charles SCHWAB

2007 Annual Report

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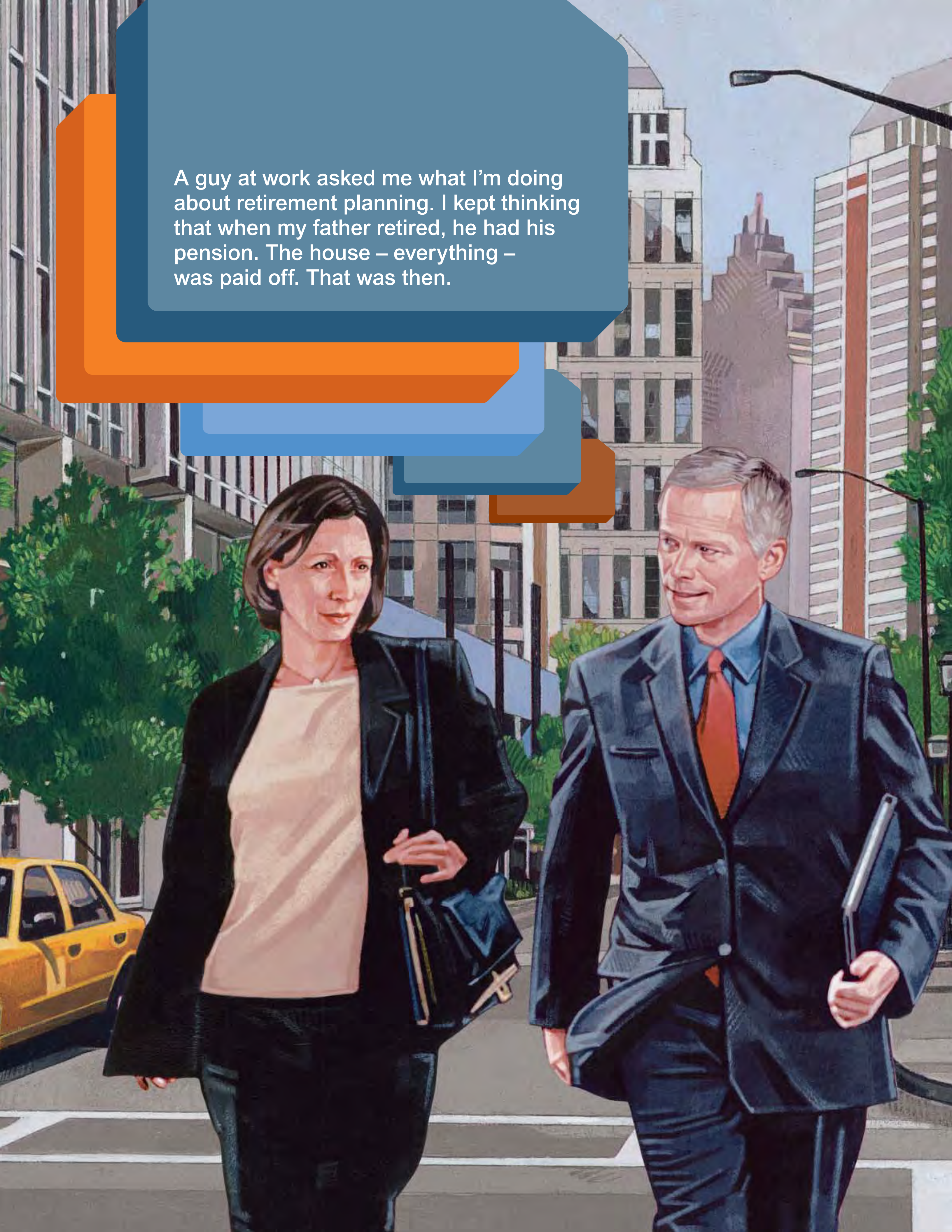
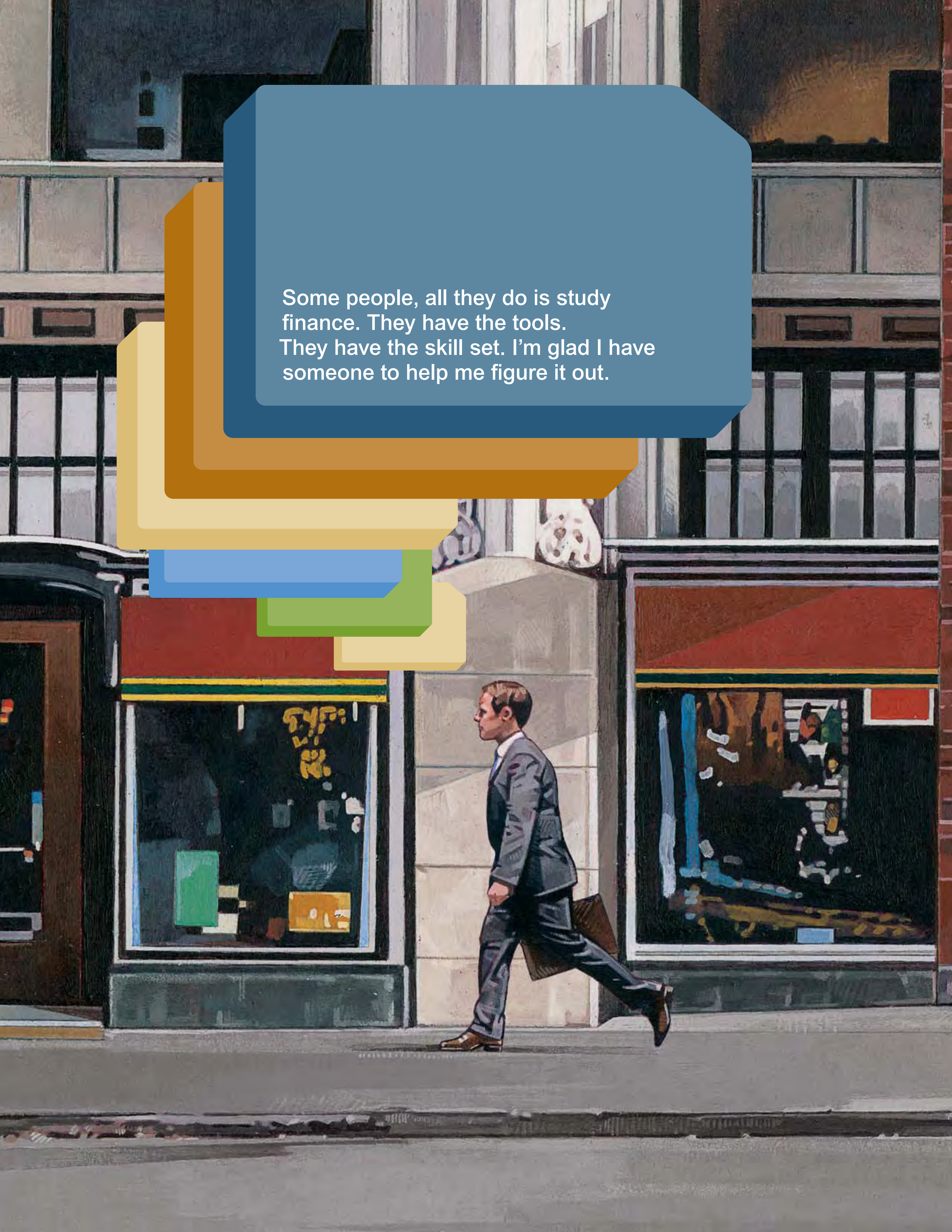
Forward-Looking Statements: In addition to historical information, this Annual Report to Stockholders contains “forward-looking statements” which are identified by words such as “believe,” “anticipate,” “expect,” “intend,” “plan,” “will,” “may,” “estimate,” “aim,” “target,” and other similar expressions. 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, and net new client assets (see “Letter from the Chief Executive Officer,” “Operations Overview,” and “Letter from the Chief Financial Officer”), and the company’s ability to limit expenses, grow earnings, achieve earnings per share growth and return on equity expectations, and return excess capital to its stockholders (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 38 in the Form 10-K for a discussion of important factors that may cause such differences.

