2014 and 2013. CSC paid Series B Preferred Stock cash dividends of $22 million ($45.00 per share) in both the first nine months of 2014 and 2013.

Share Repurchases

There were no repurchases of CSC's common stock in the first nine months of 2014 and 2013. As of September 30, 2014, CSC had remaining authority from the Board of Directors to repurchase up to $596 million of its common stock, which is not subject to expiration.

Off-Balance Sheet Arrangements

The Company enters into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of its clients. These arrangements include firm commitments to extend credit. Additionally, the Company enters into guarantees and other similar arrangements as part of transactions in the ordinary course of business. For discussion on the Company's off-balance sheet arrangements, see "Part II – Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Off-Balance Sheet Arrangements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, and "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 5. Commitments and Contingencies."

Risk Management

The Company's business activities expose it to a variety of risks, including operational, credit, market, liquidity, compliance and legal risk. The Company has a comprehensive risk management program to identify and manage these risks and their associated potential for financial and reputational impact. Despite the Company's efforts to identify areas of risk and implement risk management policies and procedures, there can be no assurance that the Company will not suffer unexpected losses due to these risks.

For a discussion on risks that the Company faces and the Company's process of risk identification and assessment, risk measurement, risk monitoring and reporting and risk mitigation, see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. For updated information on the Company's credit risk and concentration risk exposures, see below. See "Item 3 – Quantitative and Qualitative Disclosures About Market Risk" for additional information relating to market risk.

Credit Risk Exposures

The Company's credit risk exposure related to loans to banking clients is actively managed through individual and portfolio reviews performed by management. Management regularly reviews asset quality, including concentrations, delinquencies, nonaccrual loans, charge-offs, and recoveries. All are factors in the determination of an appropriate allowance for loan losses. The Company's mortgage loan portfolios primarily include first lien residential real estate mortgage loans (First Mortgages) of $8.1 billion and HELOCs of $3.0 billion at September 30, 2014.

The Company's underwriting guidelines include maximum loan-to-value (LTV) ratios, cash out limits, and minimum Fair Isaac Corporation (FICO) credit scores. The specific guidelines are dependent on the individual characteristics of a loan (for example, whether the property is a primary or secondary residence, whether the loan is for investment property, whether the loan is for an initial purchase of a home or refinance of an existing home, and whether the loan is conforming or jumbo). These credit underwriting standards have limited the exposure to the types of loans that experienced high foreclosures and loss rates elsewhere in the industry in recent years. In January 2014, the Company revised its First Mortgage underwriting criteria in conformance with the Consumer Financial Protection Bureau's new guidance on Qualified Mortgage lending and a borrower's ability to repay. Revisions were made to requirements affecting debt to income ratio, loan to value ratio, and liquid asset holdings. These revised underwriting criteria are not expected to have a material impact on the credit quality of the Company's First Mortgage or HELOC portfolios. The Company does not purchase loans that allow for negative amortization and does not purchase subprime loans (generally defined as extensions of credit to borrowers with a FICO score

of less than 620 at origination), unless the borrower has compensating credit factors. At September 30, 2014, approximately 1% of both the First Mortgage and HELOC portfolios consisted of loans to borrowers with updated FICO scores of less than 620.

At September 30, 2014, the weighted-average originated LTV ratio was 59% for both the First Mortgage and HELOC portfolios. The computation of the origination LTV ratio for a HELOC includes any first lien mortgage outstanding on the same property at the time of origination. At September 30, 2014, 22% of HELOCs ($649 million of the HELOC portfolio) were in a first lien position. The weighted-average originated FICO score was 769 and 768 for the First Mortgage and HELOC portfolios, respectively.

The Company monitors the estimated current LTV ratios of its First Mortgage and HELOC portfolios on an ongoing basis. At September 30, 2014, the weighted-average estimated current LTV ratios were 50% and 54% for the First Mortgage and HELOC portfolios, respectively. The computation of the estimated current LTV ratio for a HELOC includes any first lien mortgage outstanding on the same property at the time of the HELOC's origination. The Company estimates the current LTV ratio for each loan by reference to a home price appreciation index. The Company also monitors updated borrower FICO scores, delinquency trends, and verified liquid assets held by individual borrowers. At September 30, 2014, the weighted-average updated FICO scores were 774 and 770 for the First Mortgage and HELOC portfolios, respectively.

