MICROMET, INC.
Form 424B3
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Registration No. 333-154732

PROSPECTUS

12,235,532 Shares

Common Stock

This prospectus relates to the resale from time to time of up to 12,235,532 shares of our outstanding common stock in the aggregate, including shares of our common stock issuable upon the exercise of warrants, which were issued to the selling stockholders named in this prospectus and which may be held from time to time by such stockholders and their donees, pledgees or successors . Of the shares of common stock offered under this prospectus, 9,411,948 shares were issued in connection with a private placement of our shares to institutional and other accredited investors and 2,823,584 shares are issuable upon the exercise of warrants issued to the investors in the private placement. We are not selling any securities under this prospectus and will not receive any of the proceeds from the sale of shares by the selling stockholders, although we may receive proceeds upon the exercise of the warrants.

The selling stockholders may sell the shares of common stock described in this prospectus from time to time in a number of different ways and at varying prices determined at the time of sale or at negotiated prices. We provide more information about how the selling stockholders may sell their shares of common stock in the section entitled "Plan of Distribution" on page 23 . We will not be paying any underwriting discounts or commissions in this offering.

The common stock is traded on the Nasdaq Global Market under the symbol "MITI." On November 21, 2008, the reported closing price of the common stock was $3.80 per share.

An investment in the shares offered hereby involves a high degree of risk. Before investing in our common stock, we recommend that you carefully read this entire prospectus, including the "Risk Factors" section beginning on page 4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is November 24, 2008.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC. The prospectus relates to 12,235,532 shares of our common stock, including 2,823,584 shares of our common stock issuable upon the exercise of warrants, which the selling stockholders named in this prospectus may sell from time to time. We will not receive any of the proceeds from these sales, except that upon any exercise of the warrants by payment of cash, we will receive the exercise price of the warrants. We have agreed to pay the expenses incurred in registering these shares, including legal and accounting fees.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not, and the selling stockholders have not, authorized anyone to provide you with information different from that contained in this prospectus. The selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where it is lawful to do so. The selling stockholders should not make an offer of these shares in any state where the offer is not permitted. Brokers or dealers should confirm the existence of an exemption from registration or effect a registration in connection with any offer and sale of these shares.

The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common stock.

You should read this prospectus together with the additional information described under the heading "Where You Can Find More Information."

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere or incorporated by reference into this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in our securities. You should read this entire prospectus carefully, including the section entitled "Risk Factors" and the documents that we incorporate by reference into this prospectus, before making an investment decision.

MICROMET, INC.

We are a biopharmaceutical company developing novel, proprietary antibodies for the treatment of cancer, inflammation and autoimmune diseases. Four of our antibodies are currently in clinical trials, while the remainder of our product pipeline is in preclinical development. Blinatumomab, also known as MT103 and MEDI-538, the most advanced antibody in our product pipeline developed using our BiTE ® antibody technology platform, is being evaluated in a phase 2 clinical trial for the treatment of patients with acute lymphoblastic leukemia and in a phase 1 clinical trial for the treatment of patients with non-Hodgkin's lymphoma. BiTE antibodies represent a new class of antibodies that activate a patient's own cytotoxic T cells, considered the most powerful "killer cells" of the human immune system, to eliminate cancer cells. We are developing blinatumomab in collaboration with MedImmune, Inc., a subsidiary of AstraZeneca plc. MT110, our second BiTE antibody in clinical development, is being evaluated in a phase 1 clinical trial for the treatment of patients with lung or gastrointestinal cancer. Our third clinical stage antibody is adecatumumab, also known as MT201, a human monoclonal antibody that targets epithelial cell adhesion molecule, or EpCAM-expressing solid tumors. We are developing adecatumumab in collaboration with Merck Serono in a phase 1b clinical trial evaluating adecatumumab in combination with docetaxel for the treatment of patients with metastatic breast cancer. Our fourth clinical stage antibody is MT293, which is licensed to TRACON and is being developed in a phase 1 clinical trial for the treatment of patients with cancer. We have additional BiTE antibodies that are in different stages of preclinical development and that target CEA, CD33, Her2, EGFR, and MCSP. In addition, we have established a collaboration with Nycomed for the development and commercialization of MT203, a human antibody neutralizing the activity of granulocyte/macrophage colony stimulating factor, or GM-CSF, which has potential applications in the treatment of various inflammatory and autoimmune diseases, such as rheumatoid arthritis, psoriasis, or multiple sclerosis. To date, we have incurred significant research and development expenses and have not achieved any product revenues from sales of our product candidates.

Each of our programs will require many years and significant costs to advance through development. Typically it takes many years from the initial identification of a lead compound to the completion of preclinical and clinical trials, before applying for marketing approval from the United States Food and Drug Administration, or FDA, or European Medicines Agency, or EMEA, or equivalent regulatory agencies. The risk that a program has to be terminated, in part or in full, for safety reasons or lack of adequate efficacy, is very high. In particular, we cannot predict which, if any, of our potential product candidates will be successfully developed or approved, nor can we predict the time and cost to complete development.

As we obtain results from preclinical studies or clinical trials, we may elect to discontinue the development for certain product candidates for safety, efficacy or commercial reasons. We may also elect to discontinue development of one or more product candidates in order to focus our resources on more promising product candidates. Our business strategy includes entering into collaborative agreements with third parties for the development and commercialization of our product candidates. Depending on the structure of such collaborative agreements, a third party may be granted control over the clinical trial process for one of our product candidates. In such a situation, the third party, rather than us, may in fact control development and commercialization decisions for the respective product candidate. Consistent with our business model, we may enter into additional collaboration agreements in the future. We cannot predict the terms of such agreements or their potential impact on our capital requirements. Our inability to complete our research and development projects in a timely manner, or our failure to enter into new collaborative agreements, when appropriate, could significantly increase our capital requirements and affect our liquidity.

Since our inception, we have financed our operations through private placements of preferred stock, debt financing, and government grants for research, as well as licensing fees, milestone payments and research-contribution revenues from our collaborations with pharmaceutical companies, and, more recently, through private placements of common stock and associated warrants. We intend to continue to seek funding through public or private financings in the future. If we are successful in raising additional funds through the issuance of equity securities, stockholders may experience substantial dilution including as a result of issuing warrants in connection with the financing, or the equity securities may have rights, preferences or privileges senior to existing stockholders. If we are successful in raising additional funds through debt financings, these financings may involve significant cash payment obligations and covenants that restrict our ability to operate our business. There can be no assurance that we will be successful in raising additional capital on acceptable terms, or at all.

As described above, we have strategic collaborations with Merck Serono, MedImmune and Nycomed to develop therapeutic antibodies in cancer and inflammatory and autoimmune diseases. We also have a license agreement with TRACON for the development and commercialization of one of our clinical stage product candidates and an exclusive marketing agreement with Enzon, Inc. (now Enzon Pharmaceuticals, Inc.) to market and license to third parties the companies' respective single-chain antibody patent estates. See "Risk Factors" for a discussion of risks relating to our business and owning our capital stock.

On May 5, 2006, CancerVax Corporation completed a merger with Micromet AG, a privately-held German company. CancerVax was incorporated in the State of Delaware on June 12, 1998. Following the merger, CancerVax was renamed "Micromet, Inc." Unless specifically noted otherwise, as used throughout this prospectus, "Micromet", "we," "us," and "our" refers to the business of the combined company after the closing of the merger, and "collaborator" refers to the counterparties to our collaboration agreements as well as the counterparties to our license agreements.

Our principal executive offices are located at 6707 Democracy Boulevard, Suite 505, Bethesda, Maryland 20817, and our main telephone number is (240) 752-1420. Our website is located on the world wide web at http://www.micromet-inc.com. We do not incorporate by reference into this prospectus the information on, or accessible through, our website, and you should not consider it as part of this prospectus.

RECENT DEVELOPMENTS

We entered into a Securities Purchase Agreement dated September 29, 2008 with various institutional and individual accredited investors, pursuant to which we agreed to sell and issue an aggregate of 9,411,948 shares of our common stock, which we refer to herein as the Shares, and Warrants to purchase up to an aggregate of 2,823,584 shares of our common stock, which we refer to herein as the Warrant Shares, in a private placement. The per unit purchase price of a Share and a Warrant to purchase 0.3 shares of common stock was $4.25. The Shares and the Warrants were issued on October 2, 2008. We received gross proceeds of approximately $40.0 million, before offering expenses. Among the investors were three of our directors in their individual capacities and two funds affiliated with directors of our company. Piper Jaffray & Company acted as sole book-running lead placement agent with respect to the transaction and received an aggregate cash fee equal to approximately $1.7 million, and RBC Capital Markets acted as co-lead placement agent and received an aggregate cash fee equal to approximately $0.8 million.

The Warrants are exercisable at $4.63 per share until October 2, 2013. The exercise price of the Warrants is subject to adjustment upon certain transactions, including stock splits, stock dividends, pro rata distributions of securities or assets to stockholders, mergers, consolidations, sales of all or substantially all of our assets, tender or exchange offers or reclassifications.

In connection with the private placement, we entered into a Registration Rights Agreement dated September 29, 2008 pursuant to which we agreed to register both the Shares and the Warrant Shares for resale under the Securities Act of 1933, as amended, or the Securities Act. Under the terms of the Registration Rights Agreement, we were required to file a registration statement with the SEC on or before November 3, 2008. Pursuant to the Registration Rights Agreement, we also agreed to use commercially reasonable efforts to keep the Registration Statement continuously effective under the Securities Act until the earlier of the date on which all of the Shares and Warrant Shares have been publicly sold by the selling stockholders, or until October 2, 2010. We also agreed to other customary obligations regarding registration, including matters relating to indemnification and payment of expenses.

We may be liable for liquidated damages to holders of the Shares and Warrant Shares if the registration statement of which this prospectus is a part is not declared effective by the earlier of January 30, 2009 or the tenth trading day following the date on which we receive notification from the SEC that the registration statement will not be reviewed or is no longer subject to further review by the SEC. We may also be liable for liquidated damages if the registration statement ceases for any reason to remain continuously effective as to all of the Shares, or a purchaser of the Shares is not permitted to resell such purchaser’s Shares under the registration statement for any reason for more than an aggregate of 20 consecutive calendar days or 40 total calendar days in any 12-month period, or if we fail to satisfy the current public information requirement under Rule 144(c)(1) of the Securities Act as a result of which the purchasers who are not affiliates are unable to sell their Shares. The amount of the liquidated damages is, in aggregate, one percent per month, subject to an aggregate cap of six percent, and in certain instances twelve percent, of the aggregate purchase price of the securities, except that no liquidated damages will apply with respect to the Warrants or the Warrant Shares prior to their issuance.

THE OFFERING

Issuer	Micromet, Inc.
Selling Stockholders	Accredited investors who purchased shares of our common stock and warrants in a private placement in October 2008.
Securities offered by Selling Stockholders	12,235,532 shares of our common stock, which includes 2,823,584 shares issuable to the selling stockholders named in this prospectus upon the exercise of the warrants.
Use of proceeds	We will not receive any proceeds from sales of the shares of common stock sold from time to time under this prospectus by the selling stockholders. Upon any exercise of the warrants by payment of cash, however, we will receive the exercise price of the warrants, which will be used for general corporate purposes.
Warrants	Each warrant is exercisable for shares of our common stock at an initial exercise price of $4.63 per share, subject to adjustment upon certain events. The warrants were exercisable upon issuance and will expire at 5:30 p.m., New York City time, on October 2, 2013.
Trading of Warrants	The common stock underlying the warrants is being registered for resale hereunder. Currently, there is no public market for the warrants, and we do not expect that any such market will develop. The warrants will not be listed on any securities exchange or included in any automated quotation system.
Risk Factors	An investment in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 4 for a discussion of certain factors that you should consider when evaluating an investment in our common stock.
NASDAQ Global Market symbol	"MITI"

RISK FACTORS

Investing in our common stock involves a high degree of risk. The following information sets forth factors that could cause our actual results to differ materially from those contained in forward-looking statements we have made in this prospectus and the information incorporated herein by reference and those we may make from time to time. If any of the following risks actually occur, the market price of our common stock could decline, and you could lose all or part of your investment. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations and could result in a complete loss of your investment. Certain factors individually or in combination with others may have a material adverse effect on our business, financial condition and results of operations and you should carefully consider them. You should also consider all other information contained in or incorporated by reference in this prospectus before deciding to invest in our common stock.

Risks Relating to Our Financial Results, Financial Reporting and Need for Financing

We have a history of losses, we expect to incur substantial losses and negative operating cash flows for the foreseeable future and we may never achieve or maintain profitability.

We have incurred losses from the inception of Micromet through September 30, 2008, and we expect to incur substantial losses for the foreseeable future. We have no current sources of material ongoing revenue, other than the reimbursement of development expenses and potential future milestone payments from our current collaborators or licensees, Merck Serono, MedImmune, Nycomed and TRACON. We have not commercialized any products to date, either alone or with a third party collaborator. If we are not able to commercialize any products, whether alone or with a collaborator, we may not achieve profitability. Even if our collaboration agreements provide funding for a portion of our research and development expenses for some of our programs, we expect to spend significant capital to fund our internal research and development programs for the foreseeable future. As a result, we will need to generate significant revenues in order to achieve profitability. We cannot be certain whether or when this will occur because of the significant uncertainties that affect our business. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable may depress the market value of our common stock and could impair our ability to raise capital, expand our business, diversify our product offerings or continue our operations and, as a result, you could lose part or all of your investment.

We will require additional financing, which may be difficult to obtain and may dilute your ownership interest in us. If we fail to obtain the capital necessary to fund our operations, we will be unable to develop or commercialize our product candidates and our ability to operate as a going concern may be adversely affected.

We will require substantial funds to continue our research and development programs and our future capital requirements may vary from what we expect. There are factors, many of which are outside our control, that may affect our future capital requirements and accelerate our need for additional financing. Among the factors that may affect our future capital requirements and accelerate our need for additional financing are:

- continued progress in our research and development programs, as well as the scope of these programs;
- our ability to establish and maintain collaborative arrangements for the discovery, research or development of our product candidates;
- the timing, receipt and amount of research funding and milestone, license, royalty and other payments, if any, from collaborators;
- the timing, receipt and amount of sales revenues and associated royalties to us, if any, from our product candidates in the market;

- our ability to sell shares of our common stock under our CEFF with Kingsbridge;
- the costs of preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other patent-related costs, including litigation costs and technology license fees;
- costs associated with litigation; and
- competing technological and market developments.

We filed a shelf registration statement, declared effective by the SEC on December 9, 2004, under which we may raise up to $80 million through the sale of our common stock. This shelf registration statement became inactive in March 2006, and will expire in December 2008. We may seek to file a new shelf registration statement, although our ability to do so will depend on our eligibility to use a shelf registration statement at such time, under applicable SEC rules. We expect to seek additional funding through public or private financings or from new collaborators with whom we enter into research or development collaborations with respect to programs that are not currently licensed. However, the market for stock of companies in the biotechnology sector in general, and the market for our common stock in particular, is highly volatile. Due to market conditions and the status of our product development pipeline, additional funding may not be available to us on acceptable terms, or at all. Having insufficient funds may require us to delay, scale back or eliminate some or all of our research or development programs or to relinquish greater or all rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise choose. Failure to obtain adequate financing also may adversely affect our ability to operate as a going concern.

