It’s a New Day.
The last 18 months have touched everyone. People live their lives differently now. They focus more on what — and who — really matters to them. When it’s time to do business, they pick companies that care about what matters to them personally, and they make those companies part of their everyday lives.
Perhaps nowhere is this truer than in financial services. In a post-crisis world, Schwab is more relevant and more recommended than ever. That’s because, through it all, we stayed true to our purpose: to help everyone be financially fit.

Debbie Lucente, an 11-year Schwab veteran, is a financial consultant in Atlanta’s Buckhead Branch.
People know where they want to go. They just need some help finding the way.

In a complex and busy world, few people have time to find their way alone. Finding the route that works best is what matters. Schwab is built to help everyone take the actions that lead to financial fitness. Some clients we serve directly, others through independent advisors, still others through the retirement plans and 401(k)s that their employers provide. But in every case, we help people get where they want to go.
People want advice they can trust.

Everyone needs a little help sometimes — whether it’s figuring out the latest technology or a financial plan. Schwab offers help and guidance based on objective research and disciplined analysis. And we make it easily accessible — from Schwab Equity Ratings® posted on the Web to one-on-one talks with our financial consultants. No matter how our clients turn to us for help, we try to make financial guidance easy to reach, easy to understand, and worthy of trust.
(Secretly, everybody wishes they understood this stuff better.)

Americans really want to understand all their financial options, but too many lack basic knowledge. That’s why Schwab wants to help everyone — not just our clients — better understand how to reach financial fitness. We try to share our knowledge with everyone, from the tools and information we post on SchwabMoneyWise.com to our work with teens through Boys & Girls Clubs of America. We want to make sure people know how to make good choices about their money.
Today’s world is a world of choices. But finding the right thing is much easier in the grocery store than it is in financial services. Schwab offers a wide range of financial products — our own and many from other firms — so people can choose what’s best for them. Only by providing the widest range of choices, coupled with trusted help and guidance, can we help our clients meet their individual financial needs.
When people find what works for them, they spread the word.

Everyone has a voice, and these days, it’s very easy for people to make sure their voices are heard. Schwab is proud that more people than ever say they would recommend us. Like few competitors in the financial services industry, we’re adding new households, new accounts, and new assets. As the market went down, our clients’ opinion of us kept climbing. That says a lot.
I started Schwab to fulfill the unmet needs of individual investors. That core idea — putting our clients’ needs first — has never changed, even in times of crisis.”

— Charles Schwab
Founder and Chairman

To My Fellow Stockholders:

Last year, Schwab added almost 1 million new client accounts while maintaining a healthy balance sheet and delivering significant improvements to our client services and products — a solid performance in the best of times, and an outstanding one given the economic reality of 2009.

Through Clients’ Eyes

As we stuck to our strategy of focusing on our clients — on seeing our business and the services we provide from their perspective — it became clear that everything we’ve done in our 35-year history led us to be the firm people needed during this very tumultuous time. Through it all, Schwab remained a reliable source of financial services, a trusted provider of help and advice, and a stable firm committed to delivering great value — all when it was needed the most.

Let me put a little context around that.

A Tough Environment for Investors and Savers

Despite the market advances since March 2009, investors and savers continue to suffer. An estimated $12.6 trillion in household wealth has simply disappeared between mid-2007 and the third quarter of last year. Millions of Americans have lost their jobs, lost their homes, and lost faith in business and the economy.

In addition to a challenging investing environment, the prevailing ultra-low interest rate policies have made it difficult to earn an attractive return on savings, hitting particularly hard those who depend on their savings for income. After spending a lifetime making responsible decisions about spending and debt accumulation, many of these savers have suffered as their yields on cash investments declined to negligible levels. Understandably, some individuals began to focus less on investing and saving and more on shoring up the foundation of their financial picture — for example, paying down debt.

While these factors impacted our revenues in 2009, Schwab came through it all as a strong and solid company.
Financial Results
In 2009, clients continued to entrust their hard-earned money to Schwab, bringing in new net assets of $87.3 billion, far ahead of the pace reported by any competitor. Total client assets reached $1.42 trillion at year-end, compared to $1.14 trillion at year-end 2008.

Our asset-gathering strength led to a solid financial performance for the 12 months ending December 31, 2009.

- Net revenues of $4.2 billion
- Net income of $787 million
- Diluted earnings per share of $0.68, compared to $1.05 the prior year, and pre-tax profit margin of 30.4 percent, down from a record 39.4 percent a year ago. Both reflected the impact of the same low interest rate environment that affected our nation's savers.

