

WE'VE ALWAYS BEEN
DIFFERENT

2006 Annual Report

THE CHARLES SCHWAB CORPORATION

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Forward-Looking Statements: In addition to historical information, this Annual Report to Stockholders contains “forward-looking statements” which are identified by words such as “believe,” “anticipate,” “expect,” “intend,” “plan,” “will,” “may,” “estimate,” “aim,” “target,” 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 company’s ability to grow revenues, margins, earnings, and net new assets (see “Letter from the Chief Executive Officer” and “Letter from the Chief Financial Officer”); the impact on the company’s financial position and results of operations related to the pending sale of U.S. Trust, and the company’s ability to grow relationships with U.S. households (see “Letter from the Chief Executive Officer”); the company’s ability to grow client assets (see “Schwab Enterprises – Schwab Institutional” and “Letter from the Chief Financial Officer”); the company’s ability to return excess capital to its stockholders, and the company’s ability to grow new accounts (see “Letter from the Chief Financial Officer”). Achievement of the expressed beliefs, objectives, and expectations described in these statements is subject to certain risks and uncertainties that could cause actual results to differ materially from the expressed beliefs, objectives, and expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report to Stockholders. See “Forward-Looking Statements” in Management’s Discussion and Analysis of Financial Condition and Results of Operations on page 35 in the Form 10-K for a discussion of important factors that may cause such differences.

WHAT MATTERS IS
THAT DIFFERENT MAKES A
DIFFERENCE

Different only matters if it makes a difference in the lives of our clients – if it helps them live the way they want to live, today and into the future.

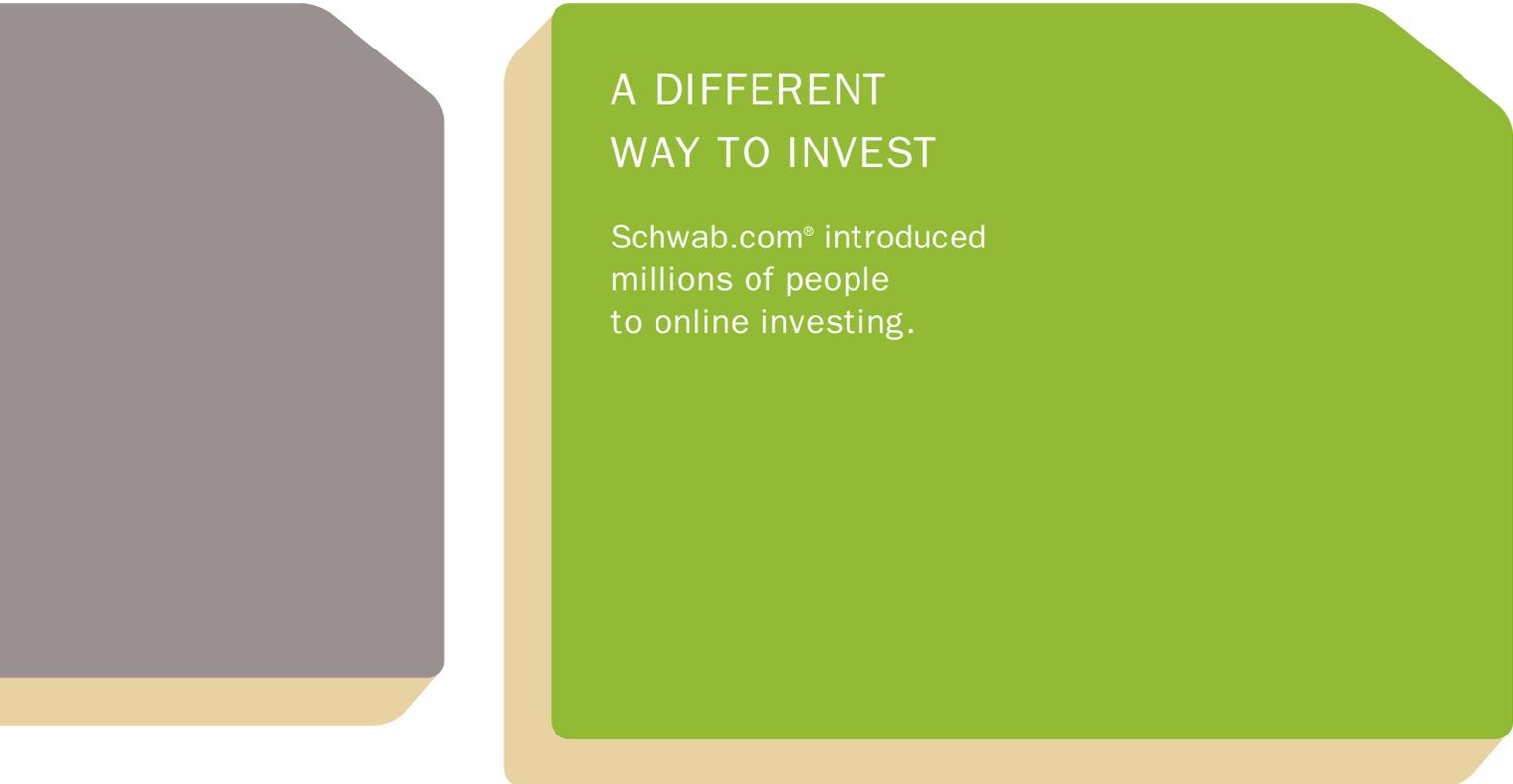
At Schwab, we've made it our business to put the needs of investors first. To do things differently so that financial services are more affordable, understandable, and available to all.

A DIFFERENT KIND OF FIRM

We gave individuals
a direct, low-cost
alternative to Wall Street.

A DIFFERENT WAY TO BUY MUTUAL FUNDS

We made investing easier
and less expensive with
a supermarket of no-load,
no-transaction-fee
mutual funds.



A DIFFERENT WAY TO INVEST

Schwab.com® introduced
millions of people
to online investing.

