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

FORM 10-K

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

For the fiscal year ended December 31, 2020

or

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

For the transition period from ________ to ________

Commission File Number: 1-9700

THE CHARLES SCHWAB CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**94-3025021**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3000 Schwab Way, Westlake, TX 76262
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (817) 859-5000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock – $.01 par value per share	SCHW	New York Stock Exchange
Depositary Shares, each representing a 1/40th ownership interest in a share of 6.00% Non-Cumulative Preferred Stock, Series C	SCHW PrC	New York Stock Exchange
Depositary Shares, each representing a 1/40th ownership interest in a share of 5.95% Non-Cumulative Preferred Stock, Series D	SCHW PrD	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2020, the aggregate market value of the voting stock held by non-affiliates of the registrant was $39.3 billion. For purposes of this information, the outstanding shares of Common Stock owned by directors and executive officers of the registrant were deemed to be shares of the voting stock held by affiliates.

As of January 29, 2021, 1,803,049,958 shares of $.01 par value Common Stock and 79,293,695 shares of $.01 par value Nonvoting Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates certain information contained in the registrant's definitive proxy statement for its annual meeting of stockholders, to be held May 13, 2021, by reference to that document.

THE CHARLES SCHWAB CORPORATION

Annual Report On Form 10-K
For Fiscal Year Ended December 31, 2020

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PART I

Item 1. Business

General Corporate Overview

The Charles Schwab Corporation (CSC) is a savings and loan holding company. Incorporated in 1986, CSC engages, through its subsidiaries (collectively referred to as Schwab or the Company), in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services. At December 31, 2020, Schwab had $6.69 trillion in client assets, 29.6 million active brokerage accounts, 2.1 million corporate retirement plan participants, and 1.5 million banking accounts.

Principal business subsidiaries of CSC include the following:

- Charles Schwab & Co., Inc. (CS&Co), incorporated in 1971, a securities broker-dealer;
- TD Ameritrade, Inc., an introducing securities broker-dealer;
- TD Ameritrade Clearing, Inc. (TDAC), a securities broker-dealer that provides trade execution and clearing services to TD Ameritrade, Inc.;
- Charles Schwab Bank, SSB (CSB), our principal banking entity; and
- Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds®) and for Schwab's exchange-traded funds (Schwab ETFs™).

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

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

Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade Holding Corporation (TDA Holding) and its consolidated subsidiaries (collectively referred to as "TD Ameritrade" or "TDA"). TD Ameritrade provides securities brokerage services, including trade execution, clearing services, and margin lending, through its broker-dealer subsidiaries; and futures and foreign exchange trade execution services through its futures commission merchant (FCM) and forex dealer member (FDM) subsidiary. The TD Ameritrade acquisition is further described in the business and asset acquisition discussion below.

Effective January 1, 2021, CSC changed the designation of its corporate headquarters from San Francisco, California to Westlake, Texas. The Company maintains a nationwide presence across a network of branches and operations centers, and our Westlake location provides a centrally located hub for the Company.

Business Strategy and Competitive Environment

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

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

Management estimates that investable wealth in the United States (U.S.) (consisting of assets in defined contribution, retail wealth management and brokerage, and registered investment advisor channels, along with bank deposits) currently exceeds $50 trillion, which means the Company's $6.69 trillion in client assets leaves substantial opportunity for growth. Our strategy is based on the principle that developing trusted relationships will translate into more assets from both new and existing clients, ultimately driving more revenue, and along with expense discipline and thoughtful capital management, will generate earnings growth and build long-term stockholder value.

Within Investor Services, our competition in serving individual investors spans brokerage, wealth management, and asset management firms, as well as banks and trust companies. In the Advisor Services arena, we compete with institutional custodians, traditional and discount brokers, banks, and trust companies.

Across both segments, our key competitive advantages are:

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

Business and Asset Acquisitions

Acquisition of TD Ameritrade

Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade. In exchange for each share of TD Ameritrade common stock, TD Ameritrade stockholders received 1.0837 shares of CSC common stock, except for The Toronto-Dominion Bank (TD Bank) and its affiliates which received a portion in nonvoting common stock. In connection with the transaction, Schwab issued approximately 586 million common shares to TD Ameritrade stockholders consisting of approximately 509 million shares of common stock and 77 million shares of nonvoting common stock. Upon completion of the acquisition, TDA Holding became a wholly-owned subsidiary of CSC.

TDA provides services to individual retail investors and to RIAs predominantly through the Internet, a national branch network, and relationships with RIAs. At the time of acquisition, TD Ameritrade had approximately 10,000 employees. TD Ameritrade's sources of net revenues primarily consist of trading revenue, bank deposit account fees, net interest revenue, and asset management and administration fees.

- TDA's trading revenue includes commissions earned on trades of certain securities and derivatives, as well as order flow revenue.
- Bank deposit account fees are earned through an insured deposit account agreement with TD Bank USA, National Association and TD Bank, National Association (together, the TD Depository Institutions), as well as bank deposit account sweep agreements with other third-party depository institutions, whereby uninvested cash held by certain brokerage clients is swept into Federal Deposit Insurance Corporation (FDIC)-insured (up to specified limits) money market deposit accounts at the TD Depository Institutions and other third-party depository institutions. See discussion below of the IDA agreement that became effective at the acquisition date.

- TDA's net interest revenue is generated primarily through margin lending, securities lending activity, as well as segregated and operating cash and investments. Interest-bearing liabilities primarily consist of interest-bearing payables to brokerage clients and long-term debt.
- TDA's asset management and administration fee revenue includes revenues earned on client assets invested in money market funds, other mutual funds, and certain investment programs. TDA's asset management and administration fees also include referral and asset-based program fees on its client assets managed by independent RIAs utilizing TDA's trading and investing platforms.

Concurrently with the execution of the Agreement and Plan of Merger, dated as of November 24, 2019, as amended (the Merger Agreement), CSC entered into a stockholder agreement with TD Bank (the Stockholder Agreement), a registration rights agreement with TD Bank and Charles R. Schwab, and an amended and restated insured deposit account agreement with the TD Depository Institutions (the IDA agreement).

Effective upon the merger, Todd M. Ricketts, Brian M. Levitt, and Bharat B. Masrani were elected to CSC's Board of Directors. Mr. Ricketts was designated by TD Ameritrade pursuant to the terms of the Merger Agreement and Messrs. Levitt and Masrani were designated by TD Bank pursuant to the terms of the Merger Agreement and the Stockholder Agreement between Schwab and TD Bank.

Integration Overview

We anticipate the acquisition of TD Ameritrade will significantly increase our scale to help support the Company's ongoing efforts to enhance the client experience, provide deeper resources for individual investors as well as RIAs, and continue to improve our operating efficiency. At the time of closing, TDA had approximately $1.6 trillion in client assets and approximately 14.5 million brokerage accounts. We anticipate combining the respective strengths of Schwab and TD Ameritrade will enable the Company to invest in enhanced client experience capabilities and further our financial success to the benefit of clients, employees, and stockholders.

Throughout the integration, the Company plans to generally adopt Schwab platforms and systems, though we're committed to leveraging material advantages in TD Ameritrade's platforms when appropriate, as exemplified by our intention to retain TD Ameritrade's thinkorswim® and thinkpipes® trading platforms, education, and tools into our offerings for retail and RIA clients. We also plan to retain TD Ameritrade Institutional's customizable portfolio rebalancing solution iRebal® as part of our offering for independent advisor clients. Additional technology solutions continue to be evaluated for consideration as part of the combined platform.

Our integration of TD Ameritrade's operations is expected to occur over 18 to 36 months from the date of acquisition, though planning for integration has been underway since the acquisition was announced on November 25, 2019. In October 2020, the Company began efforts to reduce overlapping or redundant roles across the two firms and to rationalize branch locations of CS&Co and TD Ameritrade, Inc. These and other integration activities are expected to continue throughout the integration process. CS&Co, as well as TD Ameritrade, Inc. and TDAC, will continue to operate as separate broker-dealers to serve their respective clients while integration work continues.

IDA Agreement

In accordance with the IDA agreement, which became effective October 6, 2020, cash held in eligible brokerage client accounts is swept off-balance sheet to money market deposit accounts at the TD Depository Institutions. Schwab provides marketing, recordkeeping and support services to the TD Depository Institutions with respect to the money market deposit accounts for which Schwab receives an aggregate monthly fee, determined by reference to certain yields, less a service fee on client cash deposits held at the TD Depository Institutions, FDIC deposit assessments, and interest on deposits paid to clients. Under the IDA agreement, the service fee on client cash deposits held at the TD Depository Institutions was reduced, relative to TD Ameritrade's agreement prior to acquisition, by 40%, from 25 basis points to 15 basis points for the life of the agreement. Under TDA's prior insured deposit account agreement with the TD Depository Institutions, TDA had floors in place which enabled it to carve-out up to $20 billion of floating-rate investments from the applicable service fee during specified low-rate environments. Pursuant to the IDA agreement, the 15 basis point service fee now applies across all designated fixed and floating IDA balances.

Pursuant to the IDA agreement, Schwab will be required to move all uninsured IDA balances out of the IDA sweep program on June 30, 2021. The IDA agreement also provides that starting July 1, 2021, Schwab will have the option to migrate up to $10 billion of IDA balances every 12 months to Schwab's balance sheet, subject to certain limitations and adjustments. The

Company's ability to migrate these balances out of the IDA sweep program is dependent on certain binding limitations specified in the IDA agreement, including the requirement that Schwab can only move IDA balances designated as floating-rate obligations. The amount of Schwab's initial potential transfer will also be affected by the net growth or decline in the IDA balance from immediately prior to the October 6, 2020 effective date of the IDA agreement through June 30, 2021. In addition, Schwab also must maintain a minimum $50 billion IDA balance through June 2031, and at least 80% of the IDA balances must be designated as fixed-rate obligations through June 2026.

See "Part II – Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements" (Item 8) – Note 3 for more information on the TD Ameritrade acquisition. See also "Part II – Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7) – Capital Management" and Item 8 – Note 15 for additional information on the IDA agreement.

Acquisition of Assets of USAA's Investment Management Company

On May 26, 2020, the Company completed its acquisition of the assets of USAA's Investment Management Company (USAA-IMCO) for $1.6 billion in cash. Along with the asset purchase agreement, the companies entered into a long-term referral agreement that makes Schwab the exclusive provider of wealth management and investment brokerage services for USAA members. The USAA-IMCO acquisition has added scale to the Company's operations through the addition of 1.1 million brokerage and managed portfolio accounts with approximately $80 billion in client assets at the acquisition date. The transaction also provides Schwab the opportunity to further expand our client base by serving USAA's members through the long-term referral agreement. See Item 8 – Note 3 for more information on the USAA-IMCO acquisition.

Other Acquisitions

During 2020, the Company completed its acquisition of technology and intellectual property of Motif, a financial technology company. The Motif assets help us build on our existing capabilities and help accelerate our development of thematic and direct index investing for Schwab's retail investors and RIA clients. Also during 2020, the Company completed its acquisition of Wasmer, Schroeder & Company, LLC (Wasmer Schroeder), which adds established strategies and new separately managed account offerings to our fixed income lineup.

Sources of Net Revenues

Our largest sources of net revenues are net interest revenue, asset management and administration fees, trading revenue, and bank deposit account fees. These revenue streams are supported by the combination of bank, broker-dealer, and asset management operating subsidiaries, including those of TD Ameritrade, each of which brings specific capabilities that enable us to provide clients with the products and services they are seeking.

Net interest revenue is the difference between interest generated on interest-earning assets and interest paid on funding sources. The majority of net interest revenue is derived from a portion of client cash balances awaiting investment and held on Schwab's balance sheet as part of clients' overall relationship with the Company. Interest-earning assets are primarily comprised of high-quality fixed income securities, margin loans, and bank loans.

The majority of asset management and administration fees are earned from proprietary money market mutual funds, proprietary and third-party mutual funds and exchange-traded funds (ETFs), and fee-based advisory solutions.

Trading revenue includes commissions earned for executing trades for clients in certain individual equities, options, futures, fixed income securities, and certain third-party mutual funds and ETFs; order flow revenue; and principal transaction revenue earned primarily from actions to support client trading in fixed income securities. Beginning in the fourth quarter of 2019, Schwab eliminated online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options.

Bank deposit account fees are primarily recognized pursuant to the Company's IDA agreement, as well as sweep agreements with other third-party depository institutions. Under the IDA agreement, eligible brokerage client accounts are swept off-balance sheet to money market deposit accounts at the TD Depository Institutions. Schwab provides marketing, recordkeeping, and support services to the TD Depository Institutions with respect to the money market deposit accounts for which Schwab receives an aggregate monthly fee, determined by reference to certain yields, less a service fee on client cash deposits held at the TD Depository Institutions, FDIC deposit assessments, and interest on deposits paid to clients.

Products and Services

We offer a broad range of products through intuitive end-to-end solutions, including robust digital capabilities, to address our clients' varying investment and financial needs. Examples of these product offerings include the following:

- Brokerage – an array of full-feature brokerage accounts with equity and fixed income trading, margin lending, options trading, futures and forex trading, and cash management capabilities including third-party certificates of deposit;
- Mutual funds – third-party mutual funds through the Mutual Fund Marketplace®, including non-transaction fee mutual funds through the Mutual Fund OneSource® service, which also includes proprietary mutual funds, plus mutual fund trading and clearing services to broker-dealers;
- Exchange-traded funds – an extensive offering of ETFs, including both proprietary and third-party ETFs;
- Advice solutions – managed portfolios of both proprietary and third-party mutual funds and ETFs, separately managed accounts, customized personal advice for tailored portfolios, specialized planning, and full-time portfolio management;
- Banking – checking and savings accounts, first lien residential real estate mortgage loans (First Mortgages), home equity lines of credit (HELOCs), and pledged asset lines (PALs); and
- Trust – trust custody services, personal trust reporting services, and administrative trustee services.

These investing services are made available through two business segments – Investor Services and Advisor Services. Schwab's major sources of revenues are generated by both of the reportable segments, based on their respective levels of client assets and activity. Revenue is attributable to a reportable segment based on which segment has the primary responsibility for serving the client. The accounting policies of the reportable segments are the same as those described in Item 8 – Note 2.

Investor Services

Charles Schwab initially founded the Company over 40 years ago to provide individual investors with access to the financial markets at a reasonable cost. The Company has been expanding offerings over time in response to client needs, aiming to provide a compelling and often disruptive solution in the marketplace. As products and services have evolved over the years, the Investor Services segment has expanded and now includes the Retail Investor, Retirement Plan Services, Mutual Fund Clearing Services, and Off-Platform Sales business units.

Through the Retail Investor business unit, we offer individual investors a multi-channel service delivery model, which includes online, mobile, telephone, and branch capabilities. We provide personalized solutions at competitive prices while giving clients the choice of where, when, and how they do business with us. Financial Consultants (FCs) in Schwab's branches and regional telephone service centers focus on building and sustaining client relationships. We have the ability to meet client investing needs through a single ongoing point of contact, even as those needs change over time. We believe that this ability to provide those clients seeking help, guidance, or advice with an individually tailored approach – ranging from occasional consultations, to an ongoing relationship with an FC or participation in one of our advisory solutions, which include referral to an independent RIA in the Schwab Advisor Network®, or for clients of TDA, an RIA in the AdvisorDirect® program – is a competitive strength compared to the more fragmented or limited offerings of other firms.

Our service delivery model provides quick and efficient access to a broad lineup of information, research, tools, trade execution, and administrative services, which clients can access according to their needs. For example, clients that trade more actively can use these channels to access highly competitive pricing, expert tools, and extensive service capabilities – including experienced, knowledgeable teams of trading specialists, and integrated product offerings. Management also believes the Company is able to compete with the wide variety of financial services firms striving to attract individual client relationships by complementing these capabilities with a range of investment and banking products.

Schwab seeks to educate and assist clients in reaching their financial goals. Educational tools include workshops, webcasts, podcasts, interactive courses, and online information about investing, from which Schwab does not earn revenue. We also introduced virtual events in 2020 to engage with retail and institutional clients amidst an unprecedented climate. Additionally, we provide various online research and analysis tools that are designed to help clients achieve better investment outcomes. As an example of such tools, Schwab Equity Ratings® is a quantitative model-based stock rating system that provides all clients with ratings on approximately 3,000 stocks, assigning each equity a single grade: A, B, C, D, or F. Schwab Equity Ratings International®, an international ranking methodology, covers stocks of approximately 4,000 foreign companies. In 2020, we launched Schwab Plan™, a free digital financial plan designed to help investors establish and stay on track toward their personalized retirement goals. Schwab Plan is available to all Schwab clients with no minimum asset requirement, expanding access to retirement planning to the millions of retail investors that Schwab serves. Also in 2020, we launched Schwab Stock Slices™, a service which enables investors to own any of America's leading companies from the S&P 500® for as little as $5 each, even if their shares cost more. Clients can purchase a single stock slice or up to 10 different stock slices at once, commission-free through our online channels.

Clients may seek specific investment recommendations, either from time to time or on an ongoing basis. Schwab provides clients seeking advice with personalized solutions. Our approach to advice is based on long-term investment strategies and guidance on portfolio diversification and asset allocation. This approach is designed to be offered consistently across all of Schwab's delivery channels.

Schwab Private Client™ features a personal advice relationship with a designated Private Client Advisor, supported by a team of investment professionals who provide individualized service, a customized investment strategy developed in collaboration with the client, and ongoing guidance and execution.

For clients seeking a relationship in which investment decisions are fully delegated to a financial professional, Schwab offers several alternatives. We provide investors access to professional investment management in a diversified account that is invested exclusively in either mutual funds or ETFs through the Schwab Managed Portfolios™ and the Windhaven Investment Management® Strategies, or equity securities and ETFs through the ThomasPartners Investment Management® Strategies. During 2020, we completed our acquisition of Wasmer Schroeder, which adds established strategies and new separately managed account offerings to our existing fixed income lineup. We also refer investors who want to utilize a specific third-party money manager to direct a portion of their investment assets to the Schwab Managed Account™ program. Schwab Intelligent Portfolios®, available since 2015, are for clients who are looking to have their assets professionally managed via a fully automated online investment advisory service. In late 2016, we introduced a hybrid advisory service, now called Schwab Intelligent Portfolios Premium®, to offer our clients an advisory service which combines unlimited guidance provided by a CERTIFIED FINANCIAL PLANNER™ and our robo-advice technology to make financial and investment planning more accessible to investors. In early 2020, we launched Schwab Intelligent Income®, a low-cost solution designed to offer a simple, modern way to generate income from existing investment portfolios. Finally, clients who want the assistance of an independent professional in managing their financial affairs may be referred to RIAs in the Schwab Advisor Network. These RIAs provide personalized portfolio management, financial planning, and wealth management solutions.

Clients of TD Ameritrade also have access to a suite of programs designed to meet their specific investment advisory needs. Through TDA's Essential Portfolios, clients are offered a low-cost automated online investment advisory service with access to goal-oriented ETF portfolios. TDA's Selective Portfolios offers a broader range of goal-oriented portfolios made up of mutual funds and ETFs, through a combination of automated technology and professional insights. TDA's Personalized Portfolios offers clients tailored portfolios, supported by a team of investment professionals. Finally, TDA's AdvisorDirect® referral program provides clients with an introduction to an independent RIA that can assist in developing customized investment strategies around their unique goals.

To meet the specific needs of clients who actively trade, Schwab offers integrated web- and software-based trading platforms, real-time market data, options trading, premium stock and futures research, and multi-channel access, as well as sophisticated account and trade management features, risk management and decision support tools, and dedicated personal support. TD Ameritrade offers clients its award-winning thinkorswim® trading platform, education, and tools, which the Company intends to integrate into the Company's ongoing offerings.

For U.S. clients wishing to invest in foreign equities, we offer a suite of global investing capabilities, including online access to certain foreign equity markets with the ability to trade in their local currencies. In addition, Schwab serves both foreign investors and non-English-speaking U.S. clients who wish to trade or invest in U.S. dollar-based securities. Schwab provides multi-lingual services to non-English-speaking clients through a combination of its branch offices, web-based and telephonic services.

We also offer equity compensation plan sponsors full-service recordkeeping for stock plans, stock options, restricted stock, performance shares, and stock appreciation rights. Specialized services for executive transactions and reporting, grant acceptance tracking, and other services are offered to employers to meet the needs of administering the reporting and compliance aspects of an equity compensation plan.

Our Retirement Plan Services business unit offers a bundled 401(k) retirement plan product that provides retirement plan sponsors with extensive investment options, trustee or custodial services, and participant-level recordkeeping. Retirement plan design features, which increase plan efficiency and achieve employer goals, are also offered, such as automatic enrollment, automatic fund mapping at conversion, and automatic contribution increases. In addition to an open architecture investment platform, we offer access to low cost index mutual funds and ETFs. Individuals investing for retirement through 401(k) plans can take advantage of bundled offerings of multiple investment choices, education, and third-party advice. This third-party advice service is delivered online, by phone, or in person, including recommendations based on the core investment fund choices in their retirement plan and specific recommended savings rates. Services also include support for Roth 401(k) accounts, profit sharing, and defined benefit plans.

Lastly, the Mutual Fund Clearing Services business unit provides open-end mutual fund trading, settlement, and related transactional services to banks, brokerage firms, and trust companies, and the Off-Platform Sales business unit offers proprietary mutual funds, ETFs, and collective trust funds (CTFs) outside the Company and not on the Schwab platform. They are included within the Investor Services segment given their leveraging of the products and services offered to individual investors.

Advisor Services

More than thirty years ago, Schwab supported a small group of entrepreneurial advisors who challenged the industry by creating independent firms. Through the Advisor Services segment, Schwab has become one of the largest providers of custodial, trading, banking, and support services to RIAs and their clients. We also provide retirement business services to independent retirement advisors and recordkeepers. Management believes that we can maintain our market position primarily through the efforts of our sales, support, technology, and business consulting service teams, which are dedicated to helping RIAs grow, compete, and succeed in serving their clients. In addition to focusing on superior service, we utilize technology to provide RIAs with a highly-developed, scalable platform for administering their clients' assets easily and efficiently. Advisor Services sponsors and hosts a variety of national, regional, local, and virtual events designed to help RIAs of all sizes and complexities identify and implement better ways to expand and efficiently manage their practices.

RIAs who custody client accounts at Schwab may use proprietary software that provides them with up-to-date client account information as well as trading capabilities. The Advisor Services website is the core platform for RIAs to conduct daily business activities online with Schwab, including viewing and managing client account information and accessing news and market information. The website provides account servicing capabilities for RIAs, including account opening, money movement, transfer of assets, trading, checking status, and communicating with our service team. The site provides multi-year archiving of statements, trade confirms, and tax reports, along with document search capabilities. We also provide access to integrations with third-party platforms, which support a variety of advisor needs including client relationship management, portfolio management systems, trade order management, and financial planning. In early 2019, we released Schwab Advisor Portfolio Connect®, a simplified portfolio management solution that is available free of charge to advisors to manage Schwab accounts. It delivers core capabilities and features through an intuitive modern experience, without the need to download and reconcile data.

The Advisor Services website also provides interactive tools, educational content, and thought leadership for advisors turning independent. We offer a variety of services to help RIAs grow and manage their practices, including business, technology, and operations consulting on a range of topics critical to an RIA's success, as well as an annual RIA benchmarking study to help firms understand key business metrics relative to peers. We also offer an array of services to help advisors establish their own independent practices through a robust prospect consulting offer. To support them throughout their transition, we offer access to business start-up and transition consultants, technology engineers, and dedicated service teams.

Schwab provides extensive educational materials, programs, and events to RIAs seeking to expand their knowledge of industry issues and trends, as well as sharpen their individual expertise and practice management skills. We conduct industry research on an ongoing basis, and hold a series of events and conferences every year to discuss topics of interest to RIAs, including business strategies and best practices. Schwab sponsors and hosts the annual IMPACT® conference, which provides a national forum for the Company, RIAs, and other industry participants to gather and share information and insights, as well as a multitude of smaller events across the country each year.

RIAs and their clients have access to our broad range of products and services, including individual securities, mutual funds, ETFs, fixed income products, managed accounts, cash products, bank lending, and trust services. By functioning as the custodian, Schwab earns revenue associated with the underlying client assets, predominantly through net interest revenue and asset management and administration fees. In this capacity, we do not charge the RIA or end client a custody fee.

For RIAs on the TD Ameritrade Institutional platform, TD Ameritrade's thinkpipes® trading platform offers a multitude of features, including real-time charting and efficient trading and allocation. The Company intends to integrate thinkpipes into its ongoing offerings. The Company also plans to retain TD Ameritrade Institutional's customizable portfolio rebalancing solution iRebal® as part of its offering for RIA clients.

The Advisor Services segment also includes the Retirement Business Services and Corporate Brokerage Retirement Services business units. Retirement Business Services provides trust, custody, and retirement business services to independent retirement plan advisors and independent recordkeepers. Retirement plan assets are held at Charles Schwab Trust Bank (Trust Bank). The Company and independent retirement plan providers work together to serve plan sponsors, combining the consulting and administrative expertise of the administrator with our investment, technology, trust, and custodial services. Retirement Business Services also offers the Schwab Personal Choice Retirement Account®, a self-directed brokerage offering for retirement plans.

Corporate Brokerage Retirement Services serves plan sponsors, advisors, and independent recordkeepers seeking a brokerage-based account to hold retirement plan assets. Retirement plans held at Schwab are either self-trusteed or trusteed by a separate, independent trustee. Corporate Brokerage Retirement Services also offers the Schwab Personal Choice Retirement Account®, and the Company Retirement Account, both of which are self-directed brokerage-based solutions designed to hold the assets of company-sponsored retirement plans.

Regulation

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

Holding Company and Bank Regulation

CSC is a savings and loan holding company and is regulated, supervised, and examined by the Federal Reserve. CSC's three depository institution subsidiaries are CSB, CSC's principal depository institution subsidiary, Charles Schwab Premier Bank, SSB (CSPB), and Trust Bank. On March 20, 2020, CSB and CSPB converted from federal savings associations headquartered in Henderson, Nevada to Texas-chartered savings banks headquartered in Westlake, Texas. Trust Bank is a Nevada-chartered savings bank headquartered in Henderson, Nevada. CSB and CSPB are currently regulated, supervised, and examined by the Federal Reserve, the Texas Department of Savings and Mortgage Lending, the Consumer Financial Protection Bureau (CFPB), and the FDIC. Trust Bank is currently regulated, supervised and examined by the Nevada Financial Institutions Division, CFPB, and the FDIC. CSC, CSB, CSPB, and Trust Bank are also subject to regulation and various requirements and restrictions under state and other federal laws.

This regulatory framework is designed to protect depositors and consumers, the safety and soundness of depository institutions and their holding companies, and the stability of the banking system as a whole. This framework affects the activities and investments of CSC and its subsidiaries and gives the regulatory authorities broad discretion in connection with their supervisory, examination and enforcement activities and policies. Below is a discussion of significant regulations.

Regulatory Capital and Liquidity Framework

Banking organizations are subject to the regulatory capital rules issued by the Federal Reserve and other U.S. banking regulators, including the Office of the Comptroller of the Currency (OCC) and the FDIC. In addition to minimum risk-based capital requirements, banking organizations must hold additional capital, referred to as buffers, to avoid being subject to limits on capital distributions and discretionary bonus payments to executive officers.

In October 2019, the Federal Reserve, OCC, and FDIC jointly adopted a final rule which became effective on December 31, 2019 (interagency regulatory capital and liquidity rules) that revised the regulatory capital and liquidity requirements for large U.S. banking organizations with $100 billion or more in total consolidated assets. The rules established four risk-based categories for determining the regulatory capital and liquidity requirements applicable to these institutions based on their total assets, cross-jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off-balance sheet exposure. CSC is subject to the requirements under Category III based on its total consolidated assets of between $250 billion and less than $700 billion and having less than $75 billion in cross-jurisdictional activity. As of December 31, 2020, CSC had total consolidated assets of $549 billion.

Capital requirements for Category III banking organizations include the generally applicable risk-based capital and Tier 1 leverage ratio requirements (the "standardized approach" framework), the minimum 3.0% supplementary leverage ratio, the countercyclical capital buffer, which is currently 0%, and for large bank holding companies, the stress capital buffer. As discussed below, starting in 2022, CSC, as a large savings and loan holding company will also become subject to the stress capital buffer requirement. Under the revised capital requirements, Category III organizations are not subject to the "advanced approaches" regulatory capital framework and are permitted to opt out of including accumulated other comprehensive income (AOCI) in their regulatory capital calculations. CSC made this opt out election, and commencing with the first quarter of 2020, now excludes AOCI from its regulatory capital.

As revised by the interagency regulatory capital and liquidity rules, Category III banking organizations with less than $75 billion in average weighted short-term wholesale funding, which includes CSC, and their depository institution subsidiaries with $10 billion or more in total consolidated assets are subject to a reduced liquidity coverage ratio (LCR) rule requiring them to hold high quality liquid assets (HQLA) in an amount equal to at least 85% of their projected net cash outflows over a prospective 30-calendar-day period of acute liquidity stress, calculated on each business day. If an institution's average weighted short-term wholesale funding over the four most recent quarters is $75 billion or more, it will be required to comply with the full LCR rule and hold HQLA in an amount equal to 100% of its projected 30-day net cash outflows and will also be subject to daily (instead of monthly) liquidity reporting. We anticipate that we will exceed the $75 billion threshold as of the quarter ended March 31, 2021, and will become subject to daily liquidity reporting on July 1, 2021, and the full LCR rule on October 1, 2021.

In October 2020, the Federal Reserve, OCC, and FDIC jointly adopted a final net stable funding ratio (NSFR) rule to strengthen the resilience of large bank and savings and loan holding companies by requiring them to maintain a minimum level of stable funding based on the liquidity characteristics of the holding company's assets, commitments, and derivative exposures over a one-year time horizon. The requirement is expressed as a ratio of a banking entity's available stable funding (ASF) to its required stable funding (RSF). Category III banking organizations with less than $75 billion in average weighted short-term wholesale funding, which includes CSC, and their depository institution subsidiaries with $10 billion or more in total consolidated assets will be required to maintain ASF in an amount at least equal to 85% of its RSF on an ongoing, daily basis. The final NSFR rule becomes effective on July 1, 2021, and banking entities subject to the rule will be required to publicly disclose their quarterly NSFRs on a semi-annual basis beginning with the first and second quarters of 2023. While we will be subject to the reduced NSFR when the rule goes into effect on July 1, 2021, we anticipate that we will become subject to the full NSFR requirement on October 1, 2021.

Capital Stress Testing

In the final enhanced prudential standards rules adopted concurrently in October 2019 with the interagency regulatory capital and liquidity rules, the Federal Reserve revised the capital stress testing regime applicable to savings and loan holding companies and state-chartered member banks. Under the new Federal Reserve capital stress testing rules, savings and loan holding companies that are Category III banking organizations are required to conduct biennial company-run stress tests in even-numbered years beginning in 2020. In 2020, CSC conducted company-run stress tests, reported the results of its stress testing to the Federal Reserve, and voluntarily published a summary of its stress test results.

In its enhanced prudential standards rules, the Federal Reserve also made Category III savings and loan holding companies subject to an annual supervisory stress testing requirement in which the Federal Reserve conducts its own stress testing analysis to evaluate the ability of a holding company to absorb losses in specified economic and financial conditions over a nine-quarter planning horizon using such analytical techniques as the agency determines are appropriate. This supervisory stress testing requirement will go into effect for CSC beginning with the 2022 stress testing cycle. To implement this requirement, the Federal Reserve also expanded the reporting requirements applicable to savings and loan holding companies commencing in the second quarter of 2020.

In January 2021, the Federal Reserve adopted a new rule making savings and loan holding companies with total consolidated assets of $100 billion or more, including CSC, subject to an annual Comprehensive Capital Analysis and Review (CCAR) process, which requires submission of an annual capital plan to the Federal Reserve. The rule also imposes a stress capital buffer requirement, floored at 2.5 percent of risk-weighted assets, that will replace CSC's current 2.5 percent capital conservation buffer. The capital plan requirement will become effective for CSC with the 2022 CCAR cycle, and CSC's initial stress capital buffer requirement will be based on its 2022 CCAR stress testing results.

Additional Enhanced Prudential Standards

In addition to the revisions to the capital stress testing regime discussed above, the Federal Reserve's enhanced prudential standards rules will also extend the applicability of certain additional enhanced prudential standards to large savings and loan holding companies, with the specific requirements tailored based on the same four-category framework utilized in the interagency regulatory capital and liquidity rules. These additional enhanced prudential standards, which have been applicable to large U.S. bank holding companies under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), include: risk management and risk committee requirements; liquidity risk management, stress testing, and buffer requirements; and single counterparty credit limits. CSC will be required to comply with the new risk management and risk committee requirements, as well as the new liquidity risk-management, stress testing, and buffer requirements commencing on January 1, 2021. The new single counterparty credit limits will go into effect for CSC on January 1, 2022.

Insured Depository Institution Resolution Plans

The FDIC requires insured depository institutions with total consolidated assets of $50 billion or more to submit to the FDIC periodic plans providing for their resolution by the FDIC in the event of failure (resolution plans or so-called "living wills") under the receivership and liquidation provisions of the Federal Deposit Insurance Act. Under this requirement, CSB has been required to file with the FDIC a periodic resolution plan demonstrating how the bank could be resolved in an orderly and timely manner in the event of receivership such that the FDIC would be able to: ensure that the bank's depositors receive access to their deposits within one business day; maximize the net present value of the bank's assets when disposed of; and minimize losses incurred by the bank's creditors. In April 2019, the FDIC imposed a moratorium on resolution plan submissions. More recently, in January 2021, the FDIC announced that it will resume requiring resolution plan submissions for insured depository institutions with total consolidated assets of $100 billion or more. The FDIC also indicated that it would provide at least 12 months' notice before firms must submit new resolution plans.

As a savings and loan holding company, CSC is not subject to any separate holding company resolution plan requirement.

Consumer Financial Protection

The CFPB has broad rulemaking, supervisory and enforcement authority for a wide range of federal consumer protection laws relating to financial products. The CFPB has examination and primary enforcement authority over depository institutions with $10 billion or more in consolidated total assets.

Deposit Insurance Assessments

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

Brokered Deposits

In December 2020, the FDIC adopted amendments to its brokered deposits rule to establish a new framework for determining whether deposits made through arrangements between third parties and depository institutions constitute brokered deposits and more specifically to clarify the circumstances under which broker-dealers that place deposits with depository institutions through brokerage sweep arrangements such as CS&Co and TDAC will qualify for the "primary purpose exception" from the definition of a deposit broker. Under the new framework, the FDIC establishes a new "25 percent" business relationship designated exception where a broker-dealer or other third party may qualify for the primary purpose exception by filing a notice with the FDIC indicating that less than 25 percent of its customer assets under administration for a particular business line are placed at depository institutions. The FDIC's brokered deposit rule amendments becomes effective on April 1, 2021. CSC anticipates that under the new framework funds swept by CS&Co to CSB and Schwab's other depository institution subsidiaries will continue to qualify for the primary purpose exception, and that funds swept by TDAC under its bank sweep program will become eligible for the primary purpose exception.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (CRA) requires the primary federal bank regulatory agency for each of Schwab's depository institution subsidiaries to assess the subsidiary's record in meeting the credit needs of the communities served by the bank, including low- and moderate-income neighborhoods and persons. Institutions are assigned one of four ratings ("outstanding," "satisfactory," "needs to improve," or "substantial noncompliance"). The failure of an institution to receive at least a "satisfactory" rating could inhibit the institution or its holding company from undertaking certain activities, including acquisitions or opening branch offices.

Source of Strength

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

Broker-Dealer, FCM, FDM, and Investment Advisor Regulation

Our principal broker-dealer subsidiaries, CS&Co, TD Ameritrade, Inc., and TDAC, are each registered as a broker-dealer with the U.S. Securities and Exchange Commission (SEC), the fifty states, the District of Columbia, the U.S. Virgin Islands, and the Commonwealth of Puerto Rico. CS&Co, TD Ameritrade, Inc., CSIM, and certain of our other subsidiaries are registered as investment advisors with the SEC. CS&Co is also registered as an FCM with the Commodity Futures Trading Commission (CFTC), and TD Ameritrade Futures & Forex LLC (TDAFF) is registered as an FCM and FDM with the CFTC.

Much of the regulation of broker-dealers has been delegated to SROs. Our principal broker-dealers are each a member of the Financial Industry Regulatory Authority, Inc. (FINRA) and the Municipal Securities Rulemaking Board (MSRB). In addition, CS&Co is a member of Nasdaq Stock Market, Cboe EDGX and MEMX and TDAC is a member of NYSE Arca, Nasdaq Stock Market, Cboe EDGX and MEMX. In addition to the SEC, the primary regulators of our principal broker-dealers are FINRA and, for municipal securities, the MSRB. The National Futures Association (NFA) is the primary regulator for CS&Co's and TDAFF's futures and commodities trading activities and TDAFF's forex trading activities.

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

Our principal broker-dealer entities are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the Uniform Net Capital Rule) and related SRO requirements. The CFTC and NFA also impose net capital requirements. The Uniform Net Capital Rule specifies minimum capital requirements intended to ensure the general financial soundness and liquidity of broker-dealers. CSC itself is not a registered broker-dealer and it is not subject to the Uniform Net Capital Rule. If CS&Co fails to maintain specified levels of net capital, such failure could constitute a default by CSC of certain debt covenants under its credit agreement.

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

In addition to net capital requirements, as a self-clearing broker-dealer, CS&Co, and as a clearing broker-dealer, TDAC, are subject to cash deposit and collateral requirements with clearing houses, such as the Depository Trust & Clearing Corporation and Options Clearing Corporation, which may fluctuate significantly from time to time based upon the nature and size of clients' trading activity and market volatility.

As a result of our operations in countries outside the U.S., we are also subject to rules and regulations issued by certain foreign authorities, including the Financial Conduct Authority (FCA) in the United Kingdom, the Securities and Futures Commission (SFC) in Hong Kong, and the Monetary Authority of Singapore (MAS) in Singapore.

Financial Services Regulation

Bank Secrecy Act of 1970 and USA PATRIOT Act of 2001

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

Human Capital

We believe that hiring people who share our corporate purpose of helping clients achieve their financial goals is an essential element of executing our 'Through Clients' Eyes' strategy, and we seek to attract, retain, and motivate the talent Schwab needs to successfully serve our clients and grow our business. As of December 31, 2020, Schwab had full-time, part-time, and temporary employees, and persons employed on a contract basis, that represented the equivalent of approximately 32,000 full-time employees.

Schwab offers a compensation package that rewards both employee and company performance. The package encompasses an array of compensation components in addition to base pay including performance-based incentive pay, equity awards, recognition awards, and a range of health and wellness benefits. We also offer benefits and resources designed to help our employees achieve their financial goals, including a 401(k) plan, an employee stock purchase plan, financial planning consultations, and disability and life insurance options. In addition, Schwab offers programs to help with employee career growth including development and leadership programs as well as reimbursement for qualified business-related education and training. We also encourage and empower employees to volunteer in the communities where we live and work, offering paid time off for every employee to volunteer in his or her community.

We know that through workplace diversity, we gain a wider range of perspectives and experiences, which supports our strategy and helps us better serve our clients. We focus on attracting a diversity of talent by maintaining a strong employer brand and expanding where and how we meet prospective employees. We recruit from underrepresented communities through targeted campus recruiting, scholarship programs, and partnerships with professional organizations. We also offer coaching programs for college students from underrepresented communities to help develop career skills and learn about internship and career opportunities at Schwab. For Schwab employees, we support a number of Employee Resource Groups (ERGs) which are employee-driven and provide support, leadership development opportunities, and connection to our diverse marketplace. Our ERGs are made up of employees who share characteristics or life experiences and are committed to enhancing diversity and inclusion at Schwab. Additionally, our leaders are explicitly responsible for creating an environment where all people can do their best work, and for fostering the development of high-performance teams that recognize the value of diverse perspectives, skills and backgrounds. We regularly request feedback from our employees through surveys.

Available Information

Schwab files annual, quarterly, and current reports, proxy statements, and other information with the SEC. The SEC filings are available to the public over the internet on the SEC's website at https://www.sec.gov.

On our website, https://www.aboutschwab.com, we post the following filings after they are electronically filed with or furnished to the SEC: annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. In addition, the website also includes the Dodd-Frank Act stress test results, our regulatory capital disclosures based on Basel III, and our quarterly average LCR.

All such filings are available free of charge either on our website or by request via email (investor.relations@schwab.com), or mail (Charles Schwab Investor Relations at 211 Main Street, San Francisco, CA 94105).

Item 1A. Risk Factors

We face a variety of risks that may affect our operations, financial results, or stock price and many of those risks are driven by factors that we cannot control or predict. The following discussion addresses those risks that management believes are the most significant, although there may be other risks that could arise, or may prove to be more significant than expected, that may affect our operations or financial results.

For a discussion of our risk management governance and processes, including operational risk, compliance risk, credit risk, market risk, and liquidity risk, see Risk Management and Capital Management in Part II, Item 7.

General Economic and Market Risks

The challenging economic environment triggered by the coronavirus (COVID-19) pandemic has impacted and will continue to impact our business, results of operations, and financial condition.

The COVID-19 pandemic has adversely impacted the economic environment, leading to lower interest rates across the curve and heightened volatility in the financial markets. These developments have had, and may continue to have, a negative impact on our net interest revenue, bank deposit account fee revenue, and asset management and administration fees. Additionally, in March 2020, we experienced a significant increase in client cash balances held at our bank and broker-dealer subsidiaries which caused our Tier 1 Leverage Ratio to decline into the buffer we maintain between our long-term operating objective and our regulatory requirement. This will limit our ability to return excess capital to stockholders, including through share repurchases, until the ratio returns to higher levels.

Credit markets have been, and may continue to be, adversely impacted due to both uncertainty regarding the pandemic's economic impact and the anticipation that high levels of unemployment will have a significant impact on retail credit and commercial real estate forbearances and delinquencies. We have experienced and may continue to experience higher levels of delinquencies on our portfolios of first mortgages and home equity lines of credit. We also have experienced and may in the future experience material market-driven credit spread movements in certain sectors within our portfolio of investment securities, particularly within our investments in corporate credit securities, asset-backed securities, municipal securities, and commercial mortgage-backed securities.

Certain of our client service response and processing times have increased as a result of very high levels of client engagement and our clients have experienced and continue to occasionally experience delays accessing and using our website and mobile applications. Many of our employees and those of our outsourced service providers are working remotely and this has at times contributed to the increase in response and processing times, particularly when we have experienced the temporary loss of services from some of our outsourced service providers. We consider service quality to be an important part of the client experience and our failure to meet client expectations could result in decreased client satisfaction. The COVID-19 pandemic could make the timely achievement of our TD Ameritrade integration milestones more challenging, particularly with regard to technology and systems.

These and other impacts of the COVID-19 pandemic have had and will likely continue to have the effect of heightening many of the other risks described elsewhere in this "Risk Factors" section. The extent to which the COVID-19 pandemic, or the emergence of another wide-spread health crisis, impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain, including the scope and duration of the outbreak, actions taken by governmental authorities to contain the financial and economic impact and the spread of the outbreak, the effect on our clients, employees, and outsourced service providers, further changes in credit quality and spreads, and reactions in the financial markets.

Developments in the business, economic, and geopolitical environment could negatively impact our business.

Our business can be adversely affected by the general environment – economic, corporate, securities market, regulatory, and geopolitical developments all play a role in client asset valuations, trading activity, interest rates, and overall investor engagement, and are outside of our control. Deterioration in the housing and credit markets, reduction in interest rates, and decreases in securities valuations negatively impact our results of operations and capital resources.

The monetary policies of the Federal Reserve, which regulates the supply of money and credit in the United States, have a significant effect on our operating results. Actions taken by the Federal Reserve, including changes in its target funds rate and balance sheet management, are difficult to predict and can affect our net interest revenue and bank deposit account fees. These policies could also have implications for clients' allocation to cash; higher or lower client cash balances have an impact on our capital requirements as well as liquidity implications if such changes in allocation are sudden.

A significant change in client cash allocations could negatively impact our income.

We rely heavily on client cash balances to generate revenue. Cash awaiting investment in a portion of our client brokerage accounts is swept to our banking subsidiaries and those bank deposits are then used to extend loans to clients and purchase investment securities. We also sweep a portion of such cash pursuant to the IDA agreement which requires us to maintain a minimum IDA sweep balance. A significant reduction in our clients' allocation to cash, a change in the allocation of that cash, or a transfer of cash away from the Company, could reduce our income.

Significant interest rate changes could affect our profitability.

The direction and level of interest rates are important factors in our earnings. A decline in interest rates may have a negative impact on our net interest revenue and our bank deposit account fee revenue. A low interest rate environment may also have a negative impact on our asset management and administration fee revenues when we have to waive a portion of our management fees for certain Schwab-sponsored money market mutual funds in order to continue providing a positive return to clients. The significant reduction in interest rates related to the COVID-19 pandemic has had, and will continue to have, a negative impact on our revenue related to interest rates and has caused us to waive management fees for certain funds.

Although we believe we are positioned to benefit from a rising interest rate environment, a rise in interest rates may cause our funding costs to increase if market conditions or the competitive environment induces us to raise our interest rates to avoid losing deposits, or replace deposits with higher cost funding sources without offsetting increases in yields on interest-earning assets can reduce our net interest revenue.

The announced phase-out of LIBOR could negatively impact our net interest revenue and will continue to require significant operational work.

Certain securities in our investment portfolio and the floating rate loans we offer reference LIBOR as the benchmark rate to determine the applicable interest rate or payment amount. We also use LIBOR in many of our financial models, such as those used for capital stress testing, and to determine the dividend rates for certain of our series of preferred stock which begin to float in 2022 and later. If LIBOR is discontinued as announced, there will be uncertainty or differences in the calculation of the applicable interest rate or payment amount depending on the terms of the governing instruments and there will continue to be significant work required to transition to using the new benchmark rates and implement necessary changes to our systems and financial models. This could result in different financial performance for previously booked transactions and may impact our existing transaction data, products, systems, operations, and pricing processes. The calculation of interest rates under the replacement benchmarks could also impact our net interest revenue. In addition, LIBOR may perform differently during the phase-out period than in the past which could result in lower interest payments and a reduction in the value of certain securities in our investment portfolio.

Compliance Risks

Extensive regulation of our businesses may subject us to significant penalties or limitations on business activities.

As a participant in the securities, banking, and financial services industries, we are subject to extensive regulation under federal, state, and foreign laws by governmental agencies, supervisory authorities and SROs. The costs and uncertainty related to complying with such regulations continue to increase. These regulations affect our business operations and impose capital, client protection, and market conduct requirements on us as well as restrictions on the activities that we are allowed to conduct. We become subject to increasing regulatory scrutiny as we grow.

Regulators have broad discretion in connection with their supervisory and enforcement activities and examination policies and could prevent us from pursuing our business strategy. Regulators could also limit our ability to grow, including adding assets, launching new products, making acquisitions, and undertaking strategic investments. Our banking regulators could require CSC and/or our banking subsidiaries to hold more capital, increase liquidity, or limit their ability to pay dividends or CSC's ability to repurchase or redeem shares.

Despite our efforts to comply with applicable legal requirements, there are a number of risks, particularly in areas where applicable laws or regulations may be unclear or where regulators could revise their previous guidance. Any enforcement actions or other proceedings brought by our regulators against us or our affiliates, officers or employees could result in fines, penalties, cease and desist orders, enforcement actions, suspension, disqualification or expulsion, or other disciplinary sanctions, including limitations on our business activities, any of which could harm our reputation and adversely affect our results of operations and financial condition.

While we maintain systems and procedures designed to ensure that we comply with applicable laws and regulations, violations could occur. In addition, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though systems and procedures reasonably designed to prevent violations were in place at the time. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation and our relationships with our regulators and could restrict the ability of institutional investment managers to invest in our securities.

Legislation or changes in rules and regulations could negatively affect our business and financial results.

New legislation, rules, regulations and guidance, or changes in the interpretation or enforcement of existing federal, state, foreign and SRO rules, regulations and guidance, including changes relating to mutual funds, standards of conduct with clients, conflicts of interest, and regulatory treatment of deposit accounts, may directly affect our operations and profitability or our specific business lines. Our profitability could also be affected by rules and regulations that impact the business and financial communities generally, including changes to the laws governing taxation, electronic commerce, client privacy and security of client data. In addition, the rules and regulations could result in limitations on the lines of business we conduct, modifications to our business practices, more stringent capital and liquidity requirements, increased deposit insurance assessments or additional costs and could limit our ability to return capital to stockholders. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes to our compliance, risk management, treasury and operations functions.

Failure to meet capital adequacy and liquidity guidelines could affect our financial condition.

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

In January 2021, the Federal Reserve adopted a final rule, effective with the 2022 CCAR cycle, making large savings and loan holding companies, including CSC, subject to the CCAR process, which requires submission of an annual capital plan. The plan must include a description of all planned capital actions, including dividends or stock repurchases, over a nine-quarter planning horizon beginning with the first quarter of the calendar year the capital plan is submitted. The rule also imposes a stress capital buffer requirement, floored at 2.5 percent of risk-weighted assets, that will replace CSC's current 2.5 percent capital conservation buffer for our risk-based capital ratios. The stress capital buffer will equal, as a percentage of total risk-weighted assets, the sum of (i) the difference between a firm's starting common equity Tier 1 capital ratio and the low point under the severely adverse scenario of the Federal Reserve's supervisory stress test plus (ii) the ratio of the firm's projected four quarters of common stock dividends for the fourth through seventh quarters of the planning horizon to risk-weighted assets as projected under CCAR. The imposition of a stress capital buffer requirement could change the way in which our minimum risk-based capital ratios are calculated and make us subject to progressively more stringent constraints on capital actions if we approach our minimum ratios. This could lead to restrictions on our ability to pay or increase dividends or otherwise return capital to stockholders.

If CSC reaches $700 billion in total assets or $75 billion in cross-jurisdictional activity, CSC will become subject to more stringent Category II requirements, including annual stress testing, the advanced approaches framework, and the inability to opt out of including AOCI in regulatory capital calculations. When CSC's weighted short-term wholesale funding is $75 billion or more over the four most recent quarters, CSC will become subject to the full LCR rule and daily liquidity reporting and the full NSFR rule (which goes into effect July 1, 2021). CSC anticipates exceeding the $75 billion threshold as of March 31, 2021.

We are subject to litigation and regulatory investigations and proceedings and may not be successful in defending against claims or proceedings.

The financial services industry faces significant litigation and regulatory risks. We are 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. We are also the subject of inquiries, investigations, and proceedings by regulatory and other governmental agencies.

Litigation and arbitration claims include those brought by our clients and the clients of third party advisors whose assets are custodied with us. Claims from clients of third party advisors may allege losses due to investment decisions made by the third party advisors or the advisors' misconduct. Litigation claims also include claims from third parties alleging infringement of their intellectual property rights (e.g., patents). Such litigation can require the expenditure of significant company resources. If we were found to have infringed on a third-party patent, or other intellectual property rights, we could incur substantial damages, and in some circumstances could be enjoined from using certain technology, or providing certain products or services.

Actions brought against us may result in settlements, awards, injunctions, fines, penalties or other results adverse to us, including reputational harm. Even if we are successful in defending against these actions, the defense of such matters may result in us incurring significant expenses. A substantial judgment, settlement, fine, or penalty could be material to our operating results or cash flows for a particular future period, depending on our results for that period. In market downturns and periods of heightened volatility, the volume of legal claims and amount of damages sought in litigation and regulatory proceedings against financial services companies have historically increased.

Operational Risk

Security breaches of our systems, or those of our clients or third parties, may subject us to significant liability and damage our reputation.

Our business involves the secure processing, storage, and transmission of confidential information about our clients and us. Information security risks for financial institutions are increasing, in part because of the use of the internet and mobile technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, activists, hackers and other external parties, including foreign state actors. Our systems and those of other financial institutions have been and will continue to be the target of cyber attacks, malicious code, computer viruses, ransomware, and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential client information), account takeovers, unavailability of service or other events. Despite our efforts to ensure the integrity of our systems, we may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources. Data security breaches may also result from non-technical means, for example, employee misconduct.

Given the high volume of transactions that we process, the large number of clients, counterparties and third-party service providers with which we do business and the increasing sophistication of cyber attacks, a cyber attack could occur and persist for an extended period of time before being detected. The extent of a particular cyber attack and the steps we may need to take to investigate the attack may not be immediately clear, and it may take a significant amount of time before an investigation is completed and full and reliable information about the attack is known. During such time we would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, all or any of which would further increase the costs and consequences of a cyber attack.

Security breaches, including breaches of our security measures or those of our third-party service providers or clients, could result in a violation of applicable privacy and other laws and could subject us to significant liability or loss that may not be covered by insurance, actions by our regulators, damage to our reputation, or a loss of confidence in our security measures which could harm our business. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures.

We also face risk related to external fraud involving the misappropriation and use of clients' user names, passwords or other personal information to gain access to our clients' financial accounts. This could occur from the compromise of clients' personal electronic devices or as a result of a data security breach at an unrelated company where clients' personal information is taken and then made available to fraudsters. Such risk has grown in recent years due to the increased sophistication and activities of organized crime and other external parties, including foreign state-sponsored parties. Losses reimbursed to clients under our guarantee against unauthorized account activity could have a negative impact on our business, financial condition and results of operations.

Technology and operational failures or errors could subject us to losses, litigation, regulatory actions, and reputational damage.

We must process, record and monitor a large number of transactions and our operations are highly dependent on the integrity of our technology systems and our ability to make timely enhancements and additions to our systems. System interruptions, errors or downtime can result from a variety of causes, including changes in client use patterns, technological failure, changes to our systems, linkages with third-party systems and power failures and can have a significant impact on our business and operations. Our systems are vulnerable to disruptions from human error, execution errors, errors in models such as those used for asset management, capital planning and management, risk management, stress testing and compliance, employee misconduct, unauthorized trading, external fraud, computer viruses, distributed denial of service attacks, cyber attacks, terrorist attacks, natural disaster, power outage, capacity constraints, software flaws, events impacting key business partners and vendors, and similar events. For example, we and other financial institutions have been the target of various denial of service attacks that have, in certain circumstances, made websites, mobile applications and email unavailable for periods of time. It could take an extended period of time to restore full functionality to our technology or other operating systems in the event of an unforeseen occurrence, which could affect our ability to process and settle client transactions. Moreover, instances of fraud or other misconduct might also negatively impact our reputation and client confidence in the Company, in addition to any direct losses that might result from such instances. Despite our efforts to identify areas of risk, oversee operational areas involving risk, and implement policies and procedures designed to manage these risks, there can be no assurance that we will not suffer unexpected losses, reputational damage or regulatory action due to technology or other operational failures or errors, including those of our vendors or other third parties.

