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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

Commission File Number: 1-9700

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
Emerging growth company ☐	

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

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

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

1,340,576,376 shares of $.01 par value Common Stock Outstanding on October 31, 2017

THE CHARLES SCHWAB CORPORATION

Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 2017

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Part I – FINANCIAL INFORMATION

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

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

INTRODUCTION

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

Significant business subsidiaries of CSC include the following:

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

The Company provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking services, retirement plan services, and other corporate brokerage services. The Advisor Services segment provides custodial, trading, banking, and support services as well as retirement business services.

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

Under this approach, the Company's strategic goals are focused on putting clients' perspectives, needs, and desires at the forefront. Because investing plays a fundamental role in building financial security, the Company strives to deliver a better investing experience for its clients – individual investors and the people and institutions who serve them – by disrupting longstanding industry practices on their behalf and providing superior service. The Company aims to offer a broad range of products and solutions to meet client needs with a focus on transparency and value. In addition, management works to couple the Company's scale and resources with ongoing expense discipline to keep costs low and ensure that products and solutions are affordable as well as responsive to client needs. Finally, the Company aims to maximize its market valuation and stockholder returns over time.

Management estimates that investable wealth in the United States (U.S.) is currently well in excess of $30 trillion, which means the Company's $3.18 trillion in client assets leaves substantial opportunity for growth. The Company's strategy is based on the principle that developing trusted relationships will translate into more assets from both new and existing clients, ultimately driving more revenue and, along with expense discipline, generating earnings growth and building long-term stockholder value.

This Form 10-Q is intended to provide an update on the activity and results of operations for the third quarter and first nine months ended September 30, 2017 and should be read in conjunction with the 2016 Form 10-K. More information on the Company's business operations, descriptions of revenue and expense categories, policies and procedures including the Company's governance and monitoring programs is available in the 2016 Form 10-K. The Company's recent annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, as well as other filings with the Securities and Exchange Commission (SEC), are available free of charge on the Company's website, https://www.aboutschwab.com or by request via email (investor.relations@schwab.com), telephone (415-667-7000) or mail (Charles Schwab Investor Relations at 211 Main Street, San Francisco, CA 94105).

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," "estimate," "appear," "aim," "target," "could," "would," "continue," 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 necessarily estimates based on the best judgment of the Company's senior management. These statements relate to, among other things, the following sections of this Form 10-Q:

- The Company's aim to maximize its market valuation and stockholder returns over time; and the Company's belief that developing trusted relationships will translate into more client assets which drives revenue and, along with expense discipline, earnings growth and stockholder value (see Introduction in Part I, Item 2);
- The expected impact of new accounting standards not yet adopted (see New Accounting Standards in Part I, Item 1, Financial Information – Notes to Condensed Consolidated Financial Statements (Item 1) – Note 2);
- The likelihood of indemnification and guarantee payment obligations (see Commitments and Contingencies in Item 1 – Note 8); and
- The impact of legal proceedings and regulatory matters (see Commitments and Contingencies in Item 1 – Note 8 and Legal Proceedings in Part II, Item 1).

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

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

- General market conditions, including the level of interest rates, equity valuations and trading activity;
- The Company's ability to attract and retain clients, develop trusted relationships, and grow client assets;
- Client use of the Company's investment advisory services and other products and services;
- The level of client assets including cash balances;
- Competitive pressure on pricing;
- Client sensitivity to rates;
- Regulatory guidance;
- Timing, amount, and impact of migration of certain balances from brokerage accounts and sweep money market funds into Schwab Bank;
- Capital and liquidity needs and management;
- The Company's ability to manage expenses;
- The Company's ability to develop and launch new products, services and capabilities in a timely and successful manner;
- The effect of adverse developments in litigation or regulatory matters and the extent of any related charges; and
- Potential breaches of contractual terms for which the Company has indemnification and guarantee obligations.

Certain of these factors, as well as general risk factors affecting the Company, are discussed in greater detail in Part I – Item 1A – Risk Factors in the 2016 Form 10-K.

OVERVIEW

Management focuses on several client activity and financial metrics in evaluating the Company's financial position and operating performance. For a discussion of the key metrics and a glossary of terms, refer to the Company's 2016 Form 10-K. Results for the third quarters and first nine months of 2017 and 2016 are:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Percent Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Percent Change
Client Metrics:						
Net new client assets (in billions)	$ 51.6	$ 30.0	72%	$ 155.0	$ 88.6	75%
Core net new client assets (in billions)	$ 51.6	$ 30.0	72%	$ 136.7	$ 88.6	54%
Client assets (in billions, at quarter end)	$ 3,181.2	$ 2,725.3	17%			
Average client assets (in billions)	$ 3,107.8	$ 2,699.5	15%	$ 2,986.3	$ 2,576.8	16%
New brokerage accounts (in thousands)	336	264	27%	1,055	800	32%
Active brokerage accounts (in thousands, at quarter end)	10,565	10,046	5%			
Assets receiving ongoing advisory services (in billions, at quarter end)	$ 1,613.6	$ 1,368.8	18%			
Client cash as a percentage of client assets (at quarter end)	11.1%	12.5%				
Company Financial Metrics:						
Net revenues	$ 2,165	$ 1,914	13%	$ 6,376	$ 5,506	16%
Expenses excluding interest	1,220	1,120	9%	3,679	3,337	10%
Income before taxes on income	945	794	19%	2,697	2,169	24%
Taxes on income	327	291	12%	940	802	17%
Net income	618	503	23%	1,757	1,367	29%
Preferred stock dividends and other	43	33	30%	127	99	28%
Net income available to common stockholders	$ 575	$ 470	22%	$ 1,630	$ 1,268	29%
Earnings per common share – diluted	$ .42	$ .35	20%	$ 1.21	$ .95	27%
Net revenue growth from prior year	13%	20%		16%	17%	
Pre-tax profit margin	43.6%	41.5%		42.3%	39.4%	
Return on average common stockholders' equity	15%	14%		15%	13%	
Expenses excluding interest as a percentage of average client assets (annualized)	0.16%	0.17%		0.16%	0.17%	
Consolidated Tier 1 Leverage Ratio (at quarter end)	7.7%	7.1%				

Management believes that the Company's third quarter results demonstrate its financial model working as intended: driving robust business growth by winning with clients, generating strong revenue growth through multiple sources, and delivering outstanding financial results through sustained expense discipline.

Clients opened 336,000 new brokerage accounts during the quarter, bringing total brokerage accounts to 10.6 million at September 30, 2017. At the same time, core net new assets gathered during the third quarter of 2017 were $51.6 billion compared to $30.0 billion for the same period a year ago. Total core net new assets for the nine months ended September 30, 2017 were $136.7 billion, contributing to total client assets reaching $3.18 trillion at quarter-end.

Strong client growth and an improved economic environment helped lift net interest revenue and asset management and administration fees. These increases supported overall net revenue growth of 13% and 16%, respectively, for the third quarter and first nine months of 2017 when compared to the same periods in the prior year.

By managing overall expense growth to 9% and 10%, respectively, for the third quarter and first nine months of 2017 when compared to the prior year, the Company was able to achieve pre-tax profit margins of 43.6% and 42.3% for the third quarter and first nine months of 2017 – increases of 210 and 290 basis points, respectively, when compared to the same periods in the prior year. The Company delivered a 15% return on average common stockholders' equity in both the third quarter and first nine months of 2017.

Subsequent Event

On October 31, 2017, the Company issued and sold 500,000 depositary shares, each representing a 1/100th ownership interest in a share of fixed-to-floating rate non-cumulative perpetual preferred stock, Series F, $0.01 par value, with a liquidation preference of $100,000 per share (equivalent to $1,000 per depositary share). The Series F Preferred Stock has a fixed dividend rate of 5.00% through November 30, 2027, payable semi-annually, and thereafter a floating rate of three-month LIBOR plus a fixed spread of 2.575%, payable quarterly. The net proceeds received from the sale were $492 million after deducting related expenses and fees.

Also on October 31, 2017, the Company announced that it will redeem on December 1, 2017, all of the outstanding shares of its 6.00% non-cumulative perpetual preferred stock, Series B, and the corresponding depositary shares. The redemption will be funded with the net proceeds from the Series F offering.

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

RESULTS OF OPERATIONS

Net Revenues

Net revenues of $2.2 billion and $6.4 billion for the third quarter and first nine months of 2017, respectively, grew 13% and 16% from the prior year periods, reflecting significant improvements in both net interest revenue and asset management and administration fees. The following tables and sections present a comparison of the Company's major sources of net revenues:

Three Months Ended September 30,		2017		2016	
	Percent Change	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Asset management and administration fees					
Mutual funds and ETF service fees	7 %	$ 519	24 %	$ 486	25 %
Advice Solutions	12 %	265	12 %	237	12 %
Other	3 %	77	4 %	75	5 %
Asset management and administration fees	8 %	861	40 %	798	42 %
Net interest revenue					
Interest revenue	32 %	1,176	54 %	891	46 %
Interest expense	104 %	(94)	(4)%	(46)	(2)%
Net interest revenue	28 %	1,082	50 %	845	44 %
Trading revenue					
Commissions	(25)%	136	6 %	181	10 %
Principal transactions	67 %	15	1 %	9	—
Trading revenue	(21)%	151	7 %	190	10 %
Other	(7)%	71	3 %	76	4 %
Provision for loan losses	(100)%	—	—	5	—
Total net revenues	13 %	$ 2,165	100 %	$ 1,914	100 %

Nine Months Ended September 30,		2017		2016	
	Percent Change	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Asset management and administration fees					
Mutual funds and ETF service fees	13 %	$ 1,538	24 %	$ 1,362	25 %
Advice solutions	13 %	765	12 %	678	12 %
Other	6 %	226	4 %	214	4 %
Asset management and administration fees	12 %	2,529	40 %	2,254	41 %
Net interest revenue					
Interest revenue	32 %	3,358	52 %	2,541	46 %
Interest expense	77 %	(223)	(3)%	(126)	(2)%
Net interest revenue	30 %	3,135	49 %	2,415	44 %
Trading revenue					
Commissions	(22)%	456	7 %	586	10 %
Principal transactions	19 %	44	1 %	37	1 %
Trading revenue	(20)%	500	8 %	623	11 %
Other	1 %	212	3 %	209	4 %
Provision for loan losses	(100)%	—	—	5	—
Total net revenues	16 %	$ 6,376	100 %	$ 5,506	100 %

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

Asset Management and Administration Fees

The following tables present a roll forward of client assets for the Schwab money market funds, Schwab equity and bond funds and ETFs, and Mutual Fund OneSource®. The following funds generated 53% of the asset management and administration fees earned during the third quarter and 54% during the first nine months of 2017, compared to 54% and 53% in the same periods in 2016:

	Schwab Money Market Funds		Schwab Equity and Bond Funds and ETFs		Mutual Fund OneSource®	
Three Months Ended September 30,	2017	2016	2017	2016	2017	2016
Balance at beginning of period	$ 156,186	$ 160,951	$ 151,336	$ 110,722	$ 224,749	$ 203,352
Net inflows (outflows)	2,753	(725)	7,086	3,297	(13,255)	(5,453)
Net market gains (losses) and other	235	26	6,676	4,435	9,684	8,184
Balance at end of period	$ 159,174	$ 160,252	$ 165,098	$ 118,454	$ 221,178	$ 206,083

	Schwab Money Market Funds		Schwab Equity and Bond Funds and ETFs		Mutual Fund OneSource®	
Nine Months Ended September 30,	2017	2016	2017	2016	2017	2016
Balance at beginning of period	$ 163,495	$ 166,148	$ 125,813	$ 102,112	$ 198,924	$ 207,654
Net inflows (outflows)	(4,832)	(5,968)	22,347	8,951	(23,494)	(14,632)
Net market gains (losses) and other [1]	511	72	16,938	7,391	45,748	13,061
Balance at end of period	$ 159,174	$ 160,252	$ 165,098	$ 118,454	$ 221,178	$ 206,083

[1] Includes transfers from other third-party mutual funds to Mutual Fund OneSource® in the second quarter of 2017.