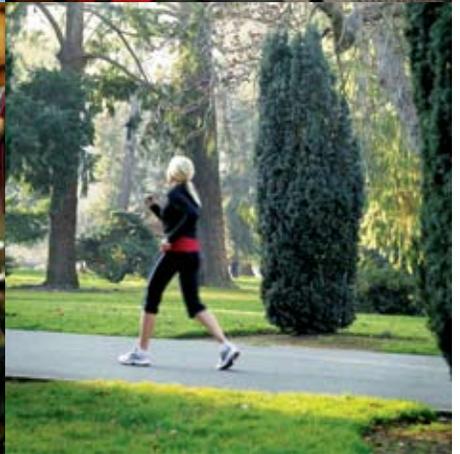
A DIFFERENT WAY TO HELP

Our full range of support for independent investment advisors makes us their top choice – by more than two-to-one.

A DIFFERENT APPROACH TO ADVICE

Schwab is pioneering the ability to give everyone objective help and guidance – in person, by phone, or online.

The changes we're bringing about are making a difference in helping a growing number of people discover the power of investing.



WE'LL BE
DIFFERENT UNTIL
EVERYONE
IS FINANCIALLY FIT

Schwab will always be different
because it's our purpose – our lifework –
to give everyone who wants to improve
their financial health the tools and guidance
they need to succeed.

That's the difference we want to make.



FINANCIAL FITNESS
MEANS TAKING
ACTION
TODAY, NO MATTER YOUR
AGE OR FINANCIAL GOALS

Making the changes that lead to financial fitness can be tough. But we can help make it easier – whether clients are investing on their own, with an advisor, or through a workplace 401(k) plan.

The first step is to set an investing goal. What do you want to achieve? What investing style suits your needs? Self-directed investors can construct their own portfolio or select specific investments like Schwab Target Funds, which are actively managed to adjust as retirement nears. Clients who want more guidance have choices, too. Schwab Managed Portfolios™ delegate mutual fund selection to investment professionals who periodically rebalance portfolios to stay on track. Clients can also receive advice from Schwab Private Client™ consultants or from a member of our network of independent financial advisors. And for independent advisors who are starting their own business, we offer the tools, advice, and financing to help them take the first step.

FINANCIAL FITNESS
MEANS EXPERIENCING
PROGRESS
THAT KEEPS YOU GOING

Becoming and staying financially fit are lifelong commitments, and it's natural to want to see progress. We give investors and advisors the help they need to monitor and gauge performance – and to keep moving toward their goals.

For individual investors, a snapshot of progress is always on hand with the Schwab Portfolio Checkup®, an online tool that compares their current portfolio to established goals for diversification and asset allocation. When a portfolio is out of balance, the checkup tool offers investment alternatives. The Schwab Quarterly Portfolio Profile™ provides more in-depth market performance statistics and ratings information on all securities held in a Schwab account.

For independent advisors, achieving progress requires different tools and support. That's why we introduced a suite of marketing, strategy, and planning services that help advisors grow, compete, and succeed.





FINANCIAL FITNESS MEANS
GETTING THE HELP AND
SUPPORT
YOU NEED

The right relationship is defined by individual needs, whether someone is self-directed or looking for guidance, new to investing or very experienced. We've made it easy for clients to get support in the way that works best for them.

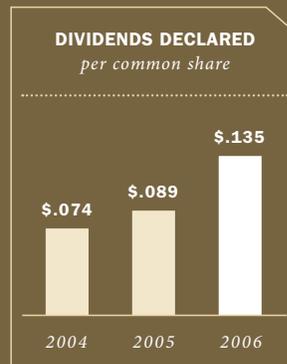
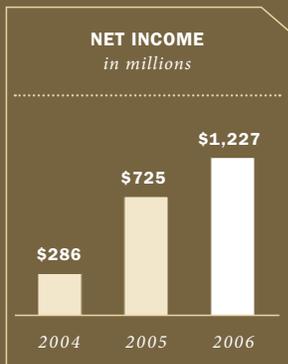
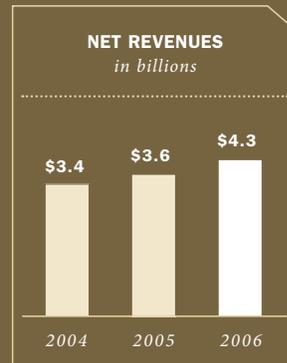
If it means personal contact, our financial professionals are ready to listen and help – on the phone or face-to-face at a local Schwab branch. Investors with larger and more complicated portfolios can tap the services of an independent advisor. And if convenience is what matters most, all of our clients have easy access through [schwab.com](https://www.schwab.com), where they can monitor both their banking and brokerage accounts, get information, and conduct transactions wherever and whenever they need to.

No matter how clients choose to work with us, we believe a good relationship is based on knowing, remembering, and respecting each person's needs.

OUR FAITH IN INVESTORS
IS RETURNED BY THE
TRUST
THEY HAVE IN US

Individual investors and advisors brought
an average of more than \$1.6 billion per week
in net new assets to Schwab in 2006.





LETTER FROM THE CHIEF EXECUTIVE OFFICER

TO MY FELLOW STOCKHOLDERS,

In every way I look at it, 2006 was a spectacular year.

Our clients brought \$87 billion in net new assets to Schwab Investor Services and Schwab Institutional® – an incredible 33 percent increase over 2005. Total client assets increased 18 percent and reached \$1.24 trillion by year-end.

We also accomplished what we set out to do financially – and then some. First and foremost for me, we're back on a growth path, with 2006 net revenues growing 19 percent to \$4.3 billion. We also continued to manage costs carefully, enabling us to earn net income of more than \$1 billion, a first for our company.

These strong client and financial results confirm our strategy is working extremely well.

Our success reflects a continuation of our 30-year history of focusing on clients. We succeed when we provide them with great value and great service, and when we help them achieve better financial outcomes. Last year proved the wisdom of that strategy.

WE'RE A MORE FOCUSED BUSINESS.

This annual report highlights our underlying sense of purpose, which we all share here at Schwab: to help everyone be financially fit. Today's Schwab is better organized to help individuals achieve the confidence and comfort that come with financial fitness – whether they are seasoned investors, just starting to invest on their own, or turning to an independent investment advisor for help.