In cities and towns around the country, people are making choices about new ways of living, working, and managing money. As they go through the day, there are moments when they wonder how their decisions will shape their future.

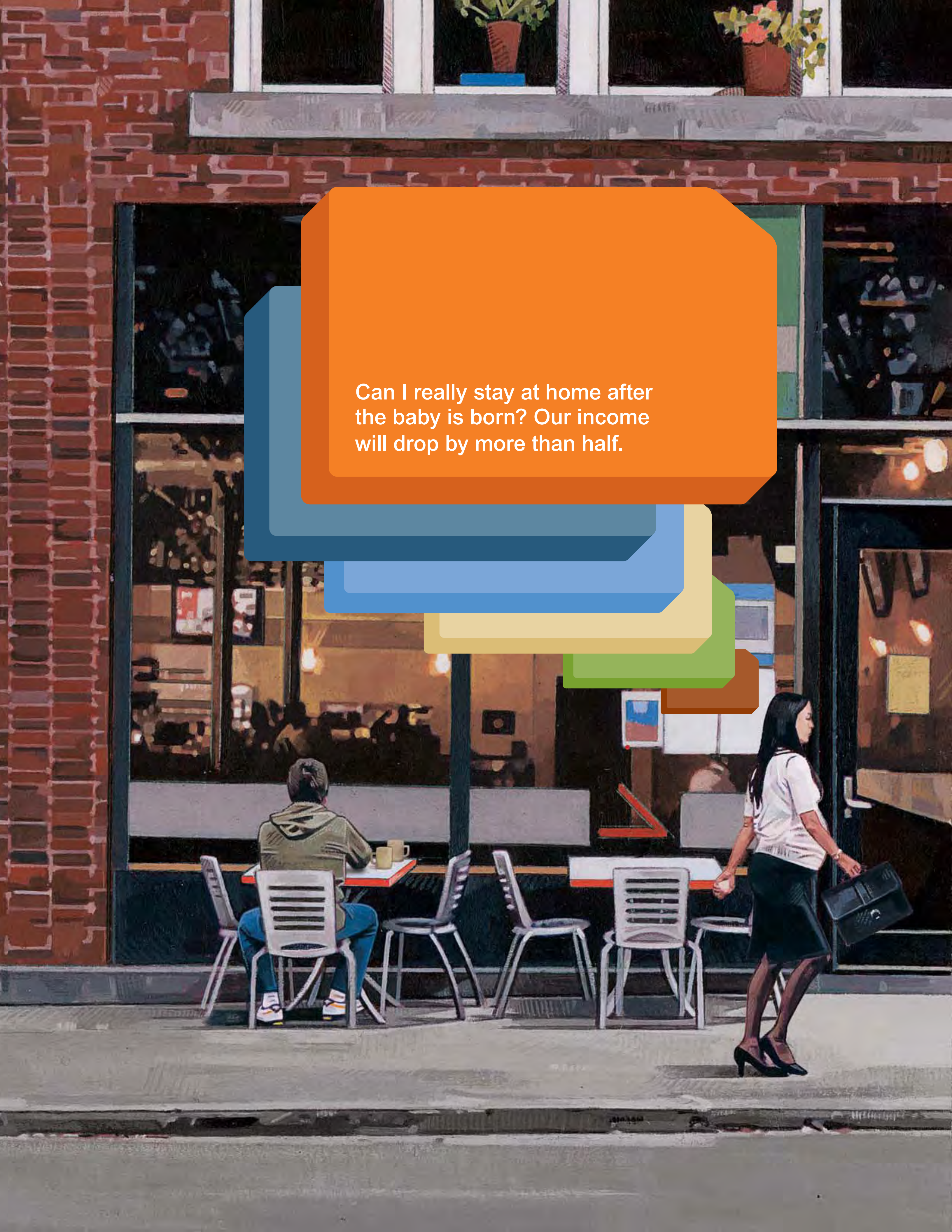
There's a sense many of us have – that changes in modern life are making each of us more responsible for our own financial fitness.



A guy at work asked me what I'm doing about retirement planning. I kept thinking that when my father retired, he had his pension. The house – everything – was paid off. That was then.



Some people, all they do is study finance. They have the tools. They have the skill set. I'm glad I have someone to help me figure it out.


Can I really stay at home after the baby is born? Our income will drop by more than half.

Retirement? That lasted six months. It's fun when you start, but after going where you want to go and seeing what you want to see, it's not a big deal anymore. Plus, I've got the longevity gene.

Getting into the marriage game again, it's a little scary. I don't want to say, let's keep things *mine* and *yours* – but sort of.

People used to see their house as a piggy bank. That's going away now.