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

The following tables categorize asset management and administration fees, average client assets, and average fee yields by funds or revenue source:

Three Months Ended September 30,	2017			2016		
	Average Client Assets	Revenue	Average Fee	Average Client Assets	Revenue	Average Fee
Schwab money market funds before fee waivers	$ 158,927	$ 220	0.55%	$ 161,904	$ 239	0.59%
Fee waivers		(1)			(41)	
Schwab money market funds	158,927	219	0.55%	161,904	198	0.49%
Schwab equity and bond funds and ETFs	164,011	56	0.14%	121,378	57	0.19%
Mutual Fund OneSource®	219,076	179	0.32%	203,589	175	0.34%
Other third-party mutual funds and ETFs [1]	291,307	65	0.09%	263,995	56	0.08%
Total mutual funds and ETFs [2]	$ 833,321	519	0.25%	$ 750,866	486	0.26%
Advice solutions [2] :						
Fee-based	$ 206,781	265	0.51%	$ 183,191	237	0.51%
Intelligent Portfolios	21,184	—	—	8,249	—	—
Legacy Non-Fee	19,022	—	—	17,232	—	—
Total advice solutions	$ 246,987	265	0.43%	$ 208,672	237	0.45%
Other balance-based fees [3]	424,280	67	0.06%	350,117	62	0.07%
Other [4]		10			13	
Total asset management and administration fees		$ 861			$ 798	

Nine Months Ended September 30,	2017			2016		
	Average Client Assets	Revenue	Average Fee	Average Client Assets	Revenue	Average Fee
Schwab money market funds before fee waivers	$ 160,230	$ 675	0.56%	$ 164,758	$ 724	0.59%
Fee waivers		(10)			(193)	
Schwab money market funds	160,230	665	0.55%	164,758	531	0.43%
Schwab equity and bond funds and ETFs	151,579	163	0.14%	112,528	160	0.19%
Mutual Fund OneSource ®	214,058	528	0.33%	199,758	508	0.34%
Other third-party mutual funds and ETFs [1]	278,479	182	0.09%	251,211	163	0.09%
Total mutual funds and ETFs [2]	$ 804,346	1,538	0.26%	$ 728,255	1,362	0.25%
Advice solutions [2] :						
Fee-based	$ 199,468	765	0.51%	$ 175,210	678	0.52%
Intelligent Portfolios	17,740	—	—	6,662	—	—
Legacy Non-Fee	18,267	—	—	16,901	—	—
Total advice solutions	$ 235,475	765	0.43%	$ 198,773	678	0.46%
Other balance-based fees [3]	406,442	192	0.06%	335,555	176	0.07%
Other [4]		34			38	
Total asset management and administration fees		$ 2,529			$ 2,254	

(1) Includes Schwab ETF OneSource™.
(2) Average client assets for advice solutions may also include the asset balances contained in the mutual fund and/or ETF categories listed above.
(3) Includes various asset-related fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees. Beginning in the first quarter of 2017, a prospective methodology change was made to average client assets relating to 401(k) recordkeeping fees to provide improved insight into the associated fee driver, which resulted in an increase of approximately $25 billion. There was no impact to revenue or the average fee.
(4) Includes miscellaneous service and transaction fees relating to mutual funds and ETFs that are not balance-based.

Asset management and administration fees increased by $63 million, or 8%, and $275 million, or 12% in the third quarter and first nine months of 2017 compared to the same periods in 2016, as a result of further improvement in net money fund revenue from rising rates and growing balances in advised solutions, mutual funds, and ETFs.

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

Net Interest Revenue

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

Three Months Ended September 30,	2017			2016		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets:						
Cash and cash equivalents	$ 10,498	$ 33	1.25%	$ 12,875	$ 17	0.53%
Cash and investments segregated	17,355	44	1.01%	19,941	24	0.48%
Broker-related receivables (1)	459	1	0.96%	667	—	0.31%
Receivables from brokerage clients	16,498	151	3.63%	14,940	123	3.28%
Available for sale securities (2)	45,906	187	1.62%	74,064	227	1.22%
Held to maturity securities	107,557	606	2.24%	57,669	349	2.41%
Bank loans	16,058	122	3.01%	14,739	100	2.70%
Total interest-earning assets	214,331	1,144	2.12%	194,895	840	1.71%
Other interest revenue		32			51	
Total interest-earning assets	$ 214,331	$ 1,176	2.18%	$ 194,895	$ 891	1.82%
Funding sources:						
Bank deposits	$ 163,039	$ 49	0.12%	$ 143,578	$ 10	0.03%
Payables to brokerage clients	24,833	6	0.10%	26,204	1	0.01%
Short-term borrowings	1,695	6	1.40%	2,952	4	0.54%
Long-term debt	3,436	30	3.46%	2,876	26	3.60%
Total interest-bearing liabilities	193,003	91	0.19%	175,610	41	0.09%
Non-interest-bearing funding sources	21,328			19,285		
Other interest expense		3			5	
Total funding sources	$ 214,331	$ 94	0.18%	$ 194,895	$ 46	0.10%
Net interest revenue		$ 1,082	2.00%		$ 845	1.72%

Nine Months Ended September 30,	2017			2016		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets:						
Cash and cash equivalents	$ 9,375	$ 72	1.03%	$ 11,510	$ 44	0.51%
Cash and investments segregated	19,609	120	0.82%	19,788	65	0.44%
Broker-related receivables (1)	428	2	0.74%	579	—	0.21%
Receivables from brokerage clients	15,861	415	3.50%	14,952	372	3.32%
Available for sale securities (2)	55,070	615	1.49%	71,230	636	1.19%
Held to maturity securities	99,523	1,691	2.27%	53,791	1,006	2.50%
Bank loans	15,764	347	2.94%	14,570	297	2.72%
Total interest-earning assets	215,630	3,262	2.02%	186,420	2,420	1.73%
Other interest revenue		96			121	
Total interest-earning assets	$ 215,630	$ 3,358	2.08%	$ 186,420	$ 2,541	1.82%
Funding sources:						
Bank deposits	$ 163,475	$ 98	0.08%	$ 137,093	$ 26	0.03%
Payables to brokerage clients	26,198	11	0.06%	26,079	2	0.01%
Short-term borrowings	1,475	11	1.00%	1,674	6	0.48%
Long-term debt	3,349	89	3.55%	2,876	78	3.62%
Total interest-bearing liabilities	194,497	209	0.14%	167,722	112	0.09%
Non-interest-bearing funding sources	21,133			18,698		
Other interest expense		14			14	
Total funding sources	$ 215,630	$ 223	0.14%	$ 186,420	$ 126	0.09%
Net interest revenue		$ 3,135	1.94%		$ 2,415	1.73%

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

Net interest revenue increased $237 million, or 28%, and $720 million, or 30%, in the third quarter and first nine months of 2017 compared to the same periods in 2016 due to higher interest rates and growth in interest-earning assets driven by bank deposits.

Higher short-term interest rates reflecting the Federal Reserve's March and June 2017 and December 2016 interest rate hikes, coupled with growth in interest-earning assets, have resulted in a 28 and 21 basis point improvement in net interest margins to 2.00% and 1.94% during the third quarter and first nine months of 2017, respectively, compared to the same periods in 2016.

Compared to the prior year, the Company has grown bank deposits through a combination of:

- Gathering additional assets from new and current clients;
- Transferring uninvested cash balances in certain client brokerage accounts to Schwab Bank; and
- Establishing the Schwab Bank sweep feature as the default investment option for uninvested cash balances within all new brokerage accounts as of June 2016.

For the nine months ended September 30, 2017, net interest revenue represented 49% of total net revenues, growing from 44% in the same period in the prior year.

In March 2017, the Company transferred $24.7 billion of debt securities from the available for sale (AFS) category to the held to maturity (HTM) category. The transfer had no effect on the overall net interest margin. For additional information on the transfer, see Item 1 – Note 3.

Trading Revenue

The following table presents trading revenue and the related drivers:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
Daily average revenue trades (in thousands)	312	268	16 %	313	291	8 %
Clients' daily average trades (in thousands)	633	543	17 %	602	558	8 %
Number of trading days	62.5	64.0	(2)%	187.5	189.0	(1)%
Average revenue per revenue trade	$ 7.74	$ 11.17	(31)%	$ 8.52	$ 11.30	(25)%
Trading revenue	$ 151	$ 190	(21)%	$ 500	$ 623	(20)%

During the first quarter of 2017, the Company announced two trading price reductions which lowered standard equity, ETF, and option trade commissions from $8.95 to $4.95 and lowered the per contract option fee from $.75 to $.65. Trading revenue decreased by $39 million, or 21%, and $123 million, or 20%, in the third quarter and first nine months of 2017, respectively, compared to the same periods in 2016, primarily due to these pricing reductions. These reductions in commission rates reflect both the Company's belief that pricing should never be an obstacle for choosing Schwab and the Company's commitment to share the benefits of its scale with clients. With these changes, trading revenue represented 8% of total net revenues through the first nine months of 2017 compared to 11% for the same period in 2016.

Other Revenue

Other revenue decreased by $5 million, or 7%, in the third quarter of 2017 compared to the third quarter of 2016 largely due to litigation proceeds of $14 million relating to non-agency mortgage backed securities recorded in the third quarter of 2016 which did not reoccur in 2017.

Other revenue increased $3 million, or 1%, in the first nine months of 2017 compared to the same period in 2016, primarily due to sublease income from office space in San Francisco, an increase in order flow revenue, and an increase in realized gains on sales of AFS securities, largely offset by the absence of litigation proceeds in 2017.

Order flow revenue was $29 million and $26 million during the third quarters of 2017 and 2016 and $82 million and $78 million during the first nine months of 2017 and 2016, respectively.

Expenses Excluding Interest

The following table shows a comparison of expenses excluding interest:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
Compensation and benefits						
Salaries and wages	$ 372	$ 343	8 %	$ 1,110	$ 1,018	9 %
Incentive compensation	187	170	10 %	580	509	14 %
Employee benefits and other	103	96	7 %	336	310	8 %
Total compensation and benefits	$ 662	$ 609	9 %	$ 2,026	$ 1,837	10 %
Professional services	152	131	16 %	429	372	15 %
Occupancy and equipment	111	100	11 %	323	299	8 %
Advertising and market development	63	64	(2)%	205	204	—
Communications	56	57	(2)%	171	179	(4)%
Depreciation and amortization	69	60	15 %	200	173	16 %
Other	107	99	8 %	325	273	19 %
Total expenses excluding interest	$ 1,220	$ 1,120	9 %	$ 3,679	$ 3,337	10 %
Expenses as a percentage of total net revenues:						
Compensation and benefits	31%	32%		32%	33%	
Advertising and market development	3%	3%		3%	4%	
Full-time equivalent employees (in thousands):						
At quarter end	17.3	16.1	7 %			
Average	17.1	16.2	6 %	16.7	15.9	5 %

Salaries and wages increased in the third quarter and first nine months of 2017 compared to the same periods in 2016 primarily due to an increase in employee headcount to support the growth in the business and annual salary increases.

Incentive compensation increased in the third quarter and first nine months of 2017 compared to the same periods in 2016 primarily due to higher incentive plan costs related to increased net client asset flows and increased employee headcount.

Employee benefits and other expenses increased in the third quarter and first nine months of 2017 compared to the same periods in 2016 primarily due to higher payroll taxes and employer 401(k) matching contributions, which resulted from increased salaries and wages and incentive compensation.

Professional services expense increased in the third quarter and first nine months of 2017 compared to the same periods in 2016 primarily due to higher spending on technology projects and an increase in asset management and administration related expenses resulting from growth in the Schwab Funds® and Schwab ETFs™.

Depreciation and amortization expenses grew in the third quarter and first nine months of 2017 compared to the same periods in 2016 primarily due to higher amortization of internally developed software as projects were completed and placed into production.

Other expenses increased in the third quarter and first nine months of 2017 compared to the same periods in 2016 primarily due to an increase in the Company's Federal Deposit Insurance Corporation (FDIC) assessments. The FDIC assessments rose as a result of higher bank deposits and the effect of the new surcharge that commenced in the third quarter of 2016.

Taxes on Income

Effective January 1, 2017, the Company adopted Accounting Standards Update (ASU) 2016-09, which prospectively changes the accounting treatment of a portion of the tax deductions relating to equity compensation. These deductions were previously reflected directly in additional paid-in capital, a component of stockholders' equity, and are now included in tax expense, a component of net income. As a result of this change, the Company's tax expense was reduced by approximately $11 million and $47 million in the third quarter and first nine months of 2017, respectively. Future effects will depend on the Company's share price, restricted stock vesting, and the volume of equity incentive options exercised.

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

The Company's effective income tax rate on income before taxes was 34.6% and 36.6% for the third quarters of 2017 and 2016, respectively, and 34.9% and 37.0% for the first nine months of 2017 and 2016, respectively, which reflects the equity compensation benefit in the first nine months of 2017 as discussed above and state-related tax benefits recognized during the third quarter of 2017.