Schwab Investor Services, for example, is focused on the needs of the individual investor, targeting people who have \$50,000 to \$2 million in investable assets. Investor Services represents the largest segment of our company, contributing \$3.2 billion in revenue in 2006.

Schwab Investor Services also includes our 401(k) plan services division, a key area for

growth. With our planned acquisition of The 401(k) Company of Austin, Texas, we're well-positioned to improve our capabilities in this vital area – particularly among America's larger companies. Retirement is the number one reason why Americans invest, and the workplace is the first place most people experience investing, so expanding our capabilities in the 401(k) arena is crucial to our long-term growth.

Schwab Institutional is the industry leader in supporting independent investment advisors. These advisors serve individuals with larger and more complicated portfolios, including those who need custody, tax, and wealth management advice. Schwab Institutional saw strong growth in 2006 and is our highest-margin business, with a pre-tax profit margin over 40 percent in 2006. Independent investment advisors are the fastest-growing segment within financial services, and we will continue to serve their expanding needs.

Finally, Schwab Financial Products provides products and services these businesses can use to meet the needs of our clients, whether that is with mutual funds, money market funds, fixed income securities, or banking products.

In keeping with our greater strategic focus, late in 2006 we announced our decision to sell U.S. Trust®, a fundamentally different business that serves the narrower market of ultra-wealthy Americans. As this report goes to press, we are working to close the sale and are considering how we will use the proceeds, including possibilities for share repurchases, dividends, additional acquisitions, and investments in our other businesses.

WE'RE BUILDING STRONGER RELATIONSHIPS.

We've organized our business around client needs. But that's just the beginning. We want to do a better job of reaching out to our existing clients to strengthen our relationships and increase their satisfaction and loyalty.

It's not just about bringing in more assets, though we are pleased when that's the case. We want individual investors to feel so good about their investing outcomes – and their entire experience with Schwab – that they recommend us to their friends and family. So we adopted a way to measure client loyalty that rates our performance, compares us to key competitors, and points us toward improvements that will make it easier to do business with us.

Our “client promoter score” is moving in the right direction, and we've taken several important steps to keep it climbing higher. For example, Schwab Investor Services has assigned many clients to a dedicated financial consultant, either at the local Schwab branch or through our phone-based Branch Extension Team. We're also using our phone and web services more effectively, providing clients with complimentary portfolio consultations and personalized online tools, such as an enhanced retirement assessment and Schwab Portfolio Checkup.

When it comes to client loyalty among independent investment advisors, the scores for Schwab Institutional are at the top of the chart. That's no surprise, since that business is built on rock-solid relationships. Schwab Institutional is the leader in this segment of the financial services industry, serving more client assets than our next three competitors combined.

As we continue to strengthen our relationships with individual investors and with independent investment advisors, many loyal clients will put their personal reputation on the line and recommend Schwab. We believe that's one of the highest compliments we can receive – and one of the best ways to build our business.

WE'RE REACHING NEW CLIENTS.

During the past year, we worked hard to improve our relationships with existing clients, but we

also brought in new ones. We added 655,000 new brokerage accounts, up 15 percent from 2005.

Many new clients were responding to our very successful Talk to Chuck™ message. Since the campaign was launched nationally in 2005, monthly new-to-firm net new assets have increased 29 percent, and more investors now consider Schwab when shopping for financial services. But this is far more than an advertising campaign; it's a philosophical approach. We are here to listen and to help more people do better at investing, regardless of their age, the extent of their wealth, or their sophistication as investors.

Today, the typical Schwab brokerage client is part of the Baby Boomer generation – a very important segment, with more people turning 50 this year than ever before. But I believe the best way to help these clients secure their financial future is to reach out to their entire family – including children and grandchildren – to promote financial fitness at every stage of life. We're appealing to multiple generations in a number of ways.

- To help teens learn how to manage money, Charles Schwab Foundation is working with Boys & Girls Clubs of America to teach *Money Matters: Make It Count*™.
- To help younger investors build their portfolios, we lowered the minimum investment for brokerage accounts and developed simple, goal-oriented financial products, such as target retirement date funds and 529 college savings accounts.
- To reach an even wider range of consumers, Charles Schwab Bank® offers checking accounts, credit cards, mortgages, and home loans.

Brokerage and banking are a powerful combination that allows us to take a broader view of client accounts, looking at both sides of their balance sheets so we can provide more complete financial advice and price our services more competitively. Through our award-winning website, clients can transfer

funds between banking and brokerage, or check their account balances on a single web page. Continued online improvements will help schwab.com become the ultimate integrator, bringing together all that Schwab has to offer.

WE'RE POISED FOR CONTINUED GROWTH.

We began this year with some important changes. I was very pleased to announce Walt Bettinger's appointment as President and Chief Operating Officer of The Charles Schwab Corporation. Walt and I have worked closely together at Schwab for more than 10 years. He shares a deep passion for helping our clients achieve their goals and a track record of success, beginning with his early years as an entrepreneur building the business that is now Schwab Corporate & Retirement Services. Most recently, in his leadership roles within Schwab Investor Services, Walt led his team to tremendous improvements in the client experience and financial performance.

While I am pleased to welcome Walt to his new role, I would also like to acknowledge the 20-year career of our Chief Financial Officer Chris Dodds, who has decided to retire after the Annual Meeting this May. Chris has played a pivotal role helping to steer Schwab, and in particular helping me turn the company around and put it on its renewed trajectory of growth and profitability during the last three years. One of Chris's great strengths has been building a team of executives around him, and we're confident of a smooth transition for Joe Martinetto, a nine-year veteran at Schwab and a strong executive who will be assuming the CFO role.

In last year's letter, I closed with the thought "the best is yet to come." Even after the records we set in 2006, I still believe that's true. When we put our clients' needs first and help them succeed, then our growth will follow.

We have right-sized the company and restored our growth. We plan to use the proceeds from the sale of U.S. Trust to reinvest in our

more focused company. In 2007, we plan to deliver double-digit revenue growth, coupled with strong financial discipline that will help us continue to improve net income and earnings per share.