While we devote substantial attention and resources to the reliability, capacity and scalability of our systems, extraordinary trading volumes, such as those that have recently occurred, could cause our computer systems to operate at unacceptably slow speeds or even fail, affecting our ability to process client transactions and potentially resulting in some clients' orders being executed at prices they did not anticipate. For example, certain of our client service response and processing times have increased as a result of very high levels of client engagement and our clients have experienced, and continue to occasionally experience, delays accessing our systems during periods when there is an unusually high volume of client activity. Disruptions in service and slower system response times could result in substantial losses, decreased client satisfaction, reputational damage, and regulatory inquiries. We are also dependent on the integrity and performance of securities exchanges, clearing houses, market makers, dealers, and other intermediaries to which client orders are routed for execution and settlement. System failures and constraints and transaction errors at such intermediaries could result in delays and erroneous or unanticipated execution prices and cancelled orders, cause substantial losses for us and for our clients, and subject us to claims from our clients for damages, and cause reputational harm.

Our investment management operations may subject us to fiduciary or other legal liability for client losses.

Fund and trust management and administration are complex activities and include functions such as recordkeeping and accounting, security pricing, corporate actions, compliance with investment restrictions, daily net asset value computations, account reconciliations, and required distributions to fund shareholders. Failure to properly perform operational tasks, or the misrepresentation of our services and products could subject us to regulatory sanctions, penalties or litigation and result in reputational damage, liability to clients, and the termination of investment management or administration agreements and the withdrawal of assets under our management.

In the management and administration of funds and client accounts, we use quantitative models and other tools and resources to support investment decisions and processes, including those related to risk assessment, portfolio management, trading and hedging activities and product valuations. Errors in the design, function, or underlying assumptions used in these models and tools, particularly if we fail to detect the errors over an extended period, could subject us to claims of a breach of fiduciary duty and potentially large liabilities for make-whole payments, litigation, and/or regulatory fines.

We rely on outsourced service providers to perform key functions.

We rely on external service providers to perform certain key technology, processing, servicing, and support functions. These service providers face technology, operating, business, and economic risks, and any significant failures by them, including the improper use or disclosure of our confidential client, employee, or company information, could cause us to incur losses and could harm our reputation. An interruption in or the cessation of service by any external service provider as a result of systems failures, capacity constraints, financial difficulties, natural disasters, public health crises, political developments or for any other reason, and our inability to make alternative arrangements in a timely manner could disrupt our operations, impact our ability to offer certain products and services, and result in financial losses to us. As a result of certain stay at home restrictions related to the COVID -19 pandemic, we temporarily lost the services from some of our outsourced service providers which contributed to increased client service response and processing times. Switching to an alternative service provider may require a transition period and result in less efficient operations.

We rely on financial intermediaries to execute and settle client orders.

We rely on market makers, dealers, securities exchanges, clearing houses, and other financial intermediaries to execute and settle our clients' orders. The unwillingness or inability of any of these parties to perform their usual functions coupled with the unavailability of alternative arrangements could result in our clients' orders not getting executed or settled. This may be due to market volatility, uneconomic trading conditions, capacity constraints, financial constraints, system failures, unanticipated trading halts invoked by securities exchanges, market closures, or other reasons. Our inability to get client orders executed or settled because of the unwillingness or inability of these parties to perform their usual functions could result in client dissatisfaction and reputational harm and expose us to client claims for damages.

Liquidity Risk

A significant decrease in our liquidity could negatively affect our business as well as reduce client confidence in us.

Maintaining adequate liquidity is crucial to our business operations, including transaction settlement, custody requirements, and lending commitments, among other liquidity needs. We meet our liquidity needs primarily from working capital and cash generated by client activity as well as external financing. Fluctuations in client cash or deposit balances, as well as market conditions or changes in regulatory treatment of client deposits, may affect our ability to meet our liquidity needs. A reduction in our liquidity position could reduce client confidence in us, which could result in the transfer of client assets and accounts, or could cause us to fail to satisfy our liquidity requirements, including the LCR. In addition, if our broker-dealer or depository institution subsidiaries fail to meet regulatory capital guidelines, regulators could limit the subsidiaries' operations or their ability to upstream funds to CSC, which could reduce CSC's liquidity and adversely affect its ability to repay debt, pay dividends on CSC's preferred stock, or return capital to common stockholders. In addition, CSC may need to provide additional funding to such subsidiaries.

Factors which may adversely affect our liquidity position include CS&Co and TDAC having temporary liquidity demands due to timing differences between brokerage transaction settlements and the availability of segregated cash balances, fluctuations in cash held in banking or brokerage client accounts, a dramatic increase in our lending activities (including margin, mortgage-related, and personal lending), increased capital requirements, changes in regulatory guidance or interpretations, other regulatory changes, or a loss of market or client confidence in us resulting in unanticipated withdrawals of client funds. As a member firm of securities and derivatives clearing houses, we are required to deposit cash, stock and/or government securities for margin requirements and to clearing funds. The margin requirements may fluctuate significantly from time to time based upon the nature and size of clients' trading activity and market volatility. For example, as a result of recent market volatility the National Securities Clearing Corporation increased margin requirements for member firms and we were required to deposit additional funds. Clearing houses could also require additional funds from member firms if a clearing member defaults on its obligations to the clearing house in an amount larger than its own margin and clearing fund deposits.

When available cash is not sufficient for our liquidity needs, we may seek external financing. During periods of disruptions in the credit and capital markets, potential sources of external financing could be reduced, and borrowing costs could increase. Although CSC, CS&Co, and TDAC maintain committed and uncommitted, unsecured bank credit lines and CSC has a commercial paper issuance program, as well as a universal shelf registration statement filed with the SEC which can be used to sell securities, financing may not be available on acceptable terms or at all due to market conditions or disruptions in the credit markets. In addition, a significant downgrade in the Company's credit ratings could increase its borrowing costs and limit its access to the capital markets.

Credit Risk

We may suffer significant losses from our credit exposures.

Our businesses are subject to the risk that a client, counterparty or issuer will fail to perform its contractual obligations, or that the value of collateral held to secure obligations will prove to be inadequate. While we have policies and procedures designed to manage this risk, the policies and procedures may not be fully effective. Our exposure mainly results from margin lending, clients' options and futures trading, securities lending, mortgage lending, pledged asset lending, our role as a counterparty in financial contracts and investing activities, and indirectly from the investing activities of certain of the proprietary funds we sponsor.

When clients purchase securities on margin, borrow on lines of credit collateralized by securities, or trade options or futures, we are subject to the risk that clients may default on their obligations when the value of the securities and cash in their accounts falls below the amount of clients' indebtedness. Abrupt changes in securities valuations and the failure of clients to meet margin calls could result in substantial losses, especially if there is a lack of liquidity. As a result of our TD Ameritrade acquisition, our margin, options and futures business has materially increased and market liquidity may represent an increased risk.

We have exposure to credit risk associated with our investments. Those investments are subject to price fluctuations. Loss of value of securities can negatively affect earnings if management determines that such loss of value has resulted from a credit loss. The evaluation of whether a credit loss exists is a matter of judgment, which includes the assessment of multiple factors. If management determines that a security's decline in fair value is the result of a credit loss, an allowance for credit losses on the security will be recorded and a corresponding loss will be recognized in current earnings. Even if a decline in fair value of a security is not determined to have resulted from a credit loss, if we were ever forced to sell the security sooner than intended prior to maturity due to liquidity needs, we would have to recognize any unrealized losses at that time.

Our bank loans primarily consist of First Mortgages, HELOCs, and PALs. Increases in delinquency and default rates, housing and stock price declines, increases in the unemployment rate, and other economic factors, including from the continuing impact of the COVID-19 pandemic, can result in increases in allowances for credit losses and related credit loss expense, as well as write downs on such loans.

Heightened credit exposures to specific counterparties or instruments can increase our risk of loss. Examples include:

- Large positions in financial instruments collateralized by assets with similar economic characteristics or in securities of a single issuer or industry;
- Mortgage loans and HELOCs to banking clients which are secured by properties in the same geographic region; and
- Client margins, options or futures, pledged assets, and securities lending activities collateralized by or linked to securities of a single issuer, index, or industry.

We sponsor a number of proprietary money market mutual funds and other proprietary funds. Although we have no obligation to do so, we may decide for competitive or other reasons to provide credit, liquidity or other support to our funds in the event of significant declines in valuation of fund holdings or significant redemption activity that exceeds available liquidity. Such support could cause us to take significant charges, could reduce our liquidity and, in certain situations, could, with respect to proprietary funds other than money market mutual funds, result in us having to consolidate one or more funds in our financial statements. If we choose not to provide credit, liquidity or other support in such a situation, we could suffer reputational damage and its business could be adversely affected.

Risks Related to Our Acquisition of TD Ameritrade

We may fail to realize the anticipated cost savings and other benefits of the TD Ameritrade acquisition, which could adversely affect the value of our stock.

The success of our TD Ameritrade acquisition will depend, in significant part, on our ability to realize the anticipated cost savings and other benefits from integrating the businesses of Schwab and TD Ameritrade. Our ability to realize these anticipated cost savings and other benefits is subject to certain risks. If we are not able to successfully combine the businesses of Schwab and TD Ameritrade within the anticipated time frame, or at all, the anticipated cost savings and other benefits of the merger may not be realized fully or at all or may take longer to realize than expected, the combined business may not perform as expected and the value of our common stock may be adversely affected.

It is possible that the integration process could result in the loss of key Schwab or TD Ameritrade employees, the loss of clients, the disruption of either company's or both companies' ongoing businesses or in unexpected integration issues, higher than expected integration costs and an overall post-completion integration process that takes longer than originally anticipated.

Most of the integration planning and execution work is currently being done remotely due to the COVID-19 pandemic. The inability to work in-person and on-site with information technology and management oversight could make some of the integration work more challenging, particularly with regard to technology. We will need to hire a significant number of technology personnel and contract staff and rely on a number of critical technology vendors in order to complete the integration work relating to technology platforms and systems within the target timeframe. In addition, we may experience delays in acquiring the technology and infrastructure components needed for the integration due to pandemic-related supply chain disruptions. We also have been experiencing high levels of trading volume which, if sustained, may require us to increase the capacity in our integration technology build-outs. In addition, at times the attention of certain members of our management and other resources may be diverted from integration work to critical day-to-day business operations. We may also encounter challenges integrating TD Ameritrade technologies into Schwab platforms. Any of these factors could make timely achievement of integration milestones more challenging, particularly with regard to technology and systems.

We will continue to incur significant integration costs in connection with the TD Ameritrade acquisition.

We will continue to incur significant non-recurring costs related to formulating and implementing integration plans with respect to combining the operations of Schwab and TD Ameritrade, including technology-related, workforce and facilities consolidation costs. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the integration of the two companies' businesses.

We may have difficulty attracting, motivating and retaining executives and other employees following completion of the acquisition.

Uncertainty about the effect of the acquisition on Schwab and TD Ameritrade employees may impair our ability to attract, retain and motivate personnel. Employee retention may be particularly challenging during the integration process, as employees of Schwab and TD Ameritrade may experience uncertainty about their future roles with the combined business. If employees of Schwab or TD Ameritrade depart, the integration of the companies may be more difficult and the combined business may be harmed. Furthermore, we may have to incur significant costs in identifying, hiring and retaining replacements for departing employees and may lose significant expertise and talent relating to the businesses of Schwab or TD Ameritrade, and our ability to realize the anticipated benefits of the acquisition may be adversely affected. In addition, there could be disruptions to or distractions for the workforce and management associated with integrating employees into Schwab.

The TD Ameritrade acquisition may not be accretive to our earnings per share, which may negatively affect the market price of our common stock.

Based on the anticipated synergies between Schwab and TD Ameritrade, we expect the acquisition to be accretive to our earnings per share in the third year following completion of the merger. However, future events and conditions could reduce or delay the accretion that is currently projected or result in the acquisition being dilutive to our earnings per share, including adverse changes in market conditions, additional transaction and integration related costs and other factors such as the failure to realize some or all of the benefits anticipated in the acquisition. Any dilution of, reduction in, or delay of any accretion to, our earnings per share could cause the price of shares of our common stock to decline or grow at a reduced rate.

Other Business Risks

Potential strategic transactions could have a negative impact on our financial position.

We evaluate potential strategic transactions, including business combinations, acquisitions, and dispositions. Any such transaction could have a material impact on our financial position, results of operations, or cash flows. The process of evaluating, negotiating, effecting, and integrating any such strategic transaction may divert management's attention from other business concerns, and might cause the loss of key clients, employees, and business partners. Moreover, integrating businesses and systems may result in unforeseen expenditures as well as numerous risks and uncertainties, including the need to integrate operational, financial, and management information systems and management controls, integrate relationships with clients and business partners, and manage facilities and employees in different geographic areas. The integration process could result in the disruption of ongoing businesses or changes to inconsistent standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with clients, employees, outsourced service providers and vendors. In addition, an acquisition may cause us to assume liabilities or become subject to litigation or regulatory proceedings or require the amortization of a large amount of acquired intangible assets. Further, we may not realize the anticipated benefits from an acquisition in a timely manner or at all (including without limitation the recent acquisition of TD Ameritrade), and any future acquisition could be dilutive to our current stockholders' percentage ownership or to earnings per common share (EPS).

Our acquisitions and dispositions are typically subject to closing conditions, including regulatory approvals and the absence of material adverse changes in the business, operations or financial condition of the entity or part of an entity being acquired or sold. To the extent we enter into an agreement to buy or sell an entity or part of an entity, there can be no guarantee that the transaction will close when expected, or at all. If a material transaction does not close, our stock price could decline.

Our industry is highly competitive and characterized by aggressive price competition.

We operate in a highly competitive environment with a broad array of competitors from large integrated banks to venture-capital backed private companies. We continually monitor our pricing in relation to competitors and periodically adjust interest rates on deposits and loans, fees for advisory services, expense ratios on mutual funds and ETFs, trade commission rates, and other pricing and incentives to sustain our competitive position. Increased price competition from other financial services firms to attract clients, such as reduced commissions, higher deposit rates, reduced mutual fund or ETF expense ratios, or the increased use of incentives, could impact our results of operations and financial condition.

We face competition in hiring and retaining qualified employees.

The market for qualified personnel in our business is highly competitive. At various times, different functions and roles are in especially high demand in the market, compelling us to pay more to attract talent. Our ability to continue to compete effectively will depend upon our ability to attract new employees and retain existing employees while managing compensation costs.

We need to hire a significant number of technology personnel and contract staff to complete the TD Ameritrade integration work within the target timeframe. Demand for skilled technology professionals is high and we may experience delays in hiring the appropriate skilled resources.

Our stock price has fluctuated historically, and may continue to fluctuate.

Our stock price can be volatile. Among the factors that may affect the volatility of our stock price are the following:

- Our exposure to changes in interest rates;
- Speculation in the investment community or the press about, or actual changes in, our competitive position, organizational structure, executive team, operations, financial condition, financial reporting and results, expense discipline, strategic transactions, or progress on achieving the expected benefits from our TD Ameritrade acquisition;
- The announcement of new products, services, acquisitions, or dispositions by us or our competitors;
- Increases or decreases in revenue or earnings, changes in earnings estimates by the investment community, and variations between estimated financial results and actual financial results; and
- Sales of a substantial number of shares of our common stock by large stockholders.

Changes in the stock market generally, or as it concerns our industry, as well as geopolitical, corporate, regulatory, business, and economic factors may also affect our stock price.

Future sales of CSC's equity securities may adversely affect the market price of CSC's common stock and result in dilution.

CSC's certificate of incorporation authorizes CSC's Board of Directors, among other things, to issue additional shares of common or preferred stock or securities convertible or exchangeable into equity securities, without stockholder approval. CSC may issue additional equity or convertible securities to raise additional capital or for other purposes. The issuance of any additional equity or convertible securities could be substantially dilutive to holders of CSC's common stock and may adversely affect the market price of CSC's common stock.

Our ongoing relationships with TD Bank and its affiliates could have a negative impact on us.

Although our acquisition of TD Ameritrade was structured such that completion of the merger would not result in CSC either (i) being deemed to be "controlled" by TD Bank (as that term is interpreted by the Federal Reserve under the BHC Act or HOLA) or (ii) being deemed to be in "control" of any of TD Bank's depository institutions, changes in circumstances could trigger presumptions of control under the Federal Reserve's regulations. This could occur if TD Bank and its affiliates own more than 9.9% of Schwab common stock, as interpreted in accordance with the applicable rules of the Federal Reserve. While the Stockholder Agreement between CSC and TD Bank prohibits TD Bank and its affiliates from exceeding the 9.9% threshold, it could happen unintentionally. This presumption of control could also be triggered if the revenue generated to either us or to any of the TD Bank depository institutions exceeds a certain percentage. The Stockholder Agreement contains provisions to address such situations.

Under the IDA agreement, we are not permitted to reduce the deposit balances swept to the TD Depository Institutions until June 30, 2021 and thereafter only by a set amount during each 12-month period, subject to certain limitations including only moving IDA balances designated as floating-rate obligations and maintaining a minimum IDA sweep balance through 2031. The bank deposit account fee revenue that we earn related to the IDA agreement may be less than the net interest revenue that we could have earned if the deposit balances were swept to our banking subsidiaries rather than the TD Depository Institutions. When we are permitted to reduce the IDA balances, we can only move the balances to our banking subsidiaries if we have sufficient capital. In addition, in a low rate environment it is possible that the sweep arrangement fee computation could result in a negative amount that we would be required to pay the TD Depository Institutions, resulting in us having an expense rather than revenue.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As part of our real estate energy management program, Schwab incorporates sustainable practices and procedures to guide our facilities' design, materials, and building technologies. A summary of Schwab's significant locations is presented in the following table.

December 31, 2020	Square Footage	
(amounts in thousands)	Leased	Owned
Location		
Corporate headquarters:		
Westlake, TX [(1)]	318	542
San Francisco, CA [(1)]	417	—
Service and other office space:		
Denver, CO	—	767
Phoenix, AZ	28	728
Omaha, NE	119	578
Austin, TX	—	561
Southlake, TX	45	375
Jersey City, NJ	394	—
St. Louis, MO	—	324
Chicago, IL	237	—
Indianapolis, IN	—	161
Orlando, FL	159	—
Richfield, OH	—	117
San Diego, CA	111	—
El Paso, TX	—	105

[(1)] Effective January 1, 2021, CSC changed the designation of its corporate headquarters from San Francisco, California to Westlake, Texas.

The square footage amounts presented in the table above are net of space that has been subleased to third parties. Our corporate headquarters, data centers, offices, and service centers support both of our segments.

The Company's acquisition of TD Ameritrade expanded the Company's branch footprint. As of December 31, 2020, the Company had over 400 domestic branch offices in 48 states and the District of Columbia, as well as locations in Puerto Rico, the United Kingdom, Hong Kong, and Singapore. Substantially all branch offices are located in leased premises.

Item 3. Legal Proceedings

For a discussion of legal proceedings, see Item 8 – Note 15.

Item 4. Mine Safety Disclosures

Not applicable.

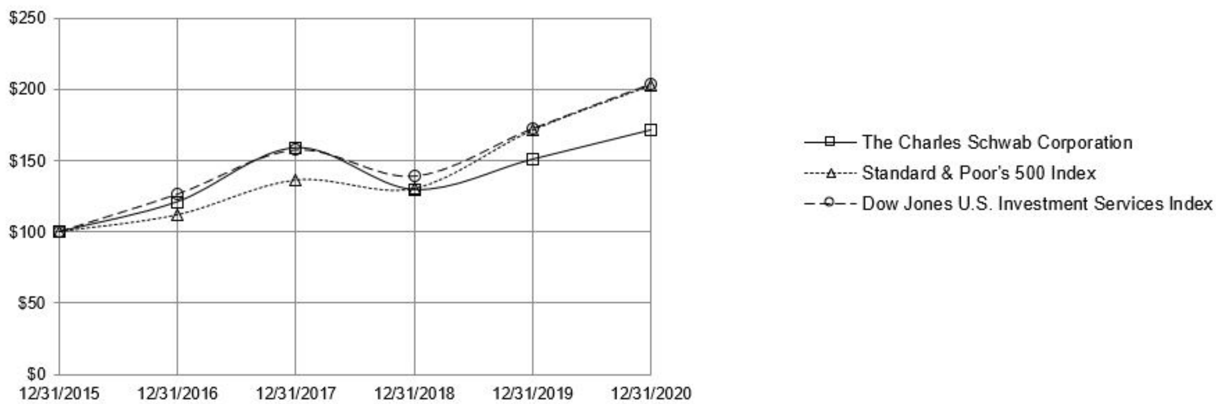
PART II

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

Market Information

CSC's common stock is listed on The New York Stock Exchange under the ticker symbol SCHW. The number of common stockholders of record as of January 29, 2021, was 5,679. The closing market price per share on that date was $51.54.

The following graph shows a five-year comparison of cumulative total returns for CSC's common stock, the Standard & Poor's 500 Index, and the Dow Jones U.S. Investment Services Index, each of which assumes an initial investment of $100 and reinvestment of dividends.



December 31,	2015	2016	2017	2018	2019	2020
The Charles Schwab Corporation	$ 100	$ 121	$ 159	$ 129	$ 151	$ 171
Standard & Poor's 500 Index	$ 100	$ 112	$ 136	$ 130	$ 171	$ 203
Dow Jones U.S. Investment Services Index	$ 100	$ 127	$ 158	$ 139	$ 173	$ 204

Securities Authorized for Issuance Under Equity Compensation Plans

For information relating to compensation plans under which our equity securities are authorized for issuance, see Item 8 – Note 21 and Part III – Item 12.

Issuer Purchases of Equity Securities

The following table summarizes purchases made by or on behalf of CSC of its common stock for each calendar month in the fourth quarter of 2020 (in millions, except number of shares, which are in thousands, and per share amounts):

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Publicly Announced Program
October:				
Share repurchase program [(1)]	—	$ —	—	$ 1,780
Employee transactions [(2)]	111	$ 38.62	N/A	N/A
November:				
Share repurchase program [(1)]	—	$ —	—	$ 1,780
Employee transactions [(2)]	704	$ 41.89	N/A	N/A
December:				
Share repurchase program [(1)]	—	$ —	—	$ 1,780
Employee transactions [(2)]	273	$ 49.85	N/A	N/A
Total:				
Share repurchase program [(1)]	—	$ —	—	$ 1,780
Employee transactions [(2)]	1,088	$ 43.55	N/A	N/A

[(1)] All shares were repurchased under an authorization approved by CSC's Board of Directors of up to $4.0 billion of common stock publicly announced by CSC on January 30, 2019. The authorization does not have an expiration date.

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

N/A Not applicable.

Recent Sales of Unregistered Securities

TD Bank exercised a right to exchange 1,786,640 shares of CSC common stock for an equal number of shares of CSC nonvoting common stock. The shares of CSC nonvoting common stock issued in exchange were issued in reliance on Section 3(a)(9) of the Securities Act on October 19, 2020.

Item 6. Selected Financial Data

Selected Financial and Operating Data

(In Millions, Except Per Share Amounts, Ratios, or as Noted)

	Growth Rates Compounded 4-Year 2016-2020 (1)	Growth Rates Annual 1-Year 2019-2020	2020 (2)	2019	2018	2017	2016
Results of Operations							
Total net revenues	12%	9%	$ 11,691	$ 10,721	$ 10,132	$ 8,618	$ 7,478
Expenses excluding interest	13%	26%	$ 7,391	$ 5,873	$ 5,570	$ 4,968	$ 4,485
Net income	15%	(11)%	$ 3,299	$ 3,704	$ 3,507	$ 2,354	$ 1,889
Net income available to common stockholders	15%	(14)%	$ 3,043	$ 3,526	$ 3,329	$ 2,180	$ 1,746
Earnings per common share:							
Basic	13%	(21)%	$ 2.13	$ 2.69	$ 2.47	$ 1.63	$ 1.32
Diluted	13%	(21)%	$ 2.12	$ 2.67	$ 2.45	$ 1.61	$ 1.31
Dividends declared per common share	28%	6%	$ .72	$ .68	$ .46	$ .32	$ .27
Weighted-average common shares outstanding:							
Basic	2%	9%	1,429	1,311	1,348	1,339	1,324
Diluted	2%	9%	1,435	1,320	1,361	1,353	1,334
Net interest revenue as a percentage of total net revenues			52%	61%	57%	50%	44%
Asset management and administration fees as a percentage of total net revenues			30%	30%	32%	39%	41%
Trading revenue as a percentage of total net revenues (3)			12%	7%	9%	9%	12%
Effective income tax rate			23.3%	23.6%	23.1%	35.5%	36.9%
Performance Measures							
Total net revenues growth			9%	6%	18%	15%	17%
Pre-tax profit margin			36.8%	45.2%	45.0%	42.4%	40.0%
Return on average common stockholders' equity			9%	19%	19%	15%	14%
Financial Condition (at year end)							
Total assets	25%	87%	$ 549,009	$ 294,005	$ 296,482	$ 243,274	$ 223,383
Short-term borrowings	—	—	—	—	—	$ 15,000	—
Long-term debt	48%	83%	$ 13,632	$ 7,430	$ 6,878	$ 4,753	$ 2,876
Preferred stock	29%	177%	$ 7,733	$ 2,793	$ 2,793	$ 2,793	$ 2,783
Total stockholders' equity	36%	158%	$ 56,060	$ 21,745	$ 20,670	$ 18,525	$ 16,421
Assets to stockholders' equity ratio			10	14	14	13	14
Debt to total capital ratio (4)			20%	25%	25%	52%	15%
Employee Information							
Full-time equivalent employees (at year end, in thousands)	19%	62%	32.0	19.7	19.5	17.6	16.2

(1) The Compounded 4-year growth rate is computed using the formula: Compound annual growth rate = (Ending Value / Beginning Value) $^{.25}$ – 1.

(2) Effective October 6, 2020, CSC acquired TD Ameritrade. As a result, TD Ameritrade has been included in our consolidated results of operations and financial condition starting on the acquisition date. Refer to Item 8 – Note 3 for further information regarding the acquisition of TD Ameritrade.

(3) Beginning in the first quarter of 2020, order flow revenue was reclassified from other revenue to trading revenue. Prior period amounts have been reclassified in the statements of income to reflect this change, and prior period percentages presented in this table have been recalculated.

(4) The Debt to total capital ratio is computed using the formula: Total Debt (short and long-term) / (Total Debt + Stockholders' Equity).

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

FORWARD-LOOKING STATEMENTS

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

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

- Maximizing our market valuation and stockholder returns over time; our belief that developing trusted relationships will translate into more client assets which drives revenue and, along with expense discipline and thoughtful capital management, generates earnings growth and builds stockholder value; and maintaining our market position (see Business Strategy and Competitive Environment and Products and Services in Part I, Item 1);
- Expected benefits from the TD Ameritrade and other recently completed acquisitions; and expected timing for the TD Ameritrade integration (see Business and Asset Acquisitions in Part I, Item 1; Overview – Business and Asset Acquisitions in Part II, Item 7; Business Acquisitions in Part II, Item 8 – Note 3; and Exit and Other Related Liabilities in Note 16);
- The migration of IDA balances to our balance sheet (see Business and Asset Acquisitions – Acquisition of TD Ameritrade in Part I, Item 1; Capital Management – Regulatory Capital Requirements in Part II, Item 7; and Commitments and Contingencies in Part II, Item 8 – Note 15);
- The impact of legal proceedings and regulatory matters (see Legal Proceedings in Part I, Item 3; and Commitments and Contingencies in Part II, Item 8 – Note 15);
- Advancing strategic goals to drive scale, monetization and segmentation (see Overview in Part II, Item 7);
- Cost estimates and timing related to the TD Ameritrade integration, including acquisition and integration-related costs and capital expenditures, cost synergies, and exit and other related costs (see Overview – Business and Asset Acquisitions in Part II, Item 7; Results of Operations – Total Expenses Excluding Interest; and Exit and Other Related Liabilities in Part II, Item 8 – Note 16);
- The adjustment of rates paid on client-related liabilities; net interest margin compression and net interest revenue; and money market fund fee waivers (see Results of Operations – Net Interest Revenue and Asset Management and Administration Fees in Part II, Item 7);
- Capital expenditures; and increased spending to improve service levels and support growth (see Results of Operations – Total Expenses Excluding Interest in Part II, Item 7);
- The phase-out of the use of LIBOR (see Risk Management – Expected Phase-out of LIBOR in Part II, Item 7);
- Sources of liquidity, capital, and level of dividends; and Tier 1 Leverage Ratio operating objective (see Liquidity Risk, Capital Management, Regulatory Capital Requirements, and Dividends in Part II, Item 7);
- The expected impact of new accounting standards not yet adopted (see Summary of Significant Accounting Policies in Part II, Item 8 – Note 2); and
- The likelihood of indemnification and guarantee payment obligations and clients failing to fulfill contractual obligations (see Commitments and Contingencies in Part II, Item 8 – Note 15 and Financial Instruments Subject to Off-Balance Sheet Credit Risk – Client Trade Settlement in Note 17).

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

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

- General market conditions, including equity valuations, trading activity, the level of interest rates – which can impact money market fund fee waivers, and credit spreads;

- Our ability to attract and retain clients, develop trusted relationships, and grow client assets;
- Client use of our advisory solutions and other products and services;
- The level of client assets, including cash balances;
- Competitive pressure on pricing, including deposit rates;
- Client sensitivity to rates;
- Regulatory guidance;
- Capital and liquidity needs and management;
- Our ability to manage expenses;
- Our ability to develop and launch new and enhanced products, services, and capabilities, as well as enhance our infrastructure, in a timely and successful manner;
- Our ability to monetize client assets;
- The scope and duration of the COVID-19 pandemic and actions taken by governmental authorities to contain the spread of the virus and the economic impact;
- Our ability to support client activity levels;
- The risk that expected cost synergies and other benefits from the TD Ameritrade and other recent acquisitions may not be fully realized or may take longer to realize than expected;
- The ability to successfully implement integration strategies and plans relating to TD Ameritrade;
- The timing of integration-related and other technology projects;
- Real estate and workforce decisions;
- Migrations of BDA balances;
- Prepayment levels for mortgage-backed securities;
- Client cash allocations;
- LIBOR trends;
- Adverse developments in litigation or regulatory matters and any related charges;
- Potential breaches of contractual terms for which we have indemnification and guarantee obligations; and
- Client activity, including daily average trades; margin balances; and balance sheet cash.

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

GLOSSARY OF TERMS

Active brokerage accounts: Brokerage accounts with activity within the preceding 270 days.

Accumulated Other Comprehensive Income (AOCI): A component of stockholders' equity which includes unrealized gains and losses on available for sale (AFS) securities and net gains or losses associated with pension obligations.

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

Assets receiving ongoing advisory services: Market value of all client assets custodied at the Company under the guidance of an independent advisor or enrolled in one of Schwab's advice solutions at the end of the reporting period.

Bank deposit account balances (BDA balances): Clients' uninvested cash balances held off-balance sheet in deposit accounts at unconsolidated third-party financial institutions, pursuant to the IDA agreement and agreements with other third-party financial institutions. Average BDA balances represent the daily average balance for the reporting period.

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

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

Client assets: The market value, as of the end of the reporting period, of all client assets in our custody, BDA balances, and proprietary products, which includes both cash and securities. Average client assets are the daily average client asset balance for the reporting period.

Client cash as a percentage of client assets: Calculated as the value, at the end of the reporting period, of all money market fund balances, bank deposits, Schwab One® balances, BDA balances, and certain cash equivalents divided by client assets.

Common Equity Tier 1 (CET1) Capital: The sum of common stock and related surplus net of treasury stock, retained earnings, AOCI, and qualifying minority interests, less applicable regulatory adjustments and deductions. As permitted by the interagency regulatory capital and liquidity rules adopted in October 2019, CSC, as a Category III banking organization, made an election to exclude AOCI from CET1 capital, beginning January 1, 2020.

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

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

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

Daily Average Trades (DATs): Includes daily average revenue trades by clients, trades by clients in asset-based pricing relationships, and all commission-free trades.

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

Delinquency roll rates: The rates at which loans transition through delinquency stages, ultimately resulting in a loss. Schwab 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 Act): Regulatory reform legislation containing numerous provisions which expanded prudential regulation of large financial services companies.

Duration: Duration is typically used to measure the expected change in value of a financial instrument for a 1% change in interest rates, expressed in years.

Final Regulatory Capital Rules: Refers to the regulatory capital rules issued by U.S. banking agencies which implemented Basel III and relevant provisions of Dodd-Frank Act, which apply to savings and loan holding companies, as well as federal savings banks.

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

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

High Quality Liquid Assets (HQLA): HQLA is defined by the Federal Reserve, but includes assets with low market- and credit risk that are actively traded and readily convertible to cash in times of stress.

Insured Deposit Account (IDA) Agreement: The IDA agreement with the TD Depository Institutions.

Interest-bearing liabilities: Primarily includes bank deposits, payables to brokerage clients, short-term borrowings, and long-term debt on which Schwab pays interest.

Interest-earning assets: Primarily includes cash and cash equivalents, cash and investments segregated, receivables from brokerage clients, investment securities, and bank loans on which Schwab earns interest.

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

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

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

Margin loans: Money borrowed against the value of certain stocks, bonds, and mutual funds in a client portfolio. The borrowed money can be used to purchase additional securities or to meet short-term financial needs.

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

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

Net interest margin: Net interest revenue (annualized for interim periods) divided by average interest-earning assets.

Net new client assets: Total inflows of client cash and securities to Schwab less client outflows. Inflows include dividends and interest; outflows include commissions and fees. Capital gains distributions are excluded.

Net Stable Funding Ratio (NSFR): The ratio of the amount of available stable funding relative to the amount of required stable funding.

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

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

Order flow revenue: Net compensation received from markets and firms to which our broker-dealer subsidiaries send equity and options orders. The amount reflects rebates received for certain types of orders, less fees paid for orders where exchange fees or other charges apply.

Pledged Asset Line® (PAL): A non-purpose revolving line of credit from CSB secured by eligible assets held in a separate pledged brokerage account maintained at CS&Co.

Return on average common stockholders’ equity: Calculated as net income available to common stockholders (annualized for interim periods) divided by average common stockholders’ equity.

Risk-weighted assets: Computed by assigning specific risk-weightings 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: End-of-period Tier 1 Capital divided by adjusted average total consolidated assets for the period.

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

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

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

OVERVIEW

Management focuses on several client activity and financial metrics in evaluating Schwab's financial position and operating performance. We believe that metrics relating to net new and total client assets, as well as client cash levels and utilization of advisory services, offer perspective on our business momentum and client engagement. Data on new and total client brokerage accounts provides additional perspective on our ability to attract and retain new business. Total net revenue growth, pre-tax profit margin, EPS, return on average common stockholders' equity, and the Consolidated Tier 1 Leverage Ratio provide broad indicators of Schwab's overall financial health, operating efficiency, and ability to generate acceptable returns. Total expenses excluding interest as a percentage of average client assets is a measure of operating efficiency.

Our consolidated financial statements include the results of operations and financial condition of TD Ameritrade beginning on October 6, 2020, as discussed below. Results for the years ended December 31, 2020, 2019, and 2018 are as follows:

	Growth Rate 1-Year 2019-2020	2020	2019	2018
Client Metrics				
Net new client assets (in billions) [1]	N/M	$ 1,952.5	$ 222.8	$ 133.9
Core net new client assets (in billions)	33%	$ 281.9	$ 211.7	$ 227.8
Client assets (in billions, at year end)	66%	$ 6,691.7	$ 4,038.8	$ 3,252.2
Average client assets (in billions)	24%	$ 4,579.0	$ 3,682.0	$ 3,409.6
New brokerage accounts (in thousands) [2]	N/M	18,627	1,568	1,576
Active brokerage accounts (in thousands, at year end)	140%	29,629	12,333	11,593
Assets receiving ongoing advisory services (in billions, at year end)	57%	$ 3,300.1	$ 2,106.8	$ 1,708.5
Client cash as a percentage of client assets (at year end)		12.3%	11.3%	12.8%
Company Financial Metrics				
Total net revenues	9%	$ 11,691	$ 10,721	$ 10,132
Total expenses excluding interest	26%	7,391	5,873	5,570
Income before taxes on income	(11)%	4,300	4,848	4,562
Taxes on income	(13)%	1,001	1,144	1,055
Net income	(11)%	$ 3,299	$ 3,704	$ 3,507
Preferred stock dividends and other	44%	256	178	178
Net income available to common stockholders	(14)%	$ 3,043	$ 3,526	$ 3,329
Earnings per common share — diluted	(21)%	$ 2.12	$ 2.67	$ 2.45
Net revenue growth from prior year		9%	6%	18%
Pre-tax profit margin		36.8%	45.2%	45.0%
Return on average common stockholders' equity		9%	19%	19%
Expenses excluding interest as a percentage of average client assets		0.16%	0.16%	0.16%
Consolidated Tier 1 Leverage Ratio (at year end)		6.3%	7.3%	7.1%
Non-GAAP Financial Measures [3]				
Adjusted total expenses [4]		$ 6,759	$ 5,820	$ 5,541
Adjusted diluted EPS		$ 2.45	$ 2.70	$ 2.46
Return on tangible common equity		15%	21%	21%

(1) 2020 includes inflows of $1.6 trillion related to the acquisition of TD Ameritrade, $79.9 billion related to the acquisition of the assets of USAA-IMCO, $8.5 billion related to the acquisition of Wasmer Schroeder, and an inflow of $10.9 billion from a mutual fund clearing services client. 2019 includes inflows of $11.1 billion from certain mutual fund clearing services clients. 2018 includes outflows of $93.9 billion from certain mutual fund clearing services clients.

(2) 2020 includes 14.5 million new brokerage accounts related to the acquisition of TD Ameritrade and 1.1 million new brokerage accounts related to the acquisition of assets from USAA-IMCO.

(3) See Non-GAAP Financial Measures for further details and a reconciliation of such measures to GAAP reported results.

(4) Adjusted total expenses is a non-GAAP financial measure adjusting total expenses excluding interest. See Non-GAAP Financial Measures.

N/M Not meaningful. Percentage changes greater than 200% are presented as not meaningful.

2020 Compared to 2019

Throughout the extraordinary macroeconomic environment that persisted during 2020, Schwab continued to execute on key strategic initiatives, and produced solid financial results. The impact of COVID-19, along with social and political turmoil, created an unprecedented combination of personal and macroeconomic challenges for our clients, employees, and stockholders. While working through these challenges, we progressed in advancing the Company's strategic goals to drive scale, monetization, and segmentation in ways that benefit our clients. Among the Company's key accomplishments in 2020 were the successful completion of the acquisition of TD Ameritrade and three other strategic acquisitions, as discussed below.

The COVID-19 pandemic's rapid escalation in early 2020 was accompanied by volatile equity markets and the Federal Reserve's further easing of monetary policy. As the year progressed, government aid packages and vaccine developments helped settle the markets, with the S&P 500® erasing its pandemic-related losses to finish up 16% for the year. Throughout 2020, client engagement with the financial markets greatly increased over the prior year, as client trading activity reached record levels. Core net new assets totaled $281.9 billion in 2020, representing our third consecutive year of over $200 billion. Total client assets reached $6.69 trillion spread across 29.6 million brokerage accounts, up 66% and 140%, respectively, from year-end 2019.

Against this backdrop, Schwab's net income totaled $3.3 billion, down $405 million, or 11% from 2019, while the Company produced diluted EPS of $2.12, representing a decrease of 21% relative to 2019. Adjusted diluted EPS [(1)], which excludes acquisition and integration-related costs, amortization of acquired intangible assets, and related income tax effects, amounted to $2.45 in 2020, down 9% from $2.70 in 2019.

Total net revenues reached $11.7 billion for the year, increasing 9% from 2019. During March 2020, the Federal Reserve acted to support the economy by cutting the Fed Funds rate from 1.75% to near zero and announcing significant asset purchase programs. Mortgage refinancing activity subsequently accelerated, and our net interest margin was impacted by both significantly lower interest rates and increased prepayments of mortgage-backed securities held in our investment portfolio. Strong growth in interest-earning assets via client inflows and allocation decisions, as well as our acquisitions of TD Ameritrade and assets of USAA-IMCO, helped limit the decrease in net interest revenue to 6%, resulting in a full-year 2020 total of $6.1 billion.

Growing balances in advisory solutions and a rebound in equity markets in 2020 helped drive an 8% increase in asset management and administration fees, which totaled $3.5 billion in 2020. Record client trading activity and the addition of TD Ameritrade in the fourth quarter contributed to an 88% increase in trading revenue, which reached $1.4 billion for the year, more than offsetting a full-year impact of the commission reductions implemented in the fourth quarter of 2019. With the TD Ameritrade acquisition, our fourth quarter 2020 results included bank deposit account fee revenue for the first time, which totaled $355 million for the period from October 6, through December 31, 2020.

Total expenses excluding interest increased 26% in 2020 to $7.4 billion, which included significant costs related to our acquisitions. With the completion of four acquisitions during the year, acquisition and integration-related costs totaled $442 million in 2020, representing a significant increase from the $26 million incurred in 2019. Amortization of acquired intangible assets also increased, totaling $190 million in 2020 compared with $27 million in 2019. Exclusive of these items [(1)], adjusted total expenses increased 16% from 2019. Return on average common stockholders' equity was 9% in 2020, down from 19% in 2019. Return on tangible common equity [(1)] (ROTCE) was 15% in 2020, down from 21% in 2019. The 2020 decreases in both return on average common stockholders' equity and ROTCE are due to lower net income as well as significantly higher balances of common equity due to the TDA acquisition and higher AOCI in 2020, driven by unrealized gains in our AFS investment portfolio.

[(1)] Adjusted diluted EPS, adjusted total expenses, and return on tangible common equity are non-GAAP financial measures. Please see Non-GAAP Financial Measures for further details and a reconciliation of such measures to GAAP reported results.

Throughout 2020, the Company maintained its disciplined approach to capital management, helping sustain significant balance sheet growth. Schwab's consolidated total assets ended 2020 at $549 billion, representing growth of $255 billion, or 87%, from year-end 2019, reflecting both our organic growth as well as the acquisitions of TD Ameritrade and the assets of USAA-IMCO. Through offerings in April and December, the Company issued preferred stock totaling approximately $5 billion in 2020, bringing total preferred stock to approximately $7.7 billion, or approximately 25% of Tier 1 Capital at December 31, 2020. The Company's Tier 1 Leverage Ratio was 6.3% at December 31, 2020.

Business and Asset Acquisitions

TD Ameritrade

Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade. TD Ameritrade provides securities brokerage services, including trade execution, clearing services, and margin lending, through its broker-dealer subsidiaries; and futures and foreign exchange trade execution services through its FCM and FDM subsidiary. At the time of closing, TD Ameritrade had approximately $1.6 trillion in client assets and approximately 14.5 million brokerage accounts. In exchange for each share of TD Ameritrade common stock, TD Ameritrade stockholders received 1.0837 shares of CSC common stock, except for TD Bank and its affiliates which received a portion in nonvoting common stock. In connection with the transaction, Schwab issued approximately 586 million common shares to TD Ameritrade stockholders consisting of approximately 509 million shares of common stock and 77 million shares of nonvoting common stock. Upon completion of the acquisition, TDA Holding became a wholly-owned subsidiary of CSC. See Item 8 – Note 3 for more information.

For the period of October 6, through December 31, 2020, total net revenues and total expenses excluding interest attributable to TD Ameritrade were approximately $1.7 billion and $943 million, respectively. TD Ameritrade's primary sources of revenues include trading revenue, bank deposit account fees, net interest revenue, and asset management and administration fees. Bank deposit account fee revenue is primarily earned through the Company's IDA agreement. TD Ameritrade's assets and liabilities have been revalued and recorded at their provisional estimated fair value as of the date of acquisition.

The integration of TD Ameritrade's operations is expected to occur over 18 to 36 months from the date of acquisition, and the Company expects to continue to incur significant acquisition and integration-related costs and integration-related capital expenditures throughout the integration process. Such costs have included and are expected to continue to include professional fees, such as legal, advisory, and accounting fees, and compensation and benefits expenses for employees and contractors involved in the integration work, costs for technology enhancements, as well as exit and other related costs incurred to attain anticipated synergies. Such costs include employee compensation and benefits, including severance pay, other termination benefits and retention costs, as well as costs related to facility closures, including accelerated depreciation or impairments of assets in those locations.

The Company currently estimates that total acquisition and integration-related costs and capital expenditures related to the integration of TD Ameritrade will be approximately $1.6 billion. The Company is in the early stages of integration, and our estimates of the nature, amounts, and timing of recognition of acquisition and integration-related costs are subject to change based on a number of factors, including the expected duration and complexity of the integration process and the heightened uncertainty of the current economic environment. More specifically, factors that could cause variability in our expected acquisition and integration-related costs include the level of employee attrition, workforce redeployment from eliminated positions into open roles, changes in the levels of client activity, as well as increased real estate-related exit cost variability due to effects of the COVID-19 pandemic.

Acquisition and integration-related costs, which includes related exit costs, for all of our acquisitions completed in 2020 totaled $442 million, and the Company expects to incur a roughly consistent amount in 2021 related primarily to continued work on the integration of TD Ameritrade. While inclusion of TD Ameritrade's operating costs and continued acquisition and integration-related costs will increase the Company's total expenses excluding interest in 2021 and going forward, we expect to realize cost synergies through integration. Over the course of the integration, we expect to realize annualized cost synergies of between $1.8 billion and $2.0 billion, with one-quarter to one-third on an annualized run-rate basis expected by the end of the first year following acquisition. Estimated timing and amounts of synergy realization are subject to change as we progress in the integration. See also Results of Operations – Total Expenses Excluding Interest, Non-GAAP Financial Measures, and Item 8 – Notes 3 and 16.

Assets of USAA-IMCO

On May 26, 2020, the Company completed its acquisition of the assets of USAA-IMCO for $1.6 billion in cash. Along with the asset purchase agreement, the companies entered into a long-term referral agreement that makes Schwab the exclusive provider of wealth management and investment brokerage services for USAA members. The USAA-IMCO acquisition has added scale to the Company’s operations through the addition of 1.1 million brokerage and managed portfolio accounts with approximately $80 billion in client assets at the acquisition date. The transaction also provides Schwab the opportunity to further expand our client base by serving USAA’s members through the long-term referral agreement. See Item 8 – Note 3 for more information on the USAA-IMCO acquisition.

Other

During the second quarter of 2020 the Company completed its acquisition of technology and intellectual property of Motif, a financial technology company. The Motif assets help us build on our existing capabilities and help accelerate our development of thematic and direct index investing for Schwab’s retail investors and RIA clients. On July 1, 2020, the Company completed its acquisition of Wasmer Schroeder, which adds established strategies and new separately managed account offerings to our existing fixed income lineup.

2019 Compared to 2018

Schwab delivered solid financial results in 2019 while taking significant steps to further enhance our offer to clients and help position the Company to build value for our stakeholders over the long-term. Throughout 2019, investor sentiment reflected a complex market environment that included global trade negotiations and an uncertain domestic economic outlook. The Federal Reserve ended up cutting the federal funds target interest rate three times in 2019, in a reversal of the increases seen in 2018. At the same time, stocks continued to rise, with the S&P 500® increasing 29% during 2019. Core net new assets totaled $211.7 billion for 2019, representing an organic growth rate of 7% and our second consecutive year over $200 billion. Clients opened 1.6 million new brokerage accounts in 2019, while active brokerage accounts grew 6% to 12.3 million. Our success in asset gathering combined with strong market returns drove total client assets to reach $4.04 trillion at December 31, 2019, closing the year up 24%.

Company actions to benefit clients and build long-term value during 2019 included the elimination of online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options, which became effective October 7, 2019. The Company also announced two significant acquisitions during 2019. In July 2019, the Company agreed to acquire assets of USAA-IMCO and agreed to enter into a long-term referral agreement. In late November 2019, we entered into a definitive agreement to acquire TD Ameritrade.

Against the backdrop of the more challenging than expected macroeconomic environment and our own pricing decisions, Schwab’s net income totaled $3.7 billion in 2019, an increase of $197 million, or 6%. Diluted EPS grew to $2.67, representing an increase of 9% from 2018.

Total net revenues reached $10.7 billion, up 6% in 2019. Net interest revenue increased 12% in 2019 to $6.5 billion, driven by higher average investment yields and also by an increase in client cash balances held at our bank and broker-dealer subsidiaries. While trading revenue declined 17% to $752 million due to our pricing actions, asset management and administration fees remained essentially flat with 2018 at $3.2 billion, decreasing 1%. Growing enrollment in advice solutions, along with rising balances in other third-party mutual funds, helped to largely offset declines in Mutual Fund OneSource® and lower sweep money market fund revenue due to transfers of sweep money market funds to our balance sheet in 2018 and early 2019.

Total expenses excluding interest increased 5% in 2019 to $5.9 billion, which included $62 million in severance charges associated with a 3% reduction in our workforce and $25 million in costs relating to the announced acquisitions of assets of USAA-IMCO and TD Ameritrade. The Company’s focus on driving efficiency while managing spending in a disciplined manner helped us maintain a ratio of expenses to client assets of 16 bps for 2019. Balancing long-term profitability with reinvesting for growth, we achieved a 45.2% pre-tax profit margin and a 19% return on equity in 2019, representing our second consecutive year of at least 45% and 19%, respectively.

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

Disciplined balance sheet management remained core to our strategy as we continued to support business growth and meaningful capital returns across a range of conditions. In early 2019, the Board of Directors raised the quarterly cash dividend 31% to $0.17 per share and authorized the repurchase of up to $4.0 billion of common stock; during 2019 we repurchased 55 million shares for $2.2 billion under this authorization. As of December 31, 2019, our balance sheet assets were $294 billion, down 1% from December 31, 2018; our Tier 1 Leverage Ratio was 7.3% at year-end 2019.

RESULTS OF OPERATIONS

Total Net Revenues

Total net revenues of $11.7 billion and $10.7 billion for the years ended December 31, 2020 and 2019, respectively, represented growth of 9% and 6% from the prior periods. The 2020 increase was due to our acquisition of TD Ameritrade, which contributed approximately $1.7 billion of total net revenues from October 6, through December 31, 2020. Total net revenues increased in 2019 primarily due to growth in net interest revenue.

Year Ended December 31,		2020		2019		2018	
	Growth Rate 2019-2020	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Net interest revenue							
Interest revenue	(14)%	$ 6,531	56%	$ 7,580	71%	$ 6,680	66%
Interest expense	(61)%	(418)	(4)%	(1,064)	(10)%	(857)	(9)%
Net interest revenue	(6)%	6,113	52%	6,516	61%	5,823	57%
Asset management and administration fees							
Mutual funds, ETFs, and collective trust funds (CTFs) [1]	1%	1,770	15%	1,747	16%	1,837	18%
Advice solutions	20%	1,443	12%	1,198	11%	1,139	11%
Other [1]	(2)%	262	3%	266	3%	253	3%
Asset management and administration fees	8%	3,475	30%	3,211	30%	3,229	32%
Trading revenue							
Commissions	35%	739	6%	549	5%	685	7%
Order flow revenue [2]	N/M	621	6%	135	1%	139	1%
Principal transactions	(18)%	56	—	68	1%	78	1%
Trading revenue [2]	88%	1,416	12%	752	7%	902	9%
Bank deposit account fees	N/M	355	3%	—	—	—	—
Other [2]	37%	332	3%	242	2%	178	2%
Total net revenues	9%	$ 11,691	100%	$ 10,721	100%	$10,132	100%

(1) Beginning in the first quarter of 2019, a change was made to move CTFs from other asset management and administration fees. Prior periods have been recast to reflect this change.
(2) Beginning in the first quarter of 2020, order flow revenue was reclassified from other revenue to trading revenue. Prior period amounts have been reclassified to reflect this change.
N/M Not meaningful. Percentage changes greater than 200% are presented as not meaningful.

Net Interest Revenue

Schwab's primary interest-earning assets include cash and cash equivalents; cash and investments segregated; margin loans, which constitute the majority of receivables from brokerage clients; investment securities; and bank loans. Revenue on interest-earning assets is affected by various factors, such as the composition of assets, prevailing interest rates and spreads at the time of origination or purchase, changes in interest rates on floating rate securities and loans, and changes in prepayment levels for mortgage-backed and other asset-backed securities and loans. Fees earned and expenses incurred on securities lending and borrowing activities are conducted by our broker-dealer subsidiaries using assets held in client brokerage accounts.

Schwab's interest-bearing liabilities include bank deposits, payables to brokerage clients, short-term borrowings (e.g., Federal Home Loan Bank (FHLB) advances, commercial paper), and long-term debt. Non-interest-bearing funding sources include stockholders' equity, certain client cash balances, and other miscellaneous liabilities.

Schwab establishes the rates paid on client-related liabilities, and management expects that it will generally adjust the rates paid on these liabilities at some fraction of any movement in short-term rates. Schwab deploys the funds from these sources into the assets outlined above. We do not use short-term, wholesale borrowings to support our long-term investment activity, but may use such funding, including FHLB advances or commercial paper, for short-term liquidity purposes or to provide temporary funding (e.g., for investment purchases) ahead of anticipated balance sheet deposit growth.

In order to keep interest-rate sensitivity within established limits, management actively monitors and adjusts interest-rate sensitivity through changes in the balance sheet, primarily by adjusting the composition of our banking subsidiaries' investment portfolios. As Schwab builds its client base, we attract new client sweep cash, which is a primary driver of funding balance sheet growth.

Late in the first quarter of 2020, the Federal Reserve cut the federal funds target overnight rate from 1.75% to near zero; on the longer-end of the curve, the 10-year Treasury rate declined by over 120 basis points. Lower interest rates across maturities persisted from the end of the first quarter through the end of 2020, while credit spreads also compressed. Moreover, changes in the economic environment throughout 2020 resulting from the COVID-19 pandemic drove significantly higher levels of client cash sweep balances. As these balances rapidly accumulated in the first quarter of 2020, the Company initially placed a substantial amount in excess reserves held at the Federal Reserve, and subsequently deployed a significant amount of this cash build-up throughout 2020. AFS securities purchases in 2020 totaled $202.2 billion. These purchases were made at rates below the average yield on the existing AFS portfolio due to the current low interest rate environment.