A portion of the Company's HELOC portfolio is secured by second liens on the associated properties. Second lien mortgage loans possess a higher degree of credit risk given the subordination to the first lien holder in the event of default. At September 30, 2014, $2.3 billion, or 78%, of the HELOC portfolio was in a second lien position. In addition to the credit monitoring activities described above, the Company also monitors credit risk on second lien HELOC loans by reviewing the delinquency status of the first lien loan on the associated property. Additionally, at September 30, 2014, approximately 30% of the HELOC borrowers that had a balance only paid the minimum amount due.

For more information on the Company's credit quality indicators relating to its First Mortgage and HELOC portfolios, including delinquency characteristics, borrower FICO scores at origination, updated borrower FICO scores, LTV ratios at origination, and estimated current LTV ratios, see "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 4. Loans to Banking Clients and Related Allowance for Loan Losses."

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

	September 30, 2014	December 31, 2013
Loan delinquencies (1)	0.31 %	0.48 %
Nonaccrual loans	0.30 %	0.39 %
Allowance for loan losses	0.30 %	0.39 %

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

The Company has exposure to credit risk associated with its securities available for sale and securities held to maturity portfolios, whose fair values totaled $52.2 billion and $33.9 billion at September 30, 2014, respectively. These portfolios include U.S. agency and non-agency mortgage-backed securities, asset-backed securities, corporate debt securities, U.S. agency notes, certificates of deposit, and treasury securities. U.S. agency mortgage-backed securities do not have explicit credit ratings; however, management considers these to be of the highest credit quality and rating given the guarantee of principal and interest by the U.S. government-sponsored enterprises.

At September 30, 2014, with the exception of certain non-agency residential mortgage-backed securities, all securities in the available for sale and held to maturity portfolios were rated investment grade (defined as a rating equivalent to a Moody's rating of "Baa" or higher, or a Standard & Poor's rating of "BBB-" or higher). Although the Company has recognized net impairment losses on certain non-agency residential mortgage-backed securities, at September 30, 2014, the amortized cost of all non-agency residential mortgage-backed securities represented less than 1% of the securities available for sale and securities held to maturity portfolios.

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Concentration Risk Exposures

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

The fair value of the Company's investments in mortgage-backed securities totaled $53.0 billion at September 30, 2014. Of these, $51.2 billion were issued by U.S. agencies and $1.8 billion were issued by private entities (non-agency securities). These U.S. agency and non-agency securities are included in securities available for sale and securities held to maturity.

The fair value of the Company's investments in corporate debt securities and commercial paper totaled $7.8 billion at September 30, 2014, with the majority issued by institutions in the financial services industry. These securities are included in securities available for sale, cash and cash equivalents, and other securities owned in the Company's condensed consolidated balance sheets. Issuer, geographic, and sector concentrations are controlled by established credit policy limits to each concentration type.

The Company's loans to banking clients include $7.3 billion of adjustable rate first lien residential real estate mortgage loans at September 30, 2014. The Company's adjustable rate mortgages primarily have initial fixed interest rates for three to ten years and interest rates that adjust annually thereafter. Approximately 40% of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 65% of these interest-only loans are not scheduled to reset for three or more years. The Company's mortgage loans do not include interest terms described as temporary introductory rates below current market rates. At September 30, 2014, 46% of the residential real estate mortgages and 52% of the HELOC balances were secured by properties which are located in California.

The Company's HELOC product has a 30-year loan term with an initial draw period of ten years from the date of origination. After the initial draw period, the balance outstanding at such time is converted to a 20-year amortizing loan. The interest rate during the initial draw period and the 20-year amortizing period is a floating rate based on the prime rate plus a margin. The following table presents when current outstanding HELOCs will convert to amortizing loans:

September 30, 2014	Balance
Converted to amortizing loan by period end	$ 271
Within 1 year	272
> 1 year – 3 years	374
> 3 years – 5 years	1,165
> 5 years	900
Total	$ 2,982

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

The Company has indirect exposure to U.S. Government and agency securities held as collateral to secure its resale agreements. The Company's primary credit exposure on these resale transactions is with its counterparty. The Company would have exposure to the U.S. Government and agency securities only in the event of the counterparty's default on the resale agreements. The fair value of U.S. Government and agency securities held as collateral for resale agreements totaled $12.0 billion at September 30, 2014.