We have reconnected with our clients. When we put clients first, we not only help them build their financial future, but we also build their trust in Schwab. In 2006, we averaged more than \$7 billion in net new assets every month in Schwab Investor Services and Schwab Institutional. In 2007, we plan to attract more than \$10 billion per month in net new assets across the entire firm.

We have broadened our reach to more of America. Of the more than 112 million U.S. households, about three million currently do business with Schwab. In 2007, we plan to grow that number, both in terms of new accounts and new households.

Our entire team – more than 12,000 strong – remains focused on my lifelong mission: to help more people start investing earlier in life and stick with it. That's the path to financial fitness. Like physical fitness, it's a lifelong quest. Fitness starts with a realistic plan. It grows with the personal discipline to take action over time. It improves through constant monitoring and occasional adjustment. Every step in the right direction brings better outcomes, plus the renewed strength and confidence that come with those results.

We believe that everyone can be financially fit, at any age or income level. That's the purpose that drives us, and that's our vision for the future.

Sincerely,



Charles R. Schwab
Founder, Chairman, and Chief Executive Officer
March 15, 2007

ALL OF OUR BUSINESSES SHARE A
PASSION FOR DELIVERING THE VALUE
AND PERFORMANCE OUR CLIENTS
EXPECT, AND THE PERSONAL
SERVICE THEY WANT.



*Erick Hoyer, Sacramento
branch manager*

SCHWAB INVESTOR SERVICES

2006 FINANCIAL HIGHLIGHTS

- ANNUAL REVENUES INCREASED 18 PERCENT TO \$3.2 BILLION
 - PRE-TAX MARGIN WAS 32.0 PERCENT, UP FROM 27.6 PERCENT IN 2005
-

Schwab Investor Services meets the needs of the individual investor, offering services on-line, by phone, or at more than 300 Schwab branches nationwide. In 2006, we served more than 5.2 million accounts and, by year-end, held over \$670 billion in client assets.

The Investor Services enterprise also includes other client-focused divisions, including:

- Corporate & Retirement Services, which helps companies administer 401(k) and equity compensation plans;
- CyberTrader®, which provides tools for highly active online traders; and
- International and Multicultural Services, which serves U.S.-based Asian and Hispanic investors and operates outside the U.S. with branches in Puerto Rico and London, and a subsidiary in Hong Kong.

In 2006, we saw net new client assets grow by 54 percent over the prior year by focusing on four foundational areas of our business.

1. **We enhanced our value.** We eliminated many service, maintenance, and “nuisance” fees and ensured that our web equity commissions were competitive.
2. **We strengthened client relationships.** More than 500,000 clients now have a dedicated

Schwab Financial Consultant, and all clients have access to complimentary investing consultations and better online tools.

3. **We improved client service.** With our new client concierge service, phone professionals reach out to new clients to welcome them to Schwab. We also enabled direct call-back, allowing clients to talk with the same knowledgeable phone-service professional whenever they call back with a related question.
4. **We expanded help and guidance.** We extended our best market research to all clients and expanded distribution of our quarterly *On Investing*® magazine to all of our client households.

While Schwab currently administers or provides trust/custody services for thousands of retirement plans, most are small to midsize, with a more recent focus on attracting larger companies. The planned acquisition of The 401(k) Company will bring expertise with some of America’s largest companies.

In 2007 and beyond, we will continue to view our business through our clients’ eyes as we help more investors achieve financial success through expanded help and guidance.



*Tim Kochis, co-founder and CEO of
Kochis Fitz financial advisors*

SCHWAB INSTITUTIONAL

2006 FINANCIAL HIGHLIGHTS

- ANNUAL REVENUES INCREASED 20 PERCENT TO \$966 MILLION
 - PRE-TAX MARGIN WAS 41.8 PERCENT, UP FROM 39.5 PERCENT IN 2005
-

Schwab Institutional (SI) is dedicated to helping independent investment advisors grow, compete, and succeed. We serve more than 5,000 advisors across the country, helping them meet their core custody and trading needs, run their businesses more efficiently, and support the growth of their firms. At more than two times the size of our nearest direct competitor, SI is the leader in serving the Registered Investment Advisor (RIA) industry – the fastest-growing segment of financial services.

Independent financial advisors are professional advisors who are not employed by any brokerage firm. Because they are fee-based, their advice is objective and in the client's best interest. This is a philosophy that has always been at the heart of the way Schwab works with its clients. That's also why independent advisors have turned to Schwab Institutional for the past 20 years to take care of important tasks, such as executing trades and preparing monthly statements for clients.

In 2006, SI delivered exceptional financial performance, increasing net new assets by 22 percent and revenues by 20 percent over the previous year. We ended 2006 on a high note with client assets reaching \$502 billion, up 23 percent from the prior year and halfway to our goal of \$1 trillion in client assets by the end of 2010. These strong results reflect continued

growth in assets from existing advisor clients as well as our intensified efforts to attract assets from new clients.

During the year, we made investments to enhance our technology, products, and sales and service support. This included the introduction of a business development and marketing services program that builds on our existing practice management solutions. We also expanded our offering to advisors transitioning from full-commission brokerages to become independent investment advisors.

At the annual IMPACT® conference in November 2006, we introduced the industry-wide IMPACT Awards™ to recognize the leaders in the RIA industry. Among the inaugural award winners was Tim Kochis, co-founder and CEO of Kochis Fitz financial advisors in San Francisco, who won the Charles R. Schwab IMPACT Award for outstanding leadership, client commitment, and community engagement.

In 2007, as we celebrate our 20th year, we will step up our investment in our service, platform, products, and programs so we can help our clients grow their businesses at even faster rates. To commemorate our anniversary, we plan a series of programs and communications to recognize the contributions that independent advisors have made to the investing public.