If we raise additional funds through the issuance of equity securities, our stockholders may experience substantial dilution, including as a result of the issuance of warrants in connection with the financing, or the equity securities may have rights, preferences or privileges senior to those of existing stockholders. If we raise additional funds through debt financings, these financings may involve significant cash payment obligations and covenants that restrict our ability to operate our business and make distributions to our stockholders. We also could elect to seek funds through arrangements with collaborators or others that may require us to relinquish rights to certain technologies, product candidates or products.

Our committed equity financing facility with Kingsbridge may not be available to us if we elect to make a draw down, may require us to make additional "blackout" or other payments to Kingsbridge and may result in dilution to our stockholders.

In August 2006, we entered into a CEFF with Kingsbridge. The CEFF entitles us to sell and obligates Kingsbridge to purchase, from time to time until September 2009, shares of our common stock for cash consideration up to an aggregate of $25 million, subject to certain conditions and restrictions. Kingsbridge will not be obligated to purchase shares under the CEFF unless certain conditions are met, which include:

- a minimum price for our common stock that is not less than 85% of the closing price of the day immediately preceding the applicable eight-day pricing period, but in no event less than $2.00 per share;
- the accuracy of representations and warranties made to Kingsbridge;
- our compliance with all applicable laws which, if we failed to so comply, would have a Material Adverse Effect (as that term is defined in the purchase agreement with Kingsbridge); and
- the effectiveness of a registration statement registering for resale the shares of common stock to be issued in connection with the CEFF.

Kingsbridge is permitted to terminate the CEFF by providing written notice to us upon the occurrence of certain events. For example, we are only eligible to draw down funds under the CEFF at such times as our stock price is above $2.00 per share. Kingsbridge is also able to terminate the CEFF at any time that we have not drawn down at least $1.25 million in funds over a consecutive 12-month period. As of the date of this prospectus, we have not drawn down any funds from the CEFF, and therefore Kingsbridge could terminate the CEFF under its terms. The CEFF is scheduled to expire in September 2009. We intend to seek an extension of the term of the CEFF, but no assurance can be given that Kingsbridge will agree to any such extension. In order to extend the term of the CEFF beyond September 2009, Kingsbridge may require additional consideration, such as the issuance of a warrant to purchase our common stock that could result in additional dilution to our stockholders. If we are unable to access funds through the CEFF, or if Kingsbridge terminates the CEFF or it otherwise expires, we may be unable to access capital from other sources on favorable terms, or at all.

We are entitled, in certain circumstances, to deliver a blackout notice to Kingsbridge to suspend the use of the resale registration statement and prohibit Kingsbridge from selling shares under the resale registration statement for a certain period of time. If we deliver a blackout notice during the fifteen trading days following our delivery of shares to Kingsbridge in connection with any draw down, then we may be required to make a payment to Kingsbridge, or issue to Kingsbridge additional shares in lieu of this payment, calculated on the basis of the number of shares purchased by Kingsbridge in the most recent draw down and held by Kingsbridge immediately prior to the blackout period and the decline in the market price, if any, of our common stock during the blackout period. If the trading price of our common stock declines during a blackout period, this blackout payment could be significant.

In addition, if we fail to maintain the effectiveness of the resale registration statement or related prospectus in circumstances not permitted by our agreement with Kingsbridge, we may be required to make a payment to Kingsbridge, calculated on the basis of the number of shares held by Kingsbridge during the period that the registration statement or prospectus is not effective, multiplied by the decline in market price, if any, of our common stock during the ineffective period. If the trading price of our common stock declines during a period in which the resale registration statement or related prospectus is not effective, this payment could be significant.

Should we sell shares to Kingsbridge under the CEFF or issue shares in lieu of a blackout payment, it will have a dilutive effect on the holdings of our current stockholders and may result in downward pressure on the price of our common stock. If we draw down under the CEFF, we will issue shares to Kingsbridge at a discount of 6% to 14% from the volume weighted average price of our common stock. If we draw down amounts under the CEFF when our share price is decreasing, we will need to issue more shares to raise the same amount than if our stock price was higher. Issuances in the face of a declining share price will have an even greater dilutive effect than if our share price were stable or increasing and may further decrease our share price. Moreover, the number of shares that we will be able to issue to Kingsbridge in a particular draw down may be materially reduced if our stock price declines significantly during the applicable eight-day pricing period.

Our quarterly operating results and stock price may fluctuate significantly.

We expect our results of operations to be subject to quarterly fluctuations. The level of our revenues, if any, and results of operations for any given period, will be based primarily on the following factors:

- the status of development of our product candidates;
- the time at which we enter into research and license agreements with strategic collaborators that provide for payments to us, and the timing and accounting treatment of payments to us, if any, under those agreements;
- whether or not we achieve specified research, development or commercialization milestones under any agreement that we enter into with strategic collaborators and the timely payment by these collaborators of any amounts payable to us;
- the addition or termination of research programs or funding support under collaboration agreements;
- the timing of milestone payments under license agreements, repayments of outstanding amounts under loan agreements, and other payments that we may be required to make to others;
- variations in the level of research and development expenses related to our clinical or preclinical product candidates during any given period;
- the change in fair value of the common stock warrants issued to investors in connection with our 2007 private placement financing, remeasured at each balance sheet date using a Black-Scholes option-pricing model, with the change in value recorded as other income or expense; and
- general market conditions affecting companies with our risk profile and market capitalization.

These factors may cause the price of our stock to fluctuate substantially. We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

If the estimates we make and the assumptions on which we rely in preparing our financial statements prove inaccurate, our actual results may vary significantly.

Our financial statements have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and expenses, the amounts of charges taken by us and related disclosure. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We cannot assure you that our estimates, or the assumptions underlying them, will be correct. Accordingly, our actual financial results may vary significantly from the estimates contained in our financial statements.

Changes in, or interpretations of, accounting rules and regulations could result in unfavorable accounting charges or require us to change our compensation policies.

Accounting methods and policies for biopharmaceutical companies, including policies governing revenue recognition, research and development and related expenses, accounting for stock options and in-process research and development costs are subject periodically to further review, interpretation and guidance from relevant accounting authorities, including the SEC. Changes to, or interpretations of, accounting methods or policies in the future may

require us to reclassify, restate or otherwise change or revise our financial statements, including those contained in this filing.

Our operating and financial flexibility, including our ability to borrow money, is limited by certain debt arrangements.

Our loan agreements contain certain customary events of default, which generally include, among others, non-payment of principal and interest, violation of covenants, cross defaults, the occurrence of a material adverse change in our ability to satisfy our obligations under our loan agreements or with respect to one of our lenders' security interest in our assets and in the event we are involved in certain insolvency proceedings. Upon the occurrence of an event of default, our lenders may be entitled to, among other things, accelerate all of our obligations and sell our assets to satisfy our obligations under our loan agreements. In addition, in an event of default, our outstanding obligations may be subject to increased rates of interest.

In addition, we may incur additional indebtedness from time to time to finance acquisitions, investments or strategic alliances or capital expenditures or for other purposes. Our level of indebtedness could have negative consequences for us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- payments on our indebtedness will reduce the funds that would otherwise be available for our operations and future business opportunities;
- we may be more highly leveraged than our competitors, which may place us at a competitive disadvantage; and
- our debt level may reduce our flexibility in responding to changing business and economic conditions.

We have determined and further received an opinion from our independent registered public accounting firm in connection with our year-end audit for 2007 that our system of internal control over financial reporting does not meet the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As a result, investors could lose confidence in the reliability of our internal control over financial reporting, which could have a material adverse effect on our stock price.

As a publicly traded company, we are required to comply with the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, and the related rules and regulations of the SEC, including Section 404 of Sarbanes-Oxley. We are in the process of upgrading our existing, and implementing additional, procedures and controls.

Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. In connection with the audit of our consolidated financial statements for the year ended December 31, 2007, our independent registered public accounting firm provided us with an unqualified opinion on our consolidated financial statements, but it identified material weaknesses in our internal control over financial reporting based on criteria established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations, or COSO, of the Treadway Commission. These material weaknesses relate to certain of our accrual processes and an insufficient level of management review in our financial statement close and reporting process. Because of these material weaknesses in our internal control over financial reporting, there is heightened risk that a material misstatement of our annual or quarterly financial statements will not be prevented or detected.

We are in the process of expanding our internal resources and implementing additional procedures in order to remediate these material weaknesses in our internal control over financial reporting; however, we cannot guarantee that these efforts will be successful. If we do not adequately remedy these material weaknesses, and if we fail to maintain proper and effective internal control over financial reporting in future periods, our ability to provide timely and reliable financial results could suffer, and investors could lose confidence in our reported financial information, which may have a material adverse effect on our stock price.

Risks Relating to Our Common Stock

Substantial sales of shares may adversely impact the market price of our common stock and our ability to issue and sell shares in the future.

Substantially all of the outstanding shares of our common stock are eligible for resale in the public market. A significant portion of these shares is held by a small number of stockholders. We have also registered shares of our common stock that we may issue under our equity incentive compensation plans and our employee stock purchase plan. In addition, any shares issued under the CEFF would be covered by a registration statement and eligible for resale in the public market. These shares generally can be freely sold in the public market upon issuance. If our stockholders sell substantial amounts of our common stock, the market price of our common stock may decline, which might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. We are unable to predict the effect that sales of our common stock may have on the prevailing market price of our common stock.

Our stock price may be volatile, and you may lose all or a substantial part of your investment.

The market price for our common stock is volatile and may fluctuate significantly in response to a number of factors, a number of which we cannot control. Among the factors that could cause material fluctuations in the market price for our common stock are:

- our ability to upgrade and implement our disclosure controls and our internal control over financial reporting;

- our ability to successfully raise capital to fund our continued operations;
- our ability to successfully develop our product candidates within acceptable timeframes;
- changes in the regulatory status of our product candidates;
- changes in significant contracts, strategic collaborations, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments;
- the execution of new collaboration agreements or termination of existing collaborations related to our clinical or preclinical product candidates or our BiTE antibody technology platform;
- announcements of the invalidity of, or litigation relating to, our key intellectual property;

- announcements of the achievement of milestones in our agreements with collaborators or the receipt of payments under those agreements;
- announcements of the results of clinical trials by us or by companies with commercial products or product candidates in the same therapeutic category as our product candidates;
- events affecting our collaborators;
- fluctuations in stock market prices and trading volumes of similar companies;
- announcements of new products or technologies, clinical trial results, commercial relationships or other events by us, our collaborators or our competitors;
- our ability to successfully complete strategic collaboration arrangements with respect to our product candidates;
- variations in our quarterly osp;3 -

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)

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

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

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

First Mortgages: Refers to first lien residential real estate mortgage loans, which include two loan classes: first mortgages and purchased first mortgages.

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

Interest rate risk: The potential for variability in net interest revenue or the fluctuation in the valuation of assets arising from changes in interest rates.

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

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

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

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

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

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

Market risk: 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.

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

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

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

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

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

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

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Operational risk: Potential for loss due to inadequate or failed internal processes, systems, and firms or exchanges handling client orders, or loss from external events and relationships impacting the Company and/or any of its key business partners and vendors.

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

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

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

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

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

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

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

U.S. federal banking agencies: Refers to the Board of Governors of the Federal Reserve System (Federal Reserve), the Office of the Comptroller of the Currency (OCC), the FDIC, and the Consumer Financial Protection Bureau (CFPB).

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

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OVERVIEW

Management of the Company focuses on several key client activity and financial metrics in evaluating the Company's financial position and operating performance. Management believes that net revenue growth, pre-tax profit margin, earnings per common share (EPS), and return on average common stockholders' equity provide broad indicators of the Company's overall financial health, operating efficiency, and ability to generate acceptable returns. Expenses excluding interest as a percentage of average client assets are considered by management to be a measure of operating efficiency. Results for the second quarters and first halves of 2016 and 2015 are:

	Three Months Ended June 30,		Percent	Six Months Ended June 30,		Percent
	2016	2015	Change	2016	2015	Change
Client Metrics:						
Net new client assets (in billions)	$ 26.6	$ 37.0	(28) %	$ 58.6	$ 65.7	(11) %
Core net new client assets (in billions) (1)	$ 26.6	$ 37.0	(28) %	$ 58.6	$ 71.2	(18) %
Client assets (in billions, at quarter end)	$ 2,622.0	$ 2,543.3	3 %			
Average client assets (in billions)	$ 2,585.4	$ 2,576.2	-	$ 2,515.4	$ 2,542.3	(1) %
New brokerage accounts (in thousands)	271	280	(3) %	536	554	(3) %
Active brokerage accounts (in thousands, at quarter end)	9,977	9,605	4 %			
Assets receiving ongoing advisory services (in billions, at quarter end)	$ 1,315.5	$ 1,258.1	5 %			
Client cash as a percentage of client assets (at quarter end)	12.6 %	11.7 %				
Company Financial Metrics:						
Net revenues	$ 1,828	$ 1,566	17 %	$ 3,592	$ 3,092	16 %
Expenses excluding interest	1,108	999	11 %	2,217	2,041	9 %
Income before taxes on income	720	567	27 %	1,375	1,051	31 %
Taxes on income	268	214	25 %	511	396	29 %
Net income	452	353	28 %	864	655	32 %

Preferred stock dividends and other		46			23		100	%		66			34		94	%
Net income available to common stockholders	$	406		$	330		23	%	$	798		$	621		29	%
Earnings per common share – diluted	$	.30		$	.25		20	%	$	.60		$	.47		28	%
Net revenue growth from prior year		17	%		6	%				16	%		5	%		
Pre-tax profit margin		39.4	%		36.2	%				38.3	%		34.0	%		
Return on average common stockholders' equity		13	%		12	%				13	%		11	%		
Expenses excluding interest as a percentage of average client assets (annualized)		0.17	%		0.16	%				0.18	%		0.16	%		

(1) The six months ended June 30, 2015 excludes an inflow of $6.1 billion to reflect the final impact of the consolidation of the Company's retirement plan recordkeeping platforms and an outflow of $11.6 billion relating to the Company's planned resignation from an Advisor Services cash management relationship netting to an adjustment of ($5.5) billion.

During the second quarter of 2016, the Company continued to grow, steadily building clients and assets with a combination of financial products, service and value. The number of accounts enrolled in one of our retail advisory solutions reached 581,000, up 8%, through June 30, 2016, compared to the same period in 2015. At June 30, 2016, there were 10.0 million active brokerage accounts, 1.1 million banking accounts and 1.6 million retirement plan participants, up 4%, 6%, and 5%, respectively, from the same period in 2015.

Core net new assets were $26.6 billion and $58.6 billion, respectively, for the second quarter and first half of 2016, continuing a pattern of solid organic asset growth. Total client assets ended the second quarter of 2016 at $2.62 trillion, up 3% from the second quarter of 2015.

Net revenues increased by 17% and 16% in the second quarter and first half of 2016 compared to the same periods in 2015, respectively, primarily due to a combination of sustained success in growing our client base and the effects of the Federal Reserve’s initial rate increase in December 2015.

On the expense side, spending increased 11% and 9% in the second quarter and first half of 2016 compared to the same periods in 2015, respectively, in keeping with expectations of reinvesting a portion of improved revenues to support growth. This approach yielded a spread of 580 basis points between the pace of growth in net revenue and expense growth during the second quarter of 2016.

The pre-tax profit margin for the second quarter and first half of 2016 was 39.4% and 38.3%, respectively, compared to 36.2% and 34.0% for the same periods in 2015. Net income grew by 28% and 32%, respectively, for the second quarter and first half 2016 compared to the same periods in 2015.

At the end of the second quarter of 2016, market concerns regarding economic growth, interest rates and equity valuations escalated. While many of the concerns have abated somewhat, the Company recognizes the importance of remaining flexible in order to make the most of the environment as it evolves. The Company’s management is experienced in monitoring conditions and adjusting spending plans as necessary to maintain a balance between near-term profitability and investing for long-term growth.