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European Holdings

The Company has exposure to non-sovereign financial and non-financial institutions in Europe. The following table shows the balances of this exposure by each country in Europe in which the issuer or counterparty is domiciled. The Company has no direct exposure to sovereign governments in Europe. The Company does not have unfunded commitments to counterparties in Europe, nor does it have exposure as a result of credit default protection purchased or sold separately as of September 30, 2014.

	Fair Value as of September 30, 2014							
	France	Germany	Netherlands	Norway	Sweden	Switzerland	United Kingdom	Total
Cash equivalents	$ 500	$ -	$ -	$ -	$ -	$ -	$ 150	$ 650
Cash and investments segregated and on deposit for regulatory purposes	-	400	-	-	-	-	-	400
Securities available for sale	86	-	35	76	521	509	500	1,727
Total fair value	$ 586	$ 400	$ 35	$ 76	$ 521	$ 509	$ 650	$ 2,777
Total amortized cost	$ 585	$ 400	$ 35	$ 75	$ 520	$ 509	$ 650	$ 2,774
Maturities:								
Overnight	$ 500	$ 400	$ -	$ -	$ -	$ -	$ 150	$ 1,050
1 day – < 6 months	-	-	-	-	-	-	-	-
6 months – < 1 year	-	-	-	-	-	384	-	384
1 year – 2 years	-	-	-	-	371	125	350	846
> 2 years	86	-	35	76	150	-	150	497
Total fair value	$ 586	$ 400	$ 35	$ 76	$ 521	$ 509	$ 650	$ 2,777

In addition to the direct holdings of European companies listed above, the Company also has indirect exposure to Europe through its investments in Schwab sponsored money market funds (collectively, the Funds) resulting from clearing activities. At September 30, 2014, the Company had $293 million in investments in these Funds. Certain of the Funds' positions include certificates of deposits, time deposits, commercial paper and corporate debt securities issued by counterparties in Europe.

Critical Accounting ESTIMATES

Certain of the Company's 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 Company's Annual Report on Form 10-K for the year ended December 31, 2013. There have been no changes to these critical accounting estimates during the first nine months of 2014.

As disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, the Company's annual goodwill impairment testing date is April 1. In testing for potential impairment of goodwill on April 1, 2014, management performed an assessment of each of the Company's reporting units (generally defined as the Company's businesses for which financial information is available and reviewed regularly by management) and concluded that goodwill was not impaired.

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," "aim," "target," "could," and other similar expressions. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances are forward-looking statements.

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

- the impact of current market conditions on the Company's results of operations (see "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 3. Securities Available for Sale and Securities Held to Maturity," "Current Market and Regulatory Environment and Other Developments," and "Results of Operations – Net Interest Revenue");
- the impact of changes in the likelihood of indemnification and guarantee payment obligations on the Company's results of operations (see "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 5. Commitments and Contingencies");
- the impact of legal proceedings and regulatory matters (see "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 5. Commitments and Contingencies – Legal contingencies" and "Part II – Other Information – Item 1 – Legal Proceedings");
- target capital and debt ratios (see "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 9. Regulatory Requirements" and "Liquidity and Capital Resources");
- the expected impact of the final regulatory capital rules and the final rule implementing a quantitative liquidity requirement (see "Current Market and Regulatory Environment and Other Developments");
- sources of liquidity, capital, and level of dividends (see "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 9. Regulatory Requirements" and "Liquidity and Capital Resources");
- capital expenditures (see "Liquidity and Capital Resources – Capital Resources – Capital Expenditures"); and
- the impact of the revised underwriting criteria on the credit quality of the Company's mortgage portfolio (see "Risk Management – Credit Risk Exposures").