*Ron Toll, Schwab portfolio
operations manager*

SCHWAB FINANCIAL PRODUCTS

2006 HIGHLIGHTS

- TOTAL CLIENT ASSETS IN MUTUAL FUNDS ROSE 20 PERCENT TO \$590 BILLION
 - CLIENT ASSETS IN SCHWAB FUNDS® AND LAUDUS FUNDS™ GREW 28 PERCENT TO \$191 BILLION
-

Schwab Financial Products develops the products and services needed to serve individual investors, independent advisors, and corporate retirement plans.

- Client assets in Mutual Fund OneSource® funds grew 18 percent to \$163 billion. It remains one of the country's largest "supermarkets" of no-transaction-fee mutual funds.
- Charles Schwab Bank completed a record year with assets of \$11 billion; outstanding mortgage, home equity loans, and secured lines of credit of \$2.3 billion; and first mortgage originations of \$1.2 billion.
- Total assets in separately managed accounts rose 25 percent to nearly \$33 billion.

Our money management subsidiary, Charles Schwab Investment Management (CSIM), is one of the nation's largest money market fund managers. CSIM provides oversight for the institutional-style, sub-advised Laudus Funds family and manages 69 Schwab Funds mutual funds, including nine funds that utilize our award-winning Schwab Equity Ratings® for investment selection. As of year-end, all nine of those funds have beaten their benchmarks since inception or conversion to Schwab Equity Ratings.

At mid-year, we introduced Schwab Managed Portfolios, a suite of diversified portfolios that combine mutual funds based on Schwab Equity Ratings with funds chosen from Mutual Fund OneSource. Schwab's money managers create and maintain these portfolios with initial investment minimums as low as \$25,000, offering professional advice at half the price offered by our largest competitor. It has been our most successful launch of any advice product.

During the year, we launched the Schwab Inflation Protected Fund™ and the Laudus Rosenberg International Discovery Fund. In March, the Schwab Premier Equity Fund® was closed to new investors, based on strong demand in just its first year. We also expanded access to research tools and trading to 22 hours a day, seven days a week, for CDs purchased through our Schwab BondSource™ platform.

We began 2007 by announcing the acquisition of Global Real Analytics, LLC, a leader in applied real estate analytics and Commercial Real Estate Index products, and have already filed a registration statement for our first Schwab Global Real Estate Fund™. Among other planned launches are three new "fundamental" index funds – a first for Schwab.



Money Matters participants at Columbia Park Clubhouse, a unit of Boys & Girls Clubs of San Francisco

WE MAKE A DIFFERENCE BY SHARING OUR TIME, KNOWLEDGE, AND RESOURCES

Through consumer education, philanthropy, and volunteerism, we're bringing our company's purpose to life in our communities.

Our collaboration with Boys & Girls Clubs of America on the program *Money Matters: Make It Count* is helping teenagers from traditionally underserved communities gain the knowledge and skills that lead to financial fitness – something that can make a real difference in their future. Our philanthropic work is enabled by Charles Schwab Foundation, which has averaged \$4 million in contributions annually since its founding in 1993. And Schwab employees make a difference by participating in fundraising, matching-gift programs, and volunteer work, this year contributing more than 5,000 hours of community service in one day alone – a day we set aside annually for employees to lend their time and talents to those in need.

**THE CHARLES SCHWAB CORPORATION 2006
MANAGEMENT COMMITTEE**

CHARLES R. SCHWAB

Chairman, Chief Executive Officer,
and Director

WALTER W. BETTINGER II

President and Chief Operating Officer

JOHN S. CLENDENING

Executive Vice President, Client Experience,
Schwab Investor Services

CHRISTOPHER V. DODDS

Executive Vice President and
Chief Financial Officer

CARRIE E. DWYER

Executive Vice President, General Counsel,
and Corporate Secretary

CHARLES G. GOLDMAN

Executive Vice President and Chief Operating Officer,
Schwab Institutional

JAN HIER-KING

Executive Vice President,
Human Resources

JAMES D. McCOOL

Executive Vice President,
Schwab Corporate & Retirement Services

DEBORAH DOYLE McWHINNEY

Executive Vice President and President,
Schwab Institutional

RANDALL W. MERK

Executive Vice President and President,
Schwab Financial Products

REBECCA SAEGER

Executive Vice President and
Chief Marketing Officer

GIDEON SASSON

Executive Vice President and
Chief Information Officer

PETER K. SCATURRO

Executive Vice President and Chief Executive Officer,
U.S. Trust Corporation

THE CHARLES SCHWAB CORPORATION 2006
MANAGEMENT COMMITTEE



*Center: Charles R. Schwab
Front Row (left to right): Rebecca Saeger, Jan Hier-King, Walter W. Bettinger II, Christopher V. Dodds
Back Row (standing, left to right): Charles G. Goldman, John S. Clendening, Deborah Doyle McWhinney,
Randall W. Merk, Gideon Sasson, James D. McCool, and Carrie E. Dwyer. (Peter K. Scaturro not pictured)*

LETTER FROM THE CHIEF FINANCIAL OFFICER

“LOOK HOW FAR WE’VE COME TOGETHER”

Neither Chuck nor I dwell much on the past. For all of my 20 years at Schwab, we have concentrated our energies on the opportunities and challenges that lie ahead, and once we have reached a given objective, we have paused only briefly to acknowledge it before moving on. Yet I believe anyone wishing to understand the Schwab of today – and grasp its potential for future success – must take the time to understand the chapter in our history that began in mid-2004 and ran through the end of 2006. Why? Because understanding how far we’ve come gives tremendous insight into the power of the Schwab organization when we’re all focused on pursuing our core strategies, on improving the client experience, and on maintaining financial discipline.

Clients, stockholders, and employees who’ve been with the company during this chapter already know that 2004 was about coming to grips with – and addressing – systemic issues of complexity, high prices, and an unsustainably large expense base. In turn, 2005 was about committing to and delivering stronger client relationships and financial performance. Last year, we set out to demonstrate our ability to sustain profitable growth while continuing to build client loyalty. So let’s take a look at how we performed in 2006 relative to our financial objectives, and then discuss how we did with clients.