Current Regulatory Environment and Other Developments

In May 2016, the Federal Reserve, the OCC and the FDIC jointly issued a notice of proposed rulemaking that would impose a minimum net stable funding ratio (NSFR) on certain banking organizations, including CSC. The NSFR is intended to measure an organization’s “available” amount of stable funding relative to its “required” amount of stable funding over a one-year time horizon. The effective date of the rule would be January 1, 2018. The comment period for the proposed rule ends on August 5, 2016 and the impact to the Company cannot be assessed until the final rule is released.

In April 2016, the Department of Labor published a final rule that significantly broadens the definition of “fiduciary” under the Employee Retirement Income Security Act of 1974. Among other things, the new rule subjects broker-dealers who provide non-discretionary investment advice to retirement plans and accounts to a “best interest” standard, as well as other conditions and requirements. Based on the Company’s evaluation of the final rule to date, the Company does not expect the rule to have a material impact on the Company’s business, financial condition or results of operations.

In March 2016, the FDIC issued a final rule that will impose a surcharge on insured depository institutions with total consolidated assets of $10 billion or more in order to increase the reserve ratio of the FDIC’s Deposit Insurance Fund (DIF). Based on expected reductions in the Company’s regular FDIC insurance assessments combined with the surcharge, the Company anticipates that its overall FDIC assessment, relative to its regular assessment base, will increase by a net of approximately 2 to 2.5 basis points annually, beginning in the third quarter of 2016 and likely running through the end of 2018.

In December 2015, the OCC issued proposed guidelines to establish standards for recovery planning by national banks and federal savings banks with total consolidated assets of $50 billion or more. The proposed guidelines would require each bank to develop and maintain a recovery plan that sets forth the bank’s plan for how it will remain a going concern when it is experiencing considerable financial or operational stress. The comment period for the proposed guidelines ended on February 16, 2016 and the guidelines are subject to further modification. The Company will continue to evaluate the impact of the proposed guidelines.

In October 2015, the Federal Reserve issued a notice of proposed rulemaking that would require certain financial institutions that are subject to the Federal Reserve’s capital rules to apply a regulatory capital deduction treatment to their investments in unsecured debt issued by U.S. bank holding companies identified as global systemically important banking organizations. The comment period for the rule proposal ended on February 19, 2016 and the rule proposal is subject to further modification. The proposed effective date of the rule would be January 1, 2019. The Company continues to monitor developments in order to assess the impact of the proposed rule, but does not expect it to have a material impact on the Company’s business, financial condition and results of operations.

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Results of Operations

The following discussion presents an analysis of the Company's results of operations for the second quarter and first half of 2016 compared to the same periods in 2015.

Net Revenues

Three Months Ended June 30,		2016		2015	
	Percent Change	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Asset management and administration fees					
Mutual funds and ETF service fees (1)	23 %	$ 461	25 %	$ 375	24 %
Advice solutions	(1) %	226	12 %	228	15 %
Other (1)	4 %	70	4 %	67	4 %
Asset management and administration fees	13 %	757	41 %	670	43 %
Net interest revenue					
Interest revenue	30 %	840	46 %	645	41 %
Interest expense	27 %	(42)	(2) %	(33)	(2) %
Net interest revenue	30 %	798	44 %	612	39 %
Trading revenue					
Commissions	(1) %	190	10 %	191	12 %
Principal transactions	(8) %	11	1 %	12	1 %
Trading revenue	(1) %	201	11 %	203	13 %
Other	(11) %	70	4 %	79	5 %
Provision for loan losses	-	2	-	2	-
Total net revenues	17 %	$ 1,828	100 %	$ 1,566	100 %

Six Months Ended June 30,		2016		2015	

	Percent Change		Amount	% of Total Net Revenues		Amount	% of Total Net Revenues	
Asset management and administration fees								
Mutual funds and ETF service fees (1)	20	%	$ 876	24	%	$ 733	24	%
Advice solutions	(2)	%	441	12	%	448	14	%
Other (1)	5	%	139	4	%	133	4	%
Asset management and administration fees	11	%	1,456	40	%	1,314	42	%
Net interest revenue								
Interest revenue	31	%	1,650	46	%	1,262	41	%
Interest expense	29	%	(80)	(2)	%	(62)	(2)	%
Net interest revenue	31	%	1,570	44	%	1,200	39	%
Trading revenue								
Commissions	(1)	%	405	11	%	409	13	%
Principal transactions	33	%	28	1	%	21	1	%
Trading revenue	1	%	433	12	%	430	14	%
Other	(6)	%	133	4	%	142	5	%
Provision for loan losses	(100)	%	-	-		6	-	
Total net revenues	16	%	$ 3,592	100	%	$ 3,092	100	%

(1) Other third-party mutual funds have been reclassified to Mutual funds and ETFs. Related revenues have been reclassified from Other asset management and administration fees. Prior period information has been recast to reflect this change.

Asset Management and Administration Fees

Asset management and administration fees include mutual fund and ETF service fees and fees for other asset-based financial services provided to individual and institutional clients. The Company earns mutual fund and ETF service fees for shareholder services, administration, and investment management provided to its proprietary funds, and recordkeeping and shareholder services provided to third-party funds. 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 managed portfolios, specialized strategies and customized investment advice.

The fair values of client assets included in proprietary and third-party mutual funds and ETFs are based on quoted market prices and other observable market data.

Other asset management and administration fees include various asset-based fees, such as trust fees, 401(k) recordkeeping fees, mutual fund clearing fees, collective trust fund fees, and non-balance based service and transaction fees.

Asset management and administration fees vary with changes in the balances of client assets due to market fluctuations and client activity. For a discussion of the impact of current market conditions on asset management and administration fees, see "Item 3 – Quantitative and Qualitative Disclosures About Market Risk."

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

	Schwab Money Market Funds		Schwab Equity and Bond Funds and ETFs		Mutual Fund OneSource®	
Three Months Ended June 30,	2016	2015	2016	2015	2016	2015
Balance at beginning of period	$ 167,427	$ 162,473	$ 104,953	$ 95,161	$ 203,759	$ 237,317
Net inflows (outflows)	(6,495)	(6,906)	3,572	3,498	(4,437)	(6,282)
Net market gains (losses) and other	19	10	2,197	(260)	4,030	212
Balance at end of period	$ 160,951	$ 155,577	$ 110,722	$ 98,399	$ 203,352	$ 231,247

	Schwab Money Market Funds		Schwab Equity and Bond Funds and ETFs		Mutual Fund OneSource®	
Six Months Ended June 30,	2016	2015	2016	2015	2016	2015
Balance at beginning of period	$ 166,148	$ 167,909	$ 102,112	$ 88,450	$ 207,654	$ 234,381
Net inflows (outflows)	(5,243)	(12,506)	5,654	8,296	(9,179)	(8,875)
Net market gains (losses) and other	46	174	2,956	1,653	4,877	5,741
Balance at end of period	$ 160,951	$ 155,577	$ 110,722	$ 98,399	$ 203,352	$ 231,247

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

Three Months Ended June 30,	2016			2015		
	Average Client Assets	Revenue	Average Fee	Average Client Assets	Revenue	Average Fee
Schwab money market funds before fee waivers	$ 163,929	$ 239	0.59%	$ 157,418	$ 230	0.59%
Fee waivers		(55)			(168)	
Schwab money market funds	163,929	184	0.45%	157,418	62	0.16%
Schwab equity and bond funds and ETFs	112,814	52	0.19%	103,986	56	0.22%
Mutual Fund OneSource®	201,034	169	0.34%	235,433	199	0.34%
Other third-party mutual funds and ETFs (1)	252,405	56	0.09%	257,516	58	0.09%
Total mutual funds and ETFs (2)	$ 730,182	461	0.25%	$ 754,353	375	0.20%
Advice solutions (2):						
Fee-based	$ 175,973	226	0.52%	$ 174,657	228	0.52%
Intelligent Portfolios	6,620	-	-	2,159	-	-
Legacy Non-Fee	17,015	-	-	16,783	-	-
Total advice solutions	$ 199,608	226	0.46%	$ 193,599	228	0.47%
Other balance-based fees (3)	338,529	58	0.07%	327,569	57	0.07%
Other (4)		12			10	
Total asset management and administration fees		$ 757			$ 670	

Six Months Ended June 30,	2016			2015		
	Average Client Assets	Revenue	Average Fee	Average Client Assets	Revenue	Average Fee
Schwab money market funds before fee waivers	$ 166,184	$ 485	0.59%	$ 161,411	$ 469	0.59%
Fee waivers		(152)			(353)	
Schwab money market funds	166,184	333	0.40%	161,411	116	0.14%
Schwab equity and bond funds and ETFs	108,103	103	0.19%	100,556	108	0.22%
Mutual Fund OneSource®	197,839	333	0.34%	234,342	395	0.34%
Other third-party mutual funds and ETFs (1)	244,820	107	0.09%	253,031	114	0.09%
Total mutual funds and ETFs (2)	$ 716,946	876	0.25%	$ 749,340	733	0.20%
Advice solutions (2):						

Fee-based	$ 171,146	441	0.52%	$ 172,405	448	0.52%
Intelligent Portfolios	5,868	-	-	1,725	-	-
Legacy Non-Fee	16,712	-	-	16,815	-	-
Total advice solutions	$ 193,726	441	0.46%	$ 190,945	448	0.47%
Other balance-based fees (3)	328,278	114	0.07%	320,699	112	0.07%
Other (4)		25			21	
Total asset management and administration fees		$ 1,456			$ 1,314	

Note: Certain changes have been made to the above categorizations. Prior period information has been recast to reflect these changes.

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

Asset management and administration fees increased by $87 million, or 13%, and $142 million, or 11%, in the second quarter and first half of 2016 compared to the same periods in 2015. The increase in mutual fund and ETF service fees is primarily due to higher net yields on money market fund assets, partially offset by a reduction in average client assets in Mutual Fund OneSource.

Net Interest Revenue

Net interest revenue is the difference between interest earned on interest-earning assets and interest paid on funding sources. The Company's interest-earning assets are primarily funded through bank deposits and brokerage client account balances.

Interest-earning assets primarily include cash and cash equivalents, segregated cash and investments, margin loans included in receivables from brokerage clients, investment securities and bank loans on which the Company earns interest. Revenue on interest-earning assets is affected by various factors such as the distribution and composition of assets, prevailing interest rates when purchased, and changes in prepayment levels. Fees earned on securities borrowed and loaned are included in other interest revenue and expense. The rates on the majority of the Company's investment securities and loans re-price or reset based on short-term interest rates and the remainder is invested in fixed-rate loans and securities.

The Company's interest-bearing liabilities include bank deposits, payables to brokerage clients, short-term borrowings and long-term debt. Interest-bearing liabilities are primarily sensitive to short-term interest rates and the Company establishes the rates paid on most of these liabilities. The Company expects that the rate paid on these liabilities will generally adjust at some fraction of the movement in short-term interest rates.

The Company expects that net interest revenue will increase as short-term interest rates increase and decline should rates fall below current levels. When interest rates fall, the Company may attempt to mitigate some of this negative impact by lowering rates paid to clients on interest-bearing liabilities. The current low interest rate environment limits the extent to which the Company can reduce interest expense on funding sources. The Company may also alter the amount and type of fixed rate loans and securities that are added to the portfolio. Generally, modest increases in the percentage of fixed-rate assets will reduce the rate at which net interest revenue changes if rates move.

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

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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 sheets:

Three Months Ended June 30,	2016			2015		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets:						
Cash and cash equivalents	$ 10,888	$ 14	0.52 %	$ 8,540	$ 6	0.28 %
Cash and investments segregated	19,155	22	0.46 %	18,265	7	0.15 %
Broker-related receivables (1)	685	-	0.20 %	261	-	0.02 %
Receivables from brokerage clients	15,027	124	3.32 %	15,105	125	3.32 %
Securities available for sale (2)	71,431	211	1.19 %	61,194	153	1.00 %
Securities held to maturity	53,404	335	2.52 %	36,458	227	2.50 %
Bank loans	14,569	98	2.71 %	13,866	91	2.63 %
Total interest-earning assets	185,159	804	1.75 %	153,689	609	1.59 %
Other interest revenue		36			36	
Total interest-earning assets	$ 185,159	$ 840	1.82 %	$ 153,689	$ 645	1.68 %
Funding sources:						
Bank deposits	$ 136,009	$ 8	0.02 %	$ 110,159	$ 6	0.02 %
Payables to brokerage clients (1)	25,302	1	0.01 %	25,138	-	0.01 %
Short-term borrowings (1,4)	2,038	2	0.39 %	24	-	0.15 %
Long-term debt (5)	2,876	26	3.64 %	2,889	24	3.33 %
Total interest-bearing liabilities (5)	166,225	37	0.09 %	138,210	30	0.09 %
Non-interest-bearing funding sources (4)	18,934			15,479		
Other interest expense (3)		5			3	
Total funding sources	$ 185,159	$ 42	0.09 %	$ 153,689	$ 33	0.08 %
Net interest revenue		$ 798	1.73 %		$ 612	1.60 %

(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.
(3) Includes the impact of capitalizing interest on building construction and software development.
(4) Certain prior period amounts have been reclassified to conform to the 2016 presentation.
(5) Adjusted for the retrospective adoption of Accounting Standards Update (ASU) 2015-03. See "Item 1 – Notes to Condensed Consolidated Financial Statements (Unaudited) – 2. New Accounting Standards" for additional information.

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Six Months Ended June 30,	2016			2015		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets:						
Cash and cash equivalents	$ 10,820	$ 27	0.50 %	$ 8,959	$ 11	0.25 %
Cash and investments segregated	19,710	41	0.42 %	18,884	13	0.14 %
Broker-related receivables (1)	535	-	0.15 %	271	-	0.06 %
Receivables from brokerage clients	14,959	249	3.35 %	14,763	244	3.33 %
Securities available for sale (2)	69,797	409	1.18 %	59,315	295	1.00 %
Securities held to maturity	51,830	657	2.55 %	35,673	445	2.52 %
Bank loans	14,487	197	2.73 %	13,701	181	2.66 %
Total interest-earning assets	182,138	1,580	1.74 %	151,566	1,189	1.58 %
Other interest revenue		70			73	
Total interest-earning assets	$ 182,138	$ 1,650	1.82 %	$ 151,566	$ 1,262	1.68 %
Funding sources:						
Bank deposits	$ 133,814	$ 16	0.02 %	$ 108,008	$ 14	0.03 %
Payables to brokerage clients	26,015	1	0.01 %	25,602	1	0.01 %
Short-term borrowings (1,4)	1,029	2	0.39 %	16	-	0.15 %
Long-term debt (5)	2,877	52	3.63 %	2,517	43	3.45 %
Total interest-bearing liabilities (5)	163,735	71	0.09 %	136,143	58	0.09 %
Non-interest-bearing funding sources (4)	18,403			15,423		
Other interest expense (3)		9			4	
Total funding sources	$ 182,138	$ 80	0.09 %	$ 151,566	$ 62	0.08 %
Net interest revenue		$ 1,570	1.73 %		$ 1,200	1.60 %

(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.
(3) Includes the impact of capitalizing interest on building construction and software development.
(4) Certain prior period amounts have been reclassified to conform to the 2016 presentation.
(5) Adjusted for the retrospective adoption of ASU 2015-03. See "Item 1 – Notes to Condensed Consolidated Financial Statements (Unaudited) – 2. New Accounting Standards" for additional information.