Segment Information

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

	Investor Services			Advisor Services			Total		
Three Months Ended September 30,	Percent Change	2017	2016	Percent Change	2017	2016	Percent Change	2017	2016
Net Revenues:									
Asset management and administration fees	8 %	$ 595	$ 550	7 %	$ 266	$ 248	8 %	$ 861	$ 798
Net interest revenue	25 %	818	654	38 %	264	191	28 %	1,082	845
Trading revenue	(24)%	94	123	(15)%	57	67	(21)%	151	190
Other	(4)%	54	56	(15)%	17	20	(7)%	71	76
Provision for loan losses	(100)%	—	4	—	—	1	(100)%	—	5
Total net revenues	13 %	1,561	1,387	15 %	604	527	13 %	2,165	1,914
Expenses Excluding Interest	8 %	918	847	11 %	302	273	9 %	1,220	1,120
Income before taxes on income	19 %	$ 643	$ 540	19 %	$ 302	$ 254	19 %	$ 945	$ 794

	Investor Services			Advisor Services			Total		
Nine Months Ended September 30,	Percent Change	2017	2016	Percent Change	2017	2016	Percent Change	2017	2016
Net Revenues:									
Asset management and administration fees	13 %	$ 1,743	$ 1,536	9 %	$ 786	$ 718	12 %	$ 2,529	$ 2,254
Net interest revenue	25 %	2,366	1,895	48 %	769	520	30 %	3,135	2,415
Trading revenue	(21)%	311	395	(17)%	189	228	(20)%	500	623
Other	4 %	159	153	(5)%	53	56	1 %	212	209
Provision for loan losses	—	—	4	—	—	1	—	—	5
Total net revenues	15 %	4,579	3,983	18 %	1,797	1,523	16 %	6,376	5,506
Expenses Excluding Interest	10 %	2,762	2,518	12 %	917	819	10 %	3,679	3,337
Income before taxes on income	24 %	$ 1,817	$ 1,465	25 %	$ 880	$ 704	24 %	$ 2,697	$ 2,169

Investor Services

Net revenues rose by 13% in the third quarter and 15% for the first nine months of 2017 compared to the same periods in 2016, primarily due to increases in net interest revenue and asset management and administration fees, partially offset by a decrease in trading revenue. Net interest revenue increased primarily due to higher net interest margins and higher balances of interest-earning assets. Asset management and administration fees increased primarily due to higher client assets enrolled in advisory solutions and mutual funds, and higher net fees on money market fund assets. Trading revenue decreased primarily due to the reductions in commissions rates announced earlier in the year.

Expenses excluding interest increased by 8% in the third quarter and 10% for the first nine months of 2017 compared to the same periods in 2016, primarily due to higher compensation and benefits, technology project spend and asset management and administration related expenses.

Advisor Services

Net revenues rose by 15% and 18%, in the third quarter and first nine months of 2017 compared to the same periods in 2016, primarily due to increases in net interest revenue and asset management and administration fees, partially offset by a decrease in trading revenue. Net interest revenue increased primarily due to higher balances of interest-earning assets and higher net interest margins. This growth in interest-earning assets was aided by the migration of more uninvested client cash balances in the segment to Schwab Bank. Asset management and administration fees increased primarily due to higher net fees on money market fund assets and growth in client assets invested in equity and bond funds and ETFs. Trading revenue decreased primarily due to the reductions in commissions rates announced earlier in the year.

Expenses excluding interest increased by 11% and 12%, in the third quarter and first nine months of 2017 compared to the same periods in 2016, primarily due to higher compensation and benefits, technology project spend, asset management and administration related expenses and FDIC regulatory assessments.

RISK MANAGEMENT

The Company's business activities expose it to a variety of risks, including operational, credit, market, liquidity, and compliance risk. The Company has a comprehensive risk management program to identify and manage these risks and their associated potential for financial and reputational impact. For a discussion of the Company's risk management programs, see Item 7 – Risk Management in the 2016 Form 10-K.

Credit Risk

Credit risk is the potential for loss due to a borrower, counterparty, or issuer failing to perform on its contractual obligations. The Company's exposure to credit risk mainly results from margin lending and client option and futures activities, securities lending, mortgage lending, pledged asset lending, its role as a counterparty in financial contracts, and other investing activities. Client investing activities often include the use of leverage through margin, options, and futures positions. The Company manages collateral concentrations at the account level and across client portfolios.

The credit risk exposure related to the Company's bank loans is actively managed based on established underwriting principles and guidelines and is monitored 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 loan losses. For more information on the Company's credit quality indicators relating to its bank loans, see Item 1 – Note 4.

The Company also has exposure to concentration risk when holding large positions in financial instruments collateralized by assets with similar economic characteristics or in securities of a single issuer or within a particular industry or geographical area. The fair value of the Company's investments in corporate debt securities and commercial paper totaled $10.3 billion at September 30, 2017, with 44% issued by institutions in the financial services industry. For more information on the Company's investment portfolios, see Item 1 – Note 3.

Market Risk

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

The Company is exposed to interest rate risk primarily from changes in market interest rates on its interest-earning assets relative to changes in the costs of its funding sources that finance these assets. The majority of the Company's interest-earning assets and interest-bearing liabilities are sensitive to changes in short-term interest rates. A portion of the Company's investment portfolio is sensitive to changes in long-term interest rates.

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

Net Interest Revenue Simulation

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

If the Company's guidelines for its net interest revenue sensitivity are breached, management must report the breach to the Company's Corporate Asset-Liability Management and Pricing Committee and establish a plan to address the interest rate risk. There were no breaches of the Company's net interest revenue sensitivity risk limits during the nine months ended September 30, 2017, or year ended December 31, 2016.

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

The simulations in the following table assume that the asset and liability structure of the consolidated balance sheet would not be changed as a result of the simulated changes in interest rates. As the Company actively manages its consolidated balance sheet and interest rate exposure, in all likelihood the Company would take steps to manage additional interest rate exposure that could result from changes in the interest rate environment. The following table displays the simulated net interest revenue change over the next 12 months beginning September 30, 2017 and December 31, 2016 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:

	September 30, 2017	December 31, 2016
Increase of 100 basis points	5.2 %	6.5 %
Decrease of 100 basis points	(8.3)%	(9.8)%

The change in net interest revenue sensitivities as of September 30, 2017 reflects the increase in short-term interest rates. An increase in short-term interest rates positively impacts net interest revenue as yields on interest-earning assets 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 an offsetting reduction in interest expense from funding sources, compressing net interest margin.

Liquidity Risk

Liquidity risk is the potential that the Company will be unable to meet cash flow obligations when they come due without incurring unacceptable losses. The Company's primary source of funds is cash generated by client activity: bank deposits and cash balances in client brokerage accounts. Other sources of funds may include cash flows from operations, maturities and sales of investment securities, repayments on loans, lending securities held in client brokerage accounts, and cash provided by external financing.

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

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

In addition to internal sources of liquidity, the Company has sources of external funding. The following table describes debt facilities available to the Company:

Description	Borrower	Available at September 30, 2017 [1]
Committed, unsecured credit facility with various external banks [2]	CSC	$ 750
Uncommitted, unsecured lines of credit with various external banks	CSC, Schwab	1,129
Federal Reserve Bank discount window	Schwab Bank	3,402
Federal Home Loan Bank secured credit facility	Schwab Bank	14,875
Unsecured commercial paper	CSC	750

(1) See Item 1 – Note 7 for information on amounts outstanding. For additional information on the Company's borrowing facilities, including financial covenants and other conditions of borrowing, see Item 7 – Liquidity Risk in the 2016 Form 10-K.
(2) In June 2017, CSC entered into this facility, which is set to expire in June 2018. This facility replaced a similar facility that expired in June 2017. The funds under this facility are available for general corporate purposes.

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

On March 2, 2017, CSC issued $650 million aggregate principal amount of Senior Notes that mature in 2027. The Senior Notes have a fixed interest rate of 3.200% with interest payable semi-annually. CSC used the net proceeds from the sale of the Senior Notes for general corporate purposes.

In September 2017, CSC's $250 million, 6.375% Medium-Term Notes, Series A (Medium-Term Notes), matured.

CSC's ratings for commercial paper notes are P1 by Moody's, A1 by Standard & Poor's, and F1 by Fitch. CSC's Senior Notes are rated A2 by Moody's, A by Standard & Poor's, and A by Fitch. CSC's preferred stock is rated Baa2 by Moody's, BBB by Standard & Poor's, and BB+ by Fitch. For further discussion of CSC's debt and equity, see Item 1 – Note 7 and Note 11.

Beginning on January 1, 2016, the Company became subject to the modified liquidity coverage ratio (LCR) rule which was fully phased in on January 1, 2017 and requires CSC to hold High Quality Liquid Assets equal to at least 70% of projected net cash outflows over a 30-day period, as defined by the rule. At September 30, 2017, the Company was in compliance with the fully phased-in modified LCR rule. For additional information on the LCR rule, see Item 1 – Business – Regulation in the 2016 Form 10-K.

CAPITAL MANAGEMENT

The Company seeks to manage capital to a level and composition sufficient to support execution of its business strategy, including anticipated balance sheet growth, providing financial support to its subsidiaries, and sustained access to the capital markets, while at the same time meeting its regulatory capital requirements and serving as a source of financial strength to Schwab Bank.

The Company's primary sources of capital are funds generated by the operations of its subsidiaries and securities issuances by CSC in the capital markets. To ensure that it has a sufficient amount of capital to absorb unanticipated losses or declines in asset values, the Company has adopted a policy to remain well capitalized even in stressed scenarios. For a description of the Company's internal guidelines, monitoring and governance processes, see Item 7 – Capital Management in the 2016 Form 10-K.

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

Regulatory Capital Requirements

CSC and Schwab Bank are subject to various capital requirements set by regulatory agencies as discussed in further detail in the 2016 Form 10-K and in Item 1 – Note 14. As of September 30, 2017, CSC and Schwab Bank are considered well capitalized.

The following table details CSC's and Schwab Bank's capital ratios as of September 30, 2017 and December 31, 2016:

	September 30, 2017		December 31, 2016	
	CSC	Schwab Bank	CSC	Schwab Bank
Total stockholders' equity	$ 18,027	$ 12,769	$ 16,421	$ 11,726
Less:				
Preferred Stock	2,783	—	2,783	—
Common Equity Tier 1 Capital before regulatory adjustments	$ 15,244	$ 12,769	$ 13,638	$ 11,726
Less:				
Goodwill, net of associated deferred tax liabilities	$ 1,175	$ 11	$ 1,175	$ 11
Other intangible assets, net of associated deferred tax liabilities	46	—	52	—
Deferred tax assets, net of valuation allowances and deferred tax liabilities	1	—	—	—
AOCI adjustment [1]	(106)	(104)	(163)	(163)
Common Equity Tier 1 Capital	$ 14,128	$ 12,862	$ 12,574	$ 11,878
Tier 1 Capital	$ 16,911	$ 12,862	$ 15,357	$ 11,878
Total Capital	$ 16,939	$ 12,889	$ 15,384	$ 11,904
Risk-Weighted Assets	72,037	64,173	68,179	59,915
Common Equity Tier 1 Capital/Risk-Weighted Assets	19.6%	20.0%	18.4%	19.8%
Tier 1 Capital/Risk-Weighted Assets	23.5%	20.0%	22.5%	19.8%
Total Capital/Risk-Weighted Assets	23.5%	20.1%	22.6%	19.9%
Tier 1 Leverage Ratio	7.7%	7.2%	7.2%	7.0%

[1] CSC and Schwab Bank have elected to opt-out of the requirement to include most components of accumulated other comprehensive income (AOCI) in regulatory capital, including Common Equity Tier 1 (CET1) Capital. The year after the Company surpasses $250 billion in consolidated assets, it can no longer exclude AOCI from regulatory capital.

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

The Company's broker-dealer subsidiaries (Schwab and optionsXpress, Inc. (optionsXpress)) are subject to regulatory requirements of the Uniform Net Capital Rule. At September 30, 2017, Schwab and optionsXpress exceeded their net capital requirements.

In addition to the capital requirements above, the Company's subsidiaries are subject to various regulatory requirements that are intended to ensure financial soundness and liquidity. See Item 1 – Note 14 for additional information on the components of stockholders' equity and information on the capital requirements of each of the subsidiaries.

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

Dividends

Cash dividends paid and per share amounts for the first nine months of 2017 and 2016 are as follows:

Nine Months Ended September 30,	2017		2016	
	Cash Paid	Per Share Amount	Cash Paid	Per Share Amount
Common Stock	$ 323	$ 0.24	$ 266	$ 0.20
Series A Preferred Stock [1]	28	70.00	28	70.00
Series B Preferred Stock [2]	22	45.00	22	45.00
Series C Preferred Stock [2]	27	45.00	27	45.00
Series D Preferred Stock [2,3]	33	44.64	22	28.77
Series E Preferred Stock [4]	23	3,867.01	N/A	N/A

[1] Dividends paid semi-annually until February 1, 2022 and quarterly thereafter.
[2] Dividends paid quarterly.
[3] Series D Preferred Stock was issued on March 7, 2016.
[4] Series E Preferred Stock was issued on October 31, 2016. Dividends paid semi-annually until March 1, 2022 and quarterly thereafter.
N/A Not applicable.

OTHER

Foreign Holdings

At September 30, 2017, the Company had exposure to non-sovereign financial and non-financial institutions in foreign countries of $6.8 billion, with the fair value of the top three exposures being to issuers and counterparties domiciled in Sweden at $1.9 billion, France at $1.8 billion, and Canada at $0.8 billion.

Additionally, at September 30, 2017, the Company held AFS and HTM securities with a total fair value of $100 million issued by agencies of foreign governments. These securities are explicitly guaranteed by governments of the issuing agencies.