When Blake and I met, we didn't think about the future. Today is different, and when the kids get out of college, it's going to be even more different.

Starting a business isn't as easy as crossing the street, but it can't be as tough as climbing Mount Everest either.


I can't wait to get my own place after graduation. Mom says when you rent, you're throwing money away. But I'm not sure I can pay off student loans and a mortgage, too.

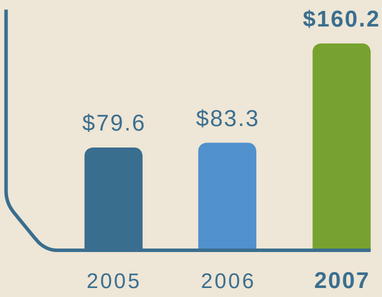
We understand.

Schwab recognizes the changes that have taken place in recent decades – changes that open up all kinds of new options, but make people wonder how the financial pieces fit together.

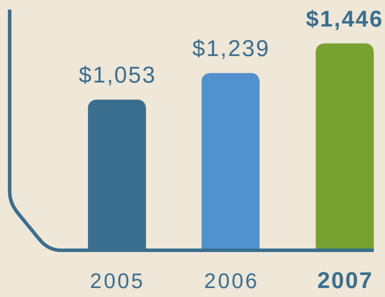
Our purpose is to help everyone be financially fit. That's what guides our work every day. And that's why we've built a different kind of firm – one that puts the individual first.

Today, we see an enormous opportunity to assist millions who need help but aren't getting it. And as more and more people realize that every part of life is part of their financial life, we're ready with the tools and support to turn their questions into plans for a more secure financial future.

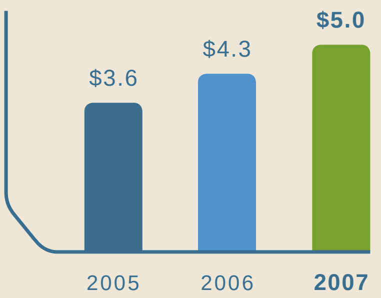
NET NEW CLIENT ASSETS(1)
(In Billions)



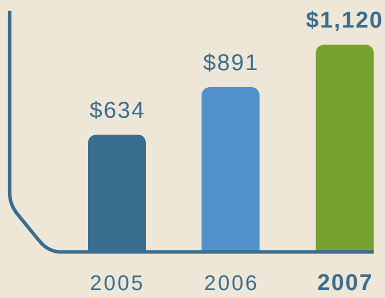
TOTAL CLIENT ASSETS
(In Billions, at Year End)



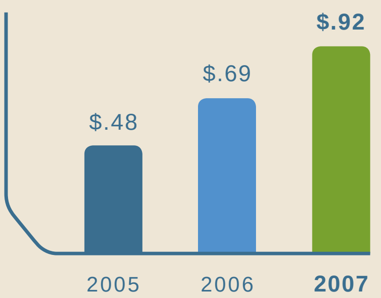
NET REVENUES(2)
(In Billions)



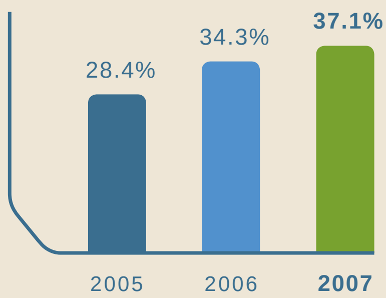
INCOME FROM CONTINUING OPERATIONS(2) (In Millions)



DILUTED EARNINGS PER SHARE(2)



PRE-TAX PROFIT MARGIN(2)



(1) Effective 2007, amounts include the Company's mutual fund clearing services business' daily net settlements. All prior period amounts have been recast to reflect this change.
(2) Amounts are presented on a continuing operations basis to exclude the impact of the sale of U.S. Trust Corporation, which was completed on July 1, 2007.

To my fellow stockholders,

Charles R. Schwab
Founder, Chairman,
and Chief Executive Officer

Many people have asked about Schwab's "secret to success" as we posted incredible 2007 results during a tough time in the financial markets. But it's really no secret.

All of us at Schwab come to work every day focused on our purpose: to help everyone be financially fit. That may seem like a simple statement, but it has a very powerful impact on how we do business, and on our potential for continued profitable growth.

To begin with, our purpose gives us a razor-sharp focus on the financial needs of individuals, whether we serve them directly through our brokerage and banking business, or indirectly through employers or independent investment advisors. For individual investors, we want to make Schwab the place where they feel comfortable investing their money. For independent advisors, we want to help them build high-performing businesses. And for companies of all sizes, we want to be the best resource for retirement and equity compensation plan services, investment products, and financial advice for their employees. Along the way, we plan to continue to treat every single client with high standards, just the way we'd want to be treated.

Our purpose is also our compass. It guides our actions and decisions, pointing us toward long-term success built on great service for our clients – not unsustainable and risky short-term financial bets. That has a tremendous impact on how we manage risk and manage our business.

Our purpose and our singular focus make Schwab different. Based on last year's fantastic performance during a difficult market, we believe our purpose also makes us strong.

We attracted net new assets at record levels.

In 2007, clients brought in $160 billion in net new assets to Schwab, up an incredible 92 percent over the prior year. Even when you exclude about $23 billion in assets we gained through last year's acquisition of The 401(k) Company, we exceeded our goal of averaging $10 billion per month in net new assets. At year end 2007, total client assets reached $1.4 trillion, up 17 percent.

In other year-over-year comparisons, The Charles Schwab Corporation posted outstanding financial results.

- Net revenues increased 16 percent to $5 billion.
- Income from continuing operations rose to $1.1 billion, up from $891 million in 2006 (excluding results from U.S. Trust).
- Diluted earnings from continuing operations reached 92 cents per share, up from 69 cents in 2006.
- Our pre-tax profit margin from continuing operations climbed to 37.1 percent, up from 34.3 percent in 2006.

Our businesses are strong and growing, with a strategic revenue mix of asset management and administration fees of $2.4 billion, net interest revenue of $1.6 billion, and trading revenue of $860 million. In the accompanying letter from Chief Financial Officer Joe Martinetto, you'll find a more detailed explanation of our financial results and our capital restructuring, which contributed to a 55 percent return on stockholders' equity.

We performed well during tough financial times.

You may remember 2007 as the year of the credit and housing crises, but that was just the tip of this financial iceberg. Under the surface, many factors were in play – the most publicized being the liquidity crunch that followed problems in the sub-prime mortgage market.