Our planning scenario for 2006 included equity market appreciation of about 4 percent and a relatively flat interest rate environment. Under those circumstances, we committed to delivering low double-digit revenue growth, a pre-tax profit margin of at least 30 percent, earnings per share of “around” \$0.70, and a return on equity of at least 20 percent. Bear in mind that all of these goals were set before we entered into the agreement with Bank of America Corporation to sell U.S. Trust and subsequently pulled all of U.S. Trust’s financial results into separate “discontinued operations” lines on the income statement and balance sheet.

Despite some mid-year bumpiness, the equity markets posted double-digit returns for 2006, while the Fed Funds rate increased by 100 basis points before leveling off mid-year. Against this backdrop, we saw continued improvement in

client engagement, and we were able to exceed all of our primary financial objectives for the year. Revenue growth reached 19 percent for 2006, our pre-tax profit margin was a record 34.3 percent, earnings per share hit \$0.95, our net income topped \$1 billion for the first time in company history, and we achieved a return on equity of 26 percent. These results have been impacted by the pending U.S. Trust sale, but even after adjusting for those effects, we still exceeded every one of our financial goals.

To me, what’s significant about our results for 2006 is that we achieved them by playing *our* game – by continuing on the path that we think is critical for Schwab’s long-term success. Our reliance on transaction-based revenues continued to decline – with help from the interest rate environment and continued client interest in our mutual fund offerings – and our asset management and administration fees, net interest, and other non-trading revenues together rose 24 percent in 2006 and equaled 83 percent of total net revenues during the fourth quarter, versus 79 percent in the fourth quarter of 2005. Sustained cost discipline limited expense growth to just 9 percent in 2006, which led to our record pre-tax margin. Capital management remained a priority in 2006. We limited net capital expenditures to just \$59 million (after receiving \$63 million primarily from the sale of a data center), reduced our long-term debt by \$74 million, doubled our dividend, and repurchased \$859 million of common stock. We continue to believe that our business model is not particularly capital intensive, and that we should – and will – return excess capital to our stockholders.

By virtually any measure, our company is in the best shape ever, and once again, both of our core businesses contributed to the progress we made in 2006. As is the case for the company as a whole, we focus on three main financial metrics – revenue growth, pre-tax profit margin, and return on equity – with expectations for each business based on its specific circumstances.

While Schwab Investor Services (Schwab IS) did not face any major strategic shifts between 2005 and 2006, the significance of their challenge did not diminish in any way. Their objective was to continue improving the client experience and

client loyalty while simultaneously driving further enhancements in financial performance. With careful attention to prioritization, resource allocation, and client feedback, the team posted another impressive year of accomplishments: additional price cuts to bolster our competitiveness, a new client concierge program, a Branch Extension Team to provide personalized service to selected clients with less than \$250,000 in assets, and new products like complimentary portfolio consultations and our Schwab Managed Portfolios mutual fund wrap offering. Schwab IS also made extraordinary progress with clients. Their “client promoter score,” which we use as a measure of client loyalty, turned from slightly negative at year-end 2005 to solidly positive, and their net new assets rose by 54 percent. These improved client metrics helped Schwab IS post 18 percent net revenue growth, a 32 percent pre-tax margin, and a 25 percent return on equity for 2006, versus 5 percent, 27.6 percent, and 20 percent in 2005.

Schwab Institutional (SI) had a straightforward objective in 2006 – “just” sustain their industry leadership in serving independent Registered Investment Advisors while maintaining superior financial performance. The SI team did exactly that – their accomplishments in 2006 included the introduction of the annual IMPACT Awards™ to honor industry-leading advisors and firms, the launch of a comprehensive program to help advisors plan and manage the growth of their businesses, a new website to assist advisors thinking of establishing their own practices, and enhanced platform capabilities around cashiering and e-document management. With net new assets rising 22 percent over 2005 levels, SI continued to build market share, and financial results included 20 percent revenue growth, a 41.8 percent pre-tax margin, and a 33 percent return on equity, versus 11 percent, 39.5 percent, and 30 percent in 2005.

So, good news on the financial front, but how are we doing with clients overall, since the strength and durability of those relationships will clearly determine our future success? Our 2006 client metrics pointed to great progress in building stronger relationships, as new account openings rose 15 percent to 655,000, net new assets in Schwab IS and SI were up a combined 33 percent to \$87 billion, and total client assets rose 18

percent to a record \$1.24 trillion. With our momentum continuing to build, we’re expecting to deliver double-digit increases in these metrics again in 2007. Which brings me to my final thoughts. How far have we come together? Since 2004, we’ve accelerated our growth in client assets and revenues, more than doubled our pre-tax profit margin, passed the \$1 billion mark in net income, and improved the company’s return on equity by more than four-fold. We have sharpened our strategic focus with the pending sale of U.S. Trust and acquisition of The 401(k) Company, and we have sustained the financial discipline necessary to support growth and contain costs.

What’s ahead for 2007? In a word, more. More strong revenue growth, with another double-digit objective for the year. More improvement in pre-tax margins, with a goal approaching 37 percent. More significant growth in EPS, although the final result for 2007 will be affected by the choices we make in redeploying the proceeds from the U.S. Trust sale. I remain extremely confident in both Schwab’s prospects and in our commitment to following the same formula laid out last year – expense discipline, careful capital management, and a relentless focus on our clients and their needs.

You may already be aware that I’m retiring from Schwab after our Annual Meeting in May, so this is my last letter to you as CFO. I’ve had a wonderfully fulfilling career here, yet I’m especially proud of what we’ve accomplished in this most recent chapter in Schwab’s history. The time is right for me to move to the next chapter in my life, but leaving behind two decades of experience at this remarkable institution is truly bittersweet. I know I’m leaving the company in great shape and in great hands, and I want to thank my fellow stockholders for the support you’ve shown me and the company over the years. It has been an honor to serve you.