The Company does not have unfunded commitments to counterparties in foreign countries, nor does it have exposure as a result of credit default protection purchased or sold separately as of September 30, 2017.

In addition to the direct holdings in foreign companies and securities issued by foreign government agencies, the Company has indirect exposure to foreign countries through its investments in CSIM money market funds (collectively, the Funds) resulting from brokerage clearing activities. At September 30, 2017, the Company had $67 million in investments in these Funds. Certain of the Funds' positions include certificates of deposits, time deposits, commercial paper, and corporate debt securities issued by counterparties in foreign countries. Additionally, at September 30, 2017, the Company had outstanding margin loans to foreign residents of $546 million.

Off-Balance Sheet Arrangements

The Company enters into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of its clients. These arrangements include firm commitments to extend credit. Additionally, the Company enters into guarantees and other similar arrangements in the ordinary course of business. For information on each of these arrangements, see Item 1 – Note 4, Note 5, Note 7, and Note 8 , and Item 8 – Note 15 in the 2016 Form 10-K.

CRITICAL ACCOUNTING ESTIMATES

Certain of the Company's accounting policies that involve a higher degree of judgment and complexity are discussed in Part II – Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates in the 2016 Form 10-K. With the exception of adding Income Taxes, there have been no other changes to critical accounting estimates during the first nine months of 2017.

Income Taxes

The Company estimates income tax expense based on amounts expected to be owed to the various tax jurisdictions in which it operates, 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. Accrued taxes are reported in other assets or other liabilities on the condensed 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, the Company assesses 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Part I - FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements

THE CHARLES SCHWAB CORPORATION
Condensed Consolidated Statements of Income
(In Millions, Except Per Share Amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net Revenues				
Asset management and administration fees [1]	$ 861	$ 798	$ 2,529	$ 2,254
Interest revenue	1,176	891	3,358	2,541
Interest expense	(94)	(46)	(223)	(126)
Net interest revenue	1,082	845	3,135	2,415
Trading revenue	151	190	500	623
Other	71	76	212	209
Provision for loan losses	—	5	—	5
Total net revenues	2,165	1,914	6,376	5,506
Expenses Excluding Interest				
Compensation and benefits	662	609	2,026	1,837
Professional services	152	131	429	372
Occupancy and equipment	111	100	323	299
Advertising and market development	63	64	205	204
Communications	56	57	171	179
Depreciation and amortization	69	60	200	173
Other	107	99	325	273
Total expenses excluding interest	1,220	1,120	3,679	3,337
Income before taxes on income	945	794	2,697	2,169
Taxes on income [2]	327	291	940	802
Net Income	618	503	1,757	1,367
Preferred stock dividends and other [3]	43	33	127	99
Net Income Available to Common Stockholders	$ 575	$ 470	$ 1,630	$ 1,268
Weighted-Average Common Shares Outstanding:				
Basic	1,339	1,324	1,338	1,322
Diluted	1,353	1,334	1,352	1,332
Earnings Per Common Share:				
Basic	$ .43	$ .36	$ 1.22	$ .96
Diluted	$ .42	$ .35	$ 1.21	$ .95
Dividends Declared Per Common Share	$ .08	$ .07	$ .24	$ .20

(1) Includes the effect of fee waivers of $1 million and $41 million during the third quarters of 2017 and 2016, respectively, and $10 million and $193 million during the first nine months of 2017 and 2016, respectively, relating to Schwab-sponsored money market funds.
(2) Includes the prospective adoption of ASU 2016-09 in 2017. See New Accounting Standards in Note 2 for additional information.
(3) Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net Income	$ 618	$ 503	$ 1,757	$ 1,367
Other comprehensive income (loss), before tax:				
Change in net unrealized gain (loss) on available for sale securities:				
Net unrealized gain (loss)	—	77	81	266
Reclassification of net unrealized loss transferred to held to maturity	—	—	227	—
Other reclassifications included in other revenue	—	—	(7)	(3)
Change in net unrealized gain (loss) on held to maturity securities:				
Reclassification of net unrealized loss transferred from available for sale	—	—	(227)	—
Amortization of amounts previously recorded upon transfer from available for sale	10	—	21	—
Other	—	—	(3)	1
Other comprehensive income (loss), before tax	10	77	92	264
Income tax effect	(4)	(29)	(35)	(99)
Other comprehensive income (loss), net of tax	6	48	57	165
Comprehensive Income	$ 624	$ 551	$ 1,814	$ 1,532

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 12,253	$ 10,828
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $7,247 at September 30, 2017 and $9,547 at December 31, 2016)	15,933	22,174
Receivables from brokers, dealers, and clearing organizations	665	728
Receivables from brokerage clients — net	18,461	17,155
Other securities owned — at fair value	427	449
Available for sale securities	48,062	77,365
Held to maturity securities (fair value — $114,332 at September 30, 2017 and $74,444 at December 31, 2016)	114,376	75,203
Bank loans — net	16,232	15,403
Equipment, office facilities, and property — net	1,392	1,299
Goodwill	1,227	1,227
Intangible assets — net	115	144
Other assets	1,571	1,408
Total assets	$ 230,714	$ 223,383
Liabilities and Stockholders' Equity		
Bank deposits	$ 165,263	$ 163,454
Payables to brokers, dealers, and clearing organizations	5,427	2,407
Payables to brokerage clients	31,480	35,894
Accrued expenses and other liabilities	2,249	2,331
Short-term borrowings	5,000	—
Long-term debt	3,268	2,876
Total liabilities	212,687	206,962
Stockholders' equity:		
Preferred stock — $.01 par value per share; aggregate liquidation preference of $2,835 at September 30, 2017 and December 31, 2016	2,783	2,783
Common stock — 3 billion shares authorized; $.01 par value per share; 1,487,543,446 shares issued	15	15
Additional paid-in capital	4,365	4,267
Retained earnings	13,963	12,649
Treasury stock, at cost — 147,513,629 shares at September 30, 2017 and 154,793,560 shares at December 31, 2016	(2,993)	(3,130)
Accumulated other comprehensive income (loss)	(106)	(163)
Total stockholders' equity	18,027	16,421
Total liabilities and stockholders' equity	$ 230,714	$ 223,383

See Notes to Condensed Consolidated Financial Statements.

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

	Preferred Stock	Common stock Shares	Common stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2015	$ 1,459	1,488	$ 15	$ 4,152	$ 11,253	$ (3,343)	$ (134)	$ 13,402
Net income	—	—	—	—	1,367	—	—	1,367
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	165	165
Issuance of preferred stock, net	733	—	—	—	—	—	—	733
Dividends declared on preferred stock	—	—	—	—	(84)	—	—	(84)
Dividends declared on common stock	—	—	—	—	(266)	—	—	(266)
Stock option exercises and other	—	—	—	(16)	—	48	—	32
Share-based compensation and related tax effects	—	—	—	104	—	—	—	104
Other	—	—	—	14	(9)	12	—	17
Balance at September 30, 2016	$ 2,192	1,488	$ 15	$ 4,254	$ 12,261	$ (3,283)	$ 31	$ 15,470
Balance at December 31, 2016	$ 2,783	1,488	$ 15	$ 4,267	$ 12,649	$ (3,130)	$ (163)	$ 16,421
Net income	—	—	—	—	1,757	—	—	1,757
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	57	57
Dividends declared on preferred stock	—	—	—	—	(120)	—	—	(120)
Dividends declared on common stock	—	—	—	—	(323)	—	—	(323)
Stock option exercises and other	—	—	—	(30)	—	128	—	98
Share-based compensation and related tax effects	—	—	—	105	—	—	—	105
Other	—	—	—	23	—	9	—	32
Balance at September 30, 2017	$ 2,783	1,488	$ 15	$ 4,365	$ 13,963	$ (2,993)	$ (106)	$ 18,027

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash Flows from Operating Activities		
Net income	$ 1,757	$ 1,367
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Provision for loan losses	—	(5)
Share-based compensation	111	101
Depreciation and amortization	200	173
Premium amortization, net, on available for sale securities and held to maturity securities	240	181
Other	35	25
Net change in:		
Cash and investments segregated and on deposit for regulatory purposes	6,241	(479)
Receivables from brokers, dealers, and clearing organizations	61	(370)
Receivables from brokerage clients	(1,310)	928
Other securities owned	22	(325)
Other assets	(76)	(61)
Payables to brokers, dealers, and clearing organizations	(957)	(111)
Payables to brokerage clients	(4,414)	(224)
Accrued expenses and other liabilities	(82)	(226)
Net cash provided by (used for) operating activities	1,828	974
Cash Flows from Investing Activities		
Purchases of available for sale securities	(6,375)	(22,782)
Proceeds from sales of available for sale securities	5,773	4,645
Principal payments on available for sale securities	6,532	8,652
Purchases of held to maturity securities	(19,886)	(19,439)
Principal payments on held to maturity securities	7,927	3,841
Net increase in bank loans	(829)	(600)
Purchases of equipment, office facilities, and property	(267)	(272)
Purchases of Federal Home Loan Bank stock	(160)	(152)
Proceeds from sales of Federal Home Loan Bank stock	106	88
Other investing activities	(52)	(25)
Net cash provided by (used for) investing activities	(7,231)	(26,044)
Cash Flows from Financing Activities		
Net change in bank deposits	1,809	20,128
Net proceeds from short-term borrowings	5,000	3,001
Issuance of long-term debt	643	—
Repayment of long-term debt	(256)	(5)
Net proceeds from preferred stock offering	—	725
Dividends paid	(456)	(365)
Proceeds from stock options exercised and other	98	31
Other financing activities	(10)	8
Net cash provided by (used for) financing activities	6,828	23,523
Increase (Decrease) in Cash and Cash Equivalents	1,425	(1,547)
Cash and Cash Equivalents at Beginning of Period	10,828	11,978
Cash and Cash Equivalents at End of Period	$ 12,253	$ 10,431
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	$ 233	$ 141
Income taxes	$ 890	$ 757
Non-cash investing activity:		
Securities purchased during the period but settled after period end	$ 3,977	$ 1,021

See Notes to Condensed Consolidated Financial Statements.

1. Introduction and Basis of Presentation

CSC is a savings and loan holding company engaged, through its subsidiaries, in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services. Schwab is a securities broker-dealer with over 345 domestic branch offices in 46 states, as well as a branch in the Commonwealth of Puerto Rico. In addition, Schwab serves clients in London, England and Hong Kong through one of CSC's subsidiaries. Other subsidiaries include Schwab Bank, a federal savings bank, and CSIM, the investment advisor for Schwab Funds® and Schwab ETFs™.

The accompanying unaudited condensed consolidated financial statements include CSC and its majority-owned subsidiaries (collectively, referred to as the Company). Intercompany balances and transactions have been eliminated. These condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the U.S. (GAAP), which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying financial statements. Certain estimates relate to other-than-temporary impairment (OTTI) of investment securities, valuation of goodwill, allowance for loan losses, legal and regulatory reserves, and income taxes. Actual results may differ from those estimates.

These condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the periods presented. These adjustments are of a normal recurring nature. The Company's results for any interim period are not necessarily indicative of results for a full year or any other interim period. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the 2016 Form 10-K.

The Company's significant accounting policies are included in Note 2 in the 2016 Form 10-K. There have been no significant changes to these accounting policies during the first nine months of 2017 except as described in Note 2 below.

Principles of Consolidation

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

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

2. New Accounting Standards

Adoption of New Accounting Standards

The Company adopted ASU 2016-09, "Stock Compensation – Improvements to Employee Share-Based Payment Accounting (Topic 718)," on a prospective basis as of January 1, 2017. This guidance requires entities to recognize the income tax effects for the difference between GAAP and federal income tax treatment (i.e., excess tax benefit or deficiency) of share-based awards in the income statement when the awards vest or are settled, rather than recording such effects in additional paid-in capital. As a result, the Company's tax expense was reduced by approximately $11 million and $47 million in the third quarter and first nine months of 2017, respectively. Future effects will depend on the Company's share price, restricted stock vesting, and the volume of equity incentive options exercised. ASU 2016-09 also provides entities with an accounting policy election to account for the impact of forfeitures of awards on compensation expense as they occur or continue with the current practice of estimating forfeitures at the grant date to determine the number of awards expected to vest and adjusting that estimate as necessary. The Company has elected to continue to follow the current practice of estimating forfeitures.

New Accounting Standards Not Yet Adopted

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," provides new guidance on revenue recognition. The guidance clarifies that revenue from contracts with customers should be recognized in a manner that depicts the timing of the related transfer of goods or performance of services at an amount that reflects the expected consideration. The Financial Accounting Standards Board (FASB) has subsequently issued several amendments to the standard, including deferral of the effective date until January 1, 2018, clarification of principal versus agent considerations, narrow scope improvements, and other technical corrections. Entities may elect either full or modified retrospective transition. Full retrospective transition will require a cumulative effect adjustment to retained earnings as of the earliest comparative period presented. Modified retrospective transition will require a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance.