Schwab's acquisition of TD Ameritrade, effective October 6, 2020, provides additional interest-earning assets and liabilities. For Schwab's 2020 full-year averages, TD Ameritrade contributed approximately $12.0 billion of average interest-earning assets and $9.6 billion of average interest-bearing liabilities. TD Ameritrade's interest-earning assets consist primarily of receivables from brokerage clients, cash and investments segregated, cash and cash equivalents, and AFS securities. TD Ameritrade's interest-bearing liabilities consist primarily of payables to brokerage clients and long-term debt. See Item 8 – Note 3 for additional information on the TD Ameritrade acquisition including the provisional fair values of assets acquired and liabilities assumed.

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

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

Year Ended December 31,	2020			2019			2018		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets									
Cash and cash equivalents	$ 39,052	$ 120	0.30%	$ 23,512	$ 518	2.17%	$ 17,783	$ 348	1.93%
Cash and investments segregated	34,100	141	0.41%	15,694	345	2.17%	11,461	206	1.78%
Receivables from brokerage clients	28,058	848	2.97%	19,270	821	4.20%	19,870	830	4.12%
Available for sale securities [1,2]	253,555	4,537	1.78%	58,181	1,560	2.67%	54,542	1,241	2.26%
Held to maturity securities [2]	—	—	—	134,708	3,591	2.65%	131,794	3,348	2.53%
Bank loans	20,932	545	2.60%	16,832	584	3.47%	16,554	559	3.37%
Total interest-earning assets	375,697	6,191	1.64%	268,197	7,419	2.75%	252,004	6,532	2.57%
Securities lending revenue [3]		334			147			118	
Other interest revenue [3]		6			14			30	
Total interest-earning assets [4]	$ 375,697	$ 6,531	1.73%	$ 268,197	$ 7,580	2.80%	$ 252,004	$ 6,680	2.63%
Funding sources									
Bank deposits	$ 291,206	$ 93	0.03%	$ 212,605	$ 700	0.33%	$ 199,139	$ 545	0.27%
Payables to brokerage clients	46,347	12	0.02%	24,353	79	0.33%	21,178	56	0.27%
Short-term borrowings [5]	89	—	0.20%	17	—	2.36%	3,359	54	1.59%
Long-term debt	8,992	289	3.22%	7,199	258	3.58%	5,423	190	3.50%
Total interest-bearing liabilities	346,634	394	0.11%	244,174	1,037	0.42%	229,099	845	0.37%
Non-interest-bearing funding sources [4]	29,063			24,023			22,905		
Securities lending expense [3]		33			38			18	
Other interest expense [3]		(9)			(11)			(6)	
Total funding sources [4]	$ 375,697	$ 418	0.11%	$ 268,197	$ 1,064	0.39%	$ 252,004	$ 857	0.34%
Net interest revenue		$ 6,113	1.62%		$ 6,516	2.41%		$ 5,823	2.29%

(1) Amounts have been calculated based on amortized cost.
(2) On January 1, 2020, the Company transferred all of its investment securities designated as held to maturity (HTM) to the AFS category, as described in Item 8 – Note 6.
(3) Beginning in the fourth quarter of 2020, securities lending revenue has been reclassified from broker-related receivables and other revenue. Securities lending expense has been reclassified from other expense. Prior period amounts have been reclassified to reflect this change.
(4) Beginning in the fourth quarter of 2020, broker-related receivables were removed from total interest earning assets and netted against non-interest-bearing funding sources, resulting in an immaterial reduction to total interest-earning assets and total funding sources. Prior period amounts have been reclassified to reflect this change.
(5) Interest revenue or expense was less than $500 thousand in the period or periods presented.

Net interest revenue decreased $403 million or 6%, in 2020 from 2019, due primarily to lower average investment yields partially offset by growth in interest-earning assets. Accelerated premium amortization on debt securities in 2020 also contributed to the reduction in net interest revenue, as the decline in long-term interest rates in 2020 resulted in higher prepayments of mortgage-related debt securities. TD Ameritrade contributed approximately $443 million of net interest revenue from October 6, through December 31, 2020.

Average interest-earning assets for 2020 were higher by 40%, compared to 2019. This increase in average interest-earning assets was primarily driven by higher client cash balances in bank deposits and payables to brokerage clients, due to higher client cash allocations and our acquisitions of TD Ameritrade and assets of USAA-IMCO.

Our net interest margin decreased to 1.62% in 2020, from 2.41% in 2019. This decrease was driven primarily by lower yields received on interest-earning assets due largely to the Federal Reserve's 2019 and 2020 interest rate reductions as well as higher premium amortization on mortgage-related debt securities. Due to the low interest rate environment, purchases of investment securities in 2020 were made at rates below the average yield on the existing AFS portfolio, which negatively impacted our net interest margin. The amount of any further net interest margin compression and resulting net interest revenue is dependent on a number of factors, including changes to LIBOR, premium amortization, reinvestment rates, and growth in client cash balances.

Net interest revenue increased $693 million, or 12%, in 2019 from 2018, due to higher average investment yields and growth in interest earning assets. Our net interest margin improved 12 basis points to 2.41% in 2019 from 2018, driven primarily by higher average yields received on interest-earning assets in 2019 due largely to the net impact of the Federal Reserve's interest rate increases in 2018 and decreases in the third and fourth quarters of 2019. The increase in average yields on interest-earning assets was partially offset by higher average interest rates paid on bank deposits and other interest-bearing liabilities. Portfolio adjustments made in 2019 to hold a higher percentage of fixed-rate, longer duration investments helped to moderate the impact of the declining rate environment on our net interest margin.

Average interest-earning assets grew 6% from 2018 to 2019, primarily driven by higher bank deposits due to transfers from sweep money market funds to bank sweep, as well as higher client cash balances.

Asset Management and Administration Fees

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

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

Asset management and administration fees attributable to TD Ameritrade are primarily earned on client assets invested in money market mutual funds and other mutual funds, as well as advice solutions.

Asset management and administration fees vary with changes in the balances of client assets due to market fluctuations and client activity.

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

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

Year Ended December 31,	2020			2019			2018		
	Average Client Assets	Revenue	Average Fee	Average Client Assets	Revenue	Average Fee	Average Client Assets	Revenue	Average Fee
Schwab money market funds before fee waivers	$ 200,119	$ 605	0.30%	$ 173,558	$ 525	0.30%	$ 141,018	$ 568	0.40%
Fee waivers		(127)			—			—	
Schwab money market funds	200,119	478	0.24%	173,558	525	0.30%	141,018	568	0.40%
Schwab equity and bond funds, ETFs, and CTFs (1)	301,598	300	0.10%	267,213	298	0.11%	222,830	302	0.14%
Mutual Fund OneSource® and other non-transaction fee funds	192,464	599	0.31%	191,552	606	0.32%	210,429	680	0.32%
Other third-party mutual funds and ETFs (2,3)	525,379	393	0.07%	478,037	318	0.07%	328,150	287	0.09%
Total mutual funds, ETFs, and CTFs (1,4)	$1,219,560	1,770	0.15%	$1,110,360	1,747	0.16%	$ 902,427	1,837	0.20%
Advice solutions (4)									
Fee-based	$ 306,010	1,443	0.47%	$ 246,888	1,198	0.49%	$ 227,790	1,139	0.50%
Non-fee-based	73,161	—	—	70,191	—	—	62,813	—	—
Total advice solutions	$ 379,171	1,443	0.38%	$ 317,079	1,198	0.38%	$ 290,603	1,139	0.39%
Other balance-based fees (1,5)	451,350	208	0.05%	432,613	216	0.05%	383,050	206	0.05%
Other (6)		54			50			47	
Total asset management and administration fees		$ 3,475			$ 3,211			$ 3,229	

(1) Beginning in the first quarter of 2019, a change was made to move CTFs from other balance-based fees. Prior periods have been reclassified to reflect this change.
(2) Beginning in the fourth quarter of 2019, Schwab ETF OneSource™ was discontinued as a result of the elimination of online trading commissions for U.S. and Canadian-listed ETFs.
(3) Beginning in the fourth quarter of 2020, includes third-party money funds related to the acquisition of TD Ameritrade.
(4) Average client assets for advice solutions may also include the asset balances contained in the mutual fund and/or ETF categories listed above.
(5) Includes various asset-related fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees.
(6) Includes miscellaneous service and transaction fees relating to mutual funds and ETFs that are not balance-based.

Asset management and administration fees increased by $264 million, or 8%, in 2020 from 2019, primarily due to higher balances in advice solutions, including managed account assets from USAA and TD Ameritrade, overall gains in equity markets, as well as higher purchased money market funds and other third-party mutual funds and ETFs, in 2020 relative to 2019. These increases were partially offset by the effect of money market fund fee waivers due to declining portfolio yields. Asset management and administration fees attributable to TD Ameritrade were approximately $131 million from October 6, through December 31, 2020. The amount of fee waivers in coming quarters is dependent on a variety of factors, including the level of short-term interest rates and client preferences across our money market fund line-up.

Asset management and administration fees decreased by $18 million, or 1%, in 2019 from 2018, primarily due to lower sweep money market fund revenue as a result of transfers to bank and broker-dealer sweep in 2018 and early 2019, as well as client asset allocation choices including reduced usage of Mutual Fund OneSource®. Part of the decline was offset by revenue from growing asset balances in purchased money market funds, other third-party mutual funds and ETFs, and in advice solutions.

The following table presents a roll forward of client assets for the Schwab money market funds, Schwab equity and bond funds, ETFs, and CTFs, and Mutual Fund OneSource® and other non-transaction fee (NTF) funds. The following funds generated 40%, 45%, and 48% of the asset management and administration fees earned during 2020, 2019, and 2018, respectively:

	Schwab Money Market Funds			Schwab Equity and Bond Funds, ETFs, and CTFs (1)			Mutual Fund OneSource® and Other NTF Funds		
Year Ended December 31,	2020	2019	2018	2020	2019	2018	2020	2019	2018
Balance at beginning of period	$200,826	$153,472	$163,650	$286,275	$209,471	$196,784	$202,068	$180,532	$225,202
Net inflows (outflows)	(25,894)	44,077	(11,641)	17,200	26,039	31,169	(20,246)	(19,930)	(37,513)
Net market gains (losses) and other	1,157	3,277	1,463	38,214	50,765	(18,482)	42,035	41,466	(7,157)
Balance at end of period	$176,089	$200,826	$153,472	$341,689	$286,275	$209,471	$223,857	$202,068	$180,532

(1) Beginning in the first quarter of 2019, CTFs are included in these balances. Prior periods have been reclassified to reflect this change.

Trading Revenue

Trading revenue includes commissions, order flow revenue, and principal transaction revenues. Commission revenue is affected by volume and mix of trades executed. Order flow revenue is comprised of rebate payments received from trade execution venues to which our broker-dealer subsidiaries send equity and option orders. Order flow revenue is affected by volume and mix of client trades, as well as pricing received from trade execution venues. Principal transaction revenue is primarily comprised of revenue from trading activity in fixed income securities with clients. The difference between the price at which the Company buys and sells securities to and from our clients and other broker-dealers to accommodate clients' fixed income trading activity is recognized as principal transaction revenue. Principal transaction revenue also includes adjustments to the fair value of these securities positions.

The following table presents trading revenue and the related drivers:

Year Ended December 31,	Growth Rate 2019-2020	2020	2019	2018
Trading Revenue (1)	88%	$ 1,416	$ 752	$ 902
Clients' daily average trades (DATs) (in thousands)	N/M	2,602.6	748.9	765.4
Number of trading days	1%	252.0	250.5	249.5
Revenue per trade (2)	(46)%	$ 2.16	$ 4.01	$ 4.72

Note: Effective October 7, 2019, CS&Co eliminated online trade commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options. TD Ameritrade, Inc. also does not charge for these types of trades and does not have a base charge on options.
(1) Beginning in the first quarter of 2020, order flow revenue was reclassified from other revenue to trading revenue. Prior period amounts have been reclassified to reflect this change.
(2) Revenue per trade is calculated as trading revenue divided by DATs multiplied by the number of trading days.
N/M Not meaningful. Percentage changes greater than 200% are presented as not meaningful.

Trading revenue increased $664 million, or 88% in 2020 compared to 2019, due primarily to the acquisition of TD Ameritrade, which contributed approximately $667 million of trading revenue from October 6, 2020 forward. In addition, the Company saw a significant increase in clients' daily average trades and higher order flow revenue in 2020, which were partially offset by the Company's October 2019 pricing actions. Order flow revenue was $621 million, $135 million, and $139 million during 2020, 2019, and 2018, respectively. The increase in order flow revenue in 2020 was due to the acquisition of TD Ameritrade and a higher volume of trades throughout 2020 relative to 2019.

Trading revenue decreased by $150 million, or 17%, in 2019 compared to 2018. The decrease was primarily due to the elimination of online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options effective October 7, 2019.

Bank Deposit Account Fees

Beginning in the fourth quarter of 2020, the Company began earning bank deposit account fee revenue pursuant to the IDA agreement and arrangements with other third-party banks. Bank deposit account fees are primarily affected by average BDA balances and the floating- and fixed-rate reference yields that are a key component to derive fees pursuant to the IDA agreement. Fees earned under the IDA agreement are affected by changes in interest rates and the composition of balances designated as fixed- and floating-rate.

Bank deposit account fees totaled $355 million for the period of October 6, 2020 through December 31, 2020. During this period, the total average BDA balance was approximately $161 billion, of which approximately 80% was designated as fixed-rate obligation amounts and approximately 20% as floating-rate obligation amounts.

Other Revenue

Other revenue includes exchange processing fees, certain service fees, software fees, and non-recurring gains. Other revenue increased $90 million, or 37%, in 2020 compared to 2019 primarily due to higher exchange processing fees resulting from higher trade volumes and the acquisition of TD Ameritrade. Other revenue increased $64 million, or 36%, in 2019 compared to 2018 due primarily to a gain from the sale of a portfolio management and reporting software solution for advisors to Tamarac Inc. in the second quarter of 2019 and a gain from the assignment of leased office space in the first quarter of 2019.

Total Expenses Excluding Interest

The following table shows a comparison of total expenses excluding interest:

	Growth Rate 2019-2020	2020	2019	2018
Compensation and benefits				
Salaries and wages	23%	$ 2,416	$ 1,958	$ 1,692
Incentive compensation	16%	932	804	855
Employee benefits and other	9%	606	558	510
Total compensation and benefits	19%	$ 3,954	$ 3,320	$ 3,057
Professional services	20%	843	702	654
Occupancy and equipment	26%	703	559	496
Advertising and market development	6%	326	307	313
Communications	40%	353	253	242
Depreciation and amortization (1)	29%	414	322	277
Amortization of acquired intangible assets (1)	N/M	190	27	29
Regulatory fees and assessments	34%	163	122	189
Other	70%	445	261	313
Total expenses excluding interest	26%	$ 7,391	$ 5,873	$ 5,570
Expenses as a percentage of total net revenues				
Compensation and benefits		34%	31%	30%
Advertising and market development		3%	3%	3%
Full-time equivalent employees (in thousands)				
At year end	62%	32.0	19.7	19.5
Average	20%	23.9	20.0	18.7

(1) Beginning in the third quarter of 2020, amortization of acquired intangible assets was reclassified from depreciation and amortization. Prior periods have been reclassified to reflect this change.

N/M Not meaningful. Percentage changes greater than 200% are presented as not meaningful.

Total expenses excluding interest increased $1,518 million, or 26%, in 2020 from 2019, and $303 million, or 5%, in 2019 from 2018. In 2020, total expenses excluding interest included approximately $943 million from TD Ameritrade's results of operations from October 6, through December 31, 2020. Adjusted total expenses, which excludes acquisition and integration-related costs and amortization of acquired intangible assets, increased $939 million, or 16%, in 2020 from 2019, and $279 million, or 5%, in 2019 from 2018. See Non-GAAP Financial Measures for further details and a reconciliation of such measures to GAAP reported results.

Total compensation and benefits increased in 2020 from 2019, primarily due to an overall increase in employee headcount due primarily to the addition of approximately 10,000 TD Ameritrade employees and the hiring of 400 former USAA employees in connection with our 2020 acquisitions. The increase in 2020 also reflected the Company's payment of $1,000 to all non-officer employees in March 2020 to help them cover costs incurred due to the COVID-19 pandemic. Compensation and benefits in 2020 included $235 million of acquisition and integration-related costs. The increase in 2019 from 2018 was primarily due to both an overall increase in employee headcount to support our expanding client base and higher severance costs, which included $62 million associated with a 3% reduction in our workforce in the third quarter of 2019.

Professional services expense increased in 2020 from 2019, primarily due to acquisition and integration-related costs in 2020 of $158 million. The increase in 2019 from 2018 was primarily due to overall growth in the business, investments in projects to further drive efficiency and scale, and certain costs relating to the pending acquisitions completed in 2020.

Occupancy and equipment expense increased in 2020 from 2019, primarily due the inclusion of TDA's results of operations from October 6, 2020 forward, as well as an increase in technology equipment costs associated with higher client trade volumes and overall growth in the business. The increase in 2019 from 2018 was primarily due to increases in software maintenance expenses and additional licenses to support growth in the business.

Communications expense increased in 2020 from 2019, primarily due to the inclusion of TDA's results of operations from October 6, 2020 forward and higher news and quotation services expenses due to higher trade volumes.

Depreciation and amortization expenses grew in 2020 from 2019, primarily due to higher amortization of purchased and internally developed software, higher depreciation and amortization of equipment, office facilities, and property recognized in the TDA acquisition, as well as higher depreciation of buildings and equipment related to the expansion of our U.S. campuses in 2019 and 2020. The increase in 2019 from 2018 was primarily due to higher amortization of internally developed software associated with investments in software and technology enhancements.

Amortization of acquired intangible assets increased in 2020 as a result of the acquisitions completed during the year.

Regulatory fees and assessments increased in 2020 from 2019, primarily due to the inclusion of TDA's results of operations from October 6, 2020 forward, and higher FDIC insurance assessments and other regulatory assessments due to growth in assets and overall growth of the business in 2020. Regulatory fees and assessments decreased in 2019 from 2018, primarily due to a decrease in FDIC insurance assessments resulting from the elimination of the FDIC surcharge in the fourth quarter of 2018.

Other expenses increased in 2020 from 2019, primarily resulting from the inclusion of TDA's results of operations from October 6, 2020 forward, and increases in processing fees and related expenses due to higher client trade volumes and market volatility. These increases were partially offset by lower travel and entertainment expense in 2020. Other expenses in 2020 included acquisition and integration-related costs of $30 million. Other expenses decreased in 2019 from 2018, primarily due to lower travel and entertainment expense and bad debt expense.

Capital expenditures were $741 million, $753 million, and $576 million in 2020, 2019, and 2018, respectively. Capital expenditures decreased in 2020 compared to 2019 primarily due to lower building expansion in 2020, largely offset by higher capitalized software costs. Capital expenditures increased in 2019 from 2018 primarily due to the expansion of our campuses in the U.S. Investments in buildings were $173 million, $397 million, and $253 million in 2020, 2019 and 2018, respectively. Capitalized software costs totaled $453 million, $188 million, and $194 million in 2020, 2019, and 2018, respectively.

Our capital expenditures for 2020 equaled 6% of total net revenues, within our estimated range for the year. We will continue to invest in integration-related and other technology projects in 2021, and we anticipate capital expenditures in 2021 to be approximately 6-7% of total net revenues. Our longer term expectation for capital expenditures remains in the range of 3-5% of total net revenues.

During 2020, the Company experienced high levels of client engagement and record trading volumes while nearly all employees were in a remote work environment. Client activity rose sharply in the fourth quarter, and the client service and operational challenges created by this environment became more pronounced. Clients experienced longer call wait times along with a limited number of issues in utilizing our website and mobile applications. In 2021, the Company anticipates increased spending to improve service levels and support our expanding client base, including additional technology spending as well as hiring more client service professionals.

Overall in 2021, we expect total expenses excluding interest to reflect the impacts of: continued acquisition and integration-related costs primarily related to our integration of TD Ameritrade; increased spending to improve service levels and support growth; and our progress in achieving incremental cost synergies. The magnitude and timing of these impacts are inherently uncertain and depend on a number of factors, including, but not limited to, the level of client engagement and trading volumes, the pace and levels of employee hiring, onboarding, and attrition, and changes in our needs to exit or maintain office and branch locations.

Taxes on Income

Schwab's effective income tax rate on income before taxes was 23.3% in 2020, 23.6% in 2019, and 23.1% in 2018. The decrease in the effective tax rate in 2020 from 2019 was primarily due to federal and state tax benefits recognized during 2020, including settlement of the IRS examination of tax years 2011-2014, the expiration of the statute of limitations on certain federal and state uncertain tax positions, and tax benefits realized from the filing of state tax returns, as well as an increase in Low-Income Housing Tax Credit (LIHTC) benefits. Offsetting the decrease in the effective tax rate from these items was an increase in nondeductible acquisition costs and FDIC insurance premium disallowance, as well as a decrease in equity compensation tax deduction benefits. The change in rates in 2019 from 2018 was primarily due to a decrease in equity compensation tax deduction benefits which reduced our tax expense by approximately $23 million and $46 million in 2019 and 2018, respectively.

Segment Information

Schwab provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking services to individual investors, and retirement plan services, as well as other corporate brokerage services, to businesses and their employees. The Advisor Services segment provides custodial, trading, banking, and support services, as well as retirement business services, to independent RIAs, independent retirement advisors, and recordkeepers. Revenues and expenses are attributed to the two segments based on which segment services the client. Management evaluates the performance of the segments on a pre-tax basis. Segment assets and liabilities are not used for evaluating segment performance or in deciding how to allocate resources to segments. Net revenues in both segments are generated from the underlying client assets and trading activity; differences in the composition of net revenues between the segments are based on the composition of client assets, client trading frequency, and pricing unique to each. While both segments leverage the scale and efficiency of our platforms, segment expenses reflect the dynamics of serving millions of clients in Investor Services versus the thousands of RIAs on the Advisor Services platform.

The Company integrated its business and asset acquisitions during 2020 into its two existing reportable segments. Revenues and expenses from our acquisition of USAA-IMCO are allocated to Investor Services only; revenues and expenses from TD Ameritrade and our other 2020 acquisitions are attributed to both Investor Services and Advisor Services based on which segment services the client. See Item 8 – Note 3 for more information regarding acquisitions.

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

	Investor Services				Advisor Services				Total			
Year Ended December 31,	Growth Rate 2019-2020	2020	2019	2018	Growth Rate 2019-2020	2020	2019	2018	Growth Rate 2019-2020	2020	2019	2018
Net Revenues												
Net interest revenue	(6)%	$ 4,391	$4,685	$ 4,341	(6)%	$ 1,722	$ 1,831	$ 1,482	(6)%	$ 6,113	$ 6,516	$ 5,823
Asset management and administration fees	11%	2,544	2,289	2,260	1%	931	922	969	8%	3,475	3,211	3,229
Trading revenue [1]	130%	1,156	503	604	4%	260	249	298	88%	1,416	752	902
Bank deposit account fees	N/M	255	—	—	N/M	100	—	—	N/M	355	—	—
Other [1]	79%	262	146	116	(27)%	70	96	62	37%	332	242	178
Total net revenues	13%	8,608	7,623	7,321	—	3,083	3,098	2,811	9%	11,691	10,721	10,132
Expenses Excluding Interest	29%	5,529	4,284	4,145	17%	1,862	1,589	1,425	26%	7,391	5,873	5,570
Income before taxes on income	(8)%	$ 3,079	$3,339	$ 3,176	(19)%	$ 1,221	$ 1,509	$ 1,386	(11)%	$ 4,300	$ 4,848	$ 4,562
Net new client assets (in billions) [2,3]	N/M	$1,106.4	$115.6	$ 19.4	N/M	$ 846.1	$ 107.2	$ 114.5	N/M	$1,952.5	$ 222.8	$ 133.9

(1) Beginning in 2020, order flow revenue was reclassified from other revenue to trading revenue. Prior period amounts have been reclassified to reflect this change.

(2) In 2020, Investor Services includes inflows of $890.7 billion related to the acquisition of TD Ameritrade and $79.9 billion related to the acquisition of assets of USAA-IMCO. Additionally, 2020 and 2019 includes inflows of $10.9 billion and $11.1 billion, respectively, and outflows of $93.9 billion in 2018 from certain mutual fund clearing services clients.

(3) In 2020, Advisor Services includes inflows of $680.6 billion related to the acquisition of TD Ameritrade and $8.5 billion related to the acquisition of Wasmer Schroeder.

N/M Not meaningful. Percentage changes greater than 200% are presented as not meaningful.

Segment Net Revenues

Investor Services total net revenues increased by 13% in 2020 from 2019, while Advisor Services total net revenues remained relatively consistent year-over-year. Investor Services' growth was primarily due to an increase in trading revenue, higher asset management and administration fees, and the initial recognition of bank deposit account fees in the fourth quarter of 2020, partially offset by lower net interest revenue. For Advisor Services, bank deposit account fees largely offset a decrease in net interest revenue, while trading revenue and asset management and administration fees were consistent with 2019. Trading revenue increased significantly in the Investor Services segment primarily due to the TD Ameritrade acquisition and higher trade volumes in 2020. Asset management and administration fees increased in 2020 for Investor Services primarily due to higher balances in advice solutions, including managed account assets from USAA and TD Ameritrade, as well as higher purchased money market funds and other third-party mutual funds and ETFs, partially offset by the effect of money fund fee waivers. Net interest revenue decreased for both segments primarily due to lower average investment yields, partially offset by growth in interest-earning assets.

Investor Services and Advisor Services total net revenues increased by 4% and 10%, respectively, in 2019 compared to 2018 primarily due to increases in net interest revenue, which increased as a result of higher average investment yields and higher interest earning assets. For Investor Services, asset management and administration fees increased primarily due to growing asset balances in advice solutions, partially offset by lower mutual fund and ETF service fee revenue as a result of client cash allocation choices, including reduced usage of Mutual Fund OneSource®. For Advisor Services, asset management and administration fees decreased primarily due to lower sweep money market fund revenue as a result of transfers to bank and broker-dealer sweep, as well as client asset allocation choices, including reduced usage of Mutual Fund OneSource®, partially offset by increased revenue from growing asset balances in purchased money market funds and in other third-party mutual funds and ETFs. Trading revenue decreased for both segments as a result of the elimination of online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options in the fourth quarter of 2019.

Segment Expenses Excluding Interest

Investor Services and Advisor Services total expenses excluding interest increased by 29% and 17%, respectively, in 2020 compared to 2019, primarily due to the inclusion of TD Ameritrade's expenses from October 6, 2020 forward and acquisition and integration-related costs. Compensation and benefits increased in both segments primarily due to the acquisition of TDA and overall headcount growth to support our expanding client base, with Investor Services increasing more significantly due to greater headcount growth from the TDA acquisition and the hiring of approximately 400 former USAA employees in connection with the USAA-IMCO acquisition. Both segments also saw increases in professional services, depreciation and amortization, amortization of acquired intangible assets, and other expenses, primarily due to the inclusion of TDA's expenses from October 6, 2020 forward as well as acquisition and integration-related costs, with Investor Services' expenses increasing more significantly due to overall size of the segment's client base and greater client base growth from TDA.

Investor Services and Advisor Services expenses excluding interest increased 3% and 12%, respectively, in 2019 compared to 2018 primarily due to higher compensation and benefits and occupancy and equipment expense. Additionally, Advisor Services had higher professional services expense due to overall growth in the business and investments in projects to further drive efficiency and scale, and Investor Services had higher amortization of internally developed software due to technology enhancements. For both segments these increases were partially offset by a decrease in FDIC insurance assessments due to the elimination of the FDIC surcharge in the fourth quarter of 2018 and lower travel and entertainment expenses.

RISK MANAGEMENT

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

Our risk management process is comprised of risk identification and assessment, risk measurement, risk monitoring and reporting, and risk mitigation controls; we use periodic risk and control self-assessments, control testing programs, and internal audit reviews to evaluate the effectiveness of these internal controls. The activities and governance that comprise the risk management process are described below.

As part of our integration of TD Ameritrade, the Company is aligning TD Ameritrade's historical risk exposures with Schwab's risk appetite. Our integration work includes evaluating new or changed risks impacting the combined company, and may involve modifications to our existing risk management processes. Though integration work continues, the Company's operations, inclusive of TD Ameritrade, remain consistent with our Enterprise Risk Management (ERM) framework.

Culture

The Board of Directors has approved an ERM framework that incorporates our purpose, vision, and values, which form the bedrock of our corporate culture and set the tone for the organization.

We designed the ERM Framework to enable a comprehensive approach to managing risks encountered by Schwab in its business activities. The framework incorporates key concepts commensurate with the size, risk profile, complexity, and continuing growth of the Company. Risk appetite, which is defined as the amount of risk the Company is willing to accept in pursuit of its corporate strategy, is developed by executive management and approved by the Board of Directors.

Risk Governance

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

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

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

The Chief Risk Officer regularly reports activities of the Global Risk Committee to the Risk Committee of the Board of Directors. The Board Risk Committee in turn assists the Board of Directors in fulfilling its oversight responsibilities with respect to our risk management program, including approving risk appetite statements and related key risk appetite metrics and reviewing reports relating to risk issues from functional areas of corporate risk management, legal, compliance, and internal audit.

Functional risk sub-committees focusing on specific areas of risk report to the Global Risk Committee. These sub-committees include the:

- Operational Risk Oversight Committee – provides oversight of and approves operational risk management policies, risk tolerance levels, and operational risk governance processes, and includes sub-committees covering Information Security, Fraud, Third-Party Risk, Data, and Model Governance;
- Compliance Risk Committee – provides oversight of compliance risk management programs and policies providing an aggregate view of compliance risk exposure and employee conduct, including subcommittees covering Fiduciary and Conflicts of Interest Risk and International Compliance Risk;
- Financial Risk Oversight Committee – provides oversight of and approves credit, market, liquidity, and capital risk policies, limits, and exposures; and
- New Products and Services Risk Oversight Committee – provides oversight of, and approves corporate policy and procedures relating to, the risk governance of new products and services.

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

The Company's compliance, finance, internal audit, legal, and corporate risk management departments assist management and the various risk committees in evaluating, testing, and monitoring risk management.

In addition, the Disclosure Committee is responsible for monitoring and evaluating the effectiveness of our disclosure controls and procedures and internal control over financial reporting as of the end of each fiscal quarter. The Disclosure Committee reports on this evaluation to the CEO and CFO prior to their certification required by Sections 302 and 906 of the Sarbanes Oxley Act of 2002.

Operational Risk

Operational risk arises due to potential inadequacies or failures related to people, internal processes, and systems, or from external events or relationships impacting the Company and/or any of its key business partners and third parties. While operational risk is inherent in all business activities, we rely on a system of internal controls and risk management practices designed to keep operational risk and operational losses within the Company's risk appetite. We have specific policies and procedures to identify and manage operational risk, and use control testing programs, and internal audit reviews to evaluate the effectiveness of these internal controls. Where appropriate, we manage the impact of operational loss and litigation expense through the purchase of insurance. The insurance program is specifically designed to address our key operational risks and to maintain compliance with local laws and regulation.

Schwab's operations are highly dependent on the integrity and resilience of our critical business functions and technology systems. To the extent Schwab experiences business or system interruptions, errors or downtime (which could result from a variety of causes, including natural disasters, terrorist attacks, technological failure, cyber attacks, changes to systems, linkages with third-party systems, and power failures), our business and operations could be negatively impacted. To minimize business interruptions and ensure the capacity to continue operations during an incident regardless of duration, Schwab maintains a backup and recovery infrastructure which includes facilities for backup and communications, a geographically dispersed workforce, and routine testing of business continuity and disaster recovery plans and a well-established incident management program.

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

Fraud risk arises from attempted or actual theft of financial assets or other property of any client or the Company. Schwab is committed to protecting the Company's and its clients' assets from fraud, and complying with all applicable laws and regulations to prevent, detect and report fraudulent activity. Schwab manages fraud risk through policies, procedures and controls. We also take affirmative steps to prevent and detect fraud and report, to appropriate authorities, any known or suspected acts of fraud in accordance with existing laws and requirements.

Schwab also faces operational risk when we employ the services of various third parties, including domestic and international outsourcing of certain technology, processing, servicing, and support functions. We manage the exposure to third party risk and promote a culture of resiliency through contractual provisions, control standards, ongoing monitoring of third party performance, and appropriate testing. We also maintain policies and procedures regarding the standard of care expected with all data, whether the data is internal company information, employee information, or non-public client information. We clearly define for employees, contractors, and third parties the expected standards of care for critical and confidential data. We also provide regular training on data security.

Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Models are owned by several business units throughout the organization, and are used for a variety of purposes. Model use includes, but is not limited to, calculating capital requirements for hypothetical stressful environments, estimating interest and credit risk for loans and other balance sheet assets, and providing guidance in the management of client portfolios. We have established a policy to describe the roles and responsibilities of all key stakeholders in model development, management, and use. All models are registered in a centralized database and classified into different risk ratings depending on their potential financial, reputational, or regulatory impact to the Company. The model risk rating determines the scope of model governance activities.

Incentive Compensation risk is the potential for adverse consequences resulting from compensation plans that do not balance the execution of our strategy with risk and financial rewards, potentially encouraging imprudent risk-taking by employees. We have implemented risk management processes, including a policy, to identify, evaluate, assess, and manage risks associated with incentive compensation plans and the activities of certain employees, defined as Covered Employees, who have the authority to expose the Company to material amounts of risk.

Compliance Risk

Schwab faces compliance risk which is the potential exposure to legal or regulatory sanctions, fines or penalties, financial loss, or damage to reputation resulting from the failure to comply with laws, regulations, rules, or other regulatory requirements. Among other things, compliance risks relate to the suitability of client investments, conflicts of interest, disclosure obligations and performance expectations for products and services, supervision of employees, and the adequacy of our controls. The Company and its affiliates are subject to extensive regulation by federal, state and foreign regulatory authorities, including SROs.

We manage compliance risk through policies, procedures and controls reasonably designed to achieve and/or monitor compliance with applicable legal and regulatory requirements. These procedures address issues such as conduct and ethics, sales and trading practices, marketing and communications, extension of credit, client funds and securities, books and records, anti-money laundering, client privacy, and employment policies.

Conduct risk arises from inappropriate, unethical, or unlawful behavior of the Company, its employees or third parties acting on the Company's behalf that may result in detriment to the Company's clients, financial markets, the Company, and/or the Company's employees. We manage this risk through a policy, procedures, a system of internal controls, including personnel monitoring and surveillance. Conduct-related matters are escalated through appropriate channels by the Corporate Responsibility Officer.

Fiduciary risk is the potential for financial or reputational loss through breach of fiduciary duties to a client. Fiduciary activities include, but are not limited to, individual and institutional trust, investment management, custody, and cash and securities processing. We manage this risk by establishing policy and procedures to ensure that obligations to clients are discharged faithfully and in compliance with applicable legal and regulatory requirements. Business units have the primary responsibility for adherence to the policy and procedures applicable to their business. Guidance and control are provided through the creation, approval, and ongoing review of applicable policies by business units and various risk committees.

Credit Risk

Credit risk is the potential for loss due to a borrower, counterparty, or issuer failing to perform its contractual obligations. Our exposure to credit risk mainly results from investing activities in our liquidity and investment portfolios, mortgage lending, margin lending and client option and futures activities, pledged asset lending, securities lending activities, and our role as a counterparty in other financial contracts. To manage the risks of such losses, we have established policies and procedures, which include setting and reviewing credit limits, monitoring of credit limits and quality of counterparties, and adjusting margin, PAL, option, and futures requirements for certain securities and instruments.

Liquidity and Investment Portfolios

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

At December 31, 2020, substantially all securities in the investment portfolios were rated investment grade. U.S. agency mortgage-backed securities do not have explicit credit ratings; however, management considers these to be of the highest credit quality and rating given the guarantee of principal and interest by the U.S. government or U.S. government-sponsored enterprises.

Mortgage Lending Portfolio

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

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

Schwab does not originate or purchase residential loans that allow for negative amortization and does not originate or purchase subprime loans (generally defined as extensions of credit to borrowers with a FICO score of less than 620 at origination), unless the borrower has compensating credit factors. For more information on credit quality indicators relating to Schwab's bank loans, see Item 8 – Note 7.

Securities and Instrument-Based Lending Portfolios

Collateral arrangements relating to margin loans, PALs, option and futures positions, securities lending agreements, and securities purchased under agreements to resell (resale agreements) include provisions that require additional collateral in the event of market fluctuations. Additionally, for margin loans, PALs, options and futures positions, and securities lending agreements, collateral arrangements require that the fair value of such collateral sufficiently exceeds the credit exposure in order to maintain a fully secured position.

Other Counterparty Exposures

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 the Company.

Market Risk

Market risk is the potential for changes in earnings or the value of financial instruments held by Schwab as a result of fluctuations in interest rates, equity prices, or market conditions. Schwab is exposed to interest rate risk primarily from changes in market interest rates on our interest-earning assets relative to changes in the costs of funding sources that finance these assets.

To manage interest rate risk, we have established policies and procedures, which include setting limits on net interest revenue risk and economic value of equity risk. To remain within these limits, we manage the maturity, repricing, and cash flow characteristics of the investment portfolios. Management monitors established guidelines to stay within the Company's risk appetite.

Our measurement of interest rate risk involves assumptions that are inherently uncertain and, as a result, cannot precisely estimate the impact of changes in interest rates on net interest revenue, bank deposit account fees, or economic value of equity (EVE). 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. Financial instruments are also subject to the risk that valuations will be negatively affected by changes in demand and the underlying market for a financial instrument.

We are 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 brokerage securities lending activities. Equity market valuations may also affect the level of brokerage client trading activity, margin borrowing, and overall client engagement with Schwab. Additionally, we earn 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 we earn.

Our market risk related to financial instruments held for trading is not material.

<u>*Interest Rate Risk Simulations*</u>

Net Interest Revenue Simulation

For our net interest revenue sensitivity analysis, we use net interest revenue simulation modeling techniques to evaluate and manage the effect of changing interest rates. The simulations include all balance sheet interest rate-sensitive assets and liabilities. Key assumptions include the projection of interest rate scenarios with rate floors, prepayment speeds of mortgage-related investments, repricing of financial instruments, and reinvestment of matured or paid-down securities and loans.

Net interest revenue is affected by various factors, such as the distribution and composition of interest-earning assets and interest-bearing liabilities, the spread between yields earned on interest-earning assets and rates paid on interest-bearing liabilities, which may reprice at different times or by different amounts, and the spread between short and long-term interest rates. Interest-earning assets include 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 we establish the rates paid on certain brokerage client cash balances and bank deposits and the rates charged on certain margin and bank loans, and control the composition of our investment securities, we have some ability to manage our net interest spread, depending on competitive factors and market conditions.

Net interest revenue sensitivity analysis assumes 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 we actively manage the consolidated balance sheet and interest rate exposure, in all likelihood we would take steps to manage additional interest rate exposure that could result from changes in the interest rate environment.

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

The following table shows the simulated change to net interest revenue over the next 12 months beginning December 31, 2020 and 2019 of a gradual 100 basis point increase or decrease in market interest rates relative to prevailing market rates at the end of each reporting period:

December 31,	2020	2019
Increase of 100 basis points	14.2%	4.8%
Decrease of 100 basis points	(4.3)%	(7.4)%

The change in sensitivities of net interest revenue as of December 31, 2020 reflects a significantly lower interest rate curve relative to December 31, 2019 due to the global economic impact from the COVID-19 pandemic. Higher short-term interest rates would positively impact net interest revenue as yields on interest-earning assets are expected to rise faster than the cost of funding sources. A decline in interest rates could negatively impact the yield on the Company's investment and loan portfolio to a greater degree than any offsetting reduction in interest expense from funding sources, compressing net interest margin.

In addition to measuring the effect of a gradual 100 basis point parallel increase or decrease in current interest rates, we regularly simulate the effects of larger parallel- and non-parallel shifts in interest rates on net interest revenue.

Economic Value of Equity Simulation

Management also uses EVE simulations to measure interest rate risk. EVE sensitivity measures the long-term impact of interest rate changes on the net present value of assets and liabilities. EVE is calculated by subjecting the balance sheet to hypothetical instantaneous shifts in the level of interest rates. This analysis is highly dependent upon asset and liability assumptions based on historical behaviors as well as our expectations of the economic environment. Key assumptions in our EVE calculation include projection of interest rate scenarios with rate floors, prepayment speeds of mortgage-related investments, term structure models of interest rates, non-maturity deposit behavior, and pricing assumptions. Our net interest revenue and EVE simulations reflect the assumption of non-negative investment yields.

Bank Deposit Account Fees Simulations

Consistent with the presentation on our statement of income, the sensitivity of bank deposit account fee revenue to interest rate changes is assessed separately from the interest rate sensitivity analysis described above. As of December 31, 2020, the sensitivity of bank deposit account fee revenue to changes in interest rates is limited, as a significant portion of BDA deposit balances are allocated to fixed-rate obligation amounts.

Expected Phase-out of LIBOR

The Company has established a firm-wide team to address the phasing-out of LIBOR by June 30, 2023. As part of our efforts, we have assessed our LIBOR exposures, the largest of which are certain investment securities and loans. In purchasing new investment securities, we ensure that appropriate fall-back language is in the security's prospectus in the event that LIBOR is unavailable or deemed unreliable, and we have sold certain securities lacking appropriate fall-back language. We are updating loan agreements to ensure new LIBOR-based loans adequately provide for an alternative to LIBOR. Furthermore, we plan to phase-out the use of LIBOR as a reference rate in our new lending products before the end of December 2021, per guidance from the Federal Reserve Board. Consistent with our "Through Clients' Eyes" strategy, our focus throughout the LIBOR transition process is to ensure clients are treated fairly and consistently as this major change is occurring in the financial markets.

Liquidity Risk

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

Due to its role as a source of financial strength, CSC's liquidity needs are primarily driven by the liquidity and capital needs of: CS&Co, TD Ameritrade, Inc., and TDAC, our principal broker-dealer subsidiaries; the capital needs of the banking subsidiaries; principal and interest due on corporate debt; dividend payments on CSC's preferred stock; and returns of capital to common stockholders. The liquidity needs of our broker-dealer subsidiaries are primarily driven by client activity including trading and margin borrowing activities and capital expenditures. The capital needs of the banking subsidiaries are primarily driven by the amount of client deposits. In addition, the liquidity needs of our banking subsidiaries can also be met by excess reserves held at the Federal Reserve, sales of investment securities, or FHLB borrowings. We have established liquidity policies to support the successful execution of business strategies, while ensuring ongoing and sufficient liquidity to meet operational needs and satisfy applicable regulatory requirements under both normal and stressed conditions. We seek to maintain client confidence in the balance sheet and the safety of client assets by maintaining liquidity and diversity of funding sources to allow the Company to meet its obligations. To this end, we have established limits and contingency funding scenarios to support liquidity levels during both business as usual and stressed conditions.

We employ a variety of methodologies to monitor and manage liquidity. We conduct regular liquidity stress testing to develop a consolidated view of liquidity risk exposures and to ensure our ability to maintain sufficient liquidity during market-related or company-specific liquidity stress events. Liquidity is also tested at certain subsidiaries and results are reported to the Financial Risk Oversight Committee. A number of early warning indicators are monitored to help identify emerging liquidity stresses in the market or within the organization and are reviewed with management as appropriate.

Primary Funding Sources

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

Other sources of funds may include cash flows from operations, maturities and sales of investment securities, repayments on loans, securities lending of assets held in client brokerage accounts, bank deposit account fees earned on client deposits placed in third-party depository programs, repurchase agreements, and cash provided by external financing.

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

Additional Funding Sources

In addition to internal sources of liquidity, Schwab has access to external funding. The need for short-term borrowings from external debt facilities arises primarily from timing differences between cash flow requirements, scheduled liquidation of interest-earning investments, movements of cash to meet regulatory brokerage client cash segregation requirements and general corporate purposes. We maintain policies and procedures necessary to access funding and test discount window borrowing procedures on a periodic basis.

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

The following table describes external debt facilities available at December 31, 2020:

Description	Borrower	Outstanding	Available
Federal Home Loan Bank secured credit facilities [1]	Banking subsidiaries	$ —	$ 55,102
Federal Reserve discount window [2]	Banking subsidiaries	—	7,872
Uncommitted, unsecured lines of credit with various external banks	CSC, CS&Co	—	1,522
Unsecured commercial paper [3]	CSC	—	750
Committed, unsecured credit facility with various external banks [4]	CSC	—	700
TD Ameritrade Holding Corporation revolving credit facility [5]	TDA Holding	—	300
TD Ameritrade Clearing, Inc. committed, unsecured revolving credit facilities with various external banks	TDAC	—	1,450
Secured uncommitted lines of credit with various external banks [6]	TDAC	—	—

(1) Amounts available are dependent on the amount of First Mortgages, HELOCs, and the fair value of certain investment securities that are pledged as collateral.
(2) Amounts available are dependent on the fair value of certain investment securities that are pledged as collateral.
(3) CSC has authorization from its Board of Directors to issue Commercial Paper Notes not to exceed $1.5 billion. In February 2021, the Company increased the amount available to $1.5 billion.
(4) Other than an overnight borrowing to test availability, this facility was unused during 2020.
(5) Effective October 6, 2020, Schwab entered into a guaranty supplement to guarantee the obligations of TD Ameritrade under this credit agreement. The provision of the guaranty supplement was a condition for certain financial covenant and reporting obligations being modified in the credit agreement. The Company terminated this revolving credit facility effective January 28, 2021.
(6) Secured borrowing is made available based on TDAC's ability to provide acceptable collateral to the lender as determined by the credit agreement.

Our banking subsidiaries maintain secured credit facilities with the FHLB. Amounts available under these facilities are dependent on the value of our First Mortgages, HELOCs, and the fair value of certain of our investment securities that are pledged as collateral. These credit facilities are also available as backup financing in the event the outflow of client cash from the banking subsidiaries' respective balance sheets is greater than maturities and paydowns on investment securities and bank loans.

Our banking subsidiaries also have access to short-term secured funding through the Federal Reserve discount window. Amounts available under the Federal Reserve discount window are dependent on the fair value of certain investment securities that are pledged as collateral.

CSC has a commercial paper program of which proceeds are used for general corporate purposes. The maturities of the Commercial Paper Notes may vary, but are not to exceed 270 days from the date of issue. CSC's ratings for these short-term borrowings were P1 by Moody's, A1 by Standard & Poor's, and F1 by Fitch at December 31, 2020 and 2019, and CSC had no Commercial Paper Notes outstanding at December 31, 2020 or 2019.

The financial covenants for the $700 million committed credit facility require CS&Co to maintain a minimum net capital ratio, all bank subsidiaries to be well capitalized, and CSC to maintain a minimum level of stockholders' equity, adjusted to exclude AOCI. At December 31, 2020, the minimum level of stockholders' equity required under this facility was $16.5 billion (CSC's stockholders' equity, excluding AOCI, at December 31, 2020 was $50.7 billion). Management believes these restrictions will not have a material effect on CSC's ability to meet foreseeable dividend or funding requirements.

The financial covenants for the $300 million TDA Holding revolving credit facility requires CSC to maintain a minimum level of stockholders' equity, adjusted to exclude AOCI. At December 31, 2020, the minimum level of stockholders' equity required under this facility was $30.9 billion (CSC's stockholders' equity, excluding AOCI, at December 31, 2020 was $50.7 billion). Effective January 28, 2021, the Company terminated the TDA Holding revolving credit facility.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, CS&Co has unsecured standby letter of credit agreements (LOCs) with several banks in favor of the Options Clearing Corporation, which totaled $15 million at December 31, 2020. There were no funds drawn under any of these LOCs during 2020 or 2019. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. These collateral requirements are satisfied by providing cash as collateral.

CSC has a universal automatic shelf registration statement on file with the SEC, which enables it to issue debt, equity, and other securities.

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

Liquidity Coverage Ratio

Pursuant to the 2019 interagency regulatory capital and liquidity rules, beginning in the first quarter of 2020, Schwab became subject to a reduced LCR rule requiring the Company to hold HQLA in an amount equal to at least 85% of the Company's projected net cash outflows over a prospective 30-calendar-day period of acute liquidity stress, calculated on each business day. See Item 1 – Regulation for additional information. The Company was in compliance with the reduced LCR rule at December 31, 2020. The table below presents information about our average daily LCR:

	Average for the Three Months Ended December 31, 2020
Total eligible HQLA	$ 78,136
Net cash outflows	$ 72,005
LCR	109%

Borrowings

The Company had no short-term borrowings outstanding as of December 31, 2020 or 2019. Long-term debt outstanding was $13.6 billion and $7.4 billion at December 31, 2020 and 2019, respectively. Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade. TDA Holding has $3.6 billion of par value unsecured Senior Notes (TDA Senior Notes) outstanding, which were recognized at the date of acquisition at provisional fair value with no change in existing terms.

The following are details of the Senior Notes:

December 31, 2020	Par Outstanding	Maturity	Weighted-Average Interest Rate	Moody's	Standard & Poor's	Fitch
CSC Senior Notes	$ 9,881	2021 - 2031	2.84%	A2	A	A
TDA Senior Notes	3,550	2021 - 2029	2.80%	A2	A	—

New Debt Issuances

All debt issuances in 2020, 2019, and 2018 were senior unsecured obligations. Additional details are as follows:

Issuance Date	Issuance Amount	Maturity Date	Interest Rate	Interest Payable
May 22, 2018	$ 600	5/21/2021	Three-month LIBOR + 0.32%	Quarterly
May 22, 2018	$ 600	5/21/2021	3.250%	Semi-annually
May 22, 2018	$ 750	5/21/2025	3.850%	Semi-annually
October 31, 2018	$ 500	2/1/2024	3.550%	Semi-annually
October 31, 2018	$ 600	2/1/2029	4.000%	Semi-annually
May 22, 2019	$ 600	5/22/2029	3.250%	Semi-annually
March 24, 2020	$ 600	3/24/2025	4.200%	Semi-annually
March 24, 2020	$ 500	3/22/2030	4.625%	Semi-annually
December 11, 2020	$ 1,250	3/11/2026	0.900%	Semi-annually
December 11, 2020	$ 750	3/11/2031	1.650%	Semi-annually

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

Equity Issuances and Redemptions

CSC did not issue any equity through external offerings during 2019 or 2018. CSC's preferred stock issued and net proceeds for 2020 are as follows:

	Date Issued and Sold	Net Proceeds
Series G	April 30, 2020	$ 2,470
Series H	December 11, 2020	$ 2,470

For further discussion of CSC's long-term debt and information on the equity offerings, see Item 8 – Notes 13 and 19.

Off-Balance Sheet Arrangements

Schwab enters into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients. These arrangements include firm commitments to extend credit. Additionally, Schwab enters into guarantees and other similar arrangements in the ordinary course of business. For information on each of these arrangements, see Item 8 – Notes 7, 11, 13, 15, and 17. Concurrent with the closing of the acquisition of TD Ameritrade effective October 6, 2020, the IDA agreement with the TD Depository Institutions became effective. Pursuant to the IDA agreement, certain brokerage client deposits are required to be swept off-balance sheet to the TD Depository Institutions. TD Ameritrade also maintains agreements pursuant to which client brokerage cash deposits are swept to other third-party depository institutions. See Item 8 – Notes 3 and 15 for additional information on the IDA agreement.

Contractual Obligations

Schwab's principal contractual obligations as of December 31, 2020 are shown in the following table. Excluded from this table are liabilities recorded on the consolidated balance sheets that are generally short-term in nature or without contractual payment terms (e.g., bank deposits, payables to brokerage clients, and deferred compensation). The below table excludes exit and other related liabilities from the integration of TD Ameritrade (see Item 8 – Note 16), as well as obligations related to the IDA agreement (see Item 8 – Note 15).

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Credit-related financial instruments (1)	$ 3,250	$ 3,856	$ 1,884	$ 1,449	$ 10,439
Long-term debt (2)	2,165	2,466	3,638	7,217	15,486
Purchase obligations (3)	443	303	110	28	884
Leases (4)	184	367	254	351	1,156
Total	$ 6,042	$ 6,992	$ 5,886	$ 9,045	$ 27,965

(1) Represents CSB's commitments to extend credit to banking clients, purchase mortgage loans, and fund CRA investments.
(2) Includes estimated future interest payments through 2031 for Senior Notes. Amounts exclude unamortized discounts and premiums.
(3) Consists of purchase obligations for services such as advertising and marketing, telecommunications, professional services, and hardware- and software-related agreements.
(4) Represents operating lease payments including legally-binding minimum lease payments for leases signed but not yet commenced.

CAPITAL MANAGEMENT

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

Internal guidelines are set, for both CSC and its regulated subsidiaries, to ensure capital levels are in line with our strategy and regulatory requirements. Capital forecasts are reviewed monthly at Asset-Liability Management and Pricing Committee and Financial Risk Oversight Committee meetings. A number of early warning indicators are monitored to help identify potential problems that could impact capital. In addition, we monitor the 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 CS&Co. 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.

Schwab 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 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, we have 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 Financial Risk Oversight Committee and provides guidelines for sustained capital events. It does not specifically address every contingency, but is designed to provide a framework for responding to any capital stress. The results of the stress testing indicate there are two scenarios which could stress the Company's capital: (1) inflows of balance sheet cash during a period of very low interest rates and (2) outflows of balance sheet cash when other sources of financing are not available and the Company is required to sell assets to fund the flows at a loss. The Capital Contingency Plan is reviewed annually and updated as appropriate.

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

Regulatory Capital Requirements

CSC is subject to capital requirements set by the Federal Reserve and is required to serve as a source of strength for our banking subsidiaries and to provide financial assistance if our banking subsidiaries experience financial distress. Schwab is required to maintain a Tier 1 Leverage Ratio for CSC of at least 4%, and we have a long-term operating objective of 6.75%-7.00%. Due to the relatively low risk of our balance sheet assets and risk-based capital ratios at CSC and CSB that are well in excess of regulatory requirements, the Tier 1 Leverage Ratio is the most restrictive capital constraint on CSC's asset growth.