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:

- changes in general economic and financial market conditions;
- changes in revenues and profit margin due to changes in interest rates;
- the Company's ability to attract and retain clients and grow client assets and relationships;
- the Company's ability to develop and launch new products, services and capabilities in a timely and successful manner;
- fluctuations in client asset values due to changes in equity valuations;
- the Company's ability to monetize client assets;

- the performance or valuation of securities available for sale and securities held to maturity;
- trading activity;
  - the level of interest rates, including yields available on money market mutual fund eligible instruments;
- the adverse impact of financial reform legislation and related regulations;
- investment, structural and capital adjustments made by the Company in connection with the new LCR rule;
- potential breaches of contractual terms for which the Company has indemnification and guarantee obligations;
- adverse developments in litigation or regulatory matters;
- amounts recovered on insurance policies;
- the extent of any charges associated with litigation and regulatory matters;
- the amount of loans to the Company's brokerage and banking clients;
- the level of the Company's stock repurchase activity;
- capital needs and management;
- the level of brokerage client cash balances and deposits from banking clients;
- the availability and terms of external financing;
- the timing and impact of changes in the Company's level of investments in buildings, land, and leasehold improvements;
- the extent to which past performance of the Company's mortgage portfolio is indicative of future performance;

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- the level of field sales volume and related incentive compensation;
- level of expenses;
- timing and amount of severance and other costs related to reducing the Company's San Francisco footprint;
- the Company's ability to manage expenses;
- regulatory guidance;
- the level of client assets, including cash balances;
- competitive pressures on rates and fees; and
- acquisition integration costs.

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 Company's Annual Report on Form 10-K for the year ended December 31, 2013, and "Part II – Other Information – Item 1A – Risk Factors."

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Item 3.Quantitative and Qualitative Disclosures About Market Risk

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

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

Net interest revenue is affected by various factors, such as the distribution and composition of interest-earning assets and interest-bearing liabilities, the spread between yields earned on interest-earning assets and rates paid on interest-bearing liabilities, which may reprice at different times or by different amounts, and the spread between short and long-term interest rates. Interest-earning assets include residential real estate loans and mortgage-backed securities. These assets are sensitive to changes in interest rates and to changes to prepayment levels that tend to increase in a declining rate environment and decrease in a rising rate environment. Because the Company establishes the rates paid on certain brokerage client cash balances and deposits from banking clients and the rates charged on margin loans and loans to banking clients, and controls the composition of its investment securities, it has some ability to manage its net interest spread, depending on competitive factors and market conditions.

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

The Company is also subject to market risk as a result of fluctuations in option and equity prices. The Company's direct holdings of option and equity securities and its associated exposure to option and equity prices are not material. The Company is indirectly exposed to option and equity market fluctuations in connection with client option accounts, securities collateralizing margin loans to brokerage customers, and customer securities loaned out as part of the

Company's securities lending activities. Equity market valuations may also affect the level of brokerage client trading activity, margin borrowing, and overall client engagement with the Company. Additionally, the Company earns mutual fund service fees and asset management fees based upon daily balances of certain client assets. Fluctuations in these client asset balances caused by changes in equity valuations directly impact the amount of fee revenue earned by the Company.

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

For discussion of the impact of current market conditions on asset management and administration fees and net interest revenue, see "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Current Market and Regulatory Environment and Other Developments."

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

Net Interest Revenue Simulation

For the Company's net interest revenue sensitivity analysis, the Company uses net interest revenue simulation modeling techniques to evaluate and manage the effect of changing interest rates. The simulation includes all interest-sensitive assets and liabilities. Key variables in the simulation include the repricing of financial instruments, prepayment, reinvestment, and product pricing assumptions. The Company uses constant balances and market rates in the simulation assumptions in order to minimize the number of variables and to better isolate risks. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely estimate net interest revenue or predict the impact of changes in interest rates on

net interest revenue. Actual results may differ from simulated results due to balance growth or decline and the timing, magnitude, and frequency of interest rate changes, as well as changes in market conditions and management strategies, including changes in asset and liability mix.