The Company plans to adopt the revenue recognition guidance in the first quarter of 2018 using the modified retrospective method. The guidance does not apply to the Company's loans and securities. Accordingly, the Company does not expect an impact to net interest revenue. The Company believes the primary areas of potential impact for the Company are (i) the capitalization of costs to obtain a contract and (ii) gross versus net presentation of certain revenue streams in the income statement. The Company believes adoption of this guidance will likely alter the timing of recognition for costs to obtain a contract in the income statement. The next phase of the Company's implementation work is to evaluate the disclosure provisions. The Company does not expect this guidance will have a material impact on its financial statements and EPS.

ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10)," will be effective January 1, 2018 and requires a cumulative effect adjustment to the balance sheet as of the beginning of the year of initial application, except for certain changes that require prospective adoption. The main provisions of the guidance require: (i) equity investments to be measured at fair value, with changes in fair value recognized in net income, unless the equity method is applied or the equity investments do not have readily determinable fair values in which case a practical alternative may be elected; (ii) use of an exit price when measuring the fair value of financial instruments for disclosures; and (iii) separate presentation of financial assets and liabilities by measurement category and form of instrument on the balance sheet or in the accompanying notes. The Company does not expect this guidance will have a material impact on its financial statements and EPS.

ASU 2016-02, "Leases (Topic 842)," amends the accounting for leases by lessees and lessors. The primary change from the new guidance is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases. Additional changes include accounting for lease origination and executory costs, required lessee reassessments during the lease term due to changes in circumstances, and expanded lease disclosures. ASU 2016-02 will become effective January 1, 2019, with early adoption permitted, and requires entities to apply the new guidance using a modified retrospective transition. Modified retrospective transition requires entities to apply the new guidance as of the beginning of the earliest comparative period presented in the financial statements in which the entity first applies the new standard. Certain transition relief is permitted if elected by the entity. The adoption of ASU 2016-02 will result in the Company recognizing a right-of-use asset and lease liability on the consolidated balance sheet based on the present value of remaining operating lease payments (see Note 14 of the Company's 2016 Form 10-K for the undiscounted future annual minimum rental commitments for operating leases). The Company does not expect this guidance will have a material impact on its EPS.

ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," provides new guidance for recognizing impairment of most debt instruments measured at amortized cost, including loans and held to maturity (HTM) debt securities. The new guidance will require 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. The new guidance also amends the 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. ASU 2016-13 will become effective January 1, 2020, with early adoption permitted as of January 1, 2019. The new guidance will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the entity applies the new guidance except that a prospective transition is required for AFS debt securities for which an OTTI had been recognized before the effective date. The Company is currently evaluating the impact of this guidance on its financial statements and EPS.

ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," shortens the amortization period for the premium on certain callable debt securities to the earliest call date. The amendments are applicable to any purchased individual debt security with an explicit and noncontingent call feature that is callable at a fixed price on a preset date. The amendments do not impact the accounting for callable debt securities held at a discount. ASU 2017-08 will become effective on January 1, 2019, with early adoption permitted including in an interim period. The amendments will be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of adopting this guidance on its financial statements and EPS.

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

3. Investment Securities

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

September 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. agency mortgage-backed securities	$ 19,717	$ 54	$ 25	$ 19,746
Asset-backed securities	9,960	40	4	9,996
Corporate debt securities	6,449	20	1	6,468
U.S. Treasury securities	7,741	7	49	7,699
Certificates of deposit	1,840	3	—	1,843
U.S. agency notes	1,913	—	6	1,907
Commercial paper	312	—	—	312
Non-agency commercial mortgage-backed securities	41	—	—	41
Foreign government agency securities	50	—	—	50
Total available for sale securities	$ 48,023	$ 124	$ 85	$ 48,062
Held to maturity securities:				
U.S. agency mortgage-backed securities	$ 96,045	$ 492	$ 721	$ 95,816
Non-agency commercial mortgage-backed securities	995	13	2	1,006
Asset-backed securities	12,237	100	1	12,336
Corporate debt securities	3,377	26	—	3,403
U.S. Treasury securities	223	—	1	222
U.S. state and municipal securities	1,249	50	—	1,299
Certificates of deposit	200	—	—	200
Foreign government agency securities	50	—	—	50
Total held to maturity securities	$ 114,376	$ 681	$ 725	$ 114,332

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. agency mortgage-backed securities	$ 33,167	$ 120	$ 92	$ 33,195
Asset-backed securities	20,520	29	214	20,335
Corporate debt securities	9,850	20	18	9,852
U.S. Treasury securities	8,679	3	59	8,623
Certificates of deposit	2,070	2	1	2,071
U.S. agency notes	1,915	—	8	1,907
U.S. state and municipal securities	1,167	2	46	1,123
Commercial paper	214	—	—	214
Non-agency commercial mortgage-backed securities	45	—	—	45
Total available for sale securities	$ 77,627	$ 176	$ 438	$ 77,365
Held to maturity securities:				
U.S. agency mortgage-backed securities	$ 72,439	$ 324	$ 1,086	$ 71,677
Non-agency commercial mortgage-backed securities	997	11	4	1,004
Asset-backed securities	941	—	—	941
Corporate debt securities	436	—	—	436
U.S. Treasury securities	223	—	4	219
Commercial paper	99	—	—	99
U.S. state and municipal securities	68	1	1	68
Total held to maturity securities	$ 75,203	$ 336	$ 1,095	$ 74,444

The increase in the HTM portfolio at September 30, 2017 compared to December 31, 2016 was primarily attributable to the transfer of $24.7 billion of investment securities from the AFS category to the HTM category during the first quarter of 2017. These securities had a total net unrealized loss of $227 million before income tax in AOCI on the date of transfer. The transfer was made to mitigate the potential volatility in regulatory capital from changes in market values in the AFS securities portfolio and the related impact to AOCI once the Company crosses $250 billion in consolidated assets. The year after the Company surpasses $250 billion in consolidated assets, it can no longer exclude AOCI from regulatory capital. The transfer included U.S. agency mortgage-backed securities, asset-backed securities, corporate debt securities, and U.S. state and municipal securities. The unrealized holding gains and losses on the date of transfer are reported as a separate component of AOCI and as an adjustment to the purchase premium and discount on the securities transferred. The separate component of AOCI will be amortized or accreted into interest income over the remaining life of the securities transferred, offsetting the revised premium or discount amortization or accretion on the transferred assets.

Schwab Bank pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was $936 million at September 30, 2017.

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

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

	Less than 12 months		12 months or longer		Total	
September 30, 2017	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
U.S. agency mortgage-backed securities	$ 3,254	$ 6	$ 2,805	$ 19	$ 6,059	$ 25
Asset-backed securities	638	—	578	4	1,216	4
Corporate debt securities	990	1	153	—	1,143	1
U.S. Treasury securities	6,421	49	—	—	6,421	49
U.S. agency notes	1,409	5	498	1	1,907	6
Total	$ 12,712	$ 61	$ 4,034	$ 24	$ 16,746	$ 85
Held to maturity securities:						
U.S. agency mortgage-backed securities	$ 2,386	$ 90	$ 47,136	$ 631	$ 49,522	$ 721
Non-agency commercial mortgage-backed securities	—	—	491	2	491	2
Asset-backed securities	409	—	672	1	1,081	1
U.S. Treasury securities	—	—	222	1	222	1
Total	$ 2,795	$ 90	$ 48,521	$ 635	$ 51,316	$ 725
Total securities with unrealized losses (1)	$ 15,507	$ 151	$ 52,555	$ 659	$ 68,062	$ 810
December 31, 2016						
Available for sale securities:						
U.S. agency mortgage-backed securities	$ 14,816	$ 69	$ 2,931	$ 23	$ 17,747	$ 92
Asset-backed securities	1,670	13	9,237	201	10,907	214
Corporate debt securities	2,407	17	653	1	3,060	18
U.S. Treasury securities	6,926	59	—	—	6,926	59
Certificates of deposit	474	—	100	1	574	1
U.S. agency notes	1,907	8	—	—	1,907	8
U.S. state and municipal securities	956	46	—	—	956	46
Total	$ 29,156	$ 212	$ 12,921	$ 226	$ 42,077	$ 438
Held to maturity securities:						
U.S. agency mortgage-backed securities	$ 51,361	$ 1,086	$ —	$ —	$ 51,361	$ 1,086
Non-agency commercial mortgage-backed securities	591	4	—	—	591	4
U.S. Treasury securities	219	4	—	—	219	4
U.S. state and municipal securities	14	1	—	—	14	1
Total	$ 52,185	$ 1,095	$ —	$ —	$ 52,185	$ 1,095
Total securities with unrealized losses (2)	$ 81,341	$ 1,307	$ 12,921	$ 226	$ 94,262	$ 1,533

(1) The number of investment positions with unrealized losses totaled 212 for AFS securities and 698 for HTM securities.
(2) The number of investment positions with unrealized losses totaled 627 for AFS securities and 612 for HTM securities.

At September 30, 2017, 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-sponsored enterprises.

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

Management evaluates whether investment securities are OTTI on a quarterly basis as described in Note 2 in the 2016 Form 10-K.

The maturities of AFS and HTM securities are as follows:

September 30, 2017	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Available for sale securities:					
U.S. agency mortgage-backed securities (1)	$ 83	$ 2,390	$ 6,646	$ 10,627	$ 19,746
Asset-backed securities	—	8,096	1,243	657	9,996
Corporate debt securities	3,381	3,087	—	—	6,468
U.S. Treasury securities	2,069	5,630	—	—	7,699
Certificates of deposit	876	967	—	—	1,843
U.S. agency notes	847	1,060	—	—	1,907
Commercial paper	312	—	—	—	312
Non-agency commercial mortgage-backed securities (1)	—	—	—	41	41
Foreign government agency securities	—	50	—	—	50
Total fair value	$ 7,568	$ 21,280	$ 7,889	$ 11,325	$ 48,062
Total amortized cost	$ 7,563	$ 21,278	$ 7,881	$ 11,301	$ 48,023
Held to maturity securities:					
U.S. agency mortgage-backed securities (1)	$ 303	$ 11,401	$ 29,606	$ 54,506	$ 95,816
Non-agency commercial mortgage-backed securities (1)	—	—	364	642	1,006
Asset-backed securities	—	1,016	5,364	5,956	12,336
Corporate debt securities	250	3,153	—	—	3,403
U.S. Treasury securities	—	—	222	—	222
U.S. state and municipal securities	—	—	98	1,201	1,299
Certificates of deposit	—	200	—	—	200
Foreign government agency securities	—	50	—	—	50
Total fair value	$ 553	$ 15,820	$ 35,654	$ 62,305	$ 114,332
Total amortized cost	$ 553	$ 15,672	$ 35,558	$ 62,593	$ 114,376

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Proceeds	$ 288	$ 571	$ 5,773	$ 4,645
Gross realized gains	—	—	7	3
Gross realized losses	—	—	—	—

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

4. Bank Loans and Related Allowance for Loan Losses

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

September 30, 2017	Current	30-59 days past due	60-89 days past due	>90 days past due and other nonaccrual loans	Total past due and other nonaccrual loans	Total loans	Allowance for loan losses	Total bank loans - net
Residential real estate mortgages	$ 9,773	$ 11	$ 2	$ 16	$ 29	$ 9,802	$ 16	$ 9,786
Home equity loans and lines of credit	2,027	4	1	10	15	2,042	8	2,034
Pledged asset lines	4,278	1	—	—	1	4,279	—	4,279
Other	135	—	—	—	—	135	2	133
Total bank loans	$16,213	$ 16	$ 3	$ 26	$ 45	$ 16,258	$ 26	$ 16,232
December 31, 2016								
Residential real estate mortgages	$ 9,100	$ 15	$ 3	$ 16	$ 34	$ 9,134	$ 17	$ 9,117
Home equity loans and lines of credit	2,336	2	2	10	14	2,350	8	2,342
Pledged asset lines	3,846	4	1	—	5	3,851	—	3,851
Other	94	—	—	—	—	94	1	93
Total bank loans	$15,376	$ 21	$ 6	$ 26	$ 53	$ 15,429	$ 26	$ 15,403

Residential real estate mortgages (First Mortgages) and home equity loans and lines of credit (HELOCs) include unamortized premiums and discounts and direct origination costs of $77 million and $78 million at September 30, 2017 and December 31, 2016, respectively. The Company had commitments to extend credit related to unused HELOCs, pledged asset lines (PALs), and other lines of credit, which totaled $9.6 billion and $8.4 billion at September 30, 2017 and December 31, 2016, respectively. The Company had commitments to purchase First Mortgage loans of $459 million and $466 million at September 30, 2017 and December 31, 2016, respectively. All PALs were fully collateralized by securities with fair values in excess of borrowings at September 30, 2017 and December 31, 2016.