Our banking subsidiaries are subject to capital requirements set by their regulators that are substantially similar to those imposed on CSC by the Federal Reserve. Our banking subsidiaries' failure to remain well capitalized could result in certain mandatory and possibly additional discretionary actions by the regulators that could have a direct material effect on the banks. Schwab's principal banking subsidiary, CSB, is required to maintain a Tier 1 Leverage Ratio of at least 5% to be well capitalized, but seeks to maintain a ratio of at least 6.25%. Based on its regulatory capital ratios at December 31, 2020, CSB is considered well capitalized.

As a result of the significant inflow of client cash in 2020, our Tier 1 Leverage Ratios for CSC and CSB declined from 7.3% and 7.1%, respectively, at year-end 2019 to 6.3% and 5.5%, respectively, at December 31, 2020. Though below our long-term operating objectives, these ratios are well above the regulatory minimum for both CSC and CSB. The pace of our return to the long-term operating objectives over time depends on a number of factors including the overall size of the Company's balance sheet, earnings, and capital issuances and deployment.

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

The following table details the capital ratios for CSC consolidated and CSB:

December 31,	2020 [1]		2019 [1]	
	CSC	CSB	CSC	CSB
Total stockholders' equity	$ 56,060	$ 22,223	$ 21,745	$ 14,832
Less:				
Preferred Stock	7,733	—	2,793	—
Common Equity Tier 1 Capital before regulatory adjustments	$ 48,327	$ 22,223	$ 18,952	$ 14,832
Less:				
Goodwill, net of associated deferred tax liabilities	$ 11,897	$ 13	$ 1,184	$ 13
Other intangible assets, net of associated deferred tax liabilities	8,103	—	104	—
Deferred tax assets, net of valuation allowances and deferred tax liabilities	17	12	4	—
AOCI adjustment [1]	5,394	4,672	—	—
Common Equity Tier 1 Capital	$ 22,916	$ 17,526	$ 17,660	$ 14,819
Tier 1 Capital	$ 30,649	$ 17,526	$ 20,453	$ 14,819
Total Capital	30,688	17,558	20,472	14,837
Risk-Weighted Assets	123,881	91,062	90,512	71,521
Total Leverage Exposure	491,469	325,437	286,813	216,582
Common Equity Tier 1 Capital/Risk-Weighted Assets	18.5%	19.2%	19.5%	20.7%
Tier 1 Capital/Risk-Weighted Assets	24.7%	19.2%	22.6%	20.7%
Total Capital/Risk-Weighted Assets	24.8%	19.3%	22.6%	20.7%
Tier 1 Leverage Ratio	6.3%	5.5%	7.3%	7.1%
Supplementary Leverage Ratio	6.2%	5.4%	7.1%	6.8%

[1] In the interagency regulatory capital and liquidity rules adopted in October 2019, Category III banking organizations such as CSC were given the ability to opt-out of the inclusion of AOCI in regulatory capital, and CSC made this opt-out election as of January 1, 2020. Therefore, AOCI is excluded from the amounts and ratios presented as of December 31, 2020. In 2019, CSC and CSB were required to include all components of AOCI in regulatory capital; the amounts and ratios for December 31, 2019 are presented on this basis. See Business – Regulation in Part I, Item 1 for additional information.

CSB is also subject to regulatory requirements that restrict and govern the terms of affiliate transactions. In addition, CSB is required to provide notice to, and may be required to obtain approval from, the Federal Reserve and the Texas Department of Savings and Mortgage Lending (TDSML) to declare dividends to CSC. As broker-dealers, CS&Co, TDAC, and TD Ameritrade, Inc., are subject to regulatory requirements of the Uniform Net Capital Rule, which 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 CSC and employees, and repaying subordinated borrowings from CSC if such payment would result in a net capital amount below prescribed thresholds. At December 31, 2020, CS&Co, TDAC, and TD Ameritrade, Inc. were in compliance with their respective net capital requirements.

In addition to the capital requirements above, Schwab's subsidiaries are subject to other regulatory requirements intended to ensure financial soundness and liquidity. See Item 8 – Note 23 for additional information on the components of stockholders' equity and information on the capital requirements of significant subsidiaries.

IDA Agreement

Pursuant to the IDA agreement, Schwab will be required to move all uninsured IDA balances out of the IDA sweep program on June 30, 2021. The IDA agreement also provides that, starting July 1, 2021, Schwab will have the option to migrate up to $10 billion of IDA balances every 12 months to Schwab's balance sheet, subject to certain limitations and adjustments. The Company's overall capital management strategy includes supporting migration of the uninsured IDA balances on June 30, 2021 as well as optional IDA balances in future periods as available pursuant to the terms of the IDA agreement. The Company's ability to migrate these balances to its balance sheet is dependent upon multiple factors including having sufficient capital levels to sustain these incremental deposits and the availability of IDA balances designated as floating-rate obligations. See Item 8 – Note 15 for further information on the IDA agreement.

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

Dividends

Since the initial dividend in 1989, CSC has paid 127 consecutive quarterly dividends and has increased the quarterly dividend rate 25 times, resulting in a 21% compounded annual growth rate, excluding the special cash dividend of $1.00 per common share in 2007. While the payment and amount of dividends are at the discretion of the Board of Directors, subject to certain regulatory and other restrictions, CSC currently targets its common and nonvoting common stock cash dividend at approximately 20% to 30% of net income.

The Board of Directors of the Company declared quarterly cash dividend increases per common share during 2019 and 2020 as shown below:

Date of Declaration	Quarterly Cash Increase Per Common Share	% Increase	New Quarterly Dividend Per Common Share
January 30, 2019	$ 0.04	31%	$ 0.17
January 30, 2020	$ 0.01	6%	$ 0.18

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

Year Ended December 31,	2020		2019	
	Cash Paid	Per Share Amount	Cash Paid	Per Share Amount
Common and Nonvoting Common Stock	$ 1,039	$ 0.72	$ 898	$ 0.68
Series A Preferred Stock [1]	28	70.00	28	70.00
Series C Preferred Stock [2]	36	60.00	36	60.00
Series D Preferred Stock [2]	45	59.52	45	59.52
Series E Preferred Stock [3]	28	4,625.00	28	4,625.00
Series F Preferred Stock [4]	25	5,000.00	25	5,000.00
Series G Preferred Stock [5]	79	3,150.35	N/A	N/A
Series H Preferred Stock [6]	N/A	N/A	N/A	N/A

(1) Dividends paid semi-annually until February 1, 2022 and quarterly thereafter.
(2) Dividends paid quarterly.
(3) Dividends paid semi-annually until March 1, 2022 and quarterly thereafter.
(4) Dividends paid semi-annually beginning on June 1, 2018 until December 1, 2027, and quarterly thereafter.
(5) Series G Preferred Stock was issued on April 30, 2020. Dividends are paid quarterly, and the first dividend was paid on September 1, 2020.
(6) Series H Preferred Stock was issued on December 11, 2020. Dividends are paid quarterly beginning on March 1, 2021.
N/A Not applicable.

Share Repurchases

On January 30, 2019, CSC publicly announced that its Board of Directors authorized the repurchase of up to $4.0 billion of common stock. The authorization does not have an expiration date. There were no repurchases of CSC's common stock under this authorization during the year ended December 31, 2020. During 2019, CSC repurchased 55 million shares of its common stock for $2.2 billion. As of December 31, 2020, $1.8 billion remained on our existing authorization.

FOREIGN EXPOSURE

At December 31, 2020, Schwab had exposure to non-sovereign financial and non-financial institutions in foreign countries, as well as agencies of foreign governments. At December 31, 2020, the fair value of these holdings totaled $10.1 billion, with the top three exposures being to issuers and counterparties domiciled in France at $6.7 billion, Germany at $1.2 billion, and Canada at $880 million. At December 31, 2019, the fair value of these holdings totaled $6.4 billion, with the top three exposures being to issuers and counterparties domiciled in France at $3.1 billion, the Netherlands at $845 million, and Sweden at $684 million. In addition, Schwab had outstanding margin loans to foreign residents of $2.2 billion and $437 million at December 31, 2020 and 2019, respectively. Outstanding margin loans to foreign residents at December 31, 2020 includes $1.2 billion attributable to the inclusion of TDA balances beginning on October 6, 2020.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Schwab uses the market approach to determine the fair value of certain financial assets and liabilities recorded at fair value, and to determine fair value disclosures. See Item 8 – Notes 2 and 18 for more information on our assets and liabilities recorded at fair value.

When available, Schwab uses quoted prices in active markets to measure the fair value of assets and liabilities. Quoted prices for investments in exchange-traded securities represent end-of-day close prices published by exchanges. Quoted prices for money market funds and other mutual funds represent reported net asset values. When utilizing market data and bid-ask spread, we use the price within the bid-ask spread that best represents fair value. When quoted prices in active markets do not exist, prices are obtained from independent third-party pricing services to measure the fair value of investment assets. We generally obtain prices from three independent pricing sources for assets recorded at fair value. Our primary third-party pricing service provides prices for our fixed income investments such as commercial paper; certificates of deposits; U.S. government and agency securities; state and municipal securities; corporate debt securities; asset-backed securities; foreign government agency securities; and non-agency commercial mortgage-backed securities. Such prices are based on observable trades, broker/dealer quotes, and discounted cash flows that incorporate observable information such as yields for similar types of securities (a benchmark interest rate plus observable spreads) and weighted-average maturity for the same or similar "to-be-issued" securities. We compare the prices obtained from the primary independent pricing service to the prices obtained from the additional independent pricing services to determine if the price obtained from the primary independent pricing service is reasonable. Schwab does not adjust the prices received from independent third-party pricing services unless such prices are inconsistent with the definition of fair value and result in material differences in the amounts recorded. At December 31, 2020 and 2019, we did not adjust prices received from the primary independent third-party pricing service.

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements of Schwab have been prepared in accordance with GAAP. Item 8 – Note 2 contains more information on our significant accounting policies made in applying these accounting principles.

While the majority of the revenues, expenses, assets and liabilities are not based on estimates, there are certain accounting principles that require management to make estimates regarding matters that are uncertain and susceptible to change where such change may result in a material adverse impact on Schwab's financial position and financial results. These critical accounting estimates are described below. Management regularly reviews the estimates and assumptions used in the preparation of the financial statements for reasonableness and adequacy.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of the Board of Directors. Additionally, management has reviewed with the Audit Committee the Company's significant estimates discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Income Taxes

Schwab estimates income tax expense based on amounts expected to be owed to the various tax jurisdictions in which we operate, including federal, state and local domestic jurisdictions, and immaterial amounts owed to several foreign jurisdictions. The estimated income tax expense is reported in the consolidated statements of income in taxes on income. Accrued taxes are reported in other assets or accrued expenses and other liabilities on the consolidated balance sheets and represent the net estimated amount due to or to be received from taxing jurisdictions either currently or deferred to future periods. Deferred taxes arise from differences between assets and liabilities measured for financial reporting purposes versus income tax reporting purposes. Deferred tax assets are recognized if, in management's judgment, their realizability is determined to be more likely than not. Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit management believes is more likely than not to be realized upon settlement. In estimating accrued taxes, we assess the relative merits and risks of the appropriate tax treatment considering statutory, judicial and regulatory guidance in the context of the tax position. Because of the complexity of tax laws and regulations, interpretation can be difficult and subject to legal judgment given specific facts and circumstances.

Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by various taxing authorities, and newly enacted statutory, judicial and regulatory guidance that impacts the relative merits and risks of tax positions. These changes, when they occur, affect accrued taxes and can be significant to the operating results of the Company. See Item 8 – Note 22 for more information on the Company's income taxes.

Legal and Regulatory Reserves

Reserves for legal and regulatory claims and proceedings reflect an estimate of probable losses for each matter, after considering, among other factors, the progress of the case, prior experience and the experience of others in similar cases, available defenses, and the opinions and views of legal counsel. In many cases, including most class action lawsuits, it is not possible to determine whether a loss will be incurred, or to estimate the range of that loss, until the matter is close to resolution, in which case no accrual is made until that time. Reserves are adjusted as more information becomes available. Significant judgment is required in making these estimates, and the actual cost of resolving a matter may ultimately differ materially from the amount reserved. See Item 8 – Note 15 for more information on the Company's contingencies related to legal and regulatory reserves.

Business Combinations

We have accounted for our acquisitions using the acquisition method of accounting. The acquisition method requires us to make significant estimates and assumptions, especially at the acquisition date as we allocate the purchase price to the estimated fair values of acquired tangible and intangible assets and the liabilities assumed. We also use our best estimates to determine the useful lives of the tangible and definite-lived intangible assets, which impact the periods over which depreciation and amortization of those assets are recognized. These best estimates and assumptions are inherently uncertain as they pertain to forward looking views of our businesses, client behavior, and market conditions. In our acquisitions, we have also recognized goodwill at the amount by which the purchase price paid exceeds the fair value of the net assets acquired. See Item 8 – Note 3 for more information on our valuation methods and the results of applying the acquisition method of accounting, including the estimated fair values of the assets acquired and liabilities assumed, and, where relevant, the estimated remaining useful lives.

Our ongoing accounting for goodwill and the tangible and intangible assets acquired requires us to make significant estimates and assumptions as we exercise judgement to evaluate these assets for impairment. Our processes and accounting policies for evaluating impairments are further described in Item 8 – Note 2. One of our reporting units has an immaterial amount of goodwill. The results of the 2020 annual goodwill impairment testing for our other two reporting units indicated that the estimated fair values substantially exceeded their carrying amounts.

NON-GAAP FINANCIAL MEASURES

In addition to disclosing financial results in accordance with GAAP, Management's Discussion and Analysis of Financial Condition and Results of Operations contain references to the non-GAAP financial measures described below. We believe these non-GAAP financial measures provide useful supplemental information about the financial performance of the Company, and facilitate meaningful comparison of Schwab's results in the current period to both historic and future results. These non-GAAP measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and may not be comparable to non-GAAP financial measures presented by other companies.

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

Schwab's use of non-GAAP measures is reflective of certain adjustments made to GAAP financial measures as described below.

Non-GAAP Adjustment or Measure	Definition	Usefulness to Investors and Uses by Management
Acquisition and integration-related costs and amortization of acquired intangible assets	Schwab adjusts certain GAAP financial measures to exclude the impact of acquisition and integration-related costs incurred as a result of the Company's acquisitions, amortization of acquired intangible assets, and, where applicable, the income tax effect of these expenses. Adjustments made to exclude amortization of acquired intangible assets are reflective of all acquired intangible assets, which were recorded as part of purchase accounting. These acquired intangible assets contribute to the Company's revenue generation. Amortization of acquired intangible assets will continue in future periods over their remaining useful lives.	We exclude acquisition and integration-related costs and amortization of acquired intangible assets for the purpose of calculating certain non-GAAP measures because we believe doing so provides additional transparency of Schwab's ongoing operations, and is useful in both evaluating the operating performance of the business and facilitating comparison of results with prior and future periods. Acquisition and integration-related costs fluctuate based on the timing of acquisitions and integration activities, thereby limiting comparability of results among periods, and are not representative of the costs of running the Company's ongoing business. Amortization of acquired intangible assets is excluded because management does not believe it is indicative of the Company's underlying operating performance.
Return on tangible common equity	Return on tangible common equity represents annualized adjusted net income available to common stockholders as a percentage of average tangible common equity. Tangible common equity represents common equity less goodwill, acquired intangible assets – net, and related deferred tax liabilities.	Acquisitions typically result in the recognition of significant amounts of goodwill and acquired intangible assets. We believe return on tangible common equity may be useful to investors as a supplemental measure to facilitate assessing capital efficiency and returns relative to the composition of Schwab's balance sheet.

Beginning in 2021, the Company also uses adjusted diluted EPS and return on tangible common equity as components of performance criteria for employee bonus and certain executive management incentive compensation arrangements. The Compensation Committee of CSC's Board of Directors maintains discretion in evaluating performance against these criteria.

The following tables present reconciliations of GAAP measures to non-GAAP measures:

	Year Ended December 31,		
	2020	2019	2018
Total expenses excluding interest (GAAP)	$ 7,391	$ 5,873	$ 5,570
Acquisition and integration-related costs [(1)]	(442)	(26)	—
Amortization of acquired intangible assets	(190)	(27)	(29)
Adjusted total expenses (non-GAAP)	$ 6,759	$ 5,820	$ 5,541

(1) Acquisition and integration-related costs for 2020 primarily consist of $235 million of compensation and benefits, $158 million of professional services, and $30 million of other expense. Substantially all acquisition and integration-related costs for 2019 are included in professional services expense.

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

	Year Ended December 31,					
	2020		2019		2018	
	Amount	Diluted EPS	Amount	Diluted EPS	Amount	Diluted EPS
Net income available to common stockholders (GAAP), Earnings per common share — diluted (GAAP)	$ 3,043	$ 2.12	$ 3,526	$ 2.67	$ 3,329	$ 2.45
Acquisition and integration-related costs	442	.31	26	.02	—	—
Amortization of acquired intangible assets	190	.13	27	.02	29	.02
Income tax effects [(1)]	(154)	(.11)	(13)	(.01)	(7)	(.01)
Adjusted net income available to common stockholders (non-GAAP), Adjusted diluted EPS (non-GAAP)	$ 3,521	$ 2.45	$ 3,566	$ 2.70	$ 3,351	$ 2.46

(1) The income tax effects of the non-GAAP adjustments are determined using an effective tax rate reflecting the exclusion of non-deductible acquisition costs and are used to present the acquisition and integration-related costs and amortization of acquired intangible assets on an after-tax basis.

	Year Ended December 31,		
	2020	2019	2018
Return on average common stockholders' equity (GAAP)	9%	19%	19%
Average common stockholders' equity	$ 33,640	$ 18,415	$ 17,125
Less: Average goodwill	(6,590)	(1,227)	(1,227)
Less: Average acquired intangible assets — net	(5,059)	(140)	(130)
Plus: Average deferred tax liabilities related to goodwill and acquired intangible assets — net	1,005	67	68
Average tangible common equity	$ 22,996	$ 17,115	$ 15,836
Adjusted net income available to common stockholders [(1)]	$ 3,521	$ 3,566	$ 3,351
Return on tangible common equity (non-GAAP)	15%	21%	21%

(1) See table above for the reconciliation of net income available to common stockholders to adjusted net income available to common stockholders (non-GAAP).

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

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Consolidated Statements of Income [1]

(In Millions, Except Per Share Amounts)

Year Ended December 31,	2020	2019	2018
Net Revenues			
Interest revenue	$ 6,531	$ 7,580	$ 6,680
Interest expense	(418)	(1,064)	(857)
Net interest revenue	6,113	6,516	5,823
Asset management and administration fees [2]	3,475	3,211	3,229
Trading revenue	1,416	752	902
Bank deposit account fees	355	—	—
Other	332	242	178
Total net revenues	11,691	10,721	10,132
Expenses Excluding Interest			
Compensation and benefits	3,954	3,320	3,057
Professional services	843	702	654
Occupancy and equipment	703	559	496
Advertising and market development	326	307	313
Communications	353	253	242
Depreciation and amortization	414	322	277
Amortization of acquired intangible assets	190	27	29
Regulatory fees and assessments	163	122	189
Other	445	261	313
Total expenses excluding interest	7,391	5,873	5,570
Income before taxes on income	4,300	4,848	4,562
Taxes on income	1,001	1,144	1,055
Net Income	3,299	3,704	3,507
Preferred stock dividends and other [3]	256	178	178
Net Income Available to Common Stockholders	$ 3,043	$ 3,526	$ 3,329
Weighted-Average Common Shares Outstanding:			
Basic	1,429	1,311	1,348
Diluted	1,435	1,320	1,361
Earnings Per Common Shares Outstanding [4]:			
Basic	$ 2.13	$ 2.69	$ 2.47
Diluted	$ 2.12	$ 2.67	$ 2.45

[1] Certain prior year amounts have been reclassified to conform to the current year presentation. See Note 1 for additional information.
[2] Includes fee waivers of $127 million for the year ended December 31, 2020.
[3] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.
[4] For the year ended December 31, 2020, the Company had voting and nonvoting common stock outstanding. As the participation rights, including dividend and liquidation rights, are identical between the voting and nonvoting stock classes, basic and diluted earnings per share are the same for each class. See Notes 19 and 25 for additional information.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(In Millions)

Year Ended December 31,	2020	2019	2018
Net income	$ 3,299	$ 3,704	$ 3,507
Other comprehensive income (loss), before tax:			
Change in net unrealized gain (loss) on available for sale securities:			
Net unrealized gain (loss)	6,961	430	(123)
Other reclassifications included in other revenue	(4)	(6)	—
Change in net unrealized gain (loss) on held to maturity securities:			
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	—	36	35
Other	8	(14)	(1)
Other comprehensive income (loss), before tax	6,965	446	(89)
Income tax effect	(1,659)	(106)	22
Other comprehensive income (loss), net of tax	5,306	340	(67)
Comprehensive Income	$ 8,605	$ 4,044	$ 3,440

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets [1]

(In Millions, Except Per Share and Share Amounts)

December 31,		2020		2019
Assets				
Cash and cash equivalents	$	40,348	$	29,345
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $14,904 and $9,028 at December 31, 2020 and 2019, respectively)		50,399		20,483
Receivables from brokerage clients — net		64,440		21,767
Available for sale securities (amortized cost of $330,248 and $61,155 at December 31, 2020 and 2019, respectively)		337,400		61,422
Held to maturity securities		—		134,706
Bank loans — net		23,813		18,212
Equipment, office facilities, and property — net		2,883		2,128
Goodwill		11,952		1,227
Acquired intangible assets — net		9,991		128
Other assets		7,783		4,587
Total assets	$	549,009	$	294,005
Liabilities and Stockholders' Equity				
Bank deposits	$	358,022	$	220,094
Payables to brokerage clients		104,201		39,220
Accrued expenses and other liabilities		17,094		5,516
Long-term debt		13,632		7,430
Total liabilities		492,949		272,260
Stockholders' equity:				
Preferred stock — $.01 par value per share; aggregate liquidation preference of $7,850 and $2,850 at December 31, 2020 and 2019, respectively		7,733		2,793
Common stock — 3 billion shares authorized; $.01 par value per share; 1,994,895,180 and 1,487,543,446 shares issued at December 31, 2020 and 2019, respectively		20		15
Nonvoting common stock — 300 million shares authorized; $.01 par value per share; 79,293,695 shares issued		1		—
Additional paid-in capital		26,515		4,656
Retained earnings		21,975		19,960
Treasury stock, at cost — 193,577,648 and 201,818,100 shares at December 31, 2020 and 2019, respectively		(5,578)		(5,767)
Accumulated other comprehensive income (loss)		5,394		88
Total stockholders' equity		56,060		21,745
Total liabilities and stockholders' equity	$	549,009	$	294,005

[1] Certain prior year amounts have been reclassified to conform to the current year presentation. See Note 1 for additional information.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

(In Millions)

	Preferred Stock	Common Stock		Nonvoting Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Income (Loss)	Total
		Shares	Amount	Shares	Amount					
Balance at December 31, 2017	$ 2,793	1,488	$ 15	—	$ —	$ 4,353	$ 14,408	$ (2,892)	$ (152)	$ 18,525
Adoption of accounting standards	—	—	—	—	—	—	200	—	(33)	167
Net income	—	—	—	—	—	—	3,507	—	—	3,507
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	—	(67)	(67)
Dividends declared on preferred stock	—	—	—	—	—	—	(164)	—	—	(164)
Dividends declared on common stock — $.46 per share	—	—	—	—	—	—	(624)	—	—	(624)
Repurchase of common stock	—	—	—	—	—	—	—	(1,000)	—	(1,000)
Stock option exercises and other	—	—	—	—	—	(84)	—	209	—	125
Share-based compensation	—	—	—	—	—	188	—	—	—	188
Other	—	—	—	—	—	42	2	(31)	—	13
Balance at December 31, 2018	2,793	1,488	15	—	—	4,499	17,329	(3,714)	(252)	20,670
Net income	—	—	—	—	—	—	3,704	—	—	3,704
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	—	340	340
Dividends declared on preferred stock	—	—	—	—	—	—	(161)	—	—	(161)
Dividends declared on common stock — $.68 per share	—	—	—	—	—	—	(899)	—	—	(899)
Repurchase of common stock	—	—	—	—	—	—	—	(2,220)	—	(2,220)
Stock option exercises and other	—	—	—	—	—	(56)	—	174	—	118
Share-based compensation	—	—	—	—	—	171	—	—	—	171
Other	—	—	—	—	—	42	(13)	(7)	—	22
Balance at December 31, 2019	2,793	1,488	15	—	—	4,656	19,960	(5,767)	88	21,745
Net income	—	—	—	—	—	—	3,299	—	—	3,299
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	—	5,306	5,306
Acquisition of TD Ameritrade	—	509	5	77	1	21,757	—	(5)	—	21,758
Issuance of preferred stock, net	4,940	—	—	—	—	—	—	—	—	4,940
Dividends declared on preferred stock	—	—	—	—	—	—	(240)	—	—	(240)
Dividends declared on common stock — $.72 per share	—	—	—	—	—	—	(1,040)	—	—	(1,040)
Stock option exercises and other	—	—	—	—	—	(121)	—	200	—	79
Share-based compensation	—	—	—	—	—	192	—	—	—	192
Other	—	(2)	—	2	—	31	(4)	(6)	—	21
Balance at December 31, 2020	$ 7,733	1,995	$ 20	79	$ 1	$ 26,515	$ 21,975	$ (5,578)	$ 5,394	$ 56,060

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows [1]

(In Millions)

Year Ended December 31,	2020	2019	2018
Cash Flows from Operating Activities			
Net income	$ 3,299	$ 3,704	$ 3,507
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Share-based compensation	204	183	197
Depreciation and amortization	414	322	277
Amortization of acquired intangible assets	190	27	29
Provision (benefit) for deferred income taxes	(138)	2	49
Premium amortization, net, on available for sale and held to maturity securities	1,586	446	350
Other	349	199	137
Net change in:			
Investments segregated and on deposit for regulatory purposes	(10,208)	(977)	6,922
Receivables from brokerage clients	(14,609)	(125)	(1,100)
Other assets	4	(709)	(8)
Payables to brokerage clients	22,909	6,494	1,483
Accrued expenses and other liabilities	2,852	(241)	613
Net cash provided by (used for) operating activities	6,852	9,325	12,456
Cash Flows from Investing Activities			
Purchases of available for sale securities	(202,171)	(31,815)	(32,801)
Proceeds from sales of available for sale securities	4,801	24,495	115
Principal payments on available for sale securities	63,247	21,616	16,016
Purchases of held to maturity securities	—	(19,441)	(40,873)
Principal payments on held to maturity securities	—	19,606	17,410
Net change in bank loans	(5,675)	(1,730)	(129)
Cash acquired in acquisitions, net of cash paid	14,748	—	—
Purchases of equipment, office facilities, and property	(631)	(708)	(570)
Purchases of Federal Home Loan Bank stock	(26)	(27)	(156)
Proceeds from sales of Federal Home Loan Bank stock	32	24	529
Purchases of Federal Reserve stock	(191)	—	—
Other investing activities	15	(56)	(96)
Net cash provided by (used for) investing activities	(125,851)	11,964	(40,555)
Cash Flows from Financing Activities			
Net change in bank deposits	137,928	(11,329)	61,767
Net change in short-term borrowings	—	—	(15,000)
Issuance of long-term debt	3,070	593	3,024
Repayment of long-term debt	(700)	—	(909)
Repurchases of common stock	—	(2,220)	(1,000)
Net proceeds from preferred stock offerings	4,940	—	—
Dividends paid	(1,280)	(1,060)	(787)
Proceeds from stock options exercised	79	118	125
Other financing activities	(55)	(41)	(54)
Net cash provided by (used for) financing activities	143,982	(13,939)	47,166
Increase (Decrease) in Cash and Cash Equivalents, including Amounts Restricted	24,983	7,350	19,067
Cash and Cash Equivalents, including Amounts Restricted at Beginning of Year	45,577	38,227	19,160
Cash and Cash Equivalents, including Amounts Restricted at End of Year	$ 70,560	$ 45,577	$ 38,227

Continued on following page.

Continued from previous page.

Year Ended December 31,	2020	2019	2018
Supplemental Cash Flow Information			
Non-cash investing activity:			
Securities transferred from held to maturity to available for sale, at fair value	$ 136,099	$ 8,771	$ —
Additions of equipment, office facilities, and property	$ 110	$ 45	$ 6
Acquisition of TD Ameritrade	$ 21,758	$ —	$ —
Non-cash financing activity:			
Extinguishment of finance lease obligation through an assignment agreement	$ —	$ 52	$ —
Other Supplemental Cash Flow Information			
Cash paid during the period for:			
Interest	$ 434	$ 1,075	$ 798
Income taxes	$ 803	$ 1,199	$ 927
Amounts included in the measurement of lease liabilities	$ 163	$ 133	N/A
Leased assets obtained in exchange for new operating lease liabilities	$ 160	$ 97	N/A

December 31,	2020	2019	2018
Reconciliation of cash, cash equivalents and amounts reported within the balance sheet [(2)]			
Cash and cash equivalents	$ 40,348	$ 29,345	$ 27,938
Restricted cash and cash equivalents amounts included in cash and investments segregated and on deposit for regulatory purposes	30,212	16,232	10,289
Total cash and cash equivalents, including amounts restricted shown in the statement of cash flows	$ 70,560	$ 45,577	$ 38,227

(1) Certain prior year amounts have been reclassified to conform to the current year presentation. See Note 1 for additional information.
(2) For more information on the nature of restrictions on restricted cash and cash equivalents, see Note 23.
N/A Not applicable.

See Notes to Consolidated Financial Statements.

1. Introduction and Basis of Presentation

The Charles Schwab Corporation (CSC) is a savings and loan holding company. Incorporated in 1986, CSC engages, through its subsidiaries, in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services.

Principal business subsidiaries of CSC include the following:

- Charles Schwab & Co., Inc. (CS&Co), incorporated in 1971, a securities broker-dealer;
- TD Ameritrade, Inc., an introducing securities broker-dealer;
- TD Ameritrade Clearing, Inc. (TDAC), a securities broker-dealer that provides trade execution and clearing services to TD Ameritrade, Inc.;
- Charles Schwab Bank, SSB (CSB), our principal banking entity; and
- Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds (Schwab Funds®) and for Schwab's exchange-traded funds (Schwab ETFs™).

Schwab's securities broker-dealers have over 400 domestic branch offices in 48 states and the District of Columbia, as well as locations in Puerto Rico, the United Kingdom, Hong Kong, and Singapore.

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

The accompanying consolidated financial statements include CSC and its subsidiaries. Intercompany balances and transactions have been eliminated. These consolidated financial statements have been prepared in conformity with GAAP, which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying financial statements and in the related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from those estimates. Certain estimates relate to taxes on income, legal and regulatory reserves, and fair values of assets acquired and liabilities assumed, as well as goodwill recognized, in business combinations.

Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade Holding Corporation and its consolidated subsidiaries (collectively referred to as "TD Ameritrade" or "TDA"). TD Ameritrade provides securities brokerage services, including trade execution, clearing services, and margin lending, through its broker-dealer subsidiaries; and futures and foreign exchange trade execution services through its futures commission merchant (FCM) and forex dealer member (FDM) subsidiary. Our consolidated financial statements include the results of operations and financial condition of TD Ameritrade beginning on October 6, 2020. See Note 3 for additional information on our acquisition of TD Ameritrade.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. Beginning in 2020, order flow revenue was reclassified from other revenue to trading revenue in the consolidated statements of income. Beginning in 2020, amortization of acquired intangible assets was reclassified from depreciation and amortization and presented separately in the consolidated statements of income. Beginning in 2020, acquired intangible assets – net was reclassified from other assets and presented separately in the consolidated balance sheets. Prior period amounts have been reclassified to reflect these changes. Corresponding presentation changes have been made to the consolidated statements of cash flows and related notes.

Principles of Consolidation

Schwab evaluates all entities in which it has financial interests for consolidation, except for money market funds, which are specifically excluded from consolidation guidance. When an entity is evaluated for consolidation, Schwab determines whether its interest in the entity constitutes a controlling financial interest under either the variable interest entity (VIE) model or the voting interest entity (VOE) model. In evaluating whether Schwab's interest in a VIE is a controlling financial interest, we consider whether our involvement in the context of the design, purpose, and risks of the VIE, as well as any involvement of related parties, provides us with (i) the power to direct the most significant activities of the VIE, and (ii) the obligation to absorb losses or receive benefits that are significant to the VIE. If both of these conditions exist, then Schwab would be the primary beneficiary of that VIE and consolidate it. Based upon the assessments for all of our interests in VIEs, there are no

cases where the Company is the primary beneficiary; therefore, we are not required to consolidate any VIEs. See Note 11 for further information about VIEs. Schwab consolidates all VOEs in which it has majority-voting interests.
Investments in entities in which Schwab does not have a controlling financial interest are accounted for under the equity method of accounting when we have the ability to exercise significant influence over operating and financing decisions of the entity. Investments in entities for which Schwab does not have the ability to exercise significant influence are generally carried at cost and adjusted for impairment and observable price changes of the identical or similar investments of the same issuer (adjusted cost method), except for certain investments in qualified affordable housing projects which are accounted for under the proportional amortization method. All equity method, adjusted cost method, and proportional amortization method investments are included in other assets on the consolidated balance sheets.

2. Summary of Significant Accounting Policies

Revenue recognition

Net interest revenue

Net interest revenue is not within the scope of Accounting Standards Codification (ASC) 606, *Revenue From Contracts With Customers* (ASC 606), because it is generated from financial instruments covered by various other areas of GAAP. Net interest revenue is the difference between interest generated on interest earning assets and interest paid on funding sources. Our primary interest earning assets include cash and cash equivalents; segregated cash and investments; margin loans; investment securities; and bank loans. Fees earned and incurred on securities borrowing and lending activities, which are conducted by the Company's broker-dealer subsidiaries on assets held in client brokerage accounts, are also included in interest revenue and expense.

Asset management and administration fees

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

Trading revenue

Trading revenue is primarily generated through commissions earned for executing trades for clients in individual equities, options, fixed income securities, and certain third-party mutual funds and ETFs, as well as order flow revenue. In late 2019, Schwab eliminated online trading commissions for U.S. and Canadian-listed stocks and ETFs, as well as the base charge on options. Commissions revenue is earned when the trades are executed and collected when the trades are settled. Order flow revenue is comprised of rebate payments received from execution venues to which our broker-dealer subsidiaries send equity and option orders. Order flow revenue is recognized when the trades are executed and is collected on a monthly or quarterly basis.

Bank deposit account fees

Bank deposit account fees consist of revenues resulting from sweep programs offered to certain clients whereby uninvested client cash is swept off-balance sheet to FDIC-insured (up to specified limits) accounts at the TD Depository Institutions and other third-party depository institutions. The Company provides marketing, recordkeeping, and support services related to these sweep programs to the TD Depository Institutions and other third-party depository institutions in exchange for bank deposit account fees. These revenues are based on floating and fixed yields as elected by the Company subject to certain requirements, less interest paid to clients and other applicable fees. Bank deposit account fees are earned and recognized over time and collected on a monthly basis.

Other revenue

Other revenue includes exchange processing fees, certain service fees, software fees, and non-recurring gains. Generally, the most significant portion of other revenue is exchange processing fees, which are comprised of fees the Company's broker-dealer subsidiaries charge clients to offset the exchange processing fees imposed on us by third-parties. Exchange processing fees are earned and collected when the trade is executed and are recognized gross of amounts remitted to the third-parties, which are included in other expenses.

Unsatisfied performance obligations

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

Cash and cash equivalents

Schwab considers all highly liquid investments that mature in three months or less from the time of acquisition and that are not segregated and on deposit for regulatory purposes to be cash and cash equivalents. Cash and cash equivalents include money market funds, deposits with banks, certificates of deposit, commercial paper, and U.S. Treasury securities. Cash and cash equivalents also include balances that our banking subsidiaries maintain at the Federal Reserve.

Cash and investments segregated and on deposit for regulatory purposes

Pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934 and other applicable regulations, Schwab maintains cash or qualified securities in segregated reserve accounts for the exclusive benefit of clients. Cash and investments segregated and on deposit for regulatory purposes include resale agreements, which are collateralized by U.S. Government and agency securities. Resale agreements are accounted for as collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. Under these resale agreements, the Company obtains collateral with a market value equal to or in excess of the principal amount loaned and the interest accrued. Collateral is valued daily by the Company, with additional collateral obtained to ensure full collateralization. Cash and investments segregated also include certificates of deposit and U.S. Government securities. Certificates of deposit and U.S. Government securities are recorded at fair value and unrealized gains and losses are included in earnings.

Schwab applies the practical expedient based on collateral maintenance provisions under ASC 326, *Financial Instruments – Credit Losses*, in estimating an allowance for credit losses for resale agreements. This practical expedient can be applied for financial assets with collateral maintenance provisions requiring the borrower to continually adjust the amount of the collateral securing the financial assets as a result of fair value changes in the collateral. In accordance with the practical expedient, when the Company reasonably expects that borrowers (or counterparties, as applicable) will replenish the collateral as required, there is no expectation of credit losses when the collateral's fair value is greater than the amortized cost of the financial asset. If the amortized cost exceeds the fair value of collateral, then credit losses are estimated only on the unsecured portion.

Receivables from brokerage clients

Receivables from brokerage clients include margin loans to securities brokerage clients and other trading receivables from clients. Margin loans are collateralized by client securities and are carried at the amount receivable, net of an allowance for credit losses. Collateral is required to be maintained at specified minimum levels at all times. The Company monitors margin levels and requires clients to provide additional collateral, or reduce margin positions, to meet minimum collateral requirements if the fair value of the collateral changes. Schwab applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for margin loans. An allowance for credit losses on unsecured or partially secured receivables from brokerage clients is estimated based on the aging of those receivables. Unsecured balances due to confirmed fraud are reserved immediately. The Company's policy is to charge off any delinquent margin loans, including the accrued interest on such loans, no later than at 90 days past due. Accrued interest charged off is recognized as credit loss expense and is included in other expenses in the consolidated statements of income. Clients with margin loans have agreed to allow Schwab to pledge collateralized securities in accordance with federal regulations. The collateral is not reflected in the consolidated financial statements. The allowance for credit losses for receivables from brokerage clients and related activity were immaterial for all periods presented.

Other securities owned at fair value

Other securities owned are included in other assets on the consolidated balance sheets and recorded at fair value based on quoted market prices or other observable market data. Unrealized gains and losses are included in earnings.

AFS investment securities

AFS investment securities are recorded at fair value and unrealized gains and losses, other than losses related to credit factors, are reported, net of taxes, in AOCI included in stockholders' equity. Realized gains and losses from sales of AFS investment securities are determined using the specific-identification method and are included in other revenue. Interest income is recognized using the effective interest method based on the contractual terms of the security. Where applicable, prepayments are accounted for as they occur (i.e., prepayments are not estimated).

An AFS investment security is impaired if the fair value of the security is less than its amortized cost basis. Management evaluates AFS investment securities with unrealized losses to determine whether the security impairment has resulted from a credit loss or other factors. This evaluation is performed quarterly on an individual security basis.

The evaluation of whether credit loss exists is inherently judgmental. This evaluation considers multiple factors including: the financial condition of the issuer; the payment structure of the security; external credit ratings; our internal credit ratings; the security's market implied credit spread; for asset-backed securities, the amount of credit support provided by the structure of the security to absorb credit losses on the underlying collateral; recent events specific to the issuer and the issuer's industry; and whether all scheduled principal and interest payments have been received.

If management determines that the impairment of an AFS investment security (or a portion of the impairment) is related to credit losses, an allowance for credit losses is recorded for that security through a charge to earnings. The allowance for credit losses is measured as the difference between the amortized cost and the present value of expected cash flows and is limited to the difference between amortized cost and the fair value of the security. The Company estimates credit losses on a discounted cash flow basis using the security's effective interest rate. Changes in the allowance for credit losses are recorded through earnings in the period of the change.

If it is determined that the Company intends to sell the impaired security or if it is more likely than not that the Company will be required to sell the security before any anticipated recovery of the amortized cost basis, any allowance for credit losses of that security will be written off and the amortized cost basis of the security will be written down to fair value with any incremental impairment recorded through earnings.

The Company excludes accrued interest from the fair value and the amortized cost basis of the AFS investment securities for the purposes of identifying and measuring impairment of the securities. AFS investment securities are placed on nonaccrual status on a timely basis and any accrued interest receivable is reversed through interest income.

Securities borrowed and securities loaned

Securities borrowed transactions require Schwab to deliver cash to the lender in exchange for securities; the receivables from these transactions are included in other assets on the consolidated balance sheets. For securities loaned, Schwab receives collateral in the form of cash in an amount equal to or greater than the market value of securities loaned; the payables from these transactions are included in accrued expenses and other liabilities on the consolidated balance sheets. The market value of securities borrowed and loaned is monitored and collateral is adjusted to ensure full collateralization. Fees received or paid are recorded in interest revenue or interest expense. Schwab applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for securities borrowed receivables.

Bank loans and related allowance for loan losses

Bank loans held for investments are recorded at amortized cost, which is comprised of the contractual principal amounts adjusted for unamortized direct origination costs or net purchase discounts or premiums. Direct origination costs and premiums and discounts are recognized in interest revenue using the effective interest method over the contractual life of the loan and are adjusted for actual prepayments. Additionally, management estimates an allowance for credit losses, which is deducted from the amortized cost basis of loans to arrive at the amount expected to be collected. The bank loan portfolio includes three portfolio segments: residential real estate, PALs, and other loans. We use these segments when developing and documenting our methodology for determining the allowance for credit losses. The residential real estate portfolio segment is divided into two classes of financing receivables for purposes of monitoring and assessing credit risk: First Mortgages and HELOCs.

Schwab records an allowance for credit losses through a charge to earnings based on our estimate of current expected credit losses for the existing portfolio. We review the allowance for credit losses quarterly, taking into consideration current economic conditions, reasonable and supportable forecasts, the composition of the existing loan portfolio, past loss experience, and any other risks inherent in the portfolio to ensure that the allowance for credit losses is maintained at an appropriate level.

PALs are collateralized by marketable securities with liquid markets. Credit lines are over-collateralized and borrowers are required to maintain collateral at specified levels at all times. The required collateral levels are determined based on the type of security pledged. Additionally, collateral market value is monitored on a daily basis and a borrower's credit line may be reduced or collateral may be liquidated if the collateral is in danger of falling below specified levels. As such, the credit loss inherent within this portfolio is limited. Schwab applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for PALs.

The methodology to establish an allowance for credit losses for the residential real estate portfolio segment utilizes statistical models that estimate prepayments, defaults, and expected losses for this portfolio segment based on predicted behavior of individual loans within the segment. The methodology also evaluates concentrations in the classes of financing receivables, including loan products within those classes, year of origination, and geographical distribution of collateral.

Expected credit losses are forecast using a loan-level simulation of the delinquency status of the loans over the term of the loans. The simulation starts with the current relevant risk indicators, including the current delinquent status of each loan, the estimated current LTV ratio (Estimated Current LTV) of each loan, the term and structure of each loan, current key interest rates including U.S. Treasury and LIBOR rates, and borrower FICO scores. The more significant variables in the simulation include delinquency roll rates, loss severity, housing prices, interest rates, and the unemployment rate. Delinquency roll rates (i.e., the rates at which loans transition through delinquency stages and ultimately result in a loss) are estimated from our historical loss experience adjusted for current trends and market information, which includes current and forecasted conditions. Loss severity (i.e., loss given default) estimates are based on our historical loss experience and market trends, both current and forecasted. The loss severity estimate used in the allowance for credit loss methodology for HELOCs is higher than that used in the methodology for First Mortgages. Housing price trends are derived from historical home price indices and econometric forecasts of future home values. Factors affecting the home price index include housing inventory, unemployment, interest rates, and inflation expectations. Interest rate projections are based on the current term structure of interest rates and historical volatilities to project various possible future interest rate paths. The unemployment rate forecast is typically based on the recent consensus of regularly published economic surveys. Linear interpolation is applied to revert to long-term trends after the reasonable and supportable forecast period.

The methodology described above results in loss factors that are applied to the amortized cost basis of loans, exclusive of accrued interest receivable, to determine the allowance for credit losses for First Mortgages and HELOCs.

Management also estimates a liability for expected credit losses on the Company's commitments to extend credit related to unused HELOCs and commitments to purchase first mortgages. See Note 15 for additional information on these commitments. The liability is calculated by applying the loss factors described above to the commitments expected to be funded and is included in accrued expenses and other liabilities on the consolidated balance sheets. The liability for expected credit losses on these commitments and related activity were immaterial for all periods presented.

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

Nonaccrual, nonperforming and impaired loans

First Mortgages, HELOCs, PALs, and other loans are placed on nonaccrual status upon becoming 90 days past due as to interest or principal (unless the loans are well-secured and in the process of collection), or when the full timely collection of interest or principal becomes uncertain, including loans to borrowers who have filed for bankruptcy. HELOC loans secured by a second lien are placed on non-accrual status if the associated first lien is 90 days or more delinquent, regardless of the payment status of the HELOC. When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is reversed and the loan is accounted for on the cash or cost recovery method until qualifying for return to accrual status. Generally, a nonaccrual loan may be returned to accrual status when all delinquent interest and principal is repaid and the borrower demonstrates a sustained period of performance, or when the loan is both well-secured and in the process of collection and collectability is no longer doubtful. Loans on nonaccrual status and other real estate owned are considered nonperforming assets.

Loan charge-offs

The Company charges off a loan in the period that it is deemed uncollectible and records a reduction in the allowance for credit losses and the loan balance. Our charge-off policy for First Mortgage and HELOC loans is to assess the value of the property when the loan has been delinquent for 180 days or has been discharged in bankruptcy proceedings, regardless of whether the property is in foreclosure, and charge-off the amount of the loan balance in excess of the estimated current value of the underlying property less estimated costs to sell. The Company's policy for PALs is to charge off any delinquent loans no later than at 90 days past due.

Equipment, office facilities, and property

Equipment, office facilities, and property are recorded at cost net of accumulated depreciation and amortization, except for land, which is recorded at cost. Equipment, office facilities, and property include certain capitalized costs of acquired or internally developed software. Costs for internally developed software are capitalized when the costs relate to development of approved projects for our internal needs that result in additional functionality. Costs related to preliminary project and post-project activities are expensed as incurred. Equipment, office facilities, and property (other than land) are depreciated on a straight-line basis over their estimated useful lives. Estimated useful lives are as follows:

All equipment types and furniture	3 to 10 years
Buildings	40 years
Building and land improvements	20 years
Software	3 to 10 years (1)
Leasehold improvements	Lesser of useful life or lease term

(1) Amortized over contractual term if less than three years.

Equipment, office facilities, and property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Goodwill

Goodwill is not amortized but is tested for impairment annually or whenever indications of impairment exist. Impairment exists when the carrying amount of a reporting unit exceeds its estimated fair value, resulting in an impairment charge for this excess, with the maximum charge limited to the carrying value of goodwill allocated to that reporting unit. Our annual impairment testing date is April 1st. Schwab can elect to qualitatively assess goodwill for impairment if it is more likely than not that the fair value of a reporting unit exceeds its carrying value. A qualitative assessment considers macroeconomic and other industry-specific factors, such as trends in short-term and long-term interest rates and the ability to access capital, and Company specific factors such as market capitalization in excess of net assets, trends in revenue generating activities, and merger or acquisition activity.

If the Company elects to bypass qualitatively assessing goodwill, or it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, management estimates the fair values of each of the Company's reporting units (defined as the Company's businesses for which financial information is available and reviewed regularly by management) and compares it to their carrying values. The estimated fair values of the reporting units are established using an income approach based on a discounted cash flow model that includes significant assumptions about the future operating results and cash flows of each reporting unit, a market approach which compares each reporting unit to comparable companies in their respective industries, as well as a market capitalization analysis.

Intangible assets

Finite-lived intangible assets are amortized over their useful lives in a manner that best reflects their economic benefit. All intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Low-income housing tax credit (LIHTC) investments

We account for investments in qualified affordable housing projects using the proportional amortization method if the applicable requirements are met. The proportional amortization method amortizes the cost of the investment over the period in which the investor expects to receive tax credits and other tax benefits, and the resulting amortization is recognized as a component of taxes on income. The carrying value of LIHTC investments is included in other assets on the consolidated balance sheets. Unfunded commitments related to LIHTC investments are included in accrued expenses and other liabilities on the consolidated balance sheets.

Leases

The Company has operating leases for corporate offices, branch locations, and server equipment and determines if an arrangement is a lease at inception. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. The Company has also elected to not record leases acquired in a business combination on the balance sheet if the remaining term as of the acquisition date is 12 months or less. Right-of-use (ROU) assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The lease liability may include payments that depend on a rate or index (such as the Consumer Price Index), measured using the rate or index at the commencement date. Payments that vary because of changes in facts or circumstances occurring after the commencement date are considered variable. These payments are not recognized as part of the lease liability and are expensed in the period incurred. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

We have lease agreements with lease and non-lease components. For the majority of our leases (real estate leases), the Company has elected the practical expedient to account for the lease and non-lease components as a single lease component. We have not elected the practical expedient for equipment leases and account for lease and non-lease components separately for those classes of leases.

As the rates implicit in our leases are not readily determinable, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our lease terms may include periods covered by options to extend when it is reasonably certain that we will exercise those options. The lease terms may also include periods covered by options to terminate when it is reasonably certain that we will not exercise that option.

Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Advertising and market development

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

Income taxes

Schwab provides for income taxes on all transactions that have been recognized in the consolidated financial statements. Accordingly, deferred tax assets are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax assets and deferred tax liabilities, as well as other changes in income tax laws, are recorded in earnings in the period such changes are enacted. Uncertain tax positions are evaluated to determine whether they are more likely than not to be sustained upon examination. When tax positions are more likely than not to be sustained upon examination the difference between positions taken on tax return filings and estimated potential tax settlement outcomes are recognized in accrued expenses and other liabilities. If a position is not more likely than not to be sustained, then none of the tax benefit is recognized in Schwab's financial statements. Accrued interest and penalties relating to unrecognized tax benefits are recorded in taxes on income. Schwab records amounts within AOCI net of taxes. Income tax effects are released from AOCI using the specific-identification method.

Share-based compensation

Share-based compensation includes employee and board of director stock options and restricted stock units. Schwab measures compensation expense for these share-based payment arrangements based on their estimated fair values as of the grant date. The fair value of the share-based award is recognized over the service period as share-based compensation. Share-based compensation expense is based on options or units expected to vest and therefore is reduced for estimated forfeitures. Per the Company's accounting policy election, forfeitures are estimated at the time of grant and reviewed annually based on the Company's historical forfeiture experience. Share-based compensation expense is adjusted in subsequent periods if actual forfeitures differ from estimated forfeitures. The excess tax benefits or deficiencies from the exercise of stock options and the vesting of restricted stock units are recorded in taxes on income.

Fair values of assets and liabilities

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement accounting guidance describes the fair value hierarchy for disclosing assets and liabilities measured at fair value based on the inputs used to value them. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are based on market pricing data obtained from third-party sources independent of the Company. A quoted price in an active market provides the most reliable evidence of fair value and is generally used to measure fair value whenever available.

Unobservable inputs reflect management's judgment about the assumptions market participants would use in pricing the asset or liability. Where inputs used to measure fair value of an asset or liability are from different levels of the hierarchy, the asset or liability is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires judgment. The fair value hierarchy includes three levels based on the objectivity of the inputs as follows:

- Level 1 inputs are quoted prices in active markets as of the measurement date for identical assets or liabilities that the Company has the ability to access.

- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates, benchmark yields, issuer spreads, new issue data, and collateral performance.

- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Assets and liabilities measured at fair value on a recurring basis

Schwab's assets and liabilities measured at fair value on a recurring basis include: certain cash equivalents, certain investments segregated and on deposit for regulatory purposes, AFS securities, and certain other assets. 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. Quoted prices for investments in exchange-traded securities represent end-of-day close prices published by exchanges. Quoted prices for money market funds and other mutual funds represent reported net asset values. 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 in active markets do not exist, the Company uses prices obtained from independent third-party pricing services to measure the fair value of investment assets. We generally obtain prices from three independent third-party pricing sources for assets recorded at fair value.

Our primary independent pricing service provides prices for our fixed income investments such as commercial paper; certificates of deposits; U.S. government and agency securities; state and municipal securities; corporate debt securities; asset-backed securities; foreign government agency securities; and non-agency commercial mortgage-backed securities. Such prices are based on observable trades, broker/dealer quotes, and discounted cash flows that incorporate observable information such as yields for similar types of securities (a benchmark interest rate plus observable spreads) and weighted-average maturity for the same or similar "to-be-issued" securities. We compare the prices obtained from the primary independent pricing service to the prices obtained from the additional independent pricing services to determine if the price obtained from the primary independent pricing service is reasonable. Schwab does not adjust the prices received from independent third-party pricing services unless such prices are inconsistent with the definition of fair value and result in material differences in the amounts recorded.

New Accounting Standards

Adoption of New Accounting Standards

Standard	Description	Date of Adoption	Effects on the Financial Statements or Other Significant Matters
Accounting Standards Update (ASU) 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"	Provides guidance for recognizing impairment of most debt instruments measured at amortized cost, including loans and HTM debt securities. Requires estimating current expected credit losses (CECL) over the remaining life of an instrument or a portfolio of instruments with similar risk characteristics based on relevant information about past events, current conditions, and reasonable forecasts. The initial estimate of, and the subsequent changes in, CECL will be recognized as credit loss expense through current earnings and will be reflected as an allowance for credit losses offsetting the carrying value of the financial instrument(s) on the balance sheet. Amends the other-than-temporary impairment (OTTI) model for AFS debt securities by requiring the use of an allowance, rather than directly reducing the carrying value of the security, and eliminating consideration of the length of time such security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. Adoption requires modified retrospective transition through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the entity applies the new guidance except that a prospective transition is required for AFS debt securities for which an OTTI has been recognized prior to the effective date.	January 1, 2020	The Company adopted CECL as of January 1, 2020 using the modified retrospective method. The adoption of CECL resulted in an immaterial increase in the Company's allowance for credit losses and an increase in the liability for expected credit losses on commitments to extend credit, both primarily related to First Mortgages and HELOCs. The adoption impact was recorded as an adjustment to retained earnings as of the date of adoption.