Net interest revenue increased $186 million, or 30%, and $370 million, or 31% in the second quarter and first half of 2016 compared to the same periods in 2015, primarily due to higher average balances of held to maturity and available for sale securities, and higher average interest rates on securities available for sale and cash and investments segregated. The growth in average balances in bank deposits resulted from an increase in amounts swept to Schwab

Bank of uninvested cash balances in certain client brokerage accounts. Starting in June 2016, the Schwab Bank sweep feature became the default investment option for uninvested cash balances within all new brokerage accounts.

Trading Revenue

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

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The following table presents trading revenue and the related drivers:

	Three Months Ended June 30, 2016	2015	Percent Change	Six Months Ended June 30, 2016	2015	Percent Change
Daily average revenue trades (in thousands)	279	267	4 %	303	290	4 %
Clients' daily average trades (in thousands)	518	494	5 %	566	537	5 %
Number of trading days	64.0	63.0	2 %	125.0	124.0	1 %
Average revenue per revenue trade	$ 11.27	$ 11.97	(6) %	$ 11.36	$ 11.97	(5) %
Trading revenue	$ 201	$ 203	(1) %	$ 433	$ 430	1 %

Other Revenue

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

Other revenue decreased by $9 million, or 11%, and $9 million, or 6%, in the second quarter and first half of 2016 compared to the same periods in 2015, respectively, primarily due to higher litigation proceeds in the second quarter of 2015 relating to the Company's non-agency residential mortgage-backed securities portfolio, partially offset by higher gains on sales of securities available for sale.

Order flow revenue was $25 million and $52 million during the second quarters and first halves of both 2016 and 2015, respectively.

Expenses Excluding Interest

The following table shows a comparison of expenses excluding interest:

	Three Months Ended June 30, 2016	2015	Percent Change	Six Months Ended June 30, 2016	2015	Percent Change
Compensation and benefits	$ 602	$ 540	11 %	$ 1,228	$ 1,121	10 %
Professional services	125	112	12 %	241	226	7 %
Occupancy and equipment	101	85	19 %	199	168	18 %
Advertising and market development	70	62	13 %	140	131	7 %
Communications	62	59	5 %	122	117	4 %
Depreciation and amortization	57	55	4 %	113	109	4 %
Other	91	86	6 %	174	169	3 %
Total expenses excluding interest	$ 1,108	$ 999	11 %	$ 2,217	$ 2,041	9 %
Expenses as a percentage of total net revenues:						
Compensation and benefits	33 %	34 %		34 %	36 %	
Advertising and market development	4 %	4 %		4 %	4 %	

Compensation and Benefits

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

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

	Three Months Ended June 30,		Percent	Six Months Ended June 30,		Percent
	2016	2015	Change	2016	2015	Change
Salaries and wages	$ 339	$ 313	8 %	$ 675	$ 630	7 %
Incentive compensation	166	144	15 %	339	301	13 %
Employee benefits and other	97	83	17 %	214	190	13 %
Total compensation and benefits expense	$ 602	$ 540	11 %	$ 1,228	$ 1,121	10 %
Full-time equivalent employees (in thousands)						
At quarter end	16.1	15.0	7 %			
Average	15.9	15.0	6 %	15.7	14.9	5 %

Salaries and wages increased in the second quarter and first half of 2016 compared to the same periods in 2015 primarily due to higher employee headcount to support the growth in the business and annual salary increases.

Incentive compensation increased in the second quarter and first half of 2016 compared to the same periods in 2015 primarily due to higher discretionary bonus expenses, long-term incentive plan costs, and field incentive plan costs relating to increased net client asset flows. The increase in incentive compensation in the first half of 2016 was also due to higher stock compensation expense.

Employee benefits and other expenses increased in the second quarter and first half of 2016 compared to the same periods in 2015 due to increases in healthcare costs and higher employee headcount.

Expenses Excluding Compensation and Benefits

Professional services expense increased in the second quarter and first half of 2016 compared to the same periods in 2015, primarily due to higher spending on technology services and an increase in fees paid to outsourced service

providers and consultants as the Company continued to invest in the business.

Occupancy and equipment expense increased in the second quarter and first half of 2016 compared to the same periods in 2015, primarily due to an increase in software maintenance expense relating to the Company's information technology systems and increases in property taxes and rent attributable to the changes in the Company's geographic footprint.

Advertising and market development expense increased in the second quarter and first half of 2016 compared to the same periods in 2015, primarily due to an increase in media advertising.

Taxes on Income

The Company's effective income tax rate on income before taxes was 37.2% and 37.7% for the second quarters and first halves of 2016 and 2015, respectively. The effective income tax rate decreases in the second quarter and first half of 2016 from the same periods in the prior year were primarily due to increases in tax exempt income from U.S. state and municipal securities.

Segment Information

The Company provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking services, retirement plan services, and other corporate brokerage services. The Advisor Services segment provides custodial, trading, and support services as well as retirement business services. 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 restructuring and other charges. Segment assets and liabilities are not used for evaluating segment performance or in deciding how to allocate resources to segments.

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

	Investor Services (1)			Advisor Services (1)			Total		
	Percent			Percent			Percent		
Three Months Ended June 30,	Change	2016	2015	Change	2016	2015	Change	2016	2015
Net Revenues:									
Asset management and administration fees	11 %	$ 514	$ 465	19 %	$ 243	$ 205	13 %	$ 757	$ 670
Net interest revenue	20 %	628	524	93 %	170	88	30 %	798	612
Trading revenue	(3) %	129	133	3 %	72	70	(1) %	201	203
Other	(11)%	51	57	(14)%	19	22	(11)%	70	79
Provision for loan losses	-	2	2	-	-	-	-	2	2
Total net revenues	12 %	1,324	1,181	31 %	504	385	17 %	1,828	1,566
Expenses Excluding Interest	10 %	834	760	15 %	274	239	11 %	1,108	999
Income before taxes on income	16 %	$ 490	$ 421	58 %	$ 230	$ 146	27 %	$ 720	$ 567

	Investor Services (1)			Advisor Services (1)			Total		
	Percent			Percent			Percent		
Six Months Ended June 30,	Change	2016	2015	Change	2016	2015	Change	2016	2015
Net Revenues:									
Asset management and administration fees	8 %	$ 986	$ 911	17 %	$ 470	$ 403	11 %	$ 1,456	$ 1,314
Net interest revenue	20 %	1,241	1,034	98 %	329	166	31 %	1,570	1,200
Trading revenue	(3) %	272	280	7 %	161	150	1 %	433	430
Other	(4) %	97	101	(12)%	36	41	(6) %	133	142
Provision for loan losses	(100)%	-	6	-	-	-	(100)%	-	6
Total net revenues	11 %	2,596	2,332	31 %	996	760	16 %	3,592	3,092

Expenses Excluding Interest	8	%	1,671	1,546	10	%	546	495	9	%	2,217	2,041
Income before taxes on income	18	%	$ 925	$ 786	70	%	$ 450	$ 265	31	%	$ 1,375	$ 1,051

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

Investor Services

Net revenues increased by $143 million, or 12%, and $264 million, or 11%, in the second quarter and first half of 2016 compared to the same periods in 2015 primarily due to increases in net interest revenue and asset management and administration fees. Net interest revenue increased primarily due to higher balances of interest-earning assets, and higher interest rates on securities available for sale and cash and investments segregated. Asset management and administration fees increased primarily due to higher net yields on money market fund assets, partially offset by a reduction in client assets in Mutual Fund OneSource®.

Expenses excluding interest increased by $74 million, or 10%, and $125 million, or 8%, in the second quarter and first half of 2016 compared to the same periods in 2015, primarily due to increases in compensation and benefits and occupancy and equipment expenses. Compensation and benefits expenses are higher as a result of higher headcount in client-facing positions and higher incentive compensation associated with growth in net client asset flows.

Advisor Services

Net revenues increased by $119 million, or 31%, and $236 million, or 31%, in the second quarter and first half of 2016 compared to the same periods in 2015 primarily due to increases in net interest revenue, asset management and administration fees and trading revenue. Net interest revenue increased primarily due to higher balances of interest-earning assets. This growth was bolstered by the decision to migrate more uninvested client cash balances in the segment to the Schwab Bank sweep feature. Net interest revenue also improved due to higher interest rates on securities available for sale and cash and investments segregated. Asset management and administration fees increased primarily due to higher net yields on money market fund assets. Trading revenue increased due to higher daily average revenue trades, partially offset by lower commissions per revenue trade.

Expenses excluding interest increased by $35 million, or 15%, and $51 million, or 10%, in the second quarter and first half of 2016 compared to the same periods in 2015, primarily due to increases in compensation and benefits and occupancy and equipment expenses.

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, 2015. 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 exposure to credit risk mainly results from margin lending and client option and futures activities, securities lending activities, mortgage lending activities, pledged asset lending, its role as a counterparty in financial contracts and other investing activities. To manage the risks of such losses, the Company has established policies and procedures which include: establishing and reviewing credit limits, monitoring of credit limits and quality of counterparties, and adjusting margin, PAL, option, and futures requirements for certain securities. Collateral arrangements relating to margin loans, PALs, option positions, securities lending agreements, and resale agreements include provisions that require additional collateral in the event market fluctuations result in declines in the value of collateral received. Additionally, for margin loan, PAL and securities lending agreements, collateral arrangements require that the fair value of such collateral exceeds the amounts loaned.

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

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

The Company's residential loan underwriting guidelines include maximum 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,

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whether the loan is for an initial purchase of a home or refinance of an existing home, and whether the loan size is conforming or jumbo).

The Company does not originate or purchase residential loans that allow for negative amortization and does not 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.

Among other items, the Company monitors the following information in evaluating the First Mortgage and HELOC portfolios and in the determination of an appropriate allowance for loan losses:

June 30, 2016	First Mortgages	HELOCs
Percentage of loans to borrowers with updated FICO scores <620	1 %	1 %
Weighted-average origination FICO scores	771	769
Weighted-average updated FICO scores	774	770
Weighted-average origination LTV ratios	58 %	58 %
Weighted-average current LTV ratios	47 %	49 %

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 June 30, 2016, $2.0 billion, or 79%, 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. At June 30, 2016, approximately 30% of the HELOC borrowers that had a balance only paid the minimum amount of interest due.

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

	June 30, 2016	December 31, 2015
Loan delinquencies (1)	0.23 %	0.25 %
Nonaccrual loans (2)	0.18 %	0.19 %
Allowance for loan losses	0.21 %	0.22 %

(1) Loan delinquencies include loans that are 30 days or more past due.
(2) Nonaccrual loans include loans past due more than 90 days and other nonaccrual loans.

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 (Origination FICO), updated borrower FICO scores (Updated FICO), LTV ratios at origination (Origination LTV), and estimated current LTV ratios (Estimated Current LTV), see "Item 1 – Notes to Condensed Consolidated Financial Statements (Unaudited) – 4. Bank Loans and Related Allowance for Loan Losses."

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

At June 30, 2016, all securities in the available for sale and held to maturity portfolios were rated investment grade. U.S. agency mortgage-backed securities do not have explicit credit ratings; however, management considers these to be of the highest credit quality and rating given the guarantee of principal and interest by the U.S. government-sponsored enterprises.

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 or geographical area.

The fair value of the Company's investments in mortgage-backed securities totaled $88.3 billion at June 30, 2016. Of these, $87.1 billion were issued by U.S. agencies and $1.2 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 asset-backed securities totaled $21.8 billion at June 30, 2016. The Company holds $10.6 billion floating rate Federal Family Education Loan Program Asset-Backed Securities (FFELP ABS). Two Nationally Recognized Statistical Rating Organizations have placed a portion of FFELP ABS on review for downgrade. Both agencies have indicated that some classes could be downgraded below investment grade due to the risk that some remainder of the securities could be outstanding after their legal final maturity dates. The timing of FFELP ABS principal payment is inherently uncertain given the variety of payment options available to student loan borrowers. Loans collateralizing these securities continue to be covered by a guarantee from the Department of Education of at least 97% of principal and interest. The Company holds only senior class notes that have additional credit enhancement of 3% or more that, together with the Department of Education guarantee, provide 100% or more credit enhancement. The Company has an independent credit assessment function and it does not rely on rating agencies. The Company does not consider these securities to be impaired because it expects full payment of principal and interest. Therefore, the Company continues to assign them the highest internal credit rating.

The fair value of the Company's investments in corporate debt securities and commercial paper totaled $11.0 billion at June 30, 2016, 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 bank loans include $7.6 billion of adjustable rate First Mortgage loans at June 30, 2016. The Company’s adjustable rate mortgages have initial fixed interest rates for three to ten years and interest rates that adjust annually thereafter. Approximately 38% of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 55% of these interest-only loans are not scheduled to reset for three or more years. The Company’s mortgage loans do not include interest terms described as temporary introductory rates below current market rates.

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

June 30, 2016	Balance
Converted to amortizing loan by period end	$ 482
Within 1 year	139
> 1 year – 3 years	950
> 3 years – 5 years	258
> 5 years	753
Total	$ 2,582

The Company also has exposure to concentration risk from its margin and securities lending, PAL, and client option and futures activities collateralized by or referencing securities of a single issuer, an index, or within a single industry. This concentration risk is mitigated by collateral arrangements that require the fair value of such collateral exceed 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 $7.4 billion at June 30, 2016.

Foreign Holdings

At June 30, 2016, the Company had exposure to non-sovereign financial and non-financial institutions in foreign countries of $6.8 billion, with the fair value of the top three exposures being to issuers and counterparties domiciled in Sweden at $1.4 billion, Canada at $1.4 billion and Australia at $1.3 billion. The Company has no direct exposure to sovereign foreign governments. The Company does not have unfunded commitments to counterparties in foreign countries, nor does it have exposure as a result of credit default protection purchased or sold separately as of June 30, 2016. In addition to the direct holdings in foreign companies, the Company has indirect exposure to foreign countries through its investments in Schwab sponsored money market funds (collectively, the Funds) resulting from brokerage clearing activities. At June 30, 2016, the Company had $162 million in investments in these Funds. Certain of the Funds' positions include certificates of deposits, time deposits, commercial paper and corporate debt securities issued by counterparties in foreign countries. Additionally, at June 30, 2016, the Company had outstanding margin loans to foreign residents of $434 million, which are fully collateralized.

LIQUIDITY

CSC's liquidity needs are primarily driven by the capital needs of Schwab Bank and liquidity and capital needs of Schwab, the amount of dividend payments on CSC's common and preferred stock and principal and interest due on corporate debt. The liquidity needs of its brokerage subsidiaries are primarily driven by client activity including trading and margin borrowing activities and capital expenditures; and the capital needs of its bank subsidiary are primarily driven by client deposits.

The Company has established liquidity policies to support the successful execution of its business strategies, while ensuring ongoing and sufficient liquidity to meet its operational needs and satisfy applicable regulatory requirements under both normal and stress conditions. For additional information on the policies and methodologies used to monitor and manage liquidity, see “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Beginning on January 1, 2016, the Company became subject to the modified liquidity coverage ratio (LCR) rule which, when fully phased in, will require CSC to hold high-quality liquid assets equal to at least 70% of projected net cash outflows over a 30-day period, as defined by the rule. At June 30, 2016, the Company was in compliance with the fully phased-in modified LCR rule. For additional information on the LCR rule, see “Item 1 – Business – Regulation” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

The Company’s primary source of funds is cash generated by client activity: bank deposits and cash balances in brokerage client accounts. Bank deposits swept from brokerage accounts were $116.0 billion at June 30, 2016 compared to $108.1 billion at December 31, 2015. These funds were used to invest in interest earning assets, thereby funding a significant portion of the 8% growth in the Company’s balance sheet.