Schwab Bank provides a co-branded loan origination program for Schwab Bank clients (the Program) with Quicken Loans, Inc. (Quicken Loans®). Pursuant to the Program, Quicken Loans originates and services First Mortgages and HELOCs for Schwab Bank clients. Under the Program, Schwab Bank purchases certain First Mortgages and HELOCs that are originated by Quicken Loans. Schwab Bank purchased First Mortgages of $696 million and $858 million during the third quarters of 2017 and 2016, respectively, and $2.0 billion and $2.1 billion during the first nine months of 2017 and 2016, respectively. Schwab Bank purchased HELOCs with commitments of $115 million and $93 million during the third quarters of 2017 and 2016, respectively, and $344 million and $315 million during the first nine months of 2017 and 2016, respectively.

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

Credit Quality

Changes in the allowance for loan losses were as follows:

Three Months Ended	September 30, 2017				September 30, 2016			
	Residential real estate mortgages	Home equity loans and lines of credit	Other	Total	Residential real estate mortgages	Home equity loans and lines of credit	Other	Total
Balance at beginning of period	$ 17	$ 8	$ 1	$ 26	$ 20	$ 10	$ 1	$ 31
Charge-offs	(1)	—	—	(1)	—	—	—	—
Recoveries	—	—	1	1	—	—	—	—
Provision for loan losses	—	—	—	—	(5)	—	—	(5)
Balance at end of period	$ 16	$ 8	$ 2	$ 26	$ 15	$ 10	$ 1	$ 26

Nine Months Ended	September 30, 2017				September 30, 2016			
	Residential real estate mortgages	Home equity loans and lines of credit	Other	Total	Residential real estate mortgages	Home equity loans and lines of credit	Other	Total
Balance at beginning of period	$ 17	$ 8	$ 1	$ 26	$ 20	$ 11	$ —	$ 31
Charge-offs	(2)	(1)	—	(3)	(1)	—	—	(1)
Recoveries	1	1	1	3	1	—	—	1
Provision for loan losses	—	—	—	—	(5)	(1)	1	(5)
Balance at end of period	$ 16	$ 8	$ 2	$ 26	$ 15	$ 10	$ 1	$ 26

Substantially all of the bank loans were collectively evaluated for impairment at September 30, 2017 and December 31, 2016. There were no loans accruing interest that were contractually 90 days or more past due at September 30, 2017 or December 31, 2016. Nonperforming assets, which include nonaccrual loans and other real estate owned, totaled $29 million and $31 million at September 30, 2017 and December 31, 2016, respectively. Impaired assets, which include nonaccrual loans, other real estate owned and troubled debt restructurings, totaled $38 million and $45 million at September 30, 2017 and December 31, 2016, respectively. Troubled debt restructurings were not material at September 30, 2017 or December 31, 2016.

In addition to monitoring delinquency, the Company 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 ratios at origination (Origination LTV); and
- Estimated current LTV ratios (Estimated Current LTV).

Borrowers' FICO scores are provided by an independent third-party credit reporting service and were last updated in September 2017. The Origination LTV and Estimated Current LTV for a HELOC include any first lien mortgage outstanding on the same property at the time of the HELOC's origination. The Estimated Current LTV for each loan is estimated by reference to a home price appreciation index.

As of September 30, 2017 and December 31, 2016, 47% and 48% of the Company's HELOC and First Mortgage portfolio was concentrated in California. These loans have performed in a manner consistent with the portfolio as a whole.

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

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

September 30, 2017	Balance	Weighted Average Updated FICO	Utilization Rate [1]	Percent of Loans on Nonaccrual Status
Residential real estate mortgages:				
Estimated Current LTV				
≤70%	$ 8,896	776	N/A	0.05%
>70% – ≤90%	893	768	N/A	0.47%
>90% – ≤100%	8	720	N/A	4.60%
>100%	5	724	N/A	—
Total	$ 9,802	776	N/A	0.09%
Home equity loans and lines of credit:				
Estimated Current LTV [2]				
≤70%	$ 1,855	772	33%	0.16%
>70% – ≤90%	160	757	49%	0.46%
>90% – ≤100%	17	747	74%	2.08%
>100%	10	718	74%	2.12%
Total	$ 2,042	770	34%	0.21%
Pledged asset lines:				
Weighted-Average LTV [2]				
=70%	$ 4,279	767	42%	—

[1] The Utilization Rate is calculated using the outstanding balance divided by the associated total line of credit.
[2] Represents the LTV for the full line of credit (drawn and undrawn).
N/A Not applicable.

September 30, 2017	Residential real estate mortgages	Home equity loans and lines of credit
Year of origination		
Pre-2013	$ 1,639	$ 1,448
2013	1,437	158
2014	569	126
2015	1,280	134
2016	2,967	107
2017	1,910	69
Total	$ 9,802	$ 2,042
Origination FICO		
<620	$ 7	$ 1
620 – 679	85	10
680 – 739	1,533	377
≥740	8,177	1,654
Total	$ 9,802	$ 2,042
Origination LTV		
≤70%	$ 7,395	$ 1,423
>70% – ≤90%	2,400	608
>90% – ≤100%	7	11
Total	$ 9,802	$ 2,042

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

December 31, 2016	Balance	Weighted Average Updated FICO	Utilization Rate [1]	Percent of Loans on Nonaccrual Status
Residential real estate mortgages:				
Estimated Current LTV				
≤70%	$ 8,350	774	N/A	0.04%
>70% – ≤90%	743	768	N/A	0.35%
>90% – ≤100%	21	747	N/A	2.08%
>100%	20	709	N/A	14.50%
Total	$ 9,134	773	N/A	0.10%
Home equity loans and lines of credit:				
Estimated Current LTV [2]				
≤70%	$ 2,070	771	35%	0.12%
>70% – ≤90%	234	757	50%	0.40%
>90% – ≤100%	29	747	66%	1.74%
>100%	17	728	70%	3.73%
Total	$ 2,350	769	36%	0.20%
Pledged asset lines:				
Weighted-Average LTV [2]				
=70%	$ 3,851	763	46%	—

[1] The Utilization Rate is calculated using the outstanding balance divided by the associated total line of credit.
[2] Represents the LTV for the full line of credit (drawn and undrawn).
N/A Not applicable.

December 31, 2016	Residential real estate mortgages	Home equity loans and lines of credit
Year of origination		
Pre-2013	$ 2,136	$ 1,765
2013	1,746	193
2014	685	152
2015	1,458	146
2016	3,109	94
Total	$ 9,134	$ 2,350
Origination FICO		
<620	$ 8	$ —
620 – 679	92	13
680 – 739	1,427	432
≥740	7,607	1,905
Total	$ 9,134	$ 2,350
Origination LTV		
≤70%	$ 6,865	$ 1,628
>70% – ≤90%	2,260	709
>90% – ≤100%	9	13
Total	$ 9,134	$ 2,350

The Company’s bank loans include $8.8 billion of adjustable rate First Mortgage loans at September 30, 2017. The Company’s adjustable rate mortgages have initial fixed interest rates for three to ten years and interest rates that adjust annually thereafter. Approximately 34% of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 56% of these interest-only loans are not scheduled to reset for three or more years. The Company's mortgage loans do not include interest terms described as temporary introductory rates below current market rates.

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

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

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

September 30, 2017	Balance
Converted to an amortizing loan by period end	$ 447
Within 1 year	475
> 1 year – 3 years	346
> 3 years – 5 years	148
> 5 years	626
Total	$ 2,042

At September 30, 2017, $1.6 billion of the HELOC portfolio was secured by second liens on the associated properties. Second lien mortgage loans typically possess a higher degree of credit risk given the subordination to the first lien holder in the event of default. In addition to the credit monitoring activities described previously, the Company also monitors credit risk by reviewing the delinquency status of the first lien loan on the associated property. At September 30, 2017, approximately 39% of the HELOC borrowers that had a balance only paid the minimum amount of interest due.

5. Variable Interest Entities

A VIE requires consolidation by the entity's primary beneficiary. The Company evaluates all entities in which it has a financial interest to determine if the entity is a VIE and if so, whether the Company is the primary beneficiary. See Principles of Consolidation in Note 1 for discussion of the Company's evaluations of VIEs and whether it is deemed to be the primary beneficiary of any VIEs in which it holds an interest. The Company was not the primary beneficiary of, and therefore not required to consolidate any VIEs at September 30, 2017 and December 31, 2016.

As of September 30, 2017 and December 31, 2016, the majority of the Company's VIEs related to Schwab Bank's Low-Income Housing Tax Credit (LIHTC) investments. Schwab Bank's LIHTC investments are accounted for using the proportional amortization method. Amortization, tax credits, and other tax benefits recognized in relation to LIHTC investments are included in taxes on income in the condensed consolidated statements of income. For further information on the Community Reinvestment Act (CRA) and Schwab Bank's LIHTC investments, see Note 2 and Note 10 in the 2016 Form 10-K.

(Tabular Amounts in Millions, Except Per Share Data, 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 the Company holds a variable interest, but as to which the Company has concluded it is not the primary beneficiary, are summarized in the table below:

	September 30, 2017			December 31, 2016		
	Aggregate assets	Aggregate liabilities	Maximum exposure to loss	Aggregate assets	Aggregate liabilities	Maximum exposure to loss
LIHTC investments [(1)]	$ 253	$ 169	$ 253	$ 189	$ 135	$ 189
Other CRA investments [(2)]	63	—	82	60	—	80
Total	$ 316	$ 169	$ 335	$ 249	$ 135	$ 269

(1) Aggregate assets and aggregate liabilities are included in other assets and accrued expenses and other liabilities, respectively, on the condensed consolidated balance sheets.
(2) Other CRA investments are recorded using either the cost method or the equity method. Aggregate assets are included in either other assets or bank loans – net on the condensed consolidated balance sheets.

The Company's maximum exposure to loss would result from the loss of the investments, including any committed amounts. During the nine months ended September 30, 2017 and 2016, the Company did not provide or intend to provide financial or other support to the VIEs that it was not contractually required to provide. Schwab Bank's funding of these remaining commitments is dependent upon the occurrence of certain conditions and Schwab Bank expects to pay substantially all of these commitments between 2017 and 2020.

6. Bank Deposits

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

	September 30, 2017	December 31, 2016
Interest-bearing deposits:		
Deposits swept from brokerage accounts	$ 144,293	$ 141,146
Checking	12,943	13,842
Savings and other	7,441	7,792
Total interest-bearing deposits	164,677	162,780
Non-interest-bearing deposits	586	674
Total bank deposits	$ 165,263	$ 163,454

7. Borrowings

Long-term debt was net of unamortized debt discounts/premiums and debt issuance costs of $26 million and $24 million at September 30, 2017 and December 31, 2016, respectively.

	September 30, 2017	December 31, 2016
Senior Notes	$ 3,205	$ 2,558
Medium-Term Notes	—	250
Finance lease obligation	63	68
Total long-term debt	$ 3,268	$ 2,876

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

On March 2, 2017, CSC issued $650 million aggregate principal amount of Senior Notes that mature in 2027. The Senior Notes have a fixed interest rate of 3.200% with interest payable semi-annually.

The Company's long-term debt at September 30, 2017 had a weighted-average interest rate of 3.11%.

Annual maturities on long-term debt outstanding are as follows:

	September 30, 2017
2017	$ 3
2018	908
2019	8
2020	709
2021	9
Thereafter	1,657
Total maturities	3,294
Unamortized discount, net	(13)
Debt issuance costs	(13)
Total long-term debt	$ 3,268

Short-term borrowings: Schwab Bank maintains a secured credit facility with the Federal Home Loan Bank of San Francisco (FHLB). Amounts available under this facility are dependent on the value of Schwab Bank's First Mortgages, HELOCs, and investment securities that are pledged as collateral. As of September 30, 2017, the collateral pledged by Schwab Bank provided a total borrowing capacity of $19.9 billion including the $5.0 billion outstanding. The Company could increase its borrowing capacity by pledging additional securities. At December 31, 2016, there were no amounts outstanding under this facility.

As a condition of the FHLB borrowings, Schwab Bank is required to hold FHLB stock, with the investment recorded in other assets on the condensed consolidated balance sheets. The investment in FHLB was $135 million at September 30, 2017 and $81 million at December 31, 2016.

CSC has authorization from its Board of Directors to issue Commercial Paper Notes not to exceed $1.5 billion. Management has set a current limit for the commercial paper program not to exceed the amount of the committed, unsecured credit facility, which was $750 million at September 30, 2017. CSC had no Commercial Paper Notes outstanding at September 30, 2017 and December 31, 2016.

CSC and Schwab also have access to uncommitted, unsecured bank credit lines with several banks. Schwab had no borrowings outstanding under these lines at September 30, 2017 and December 31, 2016.

8. Commitments and Contingencies

Guarantees and indemnifications: The Company has clients that sell (i.e., write) listed option contracts that are cleared by the Options Clearing Corporation – a clearing house that establishes margin requirements on these transactions. The Company partially satisfies the margin requirements by arranging unsecured standby letter of credit agreements (LOCs), in favor of the Options Clearing Corporation, which are issued by several banks. At September 30, 2017, the aggregate face amount of these LOCs totaled $295 million. There were no funds drawn under any of these LOCs at September 30, 2017. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The Company satisfies the collateral requirements by providing cash as collateral.