> "Our purpose is our compass. It guides our actions and decisions, pointing us toward long-term success built on great service for our clients."

Times of market turmoil naturally shake investor confidence. But I continue to believe that the stock market is the best place for long-term investment based on the time-tested theories of asset allocation and diversification.

When I look back on our 20 years as a publicly held company, the benefits of a long-term strategy are clear. Over that period, a $1,000 investment in the S&P 500 would have increased in value to $7,200, a 10 percent average annual compounded interest. This long-term approach is part of the asset allocation strategy we practice in Schwab advisory solutions, in which client assets increased 14 percent to $57 billion during 2007.

We recognize that people need help – more than ever.

The past 20 years have brought many changes in the markets and in our everyday lives.

Think back to 1987 and consider a typical 55-year-old worker, who may have worked for just one or two different employers in an entire career. That employee could plan to retire by age 62 to 65, with a company pension and Social Security benefits. The 401(k) plan was a relatively new idea – just five years old at the time.

Today, approximately four out of every 10 workers will change jobs in any given year. Increasingly, their employers are offering a defined contribution plan rather than a traditional pension. Social Security may not take effect until age 66 or later. And many retirees who thought they'd saved enough to last the rest of their lives are returning to the workforce to supplement their retirement income.

Increasingly, the responsibility for retirement has shifted from employers to employees. It's now up to the individual to decide how much to put into a 401(k) plan and how to direct those investments – often with a few keystrokes on the computer.

With these changes in how we live, work, and invest, financial fitness has never been more important. That compels Schwab to take a broader view of both sides of the balance sheet as we help our clients navigate their many financial needs.

We are dedicated to financial fitness for all.

I have always tried to focus on the impact we can have on people's financial well-being. I've written books about it and built a business that is designed to help clients achieve good results with their money. So our purpose is nothing new to Schwab. It's part of our sincere desire to help each and every client be in the best financial shape possible.

According to the Schwab Center for Financial Research, being financially fit encompasses five dimensions, including lifetime cash flow planning, investment planning, debt management, insurance, and estate planning. In the coming year, we'll be providing more information to our clients to help educate them about how to improve their personal level of financial fitness.

Of course, we realize it's not enough just to define financial fitness; we have to help more people take action. That's exactly what our business segments did last year.

Through Schwab Investor Services, we made it easier for new investors to get started by reducing account minimums – and the minimum investment in our Schwab Funds® – to just $100. Another important launch came from Charles Schwab Bank, with our new High Yield Investor Checking, paying an interest rate well above the national average. For clients who prefer the direct access of our schwab.com website, we made it easier to manage brokerage, banking, and other Schwab accounts online.

Through Schwab Institutional®, we continued to help independent financial advisors serve their clients more effectively. We introduced services to streamline everything from hiring and retaining employees to opening an account with Schwab. We also launched two new trust services to help independent advisors sustain client relationships across generations. As a further sign of our leadership in this fast-growing industry segment, our annual IMPACT® conference drew nearly 4,000 attendees last year.

Through Schwab Corporate & Retirement Services, we helped more companies manage their 401(k) plans, making it as easy as a payroll deduction for employees to invest for their future. We also launched improved services for companies that provide equity compensation to their employees. In 2007, we more than doubled the number of full-service retirement plan participants we serve, up to 1.2 million at year end.

"I have always tried to focus on the impact we can have on people's financial well-being."

While I am pleased with our 2007 results, I am proud of our many programs to encourage financial sustainability – the greater good, if you will, of improving the financial health of all those whose lives we can touch. That's why Charles Schwab Foundation is promoting financial literacy through our Schwab MoneyWise™ website and programs such as *Money Matters: Make It Count* in partnership with Boys & Girls Clubs of America. It's also why, as the chairman of our foundation, I have committed to President Bush to chair a newly established President's Advisory Council on Financial Literacy, made up of nearly 20 public service organizations devoted to financial education.

Our 2008 goals will set the bar high.

Achieving our purpose requires a strong, growing company – one that takes care of its clients, stockholders, and employees. So we have set ambitious business goals for 2008 to improve our service and increase our value to clients. As a result, we plan to grow net new client assets at an average rate of $12 billion per month.

This is such an important time for our company. From so many perspectives, we have built a new model for the financial services firm of the 21st century – focused on the individual in every facet of our business.

We enter 2008 determined to continue growing our business, to improve the financial health of our clients, and to give more people access to the tools and information they need to manage their financial future. We will work for financial services that are simple, open, and transparent. We will give our clients consistent help and guidance, helping them achieve better outcomes that contribute to their financial fitness. And as our business prospers, we plan to reward our stockholders and give back to our communities.

The secret to our success is simple, and we believe that our compass points us toward continued growth – both for our clients and for our business.

Sincerely,

Charles R. Schwab
Founder, Chairman,
and Chief Executive Officer
March 15, 2008

we believe in the individual

by Walt Bettinger
President and Chief Operating Officer

We're building the company that makes financial fitness real for a growing number of people.

We live in a new financial reality.

Fewer than half of all Americans working today will collect a pension. Retirement income is more likely to come from a defined contribution plan, like a 401(k) or an individual retirement account (IRA). And it's not just about retirement. It's about everyday life, with more options, financial decisions, and responsibility resting squarely on each individual.

We believe this new reality demands a new model for financial services.

In 2007, Schwab continued to forge a new, client-focused business model. We restructured our business, found new ways to make financial services easier and more affordable, and continued to build client relationships based on a high level of trust.

Fulfilling our purpose – to help everyone be financially fit – starts with a more disciplined and efficient organization. That allows us to scale our products, services, and advice to serve a wider spectrum of clients, from the most affluent to those with only modest resources. Then, by serving more people in more relevant ways, we see enormous potential to grow our business, and to reinvest in our people and our communities.

Today's Schwab serves individuals – both directly and indirectly – through our three primary business enterprises.

- SCHWAB INVESTOR SERVICES, our traditional retail business, works directly with individuals who manage their own investments or turn to us for help and guidance.

- SCHWAB INSTITUTIONAL, a business-to-business model, serves approximately 5,500 Registered Investment Advisors – independent, fee-based investment advisors who work with individuals and families, often with more complex needs.

- SCHWAB CORPORATE & RETIREMENT SERVICES, also a business-to-business model, works with companies to manage their retirement and equity compensation plans and serve the employees covered by these plans.