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

Standard	Description	Date of Adoption	Effects on the Financial Statements or Other Significant Matters
ASU 2018-15, "Intangibles–Goodwill and Other–Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)"	Aligns the criteria for capitalizing implementation costs for cloud computing arrangements (CCA) that are service contracts with internal-use software that is developed or purchased and CCAs that include an internal-use software license. This guidance requires that the capitalized implementation costs be recognized over the period of the CCA service contract, subject to impairment evaluation on an ongoing basis. The guidance prescribes the balance sheet, income statement, and statement of cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. Adoption provides for retrospective or prospective application to all implementation costs incurred after the date of adoption.	January 1, 2020	The Company adopted this guidance prospectively on January 1, 2020. As such, adoption had no impact on the Company's financial statements. Historically, Schwab has expensed implementation costs as they are incurred for CCAs that are service contracts. Therefore, adopting this guidance changed the Company's accounting treatment for these types of implementation costs prospectively from the adoption date.
ASU 2020-4, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting"	Provides optional expedients and exceptions for applying existing accounting guidance to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met, including simplifying accounting analyses for contract modifications. This guidance only applies to the items listed above if they reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and only for a limited period of time. When elected, the optional expedients for contract modifications must be applied consistently for all eligible contracts or eligible transactions subject to the same accounting guidance that would have otherwise been applied. Once elected, the amendments must be applied prospectively.	N/A. Effective March 12, 2020 through December 31, 2022	The Company adopted this guidance prospectively as of October 1, 2020. There was no impact to the Company's consolidated financial statements upon initial adoption.

There are no new accounting standards not yet adopted that are material to the Company as of December 31, 2020.

3. Business Acquisitions

TD Ameritrade

On October 6, 2020 Schwab completed its previously announced acquisition of TD Ameritrade. As a result of the acquisition, TDA Holding became a wholly-owned subsidiary of CSC. TD Ameritrade provides securities brokerage services, including trade execution, clearing services, and margin lending, through its broker-dealer subsidiaries, and futures and foreign exchange trade execution services through its FCM and FDM subsidiary. TD Ameritrade also provides cash sweep and deposit account products through the IDA agreement, as well as bank deposit account sweep agreements with other third-party depository institutions. The Company anticipates this transaction will add scale to help support the Company's ongoing efforts to enhance the client experience, provide deeper resources for individual investors as well as RIAs, and continue to improve its operating efficiency.

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In exchange for each share of TD Ameritrade common stock, TD Ameritrade stockholders received 1.0837 shares of CSC common stock, except for TD Bank and its affiliates which received a portion in nonvoting common stock. In connection with the transaction, Schwab issued approximately 586 million common shares to TD Ameritrade stockholders consisting of approximately 509 million shares of common stock and approximately 77 million shares of nonvoting common stock, as described below. For further details on the new class of nonvoting common stock, see Note 19.

Information regarding the acquisition is provisional and based on information that was available in the limited time since October 6, 2020. Due to the timing of the close of the acquisition, the information described below will be finalized in subsequent periods as prescribed in ASC 805, *Business Combinations*.

The fair value of the purchase price transferred upon completion of the acquisition included the fair value of CSC common stock and nonvoting common stock that was issued to TD Ameritrade stockholders, as well as the fair value of assumed TD Ameritrade equity awards attributable to pre-combination services.

The provisional purchase price was calculated as follows:

Fair value of consideration for TD Ameritrade outstanding common stock	$	21,664
Fair value of replaced TD Ameritrade equity awards attributable to pre-combination services [1]		94
Provisional purchase price	$	21,758

[1] Share-based awards held by TD Ameritrade employees prior to the acquisition date were assumed by Schwab and converted into share-based awards with respect to CSC common stock, after giving effect to the exchange ratio of 1.0837. Such share-based awards are otherwise subject to the same terms and conditions as were applicable immediately before the merger, except for performance-based restricted stock units which were converted into time-based restricted stock units. The portion of the fair value of the share-based awards that relates to services performed by the employees prior to the acquisition date is included in the purchase price.

The Company accounted for the TD Ameritrade acquisition as a business combination under GAAP and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values, except for certain exceptions to the recognition principle of acquisition accounting, such as leases, share-based payments, and income taxes, as of the date of acquisition. The determination of fair values requires management to make significant estimates and assumptions. The estimated fair values of the assets acquired and liabilities assumed are considered provisional and are based on currently available information. The Company believes that the information available provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed; however, these provisional estimates may be adjusted upon the availability of new information regarding facts and circumstances which existed at the acquisition date. The Company expects to finalize the valuation of assets and liabilities as soon as practicable, but not later than one year from the acquisition date. Any adjustments to the initial estimates of the fair values of the acquired assets and liabilities assumed will be recorded as adjustments to the respective assets and liabilities, with the residual amounts allocated to goodwill.

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

The following table summarizes provisional information including the purchase price, fair value estimates of the assets acquired and liabilities assumed, and resulting goodwill as of the October 6, 2020 acquisition date.

Purchase price	$ 21,758
Fair values of assets acquired:	
Cash and cash equivalents	3,484
Cash and investments segregated and on deposit for regulatory purposes	14,236
Receivables from brokerage clients	28,009
Available for sale securities	1,779
Acquired intangible assets	8,880
Equipment, office facilities, and property	470
Other assets	3,088
Total assets acquired	59,946
Fair values of liabilities assumed:	
Payables to brokerage clients	37,599
Accrued expenses and other liabilities	6,975
Long-term debt	3,829
Total liabilities assumed	48,403
Fair value of net identifiable assets acquired	11,543
Goodwill	$ 10,215

The provisional identifiable tangible and intangible assets of $470 million and $8.9 billion, respectively, are subject to depreciation and amortization. The following table summarizes the major classes of tangible and intangible assets and their respective estimated fair values and weighted-average useful lives:

	Estimated Fair Value	Weighted-Average Estimated Useful Life (Years)
Equipment, office facilities, and property		
Real property [(1)]	$ 226	37
Personal property [(2)]	162	2
Construction in progress	49	N/A
Land	33	N/A
Total equipment, office facilities, and property	$ 470	
Acquired intangible assets		
Client relationships	$ 8,700	20
Existing technology	165	2
Trade names	15	2
Total acquired intangible assets	$ 8,880	

[(1)] Consists primarily of buildings.
[(2)] Consists primarily of equipment and leasehold improvements.
N/A Not applicable.

The estimated fair values of real property, personal property, construction in progress, and land were determined using a sales comparison and cost approach, including consideration of functional and economic obsolescence. The Company estimated the weighted-average useful lives of the assets based on the current condition and expected future use of the assets. The estimated fair values of client relationships, existing technology, and trade names were estimated using a multi-period excess earnings approach, cost approach, and relief from royalty approach, respectively. The multi-period excess earnings method starts with a forecast of all of the expected future net cash flows associated with the asset, and the relief from royalty method starts with a forecast of the royalties saved by the Company because it owns the asset. The forecasts are then adjusted to present value by applying an appropriate discount rate that reflects the risks associated with the cash flow streams. The cost approach uses replacement cost as an indicator of fair value.

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

Goodwill of $10.2 billion is primarily attributable to the scale, skill sets, operations, and synergies that can be leveraged to enable the combined company to build a stronger enterprise and will not be deductible for tax purposes. The goodwill assigned to the Investor Services and Advisor Services segments were $6.4 billion and $3.8 billion, respectively.

The Company's consolidated statements of income include total net revenues and net income attributable to the TD Ameritrade acquisition of $1.7 billion and $583 million, respectively, for the period October 6, 2020 through December 31, 2020.

In connection with the TD Ameritrade acquisition, the Company incurred various professional fees and other costs such as advisory, legal, and accounting fees. In total, the Company incurred acquisition costs of $56 million and $11 million for the years ended December 31, 2020 and 2019, respectively, which are primarily included in professional services on the consolidated statements of income.

Pro Forma Financial Information (Unaudited)

The following table presents unaudited pro forma financial information as if the TD Ameritrade acquisition had occurred on January 1, 2019. The unaudited pro forma results reflect after-tax adjustments for acquisition costs, amortization and depreciation of acquired intangible and tangible assets, the impact of the amended IDA agreement which reduced the service fee on client cash deposits held at the TD Depository Institutions to 15 basis points from the 25 basis points paid by TD Ameritrade under its previous IDA agreement, and other immaterial adjustments for the effects of purchase accounting, and do not reflect potential revenue growth or cost savings that may be realized as a result of the acquisition. Pro forma net income for the year ended December 31, 2020 excludes after-tax acquisition costs for both Schwab and TD Ameritrade of $115 million. These costs and after-tax acquisition costs of $30 million incurred in 2019 by Schwab and TD Ameritrade are included in pro forma net income for the year ended December 31, 2019. The unaudited pro forma financial information is presented for informational purposes only, and is not necessarily indicative of future operations or results had the TD Ameritrade acquisition been completed as of January 1, 2019.

	Year Ended December 31,	
	2020	2019
Total net revenues	$ 16,514	$ 16,561
Net income	4,655	5,240

USAA-IMCO

On May 26, 2020, the Company completed its acquisition of the assets of USAA-IMCO for $1.6 billion in cash. Along with the asset purchase agreement, the companies entered into a long-term referral agreement that makes Schwab the exclusive provider of wealth management and investment brokerage services for USAA members. The USAA-IMCO acquisition has added scale to the Company's operations through the addition of over one million brokerage and managed portfolio accounts with approximately $80 billion in client assets at the acquisition date. The transaction also provides Schwab the opportunity to further expand our client base by serving USAA's members through the long-term referral agreement.

The Company accounted for the USAA-IMCO acquisition as a business combination under GAAP and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition. During the three months ended September 30, 2020, we made a $43 million post-closing adjustment to the purchase price resulting in reductions of $9 million and $34 million to our initial estimates of the fair value of the intangible assets acquired and goodwill, respectively. The Company finalized the valuation of assets and liabilities during the three months ended December 31, 2020, resulting in no additional adjustments to the estimated fair values as of the date of acquisition.

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

The following table summarizes the purchase price, fair value estimates of the assets acquired and liabilities assumed, and resulting goodwill as of the May 26, 2020 acquisition date, adjusted for the post-closing adjustments described above.

Purchase price	$	1,581
Fair values of assets acquired:		
Cash segregated and on deposit for regulatory purposes		4,392
Receivables from brokerage clients		80
Acquired intangible assets		1,109
Total assets acquired		5,581
Fair values of liabilities assumed:		
Payables to brokerage clients		4,472
Total liabilities assumed		4,472
Fair value of net identifiable assets acquired		1,109
Goodwill	$	472

The identifiable intangible assets of $1.1 billion are subject to amortization. The following table summarizes the major classes of intangible assets acquired and their respective estimated fair values and weighted-average useful lives.

		Estimated Fair Value	Weighted-Average Estimated Useful Life (years)
Client relationships	$	962	18
Brokerage referral agreement [1]		142	20
Royalty-free license		5	7
Total acquired intangible assets	$	1,109	

[1] The brokerage referral agreement has an initial term of 5 years and is automatically renewable for one-year increments thereafter.

The estimated fair values of client relationships, the brokerage referral agreement, and the royalty-free license were estimated using the multi-period excess earnings, with-and-without, and relief from royalty methods, respectively. The multi-period excess earnings method starts with a forecast of all of the expected future net cash flows associated with the asset, and the relief from royalty method starts with a forecast of the royalties saved by the Company because it owns the asset. The with-and-without method quantifies the difference between forecasted cash flows with the asset and without the asset. The forecasts are then adjusted to present value by applying an appropriate discount rate that reflects the risks associated with the cash flow streams.

Goodwill recorded of $472 million, primarily attributable to the additional scale and anticipated synergies from the USAA-IMCO acquisition, was assigned to the Investor Services segment and is deductible for tax purposes.

The Company's consolidated statements of income include total net revenues and net loss attributable to the USAA-IMCO acquisition of $235 million and $51 million, respectively, for the period May 26, 2020 through December 31, 2020.

In connection with the acquisition, the Company agreed to reimburse USAA for certain contract termination and other fees and severance costs incurred by USAA. These costs totaled $21 million for the year ended December 31, 2020 and are included in other expense on the consolidated statements of income. Additionally, the Company incurred various professional fees and other costs related to the USAA-IMCO acquisition, such as advisory, legal, and accounting fees. In total, the Company incurred acquisition costs of $54 million and $14 million for the years ended December 31, 2020 and 2019, respectively, which are primarily included in professional services, other expense, and compensation and benefits on the consolidated statements of income.

Pro Forma Financial Information (Unaudited)

The following table presents unaudited pro forma financial information as if the USAA-IMCO acquisition had occurred on January 1, 2019. The unaudited pro forma results reflect after-tax adjustments for acquisition costs and amortization of acquired intangible assets, and do not reflect potential revenue growth or cost savings that may be realized as a result of the acquisition. Pro forma net income for the year ended December 31, 2020 excludes after-tax acquisition costs of $41 million. These costs, and after-tax acquisition costs of $10 million incurred in 2019, are included in pro forma net income for the year ended December 31, 2019. The unaudited pro forma financial information is presented for informational purposes only, and is not necessarily indicative of future operations or results had the USAA-IMCO acquisition been completed as of January 1, 2019.

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

	Year Ended December 31,	
	2020	2019
Total net revenues	$ 11,794	$ 11,057
Net income	3,005	3,407

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

4. Revenue Recognition

Disaggregated Revenue

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

Year Ended December 31,	2020	2019	2018
Net interest revenue			
Interest revenue	$ 6,531	$ 7,580	$ 6,680
Interest expense	(418)	(1,064)	(857)
Net interest revenue	6,113	6,516	5,823
Asset management and administration fees			
Mutual funds, ETFs, and CTFs [(1)]	1,770	1,747	1,837
Advice solutions	1,443	1,198	1,139
Other [(1)]	262	266	253
Asset management and administration fees	3,475	3,211	3,229
Trading revenue			
Commissions	739	549	685
Order flow revenue [(2)]	621	135	139
Principal transactions	56	68	78
Trading revenue [(2)]	1,416	752	902
Bank deposit account fees	355	—	—
Other [(2)]	332	242	178
Total net revenues	$ 11,691	$ 10,721	$ 10,132

(1) Beginning in the first quarter of 2019, a change was made to move CTFs from other asset management and administration fees. Prior period amounts have been recast to reflect this change.
(2) Beginning in the first quarter of 2020, order flow revenue was reclassified from other revenue to trading revenue. Amounts in prior periods have been reclassified to reflect this change.

For a summary of revenue provided by our reportable segments, see Note 24. The recognition of revenue is not impacted by the operating segment in which revenue is generated.

Contract balances

Receivables from contracts with customers within the scope of ASC 606 were $579 million at December 31, 2020 and $356 million at December 31, 2019 and were recorded in other assets on the consolidated balance sheets. Schwab does not have any other significant contract assets or contract liability balances as of December 31, 2020 and 2019.

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

5. Receivables from and Payables to Brokerage Clients

Receivables from and payables to brokerage clients are detailed below:

December 31,	2020	2019
Receivables		
Margin loans, net of allowance for credit losses	$ 60,865	$ 19,474
Other brokerage receivables	3,575	2,293
Receivables from brokerage clients — net	$ 64,440	$ 21,767
Payables		
Interest-bearing payables	$ 84,642	$ 29,009
Non-interest-bearing payables	19,559	10,211
Payables to brokerage clients	$ 104,201	$ 39,220

At December 31, 2020, approximately 17% of total CS&Co and TD Ameritrade, Inc. client accounts were located in California. At December 31, 2019, approximately 22% of CS&Co's total client accounts were located in California.

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

6. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities are as follows:

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities				
U.S. agency mortgage-backed securities	$ 283,911	$ 7,005	$ 563	$ 290,353
Asset-backed securities (1)	18,808	174	84	18,898
Corporate debt securities (2)	12,408	388	—	12,796
U.S. Treasury securities	10,631	25	—	10,656
U.S. state and municipal securities	1,544	153	—	1,697
Foreign government agency securities	1,411	2	—	1,413
Non-agency commercial mortgage-backed securities	1,213	52	—	1,265
Certificates of deposit	300	—	—	300
Other	22	—	—	22
Total available for sale securities	$ 330,248	$ 7,799	$ 647	$ 337,400
December 31, 2019				
Available for sale securities				
U.S. agency mortgage-backed securities	$ 45,964	$ 312	$ 121	$ 46,155
Corporate debt securities (2)	5,427	57	—	5,484
Asset-backed securities (1)	4,970	30	13	4,987
U.S. Treasury securities	3,387	3	6	3,384
Certificates of deposit	1,000	4	—	1,004
Commercial paper (2,3)	394	1	—	395
Non-agency commercial mortgage-backed securities	13	—	—	13
Total available for sale securities	$ 61,155	$ 407	$ 140	$ 61,422
Held to maturity securities				
U.S. agency mortgage-backed securities	$ 109,325	$ 1,521	$ 280	$ 110,566
Asset-backed securities (1)	17,806	50	85	17,771
Corporate debt securities (2)	4,661	57	—	4,718
U.S. state and municipal securities	1,301	103	—	1,404
Non-agency commercial mortgage-backed securities	1,119	22	—	1,141
U.S. Treasury securities	223	5	—	228
Certificates of deposit	200	—	—	200
Foreign government agency securities	50	—	—	50
Other	21	—	—	21
Total held to maturity securities	$ 134,706	$ 1,758	$ 365	$ 136,099

(1) Approximately 51% and 43% of asset-backed securities held as of December 31, 2020 and 2019, respectively, were Federal Family Education Loan Program Asset-Backed Securities. Asset-backed securities collateralized by credit card receivables represented approximately 36% and 42% of the asset-backed securities held as of December 31, 2020 and 2019, respectively.
(2) As of December 31, 2020 approximately 46% of the total AFS, and as of December 31, 2019, approximately 32%, of the total AFS and HTM investments in corporate debt securities and commercial paper were issued by institutions in the financial services industry.
(3) Included in cash and cash equivalents on the consolidated balance sheets, but excluded from this table is $2.5 billion of AFS commercial paper as of December 31, 2019 (none as of December 31, 2020). These holdings have maturities of three months or less and an aggregate market value equal to amortized cost.

On January 1, 2019 the Company transferred certain U.S. agency mortgage-backed securities with a fair value of $8.8 billion from the HTM category to the AFS category as permitted by ASU 2017-12, "*Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities"* (ASU 2017-12). This transfer resulted in a net of tax increase to AOCI of $19 million.

In October 2019, the Federal Reserve issued a final enhanced prudential standards rule, and the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC jointly issued a final regulatory capital and liquidity rule. With total consolidated assets of $294.0 billion at December 31, 2019, CSC is designated as a Category III firm pursuant to the framework established by the final rules. Accordingly, the Company opted to exclude AOCI from its regulatory capital as permitted by the regulatory capital and liquidity rule beginning January 1, 2020. In accordance with ASC 320, *Investment – Debt Securities* and as of January 1, 2020, the Company transferred all of its investment securities designated as HTM to the AFS category without tainting our intent to hold other debt securities to maturity. At the date of transfer, these securities had a total amortized cost of $134.7 billion and a total net unrealized gain of $1.4 billion.

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

At December 31, 2020, our banking subsidiaries had pledged securities with a fair value of $44.7 billion as collateral to secure borrowing capacity on secured credit facilities with the FHLB (see Note 13). Our banking subsidiaries also pledge investment securities as collateral to secure borrowing capacity at the Federal Reserve discount window, and had pledged securities with a fair value of $7.9 billion as collateral for this facility at December 31, 2020. The Company also pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was $1.2 billion at December 31, 2020.

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

	Less than 12 months		12 months or longer		Total	
December 31, 2020	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities						
U.S. agency mortgage-backed securities	$ 61,706	$ 551	$ 4,774	$ 12	$ 66,480	$ 563
Asset-backed securities	1,398	13	5,822	71	7,220	84
Total	$ 63,104	$ 564	$ 10,596	$ 83	$ 73,700	$ 647
December 31, 2019						
Available for sale securities						
U.S. agency mortgage-backed securities	$ 16,023	$ 94	$ 6,592	$ 27	$ 22,615	$ 121
Asset-backed securities	960	6	298	7	1,258	13
U.S. Treasury securities	510	—	1,243	6	1,753	6
Total	$ 17,493	$ 100	$ 8,133	$ 40	$ 25,626	$ 140
Held to maturity securities						
U.S. agency mortgage-backed securities	$ 16,183	$ 100	$ 18,910	$ 180	$ 35,093	$ 280
Asset-backed securities	7,507	63	2,898	22	10,405	85
Total	$ 23,690	$ 163	$ 21,808	$ 202	$ 45,498	$ 365
Total securities with unrealized losses	$ 41,183	$ 263	$ 29,941	$ 242	$ 71,124	$ 505

At December 31, 2020, substantially all rated securities in the investment portfolios were investment grade. U.S. agency mortgage-backed securities do not have explicit credit ratings; however, management considers these to be of the highest credit quality and rating given the guarantee of principal and interest by the U.S. government or U.S. government-sponsored enterprises.

For a description of management's quarterly evaluation of AFS securities in unrealized loss positions see Note 2. No amounts were recognized as credit loss expense and no securities were written down to fair value through earnings for the year ended December 31, 2020. None of the Company's AFS securities held as of December 31, 2020 had an allowance for credit losses. No amounts were recognized as OTTI in earnings or other comprehensive income during the years ended December 31, 2019 and 2018. As of December 31, 2019, Schwab did not hold any securities on which OTTI was previously recognized.

The Company had $634 million of accrued interest receivable as of December 31, 2020 for AFS securities, and $471 million of accrued interest receivable for AFS and HTM securities as of December 31, 2019. These amounts are excluded from the amortized cost basis of AFS and HTM securities and included in other assets on the consolidated balance sheets. There were no write-offs of accrued interest receivable on AFS securities during the year ended December 31, 2020, and no write-offs of accrued interest receivable on AFS securities or HTM securities during the year ended December 31, 2019.

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

In the table below, mortgage-backed securities and other asset-backed securities have been allocated to maturity groupings based on final contractual maturities. As borrowers may have the right to call or prepay certain obligations underlying our investment securities, actual maturities may differ from the scheduled contractual maturities presented below.

The maturities of AFS securities are as follows:

December 31, 2020	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
U.S. agency mortgage-backed securities	$ 1,758	$ 22,392	$ 63,400	$ 202,803	$ 290,353
Asset-backed securities	15	5,975	4,012	8,896	18,898
Corporate debt securities	3,632	6,429	2,735	—	12,796
U.S. Treasury securities	10,316	340	—	—	10,656
U.S. state and municipal securities	—	116	824	757	1,697
Foreign government agency securities	125	1,288	—	—	1,413
Non-agency commercial mortgage-backed securities	—	—	—	1,265	1,265
Certificates of deposit	300	—	—	—	300
Other	—	—	—	22	22
Total fair value	16,146	36,540	70,971	213,743	337,400
Total amortized cost	$ 16,080	$ 35,119	$ 68,080	$ 210,969	$ 330,248
Weighted-average yield [1]	1.01%	2.09%	1.81%	1.10%	1.35%

[1] The weighted-average yield is computed using the amortized cost at December 31, 2020.

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

Year Ended December 31,	2020	2019	2018
Proceeds	$ 4,801	$ 24,495	$ 115
Gross realized gains	5	16	—
Gross realized losses	1	10	—

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

7. Bank Loans and Related Allowance for Credit Losses

The composition of bank loans and delinquency analysis by portfolio segment and class of financing receivable is as follows:

December 31, 2020	Current	30-59 days past due	60-89 days past due	≥90 days past due and other nonaccrual loans [3]	Total past due and other nonaccrual loans	Total loans	Allowance for credit losses	Total bank loans – net
Residential real estate:								
First Mortgages [1,2]	$ 14,804	$ 27	$ 1	$ 72	$ 100	$ 14,904	$ 22	$ 14,882
HELOCs [1,2]	823	1	1	17	19	842	5	837
Total residential real estate	15,627	28	2	89	119	15,746	27	15,719
Pledged asset lines	7,901	10	5	—	15	7,916	—	7,916
Other	181	—	—	—	—	181	3	178
Total bank loans	$ 23,709	$ 38	$ 7	$ 89	$ 134	$ 23,843	$ 30	$ 23,813
December 31, 2019								
Residential real estate:								
First Mortgages [1,2]	$ 11,665	$ 24	$ 4	$ 11	$ 39	$ 11,704	$ 11	$ 11,693
HELOCs [1,2]	1,105	2	1	9	12	1,117	4	1,113
Total residential real estate	12,770	26	5	20	51	12,821	15	12,806
Pledged asset lines	5,202	4	—	—	4	5,206	—	5,206
Other	201	—	—	2	2	203	3	200
Total bank loans	$ 18,173	$ 30	$ 5	$ 22	$ 57	$ 18,230	$ 18	$ 18,212

[1] First Mortgages and HELOCs include unamortized premiums and discounts and direct origination costs of $72 million and $74 million at December 31, 2020 and 2019, respectively.
[2] At December 31, 2020 and 2019, 45% of the First Mortgage and HELOC portfolios were concentrated in California. These loans have performed in a manner consistent with the portfolio as a whole.
[3] There were no loans accruing interest that were contractually 90 days or more past due at December 31, 2020 or 2019.

At December 31, 2020, CSB had pledged the full balance of First Mortgages and HELOCs pursuant to a blanket lien status collateral arrangement to secure borrowing capacity on a secured credit facility with the FHLB (see Note 13).

Changes in the allowance for credit losses on bank loans were as follows:

	December 31, 2020					December 31, 2019					December 31, 2018				
	First Mortgages	HELOCs	Total residential real estate	Other	Total [1]	First Mortgages	HELOCs	Total residential real estate	Other	Total [1]	First Mortgages	HELOCs	Total residential real estate	Other	Total [1]
Balance at beginning of year	$ 11	$ 4	$ 15	$ 3	$ 18	$ 14	$ 5	$ 19	$ 2	$ 21	$ 16	$ 8	$ 24	2	$ 26
Adoption of ASU 2016-13	1	—	1	—	1	—	—	—	—	—	—	—	—	—	—
Charge-offs	—	—	—	—	—	—	—	—	—	—	—	—	—	(1)	(1)
Recoveries	1	—	1	—	1	1	1	2	—	2	1	1	2	—	2
Provision for credit losses	9	1	10	—	10	(4)	(2)	(6)	1	(5)	(3)	(4)	(7)	1	(6)
Balance at end of year	$ 22	$ 5	$ 27	$ 3	$ 30	$ 11	$ 4	$ 15	$ 3	$ 18	$ 14	$ 5	$ 19	$ 2	$ 21

Note: Substantially all of the bank loans were collectively evaluated for impairment at December 31, 2019 and 2018.
[1] All PALs were fully collateralized by securities with fair values in excess of borrowings as of each period presented.

Despite the impact of COVID-19 on the economy and the continued uncertainty of the economic outlook, credit quality metrics and overall performance of the bank loan portfolios remained strong in 2020. The ACL increased from January 1, 2020 to December 31, 2020, primarily due to growth in mortgage loan origination during the year, driven by the continued low interest rate environment, and also reflects management's consideration of qualitative factors associated with the potential persistence and effects of COVID-19 on the economic recovery. At December 31, 2020, management's reasonable and supportable forecast period extends through 2024, with limited growth in home prices anticipated over the near term and unemployment expected to remain above 5% through the end of 2022.

A summary of bank loan-related nonperforming assets and troubled debt restructurings is as follows:

December 31,	2020	2019
Nonaccrual loans [1]	$ 89	$ 22
Other real estate owned [2]	1	1
Total nonperforming assets	90	23
Troubled debt restructurings	1	2
Total nonperforming assets and troubled debt restructurings	$ 91	$ 25

[1] Nonaccrual loans include nonaccrual troubled debt restructurings.
[2] Included in other assets on the consolidated balance sheets.

Credit Quality

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

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

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

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

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

	First Mortgages Amortized Cost Basis by Origination Year									
December 31, 2020	2020	2019	2018	2017	2016	pre-2016	Total First Mortgages	Revolving HELOCs amortized cost basis	HELOCs converted to term loans	Total HELOCs
Origination FICO										
<620	$ 1	$ —	$ —	$ —	$ —	$ 2	$ 3	$ —	$ —	$ —
620 – 679	29	13	3	8	17	14	84	1	3	4
680 – 739	794	355	105	181	166	253	1,854	82	80	162
≥740	7,150	2,452	449	858	1,029	1,025	12,963	380	296	676
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 1,212	$ 1,294	$ 14,904	$ 463	$ 379	$ 842
Origination LTV										
≤70%	$ 6,653	$ 2,211	$ 396	$ 793	$ 1,024	$ 911	$ 11,988	$ 351	$ 269	$ 620
>70% – ≤90%	1,321	609	161	254	188	380	2,913	112	107	219
>90% – ≤100%	—	—	—	—	—	3	3	—	3	3
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 1,212	$ 1,294	$ 14,904	$ 463	$ 379	$ 842
Weighted Average Updated FICO										
<620	$ 5	$ 2	$ 1	$ 4	$ 2	$ 17	$ 31	$ 3	$ 9	$ 12
620 – 679	67	34	16	21	20	40	198	12	20	32
680 – 739	784	252	66	121	110	171	1,504	58	55	113
≥740	7,118	2,532	474	901	1,080	1,066	13,171	390	295	685
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 1,212	$ 1,294	$ 14,904	$ 463	$ 379	$ 842
Estimated Current LTV [1]										
≤70%	$ 6,999	$ 2,582	$ 533	$ 1,034	$ 1,207	$ 1,283	$ 13,638	$ 452	$ 368	$ 820
>70% – ≤90%	975	238	24	13	5	11	1,266	11	9	20
>90% – ≤100%	—	—	—	—	—	—	—	—	1	1
>100%	—	—	—	—	—	—	—	—	1	1
Total	$ 7,974	$ 2,820	$ 557	$ 1,047	$ 1,212	$ 1,294	$ 14,904	$ 463	$ 379	$ 842
Percent of Loans on Nonaccrual Status	0.09%	0.38%	1.02%	0.87%	0.24%	2.82%	0.48%	1.37%	2.80%	2.02%

[1] Represents the LTV for the full line of credit (drawn and undrawn) for revolving HELOCs.

December 31, 2020	Balance	Weighted Average Updated FICO	Percent of Loans on Nonaccrual Status
Pledged Asset Lines			
Weighted-Average LTV [1]			
=70%	$ 7,916	770	—

[1] Represents the LTV for the full line of credit (drawn and undrawn).

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

	First Mortgages Amortized Cost Basis by Origination Year								
December 31, 2019	2019	2018	2017	2016	pre-2016	Total First Mortgages	Revolving HELOCs amortized cost basis	HELOCs converted to term loans	Total HELOCs
Origination FICO									
<620	$ —	$ —	$ —	$ —	$ 3	$ 3	$ —	$ —	$ —
620 – 679	12	6	14	20	25	77	1	4	5
680 – 739	478	220	304	290	421	1,713	114	105	219
≥740	3,512	1,058	1,593	1,839	1,909	9,911	496	397	893
Total	$ 4,002	$ 1,284	$ 1,911	$ 2,149	$ 2,358	$ 11,704	$ 611	$ 506	$ 1,117
Origination LTV									
≤70%	$ 3,104	$ 906	$ 1,427	$ 1,812	$ 1,679	$ 8,928	$ 444	$ 354	$ 798
>70% – ≤90%	898	378	484	337	676	2,773	167	147	314
>90% – ≤100%	—	—	—	—	3	3	—	5	5
Total	$ 4,002	$ 1,284	$ 1,911	$ 2,149	$ 2,358	$ 11,704	$ 611	$ 506	$ 1,117
Weighted Average Updated FICO									
<620	$ 5	$ 4	$ 5	$ 3	$ 25	$ 42	$ 6	$ 15	$ 21
620 – 679	45	36	32	26	68	207	18	22	40
680 – 739	474	153	213	199	307	1,346	92	80	172
≥740	3,478	1,091	1,661	1,921	1,958	10,109	495	389	884
Total	$ 4,002	$ 1,284	$ 1,911	$ 2,149	$ 2,358	$ 11,704	$ 611	$ 506	$ 1,117
Estimated Current LTV (1)									
≤70%	$ 3,125	$ 1,018	$ 1,790	$ 2,119	$ 2,330	$ 10,382	$ 578	$ 478	$ 1,056
>70% – ≤90%	877	265	121	30	27	1,320	33	23	56
>90% – ≤100%	—	1	—	—	1	2	—	3	3
>100%	—	—	—	—	—	—	—	2	2
Total	$ 4,002	$ 1,284	$ 1,911	$ 2,149	$ 2,358	$ 11,704	$ 611	$ 506	$ 1,117
Percent of Loans on Nonaccrual Status	0.04%	0.04%	0.04%	0.08%	0.25%	0.09%	0.19%	1.57%	0.83%

(1) Represents the LTV for the full line of credit (drawn and undrawn) for revolving HELOCs.

December 31, 2019	Balance	Weighted Average Updated FICO	Percent of Loans on Nonaccrual Status
Pledged Asset Lines			
Weighted-Average LTV (1)			
=70%	$ 5,206	766	—

(1) Represents the LTV for the full line of credit (drawn and undrawn).

At December 31, 2020, First Mortgage loans of $12.9 billion had adjustable interest rates. Substantially all of these mortgages have initial fixed interest rates for three to ten years and interest rates that adjust annually thereafter. Approximately 26% of the balance of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 77% of the balance of these interest-only loans are not scheduled to reset for three or more years. Schwab's mortgage loans do not include interest terms described as temporary introductory rates below current market rates.

At December 31, 2020 and 2019, Schwab had $43 million and $46 million, respectively, of accrued interest on bank loans, which is excluded from the amortized cost basis of bank loans and included in other assets on the consolidated balance sheets.

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

The HELOC product has a 30-year loan term with an initial draw period of ten years from the date of origination. After the initial draw period, the balance outstanding at such time is converted to a 20-year amortizing loan. The interest rate during the initial draw period and the 20-year amortizing period is a floating rate based on the prime rate plus a margin.

The following table presents HELOCs converted to amortizing loans during each period presented:

December 31,	2020	2019
HELOCs converted to amortizing loans	$ 26	$ 44

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

December 31, 2020	Balance
Converted to an amortizing loan by period end	$ 379
Within 1 year	31
> 1 year – 3 years	88
> 3 years – 5 years	95
> 5 years	249
Total	$ 842

At December 31, 2020, $664 million of the HELOC portfolio was secured by second liens on the associated properties. Second lien mortgage loans typically possess a higher degree of credit risk given the subordination to the first lien holder in the event of default. In addition to the credit monitoring activities described previously, Schwab also monitors credit risk by reviewing the delinquency status of the first lien loan on the associated property. At December 31, 2020, the borrowers on approximately 52% of HELOC loan balances outstanding only paid the minimum amount due.

8. Equipment, Office Facilities, and Property

Equipment, office facilities, and property are detailed below:

December 31,	2020	2019
Software	$ 2,314	$ 1,876
Buildings	1,444	1,056
Leasehold improvements	455	360
Information technology equipment	374	253
Construction in progress	325	324
Furniture and equipment	288	241
Land	208	163
Telecommunications equipment	135	91
Other	7	—
Total equipment, office facilities, and property	5,550	4,364
Accumulated depreciation and amortization	(2,667)	(2,236)
Total equipment, office facilities, and property — net [1]	$ 2,883	$ 2,128

[1] The Company assumed the estimated fair value of TD Ameritrade's equipment, office facilities and property as of the date acquisition on October 6, 2020. See Note 3.

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

9. Goodwill and Acquired Intangible Assets

Acquired intangible assets and goodwill are detailed below:

	December 31, 2020			December 31, 2019		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Client relationships	$ 10,089	$ 386	$ 9,703	$ 274	$ 228	$ 46
Technology	305	112	193	89	84	5
Trade names	113	18	95	91	14	77
Total acquired intangible assets	$ 10,507	$ 516	$ 9,991	$ 454	$ 326	$ 128

Estimated future annual amortization expense for acquired intangible assets as of December 31, 2020 is as follows:

2021	$ 615
2022	596
2023	534
2024	518
2025	512
Thereafter	7,139
Total	$ 9,914

Note: The above schedule excludes indefinite-lived intangible assets of $77 million.

The changes in the carrying amount of goodwill, as allocated to our reportable segments, are presented in the following table:

	Investor Services	Advisor Services	Total
Balance at December 31, 2018	$ 1,096	$ 131	$ 1,227
Goodwill acquired and other changes during the period	—	—	—
Balance at December 31, 2019	1,096	131	1,227
Goodwill acquired in TD Ameritrade acquisition	6,380	3,835	10,215
Goodwill acquired in other acquisitions	494	16	510
Balance at December 31, 2020	$ 7,970	$ 3,982	$ 11,952

See Note 3 for additional information on the Company's acquisitions.

As of our annual testing date, we performed an assessment of each of the Company's reporting units. Based on this analysis we concluded that goodwill was not impaired. There were no indicators that goodwill was impaired after our annual testing date. Schwab did not recognize any goodwill impairment in any of the years presented.

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

10. Other Assets

The components of other assets are as follows:

December 31,	2020	2019
Other receivables from brokers, dealers, and clearing organizations	$ 1,748	$ 235
Receivables — interest, dividends, and other	1,180	788
Other investments [(1)]	1,019	633
Operating lease ROU assets	937	577
Securities borrowed	873	735
Other securities owned at fair value	687	718
Customer contract receivables	579	356
Capitalized contract costs	303	281
Other	457	264
Total other assets	$ 7,783	$ 4,587

[(1)] Primarily CRA-related, including LIHTC investments; also includes investments in FHLB stock of $29 million and $35 million at December 31, 2020 and 2019, respectively, which can only be sold to the issuer at its par value. Any cash dividends received from investments in FHLB stock are recognized as interest revenue in the consolidated statements of income. During 2020, CSB and CSPB became members of the Federal Reserve and as a condition of membership, are required to hold Federal Reserve Stock. As such, other investments also includes investments in FRB stock of $191 million at December 31, 2020.

Capitalized contract costs

Capitalized contract costs relate to incremental costs of obtaining a contract with a customer, including sales commissions paid to employees for obtaining contracts with clients. These costs are amortized to expense on a straight-line basis over a period that is consistent with how the related revenue is recognized. Capitalized contract costs were $303 million and $281 million at December 31, 2020 and 2019, respectively. Amortization expense related to capitalized contract costs was $63 million and $55 million in 2020 and 2019, respectively, which was recorded in compensation and benefits expense on the consolidated statements of income.

11. Variable Interest Entities

As of December 31, 2020 and 2019, all of Schwab's involvement with VIEs is through CSB's CRA-related investments and most of those are related to LIHTC investments. As part of CSB's community reinvestment initiatives, CSB invests in funds that make equity investments in multifamily affordable housing properties and receives tax credits and other tax benefits for these investments. During 2020 and 2019, CSB recorded amortization of $56 million and $39 million, respectively, and recognized tax credits and other tax benefits of $69 million and $47 million, respectively, associated with these investments. The amortization, as well as the tax credits and other tax benefits, are included in taxes on income.

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

Aggregate assets, liabilities, and maximum exposure to loss

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

	December 31, 2020			December 31, 2019		
	Aggregate assets	Aggregate liabilities	Maximum exposure to loss	Aggregate assets	Aggregate liabilities	Maximum exposure to loss
LIHTC Investments [1]	$ 649	$ 344	$ 649	$ 516	$ 275	$ 516
Other CRA Investments [2]	118	—	152	120	—	154
Total	$ 767	$ 344	$ 801	$ 636	$ 275	$ 670

[1] Aggregate assets and aggregate liabilities are included in other assets and accrued expenses and other liabilities, respectively, on the consolidated balance sheets.
[2] Other CRA investments are accounted for as loans at amortized cost, equity method investments, AFS securities, or using the adjusted cost method. Aggregate assets are included in AFS securities, bank loans – net, or other assets on the consolidated balance sheets.

Schwab's maximum exposure to loss would result from the loss of the investments, including any committed amounts. CSB's funding of these remaining commitments is dependent upon the occurrence of certain conditions, and CSB expects to pay substantially all of these commitments between 2021 and 2024. During the years ended December 31, 2020 and 2019, Schwab did not provide or intend to provide financial or other support to the VIEs that it was not contractually required to provide.

12. Bank Deposits

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

December 31,	2020	2019
Interest-bearing deposits:		
Deposits swept from brokerage accounts	$ 332,513	$ 201,531
Checking	17,785	12,650
Savings and other	6,739	5,168
Total interest-bearing deposits	357,037	219,349
Non-interest-bearing deposits	985	745
Total bank deposits	$ 358,022	$ 220,094

13. Borrowings

CSC Senior Notes

CSC's Senior Notes are unsecured obligations. CSC may redeem some or all of the Senior Notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances. Interest is payable semi-annually for the fixed-rate Senior Notes and quarterly for the floating-rate Senior Notes.

TDA Senior Notes

On October 6, 2020, the effective date of our acquisition of TD Ameritrade, TD Ameritrade's debt outstanding was recognized at provisional fair value and with no change in existing terms. See Note 3 The TD Ameritrade debt outstanding on the acquisition date included $3.6 billion par value of TDA Senior Notes. These notes are unsecured obligations. TDA Holding may redeem some or all of the TDA Senior Notes of each series prior to their maturity, subject to certain restrictions, and the payment of an applicable make-whole premium in certain instances. Interest is payable semi-annually for the fixed-rate TDA Senior Notes and quarterly for the floating-rate TDA Senior Notes.

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

The following table lists long-term debt by instrument outstanding as of December 31, 2020 and 2019.

	Date of Issuance	Principal Amount Outstanding 2020	2019
CSC Fixed-rate Senior Notes:			
4.450% due July 22, 2020 [1]	07/22/10	$ —	$ 700
3.250% due May 21, 2021	05/22/18	600	600
3.225% due September 1, 2022	08/29/12	256	256
2.650% due January 25, 2023	12/07/17	800	800
3.550% due February 1, 2024	10/31/18	500	500
3.000% due March 10, 2025	03/10/15	375	375
4.200% due March 24, 2025	03/24/20	600	—
3.850% due May 21, 2025	05/22/18	750	750
3.450% due February 13, 2026	11/13/15	350	350
0.900% due March 11, 2026	12/11/20	1,250	—
3.200% due March 2, 2027	03/02/17	650	650
3.200% due January 25, 2028	12/07/17	700	700
4.000% due February 1, 2029	10/31/18	600	600
3.250% due May 22, 2029	05/22/19	600	600
4.625% due March 22, 2030	03/24/20	500	—
1.650% due March 11, 2031	12/11/20	750	—
Floating-rate Senior Notes:			
Three-month LIBOR + 0.32% due May 21, 2021	05/22/18	600	600
Total CSC Senior Notes		9,881	7,481
TDA Fixed-rate Senior Notes:			
2.950% due April 1, 2022	03/09/15	750	N/A
3.750% due April 1, 2024	11/01/18	400	N/A
3.625% due April 1, 2025	10/22/14	500	N/A
3.300% due April 1, 2027	04/27/17	800	N/A
2.750% due October 1, 2029	08/16/19	500	N/A
Floating-rate TDA Senior Notes:			
Three-month LIBOR + 0.43% due November 1, 2021	11/01/18	600	N/A
Total TDA Senior Notes		3,550	N/A
Other financing		6	—
Unamortized premium/(discount) — net		249	(14)
Debt issuance costs		(54)	(37)
Total long-term debt		$ 13,632	$ 7,430

[1] Matured on July 22, 2020.
N/A Not applicable.

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

Annual maturities on long-term debt outstanding at December 31, 2020, are as follows:

	Maturities
2021	$ 1,802
2022	1,008
2023	802
2024	900
2025	2,225
Thereafter	6,700
Total maturities	13,437
Unamortized discount — net	249
Debt issuance costs	(54)
Total long-term debt	$ 13,632

Short-term borrowings: Our banking subsidiaries maintain secured credit facilities with the FHLB. Amounts available under these facilities are dependent on the amount of our First Mortgages, HELOCs, and the fair value of certain of their investment securities that are pledged as collateral. As of December 31, 2020 and 2019, the collateral pledged provided a total borrowing capacity of $55.1 billion and $34.2 billion, respectively, of which no amounts were outstanding at the end of either year.

As a condition of the FHLB borrowings, we are required to hold FHLB stock, which was recorded in other assets on the consolidated balance sheets. The investment in FHLB stock was $29 million and $35 million at December 31, 2020 and 2019, respectively.

Additionally, our banking subsidiaries have access to funding through the Federal Reserve discount window. Amounts available are dependent upon the fair value of certain investment securities that are pledged as collateral. As of December 31, 2020 and 2019, the collateral pledged provided total borrowing capacity of $7.9 billion and $8.5 billion, respectively, of which no amounts were outstanding at the end of either year.

During 2020, CSB and CSPB became members of the Federal Reserve. As a condition of our Federal Reserve membership, we are required to hold Federal Reserve stock, which totaled $191 million at December 31, 2020.

TD Ameritrade Lines of Credit and Revolving Credit Facilities

TDAC maintains secured uncommitted lines of credit, under which TDAC borrows on either a demand or short-term basis and pledges client margin securities as collateral. There were no borrowings outstanding under the secured uncommitted lines of credit as of December 31, 2020.

TDAC has access to two senior unsecured committed revolving credit facilities with an aggregate borrowing capacity of $1.5 billion, consisting of an $850 million senior revolving credit facility and a $600 million senior revolving credit facility, maturing in April 2021 and April 2022, respectively. There were no borrowings outstanding under the TDAC senior revolving facilities as of December 31, 2020.

TDA Holding had access to a senior unsecured committed revolving credit facility with a borrowing capacity of $300 million. On October 6, 2020, Schwab entered into a guaranty supplement to guarantee the obligations of TD Ameritrade under this credit agreement. The provision of the guaranty supplement by Schwab was a condition for certain financial covenant and reporting obligations being modified in the credit agreement. There were no borrowings outstanding under the TDA Holding revolving credit facility as of December 31, 2020, and effective January 28, 2021, the Company terminated the TDA Holding revolving credit facility.

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

14. Leases

The following table details the amounts and locations of lease assets and liabilities on the consolidated balance sheet:

December 31,		2020	2019
Lease assets:	Balance Sheet Classification		
Operating lease ROU assets	Other assets	$ 937	$ 577
Lease liabilities:			
Operating lease liabilities	Accrued expenses and other liabilities	$ 1,033	$ 650

Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Company had an immaterial finance lease in 2020 and immaterial sublease income for all periods presented.

The components of lease expense are as follows:

Year Ended December 31,	2020	2019
Lease Cost (1)		
Operating lease cost (2)	$ 166	$ 137
Variable lease cost (3)	34	34

(1) Rent expense related to operating leases was $146 million in 2018.
(2) Includes short-term leases, which are immaterial.
(3) Includes payments that are entirely variable and amounts that represent the difference between payments based on an index or rate that would be reflected in the lease liability and what is actually incurred.

The following tables present supplemental lease information:

December 31,	2020	2019
Lease Term and Discount Rate		
Weighted-average remaining lease term (years)	7.02	7.15
Weighted-average discount rate	2.86%	3.42%

Maturity of Lease Liabilities	Operating Leases (1)
2021	$ 182
2022	193
2023	166
2024	134
2025	117
Thereafter	340
Total lease payments	1,132
Less: Interest	99
Present value of lease liabilities	$ 1,033

(1) Operating lease payments exclude $24 million of legally binding minimum lease payments for leases signed but not yet commenced. These leases will commence between 2021 and 2022 with lease terms of three years to 15 years.

15. Commitments and Contingencies

Loan Portfolio: CSB provides a co-branded loan origination program for CSB clients (the Program) with Quicken Loans, Inc. (Quicken Loans®). Pursuant to the Program, Quicken Loans originates and services First Mortgages and HELOCs for CSB clients. Under the Program, CSB purchases certain First Mortgages and HELOCs that are originated by Quicken Loans. CSB purchased First Mortgages of $8.7 billion and $4.4 billion during 2020 and 2019, respectively. CSB purchased HELOCs with commitments of $458 million and $242 million during 2020 and 2019, respectively.

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

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

December 31,	2020	2019
Commitments to extend credit related to unused HELOCs, PALs, and other lines of credit	$ 8,141	$ 10,753
Commitments to purchase First Mortgage loans	1,917	1,521
Total	$ 10,058	$ 12,274

Guarantees and indemnifications: Schwab has clients that sell (i.e., write) listed option contracts that are cleared by the Options Clearing Corporation – a clearing house that establishes margin requirements on these transactions. We partially satisfy the margin requirements by arranging unsecured standby LOCs, in favor of the Options Clearing Corporation, which are issued by several banks. At December 31, 2020, the aggregate face amount of these LOCs totaled $15 million. There were no funds drawn under any of these LOCs at December 31, 2020. In connection with its securities lending activities, Schwab is required to provide collateral to certain brokerage clients. The Company satisfies the collateral requirements by providing cash as collateral.

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 amounts it has posted as collateral. The potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these guarantees.

Effective October 6, 2020, the Company acquired TD Ameritrade. The TD Ameritrade broker-dealer and FCM/FDM subsidiaries' operations include the execution, settlement, and financing of various client securities, options, futures and foreign exchange transactions. These activities may expose the Company to credit risk and losses in the event the clients are unable to fulfill their contractual obligations. TD Ameritrade is a member of and provides guarantees to securities clearing houses and exchanges under standard membership agreements. TD Ameritrade also engages third-party firms to clear clients' futures and options on futures transactions and to facilitate clients' foreign exchange trading, and has agreed to indemnify these firms for any loss that they may incur from the client transactions introduced to them by TD Ameritrade. The potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these guarantees.

IDA agreement: The Company's IDA agreement with the TD Depository Institutions became effective on October 6, 2020. The IDA agreement creates responsibilities of the Company and certain contingent obligations. Pursuant to the IDA agreement, cash held in eligible brokerage client accounts must be swept off-balance sheet to money market deposit accounts at the TD Depository Institutions. Schwab provides marketing, recordkeeping and support services to the TD Depository Institutions with respect to the money market deposit accounts for which Schwab receives an aggregate monthly fee, determined by reference to certain yields, less a service fee on client cash deposits held at the TD Depository Institutions, FDIC deposit assessments, and interest on deposits paid to clients. Though unlikely, in the event the sweep arrangement fee computation were to result in a negative amount in any given month, Schwab would be required to pay the TD Depository Institutions.

Pursuant to the IDA agreement, Schwab will be required to move all uninsured IDA balances out of the IDA sweep program on June 30, 2021. The IDA agreement also provides that, starting July 1, 2021, Schwab will have the option to migrate up to $10 billion of IDA balances every 12 months to Schwab's balance sheet, subject to certain limitations and adjustments. The Company's ability to migrate these balances to its balance sheet is dependent upon multiple factors including having sufficient capital levels to sustain these incremental deposits and certain binding limitations specified in the IDA agreement, including the requirement that Schwab can only move IDA balances designated as floating-rate obligations. The amount of Schwab's initial potential transfer will also be affected by the net growth or decline in the IDA balance from immediately prior to the October 6, 2020 effective date of the IDA agreement through June 30, 2021. In addition, Schwab also must maintain a minimum $50 billion IDA balance through June 2031, and at least 80% of the IDA balances must be designated as fixed-rate obligations through June 2026.

The total ending IDA balance was $144.6 billion as of October 5, 2020, and $154.1 billion as of December 31, 2020. Were IDA balances to decline below the required IDA balance minimum, Schwab could be required to direct additional sweep cash from its balance sheet to the IDA program.

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

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

Schwab believes it has strong defenses in all significant matters currently pending and is contesting liability and any damages claimed. Nevertheless, some of these matters may result in adverse judgments or awards, including penalties, injunctions or other relief, and the Company may also determine to settle a matter because of the uncertainty and risks of litigation. Described below are 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.

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

Ford Order Routing Litigation: On September 15, 2014, TDA Holding, TD Ameritrade, Inc. and its former CEO, Frederick J. Tomczyk, were sued on behalf of a putative class of TD Ameritrade, Inc. clients alleging that defendants failed to seek best execution and made misrepresentations and omissions regarding its order routing practices. Plaintiffs seek unspecified damages and injunctive and other relief. On September 14, 2018, the District Court granted plaintiff's motion for class certification, and defendants petitioned for an immediate appeal of the District Court's class certification decision. The U.S. Court of Appeals, 8th Circuit, granted defendants' petition on December 18, 2018, and a decision on defendants' appeal is pending. Defendants are vigorously contesting the lawsuit, and the Company is unable to predict the outcome or the potential loss, if any, that may result.

TD Ameritrade Acquisition Litigation: As disclosed previously, Schwab and TD Ameritrade have been responding to a lawsuit challenging the acquisition which was filed on May 12, 2020 in the Delaware Court of Chancery (Hawkes v. Bettino et al.) on behalf of a proposed class of TD Ameritrade's stockholders, excluding, among others, TD Bank. The initial complaint named as defendants each member of the TD Ameritrade board of directors at the time the acquisition was approved, as well as TD Bank and Schwab. On June 11, 2020, plaintiff dismissed a claim that had sought to enjoin voting on or consummation of the acquisition. On February 5, 2021, plaintiff filed an amended complaint naming an officer and certain directors of TD Ameritrade at the time the acquisition was approved, as well as TD Bank, certain TD Bank related entities, and Schwab. The amended complaint asserts separate claims for breach of fiduciary duty by the TD Ameritrade officer, certain members of the TD Ameritrade board and TD Bank, and against Schwab for aiding and abetting such breaches, the allegation being that the amendment of the Insured Deposit Account Agreement TD Bank negotiated directly with Schwab allowed TD Bank to divert merger consideration from TD Ameritrade's minority public stockholders. Plaintiff seeks to recover monetary damages, costs and attorneys' fees. Schwab and the other defendants consider the allegations to be entirely without merit and are contesting the remaining claims in the lawsuit.

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

16. Exit and Other Related Liabilities

The integration of TD Ameritrade's operations is expected to occur over 18 to 36 months from the October 6, 2020 acquisition date. To achieve our integration objectives, the Company expects to recognize significant additional acquisition and integration-related costs and capital expenditures throughout the integration process. Such acquisition and integration-related costs have included and are expected to continue to include professional fees, such as legal, advisory, and accounting fees, costs for technology enhancements, and compensation and benefits expenses for employees and contractors involved in the integration work.