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

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

The Company believes it has strong defenses in all significant matters currently pending and is contesting liability and any damages claimed. Nevertheless, some of these matters may result in adverse judgments or awards, including penalties, injunctions or other relief, and the Company may also determine to settle a matter because of the uncertainty and risks of litigation. Described below are certain matters in which there is a reasonable possibility that a material loss could be incurred or where the matter may otherwise be of significant interest to stockholders. Unless otherwise noted, the Company is unable to provide a reasonable estimate of any potential liability given the stage of proceedings in the matter.

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

Total Bond Market Fund Litigation: On August 28, 2008, a class action lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of investors in the Schwab Total Bond Market Fund™. The lawsuit, which alleged violations of state law and federal securities law in connection with the fund's investment policy, named CSIM, Schwab Investments (registrant and issuer of the fund's shares) and certain current and former fund trustees as defendants. Allegations include that the fund improperly deviated from its stated investment objectives by investing in collateralized mortgage obligations (CMOs) and investing more than 25% of fund assets in CMOs and mortgage-backed securities without obtaining a fundholder vote. Plaintiff seeks unspecified compensatory and rescission damages, unspecified equitable and injunctive relief, costs and attorneys' fees. Plaintiff's federal securities law claim and certain of plaintiff's state law claims were dismissed. On August 8, 2011, the court dismissed plaintiff's remaining claims with prejudice. Plaintiff appealed to the Ninth Circuit, which issued a ruling on March 9, 2015 reversing the district court's dismissal of the case and remanding the case for further proceedings. Plaintiff filed a fourth amended complaint on June 25, 2015, and in decisions issued October 6, 2015 and February 23, 2016, the court dismissed all claims with prejudice. Plaintiff has appealed to the Ninth Circuit, where the case is again pending.

9. Offsetting Assets and Liabilities

Resale and repurchase agreements: Schwab enters into collateralized resale agreements principally with other broker-dealers, which could result in losses in the event the counterparty fails to purchase the securities held as collateral for the cash advanced and the fair value of the securities declines. To mitigate this risk, Schwab requires that the counterparty deliver securities to a custodian, to be held as collateral, with a fair value at or in excess of 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. Schwab utilizes the collateral provided under these resale agreements to meet obligations under broker-dealer client protection rules, which place limitations on its ability to access such segregated securities. For Schwab to repledge or sell this collateral, it would be required to deposit cash and/or securities of an equal amount into its segregated reserve bank accounts in order to meet its segregated cash and investment requirement. The Company's resale agreements are not subject to master netting arrangements.

Securities lending: The Company loans 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, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its client obligations. The Company mitigates this risk by requiring credit approvals for counterparties, monitoring the fair value of securities loaned, and requiring additional cash as collateral when necessary. The Company borrows securities from other broker-dealers to fulfill short sales by brokerage clients and delivers cash to the lender in exchange for the securities. The fair value of these borrowed securities was $336 million at September 30, 2017 and $213 million at December 31, 2016. All of the Company's securities lending transactions are subject to enforceable master netting arrangements with other broker-dealers; however, the Company does not net securities lending transactions. Therefore, the Company's securities loaned and securities borrowed are presented gross in the condensed consolidated balance sheets.

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

The following table presents information about the Company's resale agreements and securities lending activity to enable the users of the Company's financial statements to evaluate the potential effect of rights of setoff between these recognized assets and recognized liabilities at September 30, 2017 and December 31, 2016.

	Gross Assets/ Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets: Counterparty Offsetting	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets: Collateral	Net Amount
September 30, 2017						
Assets:						
Resale agreements [1]	$ 7,247	$ —	$ 7,247	$ —	$ (7,247) [2]	$ —
Securities borrowed [3]	344	—	344	(297)	(46)	1
Total	$ 7,591	$ —	$ 7,591	$ (297)	$ (7,293)	$ 1
Liabilities:						
Securities loaned [4,5]	$ 1,324	$ —	$ 1,324	$ (297)	$ (919)	$ 108
Total	$ 1,324	$ —	$ 1,324	$ (297)	$ (919)	$ 108
December 31, 2016						
Assets:						
Resale agreements [1]	$ 9,547	$ —	$ 9,547	$ —	$ (9,547) [2]	$ —
Securities borrowed [3]	393	—	393	(200)	(189)	4
Total	$ 9,940	$ —	$ 9,940	$ (200)	$ (9,736)	$ 4
Liabilities:						
Securities loaned [4,5]	$ 1,996	$ —	$ 1,996	$ (200)	$ (1,660)	$ 136
Total	$ 1,996	$ —	$ 1,996	$ (200)	$ (1,660)	$ 136

(1) Included in cash and investments segregated and on deposit for regulatory purposes in the Company's condensed consolidated balance sheets.
(2) Actual collateral was greater than or equal to 102% of the related assets. At September 30, 2017 and December 31, 2016, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was $7.4 billion and $9.8 billion, respectively.
(3) Included in receivables from brokers, dealers, and clearing organizations in the Company's condensed consolidated balance sheets.
(4) Included in payables to brokers, dealers, and clearing organizations in the Company's condensed consolidated balance sheets.
(5) Securities loaned are predominantly comprised of equity securities held in client brokerage accounts with overnight and continuous remaining contractual maturities.

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

Margin lending: Clients with margin loans have agreed to allow the Company to pledge collateralized securities in their brokerage accounts in accordance with federal regulations. The following table summarizes the fair value of client securities available, under such regulations, for the Company to utilize as collateral, and the amounts pledged by the Company:

	September 30, 2017	December 31, 2016
Fair value of client securities available to be pledged	$ 23,520	$ 21,516
Fair value of client securities pledged for:		
Securities lending to other broker-dealers	1,115	1,626
Fulfillment of client short sales	2,281	2,048
Fulfillment of requirements with the Options Clearing Corporation (1)	1,949	1,519
Total collateral pledged	$ 5,345	$ 5,193

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 $92 million as of September 30, 2017 and $58 million as of December 31, 2016.
(1) Client securities pledged to fulfill client margin requirements for open option contracts established with the Options Clearing Corporation.

10. Fair Values of Assets and Liabilities

Assets and liabilities measured at fair value on a recurring basis

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

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

Fair value of other financial instruments

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

- *Cash and cash equivalents* are short-term in nature and accordingly are recorded at amounts that approximate fair value.
- *Cash and investments segregated and on deposit for regulatory purposes* include cash and securities purchased under resale agreements. Securities purchased under resale agreements are short-term in nature and are backed by collateral that both exceeds the carrying value of the resale agreement and is highly liquid in nature. Accordingly, the carrying values of these financial instruments approximate their fair values.
- *Receivables from/payables to brokers, dealers, and clearing organizations* are short-term in nature, recorded at contractual amounts and historically have been settled at those values. Accordingly, the carrying values of these financial instruments approximate their fair values.

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

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

- *Bank loans* – The fair values of the Company's First Mortgages and HELOCs are estimated based on prices of mortgage-backed securities collateralized by similar types of loans. PALs are non-purpose revolving lines of credit secured by eligible assets; accordingly, the carrying values of these loans approximate their fair values.

- *Financial instruments included in other assets* primarily consist of LIHTC investments, cost method investments, and FHLB stock, whose carrying values approximate their fair values. FHLB stock is recorded at par, which approximates its fair value.

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

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

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

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

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

For a description of the fair value hierarchy, see Note 2 in the 2016 Form 10-K. There were no significant changes in these policies and methodologies during the first nine months of 2017. The Company did not transfer any assets or liabilities between Level 1, Level 2, or Level 3 during the nine months ended September 30, 2017, or the year ended December 31, 2016. In addition, the Company did not adjust prices received from the primary independent third-party pricing service at September 30, 2017 or December 31, 2016.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 1,720	$ —	$ —	$ 1,720
Commercial paper	—	115	—	115
Total cash equivalents	1,720	115	—	1,835
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	1,200	—	1,200
U.S. Government securities	—	3,814	—	3,814
Total investments segregated and on deposit for regulatory purposes	—	5,014	—	5,014
Other securities owned:				
Equity and bond mutual funds	294	—	—	294
Schwab Funds® money market funds	68	—	—	68
State and municipal debt obligations	—	35	—	35
Equity, U.S. Government and corporate debt, and other securities	4	26	—	30
Total other securities owned	366	61	—	427
Available for sale securities:				
U.S. agency mortgage-backed securities	—	19,746	—	19,746
Asset-backed securities	—	9,996	—	9,996
Corporate debt securities	—	6,468	—	6,468
U.S. Treasury securities	—	7,699	—	7,699
Certificates of deposit	—	1,843	—	1,843
U.S. agency notes	—	1,907	—	1,907
Commercial paper	—	312	—	312
Non-agency commercial mortgage-backed securities	—	41	—	41
Foreign government agency securities	—	50	—	50
Total available for sale securities	—	48,062	—	48,062
Total	$ 2,086	$ 53,252	$ —	$ 55,338

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

December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 1,514	$ —	$ —	$ 1,514
Total cash equivalents	1,514	—	—	1,514
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	2,525	—	2,525
U.S. Government securities	—	6,111	—	6,111
Total investments segregated and on deposit for regulatory purposes	—	8,636	—	8,636
Other securities owned:				
Equity and bond mutual funds	272	—	—	272
Schwab Funds® money market funds	108	—	—	108
State and municipal debt obligations	—	41	—	41
Equity, U.S. Government and corporate debt, and other securities	2	26	—	28
Total other securities owned	382	67	—	449
Available for sale securities:				
U.S. agency mortgage-backed securities	—	33,195	—	33,195
Asset-backed securities	—	20,335	—	20,335
Corporate debt securities	—	9,852	—	9,852
U.S. Treasury securities	—	8,623	—	8,623
Certificates of deposit	—	2,071	—	2,071
U.S. agency notes	—	1,907	—	1,907
U.S. state and municipal securities	—	1,123	—	1,123
Commercial paper	—	214	—	214
Non-agency commercial mortgage-backed securities	—	45	—	45
Total available for sale securities	—	77,365	—	77,365
Total	$ 1,896	$ 86,068	$ —	$ 87,964

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

Fair Value of Other Financial Instruments

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

September 30, 2017	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 10,418	$ —	$ 10,418	$ —	$ 10,418
Cash and investments segregated and on deposit for regulatory purposes	10,916	—	10,916	—	10,916
Receivables from brokers, dealers, and clearing organizations	665	—	665	—	665
Receivables from brokerage clients – net	18,456	—	18,456	—	18,456
Held to maturity securities:					
U.S. agency mortgage-backed securities	96,045	—	95,816	—	95,816
Non-agency commercial mortgage-backed securities	995	—	1,006	—	1,006
Asset-backed securities	12,237	—	12,336	—	12,336
Corporate debt securities	3,377	—	3,403	—	3,403
U.S. Treasury securities	223	—	222	—	222
U.S. state and municipal securities	1,249	—	1,299	—	1,299
Certificates of deposit	200	—	200	—	200
Foreign government agency securities	50	—	50	—	50
Total held to maturity securities	114,376	—	114,332	—	114,332
Bank loans – net:					
Residential real estate mortgages	9,786	—	9,771	—	9,771
Home equity loans and lines of credit	2,034	—	2,127	—	2,127
Pledged asset lines	4,279	—	4,279	—	4,279
Other	133	—	133	—	133
Total bank loans – net	16,232	—	16,310	—	16,310
Other assets	465	—	465	—	465
Total	$ 171,528	$ —	$ 171,562	$ —	$ 171,562
Liabilities:					
Bank deposits	$ 165,263	$ —	$ 165,263	$ —	$ 165,263
Payables to brokers, dealers, and clearing organizations	5,427	—	5,427	—	5,427
Payables to brokerage clients	31,480	—	31,480	—	31,480
Accrued expenses and other liabilities	1,067	—	1,067	—	1,067
Short-term borrowings	5,000	—	5,000	—	5,000
Long-term debt	3,268	—	3,347	—	3,347
Total	$ 211,505	$ —	$ 211,584	$ —	$ 211,584