Through the combination of these business units, at year end 2007, we served more than 7 million active brokerage

SCHWAB CORPORATE & RETIREMENT SERVICES

Annual Revenues: $506 million
Pre-Tax Margin: 27.4 percent

"In almost 25 years of working in the retirement plan services business, I've seen a sea change in the attitudes of employers. As they've moved from defined benefit plans to defined contribution plans, they can't provide guarantees. But they feel a shared responsibility to help their employees make wise decisions, and they are concerned that many individuals don't have access to the investing resources and tools they need. So when Schwab talks about our purpose of helping everyone be financially fit, it truly resonates."

Jim McCool,
Executive Vice President

SCHWAB INVESTOR SERVICES

Annual Revenues: $3.4 billion
Pre-Tax Margin: 36.9 percent

"While I was visiting one of our branches, I met a client who had built a relationship with Beth, his Financial Consultant. After we'd talked for a while he asked, 'Have you ever met Mr. Schwab?' I replied that I'm fortunate to work with Chuck Schwab quite regularly. Then he added: 'Well, the next time you see him, tell him that I appreciate his offer to Talk to Chuck, but I don't really need to because I've got Beth here to help me out.' This was a tremendous reinforcement to me that we are building our business on trusting relationships. We're creating loyal clients by providing the type of help and guidance people are looking for, whether through our Financial Consultants, our complimentary consultations, or our many services on schwab.com."

Ben Brigeman,
Executive Vice President

accounts, 260,000 banking accounts, and 1.2 million retirement plan participants.

In addition, many other Schwab units – including Charles Schwab Bank, solution services, investment management, marketing, human resources, and technology – provide centralized support for the entire corporation, allowing us to integrate many processes for greater efficiency.

We are reaching individuals at every stage of life.

While our average client continues to be a mid-50s Baby Boomer, we are reaching out to younger investors, making it easier to be financially fit at any stage of life. Of more than 11 million individuals aged 25 to 40, many are making life decisions with huge financial implications – paying off college loans, starting a family, buying a home, or beginning to save for retirement. Last year, we helped these younger investors get an early start with Schwab Bank High Yield Investor Checking™ and a lower, $100 minimum requirement for investing and brokerage accounts.

Moving with our clients through their investing career, we continued to see strong demand for Schwab Managed Portfolios™, which provides professional portfolio management for those with $25,000 or more to invest. This diversified mutual fund program, which was introduced in mid-2006, reached $4.5 billion in client assets at year end 2007. And we enhanced our commitment to helping everyone achieve financial fitness by offering complimentary portfolio consultations to each and every client – no matter how large or small their assets.

Innovation was also key to several new mutual fund offerings, including three new Fundamental Index* funds and the first Schwab Global Real Estate Fund™. At year end 2007, total client assets held in mutual funds rose 24 percent to $730 billion, including $242 billion invested in Schwab Funds and Laudus Funds®.

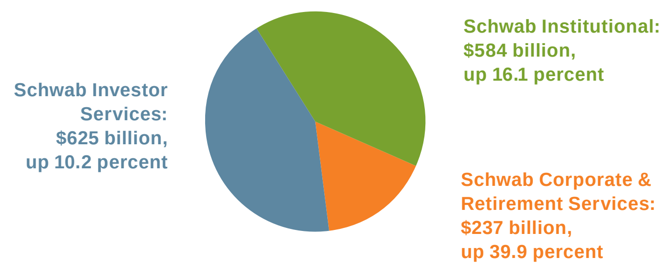
We are helping individuals invest for the future.

For most individuals, retirement is the number one reason why they invest. Although we refer to Schwab Corporate & Retirement Services as "our retirement business," every part of Schwab helps individuals save for retirement.

Through Schwab Investor Services, we launched the "15-minute IRA" to make it easier for clients to fund an individual retirement account. For those already in retirement, the Schwab Retirement Income Fund helps generate retirement income while preserving opportunities for equity growth.

In addition to robust, ongoing investment in our servicing technology and platform, Schwab Institutional introduced two trust services to help advisors sustain relationships across generations. Through an alliance with TriNet, we also announced programs to help independent advisors manage their businesses more efficiently, including lower group rates for health and life insurance, payroll services, and company retirement and employee incentive plans.

The Charles Schwab Corporation Client Assets
Total client assets reached $1.45 trillion as of Dec. 31, 2007.



We are building stronger client relationships.

Across our company, we strive to create an environment where individuals choose to do more business with Schwab – and that means strengthening client relationships.

Through our "client promoter score," we measure our clients' likelihood to recommend Schwab to their friends and family. Clients are asked to rank Schwab on a scale of 0 to 10. Those who rate us a 9 or 10 are "promoters." Those who rate us a 6 or lower are considered "detractors." Our total client promoter score is calculated by subtracting the percentage of detractors from the percentage of promoters. Not only are we pleased with our progress – with scores ranging from the mid-20s to the mid-70s and climbing – but we place a personal call to clients who rate us on the lower end of the scale, always seeking ways to improve their Schwab experience.

Our client promoter score is just one sign of our commitment to serve our clients in the way they want to be served. In 2007, Schwab Investor Services continued to match many clients with a dedicated financial advisor, and by year end client assets enrolled in Schwab advisory solutions were up 14 percent to $57 billion. We also enhanced our schwab.com website and consolidated our active investor services into the StreetSmartPro® advanced trading platform and StreetSmart.com™.

We plan to continue the momentum.

In 2007, we continued to build an organization that's strong, secure, and relevant to our clients' needs. The results are clear: We increased net revenues at a double-digit pace for the second consecutive year, achieved a pre-tax margin of 37.1 percent, and strengthened client relationships.

SCHWAB INSTITUTIONAL

Annual Revenues: $1.1 billion

Pre-Tax Margin: 43 percent

"The independent advisor business is an incredible success story, and we are proud to be a part of it. Advisors are building fast-growing practices in local communities across the nation because their clients value what advisors have to offer: a unique blend of independence, expertise, creativity, customized solutions, and personal attention. We think of ourselves as a custom shop too, and tailor products, tools, and services to meet each advisor's needs. We believe that's the best way to help our clients grow in a way that works for their individual businesses."

Charles Goldman, *Executive Vice President*

In 2008 and beyond, our efforts will focus on several key areas.

- GROWTH: We expect to grow net new client assets as we attract new-to-firm households, new employers and retirement plan participants, and new independent investment advisor clients.