The Company's acquisition and integration-related spending also includes exit and other related costs, such as severance and other employee termination benefits, retention costs, as well as costs related to facility closures, including accelerated depreciation or impairments of assets in those locations. Exit and other related costs are a component of the Company's overall acquisition and integration-related spending, and support the Company's ability to achieve integration objectives including expected synergies.

The Company is in the early stages of integration, and our estimates of the nature, amounts, and timing of recognition of acquisition and integration-related costs are subject to change based on a number of factors, including the expected duration and complexity of the integration process and the heightened uncertainty of the current economic environment. More specifically, factors that could cause variability in our expected acquisition and integration-related costs include the level of employee attrition, workforce redeployment from eliminated positions into open roles, changes in the levels of client activity, and increased real estate-related exit cost variability due to the effects of the COVID-19 pandemic.

Inclusive of costs recognized in 2020, Schwab currently expects to incur total exit and other related costs for the integration of TD Ameritrade ranging from $650 million to $1 billion, consisting of employee compensation and benefits, facility exit costs, and certain other costs. During 2020, the Company incurred pre-tax charges of $186 million for acquisition-related exit costs. The Company expects the remaining exit and other related costs be incurred and charged to expense over the next 15 to 33 months. In addition to ASC 420 *Exit or Disposal Cost Obligations*, certain of the costs associated with these activities are accounted for in accordance with ASC 360 *Property, Plant and Equipment*, ASC 712 *Compensation – Nonretirement Post Employment Benefits*, ASC 718 *Compensation – Stock Compensation*, and ASC 842 *Leases*.

The following is a summary of the activity in the Company's exit and other related liabilities for the year ended December 31, 2020:

	Investor Services Employee Compensation and Benefits	Advisor Services Employee Compensation and Benefits	Total
Balance at December 31, 2019	$ —	$ —	$ —
Exit and other related liabilities assumed in business acquisition	18	5	23
Costs incurred and charged to expense [(1)]	138	38	176
Costs paid or otherwise settled	(70)	(19)	(89)
Balance at December 31, 2020 [(2)]	$ 86	$ 24	$ 110

[(1)] Costs incurred for severance pay and other termination benefits, as well as retention costs, are included in employee compensation and benefits on the consolidated statements of income.
[(2)] Included in accrued and expenses and other liabilities on the consolidated balance sheets.

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

The following table summarizes the exit and other related costs incurred by the Company for the year ended December 31, 2020, which represents cumulative costs incurred to date:

	Investor Services			Advisor Services			
	Employee Compensation and Benefits	Facility Exit Costs [1]	Investor Services Total	Employee Compensation and Benefits	Facility Exit Costs [1]	Advisor Services Total	Total
Compensation and benefits	$ 138	$ —	$ 138	$ 38	$ —	$ 38	$ 176
Occupancy and equipment	—	6	6	—	1	1	7
Depreciation and amortization	—	2	2	—	1	1	3
Total	$ 138	$ 8	$ 146	$ 38	$ 2	$ 40	$ 186

[1] Costs related to facility closures. These costs, which are comprised of accelerated amortization of ROU assets and accelerated depreciation of fixed assets, relate to the impact of abandoning leased and other properties.

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

Resale agreements: Schwab enters into collateralized resale agreements principally with other broker-dealers, which could result in losses in the event the counterparty fails to purchase the securities held as collateral for the cash advanced and the fair value of the securities declines. To mitigate this risk, Schwab requires that the counterparty deliver securities to a custodian, to be held as collateral, with a fair value at or in excess of the resale price. Schwab also sets standards for the credit quality of the counterparty, monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest, and requires additional collateral where deemed appropriate. The collateral provided under these resale agreements is utilized to meet obligations under broker-dealer client protection rules, which place limitations on our ability to access such segregated securities. For Schwab to repledge or sell this collateral, we would be required to deposit cash and/or securities of an equal amount into our segregated reserve bank accounts in order to meet our segregated cash and investment requirement. Schwab's resale agreements as of December 31, 2020 and 2019 were not subject to master netting arrangements.

Securities lending: Schwab loans brokerage client securities temporarily to other brokers and clearing houses in connection with its securities lending activities and receives cash as collateral for the securities loaned. Increases in security prices may cause the fair value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities or provide additional cash collateral, we may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy our client obligations. Schwab mitigates this risk by requiring credit approvals for counterparties, monitoring the fair value of securities loaned, and requiring additional cash as collateral when necessary. In addition, most of our securities lending transactions are through a program with a clearing organization, which guarantees the return of cash to us. We also borrow securities from other broker-dealers to fulfill short sales by brokerage clients and deliver cash to the lender in exchange for the securities. The fair value of these borrowed securities was $852 million and $719 million at December 31, 2020 and 2019, respectively. Our securities lending transactions are subject to enforceable master netting arrangements with other broker-dealers; however, we do not net securities lending transactions. Therefore, the securities loaned and securities borrowed are presented gross in the consolidated balance sheets.

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

The following table presents information about our resale agreements and securities lending activity depicting the potential effect of rights of setoff between these recognized assets and recognized liabilities.

	Gross Assets/ Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Counterparty Offsetting	Collateral	
December 31, 2020						
Assets						
Resale agreements [1]	$ 14,904	$ —	$ 14,904	$ —	$ (14,904) [2]	$ —
Securities borrowed [3]	873	—	873	(673)	(195)	5
Total	$ 15,777	$ —	$ 15,777	$ (673)	$ (15,099)	$ 5
Liabilities						
Securities loaned [4,5]	$ 7,549	$ —	$ 7,549	$ (673)	$ (6,049)	$ 827
Total	$ 7,549	$ —	$ 7,549	$ (673)	$ (6,049)	$ 827
December 31, 2019						
Assets						
Resale agreements [1]	$ 9,028	$ —	$ 9,028	$ —	$ (9,028) [2]	$ —
Securities borrowed [3]	735	—	735	(730)	(5)	—
Total	$ 9,763	$ —	$ 9,763	$ (730)	$ (9,033)	$ —
Liabilities						
Securities loaned [4,5]	$ 1,251	$ —	$ 1,251	$ (730)	$ (445)	$ 76
Total	$ 1,251	$ —	$ 1,251	$ (730)	$ (445)	$ 76

(1) Included in cash and investments segregated and on deposit for regulatory purposes in the consolidated balance sheets.
(2) Actual collateral was greater than or equal to the value of the related assets. At December 31, 2020 and 2019, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was $15.2 billion and $9.2 billion, respectively.
(3) Included in other assets in the consolidated balance sheets.
(4) Included in accrued expenses and other liabilities in the consolidated balance sheets. The cash collateral received from counterparties under securities lending transactions was equal to or greater than the market value of the securities loaned at December 31, 2020 and 2019.
(5) Securities loaned are predominantly comprised of equity securities held in client brokerage accounts with overnight and continuous remaining contractual maturities.

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

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

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

December 31,	2020	2019
Fair value of client securities available to be pledged	$ 84,006	$ 26,685
Fair value of securities pledged for:		
Fulfillment of requirements with the Options Clearing Corporation (1)	$ 10,222	$ 2,171
Fulfillment of client short sales	6,274	2,293
Securities lending to other broker-dealers	6,522	1,017
Total collateral pledged	$ 23,018	$ 5,481

Note: Excludes amounts available and pledged for securities lending from fully-paid client securities. The fair value of fully-paid client securities available and pledged was $183 million as of December 31, 2020 and $142 million as of December 31, 2019.

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

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

18. Fair Values of Assets and Liabilities

For a description of the fair value hierarchy and Schwab's fair value methodologies, including the use of independent third-party pricing services, see Note 2. The Company did not adjust prices received from the primary independent third-party pricing service at December 31, 2020 or 2019.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

December 31, 2020	Level 1	Level 2	Level 3	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 11,159	$ —	$ —	$ 11,159
Total cash equivalents	11,159	—	—	11,159
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	550	—	550
U.S. Government securities	—	30,698	—	30,698
Total investments segregated and on deposit for regulatory purposes	—	31,248	—	31,248
Available for sale securities:				
U.S. agency mortgage-backed securities	—	290,353	—	290,353
Asset-backed securities	—	18,898	—	18,898
Corporate debt securities	—	12,796	—	12,796
U.S. Treasury securities	—	10,656	—	10,656
U.S. state and municipal securities	—	1,697	—	1,697
Foreign government agency securities	—	1,413	—	1,413
Non-agency commercial mortgage-backed securities	—	1,265	—	1,265
Certificates of deposit	—	300	—	300
Other	—	22	—	22
Total available for sale securities	—	337,400	—	337,400
Other assets:				
Equity and bond mutual funds	361	—	—	361
U.S. Government securities	—	253	—	253
State and municipal debt obligations	—	37	—	37
Equity, corporate debt, and other securities	7	29	—	36
Total other assets	368	319	—	687
Total	$ 11,527	$ 368,967	$ —	$ 380,494

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

December 31, 2019	Level 1	Level 2	Level 3	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 5,179	$ —	$ —	$ 5,179
Commercial paper	—	2,498	—	2,498
Total cash equivalents	5,179	2,498	—	7,677
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	1,351	—	1,351
U.S. Government securities	—	7,276	—	7,276
Total investments segregated and on deposit for regulatory purposes	—	8,627	—	8,627
Available for sale securities:				
U.S. agency mortgage-backed securities	—	46,155	—	46,155
Corporate debt securities	—	5,484	—	5,484
Asset-backed securities	—	4,987	—	4,987
U.S. Treasury securities	—	3,384	—	3,384
Certificates of deposit	—	1,004	—	1,004
Commercial paper	—	395	—	395
Non-agency commercial mortgage-backed securities	—	13	—	13
Total available for sale securities	—	61,422	—	61,422
Other assets:				
Equity and bond mutual funds	442	—	—	442
U.S. Government securities	—	202	—	202
State and municipal debt obligations	—	47	—	47
Equity, corporate debt, and other securities	5	22	—	27
Total other assets	447	271	—	718
Total	$ 5,626	$ 72,818	$ —	$ 78,444

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

Fair Value of Other Financial Instruments

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

December 31, 2020	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets					
Cash and cash equivalents	$ 29,189	$ 29,189	$ —	$ —	$ 29,189
Cash and investments segregated and on deposit for regulatory purposes	19,143	4,212	14,931	—	19,143
Receivables from brokerage clients — net	64,436	—	64,436	—	64,436
Bank loans — net:					
First Mortgages	14,882	—	15,305	—	15,305
HELOCs	837	—	838	—	838
Pledged asset lines	7,916	—	7,916	—	7,916
Other	178	—	178	—	178
Total bank loans — net	23,813	—	24,237	—	24,237
Other assets	2,883	—	2,883	—	2,883
Liabilities					
Bank deposits	$ 358,022	$ —	$ 358,022	$ —	$ 358,022
Payables to brokerage clients	104,201	—	104,201	—	104,201
Accrued expenses and other liabilities	8,263	—	8,263	—	8,263
Long-term debt	13,626	—	14,829	—	14,829

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

December 31, 2019	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets					
Cash and cash equivalents	$ 21,668	$ 21,668	$ —	$ —	$ 21,668
Cash and investments segregated and on deposit for regulatory purposes	11,807	2,792	9,015	—	11,807
Receivables from brokerage clients — net	21,763	—	21,763	—	21,763
Held to maturity securities:					
U.S. agency mortgage-backed securities	109,325	—	110,566	—	110,566
Asset-backed securities	17,806	—	17,771	—	17,771
Corporate debt securities	4,661	—	4,718	—	4,718
U.S. state and municipal securities	1,301	—	1,404	—	1,404
Non-agency commercial mortgage-backed securities	1,119	—	1,141	—	1,141
U.S. Treasury securities	223	—	228	—	228
Certificates of deposit	200	—	200	—	200
Foreign government agency securities	50	—	50	—	50
Other	21	—	21	—	21
Total held to maturity securities	134,706	—	136,099	—	136,099
Bank loans — net:					
First Mortgages	11,693	—	11,639	—	11,639
HELOCs	1,113	—	1,153	—	1,153
Pledged asset lines	5,206	—	5,206	—	5,206
Other	200	—	200	—	200
Total bank loans — net	18,212	—	18,198	—	18,198
Other assets	1,014	—	1,014	—	1,014
Liabilities					
Bank deposits	$ 220,094	$ —	$ 220,094	$ —	$ 220,094
Payables to brokerage clients	39,220	—	39,220	—	39,220
Accrued expenses and other liabilities	1,882	—	1,882	—	1,882
Long-term debt	7,430	—	7,775	—	7,775

19. Stockholders' Equity

Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade. In conjunction with the acquisition, the Company issued shares of CSC common stock and a new, nonvoting class of CSC common stock. Immediately prior to the acquisition, on October 6, 2020, the Company amended its certificate of incorporation to create the nonvoting class of common stock with 300 million shares authorized for issuance and to increase the number of authorized shares of capital stock by the same amount. Each share of nonvoting common stock has identical rights, including liquidation and dividend rights, except that holders of nonvoting common stock have no voting rights other than over matters that significantly and adversely affect the rights or preferences of the nonvoting common stock, or as required by applicable law. Holders of nonvoting common stock are restricted from transferring shares except for permitted inside or outside transfers, as defined in the certificate of incorporation. Shares of nonvoting stock transferred in a permitted outside transfer are automatically converted to shares of common stock.

Pursuant to the Merger Agreement, CSC issued approximately 177 million shares of common stock and approximately 77 million shares of nonvoting common stock to TD Bank and its affiliates on October 6, 2020. Those shares of common stock and nonvoting common stock were issued in reliance upon an exemption from registration afforded by Section 4(a)(2) of the Securities Act. Following this issuance, TD Bank exchanged an aggregate of approximately 2 million shares of CSC common stock for an equal number of shares of CSC nonvoting common stock and held approximately 79 million shares of nonvoting common stock as of December 31, 2020. TD Bank and its affiliates are not permitted to own more than 9.9% of CSC common stock. This limit is interpreted in accordance with the applicable rules of the Federal Reserve and includes shares of CSC common stock deemed to be beneficially owned directly or indirectly by TD Bank and its affiliates.

CSC did not issue any shares of common stock through external offerings during 2019 or 2018.

On December 11, 2020, the Company issued and sold 2,500,000 depositary shares, each representing a 1/100th ownership interest in a share of 4.000% fixed-rate reset non-cumulative perpetual preferred stock, Series H, $.01 par value per share, with a liquidation preference of $100,000 per share (equivalent of $1,000 per Depositary Share). The net proceeds of the offering were approximately $2.47 billion, after deducting the underwriting discount and offering expenses.

On April 30, 2020, the Company issued and sold 2,500,000 depositary shares, each representing a 1/100th ownership interest in a share of 5.375% fixed-rate reset non-cumulative perpetual preferred stock, Series G, $.01 par value per share, with a liquidation preference of $100,000 per share (equivalent of $1,000 per Depositary Share). The net proceeds of the offering were approximately $2.47 billion, after deducting the underwriting discount and offering expenses.

On January 30, 2019, CSC publicly announced that its Board of Directors authorized a new Share Repurchase Program to repurchase up to $4.0 billion of common stock. The share repurchase authorization does not have an expiration date. There were no repurchases of CSC's common stock under this authorization during the year ended December 31, 2020. During 2019, CSC repurchased 55 million shares of its common stock under this authorization for $2.2 billion.

On October 25, 2018, CSC publicly announced that its Board of Directors terminated the previous two share repurchase authorizations and replaced them with an authorization to repurchase up to $1.0 billion of common stock. CSC repurchased 22 million shares for $1.0 billion in 2018, completing all repurchases under this authorization.

CSC was authorized to issue 9,940,000 shares of preferred stock, $.01 par value, at December 31, 2020 and 2019. The following is a summary of CSC's non-cumulative perpetual preferred stock outstanding as of such dates:

	Shares Issued and Outstanding (in thousands) at December 31,			Carrying Value at December 31,						
	2020 (1)	2019 (1)	Liquidation Preference Per Share	2020	2019	Issue Date	Dividend Rate in Effect at December 31, 2020	Earliest Redemption Date	Date at Which Dividend Rate Becomes Floating or Resets	Floating Annual Rate of Three-Month LIBOR/ Term Five or Ten-Year Treasury plus (2,3):
Fixed-rate:										
Series C	600	600	$ 1,000	$ 585	$ 585	08/03/15	6.000%	12/01/20	N/A	N/A
Series D	750	750	1,000	728	728	03/07/16	5.950%	06/01/21	N/A	N/A
Fixed-to-floating-rate/Fixed-rate reset:										
Series A	400	400	1,000	397	397	01/26/12	7.000%	02/01/22	02/01/22	4.820%
Series E	6	6	100,000	591	591	10/31/16	4.625%	03/01/22	03/01/22	3.315%
Series F	5	5	100,000	492	492	10/31/17	5.000%	12/01/27	12/01/27	2.575%
Series G	25	—	100,000	2,470	—	04/30/20	5.375%	06/01/25	06/01/25	4.971%
Series H	25	—	100,000	2,470	—	12/11/20	4.000%	12/01/30	12/01/30	3.079%
Total preferred stock	1,811	1,761		$ 7,733	$ 2,793					

(1) Represented by depositary shares, except for Series A.
(2) The Series G dividend rate resets on each five-year anniversary beginning on June 1, 2025 based on a five-year treasury rate, representing the average of the yields on actively traded U.S. treasury securities adjusted to constant maturity for five-year maturities. Series G is only redeemable on reset dates. The dividend rates for all other series of preferred stock, except for Series H, will float based on LIBOR.
(3) The Series H dividend rate resets on each ten-year anniversary beginning on December 1, 2030 based on a ten-year treasury rate, representing the average of the yields on actively traded U.S. treasury securities adjusted to constant maturity for ten-year maturities. Series H is only redeemable on dividend payment dates on or after the first reset date. The dividend rates for all other series of preferred stock, except for Series G, will float based on LIBOR.
N/A Not applicable.

Dividends declared on the Company's preferred stock are as follows:

Year Ended December 31,	2020		2019		2018	
	Total Declared (in millions)	Per Share Amount	Total Declared (in millions)	Per Share Amount	Total Declared (in millions)	Per Share Amount
Series A	$ 28.0	$ 70.00	$ 28.0	$ 70.00	$ 28.0	$ 70.00
Series C	36.0	60.00	36.0	60.00	36.0	60.00
Series D	44.6	59.52	44.6	59.52	44.6	59.52
Series E	27.8	4,625.00	27.8	4,625.00	27.8	4,625.00
Series F	25.0	5,000.00	25.0	5,000.00	27.2	5,430.56
Series G (1)	78.8	3,150.35	N/A	N/A	N/A	N/A
Series H (2)	N/A	N/A	N/A	N/A	N/A	N/A
Total	$ 240.2		$ 161.4		$ 163.6	

(1) Series G Preferred Stock was issued on April 30, 2020. Dividends are paid quarterly, and the first dividend was paid on September 1, 2020.
(2) Series H Preferred Stock was issued on December 11, 2020. Dividends are paid quarterly beginning on March 1, 2021.
N/A Not applicable.

Dividends on CSC's preferred stock are not cumulative and will only be paid on a series of preferred stock for a dividend period if declared by CSC's Board of Directors. Under the terms of each series of preferred stock, CSC's ability to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the series of preferred stock, is subject to restrictions in the event that CSC does not declare and either pay or set aside a sum sufficient for payment of dividends on the series of preferred stock for the immediately preceding dividend period.

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

Dividends on fixed-rate preferred stock, as well as Series G and H, are payable quarterly. Dividends on fixed-to-floating-rate preferred stock are payable semi-annually while at a fixed rate and will become payable quarterly after converting to a floating rate.

Redemption Rights

Each series of CSC's preferred stock, except for Series G, may be redeemed at CSC's option on any dividend payment date on or after the earliest redemption date for that series. Series G preferred stock may be redeemed at CSC's option on any reset date on or after the earliest redemption date for the series. All outstanding preferred stock series may also be redeemed following a "capital treatment event," as described in the terms of each series set forth in the relevant certificate of designations. Any redemption of CSC's preferred stock is subject to approval from the Federal Reserve.

20. Accumulated Other Comprehensive Income

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

Year Ended December 31,	2020			2019			2018		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Change in net unrealized gain (loss) on available for sale securities:									
Net unrealized gain (loss)	$ 6,961	$(1,658)	$ 5,303	$ 430	$ (102)	$ 328	$ (123)	$ 30	$ (93)
Other reclassifications included in other revenue	(4)	1	(3)	(6)	1	(5)	—	—	—
Change in net unrealized gain (loss) on held to maturity securities:									
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	—	—	—	36	(9)	27	35	(8)	27
Other	8	(2)	6	(14)	4	(10)	(1)	—	(1)
Other comprehensive income (loss)	$ 6,965	$(1,659)	$ 5,306	$ 446	$ (106)	$ 340	$ (89)	$ 22	$ (67)

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

AOCI balances are as follows:

	Total AOCI
Balance at December 31, 2017	$ (152)
Adoption of accounting standards [1]	(33)
Available for sale securities:	
Net unrealized gain (loss)	(93)
Held to maturity securities:	
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	27
Other	(1)
Balance at December 31, 2018	$ (252)
Available for sale securities:	
Net unrealized gain (loss), excluding transfers to available for sale from held to maturity	309
Net unrealized gain on securities transferred to available for sale from held to maturity [2]	19
Other reclassifications included in other revenue	(5)
Held to maturity securities:	
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale	27
Other	(10)
Balance at December 31, 2019	$ 88
Available for sale securities:	
Net unrealized gain (loss), excluding transfers to available for sale from held to maturity	4,246
Net unrealized gain on securities transferred to available for sale from held to maturity [3]	1,057
Other reclassifications included in other revenue	(3)
Other	6
Balance at December 31, 2020	$ 5,394

[1] As part of the adoption of ASU 2018-02, "*Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*", we elected to reclassify the income tax effects of the Tax Cuts and Jobs Act from items in AOCI into retained earnings as of January 1, 2018.

[2] In the first quarter of 2019, the Company made an election to transfer a portion of its HTM securities to AFS as part of the adoption of ASU 2017-12. The transfer resulted in a net of tax increase to AOCI of $19 million. See Note 6 for additional discussion on the 2019 transfer of HTM securities to AFS.

[3] On January 1, 2020, the Company transferred all of its investment securities designated as HTM to the AFS category. The transfer resulted in a net of tax increase to AOCI of $1.1 billion. See Note 6 for additional discussion on the 2020 transfer of HTM securities to AFS.

21. Employee Incentive, Retirement, Deferred Compensation, and Career Achievement Plans

Schwab's share-based incentive plans provide for granting options and restricted stock units to employees and directors. In addition, we offer retirement and employee stock purchase plans to eligible employees and sponsor deferred compensation plans for eligible officers and non-employee directors.

Acquisition of TD Ameritrade

Upon the completion of the TD Ameritrade acquisition on October 6, 2020, TD Ameritrade's equity awards, whether vested or unvested, were assumed by the Company and converted into equity awards based on CSC common stock taking into account the defined exchange ratio of 1.0837. Otherwise, these share-based awards are subject to the same terms and conditions that were applicable immediately before the merger, except for performance-based restricted stock units which were converted into time-based restricted stock units. The fair value of the stock options assumed by the Company was determined using an option pricing model. The portion of the fair value of the replacement awards related to services provided prior to the acquisition was $94 million and was accounted for as consideration transferred. The remaining portion of the fair value of $73 million is associated with future services and had a remaining weighted-average service period of 1.9 years on the acquisition date. A change in the actual or estimated forfeiture rate from the amount originally or subsequently estimated will result in an adjustment to compensation expense based on the full acquisition-date fair value of awards not expected to vest, regardless of whether those awards were treated as consideration transferred or stock-based compensation for future services.

A summary of share-based compensation expense and related income tax benefit is as follows:

Year Ended December 31,	2020	2019	2018
Stock option expense	$ 36	$ 51	$ 51
Restricted stock unit expense [1]	156	120	136
Employee stock purchase plan expense	12	12	10
Total share-based compensation expense	$ 204	$ 183	$ 197
Income tax benefit on share-based compensation expense [2]	$ (49)	$ (44)	$ (47)

[1] Restricted stock unit expense in 2018 includes $36 million related to special stock awards issued to non-officer employees.
[2] Excludes income tax benefits from stock options exercised and restricted stock units vested of $14 million, $23 million, and $46 million in 2020, 2019, and 2018, respectively.

The Company issues shares for stock options and restricted stock units from treasury stock. At December 31, 2020, the Company was authorized to grant up to 62 million common shares under its existing stock incentive plans. Additionally, at December 31, 2020, the Company had 32 million shares reserved for future issuance under its employee stock purchase plan.

As of December 31, 2020, there was $289 million of total unrecognized compensation cost related to outstanding stock options and restricted stock units, which is expected to be recognized through 2024 with a remaining weighted-average service period of 0.9 years for stock options, 2.2 years for restricted stock units, and 0.4 years for performance-based stock units.

Stock Option Plan

Options are granted for the purchase of shares of common stock at an exercise price not less than market value on the date of grant, and expire ten years from the date of grant. Options generally vest annually over a one- to four-year period from the date of grant.

Stock option activity is summarized below:

	Number of Options (In millions)	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2019	26	$ 32.10	5.75	$ 403
Converted TD Ameritrade stock options	1	25.81		
Granted	1	41.45		
Exercised	(4)	23.10		
Forfeited [1]	—	44.04		
Expired [1]	—	43.83		
Outstanding at December 31, 2020	24	$ 33.67	5.36	$ 452
Vested and expected to vest at December 31, 2020	24	$ 33.67	5.36	$ 452
Vested and exercisable at December 31, 2020	19	$ 30.51	4.64	$ 414

[1] Number of options was less than 500 thousand.

The aggregate intrinsic value in the table above represents the difference between CSC’s closing stock price and the exercise price of each in-the-money option on the last trading day of the period presented.

Information on stock options granted and exercised is presented below:

Year Ended December 31,	2020	2019	2018
Weighted-average fair value of options granted per share	$ 11.56	$ 11.97	$ 14.16
Cash received from options exercised	79	118	125
Tax benefit realized on options exercised	11	17	35
Aggregate intrinsic value of options exercised	71	108	189

We use an option pricing model to estimate the fair value of options granted. The model takes into account the contractual term of the stock option, expected volatility, dividend yield, and the risk-free interest rate. Expected volatility is based on the implied volatility of publicly-traded options on CSC's stock. Dividend yield is based on the average historical CSC dividend yield. The risk-free interest rate is based on the yield of a U.S. Treasury zero-coupon issue with a remaining term similar to the contractual term of the option. We use historical option exercise data, which includes employee termination data, to estimate the probability of future option exercises. The assumptions used to value the options granted during the years presented and their expected lives were as follows:

Year Ended December 31,	2020	2019	2018
Weighted-average expected dividend yield	2.08%	1.85%	1.42%
Weighted-average expected volatility	36%	30%	33%
Weighted-average risk-free interest rate	1.0%	2.5%	3.0%
Expected life (in years)	4.3 - 5.9	4.2 - 5.9	4.0 - 5.2

Restricted Stock Units

Restricted stock units are awards that entitle the holder to receive shares of CSC's common stock following a vesting period. Restricted stock units are restricted from transfer or sale and generally vest annually over a one- to four-year period, while performance-based restricted stock units also require the Company achieve certain financial or other measures prior to vesting. The fair value of restricted stock units is based on the market price of the Company's stock on the date of grant. The grant date fair value is amortized to compensation expense on a straight-line basis over the requisite service period. The fair value of the restricted stock units that vested during each of the years 2020, 2019, and 2018 was $175 million, $123 million, and $166 million, respectively.

The Company's restricted stock units activity is summarized below:

	Number of Units (In millions)	Weighted-Average Grant Date Fair Value per Unit
Outstanding at December 31, 2019	8	$ 42.93
Converted TD Ameritrade restricted stock units	4	36.94
Granted	3	39.26
Vested	(5)	39.78
Forfeited [1]	—	41.13
Outstanding at December 31, 2020	10	$ 40.85

[1] Number of units was less than 500 thousand.

Retirement and Deferred Compensation Plans

Employees can participate in Schwab's qualified retirement plan, the SchwabPlan Retirement Savings and Investment Plan. The Company may match certain employee contributions or make additional contributions to this plan at its discretion. The Company's total expense was $136 million, $118 million, and $105 million in 2020, 2019, and 2018, respectively.

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

Schwab's deferred compensation plan for officers permits participants to defer the receipt of certain cash compensation. The deferred compensation plan for non-employee directors permits participants to defer receipt of all or a portion of their director fees and to receive either a grant of stock options, or upon ceasing service as a director, the number of shares of CSC's common stock that would have resulted from investing the deferred fee amount into CSC's common stock. The deferred compensation liability was $176 million and $164 million at December 31, 2020 and 2019, respectively.

Effective upon the completion of the TD Ameritrade acquisition on October 6, 2020, TD Ameritrade's 401(k) and deferred profit-sharing plans were terminated and TD Ameritrade employees were eligible to participate in the SchwabPlan Retirement Savings and Investment Plan. As of December 31, 2020, there were no TD Ameritrade participants in Schwab's deferred compensation plan.

FC Career Achievement Plan

The FC career achievement plan is a noncontributory, unfunded, nonqualified plan for eligible FCs. An FC is eligible for earned cash payments after retirement contingent upon meeting certain performance levels, tenure, age, and client transitioning requirements. Allocations to the plan are calculated annually based on performance levels achieved and eligible compensation and are subject to general creditors of the Company. Full vesting occurs when an FC reaches 60 years of age and has at least ten years of service with the Company.

The following table presents the changes in projected benefit obligation:

December 31,	2020	2019
Projected benefit obligation at beginning of year	$ 83	$ 56
Benefit cost [(1)]	17	13
Actuarial (gain)/loss [(2)]	(8)	14
Projected benefit obligation at end of year [(3)]	$ 92	$ 83

[(1)] Includes service cost and interest cost, which are recognized in compensation and benefits expense and other expense, respectively, in the consolidated statements of income.
[(2)] Actuarial (gain)/loss is reflected in the consolidated statements of comprehensive income and is included in AOCI on the consolidated balance sheets.
[(3)] This amount is recognized as a liability in accrued expenses and other liabilities on the consolidated balance sheets.

22. Taxes on Income

The components of taxes on income are as follows:

Year Ended December 31,	2020	2019	2018
Current:			
Federal	$ 967	$ 958	$ 847
State	172	184	159
Total current	1,139	1,142	1,006
Deferred:			
Federal	(113)	3	42
State	(25)	(1)	7
Total deferred	(138)	2	49
Taxes on income	$ 1,001	$ 1,144	$ 1,055

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

The temporary differences that created deferred tax assets and liabilities are detailed below:

December 31,	2020	2019
Deferred tax assets:		
Employee compensation, severance, and benefits	$ 271	$ 154
Operating lease liabilities	249	159
Reserves and allowances	70	14
Debt fair value remeasurement	67	—
State and local taxes	37	22
Net operating loss carryforwards	8	6
Total deferred tax assets	702	355
Valuation allowance	(8)	(3)
Deferred tax assets — net of valuation allowance	694	352
Deferred tax liabilities:		
Amortization of acquired intangible assets	(1,954)	(51)
Net unrealized gain on available for sale securities	(1,686)	(28)
Operating lease ROU assets	(233)	(146)
Capitalized internal-use software development costs	(101)	(97)
Capitalized contract costs	(72)	(68)
Equipment, office facilities, and property	(69)	(62)
Other	(41)	(10)
Total deferred tax liabilities	(4,156)	(462)
Deferred tax asset/(liability) — net [1]	$ (3,462)	$ (110)

[1] Amounts are included in accrued expenses and other liabilities on the consolidated balance sheets at December 31, 2020 and 2019.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

Year Ended December 31,	2020	2019	2018
Federal statutory income tax rate	21.0%	21.0%	21.0%
State income taxes, net of federal tax benefit	3.2	3.2	3.0
Equity compensation benefit	(0.3)	(0.5)	(1.0)
Other	(0.6)	(0.1)	0.1
Effective income tax rate	23.3%	23.6%	23.1%

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

December 31,	2020	2019
Balance at beginning of year	$ 101	$ 112
Additions for tax positions related to the current year	15	3
Additions for tax positions related to prior years	3	4
Additions for current year acquisitions	200	—
Reductions for tax positions related to prior years	(7)	(2)
Reductions due to lapse of statute of limitations	(24)	(14)
Reductions for settlements with tax authorities	(40)	(2)
Balance at end of year	$ 248	$ 101

Unrecognized tax benefits totaled $248 million and $101 million as of December 31, 2020 and 2019, respectively, $202 million and $97 million of which if recognized, would affect the annual effective tax rate.

Interest and penalties were accrued related to unrecognized tax benefits in tax expense. At December 31, 2020 and 2019, we had accrued approximately $58 million and $11 million, respectively, for the payment of interest and penalties.

The Company and its subsidiaries are subject to routine examinations by the respective federal, state, and applicable local jurisdictions' taxing authorities. Federal returns for 2017 through 2019 remain subject to examination. The years open to examination by state and local governments vary by jurisdiction.

23. Regulatory Requirements

CSC is a savings and loan holding company and is subject to examination, supervision, and regulation by the Federal Reserve. During 2020, CSB, CSC's primary depository institution subsidiary, converted to a Texas-chartered state savings bank and became a member of the Federal Reserve system. CSB is subject to examination, supervision, and regulation by the Federal Reserve, the TDSML, the FDIC as its deposit insurer, and the CFPB. CSC is required to serve as a source of strength for CSB.

CSB 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 asset purchases from CSC or its other subsidiaries by CSB. In addition, CSB is required to provide notice to and may be required to obtain approval of the Federal Reserve and the TDSML 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 prompt corrective action provisions of the Federal Deposit Insurance Act, CSB could be subject to restrictive actions if it were to fall within one of the lowest three of five capital categories. CSC and CSB 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 CSB. At December 31, 2020, both CSC and CSB met all of their respective capital requirements.

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

The regulatory capital and ratios for CSC (consolidated) and CSB are as follows:

	Actual [1]		Minimum to be Well Capitalized		Minimum Capital Requirement	
December 31, 2020	Amount	Ratio	Amount	Ratio	Amount	Ratio [2]
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 22,916	18.5%	N/A		$ 5,575	4.5%
Tier 1 Risk-Based Capital	30,649	24.7%	N/A		7,433	6.0%
Total Risk-Based Capital	30,688	24.8%	N/A		9,910	8.0%
Tier 1 Leverage	30,649	6.3%	N/A		19,396	4.0%
Supplementary Leverage Ratio	30,649	6.2%	N/A		14,744	3.0%
CSB						
Common Equity Tier 1 Risk-Based Capital	$ 17,526	19.2%	$ 5,919	6.5%	$ 4,098	4.5%
Tier 1 Risk-Based Capital	17,526	19.2%	7,285	8.0%	5,464	6.0%
Total Risk-Based Capital	17,558	19.3%	9,106	10.0%	7,285	8.0%
Tier 1 Leverage	17,526	5.5%	15,979	5.0%	12,783	4.0%
Supplementary Leverage Ratio	17,526	5.4%	N/A	N/A	9,763	3.0%
December 31, 2019						
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 17,660	19.5%	N/A		$ 4,073	4.5%
Tier 1 Risk-Based Capital	20,453	22.6%	N/A		5,431	6.0%
Total Risk-Based Capital	20,472	22.6%	N/A		7,241	8.0%
Tier 1 Leverage	20,453	7.3%	N/A		11,189	4.0%
Supplementary Leverage Ratio	20,453	7.1%	N/A		8,604	3.0%
CSB						
Common Equity Tier 1 Risk-Based Capital	$ 14,819	20.7%	$ 4,649	6.5%	$ 3,218	4.5%
Tier 1 Risk-Based Capital	14,819	20.7%	5,722	8.0%	4,291	6.0%
Total Risk-Based Capital	14,837	20.7%	7,152	10.0%	5,722	8.0%
Tier 1 Leverage	14,819	7.1%	10,486	5.0%	8,389	4.0%
Supplementary Leverage Ratio	14,819	6.8%	N/A	N/A	6,497	3.0%

[1] In the interagency regulatory capital and liquidity rules adopted in October 2019, Category III banking organizations such as CSC were given the ability to opt-out of the inclusion of AOCI in regulatory capital, and CSC made this opt-out election as of January 1, 2020. Therefore, AOCI is excluded from the amounts and ratios presented as of December 31, 2020. In 2019, CSC and CSB were required to include all components of AOCI in regulatory capital; the amounts and ratios for December 31, 2019 are presented on this basis.

[2] Under the Basel III capital rule, CSC and CSB are also required to maintain a capital conservation buffer and a countercyclical capital buffer above the regulatory minimum risk-based capital ratios. The capital conservation buffer and countercyclical buffer were 2.5% and zero percent, respectively, for both periods presented. If either buffer falls below the minimum requirement, the Company would be subject to limits on capital distributions and discretionary bonus payments to executive officers. At December 31, 2020, the minimum capital requirement plus capital conservation buffer and countercyclical capital buffer for Common Equity Tier 1 Risk-Based Capital, Tier 1 Risk-Based Capital, and Total Risk-Based Capital ratios were 7.0%, 8.5%, and 10.5%, respectively.

N/A Not applicable.

Based on its regulatory capital ratios at December 31, 2020, CSB is considered well capitalized (the highest category) under its respective regulatory capital rules. There are no conditions or events since December 31, 2020 that management believes have changed CSB's capital category.

Effective March 26, 2020, the Federal Reserve eliminated a requirement that depository institutions maintain reserve balances at the Federal Reserve based on deposits considered to be transaction accounts. CSB's average required reserve pursuant to this regulation was $1.5 billion in 2019. In 2018, the Company established Charles Schwab Trust Bank (Trust Bank) as a Nevada state-chartered savings bank to provide certain trust and custody services. At December 31, 2020, the balance sheets of CSPB and Trust Bank consisted primarily of investment securities, and the entities held total assets of $31.6 billion and $12.5 billion, respectively. Based on their regulatory capital ratios, at December 31, 2020, CSPB and Trust Bank are considered well capitalized under their respective regulatory capital rules.

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

During 2020, CS&Co registered as an FCM with the CFTC, and subsequently, Charles Schwab Futures, Inc., a wholly-owned subsidiary of CSC, transferred its futures business and all of its assets and liabilities to CS&Co. This transfer was accounted for as a common control transaction and did not have an impact on the consolidated financial statements.

As a securities broker-dealer, CS&Co is subject to the SEC's Uniform Net Capital Rule, and as an FCM, CS&Co is also subject to net capital requirements under CFTC Regulation 1.17 under the Commodity Exchange Act. CS&Co computes net capital under the alternative method permitted by the Uniform Net Capital Rule, which requires the maintenance of minimum net capital, as defined, of the greater of 2% of aggregate debit balances arising from client transactions or a minimum dollar requirement, which is based on the type of business conducted by CS&Co. CFTC Regulation 1.17 requires maintenance of adjusted net capital equal to or in excess of the greater of (1) $1.0 million; (2) its futures risk-based capital requirement, equal to 8% of the total risk margin requirement for all futures positions carried by the FCM in client and nonclient accounts; (3) the amount of adjusted net capital required by a registered futures association of which it is a member; or (4) for securities brokers and dealers, the amount of net capital required by the Uniform Net Capital Rule.

Certain subsidiaries of TDA Holding are subject to regulatory capital requirements, including TDAC and TD Ameritrade, Inc. TDAC and TD Ameritrade, Inc. are subject to the SEC's Uniform Net Capital Rule and compute net capital under the alternative method. TDAC is required to maintain net capital of the greater of $1.5 million, which is based on the type of business conducted by the broker-dealer, or 2% of aggregate debit balances arising from client transactions. TD Ameritrade, Inc. is required to maintain minimum net capital, as defined, as the greater of 2% of aggregate debit balances arising from client transactions or a minimum dollar requirement of $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 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.

Net capital and net capital requirements for CS&Co, TDAC, and TD Ameritrade, Inc., are as follows:

December 31,	2020	2019
CS&Co		
Net capital	$ 3,117	$ 3,700
Minimum dollar requirement	1.000	0.250
2% of aggregate debit balances	616	446
Net capital in excess of required net capital	$ 2,501	$ 3,254
TDAC		
Net capital	$ 4,040	N/A
Minimum dollar requirement	1.500	N/A
2% of aggregate debit balances	748	N/A
Net capital in excess of required net capital	$ 3,292	N/A
TD Ameritrade, Inc.		
Net capital	$ 350	N/A
Minimum dollar requirement	0.250	N/A
2% of aggregate debit balances	—	N/A
Net capital in excess of required net capital	$ 350	N/A

N/A Not applicable. Net capital amounts and requirements are not presented for TDAC and TD Ameritrade, Inc. prior to the acquisition of TD Ameritrade.

Pursuant to the SEC's Customer Protection Rule and other applicable regulations, Schwab had cash and investments segregated for the exclusive benefit of clients at December 31, 2020. The SEC's Customer Protection Rule requires broker-dealers to segregate client fully-paid securities and cash balances not collateralizing margin positions and not swept to money market funds or bank deposit accounts. Amounts included in cash and investments segregated and on deposit for regulatory purposes represent actual balances on deposit, whereas cash and investments required to be segregated and on deposit for regulatory purposes at December 31, 2020 for CS&Co totaled $39.2 billion and for TDAC totaled $14.5 billion. As of January 5, 2021, CS&Co had deposited $4.8 billion of cash and qualified securities into its segregated reserve accounts. As of January 4, 2021, TDAC had withdrawn $164 million of cash and qualified securities from its segregated reserve accounts. Cash and investments required to be segregated and on deposit for regulatory purposes at December 31, 2019 for CS&Co totaled $23.0 billion. Cash and cash equivalents included in cash and investments segregated and on deposit for regulatory purposes are presented as part of Schwab's cash balances in the consolidated statements of cash flows.

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

24. Segment Information

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

The Company integrated its business and asset acquisitions during 2020 into its two existing reportable segments. Revenues and expenses from our acquisition of USAA-IMCO are allocated to Investor Services only; revenues and expenses from TD Ameritrade and our other 2020 acquisitions are attributed to Investor Services and Advisor Services based on which segment services the client. See Note 3 for more information regarding business acquisitions.

The accounting policies of the segments are the same as those described in Note 2. For the computation of its segment information, Schwab utilizes an activity-based costing model to allocate traditional income statement line item expenses (e.g., compensation and benefits, depreciation and amortization, and professional services) to the business activities driving segment expenses (e.g., client service, opening new accounts, or business development) and a funds transfer pricing methodology to allocate certain revenues.

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

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

	Investor Services			Advisor Services			Total		
Year Ended December 31,	2020	2019	2018	2020	2019	2018	2020	2019	2018
Net Revenues									
Net interest revenue	$ 4,391	$ 4,685	$ 4,341	$ 1,722	$ 1,831	$ 1,482	$ 6,113	$ 6,516	$ 5,823
Asset management and administration fees	2,544	2,289	2,260	931	922	969	3,475	3,211	3,229
Trading revenue [(1)]	1,156	503	604	260	249	298	1,416	752	902
Bank deposit account fees	255	—	—	100	—	—	355	—	—
Other [(1)]	262	146	116	70	96	62	332	242	178
Total net revenues	8,608	7,623	7,321	3,083	3,098	2,811	11,691	10,721	10,132
Expenses Excluding Interest	5,529	4,284	4,145	1,862	1,589	1,425	7,391	5,873	5,570
Income before taxes on income	$ 3,079	$ 3,339	$ 3,176	$ 1,221	$ 1,509	$ 1,386	$ 4,300	$ 4,848	$ 4,562
Capital expenditures	$ 535	$ 507	$ 390	$ 206	$ 246	$ 186	$ 741	$ 753	$ 576
Depreciation and amortization [(2)]	$ 288	$ 216	$ 158	$ 126	$ 106	$ 119	$ 414	$ 322	$ 277
Amortization of acquired intangible assets [(2)]	$ 149	$ 26	$ 28	$ 41	$ 1	$ 1	$ 190	$ 27	$ 29

(1) Beginning in 2020, order flow revenue was reclassified from other revenue to trading revenue. Prior period amounts have been reclassified to reflect this change.
(2) Beginning in 2020, amortization of acquired intangible assets was reclassified from depreciation and amortization. Prior periods have been reclassified to reflect this change.

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

25. 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. Diluted EPS is calculated similar to basic EPS except that the numerator and denominator are adjusted as necessary for any effects of dilutive potential common shares, which include, if dilutive, outstanding stock options and non-vested restricted stock units.

For the year ended December 31, 2020, the Company had voting and nonvoting common stock outstanding. Since the rights of the voting and nonvoting common stock are identical, except with respect to voting, the net income of the Company has been allocated on a proportionate basis to the two classes. Diluted earnings per share is calculated using the treasury stock method for outstanding stock options and non-vested restricted stock units and the if-converted method for nonvoting common stock. The if-converted method assumes conversion of all nonvoting common stock to common stock.

EPS under the basic and diluted computations for both common stock and nonvoting common stock are as follows:

Year Ended December 31,	2020		2019		2018	
	Common Stock	Common Stock – Nonvoting (1)	Common Stock	Common Stock – Nonvoting (1)	Common Stock	Common Stock – Nonvoting (1)
Basic earnings per share:						
Numerator						
Net income	$ 3,255	$ 44	$ 3,704	N/A	$ 3,507	N/A
Preferred stock dividends and other (2)	(253)	(3)	(178)	N/A	(178)	N/A
Net income available to common stockholders	$ 3,002	$ 41	$ 3,526	N/A	$ 3,329	N/A
Denominator						
Weighted-average common shares outstanding — basic	1,410	19	1,311	N/A	1,348	N/A
Basic earnings per share	$ 2.13	$ 2.13	$ 2.69	N/A	$ 2.47	N/A
Diluted earnings per share:						
Numerator						
Net income available to common stockholders	$ 3,002	$ 41	$ 3,526	N/A	$ 3,329	N/A
Reallocation of net income available to common stockholders as a result of conversion of nonvoting to voting shares	41	—	N/A	N/A	N/A	N/A
Allocation of net income available to common stockholders:	$ 3,043	$ 41	$ 3,526	N/A	$ 3,329	N/A
Denominator						
Weighted-average common shares outstanding — basic	1,410	19	1,311	N/A	1,348	N/A
Conversion of nonvoting shares to voting shares	19	—	N/A	N/A	N/A	N/A
Common stock equivalent shares related to stock incentive plans	6	—	9	N/A	13	N/A
Weighted-average common shares outstanding — diluted (3)	1,435	19	1,320	N/A	1,361	N/A
Diluted earnings per share	$ 2.12	$ 2.12	$ 2.67	N/A	$ 2.45	N/A

(1) Nonvoting common stock was issued on October 6, 2020 in conjunction with the acquisition of TD Ameritrade. As such, nonvoting common stock is not applicable for the basic and diluted EPS computations in 2019 and 2018.
(2) Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.
(3) Antidilutive stock options and restricted stock units excluded from the calculation of diluted EPS totaled 22 million, 21 million, and 18 million in 2020, 2019, and 2018, respectively.
N/A Not applicable.

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

26. The Charles Schwab Corporation – Parent Company Only Financial Statements

Condensed Statements of Income

Year Ended December 31,	2020	2019	2018
Interest revenue	$ 38	$ 119	$ 88
Interest expense	(273)	(248)	(184)
Net interest expense	(235)	(129)	(96)
Trading revenue	1	—	—
Other revenue	(1)	(1)	1
Expenses Excluding Interest:			
Professional services	(68)	(24)	(6)
Other expenses excluding interest	(85)	(83)	(79)
Loss before income tax benefit and equity in net income of subsidiaries	(388)	(237)	(180)
Income tax benefit/(expense)	45	(9)	20
Loss before equity in net income of subsidiaries	(343)	(246)	(160)
Equity in net income of subsidiaries:			
Equity in undistributed net income/(distributions in excess of net income) of subsidiaries	2,476	(1,198)	2,590
Dividends from bank subsidiaries	—	4,915	750
Dividends from non-bank subsidiaries	1,166	233	327
Net Income	3,299	3,704	3,507
Preferred stock dividends and other [1]	256	178	178
Net Income Available to Common Stockholders	$ 3,043	$ 3,526	$ 3,329

[1] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

Condensed Balance Sheets

December 31,	2020	2019
Assets		
Cash and cash equivalents	$ 4,654	$ 2,839
Receivables from subsidiaries	1,260	1,085
Available for sale securities	4,982	1,743
Held to maturity securities	—	224
Investment in non-bank subsidiaries	29,550	7,090
Investment in bank subsidiaries	25,548	16,325
Other assets	371	304
Total assets	$ 66,365	$ 29,610
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	$ 458	$ 430
Payables to subsidiaries	34	5
Long-term debt	9,813	7,430
Total liabilities	10,305	7,865
Stockholders' equity	56,060	21,745
Total liabilities and stockholders' equity	$ 66,365	$ 29,610

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

Condensed Statements of Cash Flows

Year Ended December 31,	2020	2019	2018
Cash Flows from Operating Activities			
Net income	$ 3,299	$ 3,704	$ 3,507
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Dividends in excess of (equity in undistributed) earnings of subsidiaries	(2,476)	1,198	(2,590)
Other	41	9	13
Net change in:			
Other assets	(65)	57	(5)
Accrued expenses and other liabilities	34	34	28
Net cash provided by (used for) operating activities	833	5,002	953
Cash Flows from Investing Activities			
Due from (to) subsidiaries — net	46	(122)	408
Increase in investments in subsidiaries	(2,172)	(1,783)	(1,188)
Repayments (Advances) of subordinated loan to CS&Co	—	185	(185)
Purchases of available for sale securities	(5,397)	(1,141)	(1,751)
Proceeds from sales of available for sale securities	2	181	—
Principal payments on available for sale securities	2,395	994	573
Other investing activities	—	—	(5)
Net cash provided by (used for) investing activities	(5,126)	(1,686)	(2,148)
Cash Flows from Financing Activities			
Issuance of long-term debt	3,070	593	3,024
Repayment of long-term debt	(700)	—	(900)
Repurchases of common stock	—	(2,220)	(1,000)
Net proceeds from preferred stock offerings	4,940	—	—
Dividends paid	(1,280)	(1,060)	(787)
Proceeds from stock options exercised and other	79	118	125
Other financing activities	(1)	—	—
Net cash provided by (used for) financing activities	6,108	(2,569)	462
Increase (Decrease) in Cash and Cash Equivalents	1,815	747	(733)
Cash and Cash Equivalents at Beginning of Year	2,839	2,092	2,825
Cash and Cash Equivalents at End of Year	$ 4,654	$ 2,839	$ 2,092

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

27. Quarterly Financial Information (Unaudited)

	Fourth Quarter (1)	Third Quarter	Second Quarter	First Quarter
Year Ended December 31, 2020:				
Total net revenues	$ 4,176	$ 2,448	$ 2,450	$ 2,617
Total expenses excluding interest	$ 2,700	$ 1,559	$ 1,562	$ 1,570
Net income	$ 1,135	$ 698	$ 671	$ 795
Net income available to common stockholders	$ 1,050	$ 615	$ 621	$ 757
Weighted-average common shares outstanding — Basic	1,848	1,289	1,288	1,287
Weighted-average common shares outstanding — Diluted	1,855	1,294	1,294	1,294
Earnings per common share — Basic (2)	$ .57	$ .48	$ .48	$ .59
Earnings per common share — Diluted (2)	$ .57	$ .48	$ .48	$ .58
Dividends declared per common share	$ .18	$ .18	$ .18	$ .18
Year Ended December 31, 2019:				
Total net revenues	$ 2,606	$ 2,711	$ 2,681	$ 2,723
Total expenses excluding interest	$ 1,494	$ 1,475	$ 1,445	$ 1,459
Net income	$ 852	$ 951	$ 937	$ 964
Net income available to common stockholders	$ 801	$ 913	$ 887	$ 925
Weighted-average common shares outstanding — Basic	1,284	1,300	1,328	1,333
Weighted-average common shares outstanding — Diluted	1,293	1,308	1,337	1,344
Earnings per common share — Basic	$ .62	$ .70	$ .67	$ .69
Earnings per common share — Diluted	$ .62	$ .70	$ .66	$ .69
Dividends declared per common share	$ .17	$ .17	$ .17	$ .17

(1) The fourth quarter of 2020 includes TD Ameritrade in our consolidated results of operations and financial condition starting on the acquisition date, October 6, 2020. Refer to Item 8 – Note 3 for further information regarding the acquisition of TD Ameritrade.

(2) For the fourth quarter of 2020, the Company had voting and nonvoting common stock outstanding. As the participation rights, including dividend and liquidation rights, are identical between the voting and nonvoting stock classes, basic and diluted earnings per share are the same for each class. See Notes 19 and 25 for additional information.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of The Charles Schwab Corporation:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Charles Schwab Corporation and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

As described in *Management’s Report on Internal Control Over Financial Reporting*, management excluded from its assessment the internal control over financial reporting at TD Ameritrade Holding Corporation and its consolidated subsidiaries (TD Ameritrade), which was acquired on October 6, 2020, and whose financial information constitute 14% of the Company’s total assets, 15% of revenues, and 18% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2020. Accordingly, our audit did not include the internal control over financial reporting at TD Ameritrade.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Asset Management and Administration Fees (AMAF) – Refer to Note 4 to the financial statements

Critical Audit Matter Description

Certain revenues included in asset management and administrative fees are generated through third-party mutual fund and exchange-traded funds (ETF) offerings, as well as fee-based advisory solutions. These AMAF revenues are made up of a significant volume of low-dollar transactions, and use automated systems to process and record these transactions based on underlying information sourced from multiple systems and contractual terms with individual investors and third-party mutual funds.

Given that the Company's process to record revenue is highly automated and involves multiple systems and databases, auditing these revenue streams was complex and challenging due to the extent of audit effort required and involvement of professionals with expertise in information technology (IT) necessary for us to identify, test, and evaluate the Company's systems, software applications, and automated controls.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's systems to process the AMAF revenue transactions included the following, among others:

- With the assistance of our IT specialists, we:
    - Identified the significant systems used to process revenue transactions and, using a risk-based approach, tested the relevant general IT controls over each of these systems.
    - Performed testing of automated business controls and system interface controls (including batch processing) within the relevant revenue streams.
- We tested internal controls within the relevant revenue business processes, including those in place to reconcile the various systems to the Company's general ledger.
- We created data visualizations to evaluate recorded revenue and evaluate trends in the revenue data.
- For a sample of revenue transactions, we performed detail transaction testing by agreeing the amounts recognized to contractual agreements and testing the mathematical accuracy of the recorded revenue.
- For a sample of accounts, we tested the accuracy and completeness of assets under management by obtaining independent pricing support and reconciling total positions to third-party statements.