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

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

In addition to internal sources of liquidity, the Company has sources of external funding. CSC maintains a $750 million committed, unsecured credit facility with a group of banks that is scheduled to expire in June 2017. This facility replaced a similar facility that expired in June 2016, and both facilities were unused during the first half of 2016. The funds under this facility are available for general corporate purposes. The financial covenants require Schwab to maintain a minimum net capital ratio, Schwab Bank to be well capitalized, and CSC to maintain a minimum level of stockholders' equity, adjusted to exclude AOCI. At June 30, 2016, the minimum level of stockholders' equity required under this facility was $9.7 billion (CSC's stockholders' equity, excluding AOCI, at June 30, 2016 was $15.0 billion). Management believes these restrictions will not have a material effect on CSC's ability to meet foreseeable dividend or funding requirements.

CSC and Schwab also have access to uncommitted, unsecured bank credit lines with several banks. The need for short-term borrowings from these sources arises primarily from timing differences between cash flow requirements, scheduled liquidation of interest-earning investments, and movements of cash to meet regulatory brokerage client cash segregation requirements. These lines were not used by CSC during the first half of 2016. Schwab used such borrowings for one day during the first half of 2016 for $15 million, and there were no borrowings outstanding under these lines at June 30, 2016.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, the broker-dealer subsidiaries have unsecured standby letter of credit agreements (LOCs) with several banks in favor of the Options Clearing Corporation aggregating $310 million at June 30, 2016. There were no funds drawn under any of these LOCs during the first half of 2016. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The collateral requirements were satisfied by providing cash as collateral.

Schwab Bank has access to short-term secured funding through the Federal Reserve's discount window. Amounts available under the Federal Reserve discount window are dependent on the fair value of certain of Schwab Bank's securities available for sale and/or securities held to maturity that are pledged as collateral. Schwab Bank maintains policies and procedures necessary to access this funding and tests discount window borrowing procedures on a periodic basis. At June 30, 2016, $1.8 billion was available under this arrangement. There were no funds drawn under this arrangement during the first half of 2016.

Schwab Bank also maintains a secured credit facility with the Federal Home Loan Bank of San Francisco. Amounts available under this facility are dependent on the amount of Schwab Bank's First Mortgages, HELOCs, and the fair

value of certain of Schwab's securities available for sale and/or securities held to maturity that are pledged as collateral. Schwab Bank maintains policies and procedures necessary to access this funding and tests borrowing procedures on a periodic basis. At June 30, 2016, $5.0 billion was outstanding under this facility with an additional $3.9 billion available based on the loans currently pledged there. This funding source is being used to temporarily support recent investment purchases until later in 2016 when management expects to complete planned bulk transfers of uninvested client brokerage cash to Schwab Bank.

CSC has authorization from its Board of Directors to issue unsecured commercial paper notes (Commercial Paper Notes) not to exceed $1.5 billion. Management has set a current limit for the commercial paper program not to exceed the amount of the committed, unsecured credit facility, which was $750 million at June 30, 2016. The maturities of the Commercial Paper Notes may vary, but are not to exceed 270 days from the date of issue. The commercial paper is not redeemable prior to maturity and cannot be voluntarily prepaid. The proceeds of the commercial paper program are to be used for general corporate purposes. CSC's ratings for these short-term borrowings are P1 by Moody's, A1 by Standard & Poor's, and F1 by Fitch. CSC had no Commercial Paper Notes outstanding as of June 30, 2016.

CSC had long-term debt of $2.9 billion at June 30, 2016 and December 31, 2015, bearing a weighted-average interest rate of 3.38%. CSC has a universal automatic shelf registration statement on file with the Securities and Exchange Commission (SEC) which enables it to issue debt, equity, and other securities.

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

June 30, 2016	Par Outstanding	Maturity	Weighted Average Interest Rate	Moody's	Standard & Poor's	Fitch
Senior Notes	$ 2,581	2018 – 2026	3.03% fixed	A2	A	A
Medium-Term Notes	$ 250	2017	6.375% fixed	A2	A	A

On March 7, 2016, CSC completed an equity offering of 30 million depositary shares, each representing a 1/40th ownership interest in a share of 5.95% non-cumulative perpetual preferred stock (Series D Preferred Stock). The net proceeds from the sale were $725 million. CSC's preferred stock is rated Baa2 by Moody's, BBB by Standard & Poor's, and BB+ by Fitch.

For further discussion of CSC's long-term debt and information on the equity offering, see "Item 1 – Notes to Condensed Consolidated Financial Statements (Unaudited) – 7. Borrowings and 11. Stockholders' Equity."

CAPITAL MANAGEMENT

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

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

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

The Company conducts regular capital stress testing to assess the potential financial impacts of various adverse macroeconomic and company-specific events to which the Company could be subjected. The objective of the Company's capital stress testing is (1) to explore various potential outcomes – including rare and extreme events and (2) to assess impacts of potential stressful outcomes on both capital and liquidity. Additionally, the Company has a comprehensive Capital Contingency Plan to provide action plans for certain low probability/high impact capital events that the Company might face. The Capital Contingency Plan is issued under the authority of the Asset-Liability Management and Pricing Committee and provides guidelines for sustained capital events. It does not specifically address every contingency, but is designed to provide a framework for responding to any capital stress. The Capital Contingency Plan is reviewed annually and updated as appropriate.

For additional information, see "Part I – Item 1 – Business – Regulation" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Regulatory Capital Requirements

CSC is subject to capital requirements set by the Federal Reserve and is required to serve as a source of strength for Schwab Bank and to provide financial assistance if Schwab Bank experiences financial distress. To manage capital adequacy, the Company currently utilizes a target Tier 1 Leverage Ratio for CSC of at least 6%. Due to the relatively low risk of the

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Company's balance sheet assets and risk-based capital ratios at CSC and Schwab Bank that are well in excess of regulatory requirements, the Tier 1 Leverage Ratio is the most restrictive capital constraint on CSC's asset growth.

Schwab Bank is subject to capital requirements set by the OCC that are substantially similar to those imposed on CSC by the Federal Reserve. Schwab Bank's failure to remain well capitalized could result in certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the bank. The Company currently utilizes a target Tier 1 Leverage Ratio for Schwab Bank of at least 6.25%. Based on its regulatory capital ratios at June 30, 2016, Schwab Bank is considered well capitalized.

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

June 30, 2016	CSC	Schwab Bank
Total stockholders' equity	$ 14,990	$ 10,546
Less:		
Preferred Stock	2,189	-
Common Equity Tier 1 Capital before regulatory adjustments	$ 12,801	$ 10,546
Less:		
Goodwill, net of associated deferred tax liabilities	$ 1,180	$ 11
Other intangible assets, net of associated deferred tax liabilities	56	-
Deferred tax assets, net of valuation allowances and deferred tax liabilities	1	-
AOCI adjustment (1)	(17)	(29)
Common Equity Tier 1 Capital	$ 11,581	$ 10,564
Tier 1 Capital	$ 13,770	$ 10,564
Total Capital	13,802	10,595
Risk-Weighted Assets	64,615	55,963
Common Equity Tier 1 Capital/Risk-Weighted Assets	17.9 %	18.9 %
Tier 1 Capital/Risk-Weighted Assets	21.3 %	18.9 %
Total Capital/Risk-Weighted Assets	21.4 %	18.9 %
Tier 1 Leverage Ratio	7.2 %	7.1 %

(1)

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

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

The Company’s broker-dealer subsidiaries (Schwab and optionsXpress, Inc.) are subject to regulatory requirements of the Uniform Net Capital Rule. The rule is intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit the broker-dealer subsidiaries from paying cash dividends, making unsecured advances and loans to their parent company and employees, and from repaying subordinated borrowings from CSC if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement of $250,000. As such, the broker-dealer subsidiaries are required to maintain, at all times, at least the minimum level of net capital required under Rule 15c3-1. At June 30, 2016, Schwab and optionsXpress, Inc. met and exceeded their net capital requirements.

In addition to the capital requirements above, the Company’s subsidiaries are subject to various regulatory requirements that are intended to ensure financial soundness and liquidity. See “Item 1 – Condensed Consolidated Balance Sheets and Notes to Condensed Consolidated Financial Statements (Unaudited) – 14. Regulatory Requirements” for additional information on the components of stockholders’ equity and information on the capital requirements of each of the subsidiaries.

THE CHARLES SCHWAB CORPORATION

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

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

Dividends

On April 21, 2016, the Board of Directors of the Company declared a one cent, or 17%, increase in the quarterly cash dividend to $0.07 per common share. The following table details the CSC cash dividends paid and per share amounts for the first halves of 2016 and 2015:

Six Months Ended June 30,	2016		2015	
	Cash Paid	Per Share Amount	Cash Paid	Per Share Amount
Common Stock	$ 173	$ 0.13	$ 159	$ 0.12
Series A Preferred Stock	14	35.00	14	35.00
Series B Preferred Stock	15	30.00	15	30.00
Series C Preferred Stock	18	30.00	-	-
Series D Preferred Stock (1)	10	13.89	-	-

(1) Series D Preferred Stock was issued on March 7, 2016.

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 – Off-Balance Sheet Arrangements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, and "Item 1 – Notes to Condensed Consolidated Financial Statements (Unaudited) – 8. Commitments and Contingencies."

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, 2015. There have been no changes to these critical accounting estimates during the first half of 2016.

Item 3.Quantitative and Qualitative Disclosures About Market Risk

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, a portion of the Company's investment portfolios is sensitive to changes in long-term interest rates. To manage the Company's interest rate risk, 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 primarily include investment securities, margin loans and bank loans. These assets are sensitive to changes in interest rates and changes in prepayment levels that tend to increase in a declining rate environment and decrease in a rising rate environment. Because the Company establishes the rates paid on certain brokerage client cash balances and bank deposits and the rates charged on certain margin loans and bank loans, and controls the composition of its investment securities, it has some ability to manage its net interest spread, depending on competitive factors and market conditions.

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

Financial instruments held by the Company are also subject to the risk that valuations will be negatively affected by changes in demand and the underlying market for a financial instrument. The Company is 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, futures, and equity market fluctuations in connection with client option and futures accounts, securities collateralizing margin loans to brokerage customers, and client securities loaned out as part of the Company's securities lending activities. Equity market valuations may also affect the level of brokerage client trading activity, margin borrowing, and overall client engagement with the Company. Additionally, the Company earns mutual fund and ETF service fees and asset management fees based upon daily balances of certain client assets. Fluctuations in these client asset

balances caused by changes in equity valuations directly impact the amount of fee revenue earned by the Company.

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

Net Interest Revenue Simulation

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

If the Company's guidelines for its net interest revenue sensitivity are breached, management must report the breach to the Company's Corporate Asset-Liability Management and Pricing Committee and establish a plan to address the interest rate risk. 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 Asset-Liability Management and Pricing Committee. There were no breaches of the Company's net interest revenue sensitivity guidelines during the first half of 2016 or year ended December 31, 2015.

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

The simulations in the following table assume that the asset and liability structure of the consolidated balance sheet would not be changed as a result of the simulated changes in interest rates. As the Company actively manages its consolidated balance sheet and interest rate exposure, in all likelihood the Company would take steps to manage additional interest rate exposure that could result from changes in the interest rate environment. The following table shows the simulated net interest revenue change over the next 12 months beginning June 30, 2016 and December 31, 2015 of a gradual 100 basis point increase or decrease in market interest rates relative to prevailing market rates at the end of each reporting period.

	June 30, 2016	December 31, 2015
Increase of 100 basis points	9.1 %	8.2 %
Decrease of 100 basis points	(10.7)%	(9.5) %

The sensitivities shown in the simulation reflect the fact that short-term interest rates in the first half of 2016 remained at low levels despite the increase in federal funds target range to .25% to .50% as directed by the Federal Open Markets Committee in December 2015. 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.

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Revenues				
Asset management and administration fees (1)	$ 757	$ 670	$ 1,456	$ 1,314
Interest revenue	840	645	1,650	1,262
Interest expense	(42)	(33)	(80)	(62)
Net interest revenue	798	612	1,570	1,200
Trading revenue	201	203	433	430
Other	70	79	133	142
Provision for loan losses	2	2	-	6
Total net revenues	1,828	1,566	3,592	3,092
Expenses Excluding Interest				
Compensation and benefits	602	540	1,228	1,121
Professional services	125	112	241	226
Occupancy and equipment	101	85	199	168
Advertising and market development	70	62	140	131
Communications	62	59	122	117
Depreciation and amortization	57	55	113	109
Other	91	86	174	169
Total expenses excluding interest	1,108	999	2,217	2,041
Income before taxes on income	720	567	1,375	1,051
Taxes on income	268	214	511	396
Net Income	452	353	864	655
Preferred stock dividends and other (2)	46	23	66	34
Net Income Available to Common Stockholders	$ 406	$ 330	$ 798	$ 621
Weighted-Average Common Shares Outstanding:				

Basic	1,322	1,314	1,322	1,313
Diluted	1,333	1,326	1,331	1,325
Earnings Per Common Share:				
Basic	$ .31	$ .25	$ .60	$ .47
Diluted	$ .30	$ .25	$ .60	$ .47
Dividends Declared Per Common Share	$ .07	$ .06	.13	.12

(1) Includes fee waivers of $55 and $168 during the second quarters of 2016 and 2015, respectively and $152 and $353 during the first halves of 2016 and 2015, respectively, relating to Schwab-sponsored money market funds.
(2) Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statements of Comprehensive Income

(In Millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Income	$ 452	$ 353	$ 864	$ 655
Other comprehensive income (loss), before tax:				
Change in net unrealized gain on securities available for sale:				
Net unrealized gain (loss)	168	(91)	189	16
Other reclassifications included in other revenue	(3)	-	(3)	-
Other	-	-	1	-
Other comprehensive income (loss), before tax	165	(91)	187	16
Income tax effect	(62)	34	(70)	(7)
Other comprehensive income (loss), net of tax	103	(57)	117	9
Comprehensive Income	$ 555	$ 296	$ 981	$ 664

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Balance Sheets

(In Millions, Except Per Share and Share Amounts)

(Unaudited)

	June 30, 2016	December 31, 2015 (1)
Assets		
Cash and cash equivalents	$ 12,976	$ 11,978
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $7,270 at June 30, 2016 and $8,088 at December 31, 2015)	18,593	19,598
Receivables from brokers, dealers, and clearing organizations	1,008	582
Receivables from brokerage clients — net	16,822	17,313
Other securities owned — at fair value	525	533
Securities available for sale	74,228	65,646
Securities held to maturity (fair value — $57,195 at June 30, 2016 and $50,088 at December 31, 2015)	55,307	50,007
Bank loans — net	14,670	14,334
Equipment, office facilities, and property — net	1,242	1,145
Goodwill	1,227	1,227
Intangible assets — net	163	181
Other assets	1,291	1,161
Total assets	$ 198,052	$ 183,705
Liabilities and Stockholders’ Equity		
Bank deposits	$ 137,295	$ 129,502
Payables to brokers, dealers, and clearing organizations	3,392	2,588
Payables to brokerage clients	32,679	33,185
Accrued expenses and other liabilities	1,820	2,151
Short-term borrowings	5,000	-
Long-term debt	2,876	2,877
Total liabilities	183,062	170,303
Stockholders’ equity:		
Preferred stock — $.01 par value per share; aggregate liquidation preference of $2,235 at June 30, 2016 and $1,485 at December 31, 2015	2,189	1,459
Common stock — 3 billion shares authorized; $.01 par value per share;		