Sincerely,



CHRISTOPHER V. DODDS

Executive Vice President and Chief Financial Officer
March 15, 2007

FINANCIAL HIGHLIGHTS

(In Millions, Except Per Share Amounts and as Noted)	GROWTH RATE 1-YEAR			
	2005-06	2006	2005	2004
Net revenues	19%	\$ 4,309	\$ 3,619	\$ 3,416
Expenses excluding interest	9%	\$ 2,833	\$ 2,592	\$ 2,869
Net income	69%	\$ 1,227	\$ 725	\$ 286
Income from continuing operations per share — basic	43%	\$.70	\$.49	\$.26
Income from continuing operations per share — diluted	44%	\$.69	\$.48	\$.26
Basic earnings per share	73%	\$.97	\$.56	\$.21
Diluted earnings per share	73%	\$.95	\$.55	\$.21
Dividends declared per common share	52%	\$.135	\$.089	\$.074
Weighted-average common shares outstanding — diluted	(2%)	1,286	1,308	1,365
Closing market price per share (at year end)	32%	\$ 19.34	\$ 14.67	\$ 11.96
Book value per common share (at year end)	15%	\$ 3.96	\$ 3.45	\$ 3.30
Net revenue growth		19%	6%	5%
Pre-tax profit margin from continuing operations		34.3%	28.4%	16.0%
Return on stockholders' equity		26%	16%	6%
Full-time equivalent employees (at year end, in thousands)	7%	12.4	11.6	11.8
Net revenues per average full-time equivalent employee (in thousands)	13%	\$ 362	\$ 319	\$ 260

Note: All amounts are presented on a continuing operations basis to exclude U.S. Trust in light of its pending sale.

GROWTH IN CLIENT ASSETS AND ACCOUNTS

(In Billions, at Year End, Except as Noted)	GROWTH RATES		2006	2005	2004	2003	2002
	COMPOUNDED 4-YEAR	ANNUAL 1-YEAR					
Assets in Client Accounts							
Schwab One [®] , other cash equivalents and deposits from banking clients	4%	(1%)	\$ 31.0	\$ 31.3	\$ 31.7	\$ 28.5	\$ 26.1
Proprietary funds (Schwab Funds [®] , Excelsior [®] , and Laudus Funds [™]):							
Money market funds	2%	22%	135.0	110.6	107.0	113.8	123.0
Equity and bond funds	27%	43%	56.2	39.2	33.0	26.5	21.8
Total proprietary funds	7%	28%	191.2	149.8	140.0	140.3	144.8
Mutual Fund Marketplace ^{® (1)} :							
Mutual Fund OneSource [®]	22%	18%	163.2	137.8	129.7	102.8	74.3
Mutual fund clearing services	31%	3%	62.1	60.2	44.2	33.5	21.2
Other third-party mutual funds	25%	21%	173.1	142.7	114.4	98.2	71.7
Total Mutual Fund Marketplace	24%	17%	398.4	340.7	288.3	234.5	167.2
Total mutual fund assets	17%	20%	589.6	490.5	428.3	374.8	312.0
Equity and other securities ⁽¹⁾	20%	15%	487.0	422.4	387.3	326.8	235.6
Fixed income securities	12%	19%	142.0	119.7	104.5	109.1	90.4
Margin loans outstanding	12%	-	(10.4)	(10.4)	(9.8)	(8.5)	(6.6)
Total client assets	17%	18%	\$1,239.2	\$1,053.5	\$ 942.0	\$ 830.7	\$ 657.5
Client assets by business							
Schwab Investor Services	13%	15%	\$ 670.9	\$ 583.6	\$ 547.7	\$ 509.5	\$ 411.6
Schwab Institutional	23%	23%	502.5	407.0	348.2	287.1	222.4
Mutual fund clearing services and other	29%	5%	65.8	62.9	46.1	34.1	23.5
Total client assets by business	17%	18%	\$1,239.2	\$1,053.5	\$ 942.0	\$ 830.7	\$ 657.5
Net Growth in Assets in Client Accounts							
(for the year ended)							
Net new client assets ⁽²⁾	12%	4%	\$ 72.2	\$ 69.5	\$ 48.8	\$ 38.3	\$ 46.4
Net market gains (losses)			113.5	42.0	62.5	134.9	(111.7)
Net growth (decline)			\$ 185.7	\$ 111.5	\$ 111.3	\$ 173.2	\$ (65.3)
New Brokerage Accounts							
(in thousands, for the year ended)	(4%)	15%	655	568	538	585	764
Active Client Accounts							
(in thousands) ⁽³⁾							
Brokerage	(4%)	(4%)	6,737	7,049	7,252	7,480	7,937
Banking	N/A	N/A	147	N/A	N/A	N/A	N/A
Corporate Retirement Plan Participants	N/A	N/A	542	N/A	N/A	N/A	N/A

Note: All amounts have been adjusted to exclude U.S. Trust Corporation in light of its pending sale.

(1) Excludes all proprietary money market, equity, and bond funds.

(2) Includes an outflow of \$19.5 billion in 2006 related to a mutual fund clearing services client who completed the transfer of these assets to an internal platform. Includes an individual inflow and outflow of \$3.6 billion and \$6.0 billion in 2006 and 2004, respectively, related to two mutual clearing services clients.

(3) Periodically, the Company reviews its active account base. The Company identified over 400,000 brokerage accounts that met its current definition of active, but had little or no balances and no likelihood of further activity. Effective March 31, 2006, the Company removed these accounts from its active brokerage account total. Amounts for periods prior to 2006 were not adjusted. While the Company adjusted its definition of an active brokerage account to exclude certain zero and minimal balance accounts, the basic definition remains "accounts with balances or activity within the preceding eight months." In addition, to present a more comprehensive view of its client relationships, the Company added disclosures for its banking accounts (i.e., deposits, credit cards, HELOCs, mortgages, other loans) and Corporate Retirement Plan Participants. Amounts for periods prior to 2006 are not available. Also, reflects the removal of 192,000 accounts in 2003 related to the Company's withdrawal from the Employee Stock Purchase Plan business and the transfer of these accounts to other providers.

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BOARD OF DIRECTORS

Charles R. Schwab

Chairman of the Board and Chief Executive Officer, The Charles Schwab Corporation
Age: 69. Director since 1986.