Purchase Price Accounting for the TD Ameritrade Acquisition – Client Relationship Intangible Asset – Refer to Note 3 to the financial statements

Critical Audit Matter Description

On October 6, 2020, the Company completed the acquisition of TD Ameritrade for approximately $22 billion in common stock. The Company accounted for the TD Ameritrade acquisition as a business combination under GAAP and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition, including client relationship intangible assets of $8.7 billion. The estimated fair value of client relationships were estimated using the multi-period excess earnings method. The multi-period excess earnings method starts with a forecast of all of the expected future net cash flows associated with the asset. The forecast is then adjusted to present value by applying an appropriate discount rate that reflects the risks associated with the cash flow stream.

Given the fair value determination of client relationship intangible assets requires management to make significant estimates and assumptions related to the determination of net future cash flows, and the selection of the respective discount rates, performing audit procedures to evaluate the reasonableness of these estimates and assumptions required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the determination of net future cash flows and the selection of the discount rate relating to the client relationship intangible assets included the following, among others:

- We tested the operating effectiveness of internal controls over the determination of forecasted net future cash flows, selection of the discount rate and the valuation methodology used.
- We assessed the knowledge, skill, ability and objectivity of management's valuation specialist and evaluated the work performed.
- With the assistance of our valuation specialists, we evaluated the reasonableness of (1) the valuation methodologies used and (2) discount rate by:
    - Testing the source information underlying the determination of the discount rate and testing the mathematical accuracy of the calculation.
    - Developing a range of independent estimates of the discount rate and comparing to the discount rate utilized by management.
- When assessing the reasonableness of assumptions related to net future cash flows for client relationship intangible assets, we evaluated whether the assumptions used were reasonable considering the past performance of the acquired company and the Company's strategic plan going forward.
- We evaluated whether the assumptions used to estimate net future cash flows were consistent with evidence obtained in other areas of the audit.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
February 24, 2021

We have served as the Company's auditor since 1976.

Management's Report on Internal Control Over Financial Reporting

Management of The Charles Schwab Corporation, together with its subsidiaries (the Company), is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of and effected by the Company's chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2020, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As permitted by Securities and Exchange Commission Staff guidance, this assessment has excluded TD Ameritrade Holding Corporation and its consolidated subsidiaries (TD Ameritrade), as described below. Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2020.

Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade. Due to the significance of the acquisition and the complexity of TD Ameritrade's systems and business processes, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2020 excludes TD Ameritrade from that assessment. TD Ameritrade's assets represented approximately 14% of the Company's consolidated total assets as of December 31, 2020, and its revenues and net income for the period from the acquisition through December 31, 2020 represented approximately 15% and 18%, respectively, of the Company's consolidated total net revenues and net income for the year ended December 31, 2020.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

The Company's internal control over financial reporting as of December 31, 2020, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing on the previous pages.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 December 31, 2020. 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 December 31, 2020.

Changes in internal control over financial reporting: Effective October 6, 2020, the Company completed its acquisition of TD Ameritrade. In conducting its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, as permitted by the Securities and Exchange Commission Staff guidance, management has elected to exclude TD Ameritrade from that assessment. TD Ameritrade's assets represented approximately 14% of the Company's consolidated total assets as of December 31, 2020, and its revenues and net income for the period from the acquisition through December 31, 2020 represented approximately 15% and 18%, respectively, of the Company's consolidated total net revenues and net income for the year ended December 31, 2020. As of December 31, 2020, management is in the process of integrating TD Ameritrade into the Company's internal control over financial reporting.

Other than as discussed above, there were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, during our most recently completed fiscal quarter that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm are included in Item 8.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information relating to directors of CSC required to be furnished pursuant to this item is incorporated by reference from portions of the Company's definitive proxy statement for its annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A by April 30, 2021 (the Proxy Statement) under "Members of the Board of Directors," "Board Structure and Committees," and "Director Nominations." The Company's Code of Conduct and Business Ethics, applicable to directors and all employees, including senior financial officers, is available on the Company's website at https://www.aboutschwab.com/governance. If the Company makes any amendments to or grants any waivers from its Code of Conduct and Business Ethics, which are required to be disclosed pursuant to the Securities Exchange Act of 1934, the Company will make such disclosures on this website.

Schwab Executive Officers of the Registrant

The following table provides certain information about each of the Company's executive officers as of December 31, 2020.

Executive Officers of the Registrant

Name	Age	Title
Charles R. Schwab	83	Chairman of the Board
Walter W. Bettinger II	60	President and Chief Executive Officer
Bernard J. Clark	62	Executive Vice President – Advisor Services
Jonathan M. Craig	49	Senior Executive Vice President
Peter B. Crawford	52	Executive Vice President and Chief Financial Officer
Joseph R. Martinetto	58	Senior Executive Vice President and Chief Operating Officer
Peter J. Morgan III	56	Executive Vice President, General Counsel and Corporate Secretary
Nigel J. Murtagh	57	Executive Vice President – Corporate Risk

Mr. Schwab has been Chairman of the Board and a director of CSC since its incorporation in 1986. He also served as Chief Executive Officer of CSC from 1986 to 1997 and as Co-Chief Executive Officer from 1998 until 2003. He was re-appointed Chief Executive Officer in 2004 and served in that role until 2008. He served as Chairman of the Board and a director of CS&Co until 2018. Mr. Schwab is also Chairman of CSB.

Mr. Bettinger has been President and Chief Executive Officer of CSC since 2008. He serves on the Board of Directors of CSC, CSB, and TD Ameritrade Holding Corporation, and is Chairman of CS&Co, as well as Chairman and trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, and Schwab Strategic Trust, all registered investment companies and affiliates of CSC. Mr. Bettinger served as President and Chief Operating Officer of CSC from 2007 until 2008 and as Executive Vice President and President – Schwab Investor Services of CSC and CS&Co from 2005 to 2007. Mr. Bettinger joined Schwab in 1995.

Mr. Clark has been Executive Vice President – Advisor Services of CSC since 2012. Mr. Clark has served as Executive Vice President – Advisor Services of CS&Co since 2010. From 2006 until 2010, Mr. Clark served as Senior Vice President – Schwab Institutional Sales of CS&Co. Mr. Clark joined Schwab in 1998.

Mr. Craig has been Senior Executive Vice President of CSC and CS&Co since 2018. He served as Executive Vice President – Client and Marketing Solutions for CSC from 2017 until 2018 and served as Executive Vice President and Chief Marketing Officer of CS&Co from 2012 until 2018. Mr. Craig joined Schwab in 2000.

Mr. Crawford has been Executive Vice President and Chief Financial Officer of CSC and CS&Co since 2017. Prior to his appointment as Chief Financial Officer, Mr. Crawford was Executive Vice President of Finance from 2015 to 2017. He served as Senior Vice President of Schwab's asset management and client solutions organization from 2008 to 2015. He joined the Board of Directors of TD Ameritrade Holding Corporation in 2020, and has served on the Board of Directors of CS&Co since 2018. Mr. Crawford joined Schwab in 2001.

Mr. Martinetto has been Senior Executive Vice President of CSC and CS&Co since 2015, and Chief Operating Officer of CSC and CS&Co since 2018. He served as Chief Financial Officer of CSC and CS&Co from 2007 until 2017, and Executive Vice President of CSC and CS&Co from 2007 until 2015. He also serves on the Board of Directors of CS&Co and TD Ameritrade Holding Corporation; he served on the Board of Directors of CSB from 2010 until 2020. Additionally, Mr. Martinetto is a trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Laudus Trust, and Schwab Strategic Trust. Mr. Martinetto joined Schwab in 1997.

Mr. Morgan has served as Executive Vice President, General Counsel and Corporate Secretary of CSC since 2019. He also serves as Executive Vice President & Corporate Secretary of CS&Co; he was Senior Vice President and Deputy General Counsel of CS&Co from 2009 to January 2020. He has served as General Counsel of CSB since 2009, including as Executive Vice President and General Counsel of CSB since 2019, and as Senior Vice President and General Counsel from 2015 to 2019. Mr. Morgan joined Schwab in 1999.

Mr. Murtagh has been Executive Vice President – Corporate Risk and Chief Risk Officer since 2012. He served as Senior Vice President and Chief Credit Officer of CS&Co from 2002 until 2012 and of CSC from 2008 until 2012 when he was also Head of Fixed Income Research for Charles Schwab Investment Management. Mr. Murtagh joined Schwab in 2000.

Item 11. Executive Compensation

The information required to be furnished pursuant to this item is incorporated by reference from portions of the Proxy Statement under "Compensation Discussion and Analysis," "Executive Compensation Tables – 2020 Summary Compensation Table," "Executive Compensation Tables – 2020 Grants of Plan-Based Awards Table," "Executive Compensation Tables – Narrative to Summary Compensation and Grants of Plan-Based Awards Tables," "Executive Compensation Tables – 2020 Termination and Change in Control Benefits Table," "Executive Compensation Tables – Outstanding Equity Awards as of December 31, 2020," "Executive Compensation Tables – 2020 Option Exercises and Stock Vested Table," "Executive Compensation Tables – 2020 Nonqualified Deferred Compensation Table," "Director Compensation," and "Compensation Committee Interlocks and Insider Participation." In addition, the information from a portion of the Proxy Statement under "Compensation Committee Report," is incorporated by reference from the Proxy Statement and furnished on this Form 10-K, and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required to be furnished pursuant to this item is incorporated by reference from portions of the Proxy Statement under "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans."

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required to be furnished pursuant to this item is incorporated by reference from portions of the Proxy Statement under "Transactions with Related Persons" and "Director Independence."

Item 14. Principal Accountant Fees and Services

The information required to be furnished pursuant to this item is incorporated by reference from a portion of the Proxy Statement under "Auditor Fees."

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this Report

1. Financial Statements

The financial statements and independent auditors' report are included in Item 8 and are listed below:

Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Balance Sheets
Consolidated Statements of Stockholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules

Other financial statement schedules required pursuant to this Item are omitted because of the absence of conditions under which they are required or because the information is included in the Company's consolidated financial statements and notes in Item 8.

(b) Exhibits

The exhibits listed below are filed as part of this annual report on Form 10-K.

Exhibit Number	Exhibit
2.1	Agreement and Plan of Merger, dated as of November 24, 2019, by and among the Registrant, Americano Acquisition Corp., and TD Ameritrade Holding Corporation, filed as Exhibit 2.1 to the Registrant’s Form 8-K dated November 24, 2019 and incorporated herein by reference.*
2.2	Amendment No. 1 to Agreement and Plan of Merger, dated as of May 14, 2020, by and among the Registrant, Americano Acquisition Corp., and TD Ameritrade Holding Corporation, filed as Exhibit 2.2 to the Registrant's Form 8-K dated May 14, 2020, and incorporated herein by reference.
3.11	Fifth Restated Certificate of Incorporation, effective May 7, 2001, of the Registrant, filed as Exhibit 3.11 to the Registrant’s Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.11(i)	Amendment to Fifth Restated Certificate of Incorporation of the Registrant, effective October 6, 2020, filed as Exhibit 3.1 to the Registrant’s Form 8-K dated October 2, 2020, and incorporated herein by reference.
3.14	Fourth Restated Bylaws, as amended on January 27, 2010, of the Registrant, filed as Exhibit 3.14 to the Registrant’s Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.14(i)	Amendment to Fourth Restated Bylaws of the Registrant, effective January 1, 2021, filed as Exhibit 3.2 to the Registrant’s Form 8-K dated October 2, 2020, and incorporated herein by reference.
3.15	Certificate of Designations of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A, of The Charles Schwab Corporation, filed as Exhibit 3.15 to the Registrant’s Form 10-K for the year ended December 31, 2016, and incorporated herein by reference.
3.17	Certificate of Designations of 6.00% Non-Cumulative Perpetual Preferred Stock, Series C, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant’s Form 8-K dated August 3, 2015, and incorporated herein by reference.
3.18	Certificate of Designations of 5.95% Non-Cumulative Perpetual Preferred Stock, Series D, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant’s Form 8-K dated March 7, 2016, and incorporated herein by reference.
3.19	Certificate of Designations of 4.625% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant’s Form 8-K dated October 31, 2016, and incorporated herein by reference.
3.20	Certificate of Designations of 5.00% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant’s Form 8-K dated October 31, 2017, and incorporated herein by reference.
3.21	Certificate of Designations of 5.375% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series G, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant’s Form 8-K dated April 30, 2020, and incorporated herein by reference.
3.22	Certificate of Designations of 4.000% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series H, of The Charles Schwab Corporation, filed as Exhibit 3.1 to the Registrant’s Form 8-K dated December 8, 2020, and incorporated herein by reference.
4.2	Deposit Agreement, dated August 3, 2015, between the Company and Wells Fargo Bank, N.A., as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant’s Form 8-K dated August 3, 2015 and incorporated herein by reference.
4.3	Deposit Agreement, dated March 7, 2016, between the Company and Wells Fargo Bank, N.A., as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant’s Form 8-K dated March 7, 2016, and incorporated herein by reference.
4.4	Deposit Agreement, dated October 31, 2016, between the Company and Wells Fargo Bank, N.A., as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant’s Form 8-K dated October 31, 2016, and incorporated herein by reference.

Exhibit Number	Exhibit	
4.5	Deposit Agreement, dated October 31, 2017, between the Company and Wells Fargo Bank, N.A., as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant’s Form 8-K dated October 31, 2017, and incorporated herein by reference.	
4.6	Deposit Agreement, dated April 30, 2020, between the Company and Equiniti Trust Company, as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant’s Form 8-K dated April 30, 2020, and incorporated herein by reference.	
4.7	Deposit Agreement, dated December 11, 2020, between the Company and Equiniti Trust Company, as Depositary (including the form of Depositary Share Receipt attached as Exhibit A thereto), filed as Exhibit 4.1 to the Registrant’s Form 8-K dated December 8, 2020, and incorporated herein by reference.	
4.8	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.	
4.9	Neither the Registrant nor its subsidiaries are parties to any instrument with respect to long-term debt for which securities authorized thereunder exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. Copies of instruments with respect to long-term debt of lesser amounts will be provided to the SEC upon request.	
10.4	Form of Release Agreement dated as of March 31, 1987 among BAC, Registrant, Schwab Holdings, Inc., Charles Schwab & Co., Inc., and former shareholders of Schwab Holdings, Inc., filed as the identically-numbered exhibit to Registrant’s Registration Statement No. 33-16192 on Form S-1 and incorporated herein by reference.	
10.57	Registration Rights and Stock Restriction Agreement, dated as of March 31, 1987, between the Registrant and the holders of the Common Stock, filed as Exhibit 4.23 to Registrant’s Registration Statement No. 33-16192 on Form S-1 and incorporated herein by reference.	
10.72	Restatement of Assignment and License, as amended January 25, 1988, among Charles Schwab & Co., Inc., Charles R. Schwab and the Registrant, filed as Exhibit 10.72 to the Registrant’s Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.	
10.271	The Charles Schwab Corporation Directors’ Deferred Compensation Plan, as amended through December 8, 2004, filed as Exhibit 10.271 to the Registrant’s Form 10-K for the year ended December 31, 2014, and incorporated herein by reference.	(2)
10.272	The Charles Schwab Corporation Deferred Compensation Plan, as amended through December 8, 2004, filed as Exhibit 10.272 to the Registrant’s Form 10-K for the year ended December 31, 2014, and incorporated herein by reference.	(2)
10.314	Employment Agreement dated as of March 13, 2008, between the Registrant and Charles R. Schwab, filed as Exhibit 10.314 to the Registrant's Form 10-K for the year ended December 31, 2018, and incorporated herein by reference.	(2)
10.338	The Charles Schwab Corporation 2004 Stock Incentive Plan, as approved at the Annual Meeting of Stockholders on May 17, 2011, filed as Exhibit 10.338 to the Registrant’s Form 10-Q for the quarter ended June 30, 2016, and incorporated herein by reference.	(2)
10.349	The Charles Schwab Severance Pay Plan, as Amended and Restated Effective May 1, 2012, filed as Exhibit 10.349 to the Registrant’s Form 10-Q for the quarter ended June 30, 2017, and incorporated herein by reference.	(2)
10.362	The Charles Schwab Corporation Directors’ Deferred Compensation Plan II, as amended and restated as of April 24, 2013, filed as Exhibit 10.362 to the Registrant's Form 10-K for the year ended December 31, 2018, and incorporated herein by reference.	(2)
10.385	The Charles Schwab Corporation Deferred Compensation Plan II, as amended and restated as of December 13, 2017, filed as Exhibit 10.385 to the Registrant’s Form 10-K for the year ended December 31, 2017, and incorporated herein by reference.	(2)
10.389	The Charles Schwab Corporation Corporate Executive Bonus Plan, restated to include amendments approved at the Annual Meeting of Stockholders on May 13, 2015, as amended and restated as of December 13, 2017, filed as Exhibit 10.389 to the Registrant’s Form 10-K for the year ended December 31, 2017 and incorporated herein by reference.	(2)
10.391	2013 Stock Incentive Plan, as amended and restated, filed as Exhibit 10.391 to the Registrant’s Form 8-K dated May 15, 2018, and incorporated herein by reference.	(2)

Exhibit Number	Exhibit	
10.395	Credit Agreement (364 – Day Commitment) dated as of May 31, 2019, between the Registrant and financial institutions therein, filed as Exhibit 10.395 to the Registrant's Form 10-Q for the quarter ended June 30, 2019, and incorporated herein by reference.	
10.397	Form of Notice and Retainer Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.397 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.	(2)
10.398	Form of Notice and Retainer Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.398 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.	(2)
10.399	Form of Notice and Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.399 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.	(2)
10.401	Form of Notice and Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans, filed as Exhibit 10.401 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.	(2)
10.402	Form of Notice and Nonqualified Stock Option Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.402 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.	(2)
10.403	Form of Notice and Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.403 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.	(2)
10.404	Form of Notice and Restricted Stock Unit Agreement (no accelerating vesting for retirement) under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.404 to the Registrant's Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference.	(2)
10.405	Stockholder Agreement, dated as of November 24, 2019, by and between the Registrant and the Toronto-Dominion Bank, filed as Exhibit 10.1 to the Registrant's Form 8-K dated November 24, 2019, and incorporated herein by reference.	
10.406	Registration Rights Agreement by and among the Registrant, Charles R. Schwab, The Toronto-Dominion Bank, and certain other stockholders, filed as Exhibit 10.5 to the Registrant's Form 8-K dated November 24, 2019, and incorporated herein by reference.	
10.407	Amended and Restated Insured Deposit Account Agreement by and among TD Bank USA, National Association, TD Bank, National Association, and the Registrant, filed as Exhibit 10.6 to the Registrant's Form 8-K dated November 24, 2019, and incorporated herein by reference.**	
10.407(i)	Consent, Agreement and Joinder to the Amended and Restated IDA Agreement, dated as of October 6, 2020, by and among Charles Schwab & Co., Inc., TD Ameritrade, Inc., TD Ameritrade Clearing, Inc. and TD Ameritrade Trust Company, filed as Exhibit 10.1 to TD Ameritrade Holding Corporation's Form 8-K dated October 6, 2020, and incorporated herein by reference.	
10.408	Form of Notice and Performance-Based Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans, filed as Exhibit 10.408 to the Registrant's Form 10-K for the year ended December 31, 2019, and incorporated herein by reference.	(2)
10.409	Summary of Non-Employee Director Compensation, filed as Exhibit 10.409 to the Registrant's Form 10-K for the year ended December 31, 2019, and incorporated herein by reference.	(2)
10.410	2013 Stock Incentive Plan, as amended and restated (supersedes Exhibit 10.391), filed as Exhibit 10.410 to the Registrant's Form 8-K dated May 12, 2020, and incorporated herein by reference.	(2)
10.411	Credit Agreement (364 – Day Commitment) dated as of May 29, 2020, between the Registrant and financial institutions therein (supersedes Exhibit 10.395), filed as Exhibit 10.411 to the Registrant's Form 10-Q for the quarter ended June 30, 2020, and incorporated herein by reference.	

Exhibit Number	Exhibit	
10.412	Form of Notice and Retainer Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans (supersedes Exhibit 10.397), filed as Exhibit 10.412 to the Registrant's Form 10-Q for the quarter ended September, 30, 2020, and incorporated herein by reference.	(2)
10.413	Form of Notice and Retainer Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans (supersedes Exhibit 10.398), filed as Exhibit 10.413 to the Registrant's Form 10-Q for the quarter ended September, 30, 2020, and incorporated herein by reference.	(2)
10.414	Form of Notice and Stock Option Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans (supersedes Exhibit 10.399), filed as Exhibit 10.414 to the Registrant's Form 10-Q for the quarter ended September, 30, 2020, and incorporated herein by reference.	(2)
10.415	Form of Notice and Restricted Stock Unit Agreement for Non-Employee Directors under The Charles Schwab Corporation Directors' Deferred Compensation Plan II and successor plans (supersedes Exhibit 10.401), filed as Exhibit 10.415 to the Registrant's Form 10-Q for the quarter ended September, 30, 2020, and incorporated herein by reference.	(2)
10.416	Credit Agreement, dated April 21, 2017, among TD Ameritrade Holding Corporation, the lenders party thereto, U.S. Bank National Association, as syndication agent, Barclays Bank PLC, TD Securities (USA) LLC and Wells Fargo Securities, LLC, as co-documentation agents and JPMorgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.1 to TD Ameritrade Holding Corporation's Form 8-K dated April 21, 2017, and incorporated herein by reference.	
10.417	First Amendment, dated as of August 3, 2020, to Credit Agreement dated April 21, 2017, among TD Ameritrade Holding Corporation, the lenders party thereto and JP Morgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.1 to TD Ameritrade Holding Corporation's Form 8-K dated August 3, 2020, and incorporated herein by reference.	
10.418	Credit Agreement, dated April 21, 2017, among TD Ameritrade Clearing, Inc., the lenders party thereto, U.S. Bank National Association, as syndication agent, Barclays Bank PLC, TD Securities (USA) LLC and Wells Fargo Securities, LLC, as co-documentation agents and JPMorgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.2 to TD Ameritrade Holding Corporation's Form 8-K dated April 21, 2017, and incorporated herein by reference.	
10.419	First Amendment, dated May 17, 2018, to Credit Agreement, dated April 21, 2017, among TD Ameritrade Clearing, Inc., the lenders party thereto, U.S. Bank National Association, as syndication agent, Barclays Bank PLC, TD Securities (USA) LLC, Wells Fargo Securities, LLC, and Industrial and Commercial Bank of China Ltd., New York Branch, as co-documentation agents and JPMorgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.2 to TD Ameritrade Holding Corporation's Form 8-K dated May 17, 2018, and incorporated herein by reference.	
10.420	Second Amendment, dated as of August 3, 2020, to Credit Agreement dated April 21, 2017, among TD Ameritrade Clearing, Inc., the lenders party thereto and JP Morgan Chase Bank, N.A., as administrative agent, filed as Exhibit 10.2 to TD Ameritrade Holding Corporation's Form 8-K dated August 3, 2020, and incorporated herein by reference.	
10.421	Credit Agreement, dated May 16, 2019, among TD Ameritrade Clearing, Inc., the lenders parties thereto, Wells Fargo Securities, LLC, Barclays Bank PLC, Citibank, N.A., JPMorgan Chase Bank, N.A., U.S. Bank National Association, TD Securities (USA) LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley Senior Funding, Inc., as joint bookrunners and joint lead arrangers, and Wells Fargo Bank, National Association, as administrative agent, filed as Exhibit 10.1 to TD Ameritrade Holding Corporation's Form 8-K dated May 15, 2019, and incorporated herein by reference.	
10.422	First Amendment, dated as of April 21, 2020, to Credit Agreement dated May 16, 2019, among TD Ameritrade Clearing, Inc., the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent, filed as Exhibit 10.1 to TD Ameritrade Holding Corporation's Form 8-K dated April 21, 2020, and incorporated herein by reference.	
10.423	The Charles Schwab Corporation Deferred Compensation Plan II, as amended and restated as of December 8, 2020 (supersedes Exhibit 10.385).	(2)
21.1	Subsidiaries of the Registrant.	
23.1	Independent Registered Public Accounting Firm's Consent.	

Exhibit Number	Exhibit	
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	(1)
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	(1)
101.INS	Inline XBRL Instance Document	(3)
101.SCH	Inline XBRL Taxonomy Extension Schema	(3)
101.CAL	Inline XBRL Taxonomy Extension Calculation	(3)
101.DEF	Inline XBRL Extension Definition	(3)
101.LAB	Inline XBRL Taxonomy Extension Label	(3)
101.PRE	Inline XBRL Taxonomy Extension Presentation	(3)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	
(1)	*Furnished as an exhibit to this annual report on Form 10-K.*	
(2)	*Management contract or compensatory plan.*	
(3)	*Attached as Exhibit 101 to this Annual Report on Form 10-K for the annual period ended December 31, 2020, are the following materials formatted in XBRL (Extensible Business Reporting Language) (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity, and (vi) Notes to Consolidated Financial Statements.*	

* The schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Schwab agrees to furnish supplementally a copy of such schedules and exhibits, or any section thereof, to the SEC upon request.

** Certain confidential information contained in this agreement has been omitted because it is not material and would be competitively harmful if publicly disclosed.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on February 24, 2021.

THE CHARLES SCHWAB CORPORATION
(Registrant)

BY: /s/ Walter W. Bettinger II
Walter W. Bettinger II
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on February 24, 2021.

Signature / Title	**Signature / Title**
/s/ Walter W. Bettinger II Walter W. Bettinger II, President and Chief Executive Officer and Director	/s/ Peter Crawford Peter Crawford, Executive Vice President and Chief Financial Officer (principal financial and accounting officer)
/s/ Charles R. Schwab Charles R. Schwab, Chairman of the Board	/s/ John K. Adams, Jr. John K. Adams, Jr., Director
/s/ Marianne C. Brown Marianne C. Brown, Director	/s/ Joan T. Dea Joan T. Dea, Director
/s/ Christopher V. Dodds Christopher V. Dodds, Director	/s/ Stephen A. Ellis Stephen A. Ellis, Director
/s/ Mark A. Goldfarb Mark A. Goldfarb, Director	/s/ William S. Haraf William S. Haraf, Director
/s/ Frank C. Herringer Frank C. Herringer, Director	/s/ Brian M. Levitt Brian M. Levitt, Director
/s/ Gerri K. Martin-Flickinger Gerri K. Martin-Flickinger, Director	/s/ Bharat B. Masrani Bharat B. Masrani, Director
/s/ Todd M. Ricketts Todd M. Ricketts, Director	/s/ Charles A. Ruffel Charles A. Ruffel, Director
/s/ Arun Sarin Arun Sarin, Director	/s/ Paula A. Sneed Paula A. Sneed, Director

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

The following table outlines the information required by the SEC's Industry Guide 3, "Statistical Disclosure by Bank Holding Companies," which is presented at the consolidated holding company level.

(Dollars in Millions)

The following supplemental financial data is consistent with the Securities Exchange Act of 1934, Industry Guide 3 – Statistical Disclosure by Bank Holding Companies (Guide 3). Other information required by Guide 3 is presented throughout this Annual Report on Form 10-K.

1. Three-year Net Interest Revenue and Average Balances

For the Year Ended December 31,	2020			2019			2018		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:									
Cash and cash equivalents	$ 39,052	$ 120	0.30%	$ 23,512	$ 518	2.17%	$ 17,783	$ 348	1.93%
Cash and investments segregated	34,100	141	0.41%	15,694	345	2.17%	11,461	206	1.78%
Receivables from brokerage clients	28,058	848	2.97%	19,270	821	4.20%	19,870	830	4.12%
Available for sale securities (1) (2)	253,555	4,537	1.78%	58,181	1,560	2.67%	54,542	1,241	2.26%
Held to maturity securities (2)	—	—	—	134,708	3,591	2.65%	131,794	3,348	2.53%
Bank loans (3)	20,932	545	2.60%	16,832	584	3.47%	16,554	559	3.37%
Total interest-earning assets	375,697	6,191	1.64%	268,197	7,419	2.75%	252,004	6,532	2.57%
Securities lending revenue (4)		334			147			118	
Other interest revenue (4)		6			14			30	
Total interest-earning assets (5)	375,697	6,531	1.73%	268,197	7,580	2.80%	252,004	6,680	2.63%
Non-interest-earning assets (5,6,7)	38,608			11,559			11,984		
Total assets	$ 414,305			$279,756			$263,988		
Liabilities and Stockholders' Equity:									
Bank deposits	$ 291,206	$ 93	0.03%	$212,605	$ 700	0.33%	$199,139	$ 545	0.27%
Payables to brokerage clients	46,347	12	0.02%	24,353	79	0.33%	21,178	56	0.27%
Short-term borrowings (8)	89	—	0.20%	17	—	2.36%	3,359	54	1.59%
Long-term debt	8,992	289	3.22%	7,199	258	3.58%	5,423	190	3.50%
Total interest-bearing liabilities	346,634	394	0.11%	244,174	1,037	0.42%	229,099	845	0.37%
Securities lending expense (4)		33			38			18	
Other interest expense (4)		(9)			(11)			(6)	
Non-interest-bearing liabilities (6,9)	32,486			14,170			14,883		
Total liabilities (10)	379,120	418	0.11%	258,344	1,064	0.39%	243,982	857	0.34%
Stockholders' equity (6)	35,185			21,412			20,006		
Total liabilities and stockholders' equity	$ 414,305			$279,756			$263,988		
Net interest revenue		$ 6,113			$ 6,516			$ 5,823	
Net yield on interest-earning assets			1.62%			2.41%			2.29%

(1) Amounts calculated based on amortized cost.
(2) On January 1, 2020, the Company transferred all of its investment securities designated as HTM to the AFS category, as described in Item 8 – Note 6.
(3) Includes average principal balances of nonaccrual loans.
(4) Beginning in the fourth quarter of 2020, securities lending revenue has been reclassified from broker-related receivables and other revenue. Securities lending expense has been reclassified from other expense. Prior period amounts have been reclassified to reflect this change.
(5) Beginning in the fourth quarter of 2020, broker-related receivables were removed from total interest earning assets, resulting in an immaterial reduction to total interest earning assets. Prior period amounts have been reclassified to reflect this change.
(6) Average balance calculation based on month end balances.
(7) Non-interest-earning assets include equipment, office facilities, and property – net, goodwill, acquired intangible assets – net, and other assets that do not generate interest income.
(8) Interest revenue or expense was less than $500 thousand in the period or periods presented.
(9) Non-interest-bearing liabilities consist of other liabilities that do not generate interest expense.
(10) Average rate calculation based on total funding sources.

(Dollars in Millions)

2. Analysis of Change in Net Interest Revenue

An analysis of the year-to-year changes in the categories of interest revenue and interest expense resulting from changes in volume and rate is as follows:

	2020 Compared to 2019 Increase (Decrease) Due to Change in:			2019 Compared to 2018 Increase (Decrease) Due to Change in:		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest-earning assets:						
Cash and cash equivalents [1]	$ 337	$ (735)	$ (398)	$ 111	$ 59	$ 170
Cash and investments segregated	399	(603)	(204)	75	64	139
Receivables from brokerage clients	369	(342)	27	(25)	16	(9)
Available for sale securities [2,3]	5,237	(2,260)	2,977	82	237	319
Held to maturity securities [3]	(3,591)	—	(3,591)	74	169	243
Bank loans [4]	142	(181)	(39)	9	16	25
Securities lending revenue [5]	—	187	187	—	29	29
Other interest revenue [5]	—	(8)	(8)	—	(16)	(16)
Total interest-earning assets [6]	$ 2,893	$ (3,942)	$ (1,049)	$ 326	$ 574	$ 900
Interest-bearing sources of funds:						
Bank deposits	$ 259	$ (866)	$ (607)	$ 36	$ 119	$ 155
Payables to brokerage clients	73	(140)	(67)	9	14	23
Short-term borrowings	2	(2)	—	(53)	(1)	(54)
Long-term debt	64	(33)	31	62	6	68
Securities lending expense [5]	—	(5)	(5)	—	20	20
Other interest expense [5]	—	2	2	—	(5)	(5)
Total sources on which interest is paid [6]	398	(1,044)	(646)	54	153	207
Change in net interest revenue	$ 2,495	$ (2,898)	$ (403)	$ 272	$ 421	$ 693

Changes that are not due solely to volume or rate have been allocated to rate.
[1] Includes deposits with banks and short-term investments.
[2] Amounts have been calculated based on amortized cost.
[3] On January 1, 2020, the Company transferred all of its investment securities designated as HTM to the AFS category, as described in Item 8 – Note 6.
[4] Includes average principal balances of nonaccrual loans.
[5] Beginning in the fourth quarter of 2020, securities lending revenue has been reclassified from broker-related receivables and other revenue. Securities lending expense has been reclassified from other expense. Prior period amounts have been reclassified to reflect this change.
[6] Beginning in the fourth quarter of 2020, broker-related receivables were removed from total interest earning assets and netted against non-interest bearing funding sources, resulting in an immaterial reduction to total interest-earning assets and total funding sources. Prior period amounts have been reclassified to reflect this change.

(Dollars in Millions)

3. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of the Company's investment securities for 2018 are as follows:

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities				
U.S. agency mortgage-backed securities	$ 25,594	$ 44	$ 82	$ 25,556
U.S. Treasury securities	18,410	—	108	18,302
Asset-backed securities	10,086	14	15	10,085
Corporate debt securities	7,477	10	20	7,467
Certificates of deposit	3,682	4	1	3,685
U.S. agency notes	900	—	2	898
Commercial paper	522	—	—	522
Foreign government agency securities	50	—	1	49
Non-agency commercial mortgage-backed securities	14	—	—	14
Total available for sale securities	$ 66,735	$ 72	$ 229	$ 66,578
Held to maturity securities				
U.S. agency mortgage-backed securities	$ 118,064	$ 217	$ 2,188	$ 116,093
Asset-backed securities	18,502	83	39	18,546
Corporate debt securities	4,477	2	47	4,432
U.S. state and municipal securities	1,327	24	3	1,348
Non-agency commercial mortgage-backed securities	1,156	3	17	1,142
U.S. Treasury securities	223	—	6	217
Certificates of deposit	200	1	—	201
Foreign government agency securities	50	—	1	49
Other	10	—	—	10
Total held to maturity securities	$ 144,009	$ 330	$ 2,301	$ 142,038

For additional information on 2020 and 2019 investment securities, see Item 8 – Note 6.

As of December 31, 2020, with exception of holdings of securities issued by the U.S. Government and U.S. Government agencies and corporations, the Company held no investment securities from single issuers with aggregate book values in excess of ten percent of stockholders' equity.

(Dollars in Millions)

4. Cross-border Holdings

The below information describes Schwab's cross-border holdings, based on fair value, as of December 31, 2020, 2019, and 2018. Such holdings, by country, that exceed 0.75% of total assets are disclosed separately.

December 31, 2020	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets
Country:				
France	$ 6,716	$ —	$ 6,716	1.2%

December 31, 2019	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets
Country:				
France	$ 3,103	$ —	$ 3,103	1.1%

December 31, 2018	Banks and other financial institutions	Commercial and industrial institutions	Total	Exposure as a % of total assets
Country:				
France	$ 2,793	$ —	$ 2,793	0.9%

5. Bank Loans and Related Allowance for Credit Losses

The composition of the loan portfolio is as follows:

December 31,	2020	2019	2018	2017	2016
Residential real estate:					
First Mortgages	$ 14,904	$ 11,704	$ 10,384	$ 10,016	$ 9,134
HELOCs	842	1,117	1,505	1,943	2,350
Total residential real estate	15,746	12,821	11,889	11,959	11,484
Pledged asset lines	7,916	5,206	4,561	4,369	3,851
Other	181	203	180	176	94
Total bank loans	$ 23,843	$ 18,230	$ 16,630	$ 16,504	$ 15,429

An analysis of nonaccrual loans is as follows:

December 31,	2020	2019	2018	2017	2016
Nonaccrual loans	$ 89	$ 22	$ 21	$ 28	$ 26
Average nonaccrual loans	$ 35	$ 21	$ 25	$ 27	$ 27

There were no loans accruing interest that were contractually 90 days or more past due as of any period presented.

Changes in the allowance for credit losses on bank loans were as follows:

December 31,	2020	2019	2018	2017	2016
Balance at beginning of year	$ 18	$ 21	$ 26	$ 26	$ 31
Adoption of ASU 2016-13 (1)	1	—	—	—	—
Charge-offs	—	—	(1)	(3)	(2)
Recoveries	1	2	2	3	2
Provision for credit losses	10	(5)	(6)	—	(5)
Balance at end of year	$ 30	$ 18	$ 21	$ 26	$ 26

(1) See Item 8 – Note 2 for discussion of the adoption of ASU 2016-13.

(Dollars in Millions)

The maturities of the loan portfolio are as follows:

December 31, 2020	Within 1 year	After 1 year through 5 years	After 5 years	Total
Residential real estate:				
First Mortgages [1]	$ —	$ 1	$ 14,903	$ 14,904
HELOCs [2]	410	183	249	842
Total residential real estate	410	184	15,152	15,746
Pledged asset lines	5,811	2,105	—	7,916
Other	5	173	3	181
Total	$ 6,226	$ 2,462	$ 15,155	$ 23,843

[1] Maturities are based upon the contractual terms of the loans.
[2] Maturities are based on an initial draw period of ten years.

The interest sensitivity of loans with contractual maturities in excess of one year is as follows:

December 31, 2020	After 1 year
Loans with floating or adjustable interest rates	$ 15,465
Loans with predetermined interest rates	2,152
Total	$ 17,617

6. Summary of Credit Loss on Banking Loans Experience

December 31,	2020	2019	2018	2017	2016
Average loans	$ 20,932	$ 16,832	$ 16,554	$ 15,919	$ 14,715
Allowance to year end loans	.13%	.10%	.13%	.16%	.17%
Allowance to nonperforming loans	34%	82%	100%	93%	101%
Nonperforming assets to average loans and real estate owned	.43%	.14%	.14%	.20%	.21%

7. Bank Deposits

The following table presents the average amount of and the average rate paid on deposit categories that are in excess of ten percent of average total deposits from banking clients:

December 31,	2020		2019		2018	
	Amount	Rate	Amount	Rate	Amount	Rate
Analysis of average daily deposits:						
Money market and other savings deposits	$ 271,534	0.03%	$ 197,788	0.33%	$ 184,039	0.28%

At December 31, 2020, there were no certificates of deposit of $100,000 or more included in bank deposits.

(Dollars in Millions)

8. Ratios

December 31,	2020	2019	2018
Return on average total stockholders' equity	9.38%	17.30%	17.53%
Return on average total assets	0.80%	1.32%	1.33%
Average total stockholders' equity as a percentage of average total assets	8.49%	7.65%	7.58%
Dividend payout ratio [1]	33.96%	25.47%	18.78%

Note: Average balance calculations based on month end balances.
[1] Dividends declared per common share divided by diluted EPS.

EXHIBIT 21.1

Subsidiaries of the Registrant

Pursuant to Item 601 (b)(21)(ii) of Regulation S-K, certain subsidiaries of the Registrant have been omitted which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary (as defined in Rule 1-02(w) of Regulation S-X) as of December 31, 2020.

Charles Schwab & Co., Inc., a California corporation

Charles Schwab Bank, SSB, at Texas-chartered state savings bank

Charles Schwab Investment Advisory, Inc., a Delaware corporation

Charles Schwab Investment Management, Inc., a Delaware corporation

Charles Schwab Premier Bank, SSB, a Texas-chartered state savings bank

Charles Schwab Trust Bank, a Nevada-chartered state savings bank

Schwab Holdings, Inc., a Delaware corporation

Schwab Private Client Investment Advisory, Inc., a Delaware corporation

Schwab Retirement Plan Services, Inc., an Ohio corporation

TD Ameritrade Clearing, Inc., a Nebraska corporation

TD Ameritrade Futures & Forex, LLC, a Delaware limited liability company

TD Ameritrade Holding Corporation, a Delaware corporation

TD Ameritrade, Inc., a New York corporation (1)

TD Ameritrade Investment Management, LLC, a Delaware limited liability company

TD Ameritrade Online Holdings Corp., a Delaware corporation

TradeWise Advisors, Inc., a Delaware corporation

(1) In Illinois, this entity does business as thinkorswim® and thinkorswim® Powered by TD Ameritrade.

THE CHARLES SCHWAB CORPORATION

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our report dated February 24, 2021, relating to the consolidated financial statements of The Charles Schwab Corporation, and the effectiveness of The Charles Schwab Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of The Charles Schwab Corporation for the year ended December 31, 2020:

Filed on Form S-3:

Registration Statement No. 333-251156	(Debt Securities, Preferred Stock, Depositary Shares, Common Stock, Purchase Contracts, Warrants, and Units Consisting of Two or More Securities)

Filed on Form S-8:

Registration Statement No. 333-237064	(TD Ameritrade Holding Corporation Long-Term Incentive Plan)
Registration Statement No. 333-205862	(The Charles Schwab Corporation 2013 Stock Incentive Plan)
Registration Statement No. 333-192893	(The Charles Schwab Corporation Financial Consultant Career Achievement Award Program)
Registration Statement No. 333-189553	(The Charles Schwab Corporation 2013 Stock Incentive Plan)
Registration Statement No. 333-175862	(The Charles Schwab Corporation 2004 Stock Incentive Plan)
Registration Statement No. 333-144303	(The Charles Schwab Corporation Employee Stock Purchase Plan)
Registration Statement No. 333-131502	(The Charles Schwab Corporation Deferred Compensation Plan II)
Registration Statement No. 333-101992	(The Charles Schwab Corporation 2004 Stock Incentive Plan)
Registration Statement No. 333-71322	(The SchwabPlan Retirement Savings and Investment Plan)
Registration Statement No. 333-63448	(The Charles Schwab Corporation 2004 Stock Incentive Plan)
Registration Statement No. 333-47107	(The Charles Schwab Corporation 2004 Stock Incentive Plan)
Registration Statement No. 333-44793	(The Charles Schwab Profit Sharing and Employee Stock Ownership Plan)

/s/ Deloitte & Touche LLP
San Francisco, California
February 24, 2021

THE CHARLES SCHWAB CORPORATION

EXHIBIT 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

I, Walter W. Bettinger II, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Charles Schwab Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2021

/s/ Walter W. Bettinger II

Walter W. Bettinger II
President and Chief Executive Officer

THE CHARLES SCHWAB CORPORATION

EXHIBIT 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

I, Peter Crawford, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Charles Schwab Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2021

/s/ Peter Crawford

Peter Crawford

Executive Vice President and Chief Financial Officer

THE CHARLES SCHWAB CORPORATION

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of The Charles Schwab Corporation (the Company) on Form 10-K for the year ended December 31, 2020 (the Report), I, Walter W. Bettinger II, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

/s/ Walter W. Bettinger II
Walter W. Bettinger II
President and Chief Executive Officer

Date: February 24, 2021

A signed original of this written statement required by Section 906 has been provided to The Charles Schwab Corporation and will be retained by The Charles Schwab Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

THE CHARLES SCHWAB CORPORATION

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of The Charles Schwab Corporation (the Company) on Form 10-K for the year ended December 31, 2020 (the Report), I, Peter Crawford, Executive Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

/s/ Peter Crawford

Peter Crawford
Executive Vice President and Chief Financial Officer

Date: February 24, 2021

A signed original of this written statement required by Section 906 has been provided to The Charles Schwab Corporation and will be retained by The Charles Schwab Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 4.8

THE CHARLES SCHWAB CORPORATION
DESCRIPTION OF SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of December 31, 2020, The Charles Schwab Corporation ("CSC, we, us, and our") had three classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: (1) our common stock, (2) our Depositary Shares, Each Representing a $1/40^{th}$ Interest in a Share of 6.00% Non-Cumulative Perpetual Preferred Stock, Series C, and (3) our Depositary Shares, Each Representing a $1/40^{th}$ Interest in a Share of 5.95% Non-Cumulative Perpetual Preferred Stock, Series D.

DESCRIPTION OF COMMON STOCK

The following description of our common stock does not purport to be complete and is qualified by our Fifth Restated Certificate of Incorporation, as amended, ("Certificate of Incorporation") and Fourth Restated Bylaws, as amended, ("Bylaws") which are filed as exhibits to the Annual Report on Form 10-K of which this exhibit is a part. Additionally, the General Corporation Law of Delaware ("Delaware Law"), as amended, may also affect the terms of our common stock.

General

We have 3,000,000,000 shares of authorized common stock, $0.01 par value per share. Holders of our common stock, together with the holders of our nonvoting common stock, are entitled to receive dividends when, as and if declared by our board of directors out of any funds legally available for dividends. Holders of our common stock and holders of our nonvoting common stock are also entitled to share equally, upon our liquidation, and after claims of creditors and any class or series of preferred stock outstanding at the time of liquidation, to receive a *pro rata* distribution of our net assets. We pay dividends on our common stock and nonvoting common stock only if we have paid or provided for all dividends on any outstanding series of preferred stock, for the then current period and, in the case of any cumulative preferred stock, all prior periods. Our nonvoting common stock has the same rights and privileges as, ranks equally and shares proportionately with, and is identical in all respects as to all matters to, the common stock, except that the nonvoting common stock has no voting rights other than those voting rights required by law.

Our preferred stock will have preference over our common stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation or dissolution. Our preferred stock also will also have such other preferences as may be fixed by our board of directors.

Holders of our common stock are entitled to one vote for each share that they hold and are vested with all of the voting power of our capital stock, except as our board of directors has provided, or may provide in the future, with respect to our preferred stock. Our Certificate of Incorporation provides for a classified board but does not provide for cumulative voting. Shares of our common stock are not redeemable, and have no subscription, conversion or preemptive rights.

Our common stock is listed on the New York Stock Exchange. Outstanding shares of our common stock are fully paid and non-assessable.

Restrictions on Ownership

The Home Owners' Loan Act ("HOLA") requires any "savings and loan holding company," as defined in HOLA, to obtain the approval of the Federal Reserve prior to the acquisition of more than 5% of our common stock. Any other company, other than a bank holding company, is required to obtain prior approval of the Federal Reserve to acquire 10% or more of our common stock under HOLA. Any person, other than a company, is required to provide notice to and obtain the prior non-objection of the Federal Reserve to acquire 10% or more of our common stock under the Change in Bank Control Act. Any company holding of 25% or more of our common stock, or a company holding 5% or more if the company otherwise exercises a presumed "controlling influence" over us, is subject to regulation as a savings and loan holding company under HOLA.

Business Combination Statute

Under Delaware law, a corporation is prohibited from engaging in any business combination with any interested stockholder, defined as the beneficial owner of 15% or more of the voting power of the corporation, for a period of three years following the date that such stockholder became an interested stockholder, unless:

- prior to that date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation; or

- on or subsequent to that date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

Under Delaware law, a corporation has the option to opt-out of the above business combination statute. Neither our Certificate of Incorporation nor our Bylaws excludes us from the restrictions imposed by this provision.

Supermajority Vote Requirement

Our Certificate of Incorporation requires the approval of a supermajority of our stockholders for some business combinations with interested stockholders. Our Certificate of Incorporation defines an interested stockholder as a person, partnership or group which directly or indirectly beneficially owns more than 15% of the voting power of our outstanding shares, or an affiliate or associate of a 15% owner. Notwithstanding any lesser percentage permitted by law, under our Certificate of Incorporation, 80% of the voting power of our stockholders, voting together as a single class, must approve any of the following business combinations:

- a merger of CSC or any of our subsidiaries with an interested stockholder or an affiliate or associate of an interested stockholder;

- any sale to an interested stockholder of assets of CSC or one of our subsidiaries, if those assets have a fair market value of $5,000,000 or more;

- any sale to CSC or any of our subsidiaries of assets of the interested stockholder, if those assets have a fair market value of $5,000,000 or more;

- the issuance or transfer by CSC or any of our subsidiaries of any of our securities or any securities of our subsidiaries to an interested stockholder, unless the fair market value of the property received has a fair market value of less than $5,000,000;

- any reclassification of our securities, our merger or consolidation with any of our subsidiaries, or any similar transaction which has the effect of increasing the proportionate amount of the outstanding shares of any class of equity securities of CSC or any of our subsidiaries which is directly or indirectly owned by any interested shareholder or its affiliate or associate; or

- the adoption of any plan or proposal for the liquidation or dissolution of CSC.

The supermajority vote requirement does not apply to business combinations approved by a majority of disinterested directors. A disinterested director is any member of our board who:

- is not an interested stockholder;

- is not an affiliate or a representative of an interested shareholder;

- is not a party to an agreement or arrangement with an interested stockholder to act in concert with that interested stockholder to direct our management or policies; and

- either was a member of our board before the interested stockholder became an interested stockholder or was nominated to succeed a disinterested director by a majority of the disinterested directors; provided that, this requirement does not apply if the business combination involves a party that was an interested stockholder of CSC on July 30, 1987.

The supermajority requirement does not apply to business combinations meeting fair price and procedural requirements set forth in our Certificate of Incorporation.

<u>DESCRIPTION OF PREFERRED STOCK AND DEPOSITARY SHARES</u>

The following description of the terms of our 6.00% Non-Cumulative Perpetual Preferred Stock, Series C ("Series C Preferred Stock") and our 5.95% Non-Cumulative Perpetual Preferred Stock, Series D ("Series D Preferred Stock" and, together with the Series C Preferred Stock, "Preferred Stock") does not purport to be complete and is qualified by our Certificates of Designations of the Series C Preferred Stock and Series D Preferred Stock, which are filed as exhibits to the Annual Report on Form 10-K of which this exhibit is a part.

The depositary is the sole holder of the Preferred Stock, as described under "Description of Depositary Shares" below, and all references in this description to the holders of the Preferred Stock shall mean the depositary. However, the holders of depositary shares are entitled, through the depositary, to exercise the rights and preferences of the holder of the Preferred Stock, as described under "Description of Depositary Shares."

Our authorized capital stock includes 9,940,000 shares of preferred stock, par value $0.01 per share as reflected in our certificate of incorporation. Our board of directors is authorized without further stockholder action:

- to fix or alter the voting rights, powers, preferences and privileges, and the relative, participating, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, of any wholly unissued series of preferred stock;

- to fix the number of shares constituting any such series and the designation thereof; and

- to increase or decrease the number of shares of any series of preferred stock (but not below the number of shares thereof then outstanding).

The Series C Preferred Stock and the Series D Preferred Stock are each single series of our authorized preferred stock and are fully paid and nonassessable.

The Preferred Stock is not convertible into, or exchangeable for, shares of any other class or series of stock or other securities of CSC. The Preferred Stock does not have any maturity date and is not subject to any sinking fund or other obligation of CSC to redeem or repurchase the Preferred Stock.

Shares of Preferred Stock that are redeemed, purchased or otherwise acquired by CSC shall be cancelled and shall revert to authorized but unissued shares of preferred stock undesignated as to series.

Additional Shares of Preferred Stock and Additional Depositary Shares

We may in the future from time to time, without notice to or consent of the holder of Preferred Stock or the holders of the depositary shares, issue additional shares of the Preferred Stock; *provided*, that any such additional shares of Preferred Stock are not treated as "disqualified preferred stock" within the meaning of Section 1059(f)(2) of the Internal Revenue Code and such additional shares are otherwise treated as fungible with the outstanding Preferred Stock for U.S. federal income tax purposes. In the event that we issue additional Preferred Stock, dividends on such additional shares may accrue from the date of initial issuance or any other date we specify at the time such additional shares are issued. In the event we issue additional shares of Preferred Stock, we will issue a corresponding number of additional depositary shares.

Ranking

Shares of the Preferred Stock rank:

- senior to our junior stock;
- equally with each other series of parity stock, including the Series A Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock, the Series G Preferred Stock, the Series H Preferred Stock, and any other series of Preferred Stock we may issue in the future; and
- junior to any series of stock we may issue in the future that ranks senior to the Preferred Stock in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of CSC, and to all of our existing and future debt obligations.

As used herein, "junior stock" means our common stock, nonvoting common stock and any other class or series of stock of CSC hereafter authorized over which the Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of CSC.

As used in this description, "parity stock" means any other class or series of stock of CSC that ranks on parity with the Preferred Stock in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of CSC.

Dividends

Dividends on the Preferred Stock are not cumulative. If our board of directors or a duly authorized committee of our board of directors does not declare a dividend on the Preferred Stock in respect of a dividend period, then no dividend shall be deemed to have accrued for such dividend period, be payable on the applicable dividend payment date, or be cumulative, and we will have no obligation to pay any dividend for that dividend period to the holder of Preferred Stock, including the holders of the depositary shares, and no related distribution will be made on the depositary shares, whether or not our board of directors or a duly authorized committee of our board of directors declares a dividend on the Preferred Stock for any future dividend period.

The holder of Preferred Stock will be entitled to receive, when, as, and if declared by our board of directors or a duly authorized committee of our board of directors, out of assets legally available for the payment of dividends under Delaware law, non-cumulative cash dividends based on the liquidation preference of the Preferred Stock which for the Series C Preferred Stock is at a rate equal to 6.00% per annum for each quarterly dividend period and for the Series D Preferred Stock is at a rate equal to 5.95% per annum for each quarterly dividend period.

If declared by our board of directors or a duly authorized committee of our board of directors, we will pay dividends on the Preferred Stock, in arrears, on March 1, June 1, September 1 and December 1 of each year, each such date referred to as a dividend payment date.

If any date on which dividends would otherwise be payable is not a business day, then the dividend payment date will be the next business day without any adjustment to the amount of dividends paid. A "business day" means any day other than (i) a Saturday or Sunday or (ii) a day on which banking institutions in San Francisco, California or New York, New York are authorized or obligated by law or executive order to close.

Dividends will be payable to holders of record of Preferred Stock as they appear on our stock register at 5:00 p.m., New York City time, on the applicable record date, which shall be the 15th calendar day before the applicable dividend payment date, or such other record date, not exceeding 30 days before the applicable dividend payment date, as shall be fixed by our board of directors or a duly authorized committee of our board of directors. See "Description of Depositary Shares – Dividends and Other Distributions."