- DISCIPLINE: We plan to drive revenue and margin growth, while ensuring the financial and risk-based discipline essential to being financially fit as a company.

- SIMPLIFICATION: We will create common platforms, processes, and capabilities to make it easier to do business with Schwab.

- TALENT: We will invest in our employees, developing the skills and aptitudes needed to build even stronger relationships with our clients.

Executing well in these areas will make us stronger as a company united by a single purpose as we contribute to the financial fitness of our clients, our stockholders, and our employees.

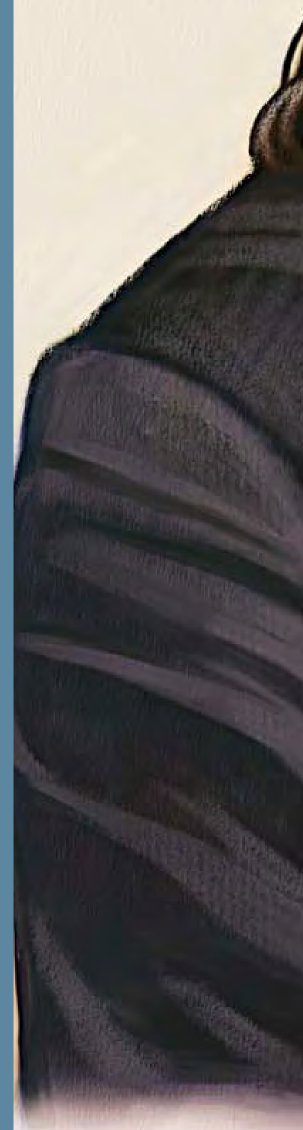
Walt Bettinger
President and Chief Operating Officer

We want to strengthen America's future by improving financial literacy.

Only one in three teens in America knows how to read a bank statement or balance a check-book. And they're not the only ones who can use help improving their financial literacy. Schwab focuses on financial literacy because it benefits people at every income level and stage of life. By understanding the basics and learning the tools and principles of money management, individuals can better analyze financial choices and plan for the future.

With the help of dedicated Schwab volunteers, Charles Schwab Foundation provides programs and funding to help individuals fill the information gap. For example, Schwab MoneyWise™ helps adults teach – and children learn – the basics of financial literacy. Interactive tools are available at schwabmoneywise.com, and local workshops cover topics such as getting kids started on a budget. In addition to these efforts, widely distributed publications and news columns by foundation President Carrie Schwab Pomerantz promote financial literacy on a wide range of topics – from saving for a child's education to bridging the health-insurance gap for retirees.

Most recently, Charles Schwab – founder of The Charles Schwab Corporation and chairman of Charles Schwab Foundation – was named chairman of the newly formed President's Advisory Council on Financial Literacy. In this role, he will focus national attention on the need for better financial education and help find ways to improve financial literacy – bringing our purpose to life for everyone.



Senior Manager Elaine Needleman (left) volunteers to teach *Money Matters: Make It Count* in collaboration with Boys & Girls Clubs of America, to help teens learn the basics of money management. Since the program's inception in May 2004, nearly 70,000 teens have completed the program, and Charles Schwab Foundation has awarded $108,000 in college scholarship grants to top participants.

BENJAMIN L. BRIGEMAN
Executive Vice President, Schwab Investor Services

LISA K. HUNT
Executive Vice President, Schwab Investor Development

JAMES D. McCOOL
Executive Vice President, Corporate & Retirement Services

REBECCA SAEGER
Executive Vice President and Chief Marketing Officer

JAY L. ALLEN
Executive Vice President, Human Resources

RANDALL W. MERK
Executive Vice President, Investment Management

MAURISA SOMMERFIELD
Executive Vice President, Operational Services

JOSEPH R. MARTINETTO

Executive Vice President and Chief Financial Officer

CHARLES R. SCHWAB

Founder, Chairman of the Board, and Chief Executive Officer

WALTER W. BETTINGER II

President and Chief Operating Officer

CARRIE E. DWYER

Executive Vice President, General Counsel, and Corporate Secretary

CHARLES G. GOLDMAN

Executive Vice President, Schwab Institutional

JAN HIER-KING

Executive Vice President and Chief Information Officer

JOHN S. CLENDENING

Executive Vice President, Solution Services

Joe Martinetto
Executive Vice President and Chief Financial Officer

As I stepped into the CFO role in 2007, I joined a management committee that was determined to remain focused on our clients and their needs. After all, that focus, along with expense discipline and careful risk and capital management, comprise the key elements of the formula for sustained, profitable growth that the company has followed so successfully in recent years. In my first letter to you, I'd like to share some perspectives on how the formula influences our approach to financial management before discussing our 2007 performance – including our success with clients – and then closing with some thoughts on expectations for 2008.

There's a cornerstone principle that still guides our approach to financial management even after 30-plus years of storied history: Schwab is, and will remain, a growth company. We've gone from upstart discount broker to one of the largest financial services firms around, but even now our market share of U.S. investable assets is still under 10 percent. For a long time, our growth story was very straightforward – deliver high-quality products and service at a great value, capture rapid revenue growth, and deliver a comparable rate of earnings growth, since expenses needed to rise along with an expanding infrastructure. Our Annual Report for 1997, my first year at Schwab, offers a classic example: It shows that with revenues up 25 percent, we delivered growth in net income and earnings per share of 27 percent and 26 percent, respectively.

Today, the story is not quite as simple. First, we have to acknowledge that we're just bigger. That 1997 report showed $69 billion in net new assets helping push total client assets up by 40 percent, to $354 billion – phenomenal for the time. In comparison, our even more phenomenal $160 billion in net new assets during 2007 helped total client assets rise by 17 percent, to $1.4 trillion. Next, our dedication to offering clients better choices at a better value has facilitated a dramatic reduction in our revenue relative to client asset levels. In 1997, our revenues equaled approximately 0.75 percent of average client assets; by 2007, that ratio had dropped to 0.37 percent.

How can we plan for and deliver compelling financial performance in a world where it only gets harder to achieve outsized revenue growth year after year? Here's where the formula comes in. Given our current mix of businesses and the outlook for pricing our services, we believe we can deliver revenue growth percentages in the low double digits or better on a sustained basis in many market environments. We hope you agree that's impressive organic growth for a well-established firm. With an existing infrastructure capable of supporting ongoing growth in our businesses without commensurate growth in expenses, and the willingness and ability to prioritize and control our reinvestment in the company, we believe we can limit overall expense growth sufficiently to deliver earnings growth percentages in the mid to upper teens. Careful capital management, including the timely return of excess equity to stockholders, can then help us achieve earnings per share growth and ROEs of 20 percent or more. Environmental factors might prevent us from hitting these marks every year, but this is our baseline for running the company.