William F. Aldinger III

President and Chief Executive Officer, Capmark Financial Group Inc., a financial services company
Age: 59. Director since 2005.
Member of the Audit Committee; Nominating & Corporate Governance Committee.

Nancy H. Bechtle

Former President and Chief Executive Officer, San Francisco Symphony
Age: 69. Director since 1992.
Member of the Compensation Committee; Nominating & Corporate Governance Committee.

C. Preston Butcher

Chairman and Chief Executive Officer, Legacy Partners, a real estate development and management firm
Age: 68. Director since 1988.
Member of the Audit Committee; Nominating & Corporate Governance Committee.

Donald G. Fisher

Founder and Chairman Emeritus of the Board, Gap, Inc., a specialty retail clothing chain
Age: 78. Director since 1988.
Member of the Audit Committee; Nominating & Corporate Governance Committee.

Frank C. Herringer

Chairman of the Board of Transamerica Corporation, a financial services company
Age: 64. Director since 1996.
Chairman of the Nominating & Corporate Governance Committee; member of the Compensation Committee.

Marjorie Magner

Founding partner, Brysam Global Partners, a private equity firm
Age: 57. Director since 2006.
Member of the Audit Committee; Nominating & Corporate Governance Committee.

Stephen T. McLin

Chairman and Chief Executive Officer, STM Holdings LLC, which offers merger and acquisition advice
Age: 60. Director since 1988.
Chairman of the Audit Committee; member of the Nominating & Corporate Governance Committee.

Paula A. Sneed

Former Executive Vice President, Global Marketing Resources and Initiatives, Kraft Foods, Inc., a global food and beverage company
Age: 59. Director since 2002.
Member of the Compensation Committee; Nominating & Corporate Governance Committee.

Roger O. Walther

Chairman and Chief Executive Officer, Tusker Corporation, a real estate and business management company
Age: 71. Director since 1989.
Chairman of the Compensation Committee; member of the Nominating & Corporate Governance Committee.

Robert N. Wilson

Chairman and Chief Executive Officer, Caxton Health Holdings, LLC, a healthcare-focused investment firm
Age: 66. Director since 2003.
Member of the Compensation Committee; Nominating & Corporate Governance Committee.

David B. Yoffie

Max and Doris Starr Professor of International Business Administration, Harvard Business School
Age: 52. Director since 2003.
Member of the Compensation Committee; Nominating & Corporate Governance Committee.

CORPORATE CONTACTS

Customer Service

Phone: (800) 435-4000

Website: www.schwab.com

Or in person at more than 300

Schwab offices in 45 states

Schwab International and Multicultural Services

Schwab serves international investors through offices in Puerto Rico and London, and also through a subsidiary of The Charles Schwab Corporation in Hong Kong.

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Outside the U.S.: (415) 667-6787

Website: www.schwab-global.com

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San Francisco, California

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Deloitte & Touche LLP

50 Fremont Street

San Francisco, CA 94105

Phone: (415) 783-4000

Website: www.deloitte.com

Charles Schwab Foundation & Community Investor Services

The Charles Schwab Foundation and Community Investor Services work together to fulfill the Foundation's mission to give back to communities by supporting employee-selected causes and fostering financial literacy through funding, involvement, and expertise.

Carrie Schwab Pomerantz,
President, Charles Schwab Foundation,
and Senior Vice President

Toll-free hotline: (877) 408-5438

Website: [www.aboutschwab.com/
community](http://www.aboutschwab.com/community)

CORPORATE INFORMATION

The Charles Schwab Corporation

101 Montgomery Street
San Francisco, CA 94104
(415) 636-7000
Nasdaq Stock Symbol: SCHW

The Charles Schwab Corporation is a leading provider of financial services, with more than 300 offices and 6.7 million client brokerage accounts, 542,000 corporate retirement plan participants, 147,000 banking accounts, and \$1.24 trillion in client assets as of year-end 2006. Through its operating subsidiaries, the company provides a full range of securities brokerage, banking, money management and financial advisory and custodial services to individual investors, independent investment advisors, and corporate retirement plan sponsors and administrators.

Website: www.aboutschwab.com

Annual Meeting of Stockholders

Thursday, May 17, 2007
2 p.m. Pacific Time
Four Seasons Hotel
757 Market Street
San Francisco, CA 94103
Phone: (415) 633-3001

Advance registration is required. The meeting will also be offered as a webcast at www.schwabevents.com.

Stock Ownership Services

All stockholders of record are welcome to participate in The Charles Schwab Corporation Dividend Reinvestment and Stock Purchase Plan, managed by Wells Fargo Bank, N.A. For information on the Dividend Reinvestment and Stock Purchase Plan, or for assistance on stock ownership questions, contact:

Transfer Agent & Registrar
Wells Fargo Bank, N.A.
Shareowner Services
P.O. Box 64854
St. Paul, MN 55164
Phone: (800) 468-9716
E-mail: stocktransfer@wellsfargo.com

The Charles Schwab Corporation
Office of the Corporate Secretary
Phone: (415) 636-3087

CEO and CFO Certifications

The Charles Schwab Corporation has included as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission, certificates of its Chief Executive Officer and Chief Financial Officer certifying the quality of the company's public disclosures.

Trademarks

Charles Schwab, Schwab, Charles Schwab Bank, CyberTrader, Talk to Chuck, and other trademarks appearing herein are trademarks owned by Charles Schwab & Co., Inc., or its affiliates in the U.S. and/or other countries.

Publications

To obtain the company's Annual Report, 10-K, 10-Q, Quarterly Earnings Report, or other publications without charge, contact:

Charles Schwab Investor Relations
101 Montgomery Street
San Francisco, CA 94104
Phone: (415) 636-2787

These documents may also be viewed at the company's website at www.aboutschwab.com.

“SUCCEED JUST ONCE
WHEN THEY SAY YOU
CAN’T, AND YOU WON’T
EVER ACCEPT THE
LIMITATIONS OF OTHERS.
THAT’S THE SPIRIT
THAT MAKES SCHWAB
DIFFERENT.”

— CHUCK SCHWAB —

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