1,487,543,446 shares issued	15	15
Additional paid-in capital	4,223	4,152
Retained earnings	11,882	11,253
Treasury stock, at cost — 164,670,326 shares at June 30, 2016 and 167,205,881 shares at December 31, 2015	(3,302)	(3,343)
Accumulated other comprehensive income	(17)	(134)
Total stockholders' equity	14,990	13,402
Total liabilities and stockholders' equity	$ 198,052	$ 183,705

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

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statements of Cash Flows

(In Millions)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash Flows from Operating Activities		
Net income	$ 864	$ 655
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Provision for loan losses	-	(6)
Stock-based compensation	75	69
Depreciation and amortization	113	109
Premium amortization, net, on securities available for sale and securities held to maturity	107	77
Other	17	3
Net change in:		
Cash and investments segregated and on deposit for regulatory purposes	1,005	2,897
Receivables from brokers, dealers, and clearing organizations	(431)	(445)
Receivables from brokerage clients	486	(954)
Other securities owned	8	(95)
Other assets	(37)	(33)
Payables to brokers, dealers, and clearing organizations	153	269
Payables to brokerage clients	(506)	(2,825)
Accrued expenses and other liabilities	(331)	(458)
Net cash provided by (used for) operating activities	1,523	(737)
Cash Flows from Investing Activities		
Purchases of securities available for sale	(16,598)	(12,423)
Proceeds from sales of securities available for sale	4,074	594
Principal payments on securities available for sale	4,763	3,404
Purchases of securities held to maturity	(7,582)	(5,070)
Principal payments on securities held to maturity	2,198	1,688
Net increase in bank loans	(362)	(632)
Purchases of equipment, office facilities, and property	(195)	(125)
Other investing activities	(132)	(4)
Net cash used for investing activities	(13,834)	(12,568)
Cash Flows from Financing Activities		
Net change in bank deposits	7,793	10,096
Proceeds from short-term borrowings	5,000	-

Issuance of long-term debt	-	998
Repayment of long-term debt	(3)	(4)
Net proceeds from preferred stock offering	725	-
Dividends paid	(230)	(188)
Proceeds from stock options exercised and other	19	50
Other financing activities	5	7
Net cash provided by financing activities	13,309	10,959
Increase (Decrease) in Cash and Cash Equivalents	998	(2,346)
Cash and Cash Equivalents at Beginning of Period	11,978	11,363
Cash and Cash Equivalents at End of Period	$ 12,976	$ 9,017
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	$ 74	$ 53
Income taxes	$ 505	$ 386
Non-cash investing activity:		
Securities purchased during the period but settled after period end	$ 651	$ 245

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

CSC is a savings and loan holding company engaged, through its subsidiaries, in wealth management, securities brokerage, banking, money management, custody, and financial advisory services. Schwab is a securities broker-dealer with over 330 domestic branch offices in 46 states, as well as a branch in each of the Commonwealth of Puerto Rico and London, England. In addition, Schwab serves clients in Hong Kong through one of CSC's subsidiaries. Other subsidiaries include Schwab Bank, a federal savings bank, and CSIM, the investment advisor for Schwab's proprietary mutual funds, which are referred to as the Schwab Funds®, and for Schwab's exchange-traded funds, which are referred to as the Schwab ETFs™.

The accompanying 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 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 (OTTI) 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, 2015.

The Company's significant accounting policies are included in "Notes – 2. Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. There have been no significant changes to these accounting policies during the first half of 2016.

Principles of Consolidation

The Company evaluates for consolidation all entities in which it has financial interests, except for money market funds which are specifically excluded from consolidation guidance. For an entity subject to consolidation, the Company evaluates whether the Company's interest in the entity constitutes a controlling financial interest under either the variable interest entity (VIE) model or a voting interest entity (VOE) model. Based upon the Company's assessments, the Company is not deemed to have a controlling financial interest in and, therefore, is not required to consolidate any VIEs. See "Notes – 5. Variable Interest Entities" for further information about VIEs. The Company consolidates all VOEs in which it has majority voting interests.

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

2.New Accounting Standards

Adoption of New Accounting Standards

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

On January 1, 2016, the Company adopted ASU 2015-03, "Interest – Imputation of Interest (Subtopic 835-30)." ASU 2015-03 requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction

THE CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

from the carrying amount of that debt liability, consistent with debt discounts. Previously, debt issuance costs were presented as a separate asset on the balance sheet. The guidance in ASU 2015-03 has been applied on a retrospective basis which requires the adjustment of all prior period consolidated balance sheets. The effect of the adoption on the Company's December 31, 2015 consolidated balance sheet was to decrease other assets and total assets by $13 million and to decrease long-term debt and total liabilities by $13 million. A similar amount was also reclassified in the prior year. The Company considers the reclassifications immaterial.

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

New Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which provides new guidance on revenue recognition. The guidance clarifies that revenue from contracts with customers should be recognized in a manner that depicts the timing of the related transfer of goods or performance of services at an amount that reflects the expected consideration. The new guidance will become effective January 1, 2018, with early adoption permitted as of January 1, 2017. Entities may elect either full or modified retrospective transition. Full retrospective transition will require a cumulative effect adjustment to retained earnings as of the earliest comparative period presented. Modified retrospective transition will require a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance. The Company is currently evaluating the impact of this new guidance on its financial statements and EPS.

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

expedient can be elected, (ii) requires the use of an exit price notion when measuring the fair value of financial instruments for disclosure purposes, and (iii) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial instrument on the balance sheet or in the accompanying notes. The Company is currently evaluating the impact of this new guidance on its financial statements and EPS.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" which amends the accounting for leases by lessees and lessors. The primary change as a result of the new standard is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. Additional changes include accounting for lease origination and executory costs, required lessee reassessments during the lease term due to changes in circumstances and expanded lease disclosures. ASU 2016-02 will become effective January 1, 2019, with early adoption permitted, and requires entities to apply the new guidance using a modified retrospective transition. Modified retrospective transition requires entities to apply the new guidance as of the beginning of the earliest comparative period presented in the financial statements in which the entity first applies the new standard. Certain transition reliefs are permitted if elected by the entity. The Company is currently evaluating the impact of this new guidance on its financial statements and EPS.

In March 2016, the FASB issued ASU 2016-09, "Stock Compensation – Improvements to Employee Share-Based Payment Accounting (Topic 718)" which amends certain aspects of how an entity accounts for share-based payments to employees. The new guidance requires entities to recognize the income tax effects of share-based awards in the income statement when the awards vest or are settled, rather than recording such effects in additional paid-in capital. Entities will also be permitted to elect to account for forfeitures of share-based payments as they occur or continue with current practice which requires estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change. ASU 2016-09 will become effective January 1, 2017, with early adoption permitted. The change in recognition of income tax effects of share-based awards will be applied prospectively. If an entity elects to account for forfeitures of share-based payments as they occur, such change will be applied using a modified retrospective transition method, with a cumulative-effect adjustment to retained earnings. The Company is currently evaluating the impact of this new guidance on its financial statements and EPS.

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Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

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

THE CHARLES SCHWAB CORPORATION

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:

June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. agency mortgage-backed securities	$ 30,942	$ 251	$ 60	$ 31,133
Asset-backed securities	22,117	11	372	21,756
Corporate debt securities	10,095	60	8	10,147
U.S. Treasury securities	4,966	52	-	5,018
U.S. agency notes	2,972	1	-	2,973
Certificates of deposit	2,180	1	3	2,178
U.S. state and municipal securities	613	38	-	651
Commercial paper	213	-	-	213
Non-agency commercial mortgage-backed securities	158	1	-	159
Total securities available for sale	$ 74,256	$ 415	$ 443	$ 74,228
Securities held to maturity:				
U.S. agency mortgage-backed securities	$ 54,087	$ 1,829	$ -	$ 55,916
Non-agency commercial mortgage-backed securities	998	46	-	1,044
U.S. Treasury securities	222	13	-	235
Total securities held to maturity	$ 55,307	$ 1,888	$ -	$ 57,195

December 31, 2015				
Securities available for sale:				
U.S. agency mortgage-backed securities	$ 22,014	$ 183	$ 48	$ 22,149
Asset-backed securities	21,784	7	306	21,485
Corporate debt securities	10,764	14	31	10,747
U.S. Treasury securities	5,719	2	17	5,704
U.S. agency notes	3,177	-	27	3,150
Certificates of deposit	1,685	1	3	1,683
U.S. state and municipal securities	414	10	-	424

Non-agency commercial mortgage-backed securities	298	1	-	299
Other securities	5	-	-	5
Total securities available for sale	$ 65,860	$ 218	$ 432	$ 65,646
Securities held to maturity:				
U.S. agency mortgage-backed securities	$ 48,785	$ 391	$ 293	$ 48,883
Non-agency commercial mortgage-backed securities	999	6	20	985
U.S. Treasury securities	223	-	3	220
Total securities held to maturity	$ 50,007	$ 397	$ 316	$ 50,088

Schwab Bank pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was $170 million at June 30, 2016.

THE CHARLES SCHWAB CORPORATION

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:

June 30, 2016	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	$ 8,613	$ 52	$ 1,420	$ 8	$ 10,033	$ 60
Asset-backed securities	10,733	261	3,789	111	14,522	372
Corporate debt securities	1,452	3	1,471	5	2,923	8
Certificates of deposit	843	3	299	-	1,142	3
Total securities with unrealized losses (1)	$ 21,641	$ 319	$ 6,979	$ 124	$ 28,620	$ 443

December 31, 2015						
Securities available for sale:						
U.S. agency mortgage-backed securities	$ 8,541	$ 47	$ 813	$ 1	$ 9,354	$ 48
Asset-backed securities	17,127	240	2,743	66	19,870	306
Corporate debt securities	5,433	25	942	6	6,375	31
U.S. Treasury securities	5,010	17	-	-	5,010	17
U.S. agency notes	1,281	10	1,547	17	2,828	27
Certificates of deposit	773	2	599	1	1,372	3
Total	$ 38,165	$ 341	$ 6,644	$ 91	$ 44,809	$ 432
Securities held to maturity:						
U.S. agency mortgage-backed securities	$ 24,219	$ 253	$ 1,842	$ 40	$ 26,061	$ 293
Non-agency commercial mortgage-backed securities	729	20	-	-	729	20
U.S. Treasury securities	220	3	-	-	220	3
Total	$ 25,168	$ 276	$ 1,842	$ 40	$ 27,010	$ 316
Total securities with unrealized losses (2)	$ 63,333	$ 617	$ 8,486	$ 131	$ 71,819	$ 748

(1) The number of investment positions with unrealized losses totaled 322 for securities available for sale.
(2)

The number of investment positions with unrealized losses totaled 409 for securities available for sale and 286 for securities held to maturity.

Management evaluates whether securities available for sale and securities held to maturity are OTTI on a quarterly basis as described in “Notes – 2. Summary of Significant Accounting Policies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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The maturities of securities available for sale and securities held to maturity are as follows:

June 30, 2016	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Securities available for sale:					
U.S. agency mortgage-backed securities (1)	$ 3	$ 3,072	$ 15,661	$ 12,397	$ 31,133
Asset-backed securities	-	8,787	4,176	8,793	21,756
Corporate debt securities	2,601	7,546	-	-	10,147
U.S. Treasury securities	-	4,809	209	-	5,018
U.S. agency notes	-	2,973	-	-	2,973
Certificates of deposit	786	1,392	-	-	2,178
U.S. state and municipal securities	-	-	29	622	651
Commercial paper	213	-	-	-	213
Non-agency commercial mortgage-backed securities	-	-	-	159	159
Total fair value	$ 3,603	$ 28,579	$ 20,075	$ 21,971	$ 74,228
Total amortized cost	$ 3,596	$ 28,417	$ 20,106	$ 22,137	$ 74,256
Securities held to maturity:					
U.S. agency mortgage-backed securities (1)	$ -	$ 3,399	$ 21,564	$ 30,953	$ 55,916
Non-agency commercial mortgage-backed securities (1)	-	-	378	666	1,044
U.S. Treasury securities	-	-	235	-	235
Total fair value	$ -	$ 3,399	$ 22,177	$ 31,619	$ 57,195
Total amortized cost	$ -	$ 3,232	$ 21,116	$ 30,959	$ 55,307

(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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Proceeds	$ 3,774	$ 444	$ 4,074	$ 594
Gross realized gains	3	1	3	1
Gross realized losses	-	1	-	1

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4.Bank Loans and Related Allowance for Loan Losses

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

June 30, 2016	Current	30-59 days past due	60-89 days past due	>90 days past due and other nonaccrual loans	Total past due and other nonaccrual loans	Total loans	Allowance for loan losses	Total bank loans - net
Residential real estate mortgages	$ 8,472	$ 13	$ 1	$ 16	$ 30	$ 8,502	$ 20	$ 8,482
Home equity loans and lines of credit	2,564	5	1	12	18	2,582	10	2,572
Pledged asset lines	3,530	-	1	-	1	3,531	-	3,531
Other	86	-	-	-	-	86	1	85
Total bank loans	$ 14,652	$ 18	$ 3	$ 28	$ 49	$ 14,701	$ 31	$ 14,670
December 31, 2015								
Residential real estate mortgages	$ 8,304	$ 11	$ 1	$ 18	$ 30	$ 8,334	$ 20	$ 8,314
Home equity loans and lines of credit	2,720	4	1	10	15	2,735	11	2,724
Pledged asset lines	3,228	3	1	-	4	3,232	-	3,232
Other	64	-	-	-	-	64	-	64
Total bank loans	$ 14,316	$ 18	$ 3	$ 28	$ 49	$ 14,365	$ 31	$ 14,334

First Mortgages and HELOCs include unamortized premiums and discounts and direct origination costs of $79 million and $80 million at June 30, 2016 and December 31, 2015, respectively. The Company had commitments to extend credit related to unused HELOCs, PALs, and other lines of credit, which totaled $7.8 billion and $7.4 billion at June 30, 2016 and December 31, 2015, respectively. The Company had commitments to purchase First Mortgage loans of $569 million and $260 million at June 30, 2016 and December 31, 2015, respectively. All PALs were fully collateralized by securities with fair values in excess of borrowings at June 30, 2016 and December 31, 2015.

Schwab Bank provides a co-branded loan origination program for Schwab Bank clients (the Program) with Quicken Loans, Inc. (Quicken Loans®). Pursuant to the Program, Quicken Loans originates and services First Mortgages and HELOCs for Schwab Bank clients. Under the Program, Schwab Bank purchases certain First Mortgages and HELOCs that are originated by Quicken Loans. Schwab Bank purchased First Mortgages of $691 million and $542 million during the second quarters of 2016 and 2015, respectively, and $1.2 billion and $982 million during the first halves of 2016 and 2015, respectively. Schwab purchased HELOCs with commitments of $112 million and $165 million during the second quarters of 2016 and 2015, respectively, and $222 million and $282 million during the first halves of 2016 and 2015, respectively.