A dividend period is the period from, and including, a dividend payment date to, but excluding, the next dividend payment date. Dividends payable on the Preferred Stock will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dollar amounts resulting from that calculation will be rounded to the nearest cent, with one-half cent being rounded upwards. Dividends on the Preferred Stock will cease to accrue on the redemption date, if any, as described below under "– Redemption," unless we default in the payment of the redemption price of the shares of the Preferred Stock called for redemption.

We generally will be able to pay dividends and distributions upon liquidation, dissolution or winding up only out of assets legally available for such payment (after satisfaction of all claims for indebtedness and other non-equity claims). See "Description of Depositary Shares – Dividends and Other Distributions" for information about dividends on the depositary shares representing the Preferred Stock.

Additionally, dividends on the Preferred Stock will be subject to our receipt of required prior approval by the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency), if any, and to the satisfaction of conditions set forth in the capital adequacy guidelines or regulations of the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency) applicable to dividends on the Preferred Stock, if any.

Dividend Stopper

During each dividend period while the Preferred Stock is outstanding, unless the full dividends for the immediately preceding dividend period on all outstanding shares of preferred stock have been declared and paid or declared and a sum sufficient for the payment thereof has been set aside:

- no dividend will be declared or paid or set aside for payment and no distribution will be declared or made or set aside for payment on any junior stock, other than:
    - a dividend payable solely in the junior stock, or
    - any dividend in connection with the implementation of a stockholders' rights plan, or the redemption or repurchase of any rights under any such plan; and

- no shares of junior stock shall be repurchased, redeemed or otherwise acquired for consideration by us, directly or indirectly (nor shall any monies be paid to or made available for a sinking fund for the redemption of any such securities by us) other than:

  - as a result of a reclassification of junior stock for or into other junior stock;

  - the exchange or conversion of one share of junior stock for or into another share of junior stock;

  - through the use of the proceeds of a substantially contemporaneous sale of other shares of junior stock;

  - purchases, redemptions or other acquisitions of shares of the junior stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or consultants;

  - purchases of shares of junior stock pursuant to a contractually binding requirement to buy junior stock existing prior to the preceding dividend period, including under a contractually binding stock repurchase plan; or

  - the purchase of fractional interests in shares of junior stock pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged; and

- no shares of parity stock shall be repurchased, redeemed or otherwise acquired for consideration by CSC otherwise than pursuant to pro rata offers to purchase all, or a pro rata portion, of the Preferred Stock and such parity stock, unless such parity stock is repurchased, redeemed or acquired for consideration by CSC in connection with any of the following:

  - as a result of a reclassification of parity stock for or into other parity stock or junior stock;

  - the exchange or conversion of one share of parity stock for or into another share of parity stock or junior stock; or

  - through the use of the proceeds of a substantially contemporaneous sale of other shares of parity stock or junior stock.

When dividends are not paid in full upon the shares of Preferred Stock and any parity stock, all dividends declared upon shares of Preferred Stock and any parity stock will be declared on a proportional basis so that the amount of dividends declared per share will bear to each other the same ratio that accrued dividends for the then-current dividend period per share on Preferred Stock, and accrued dividends, including any accumulations, on any parity stock, bear to each other.

Subject to the restrictions described above, dividends (payable in cash, stock or otherwise), as may be determined by our board of directors or a duly authorized committee of our board of directors, may be declared and paid on our common stock, nonvoting common stock, and any other stock ranking equally with or junior to the Preferred Stock from time to time out of any assets legally available for such payment, and the holder of Preferred Stock shall not be entitled to participate in any such dividend.

Redemption

The Preferred Stock is not subject to any mandatory redemption, sinking fund or other similar provisions. Neither the holder of Preferred Stock nor holders of depositary shares have the right to require the redemption or repurchase of the Preferred Stock.

Optional Redemption

We may redeem the Preferred Stock at our option, in whole or in part, from time to time, on any dividend payment date for the Series C Preferred Stock, and on any dividend payment date on or after June 1, 2021 for the Series D Preferred Stock, at a redemption price equal to $1,000 per share (equivalent to $25 per depositary share), plus any declared and unpaid dividends, without accumulation of any undeclared dividends.

Redemption Following a Regulatory Capital Treatment Event

We may redeem shares of the Preferred Stock at any time within 90 days following a regulatory capital treatment event (defined below), in whole but not part, at a redemption price equal to $1,000 per share (equivalent to $25 per depositary share), plus any declared and unpaid dividends, without accumulation of any undeclared dividends.

A "regulatory capital treatment event" means the good faith determination by CSC that, as a result of:

- any amendment to, or change in, the laws or regulations of the United States or any political subdivision of or in the United States that is enacted or becomes effective after the initial issuance of the Preferred Stock;
- any proposed change in those laws or regulations that is announced after the initial issuance of any share of Preferred Stock; or
- any official administrative decision or judicial decision or administrative action or other official pronouncement interpreting or applying those laws or regulations that is announced after the initial issuance of any share of Preferred Stock,

there is more than an insubstantial risk that CSC will not be entitled to treat the full liquidation preference of the shares of Preferred Stock then outstanding as "additional Tier 1 Capital" (or its equivalent) for purposes of the capital adequacy guidelines or regulations of the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency), as then in effect and applicable, for as long as any share of Preferred Stock is outstanding.

Redemption Procedures

If shares of the Preferred Stock are to be redeemed pursuant to the terms described above under "– Optional Redemption" or "– Redemption Following a Regulatory Capital Treatment Event," the notice of redemption shall be given by first class mail to the holder of record of the Preferred Stock to be redeemed, mailed not less than 30 days nor more than 60 days prior to the date fixed for redemption thereof (provided that, if the holder of record is DTC, notice may be given in any manner permitted by DTC). Each notice of redemption will include a statement setting forth:

- the redemption date;

- the number of shares of each series of Preferred Stock to be redeemed and, if less than all the shares held by the holder are to be redeemed, the number of shares of each series of Preferred Stock to be redeemed from the holder;

- the redemption price;

- the place or places where the certificates evidencing shares of Preferred Stock are to be surrendered for payment of the redemption price; and

- that dividends on the shares to be redeemed will cease to accrue on the redemption date.

If notice of redemption of any shares of Preferred Stock has been duly given and if the funds necessary for such redemption have been set aside by us for the benefit of the holders of any shares of a series of Preferred Stock so called for redemption, then, on and after the redemption date, dividends will cease to accrue on such shares of that series of Preferred Stock, such shares of that series of Preferred Stock shall no longer be deemed outstanding, and all rights of the holders of such shares will terminate, except the right to receive the redemption price, plus any declared and unpaid dividends, without accumulation of any undeclared dividends. See "Description of Depositary Shares — Redemption of Depositary Shares" for information about redemption of the depositary shares representing the Preferred Stock.

In case of any redemption of only part of the shares of a series of Preferred Stock at the time outstanding, the shares to be redeemed shall be selected either pro rata or by lot. Subject to the provisions hereof, our board of directors shall have full power and authority to prescribe the terms and conditions upon which shares of Preferred Stock shall be redeemed from time to time.

Any redemption of Preferred Stock will be subject to our receipt of required prior approval by the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency), if any, and to the satisfaction of conditions set forth in the capital adequacy guidelines or regulations of the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency) applicable to redemption of the Preferred Stock, if any.

Liquidation Rights

In the event we liquidate, dissolve or wind-up our business and affairs, either voluntarily or involuntarily, holders of the Preferred Stock are entitled to receive a liquidation distribution of $1,000 per share (equivalent to $25 per depositary share), plus any declared and unpaid dividends, without accumulation of any undeclared dividends, before we make any distribution of assets to the holders of our common stock, nonvoting common stock, or any other class or series of stock ranking junior to the Preferred Stock as to that distribution. The holder of the Preferred Stock will not be entitled to any other amounts from us after it has received its full liquidation distribution.

In any such distribution, if the assets of CSC are not sufficient to pay the liquidation distribution described above in full to the holder of the Preferred Stock and all holders of any class or series of stock ranking on parity with the Preferred Stock as to such distribution, the amounts paid to the holder of Preferred Stock and all holders of such parity stock will be paid pro rata in accordance with the respective aggregate liquidation distribution owed to those holders. If the liquidation distribution described above has been paid in full to the holder of Preferred Stock and the holders of such parity stock, the holders of any other class or series of stock ranking junior to the Preferred Stock as to such distribution shall be entitled to receive all remaining assets of CSC according to their respective rights and preferences.

For purposes of this section, the sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of CSC shall not be deemed a voluntary or involuntary dissolution, liquidation or winding up of the affairs of CSC, nor shall the merger, consolidation or any other business combination of any other corporation or person into or with CSC be deemed to be a voluntary or involuntary dissolution, liquidation or winding up of the affairs of CSC.

Because we are a holding company, our rights and the rights of our creditors and our stockholders, including the holder of the Preferred Stock, to participate in the assets of any of our subsidiaries upon that subsidiary's liquidation or recapitalization may be subject to the prior claims of that subsidiary's creditors, except to the extent that we are a creditor with recognized claims against that subsidiary.

Voting Rights

The holder of the Preferred Stock will have no voting rights, except as provided below or as required by law.

Right to Elect Two Directors upon Nonpayment

Whenever dividends payable on the shares of Preferred Stock have not been paid for six quarterly dividend periods, whether or not consecutive, then the holder of the Preferred Stock will have the right, with holders of any other equally ranked series of preferred stock that have similar voting rights and on which dividends likewise have not been paid (the "Voting Parity Securities"), voting together as a class, at a special meeting called at the request of the holders of at least 20% of the voting power of Preferred Stock and any Voting Parity Securities (unless such request for a special meeting is received less than 90 calendar days before the date fixed for the next annual or special meeting of our stockholders, in which event such election shall be held only at such next annual or special meeting of our stockholders) or at our next annual or special meeting of our stockholders, to elect two additional directors to our board of directors; *provided*, that the election of any such director does not cause us to violate the applicable corporate governance requirements of the exchange or trading market where our common stock is then listed or quoted, as the case may be. At any meeting held for the purpose of electing such directors, the presence in person or by proxy of the holders of shares representing at least a majority of the voting power of the Preferred Stock and any Voting Parity Securities, voting together as a class, shall be required to constitute a quorum of such shares. The affirmative vote of the holders of the Preferred Stock and the holders of any Voting Parity Securities, voting together as a class, representing a majority of the voting power of such shares present at such meeting, in person or by proxy, shall be sufficient to elect any such director.

Immediately prior to the election of any such directors, the number of directors that comprise our board of directors shall be increased by two. Such voting rights and the term of the additional directors so elected will continue until:

- continuous non-cumulative dividends for at least four consecutive quarterly dividend periods; and

- cumulative dividends, if any, payable for all past dividend periods,

shall have been paid, or declared and set aside for payment, in full, on all outstanding shares of Preferred Stock or the Voting Parity Securities entitled thereto. At that point, the right to elect additional directors terminates and the terms of office of the two additional directors so elected will terminate immediately, and the number of directors shall be reduced by two and such voting rights of the holders of the Preferred Stock and any Voting Parity Securities will cease, subject to any increase in the number of directors as described above due to the revesting of such voting rights in the event of each and every additional failure in the payment of dividends for six quarterly dividend periods, whether or not consecutive, as described above.

The holder of Preferred Stock, together with holders of any Voting Parity Securities, voting together as a class, may remove any director they elected. Any vacancy created by the removal of any such director may be filled only by the vote of the holders of the Preferred Stock and any Voting Parity Securities, voting together as a class. If the office of either such director becomes vacant for any reason other than removal, the remaining director may choose a successor who will hold office for the unexpired term of the vacant office. In the event that both offices are vacant, the holder of Preferred Stock and the holders of any Voting Parity Securities may, as set forth above, call a special meeting and elect such directors at such special meeting, or elect such directors at our next annual or special meeting of our stockholders.

The number of votes that each share of Preferred Stock and any stock ranking equally with the Preferred Stock participating in the votes described above will be in proportion to the liquidation preference of such share.

Under regulations adopted by the Federal Reserve, if the holders of any series of preferred stock are or become entitled to vote for the election of directors, such series will be deemed a "class of voting securities" and a company holding 25% or more of the series, or 10% or more if it otherwise exercises a "controlling influence" over us, may then be subject to regulation as a savings and loan holding company in accordance with the Home Owners' Loan Act of 1933, as amended. In addition, at the time the series is deemed a class of voting securities,

- any other savings and loan holding company may be required to obtain the approval of the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency) to acquire or retain more than 5% of that series; and

- any other persons other than a savings and loan holding company may be required to obtain the non-objection of the Federal Reserve (or any successor bank regulatory authority that may become our applicable federal banking agency) to acquire or retain 10% or more of that series.

Other Voting Rights

So long as any shares of a series of Preferred Stock remain outstanding, the affirmative vote or consent of the holders of at least two-thirds of all outstanding shares of the series of Preferred Stock voting separately as a class, shall be required to:

- amend, alter or repeal the provisions of CSC's certificate of incorporation (including the certificate of designation creating that series of Preferred Stock), or CSC's bylaws, whether by merger, consolidation or otherwise, so as to adversely affect the powers, preferences, privileges or special rights of the series of Preferred Stock; *provided*, that any of the following will not be deemed to adversely affect such powers, preferences, privileges or special rights:

  - increases in the amount of the authorized common stock, nonvoting common stock, or, except as provided below, preferred stock;

  - increases or decreases in the number of shares of any series of preferred stock ranking equally with or junior to the Preferred Stock; or

  - the authorization, creation and issuance of other classes or series of capital stock (or securities convertible or exchangeable into such capital stock) ranking equally with or junior to the Preferred Stock;

- amend or alter CSC's certificate of incorporation to authorize or increase the authorized amount of or issue shares of any class or series of senior stock, or reclassify any of our authorized capital stock into any such shares of senior stock or issue any obligation or security convertible into or evidencing the right to purchase any such shares of senior stock; or

- consummate a binding share exchange, a reclassification involving the series of Preferred Stock or a merger or consolidation of us with or into another entity; provided, however, that the holder of Preferred Stock will have no right to vote under this provision or otherwise under Delaware law if in each case:

  - the series of Preferred Stock remains outstanding or, in the case of any such merger or consolidation with respect to which we are not the surviving or resulting entity, is converted into or exchanged for preferred securities of the surviving or resulting entity (or its ultimate parent) that is an entity organized and existing under the laws of the United States, any state thereof or the District of Columbia; and

  - the series of Preferred Stock remaining outstanding or the new preferred securities, as the case may be, have such powers, preferences and special rights as are not materially less favorable to the holders thereof than the powers, preferences and special rights of the series of Preferred Stock.

As used above under "Description of Preferred Stock — Voting Rights", "senior stock" means any other class or series of stock of CSC ranking senior to the Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up of CSC. As of December 31, 2020, there was no existing senior stock.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of the series of Preferred Stock shall have been redeemed or called for redemption in accordance with the provisions described above upon proper notice and sufficient funds shall have been set aside by us for the benefit of the holder of the series of Preferred Stock to effect such redemption.

See “Description of Depositary Shares – Voting the Preferred Stock” for information about voting of the depositary shares representing the Preferred Stock.

DESCRIPTION OF DEPOSITARY SHARES

In this description, references to “holders” of depositary shares mean those who own depositary shares registered in their own names, on the books that we or the depositary maintain for this purpose, and not indirect holders who own beneficial interests in depositary shares registered in street name or issued in book-entry form through DTC.

We have issued fractional interests in shares of the Preferred Stock in the form of depositary shares. Each such depositary share represents a 1/40th ownership interest in a share of the Series C Preferred Stock or Series D Preferred Stock, and is evidenced by a depositary receipt. The shares of Series C Preferred Stock and Series D Preferred Stock represented by depositary shares were each deposited under a separate deposit agreement among CSC, Equiniti Trust Company, and the holders from time to time of the depositary receipts evidencing the depositary shares. Subject to the terms of the deposit agreements, each holder of a depositary share is entitled, through the depositary, in proportion to the applicable fraction of a share of Preferred Stock represented by such depositary share, to all the rights and preferences of the Preferred Stock represented thereby (including dividend, redemption, liquidation and voting rights).

Dividends and Other Distributions

The depositary will distribute any cash dividends or other cash distributions received in respect of the deposited Preferred Stock to the record holders of depositary shares representing the Preferred Stock represented thereby in proportion to the number of depositary shares held by the holders. The depositary will distribute any property received by it other than cash to the record holders of depositary shares entitled to those distributions, unless it determines that the distribution cannot be made proportionally among those holders or that it is not feasible to make a distribution (including any requirement that CSC or the depositary withhold an amount on account of taxes). In that event, the depositary may, with CSC’s approval, adopt a method as it deems equitable and practicable for purposes of effecting the distribution, including selling the property (at a public or private sale) and distributing the net proceeds from the sale to the holders of the depositary shares in proportion to the number of depositary shares they hold.

Record dates for the payment of dividends and other matters relating to the depositary shares will be the same as the corresponding record dates for the Preferred Stock.

The amounts distributed to holders of depositary shares will be reduced by any amounts required to be withheld by the depositary or by CSC on account of taxes or other governmental charges.

Redemption of Depositary Shares

If we redeem the Preferred Stock represented by the depositary shares, the depositary shares will be redeemed from the proceeds received by the depositary resulting from the redemption of the Preferred Stock held by the depositary. The redemption price per depositary share will be equal to 1/40th of the redemption price per share payable with respect to the Preferred Stock (or $25 per depositary share), plus any declared and unpaid dividends, without accumulation of any undeclared dividends. Whenever we redeem shares of Preferred Stock held by the depositary, the depositary will redeem, as of the same redemption date, the number of depositary shares representing shares of Preferred Stock so redeemed.

In case of any redemption of less than all of the outstanding depositary shares, the depositary shares to be redeemed will be selected by the depositary pro rata or by lot. In any such case, the depositary will redeem depositary shares only in increments of 40 shares and any multiple thereof.

Liquidation Preference

In the event that we liquidate, dissolve or wind-up our business and affairs, either voluntarily or involuntarily, each holder of a depositary share will be entitled to receive a liquidation distribution of $25 per depositary share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends, before we make any distribution of assets to the holders of our common stock, nonvoting common stock, or any other class or series of stock ranking junior to the Preferred Stock as to that distribution.

Voting the Preferred Stock

When the depositary receives notice of any meeting at which the holders of the Preferred Stock are entitled to vote, the depositary will mail (or otherwise transmit by an authorized method) the information contained in the notice to the record holders of the depositary shares representing the Preferred Stock. Each record holder of the depositary shares on the record date, which will be the same date as the record date for the Preferred Stock, may instruct the depositary to vote the amount of the Preferred Stock represented by the holder’s depositary shares. To the extent possible, the depositary will vote the amount of the Preferred Stock represented by depositary shares in accordance with the instructions it receives. CSC will agree to take all reasonable actions that the depositary determines are necessary to enable the depositary to vote as instructed. If the depositary does not receive specific instructions from the holders of any depositary shares representing the Preferred Stock, it will vote all depositary shares of that series held by it proportionately with instructions received.

Exhibit 10.423

THE CHARLES SCHWAB CORPORATION
DEFERRED COMPENSATION PLAN II

(Effective December 9, 2004)
(Amended and Restated December 12, 2007)
(Amended and Restated October 23, 2008)
(Amended and Restated October 19, 2017)
(Amended and Restated December 13, 2017)
(Amended and Restated December 8, 2020)

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THE CHARLES SCHWAB CORPORATION
DEFERRED COMPENSATION PLAN II

ARTICLE 1: PURPOSE

1.1 Establishment of the Plan

Effective as of December 9, 2004, The Charles Schwab Corporation (hereinafter, the "Company") established The Charles Schwab Corporation Deferred Compensation Plan II (the "Plan"), as set forth in this document. This Plan shall apply to cash compensation that is earned, deferred and accrued by eligible Participants after December 31, 2004.

1.2 Purpose of the Plan

The Plan permits participating employees to defer the payment of certain cash compensation that they may earn. The opportunity to elect such deferrals is provided in order to help the Company attract and retain key employees. This Plan is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. It is accordingly intended to be exempt from the participation, vesting, funding, and fiduciary requirements set forth in Title I of the Employee Retirement Income Security Act of 1974, as amended, ("ERISA"). In addition, because the Company has made a notification filing with the Department of Labor, it is also intended to be otherwise exempt from the reporting and disclosure requirements set forth in Title I of ERISA. In accordance with Section, 6.11 (b), the Plan also is intended to meet the requirements of section 409A of the Internal Revenue Code of 1986, as amended, (the "Code") and is to be construed in accordance with that section and any regulatory guidance issued thereunder.

ARTICLE 2: DEFINITIONS

2.1 Definitions

The following definitions are in addition to any other definitions set forth elsewhere in the Plan. Whenever used in the Plan, the capitalized terms in this Section 2.1 shall have the meanings set forth below unless otherwise required by the context in which they are used:

(a) "Administrator" the administrator described in Section 3.1 that is selected by the Committee to assist in the administration of the Plan.

(b) "Beneficiary" means a person entitled to receive any payments that remain to be paid after a Participant's death, as determined under Section 6.3.

(c) "Board" means the Board of Directors of the Company.

(d) "Company" means The Charles Schwab Corporation, a Delaware corporation.

(e) "Committee" means the Compensation Committee of the Board.

(f) "Deferral Account" means the account representing deferrals of cash compensation, plus investment adjustments, as described in Sections 5.6 and 5.7.

(g) "Disability" means a condition such that an individual is “disabled” within the meaning of section 409A of the Code and any regulatory guidance promulgated thereunder. Generally, an individual who is disabled (a) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or (b) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Company or its Subsidiaries.

(h) "Initial Deferral Election" means a deferral election that is made in accordance with Sections 5.1 through 5.5 (a).

(i) "Participant" means any employee who meets the eligibility requirements of the Plan, as set forth in Article 4, and includes, where appropriate to the context, any former employee who is entitled to payments under this Plan.

(j) "Plan" means The Charles Schwab Corporation Deferred Compensation Plan II, as in effect from time to time.

(k) "Plan Year" means the calendar year.

(l) "Retirement" shall mean: a Separation from Service with respect to the Company and its Subsidiaries for any reason other than death at any time after the Participant has attained age fifty (50), but only if, at the time of such termination, the Participant has been credited with at least seven (7) Years of Service for deferrals elected prior to October 23, 2008. For deferrals elected on or after October 23, 2008, "Retirement" shall mean: a Separation from Service with respect to the Company and its Subsidiaries for any reason other than death at any time after the Participant has attained age fifty-five (55), but only if, at the time of such termination, the Participant has been credited with at least ten (10) Years of Service. For deferral elections that become irrevocable under Section 5.4 after December 13, 2017, "Retirement" shall mean: a Separation from Service with respect to the Company and its Subsidiaries for any reason other than death at any time after (i) the Participant has attained age fifty-five (55), but only if, at the time of such termination, the Participant has been credited with at least ten (10) Years of Service or (ii) the Participant has attained age sixty-five (65), but only if, at the time of such termination, the Participant has been credited with at least five (5) Years of Service.

For purpose of this subparagraph (l), the term "Years of Service" shall have the same meaning given to it under the SchwabPlan Retirement Savings and Investment Plan (or any successor plan).

(m) “Separation from Service” or “Separate(s) from Service” means "Separation from Service" within the meaning of section 409A of the Code and any regulatory guidance promulgated thereunder. Generally, a separation from service occurs when an individual ceases to provide services for the Company and its affiliates.

(n) "Specified Employee" means a "specified employee" within the meaning of section 409A of the Code and any regulatory guidance promulgated thereunder, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(2) shall be used.

(o) "Subsequent Deferral Election" means a further deferral election that is made in accordance with Section 5.5 (c) and applies to an amount that was already subject to an Initial Deferral Election.

(p) "Subsidiary" means a corporation or other business entity in which the Company owns, directly or indirectly, securities with more than 80 percent of the total voting power.

(q) "Unforeseeable Emergency" means a severe financial hardship to the Participant resulting from (i) an illness or accident of the Participant, the Participant's spouse, or the Participant's dependent (as defined for purposes of the severe financial hardship withdrawal rules of section 409A of the Code); (ii) loss of the Participant's property due to casualty; or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, as determined in the sole discretion of the Administrator in accordance with section 409A of the Code.

(r) "Valuation Date" means each December 31 and any other date designated from time to time by the Committee for the purpose of determining the value of a Participant's Deferral Account balance pursuant to Section 5.6.

2.2 Gender and Number

Except when otherwise indicated by the context, any masculine or feminine terminology shall also include the neuter and other gender, and the use of any term in the singular or plural shall also include the opposite number.

ARTICLE 3: ADMINISTRATION

3.1 Committee and Administrator

The Committee shall administer the Plan and may select one or more persons to serve as the Administrator. The Administrator shall perform such administrative functions as the Committee may delegate to it from time to time. Any person selected to serve as the Administrator may, but need not, be a Committee member or an officer or employee of the Company. However, if a person serving as Administrator or a member of the Committee is a Participant, such person may not vote on a matter affecting his or her interest as a Participant.

The Committee shall have discretionary authority to construe and interpret the Plan provisions and resolve any ambiguities thereunder; to prescribe, amend, and rescind administrative rules relating to the Plan; to select the employees who may participate and to terminate the future participation of any such employees; to determine eligibility for benefits under the Plan; and to take all other actions that are necessary or appropriate for the administration of the Plan. Such interpretations, rules, and actions of the Committee shall be final and binding upon all concerned and, in the event of judicial review, shall be entitled to the maximum deference allowable by law. Where the Committee has delegated its responsibility for matters of interpretation and Plan administration to the Administrator, the actions of the Administrator shall constitute actions of the Committee.

ARTICLE 4: PARTICIPANTS

4.1 Participants

Officers and other key employees of the Company and each of its Subsidiaries shall be eligible to participate in this Plan upon selection by the Administrator. To be nominated for participation, an employee must be a member of a select group of management or highly compensated employees. Directors of the Company who are full-time employees of the Company shall be eligible to participate in the Plan.

ARTICLE 5: DEFERRALS

5.1 Salary Deferrals

Each Participant selected under Section 4.1 may elect to defer up to 50 percent of his or her regular base salary (subject to the provisions of this Article 5). Any such Initial Deferral Election must be made by entering into a deferred compensation agreement with the employer in accordance with procedures, and using a definition of base pay, that is established by the Administrator on or before the applicable election deadline under Section 5.3 for the period during which the services for which the deferred salary is to be earned are performed. Initial Deferral Elections with respect to base pay shall apply only to a single Plan Year, and a new Initial Deferral Election must be made with respect to each Plan Year.

5.2 Deferrals of Bonuses, Commissions and Other Cash Incentive Compensation

Each Participant may elect to defer all or any portion (subject to the provisions of this Article 5 and limitations announced by the Administrator) of (a) his or her commissions (if permitted by the Administrator for the applicable Plan Year); and (b) any amount that he or she subsequently earns under an annual cash bonus program for a year and/or a long-term cash incentive compensation program of the Company or a participating Subsidiary for a specific performance period. Any such Initial Deferral Election must be made by entering into a deferred compensation agreement with the employer in accordance with procedures established by the Administrator on or before the applicable deadline under Section 5.3. An Initial Deferral Elections under this Section 5.2 shall apply only to a single Plan Year and a new deferral election must be made with respect to each Plan Year.

5.3 Timing of Elections

(a) Except as otherwise provided under subparagraph (b) or (c) or (d) below, compensation for services performed during a Plan Year may be deferred pursuant to the Participant's Initial Deferral Election only if the election to defer such compensation is made not later than the close of the preceding Plan Year or, if permitted by the Administrator in its sole discretion, at such other time permitted under the Code.

(b) To the extent permitted under section 409A of the Code and any regulatory guidance promulgated thereunder, in the case of the first Plan Year in which a Participant becomes eligible to participate in the Plan, the Administrator may, in its sole discretion, provide that the Participant may make an Initial Deferral Election to defer compensation for services to be performed subsequent to the election provided that such election is made not later than 30 days after the date the Participant becomes eligible to participate in the Plan. The election shall only apply to compensation earned after the effective date of the election. For purposes of this subparagraph (b), an individual who becomes eligible to participate in a deferred compensation plan, which is aggregated with this Plan under Treasury Regulation 1.409A-1(c)(2), is deemed to have become eligible for this Plan not later than the first day of eligibility under any such deferred compensation plan.

(c) In the case of "performance-based compensation" within the meaning of section 409A of the Code and any regulatory guidance promulgated thereunder that is based on services performed over a performance period of at least 12 months, the Administrator may, in its sole discretion, provide that the Participant may make an Initial Deferral Election to defer such performance-based compensation provided that such election is made not later than 6 months before the end of such performance period.

(d) In the case of "sales commission compensation" and "investment commission compensation" within the meaning of section 409A of the Code and any regulatory guidance promulgated thereunder, the Administrator may, in its sole discretion, provide that the Participant may make an Initial Deferral Election to defer such commission compensation at such other time permitted under the Code and any regulatory guidance promulgated thereunder.

5.4 Deferral Procedures

Subject to Section 5.3, Participants who elect salary deferrals under Section 5.1 shall have an opportunity to do so with respect to each Plan Year. Participants who elect deferrals under Section 5.2 shall have a separate opportunity to do so for each (a) cash bonus under an annual bonus program; (b) cash bonus or incentive payment under a long-term incentive plan; and (c) if permitted by the Administrator, commission that they may earn. The Administrator shall specify the rules for the deferrals that may be elected. If a deferral is elected, the election shall be irrevocable with respect to the particular compensation that is subject to the election after the deadline for such deferrals as set forth in Section 5.3. Deferral elections shall be made on a form prescribed by the Committee or the Administrator, including an electronic form. As provided in Section 6.7, any deferral is subject to appropriate tax withholding measures and may be reduced to satisfy tax withholding requirements.

5.5 Election of Time and Manner of Payment

(a) At the time a Participant makes an Initial Deferral Election under Section 5.1 or 5.2, the Participant shall also designate the manner of payment and the date on which payments from his or her Deferral Account shall begin. Subject to Section 5.5(b), a Participant may elect from among the following options:

(i) a lump sum payable in the month of February of any year that the Participant specifies;

(ii) a lump sum payable in the month of February in the year immediately following the Participant's Retirement;

(iii) a series of annual installments, commencing in any year selected by the Participant and payable each year in February, over a period of four years; or

(iv) a series of annual installments, commencing in the year following the Participant's Retirement and payable each year in February, over a period of five, ten, or fifteen years, as designated by the Participant.

Notwithstanding the terms of a Participant's election regarding the manner and date of payment, whether an Initial Deferral Election or a Subsequent Deferral Election, if a Participant incurs a Separation from Service for any reason other than Retirement or if the Participant does not have a valid election in place, the payment of the Participant's entire Deferral Account, including any unpaid installments pursuant to subparagraph (iii) above, shall be made in a single lump sum in the year following the Participant’s Separation from Service in February. Notwithstanding anything in the Plan to the contrary, if (i) a payment is to commence upon a Participant's Retirement or other Separation from Service, (ii) the Participant is a Specified Employee at the time of the Separation from Service, and (iii) the Separation from Service occurs after July, such payment shall commence in the year following the Participant’s Separation from Service in July.

Any election of a specified payment date pursuant to subparagraphs (i) or (iii), above, shall be subject to any restrictions that the Committee may, in its sole discretion, choose to establish in order to limit the number of different payment dates that a Participant may have in effect at one time.

(b) Notwithstanding anything to the contrary in this Plan, except as otherwise permitted under section 409A of the Code, a Participant's Deferral Account shall not be distributed earlier than (i) Separation from Service or, in the case of a Specified Employee, the date that is at least six (6) months after Separation from Service; (ii) Disability; (iii) death; (iv) the specified time or schedule elected under Section 5.5(a)(i) or (iii); (v) to the extent permitted under section 409A of the Code and any regulatory guidance promulgated thereunder, a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company; or (vi) the occurrence of an Unforeseeable Emergency.

(c) The acceleration of the time or schedule of any payment under the Plan shall not be permitted unless permitted by the Administrator in accordance with the requirements of section 409A of the Code and any regulatory guidance promulgated thereunder. In accordance with the procedures established by the Administrator, a Participant may make a Subsequent Deferral Election to delay the timing and may also change the form of payment elected for a deferral provided that (i) the election shall not take effect until at least 12 months after the date on which the election is made; (ii) the payment (or the start of the installment payments, as applicable) with respect to which such election is made is deferred for a period of not less than five years from the date such payment or such installments would otherwise have been made or started; and (iii) the election shall be made at least 12 months prior to the date of the first scheduled payment. An Initial Deferral Election made in accordance with Section 5.5 (a) (ii) or (iv) to receive a distribution of a Deferral Account in a lump sum or installments following Retirement may only be changed once. In addition, a Participant’s Subsequent Deferral Elections shall be subject to any restrictions that the Committee may, in its sole discretion, choose to establish in order to limit the number of different payment dates that a Participant may have in effect at one time.

(d) If payment is due in the form of a lump sum, the payment shall equal the balance of the Deferral Account being paid, determined as of the Valuation Date coincident with or immediately preceding the payment date. If payment is due in the form of installments, the amount of each installment payment shall be equal to the quotient determined by dividing (i) the value of the portion of the Deferral Account to which the installment payment election applies (determined as of the

Valuation Date coincident with or immediately preceding the date the payment is to be made), by (ii) the number of years over which the installment payments are to be made, less the number of years in which prior payments attributable to such installment payment election have been made. For purposes of the Plan, installment payments shall be treated as a single distribution under section 409A of the Code.

5.6 Accounts and Earnings

The Company shall establish a Deferral Account for each Participant who has elected a deferral under Section 5.1 or 5.2 above, and its accounting records for the Plan with respect to each such Participant shall include a separate Deferral Account or subaccount for each deferral election of the Participant that could cause a payment made at a different time or in a different form from other payments of deferrals elected by the same Participant. Each Deferral Account balance shall reflect the Company's obligation to pay a deferred amount to a Participant or Beneficiary as provided in this Article 5.

Under procedures approved by the Committee and communicated to Participants, a Participant's Deferral Account balance shall be increased or decreased periodically (not less frequently than annually) to reflect an assumed earnings increment or decrement, based on an interest rate or other benchmark selected by the Committee and in effect at the time (the "earnings adjustment"). Until the time for determining the amount to be paid to the Participant or Beneficiary, such assumed earnings adjustment shall accrue from each Valuation Date on the Deferral Account balance as of that date and shall be credited to the account as of the next Valuation Date. The rate of earnings adjustment may, but need not, be determined with reference to the actual rate of earnings on assets held under any existing grantor trust or other informal funding vehicle that is in effect pursuant to Section 6.2. Any method of crediting the earnings adjustment that is followed from time to time may, with reasonable advance notice to affected Participants, be revoked or revised prospectively as of the beginning of any new Plan Year or as of a time period established by the Administrator. Earnings adjustments that have been credited for any Plan Year, like deferred amounts that have been previously credited to a Participant, shall not be modified or eliminated retroactively unless they were credited in error, and then they shall be corrected appropriately. The crediting of assumed earnings adjustments shall not mean that any deferred compensation promise to a Participant is secured by particular investment assets or that the Participant is actually earning interest or any other form of investment income under the Plan. Consistent with the foregoing authority to exercise flexibility in establishing a method for crediting assumed earnings adjustments on Deferral Account balances, the Committee may, but need not, consult with Participants about their investment preferences and may, but need not, institute a program of assumed earnings adjustments that tracks the investment performance in a Participant's qualified defined contribution plan account or in an assumed participant-directed investment arrangement.

5.7 Maintenance of Accounts

The Accounts of each Participant shall be entered on the books of the Company and shall represent a liability, payable when due under this Plan, out of the general assets of the Company. Prior to benefits becoming due hereunder, the Company shall expense the liability for such accounts in accordance with policies determined appropriate by the Company's auditors. Except to the extent provided pursuant to the second paragraph of this Section 5.7, the Accounts created for a Participant by the Company shall not be funded by a trust or an insurance contract; nor shall any assets of the Company be segregated or identified to such account; nor shall any property or assets of the Company be pledged, encumbered, or otherwise subjected to a lien or security interest for payment of benefits hereunder.

Notwithstanding that the amounts to be paid hereunder to Participants constitute an unfunded obligation of the Company, the Company may direct that an amount equal to all or any portion of the Accounts shall be invested by the Company as the Company, in its sole discretion, shall determine. The Committee may in its sole discretion determine that all or any portion of an amount equal to the Accounts shall be paid into one or more grantor trusts that may be established by the Company for the purpose of providing a potential source of funds to pay Plan benefits. The Company may designate an investment advisor to direct the investment of funds that may be used to pay benefits, including the investment of the assets of any grantor trusts hereunder. Any such grantor trust shall be established and operated in a manner that is at all times consistent with the amounts to be paid remaining unfunded obligations for purposes of ERISA.

5.8 Change in Control

In the event of a Change in Control (as defined below), the following rules shall apply:

(a) All Participants shall continue to have a fully vested, non-forfeitable interest in their Deferral Accounts.

(b) To the extent permitted under section 409A of the Code and any regulatory guidance issued thereunder when the Plan is terminated within 30 days preceding the Change in Control or the 12 months following the Change in Control, deferrals of amounts for the year that includes the Change in Control shall cease beginning with the first payroll period that follows the termination of the Plan.

(c) A special allocation of earnings on all Deferral Accounts shall be made under Section 5.6 as of the date of the Change in Control (such that the date of the Change in Control is a Valuation Date) on a basis no less favorable to Participants than the method being followed prior to the Change in Control.

(d) To the extent permitted under section 409A of the Code and any regulatory guidance issued thereunder and notwithstanding any Initial Deferral Election or Subsequent Deferral Election made pursuant to Section 5.5(a) and (c), the unpaid balance of a Participant’s

Deferral Account, including any unpaid installments, shall be distributed in a cash lump sum no later than 30 days following the Change in Control and shall be in an amount equal to the full Deferral Account balance, as adjusted pursuant to subparagraph (c) above, as of the date of the Change in Control.

(e) Subject to section 409A of the Code and any regulatory guidance promulgated thereunder, nothing in this Plan shall prevent a Participant from enforcing any rules in a contract or another plan of the Company or any Subsidiary concerning the method of determining the amount of a bonus, incentive compensation, or other form of compensation to which a Participant may become entitled following a change in control, or the time at which that compensation is to be paid in the event of a change in control.

(f) For purposes of this Plan, a "Change in Control" means any of the following but only to the extent that such change in control transaction is a change in the ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company as defined in the regulations promulgated under section 409A of the Code:

(1) Any "person" who, alone or together with all "affiliates" and "associates" of such person, is or becomes (A) an "acquiring person" or (B) the "beneficial owner" of 35% of the outstanding voting securities of the Company (the terms “acquiring person”, "person", "affiliates", "associates" and "beneficial owner" are used as such terms are used in the Securities Exchange Act of 1934 and the General Rules and Regulations thereunder); provided, however, that a "Change in Control" shall not be deemed to have occurred if such "person" is Charles R. Schwab, the Company, any subsidiary or any employee benefit plan or employee stock plan of the Company or of any Subsidiary, or any trust or other entity organized, established or holding shares of such voting securities by, for or pursuant to, the terms of any such plan; or

(2) Individuals who at the beginning of any one year period constitute the Board cease for any reason, during such period, to constitute at least a majority thereof, unless the election, or the nomination for election by the Company's Shareholders, of each new Board Member was approved by a vote of a majority of the Board members then still in office who were Board members at the beginning of such one year period; or

(3) Approval by the shareholders of the Company of:

(A) the sale or transfer of substantially all of the Company's business and/or assets to a person or entity that is not a "subsidiary" (any corporation or other entity a majority or more of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company); or

(B) an agreement to merge or consolidate, or otherwise reorganize, with one or more entities which are not subsidiaries (as defined in (A) above), as a result of which less than 50% of the outstanding voting securities of the surviving or resulting entity are, or are to be, owned by former shareholders of the Company.

A Change in Control shall occur on the first day on which any of the preceding conditions has been satisfied. However, notwithstanding the foregoing, this Section 5.8 shall not apply to any Participant who alone or together with one or more other persons acting as a partnership, limited partnership, syndicate, or other group for the purpose of acquiring, holding or disposing of securities of the Company, triggers a "Change in Control" within the meaning of paragraphs (1) or (2) above.

5.9 Payment of Deferred Amounts

A Participant shall have a fully vested, non-forfeitable interest in his or her Deferral Account balance at all times. However, vesting does not confer a right to payment other than in the manner elected by the Participant (or otherwise applicable) pursuant to Section 5.5 (subject to any modification that may occur pursuant to Section 5.6, 5.8, or 5.10). Upon the expiration of a deferral period selected by the Participant in one or more deferral elections or at such earlier time as provided for in Section 5.5, the Company shall pay to such Participant (or to the Participant's Beneficiary, in the case of the Participant's death) an amount equal to the balance of the Participant's Account attributable to such expiring deferral elections, plus assumed earnings (determined by the Company pursuant to Section 5.6) thereon.

5.10 Payment on Certain Events

Notwithstanding any elections that have been made under Section 5.5, the unpaid balance of a Participant's Deferral Account, including any unpaid installments, shall be paid in a lump sum within sixty (60) days in the event of the Participant's death, Disability, or upon receipt of a written request from a Participant and the Administrator's determination that the Participant has incurred an Unforeseeable Emergency; provided, that the amounts distributed because of an Unforeseeable Emergency shall not exceed the amounts necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such Unforeseeable Emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the individual's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

ARTICLE 6: GENERAL PROVISIONS

6.1 Unfunded Obligation

The deferred amounts to be paid to Participants pursuant to this Plan constitute unfunded obligations of the Company. Except to the extent specifically provided hereunder, the Company is not required to segregate any monies from its general funds, to create any trusts, or to make any special deposits with respect to this obligation. Title to and beneficial ownership of any investments, including any grantor trust investments which the Company has determined and directed the Administrator to make to fulfill obligations under this Plan shall at all times remain in the Company. Any investments and the creation or maintenance of any trust or Accounts shall not create or constitute a trust or a fiduciary relationship between the Administrator or the Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or his or her Beneficiary or his or her creditors in any assets of the Company whatsoever. The Participants shall have no claim for any changes in the value of any assets which may be invested or reinvested by the Company in an effort to match its liabilities under this Plan.

6.2 Informal Funding Vehicles

Notwithstanding Section 6.1, the Company may, but need not, arrange for the establishment and use of a grantor trust or other informal funding vehicle to facilitate the payment of benefits and to discharge the liability of the Company under this Plan to the extent of payments actually made from such trust or other informal funding vehicle. Any investments and any creation or maintenance of memorandum accounts or a trust or other informal funding vehicle shall not create or constitute a trust or a fiduciary relationship between the Committee or the Company and a Participant, or otherwise confer on any Participant or Beneficiary or his or her creditors a vested or beneficial interest in any assets of the Company whatsoever. Participants and Beneficiaries shall have no claim against the Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to this Plan.

6.3 Beneficiary

The term "Beneficiary" shall mean the person or persons to whom payments are to be paid pursuant to the terms of the Plan in the event of the Participant's death. A Participant may designate a Beneficiary on a form provided by the Administrator, executed by the Participant, and delivered to the Administrator prior to the death of the Participant. The Administrator may require the consent of the Participant's spouse to a designation if the designation specifies a Beneficiary other than the spouse. Subject to the foregoing, a Participant may change a Beneficiary designation at any time. Subject to the property rights of any prior spouse, if no Beneficiary is designated, if the designation is ineffective, or if the Beneficiary dies before the balance of the Account is paid, the balance shall be paid to the Participant's surviving spouse, or if there is no surviving spouse, to the Participant's estate.

6.4 Incapacity of Participant or Beneficiary

Every person receiving or claiming benefits under the Plan shall be conclusively presumed to be mentally competent and of age until the date on which the Administrator receives a written notice, in a form and manner acceptable to the Administrator, that such person is incompetent or a minor, for whom a guardian or other person legally vested with the care of his or her person or estate has been appointed; provided, however, that if the Administrator finds that any person to whom a benefit is payable under the Plan is unable to care for his or her affairs because of incompetency, or because he or she is a minor, any payment due (unless a prior claim therefor shall have been made by a duly appointed legal representative) may be paid to the spouse, a child, a parent, a brother or sister, or to any person or institution considered by the Administrator to have incurred expense for such person otherwise entitled to payment. To the extent permitted by law, any such payment so made shall be a complete discharge of liability therefor under the Plan.

If a guardian of the estate of any person receiving or claiming benefits under the Plan is appointed by a court of competent jurisdiction, benefit payments may be made to such guardian provided that proper proof of appointment and continuing qualification is furnished in a form and manner acceptable to the Administrator. In the event a person claiming or receiving benefits under the Plan is a minor, payment may be made to the custodian of an account for such person under the Uniform Gifts to Minors Act. To the extent permitted by law, any such payment so made shall be a complete discharge of any liability therefore under the Plan.

6.5 Nonassignment and Qualifying Domestic Relations Orders

Except insofar as may otherwise be required by law or pursuant to the terms of a Qualifying Domestic Relations Order, as set forth in this Section 6.5, the right of a Participant or Beneficiary to the payment of any amounts under the Plan may not be assigned, transferred, pledged or encumbered nor shall such right or other interests be subject to attachment, garnishment, execution, or other legal process. Notwithstanding the prior sentence, all or a portion of a Participant's Account balance may be paid to another person as specified in a domestic relations order that the Administrator determines is qualified (a “Qualifying Domestic Relations Order”). For this purpose, a Qualifying Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is: (a) issued pursuant to a State's domestic relations law; (b) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant; (c) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's payment under the Plan; (d) provides for payment in an immediate lump sum as soon as practicable after the Administrator determines that a Qualifying Domestic Relations Order exists; and (e) meets such other requirements established by the Administrator that are consistent with Treasury Regulation §1.409A-3(j)(4)(ii). The Administrator shall determine whether any document received by it is a Qualifying Domestic Relations Order. In making this determination, the Administrator may consider the rules applicable to "domestic relations orders" under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

6.6 No Right to Continued Employment

Nothing in the Plan shall be construed to confer upon any Participant any right to continued employment with the Company, nor shall the Plan interfere in any way with the right of the Company to terminate the employment of such Participant at any time without assigning any reason therefor.

6.7 Tax Withholding

Appropriate taxes shall be withheld from cash payments made to Participants pursuant to the Plan. To the extent tax withholding is payable in connection with the Participant's deferral of income rather than in connection with the payment of deferred amounts, such withholding may be made from other wages and salary currently payable to the Participant, or, as determined by the Administrator, the amount of the deferral elected by the Participant may be reduced in order to satisfy required tax withholding for employment taxes and any other taxes.

6.8 Claims Procedure Generally

In connection with any claim or dispute arising prior to a Change in Control, the Administrator has established a claims procedure consistent with the requirements of ERISA, which is set forth in the Prospectus for the Plan, the terms of which are incorporated here by reference. The parties assigned responsibility for claims under the claims procedure have the exclusive and discretionary authority to construe and to interpret the Plan, to decide all questions of eligibility for benefits, to determine the amount and manner of payment of such benefits and to make any determinations that are contemplated by (or permissible under) the terms of this Plan, to resolve any other claims and disputes regarding rights in relation to the Plan, and the parties' decisions on such matters will be final and conclusive on all other parties. Any such decision or determination shall be made in the absolute and unrestricted discretion of the responsible parties, even if (1) such discretion is not expressly granted by the Plan provisions in question, or (2) a determination is not expressly called for by the Plan provisions in question, and even though other Plan provisions expressly grant discretion or call for a determination. As a result, benefits under this Plan will be paid only if the responsible parties decide in their discretion that the applicant is entitled to them. In the event of a review by a court, arbitrator or any other tribunal, any exercise of the parties' discretionary authority shall not be disturbed unless it is clearly shown to be arbitrary and capricious, such review may not proceed unless the applicant has fully exhausted the claims procedure, and such review will be limited to the record that was considered by or presented to the responsible parties in the claims procedure. In determining whether an applicant has exhausted the claims procedure, the exhaustion requirement of this Section 6.8 shall require exhaustion in as many circumstances as possible (and any steps necessary to clarify or effect this intent may be taken), and the application of such requirement shall take into account that the Plan's status as a "top-hat plan" (a plan that is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees) renders exceptions to exhaustion invalid. A civil action for benefits under the Plan may only be brought after the Participant has exhausted the Plan's claims and appeal procedures within one year from the date of the final decision regarding the claim for benefits.

6.9 Arbitration Following a Change in Control

Following a Change in Control of the Company (as determined under Section 5.8) the claims procedure shall include the following arbitration procedure. Since time will be of the essence in determining whether any payments are due to the Participant under this Plan following a Change in Control, a Participant may submit any claim for payment to arbitration as follows: On or after the second day following the Change in Control or other event triggering a right to payment, the claim may be filed with an arbitrator of the Participant's choice by submitting the claim in writing and providing a copy to the Company. The arbitrator must be

(a) a member of the National Academy of Arbitrators or one who currently appears on arbitration panels issued by the Federal Mediation and Conciliation Service or the American Arbitration Association; or

(b) a retired judge of the State in which the claimant is a resident who served at the appellate level or higher.

The arbitration hearing shall be held within 72 hours (or as soon thereafter as possible) after filing of the claim unless the Participant and the Company agree to a later date. No continuance of said hearing shall be allowed without the mutual consent of the Participant and the Company. Absence from or nonparticipation at the hearing by either party shall not prevent the issuance of an award. Hearing procedures which will expedite the hearing may be ordered at the arbitrator's discretion, and the arbitrator may close the hearing in his or her sole discretion upon deciding he or she has heard sufficient evidence to satisfy issuance of an award. In reaching a decision, the arbitrator shall have no authority to ignore, change, modify, add to or delete from any provision of this Plan, but instead is limited to interpreting this Plan. The arbitrator's award shall be rendered as expeditiously as possible, and unless the arbitrator rules within seven days after the close of the hearing, he will be deemed to have ruled in favor of the Participant. If the arbitrator finds that any payment is due to the Participant from the Company, the arbitrator shall order the Company to pay that amount to the Participant within 48 hours after the decision is rendered. The award of the arbitrator shall be final and binding upon the Participant and the Company.

Judgment upon the award rendered by the arbitrator may be entered in any court in any State of the United States. In the case of any arbitration regarding this Agreement, the Participant shall be awarded the Participant's costs, including attorney's fees. Such fee award may not be offset against the deferred compensation due hereunder. The Company shall pay the arbitrator's fee and all necessary expenses of the hearing, including stenographic reporter if employed.

6.10 Termination and Amendment

The Committee may from time to time amend, suspend or terminate the Plan, in whole or in part, and if the Plan is suspended, the Committee may reinstate any or all of its provisions. The Executive Vice President – Human Resources has the authority to amend the Plan to comply with the requirements of the Code, to avoid a plan failure under section 409A of the Code and to facilitate administration of the Plan to the extent that any such amendments will not materially increase the cost of the Plan. Except as otherwise required by law, the Committee may delegate to the Administrator all or any of its foregoing powers to amend or suspend the Plan. Any such amendment or suspension may affect future deferrals without the consent of any Participant or Beneficiary. However, with respect to deferrals that have already occurred, no amendment or suspension may impair the right of a Participant or a designated Beneficiary to receive payment of the related deferred compensation in accordance with the terms of the Plan prior to the effective date of such amendment or suspension, unless the affected Participant or Beneficiary gives his or her express written consent to the change; provided that such consent shall not be required if an amendment is required to avoid a plan failure under section 409A of the Code.

Subject to the requirements of section 409A of the Code and any regulatory guidance promulgated thereunder, the Committee may terminate the Plan at any time and in the Committee's discretion the Deferral Accounts of Participants may be distributed within the period beginning twelve months after the date the Plan was terminated and ending twenty-four months after the date the Plan was terminated, or pursuant to Section 5.5, 5.8, or 5.10, if earlier. If the Plan is terminated and Deferral Accounts are distributed, the Company shall terminate all account balance non-qualified deferred compensation plans that are aggregated with the Plan under section 409A of the Code with respect to all participants and, to the extent applicable under section 409A under the circumstances of the termination, shall not adopt a new account balance non-qualified deferred compensation plan that is aggregated with the Plan under section 409A of the Code for at least three years after the date the Plan was terminated.

The Committee, in its discretion, may terminate the Plan upon a corporate dissolution of the Company that is taxed under section 331 of the Code or with the approval of a bankruptcy court pursuant to 11 U.S.C. section 503(b)(1(A), provided that the Participants' Deferral Accounts are distributed and included in the gross income of the Participants at the time required under section 409A of the Code.

6.11 Applicable Law

(a) The Plan shall be construed and governed in accordance with applicable federal law and, to the extent not preempted by such federal law, the laws of the State of California to the extent the application of such state laws would not result in the taxation of amounts deferred under the Plan until such amounts are distributed to participants under the Plan.

(b) (1) It is intended that this Plan shall be construed and administered in a manner that satisfies the requirements for any deferral of income under the Code including, but not limited to, Section 409A of the Code ("Section 409A"), and in a manner that will not cause a Participant to be liable for the payment of interest and tax penalties that may be imposed under Section 409A in connection with noncompliance with Section 409A. If any provision of this Plan may be susceptible to more than one interpretation, and one possible interpretation may result in noncompliance with Section 409A, such provision shall be applied and construed in a manner that is consistent with the provisions of Section 409A and the regulations and other guidance, while minimizing modifications to the Plan's administrative practices to the extent feasible under the circumstances. To the extent that any provision of the Plan would cause an unambiguous conflict with the requirements of Section 409A, or would cause the administration of the Plan to fail to satisfy the requirements of Section 409A, such provision shall be deemed null and void to the maximum extent permitted by applicable law.

(2) Neither the Company, any Subsidiary or any employer assumes any economic burdens associated with Section 409A. Although the Company intends to administer the Plan to prevent noncompliance with Section 409A, it does not represent or warrant that the Plan complies with Section 409A or any other provision of federal, state, local, or non-United States law. The Company, the Subsidiaries, the employers, and their respective directors, officers, employees and advisers (the "Applicable Parties") will not be liable to any Participant (or any other individual claiming a benefit through or in connection with a Participant) for any tax, interest, or penalties the Participant (or any other individual) may owe as a result of participation or an interest or right under the Plan. None of the Applicable Parties have any obligation to indemnify or otherwise protect any Participant or other individual from any taxes, penalties, interest or other tax-related liabilities in connection with Section 409A.