Now let's look at our 2007 performance. Our planning scenario included equity market appreciation of about 6 percent and moderate declines in short-term interest rates. Since we had not yet determined how we would redeploy the proceeds from the sale of U.S. Trust, we limited our financial commitments to 12 percent revenue growth and a 2 percentage point increase in our pre-tax profit margin, to 36 percent. While overall equity market returns for 2007 were in the mid to upper single digits, our clients faced significant volatility as the year progressed and the economic picture darkened, and the Fed Funds rate dropped to a lower than anticipated 4.25 percent by year end. Despite these market headwinds, our fundamentals continued to improve, and we were able to achieve 16 percent revenue growth and a record 37 percent pre-tax margin. In addition, even after excluding U.S. Trust-related impacts, our income and earnings per share from continuing operations were up 26 percent and 33 percent, respectively, to $1.1 billion and 92 cents, setting new records as well.

We believe the formula works, in part, because our commitment to delivering a low-cost, high-value client experience helps build stronger relationships. I've already discussed the outstanding growth in client assets we achieved in 2007; our progress with clients is also reflected in a 24 percent increase in new brokerage accounts, to more than

(In Millions, Except Per Share Amounts and as Noted)	GROWTH RATE 1-YEAR 2006-07	2007	2006	2005
Net revenues	16%	$ 4,994	$ 4,309	$ 3,619
Expenses excluding interest	11%	$ 3,141	$ 2,833	$ 2,592
Net income	96%	$ 2,407	$ 1,227	$ 725
Income from continuing operations per share – basic	33%	$ .93	$ .70	$ .49
Income from continuing operations per share – diluted	33%	$ .92	$ .69	$ .48
Basic earnings per share	105%	$ 1.99	$ .97	$ .56
Diluted earnings per share	107%	$ 1.97	$ .95	$ .55
Dividends declared per common share	48%	$ .200	$ .135	$ .089
Special dividend declared per common share	100%	$ 1.00	$ -	$ -
Weighted-average common shares outstanding – diluted	(5%)	1,222	1,286	1,308
Closing market price per share (at year end)	32%	$ 25.55	$ 19.34	$ 14.67
Book value per common share (at year end)	(19%)	$ 3.22	$ 3.96	$ 3.45
Net revenue growth		16%	19%	6%
Pre-tax profit margin from continuing operations		37.1%	34.3%	28.4%
Return on stockholders' equity		55%	26%	16%
Full-time equivalent employees (at year end, in thousands)	7%	13.3	12.4	11.6
Net revenues per average full-time equivalent employee (in thousands)	7%	$ 387	$ 362	$ 319

Note: All amounts are presented on a continuing operations basis to exclude the impact of the sale of U.S. Trust Corporation, which was completed on July 1, 2007.

800,000. In addition, total brokerage accounts rose for the first time in five years, by 5 percent to 7 million; banking accounts rose nearly 80 percent, to 262,000; and both acquisitions and organic growth helped us serve 1.2 million retirement plan participants by year end 2007, more than double the 2006 total.

We also believe our formula works because clients recognize and value our commitment to Schwab's financial health. An important aspect of that commitment is risk management. While conceding that it's impractical to eliminate all risks in our business, we are extremely thorough and thoughtful in determining the nature and extent of the financial risks we are willing to assume as part of running the company. The absence of any significant damage to Schwab during the mortgage and credit market meltdowns of 2007 stood in stark contrast to the experience of other firms whose financial performance is more dependent on the magnitude of the risks they assume. Careful risk management also limits the capital we need to support business growth, thereby facilitating the return of excess amounts to stockholders. Aided by the sale of U.S. Trust, we were able to return a total of $4.2 billion in excess equity during 2007 via a combination of regular and special dividends, share repurchases, and a stock tender offer.

All in all, a superb year for Schwab, but is meaningful progress possible from here? Absolutely. Based on a planning scenario that assumed a 4.25 percent Fed Funds rate and 7.5 percent equity market appreciation, our initial expectations for 2008 included double-digit revenue growth, a pre-tax profit margin of 39 percent, 20-plus percent growth in earnings from continuing operations, and an ROE in excess of 30 percent. We recognize, however, that short-term rates and equity market returns are currently below the levels assumed in our plan, and that Schwab and its clients continue to face a tough environment. To the extent these conditions persist in 2008, we would expect to balance expense management that addresses the environment's effects on our revenues against our need to invest appropriately to drive future growth.

Schwab is more capable than ever, and the company is just beginning to demonstrate what it can accomplish in this new era of combined client focus and operating discipline. We hope to continue earning your support as we apply our formula in pursuit of the opportunities ahead.