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Credit Quality

Changes in the allowance for loan losses were as follows:

Three Months Ended	June 30, 2016				June 30, 2015		
	Residential real estate mortgages	Home equity loans and lines of credit	Other	Total	Residential real estate mortgages	Home equity loans and lines of credit	Total
Balance at beginning of period	$ 21	$ 11	$ 1	$ 33	$ 26	$ 12	$ 38
Charge-offs	-	-	-	-	-	(1)	(1)
Recoveries	-	-	-	-	-	1	1
Provision for loan losses	(1)	(1)	-	(2)	(3)	1	(2)
Balance at end of period	$ 20	$ 10	$ 1	$ 31	$ 23	$ 13	$ 36

Six Months Ended	June 30, 2016				June 30, 2015		
	Residential real estate mortgages	Home equity loans and lines of credit	Other	Total	Residential real estate mortgages	Home equity loans and lines of credit	Total
Balance at beginning of period	$ 20	$ 11	$ -	$ 31	$ 29	$ 13	$ 42
Charge-offs	(1)	-	-	(1)	-	(2)	(2)
Recoveries	1	-	-	1	-	2	2
Provision for loan losses	-	(1)	1	-	(6)	-	(6)
Balance at end of period	$ 20	$ 10	$ 1	$ 31	$ 23	$ 13	$ 36

Substantially all of the bank loans were collectively evaluated for impairment at June 30, 2016 and December 31, 2015. There were no loans accruing interest that were contractually 90 days or more past due at June 30, 2016 or December 31, 2015. Nonperforming assets, which include nonaccrual loans and other real estate owned, totaled

$35 million and $36 million at June 30, 2016 and December 31, 2015, respectively. Impaired assets, which include nonaccrual loans, other real estate owned and troubled debt restructurings, totaled $48 million and $50 million at June 30, 2016 and December 31, 2015, respectively. Troubled debt restructurings were not material at June 30, 2016 or December 31, 2015.

In addition to monitoring delinquency, the Company monitors the credit quality of First Mortgages and HELOCs by stratifying the portfolios by the year of origination, borrower Origination FICO, Updated FICO, Origination LTV, and Estimated Current LTV. Borrowers' FICO scores are provided by an independent third-party credit reporting service and were last updated in June 2016. The Origination LTV and Estimated Current LTV for a HELOC include any first lien mortgage outstanding on the same property at the time of the HELOC's origination. The Estimated Current LTV for each loan is estimated by reference to a home price appreciation index.

As of June 30, 2016 and December 31, 2015, 48% of the Company's HELOC and First Mortgage portfolio was concentrated in California. These loans have performed in a manner consistent with the portfolio as a whole.

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June 30, 2016	Balance	Weighted Average Updated FICO	Utilization Rate(1)	Percent of Loans on Nonaccrual Status
Residential real estate mortgages:				
Estimated Current LTV				
<70%	$ 7,740	776	N/A	0.03 %
>70% – <90%	703	766	N/A	0.23 %
>90% – <100%	35	743	N/A	1.40 %
>100%	24	708	N/A	12.44 %
Total	$ 8,502	774	N/A	0.08 %
Home equity loans and lines of credit:				
Estimated Current LTV				
<70%	$ 2,187	773	36 %	0.13 %
>70% – <90%	318	759	49 %	0.30 %
>90% – <100%	44	753	57 %	1.01 %
>100%	33	738	68 %	2.01 %
Total	$ 2,582	770	38 %	0.19 %
Pledged asset lines:				
Weighted-Average LTV				
=70%	$ 3,531	762	48 %	-

(1) The Utilization Rate is calculated using the outstanding balance divided by the associated total line of credit.
N/A Not applicable.

June 30, 2016	Residential real estate mortgages	Home equity loans and lines of credit
Year of origination		
Pre-2012	$ 1,171	$ 1,875
2012	1,385	114

2013	2,126	212
2014	874	174
2015	1,744	159
2016	1,202	48
Total	$ 8,502	$ 2,582
Origination FICO		
<620	$ 9	$ 1
620 – 679	84	14
680 – 739	1,391	470
>740	7,018	2,097
Total	$ 8,502	$ 2,582
Origination LTV		
<70%	$ 6,178	$ 1,771
>70% – <90%	2,312	796
>90% – <100%	12	15
Total	$ 8,502	$ 2,582

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

(1) The Utilization Rate is calculated using the outstanding balance divided by the associated total line of credit.
N/A Not applicable.

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

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

5.Variable Interest Entities

A VIE requires consolidation by the entity's primary beneficiary. The Company evaluates all entities in which it has a financial interest to determine if the entity is a VIE and if so, whether the Company is the primary beneficiary. See the "Principles of Consolidation" section of "Notes – 1. Introduction and Basis of Presentation" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, for discussion of the Company's evaluations of VIEs and whether it is

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deemed to be the primary beneficiary of any VIEs in which it holds an interest. The Company was not the primary beneficiary of, and therefore, not required to consolidate any VIEs at June 30, 2016 and December 31, 2015.

Community Reinvestment Act investments

Schwab Bank is subject to the Community Reinvestment Act (CRA). The CRA is intended to encourage banks to help meet the credit needs of the communities in which they operate, including low and moderate income neighborhoods, consistent with safe and sound banking operations. As part of Schwab Bank's community reinvestment initiatives, Schwab Bank invests with other institutional investors in funds that make equity investments in multifamily affordable housing properties. Schwab Bank receives tax credits and other tax benefits for these investments. Schwab Bank's Low-Income Housing Tax Credit (LIHTC) investments are accounted for using the proportional amortization method. Amortization, tax credits, and other tax benefits recognized in relation to LIHTC investments are included in taxes on income on the condensed consolidated statements of income. As of June 30, 2016 and December 31, 2015, the majority of the Company's VIEs related to Schwab Bank's LIHTC investments.

The carrying value of the LIHTC investments was $138 million and $104 million as of June 30, 2016 and December 31, 2015, respectively, which is included in other assets on the condensed consolidated balance sheets. Schwab Bank recorded liabilities of $106 million and $84 million for unfunded commitments related to LIHTC investments at June 30, 2016 and December 31, 2015, respectively, which are included in accrued expenses and other liabilities on the condensed consolidated balance sheets. Schwab Bank's funding of these remaining commitments is dependent upon the occurrence of certain conditions and Schwab Bank expects to pay substantially all of these commitments between 2016 and 2019.

Aggregate assets, liabilities and maximum exposure to loss

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

	June 30, 2016			December 31, 2015		
	Aggregate assets	Aggregate liabilities	Maximum exposure to loss	Aggregate assets	Aggregate liabilities	Maximum exposure to loss
LIHTC investments (1)	$ 138	$ 106	$ 138	$ 104	$ 84	$ 104
Other CRA investments (2)	57	-	65	57	-	66
Total	$ 195	$ 106	$ 203	$ 161	$ 84	$ 170

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

The Company's maximum exposure to loss would result from the loss of the investments, including any committed amounts. During the six months ended June 30, 2016 and 2015, the Company did not provide or intend to provide financial or other support to the VIEs that it was not contractually required to provide.

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6.Bank Deposits

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

	June 30, 2016	December 31, 2015
Interest-bearing deposits:		
Deposits swept from brokerage accounts	$ 116,024	$ 108,137
Checking	12,685	12,822
Savings and other	8,052	7,896
Total interest-bearing deposits	136,761	128,855
Non-interest-bearing deposits	534	647
Total bank deposits	$ 137,295	$ 129,502

7.Borrowings

Long-term debt, including unamortized debt discounts and premiums, and debt issuance costs, where applicable, consists of the following:

	June 30, 2016	December 31, 2015
Senior Notes (1)	$ 2,555	$ 2,553
Senior Medium-Term Notes (1)	249	249
Finance lease obligation	72	75

Total long-term debt	$ 2,876	$ 2,877

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

Annual maturities on long-term debt outstanding at June 30, 2016 are as follows:

2016	$ 4
2017	258
2018	908
2019	8
2020	709
Thereafter	1,016
Total maturities	2,903
Unamortized discount, net	(15)
Debt issuance costs	(12)
Total long-term debt	$ 2,876

Short-term borrowings: Schwab Bank maintains a secured credit facility with the Federal Home Loan Bank of San Francisco. At June 30, 2016, $5.0 billion was outstanding under this facility with an additional $3.9 billion available based on the loans currently pledged there. As a condition of the borrowings, Schwab Bank purchased $118 million of FHLB stock, recorded at par, in the first half of 2016, with the investment recorded in other assets on the condensed consolidated balance sheets. No funds were drawn under this facility as of December 31, 2015. Amounts outstanding under this facility are included in short-term borrowings on the condensed consolidated balance sheets.

CSC has authorization from its Board of Directors to issue Commercial Paper Notes not to exceed $1.5 billion. Management has set a current limit for the commercial paper program not to exceed the amount of the committed, unsecured credit facility, which was $750 million at June 30, 2016. The maturities of the Commercial Paper Notes may vary, but are not to exceed

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270 days from the date of issue. The commercial paper is not redeemable prior to maturity and cannot be voluntarily prepaid. The proceeds of the commercial paper program are to be used for general corporate purposes. CSC had no borrowings of Commercial Paper Notes outstanding at June 30, 2016 and December 31, 2015.

8.Commitments and Contingencies

Guarantees and indemnifications: The Company has clients that sell (i.e., write) listed option contracts that are cleared by the Options Clearing Corporation – a clearing house that establishes margin requirements on these transactions. The Company partially satisfies the margin requirements by arranging unsecured standby LOCs, in favor of the Options Clearing Corporation, which are issued by several banks. At June 30, 2016, the aggregate face amount of these LOCs totaled $310 million. There were no funds drawn under any of these LOCs at June 30, 2016. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The Company satisfies the collateral requirements by providing cash as collateral.

The Company also provides guarantees to securities clearing houses and exchanges under standard membership agreements, which require members to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing houses and exchanges, other members would be required to meet shortfalls. The Company’s liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. 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. Unless otherwise noted, the Company is unable to provide a reasonable estimate of any potential liability given the stage of proceedings in the matter.

With respect to all other pending matters, based on current information and consultation with counsel, it does not appear reasonably possible that the outcome of any such matter would be material to the financial condition, operating results or cash flows of the Company. 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. It may not be possible to reasonably estimate potential liability, if any, or a range of potential liability until the matter is closer to resolution – pending, for example, further proceedings, the outcome of key motions or appeals, or discussions among the parties. Numerous issues may have to be developed, such as discovery of important factual matters and determination of threshold legal issues, which may include novel or unsettled questions of law. Reserves are established or adjusted or further disclosure and estimates of potential loss are provided as the matter progresses and more information becomes available.

Total Bond Market Fund Litigation: On August 28, 2008, a class action lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of investors in the Schwab Total Bond Market Fund™. The lawsuit, which alleged violations of state law and federal securities law in connection with the fund’s investment policy, named CSIM, Schwab Investments (registrant and issuer of the fund’s shares) and certain current and former fund trustees as defendants. Allegations include that the fund improperly deviated from its stated investment objectives by investing in collateralized mortgage obligations (CMOs) and investing more than 25% of fund assets in CMOs and mortgage-backed securities without obtaining a shareholder vote. Plaintiff seeks unspecified compensatory and rescission damages, unspecified equitable and

injunctive relief, costs and attorneys' fees. Plaintiff's federal securities law claim and certain of plaintiff's state law claims were dismissed. On August 8, 2011, the court dismissed plaintiff's remaining claims with prejudice. Plaintiff appealed to the Ninth Circuit, which issued a ruling on March 9, 2015 reversing the district court's dismissal of the case and remanding the case for further proceedings. Plaintiff filed a fourth amended complaint on June 25, 2015, and in decisions issued October 6, 2015 and February 23, 2016, the court dismissed all claims with prejudice. Plaintiff has appealed to the Ninth Circuit, where the case is again pending.

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. 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 in an amount that would not be material. The Company continues to dispute the allegations and is appealing the decision.

9.Offsetting Assets and Liabilities

Resale and repurchase agreements: Schwab enters into collateralized resale agreements principally with other broker-dealers, which could result in losses in the event the counterparty fails to purchase the securities held as collateral for the cash advanced and the fair value of the securities declines. To mitigate this risk, Schwab requires that the counterparty deliver securities to a custodian, to be held as collateral, with a fair value at or in excess of 102% of the resale price. Schwab also sets standards for the credit quality of the counterparty, monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest, and requires additional collateral where deemed appropriate. At June 30, 2016 and December 31, 2015, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was $7.4 billion and $8.2 billion, respectively. Schwab utilizes the collateral provided under these resale agreements to meet obligations under broker-dealer client protection rules, which place limitations on its ability to access such segregated securities. For Schwab to repledge or sell this collateral, it would be required to deposit cash and/or securities of an equal amount into its segregated reserve bank accounts in order to meet its segregated cash and investment requirement. The Company's resale agreements are not subject to master netting arrangements.

Securities lending: The Company loans client securities temporarily to other brokers in connection with its securities lending activities and receives cash as collateral for the securities loaned. Increases in security prices may cause the fair value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities or provide additional cash collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its client obligations. The Company mitigates this risk by requiring credit approvals for counterparties, monitoring the fair value of securities loaned, and requiring additional cash as collateral when necessary. The fair value of client securities pledged in securities lending transactions to other broker-dealers was $2.1 billion at June 30, 2016 and $1.9 billion at December 31, 2015. 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 and delivers cash to the lender in exchange for the securities. The fair value of these borrowed securities was $442 million at June 30, 2016 and $72 million at December 31, 2015. 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.

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The following table presents information about the Company's resale agreements and securities lending activity to enable the users of the Company's financial statements to evaluate the potential effect of rights of setoff between these recognized assets and recognized liabilities at June 30, 2016 and December 31, 2015.

	Gross Assets/ Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		Net Amount
				Counterparty Offsetting	Collateral	
June 30, 2016						
Assets:						
Resale agreements (1)	$ 7,270	$ -	$ 7,270	$ -	$ (7,270)(2)	$ -
Securities borrowed (3)	643	-	643	(436)	(206)	1
Total	$ 7,913	$ -	$ 7,913	$ (436)	$ (7,476)	$ 1
Liabilities:						
Securities loaned (4,5)	$ 2,461	$ -	$ 2,461	$ (436)	$ (1,890)	$ 135
Total	$ 2,461	$ -	$ 2,461	$ (436)	$ (1,890)	$ 135
December 31, 2015						
Assets:						
Resale agreements (1)	$ 8,088	$ -	$ 8,088	$ -	$ (8,088)(2)	$ -
Securities borrowed (3)	198	-	198	(70)	(127)	1
Total	$ 8,286	$ -	$ 8,286	$ (70)	$ (8,215)	$ 1
Liabilities:						
Securities loaned (4,5)	$ 2,233	$ -	$ 2,233	$ (70)	$ (1,990)	$ 173
Total	$ 2,233	$ -	$ 2,233	$ (70)	$ (1,990)	$ 173

(1) Included in cash and investments segregated and on deposit for regulatory purposes in the Company's condensed consolidated balance sheets.
(2) Actual collateral was greater than or equal to 102% of the related assets.
(3) Included in receivables from brokers, dealers, and clearing organizations in the Company's condensed consolidated balance sheets.
(4) Included in payables to brokers, dealers, and clearing organizations in the Company's condensed consolidated balance sheets.
(5) Securities loaned are predominantly comprised of equity securities with overnight and continuous remaining contractual maturities.

10.Fair Values of Assets and Liabilities

Assets and liabilities measured at fair value on a recurring basis

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

The Company’s primary independent pricing service provides prices based on observable trades and discounted cash flows that incorporate observable information such as yields for similar types of securities (a benchmark interest rate plus observable spreads) and weighted-average maturity for the same or similar “to-be-issued” securities. The Company compares the prices obtained from its primary independent pricing service to the prices obtained from the additional independent pricing services to determine if the price obtained from the primary independent pricing service is reasonable. The Company

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does not adjust the prices received from independent third-party pricing services unless such prices are inconsistent with the definition of fair value and result in a material difference in the recorded amounts.