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

December 31, 2016	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 9,314	$ —	$ 9,314	$ —	$ 9,314
Cash and investments segregated and on deposit for regulatory purposes	13,533	—	13,533	—	13,533
Receivables from brokers, dealers, and clearing organizations	728	—	728	—	728
Receivables from brokerage clients – net	17,151	—	17,151	—	17,151
Held to maturity securities:					
U.S. agency mortgage-backed securities	72,439	—	71,677	—	71,677
Non-agency commercial mortgage-backed securities	997	—	1,004	—	1,004
Asset-backed securities	941	—	941	—	941
Corporate debt securities	436	—	436	—	436
U.S. Treasury securities	223	—	219	—	219
Commercial paper	99	—	99	—	99
U.S. state and municipal securities	68	—	68	—	68
Total held to maturity securities	75,203	—	74,444	—	74,444
Bank loans – net:					
Residential real estate mortgages	9,117	—	9,064	—	9,064
Home equity loans and lines of credit	2,342	—	2,458	—	2,458
Pledged asset lines	3,851	—	3,851	—	3,851
Other	93	—	94	—	94
Total bank loans – net	15,403	—	15,467	—	15,467
Other assets	328	—	328	—	328
Total	$ 131,660	$ —	$ 130,965	$ —	$ 130,965
Liabilities:					
Bank deposits	$ 163,454	$ —	$ 163,454	$ —	$ 163,454
Payables to brokers, dealers, and clearing organizations	2,407	—	2,407	—	2,407
Payables to brokerage clients	35,894	—	35,894	—	35,894
Accrued expenses and other liabilities	1,169	—	1,169	—	1,169
Long-term debt	2,876	—	2,941	—	2,941
Total	$ 205,800	$ —	$ 205,865	$ —	$ 205,865

11. Stockholders' Equity

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

	September 30, 2017				December 31, 2016			
	Shares Issued and Outstanding (In thousands)	Liquidation Preference Per Share	Liquidation Preference	Carrying Value	Shares Issued and Outstanding (In thousands)	Liquidation Preference Per Share	Liquidation Preference	Carrying Value
Series A	400	$ 1,000	$ 400	$ 397	400	$ 1,000	$ 400	$ 397
Series B	485	1,000	485	482	485	1,000	485	482
Series C	600	1,000	600	585	600	1,000	600	585
Series D	750	1,000	750	728	750	1,000	750	728
Series E	6	100,000	600	591	6	100,000	600	591
Total Preferred Stock	2,241		$ 2,835	$ 2,783	2,241		$ 2,835	$ 2,783

12. Accumulated Other Comprehensive Income

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

Three Months Ended September 30,	2017			2016		
	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)	$ —	$ —	$ —	$ 77	$ (29)	$ 48
Other reclassifications included in other revenue	—	—	—	—	—	—
Change in net unrealized gain (loss) on held to maturity securities:						
Amortization of amounts previously recorded upon transfer from available for sale	10	(4)	6	—	—	—
Other comprehensive income (loss)	$ 10	$ (4)	$ 6	$ 77	$ (29)	$ 48

Nine Months Ended September 30,	2017			2016		
	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)	$ 81	$ (30)	$ 51	$ 266	$ (100)	$ 166
Reclassification of net unrealized loss on securities transferred to held to maturity [(1)]	227	(85)	142	—	—	—
Other reclassifications included in other revenue	(7)	3	(4)	(3)	1	(2)
Change in net unrealized gain (loss) on held to maturity securities:						
Reclassification of net unrealized loss on securities transferred from available for sale [(1)]	(227)	85	(142)	—	—	—
Amortization of amounts previously recorded upon transfer from available for sale	21	(9)	12	—	—	—
Other	(3)	1	(2)	1	—	1
Other comprehensive income (loss)	$ 92	$ (35)	$ 57	$ 264	$ (99)	$ 165

[(1)] See Note 3 for discussion of the transfer of securities from the AFS category to the HTM category during the first quarter of 2017.

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

Accumulated other comprehensive income balances are as follows:

		Total Accumulated Other Comprehensive Income
Balance at December 31, 2015	$	(134)
Net unrealized gain (loss) on available for sale securities		164
Other		1
Balance at September 30, 2016	$	31
Balance at December 31, 2016	$	(163)
Available for sale securities:		
Net unrealized gain (loss)		51
Reclassification of net unrealized loss on securities transferred to held to maturity		142
Other reclassifications included in other revenue		(4)
Held to maturity securities:		
Reclassification of net unrealized loss on securities transferred from available for sale		(142)
Amortization of amounts previously recorded upon transfer to held to maturity from available for sale		12
Other		(2)
Balance at September 30, 2017	$	(106)

13. Earnings Per Common Share

EPS under the basic and diluted computations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$ 618	$ 503	$ 1,757	$ 1,367
Preferred stock dividends and other [1]	(43)	(33)	(127)	(99)
Net income available to common stockholders	$ 575	$ 470	$ 1,630	$ 1,268
Weighted-average common shares outstanding — basic	1,339	1,324	1,338	1,322
Common stock equivalent shares related to stock incentive plans	14	10	14	10
Weighted-average common shares outstanding — diluted [2]	1,353	1,334	1,352	1,332
Basic EPS	$ .43	$ .36	$ 1.22	$ .96
Diluted EPS	$ .42	$ .35	$ 1.21	$ .95

[1] Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.
[2] Antidilutive stock options and restricted stock awards excluded from the calculation of diluted EPS totaled 9 million and 17 million shares for the third quarters of 2017 and 2016, respectively, and 10 million and 21 million shares for the first nine months of 2017 and 2016, respectively.

14. Regulatory Requirements

At September 30, 2017, both CSC and Schwab Bank met all of their respective capital requirements. Certain events, such as growth in bank deposits and regulatory discretion, could adversely affect CSC's or Schwab Bank's ability to meet future capital requirements.

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

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

	Actual		Minimum to be Well Capitalized		Minimum Capital Requirement	
September 30, 2017	Amount	Ratio	Amount	Ratio	Amount	Ratio
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 14,128	19.6%	N/A		$ 3,242	4.5%
Tier 1 Risk-Based Capital	16,911	23.5%	N/A		4,322	6.0%
Total Risk-Based Capital	16,939	23.5%	N/A		5,763	8.0%
Tier 1 Leverage	16,911	7.7%	N/A		8,802	4.0%
Schwab Bank						
Common Equity Tier 1 Risk-Based Capital	$ 12,862	20.0%	$ 4,171	6.5%	$ 2,888	4.5%
Tier 1 Risk-Based Capital	12,862	20.0%	5,134	8.0%	3,850	6.0%
Total Risk-Based Capital	12,889	20.1%	6,417	10.0%	5,134	8.0%
Tier 1 Leverage	12,862	7.2%	8,923	5.0%	7,138	4.0%
December 31, 2016						
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 12,574	18.4%	N/A		$ 3,068	4.5%
Tier 1 Risk-Based Capital	15,357	22.5%	N/A		4,091	6.0%
Total Risk-Based Capital	15,384	22.6%	N/A		5,454	8.0%
Tier 1 Leverage	15,357	7.2%	N/A		8,516	4.0%
Schwab Bank						
Common Equity Tier 1 Risk-Based Capital	$ 11,878	19.8%	$ 3,894	6.5%	$ 2,696	4.5%
Tier 1 Risk-Based Capital	11,878	19.8%	4,793	8.0%	3,595	6.0%
Total Risk-Based Capital	11,904	19.9%	5,992	10.0%	4,793	8.0%
Tier 1 Leverage	11,878	7.0%	8,456	5.0%	6,765	4.0%

N/A Not applicable.

Based on its regulatory capital ratios at September 30, 2017, Schwab Bank is considered well capitalized (the highest category) under its respective regulatory capital rules. There are no conditions or events since September 30, 2017 that management believes have changed Schwab Bank's capital category. At September 30, 2017, both CSC's and Schwab Bank's capital levels exceeded the fully implemented capital conservation buffer requirement.

Net capital and net capital requirements for Schwab and optionsXpress are as follows:

September 30, 2017	Net Capital	Minimum Net Capital Required	2% of Aggregate Debit Balances	Net Capital in Excess of Required Capital
Schwab	$ 1,974	$ 0.250	$ 394	$ 1,580
optionsXpress	295	1	7	288
December 31, 2016				
Schwab	$ 1,846	$ 0.250	$ 355	$ 1,491
optionsXpress	269	1	8	261

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

15. Segment Information

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

Management evaluates the performance of its 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 Company's reportable segments is presented in the following tables:

	Investor Services		Advisor Services		Total	
Three Months Ended September 30,	2017	2016	2017	2016	2017	2016
Net Revenues:						
Asset management and administration fees	$ 595	$ 550	$ 266	$ 248	$ 861	$ 798
Net interest revenue	818	654	264	191	1,082	845
Trading revenue	94	123	57	67	151	190
Other	54	56	17	20	71	76
Provision for loan losses	—	4	—	1	—	5
Total net revenues	1,561	1,387	604	527	2,165	1,914
Expenses Excluding Interest	918	847	302	273	1,220	1,120
Income before taxes on income	$ 643	$ 540	$ 302	$ 254	$ 945	$ 794

	Investor Services		Advisor Services		Total	
Nine Months Ended September 30,	2017	2016	2017	2016	2017	2016
Net Revenues:						
Asset management and administration fees	$ 1,743	$ 1,536	$ 786	$ 718	$ 2,529	$ 2,254
Net interest revenue	2,366	1,895	769	520	3,135	2,415
Trading revenue	311	395	189	228	500	623
Other	159	153	53	56	212	209
Provision for loan losses	—	4	—	1	—	5
Total net revenues	4,579	3,983	1,797	1,523	6,376	5,506
Expenses Excluding Interest	2,762	2,518	917	819	3,679	3,337
Income before taxes on income	$ 1,817	$ 1,465	$ 880	$ 704	$ 2,697	$ 2,169

16. Subsequent Event

On October 31, 2017, the Company issued and sold 500,000 depositary shares, each representing a 1/100th ownership interest in a share of fixed-to-floating rate non-cumulative perpetual preferred stock, Series F, $0.01 par value, with a liquidation preference of $100,000 per share (equivalent to $1,000 per depositary share). The Series F Preferred Stock has a fixed dividend rate of 5.00% through November 30, 2027, payable semi-annually, and thereafter a floating rate of three-month LIBOR plus a fixed spread of 2.575%, payable quarterly. The net proceeds received from the sale were $492 million after deducting related expenses and fees.

Also on October 31, 2017, the Company announced that it will redeem on December 1, 2017, all of the outstanding shares of its 6.00% non-cumulative perpetual preferred stock, Series B, and the corresponding depositary shares. The redemption will be funded with the net proceeds from the Series F offering.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures: The management of the Company, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of September 30, 2017. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2017.

Changes in internal control over financial reporting: No change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) was identified during the quarter ended September 30, 2017, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of legal proceedings, see Item 1 – Note 8.

Item 1A. Risk Factors

During the first nine months of 2017, there have been no material changes to the risk factors in Part I – Item 1A – Risk Factors in the 2016 Form 10-K.

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

Issuer Purchases of Equity Securities

At September 30, 2017, approximately $596 million of future share repurchases are authorized under the Share Repurchase Program. There were no share repurchases during the third quarter of 2017. There were two authorizations under this program by CSC's Board of Directors, each covering up to $500 million of common stock that were publicly announced by the Company on April 25, 2007, and March 13, 2008. The remaining authorizations do not have an expiration date.

The following table summarizes purchases made by or on behalf of CSC of its common stock for each calendar month in the third quarter of 2017:

Month	Total number of shares Purchased (in thousands)	Average Price Paid per shares
July:		
Employee transactions [1]	7	$ 43.43
August:		
Employee transactions [1]	9	$ 42.68
September:		
Employee transactions [1]	9	$ 39.90
Total:		
Employee Transactions [1]	25	$ 41.90

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit Number	Exhibit	
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.	
10.377	The Charles Schwab Corporation Deferred Compensation Plan II, as amended and restated as of October 19, 2017 (supersedes Exhibit 10.322). Filed as Exhibit 10.377 to the Registrant's Form 8-K dated October 24, 2017, and incorporated herein by reference.	(1)
10.378	Form of Notice and Performance-Based Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans (supersedes Exhibit 10.369).	(1) (2)
10.379	Form of Notice and Nonqualified Stock Option Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans (supersedes Exhibit 10.370).	(1) (2)
10.380	Form of Notice and Restricted Stock Unit Agreement under The Charles Schwab Corporation 2013 Stock Incentive Plan and successor plans (supersedes Exhibit 10.371).	(1) (2)
10.381	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 10.372).	(1) (2)
10.382	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 10.373).	(1) (2)
10.383	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 10.374).	(1) (2)
10.384	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 10.375).	(1) (2)
12.1	Computations of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.	
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	(2)
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	(2)

Exhibit Number	Exhibit	
101.INS	XBRL Instance Document	(3)
101.SCH	XBRL Taxonomy Extension Schema	(3)
101.CAL	XBRL Taxonomy Extension Calculation	(3)
101.DEF	XBRL Extension Definition	(3)
101.LAB	XBRL Taxonomy Extension Label	(3)
101.PRE	XBRL Taxonomy Extension Presentation	(3)

(1) *Management contract or compensatory plan.*

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

(3) *Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 are the following materials formatted in XBRL (Extensible Business Reporting Language) (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.*

SIGNATURE

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

THE CHARLES SCHWAB CORPORATION
(Registrant)

Date: November 7, 2017

/s/ Peter Crawford
Peter Crawford
Executive Vice President and Chief Financial Officer