If the Company's guidelines for its net interest revenue sensitivity are breached, management must report the breach to the Company's Corporate Asset-Liability Management and Pricing Committee (Corporate ALCO) and establish a plan to address the interest rate risk. This plan could include, but is not limited to, rebalancing certain investment portfolios or using derivative instruments to mitigate the interest rate risk. Depending on the severity and expected duration of the breach, as well as the then current interest rate environment, the plan could also be to take no action. Any plan that recommends taking action is required to be approved by the Company's Corporate ALCO. There were no breaches of the Company's net interest revenue sensitivity guidelines during the first nine months of 2014 or year ended December 31, 2013.

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

The simulations in the following table assume that the asset and liability structure of the consolidated balance sheet would not be changed as a result of the simulated changes in interest rates. As the Company actively manages its consolidated balance sheet and interest rate exposure, in all likelihood the Company would take steps to manage any additional interest rate exposure that could result from changes in the interest rate environment. The following table shows the results of a gradual 100 basis point increase or decrease in market interest rates relative to the Company's current market rates forecast on simulated net interest revenue over the next 12 months beginning September 30, 2014 and December 31, 2013.

	September 30, 2014	December 31, 2013
Increase of 100 basis points	11.1 %	11.0 %
Decrease of 100 basis points	(4.2) %	(4.5) %

The sensitivities shown in the simulation reflect the fact that short-term interest rates in the first nine months of 2014 remained at historically low levels, including the federal funds target rate, which was unchanged at a range of zero to 0.25%. The current low interest rate environment limits the extent to which the Company can reduce interest expense paid on funding sources. A decline in interest rates could negatively impact the yield on the Company's investment portfolio to a greater degree than any offsetting reduction in interest expense, further compressing net interest margin. Any increases in short-term interest rates result in a greater impact as yields on interest-earning assets are expected to rise faster than the cost of funding sources.

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, 2014. 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, 2014.

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, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1.Legal Proceedings

For a discussion of legal proceedings, see “Part I – Financial Information – Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 5. Commitments and Contingencies.”

Item 1A.Risk Factors

During the first nine months of 2014, there have been no material changes to the risk factors in “Part I – Item 1A – Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

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

Issuer Purchases of Equity Securities

The following table summarizes purchases made by or on behalf of CSC of its common stock for each calendar month in the third quarter of 2014:

Month	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1) (in thousands)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in millions)
July:				
Share repurchase program (1)	-	$ -	-	$ 596
Employee transactions (2)	105	$ 27.50	N/A	N/A
August:				
Share repurchase program (1)	-	$ -	-	$ 596
Employee transactions (2)	3	$ 27.50	N/A	N/A
September:				
Share repurchase program (1)	-	$ -	-	$ 596
Employee transactions (2)	2	$ 28.49	N/A	N/A
Total:				
Share repurchase program (1)	-	$ -	-	$ 596
Employee transactions (2)	110	$ 27.52	N/A	N/A

(1) There were no share repurchases under the Share Repurchase Program during the third quarter. Repurchases under this program would occur under two authorizations by CSC's Board of Directors, each covering up to $500 million of common stock that were publicly announced by the Company on April 25, 2007 and March 13, 2008. The remaining authorizations do not have an expiration date.

(2) Includes restricted shares withheld (under the terms of grants under employee stock incentive plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares. The Company may receive shares delivered or attested to pay the exercise price and/or to satisfy tax withholding obligations by employees who exercise stock options (granted under employee stock incentive plans), which are commonly referred to as stock swap exercises.

N/A Not applicable.

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Item 3.Defaults Upon Senior Securities

None.

Item 4.Mine Safety Disclosures

Not applicable.

Item 5.Other Information

None.

Item 6.Exhibits

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

Exhibit Number	Exhibit

12.1	Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.	
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	(1)
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	(1)
101.INS	XBRL Instance Document	(2)
101.SCH	XBRL Taxonomy Extension Schema	(2)
101.CAL	XBRL Taxonomy Extension Calculation	(2)
101.DEF	XBRL Extension Definition	(2)
101.LAB	XBRL Taxonomy Extension Label	(2)
101.PRE	XBRL Taxonomy Extension Presentation	(2)

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

(2) Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014 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 Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

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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 6, 2014 /s/ Joseph R. Martinetto
Joseph R. Martinetto
Executive Vice President and
Chief Financial Officer