Fair value of other financial instruments

Descriptions of the valuation methodologies and assumptions used to estimate the fair value of other financial instruments are described below. The Company's financial instruments not recorded at fair value but for which fair value can be approximated and disclosed include:

- Cash and cash equivalents are short-term in nature and accordingly are recorded at amounts that approximate fair value.

- Cash and investments segregated and on deposit for regulatory purposes include cash and securities purchased under resale agreements. Securities purchased under resale agreements are short-term in nature and are backed by collateral that both exceeds the carrying value of the resale agreement and is highly liquid in nature. Accordingly, the carrying values of these financial instruments approximate their fair values.

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

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

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

- Bank loans – The fair values of the Company's First Mortgages and HELOCs are estimated based on prices of mortgage-backed securities collateralized by similar types of loans. PALs are non-purpose revolving lines of credit

secured by eligible assets; accordingly, the carrying values of these loans approximate their fair values.

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

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

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

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

· Long-term debt – Except for the finance lease obligation, the fair values of long-term debt are estimated using indicative, non-binding quotes from independent brokers. The Company validates indicative prices for its debt through comparison to other independent non-binding quotes. The finance lease obligation is recorded at carrying value, which approximates fair value.

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

For a description of the fair value hierarchy, see "Notes – 2. Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. There were no significant changes in these policies and methodologies during the first six months of 2016. The Company did not transfer any assets or liabilities between Level 1, Level 2, or Level 3 during the six months ended June 30, 2016, or the year ended December 31, 2015. In addition, the Company did not adjust prices received from the primary independent third-party pricing service at June 30, 2016 or December 31, 2015.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 2,350	$ -	$ -	$ 2,350
Commercial paper	-	567	-	567
Total cash equivalents	2,350	567	-	2,917
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	-	3,151	-	3,151
U.S. Government securities	-	4,150	-	4,150
Total investments segregated and on deposit for regulatory purposes	-	7,301	-	7,301

Other securities owned:				
Schwab Funds® money market funds	162	-	-	162
Equity and bond mutual funds	241	10	-	251
State and municipal debt obligations	-	64	-	64
Equity, U.S. Government and corporate debt, and other securities	2	46	-	48
Total other securities owned	405	120	-	525
Securities available for sale:				
U.S. agency mortgage-backed securities	-	31,133	-	31,133
Asset-backed securities	-	21,756	-	21,756
Corporate debt securities	-	10,147	-	10,147
U.S. Treasury securities	-	5,018	-	5,018
U.S. agency notes	-	2,973	-	2,973
Certificates of deposit	-	2,178	-	2,178
U.S. state and municipal securities	-	651	-	651
Commercial paper	-	213	-	213
Non-agency commercial mortgage-backed securities	-	159	-	159
Total securities available for sale	-	74,228	-	74,228
Total	$ 2,755	$ 82,216	$ -	$ 84,971

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

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Fair Value of Other Financial Instruments

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

June 30, 2016	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 10,059	$ -	$ 10,059	$ -	$ 10,059
Cash and investments segregated and on deposit for regulatory purposes	11,287	-	11,287	-	11,287
Receivables from brokers, dealers, and clearing organizations	1,008	-	1,008	-	1,008
Receivables from brokerage clients – net	16,819	-	16,819	-	16,819
Securities held to maturity:					
U.S. agency mortgage-backed securities	54,087	-	55,916	-	55,916
Non-agency commercial mortgage-backed securities	998	-	1,044	-	1,044
U.S. Treasury securities	222	-	235	-	235
Total securities held to maturity	55,307	-	57,195	-	57,195
Bank loans: (1)					
Residential real estate mortgages	8,502	-	8,632	-	8,632
Home equity loans and lines of credit	2,582	-	2,718	-	2,718
Pledged asset lines	3,531	-	3,531	-	3,531
Other	86	-	86	-	86
Total bank loans	14,701	-	14,967	-	14,967
Other assets	333	-	333	-	333
Total	$ 109,514	$ -	$ 111,668	$ -	$ 111,668
Liabilities:					
Bank deposits	$ 137,295	$ -	$ 137,295	$ -	$ 137,295

Payables to brokers, dealers, and clearing organizations	3,392	-	3,392	-	3,392
Payables to brokerage clients	32,679	-	32,679	-	32,679
Accrued expenses and other liabilities	835	-	835	-	835
Short-term borrowings	5,000	-	5,000	-	5,000
Long-term debt	2,876	-	3,033	-	3,033
Total	$ 182,077	$ -	$ 182,234	$ -	$ 182,234

(1) The carrying value of bank loans excludes the allowance for loan losses of $31 million at June 30, 2016.

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

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

11.Stockholders' Equity

There have been no significant changes to the Company's stockholders' equity with the exception of the issuance disclosed below. The Company did not issue any shares of common stock during the six months ended June 30, 2016, or the year ended December 31, 2015.

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

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Including the Series D issuance discussed above, the Company's preferred stock issued and outstanding is as follows:

	June 30, 2016				December 31, 2015			
	Shares Issued and Outstanding (In thousands)	Liquidation Preference Per Share	Liquidation Preference	Carrying Value	Shares Issued and Outstanding (In thousands)	Liquidation Preference Per Share	Liquidation Preference	Carrying Value
Series A	400	$ 1,000	$ 400	$ 397	400	$ 1,000	$ 400	$ 396
Series B	485	1,000	485	482	485	1,000	485	480
Series C	600	1,000	600	584	600	1,000	600	583
Series D	750	1,000	750	726	-	-	-	-
Total Preferred Stock	2,235		$ 2,235	$ 2,189	1,485		$ 1,485	$ 1,459

12.Accumulated Other Comprehensive Income

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

Three Months Ended June 30,	2016			2015		
	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)	$ 168	$ (63)	$ 105	$ (91)	$ 34	$ (57)
Other reclassifications included in						

other revenue	(3)	1	(2)	-	-	-
Change in net unrealized gain (loss) on securities available for sale	165	(62)	103	(91)	34	(57)
Other comprehensive income (loss)	$ 165	$ (62)	$ 103	$ (91)	$ 34	$ (57)

Six Months Ended June 30,	2016			2015		
	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)	$ 189	$ (71)	$ 118	$ 16	$ (7)	$ 9
Other reclassifications included in other revenue	(3)	1	(2)	-	-	-
Change in net unrealized gain (loss) on securities available for sale	186	(70)	116	16	(7)	9
Other	1	-	1	-	-	-
Other comprehensive income (loss)	$ 187	$ (70)	$ 117	$ 16	$ (7)	$ 9

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Accumulated other comprehensive income balances are as follows:

	Total Accumulated Other Comprehensive Income
Balance at December 31, 2014	$ 165
Net unrealized gain on securities available for sale	9
Balance at June 30, 2015	$ 174
Balance at December 31, 2015	$ (134)
Net unrealized gain on securities available for sale	116
Other	1
Balance at June 30, 2016	$ (17)

13.Earnings Per Common Share

EPS is computed using the two-class method. Preferred stock dividends, and undistributed earnings and dividends allocated to participating securities are subtracted from net income in determining net income available to common stockholders. 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 non-vested restricted stock awards and units. EPS under the basic and diluted computations is as follows:

Six Months Ended

	Three Months Ended June 30,		June 30,	
	2016	2015	2016	2015
Net income	$ 452	$ 353	$ 864	$ 655
Preferred stock dividends and other (1)	(46)	(23)	(66)	(34)
Net income available to common stockholders	$ 406	$ 330	$ 798	$ 621
Weighted-average common shares outstanding — basic	1,322	1,314	1,322	1,313
Common stock equivalent shares related to stock incentive plans	11	12	9	12
Weighted-average common shares outstanding — diluted (2)	1,333	1,326	1,331	1,325
Basic EPS	$ .31	$ .25	$ .60	$ .47
Diluted EPS	$ .30	$ .25	$ .60	$ .47

(1) Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.
(2) Antidilutive stock options and restricted stock awards excluded from the calculation of diluted EPS totaled 19 million and 15 million shares for the second quarters of 2016 and 2015, respectively, and 22 million and 16 million shares for the first halves of 2016 and 2015, respectively.

14.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 examination, supervision, and regulation by the Federal Reserve. Schwab Bank is subject to examination, supervision, and regulation by the OCC, as its primary regulator, the FDIC, as its deposit insurer, and the CFPB. CSC is required to serve as a source of strength for Schwab Bank. On January 1, 2015, CSC became subject to regulatory capital requirements adopted by the Federal Reserve.

Schwab Bank is subject to various requirements and restrictions under federal and state laws, including regulatory capital requirements and requirements that restrict and govern the terms of affiliate transactions, such as extensions of credit to, or

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asset purchases from CSC or its other subsidiaries by Schwab Bank. 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. CSC and Schwab Bank are required to maintain minimum capital levels as specified in federal banking 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 CSC and Schwab Bank. At June 30, 2016, both CSC and Schwab Bank met all of their respective capital requirements. Certain events, such as growth in bank deposits and regulatory discretion, could adversely affect CSC's or Schwab Bank's ability to meet future capital requirements.

The regulatory capital and ratios for CSC and Schwab Bank are as follows:

	Actual		Minimum to be Well Capitalized		Minimum Capital Requirement	
June 30, 2016	Amount	Ratio	Amount	Ratio	Amount	Ratio
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 11,581	17.9 %	N/A		$ 2,908	4.5 %
Tier 1 Risk-Based Capital	13,770	21.3 %	N/A		3,877	6.0 %
Total Risk-Based Capital	13,802	21.4 %	N/A		5,169	8.0 %
Tier 1 Leverage	13,770	7.2 %	N/A		7,620	4.0 %
Schwab Bank						
Common Equity Tier 1 Risk-Based Capital	$ 10,564	18.9 %	$ 3,638	6.5 %	$ 2,518	4.5 %
Tier 1 Risk-Based Capital	10,564	18.9 %	4,477	8.0 %	3,358	6.0 %
Total Risk-Based Capital	10,595	18.9 %	5,596	10.0 %	4,477	8.0 %
Tier 1 Leverage	10,564	7.1 %	7,462	5.0 %	5,970	4.0 %
December 31, 2015						
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 10,851	18.2 %	N/A		$ 2,681	4.5 %
Tier 1 Risk-Based Capital	12,310	20.7 %	N/A		3,575	6.0 %
Total Risk-Based Capital	12,342	20.7 %	N/A		4,766	8.0 %
Tier 1 Leverage	12,310	7.1 %	N/A		6,912	4.0 %
Schwab Bank						
Common Equity Tier 1 Risk-Based Capital	$ 9,314	18.1 %	$ 3,349	6.5 %	$ 2,318	4.5 %
Tier 1 Risk-Based Capital	9,314	18.1 %	4,121	8.0 %	3,091	6.0 %

Total Risk-Based Capital	9,345	18.1 %	5,152	10.0 %	4,121	8.0 %
Tier 1 Leverage	9,314	7.1 %	6,594	5.0 %	5,275	4.0 %

N/A Not applicable.

Based on its regulatory capital ratios at June 30, 2016, Schwab Bank is considered well capitalized (the highest category) under their respective regulatory capital rules. There are no conditions or events since June 30, 2016 that management believes have changed Schwab Bank's capital category.

Beginning on January 1, 2016, CSC and Schwab Bank became subject to a new capital conservation buffer requirement of .625% of risk-weighted assets, increasing each year by .625% until fully implemented at 2.5% of risk-weighted assets in January 2019. The capital conservation buffer is in addition to the minimum risk-based capital requirements described above. Failure to maintain the capital conservation buffer would limit an entity's ability to make capital distributions and discretionary bonus payments to executive officers. At June 30, 2016, both CSC's and Schwab Bank's capital levels exceeded the fully implemented capital conservation buffer requirement.

CSC's principal 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

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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. are as follows:

June 30, 2016	Net Capital	Minimum Net Capital Required	2% of Aggregate Debit Balances	Net Capital in Excess of Required Net Capital
Schwab	$ 1,820	$ 0.250	$ 360	$ 1,460
optionsXpress, Inc.	260	1	7	253
December 31, 2015				
Schwab	$ 1,746	$ 0.250	$ 358	$ 1,388
optionsXpress, Inc.	244	1	7	237

15.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, retirement plan services, and other corporate brokerage services. The Advisor Services segment provides custodial, trading, and support services as well as retirement business services. 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 restructuring and other charges. 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.

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

	Investor Services (1)		Advisor Services (1)		Total	
Three Months Ended June 30,	2016	2015	2016	2015	2016	2015
Net Revenues:						
Asset management and administration fees	$ 514	$ 465	$ 243	$ 205	$ 757	$ 670
Net interest revenue	628	524	170	88	798	612
Trading revenue	129	133	72	70	201	203
Other	51	57	19	22	70	79
Provision for loan losses	2	2	-	-	2	2
Total net revenues	1,324	1,181	504	385	1,828	1,566
Expenses Excluding Interest	834	760	274	239	1,108	999
Income before taxes on income	$ 490	$ 421	$ 230	$ 146	$ 720	$ 567

	Investor Services (1)		Advisor Services (1)		Total	
Six Months Ended June 30,	2016	2015	2016	2015	2016	2015
Net Revenues:						
Asset management and administration fees	$ 986	$ 911	$ 470	$ 403	$ 1,456	$ 1,314
Net interest revenue	1,241	1,034	329	166	1,570	1,200
Trading revenue	272	280	161	150	433	430
Other	97	101	36	41	133	142
Provision for loan losses	-	6	-	-	-	6
Total net revenues	2,596	2,332	996	760	3,592	3,092
Expenses Excluding Interest	1,671	1,546	546	495	2,217	2,041
Income before taxes on income	$ 925	$ 786	$ 450	$ 265	$ 1,375	$ 1,051

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

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 June 30, 2016. 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 June 30, 2016.

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 June 30, 2016, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1.Legal Proceedings

For a discussion of legal proceedings, see “Part I – Financial Information – Item 1 – Notes to Condensed Consolidated Financial Statements (Unaudited) – 8. Commitments and Contingencies.”

Item 1A.Risk Factors

During the first half of 2016, 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, 2015.

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

Issuer Purchases of Equity Securities

At June 30, 2016, approximately $596 million of future share repurchases are authorized under the Share Repurchase Program. There were no share repurchases during the second quarter of 2016. There were two authorizations under this program by CSC’s Board of Directors, each covering up to $500 million of common stock that were publicly announced by the Company on April 25, 2007, and March 13, 2008. The remaining authorizations do not have an expiration date.

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

Month	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share
April:		
Employee transactions (1)	8	$ 28.62
May:		
Employee transactions (1)	8	$ 28.32
June:		
Employee transactions (1)	5	$ 30.06
Total:		
Employee transactions (1)	21	$ 28.85

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

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	
10.338	The Charles Schwab Corporation 2004 Stock Incentive Plan.	(1)
10.368	Credit Agreement (364 – Day Commitment) dated as of June 3, 2016, between the Registrant and financial institutions therein (supersedes Exhibit 10.366).	
12.1	Computations 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.	(2)
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	(2)
101.INS	XBRL Instance Document	(3)
101.SCH	XBRL Taxonomy Extension Schema	(3)
101.CAL	XBRL Taxonomy Extension Calculation	(3)
101.DEF	XBRL Extension Definition	(3)
101.LAB	XBRL Taxonomy Extension Label	(3)

101.PRE	XBRL Taxonomy Extension Presentation	(3)

(1) Management contract or compensatory plan.

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

(3) Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 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.

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: August 5, 2016 /s/ Joseph R. Martinetto
Joseph R. Martinetto
Senior Executive Vice President and
Chief Financial Officer