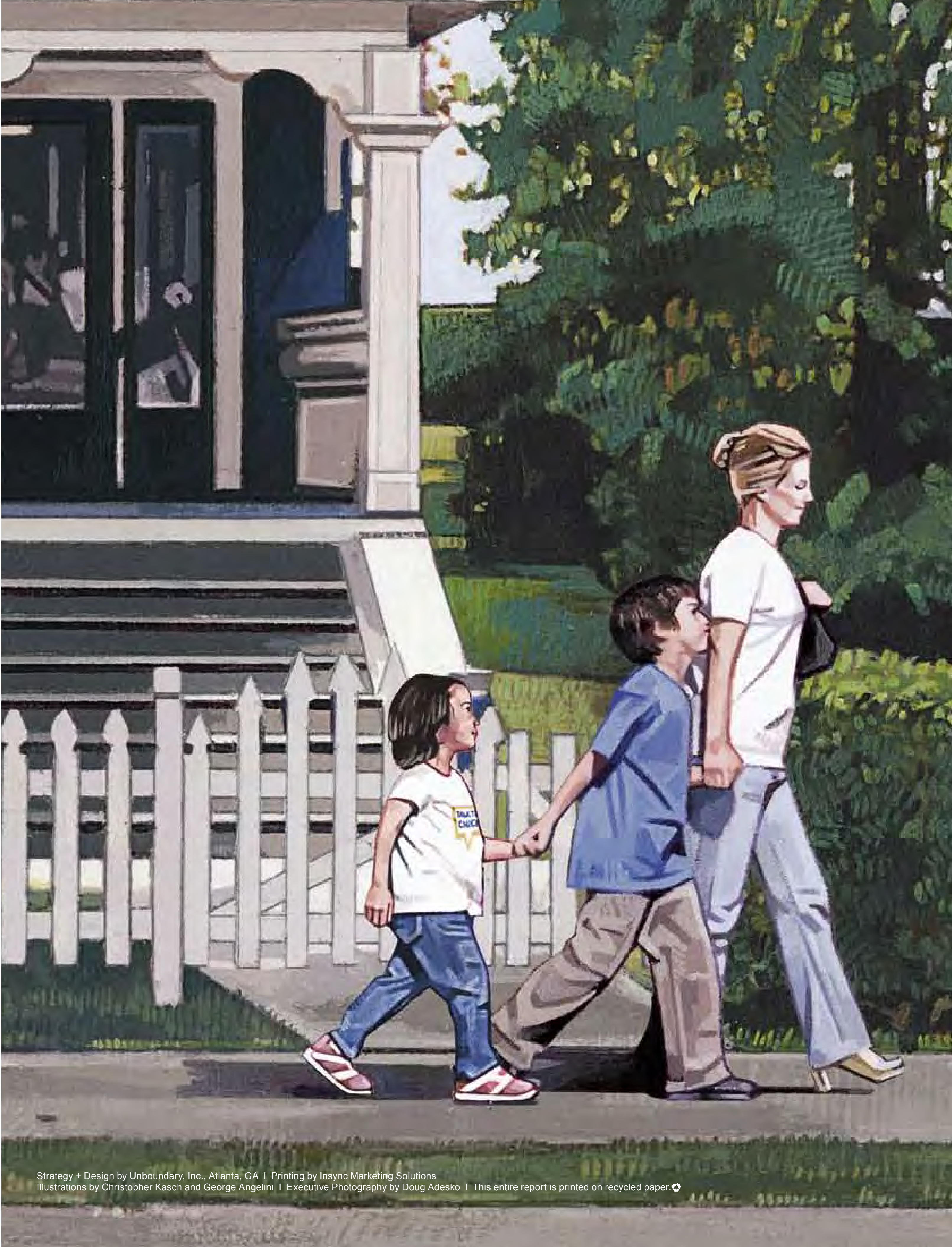
Sincerely,

Joe Martinetto
Executive Vice President and
Chief Financial Officer

(In Billions, at Year End, Except as Noted)	GROWTH RATES COMPOUNDED 4-YEAR 2003-07	ANNUAL 1-YEAR 2006-07	2007	2006	2005	2004	2003
Assets in Client Accounts							
Schwab One®, other cash equivalents and deposits from banking clients	6%	16%	$ 35.9	$ 31.0	$ 31.3	$ 31.7	$ 28.5
Proprietary funds (Schwab Funds® and Laudus Funds®):							
Money market funds	13%	36%	183.1	135.0	110.6	107.0	113.8
Equity and bond funds	22%	4%	58.7	56.2	39.2	33.0	26.5
Total proprietary funds	15%	26%	241.8	191.2	149.8	140.0	140.3
Mutual Fund Marketplace® (1):							
Mutual Fund OneSource®	15%	11%	180.9	163.2	137.8	129.7	102.8
Mutual fund clearing services	25%	32%	81.8	62.1	60.2	44.2	33.5
Other third-party mutual funds	23%	30%	225.7	173.1	142.7	114.4	98.2
Total Mutual Fund Marketplace	20%	23%	488.4	398.4	340.7	288.3	234.5
Total mutual fund assets	18%	24%	730.2	589.6	490.5	428.3	374.8
Equity and other securities (1)	14%	12%	545.2	487.0	422.4	387.3	326.8
Fixed income securities	8%	3%	145.8	142.0	119.7	104.5	109.1
Margin loans outstanding	8%	12%	(11.6)	(10.4)	(10.4)	(9.8)	(8.5)
Total client assets	15%	17%	$ 1,445.5	$ 1,239.2	$ 1,053.5	$ 942.0	$ 830.7
Client assets by business							
Schwab Investor Services	8%	10%	$ 625.3	$ 567.5	$ 507.8	$ 485.3	$ 461.8
Schwab Institutional	19%	16%	583.5	502.5	407.0	348.2	287.1
Schwab Corporate & Retirement Services	30%	40%	236.7	169.2	138.7	108.5	81.8
Total client assets by business	15%	17%	$ 1,445.5	$ 1,239.2	$ 1,053.5	$ 942.0	$ 830.7
Net Growth in Assets in Client Accounts (for the year ended)							
Net new client assets (2,3)	39%	92%	$ 160.2	$ 83.3	$ 79.6	$ 56.7	$ 42.6
Net market gains (losses) (3)			46.1	102.4	31.9	54.6	130.6
Net growth (decline)			$ 206.3	$ 185.7	$ 111.5	$ 111.3	$ 173.2
New Brokerage Accounts (in thousands, for the year ended)	8%	24%	809	655	568	538	585
Active Client Accounts (in thousands) (4)							
Brokerage	(1%)	5%	7,049	6,737	7,049	7,252	7,480
Banking	N/A	78%	262	147	N/A	N/A	N/A
Corporate Retirement Plan Participants (5)	N/A	122%	1,205	542	N/A	N/A	N/A

Note: All amounts are presented on a continuing operations basis to exclude the impact of the sale of U.S. Trust Corporation, which was completed on July 1, 2007.

(1) Excludes all proprietary money market, equity, and bond funds.
(2) Includes inflows of $17.8 billion in 2007 related to the acquisition of The 401(k) Company. Includes inflows of $3.3 billion, $3.6 billion, and $6.0 billion in 2007, 2006, and 2004 respectively, related to a mutual fund clearing services client. 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. Effective 2007, amount includes balances covered by 401(k) record keeping-only services, which totaled $5.2 billion at May 31, 2007, related to the March 2007 acquisition of The 401(k) Company.
(3) Effective 2007, amounts include the Company's mutual fund clearing services business' daily net settlements, with a corresponding change in net market gains (losses). All prior period amounts have been recast to reflect this change.
(4) 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 8 months." 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.
(5) 2007 includes increases of 398,000 related to the acquisition of The 401(k) Company and 100,000 related to Personal Choice Retirement participants at Schwab.



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