To generate these results in such a challenging environment, we knew we had to be a very disciplined company. Overall, we reduced expenses by 7 percent by focusing on things we could control when so many factors — such as market valuations and interest rates — were clearly not in our control. (See Letter from the CFO, page 20.)

Pursuing Our Purpose
One of the most important things we could control was to stay the course with our purpose and our client-focused strategy. When so much was changing all around us, what is unchanging about Schwab kept us strong — and moving forward.

It all starts with our purpose: to help everyone be financially fit. That is the lens through which we view our business decisions and our actions.

To fulfill our purpose, we pursue a clear and transparent strategy. Each quarter, when I report about the state of our business, I talk about our progress against four strategic pillars: client loyalty; innovation; operating our company in a disciplined manner; and leveraging capabilities across our company.

Helping everyone be financially fit compels us to think and act in different ways, and it’s that alignment of our purpose with our day-to-day behavior that is central to our firm’s success. In looking back on the major accomplishments of 2009, it’s clear that our actions delivered very specific benefits for our clients and for our business.

1. Building Client Loyalty by Being Service Oriented
In 2009, Schwab helped more people than ever, serving nearly 10 million accounts across Institutional Services and Investor Services, our two operating segments. On the institutional, or business-to-business side, we served thousands of employers and third party 401(k) recordkeepers, representing 1.5 million retirement plan participants. We also helped more than 6,000 independent investment advisors take care of their clients’ needs. These independent professionals, located around the country, typically serve as a fiduciary to their clients—a role that requires their clients’ needs to come first. This “client-first” philosophy aligns perfectly with Schwab’s commitment to the individual investor, and we are proud of the leading role we play in that growing part of the industry.

Last year, as more commissioned brokers decided to leave their brokerage firm and join the growing number of independent investment advisors, Schwab helped a record 172 new advisory teams as they either started or joined an independent firm. We also introduced an initiative to help independent advisors grow their business. Our “Make the Move” program saved clients of independent advisors millions of dollars in fees and, in the process, reduced the operating expenses of advisors we serve.

Among independent investors, we served 7.7 million client brokerage accounts and 722,000 banking accounts, which rose 62 percent with the success of our Schwab Bank High Yield Investor Checking® and the introduction of Schwab Bank High Yield Investor Savings®.

At our local Schwab branches, we conducted more than a half-million client meetings. In our automated channels, we recorded more than 250 million client log ons to schwab.com and routed 15.4 million calls through our automated systems. In addition, Schwab employees also answered 13.7 million phone calls with an average speed-to-answer of 22 seconds.

During the most challenging days of early 2009—when people needed someone to talk to—we didn’t wait for clients to call us. We introduced an outbound calling program and proactively contacted clients to offer our best suggestions, shaped by our clients’ interests.

We also increased the number of branch workshops, online webinars, and other forms of client outreach.

In many branches, we assigned a dedicated professional to work with people who drop in without an appointment, making sure both clients and prospects get the help they need. As a result of our efforts, we continued to post extraordinary client loyalty results. As profiled in a number of publications, the Schwab story of client loyalty is a true business success story. In 2009, more retail clients said they would recommend Schwab than ever before as our internal Client Promoter Score for individual investors reached record levels. Schwab also ranked “Highest in Investor Satisfaction with Self-Directed Services” by J.D. Power and Associates, and remarkably, given our history as a discount brokerage firm, we ranked third in the U.S. Full-Service Investor Satisfaction Study for traditional brokerage firms.

Also in early 2009, we waived advisory fees for new client enrollments in managed portfolio programs, thereby giving clients the help they needed with investment advisory services even at the depth of the stock market decline. We also introduced new versions of our Web sites for individual investors, independent investment advisors, and retirement plan participants— all to very positive reviews.

Last November, we broke new ground in the fast-growing world of exchange-traded funds (ETFs). Eight new Schwab ETFs have some of the lowest operating expense ratios on the market and can be bought and sold without commissions in Schwab accounts if purchased online, regardless of the number of shares traded. These ETFs can be purchased in blocks as small as one share per trade.

When we innovate at Schwab, our focus is on delivering client benefits. And in 2010, we will continue our legacy of innovating on behalf of consumers while challenging traditional approaches to financial services where we believe that clients’ interests are not optimally served. In fact, we began this year by cutting our online equity commission to $8.95 for all clients, regardless of the size of their trade—or the size of their portfolio. We did this because we believe that clients’ interests are best served with Schwab’s commitment to the individual investor— from pioneering discount brokerage, to launching no-load, no-transaction-fee Mutual Fund OneSource®, to leading the way in Web-based investment and banking services.

Throughout 2009, we took a series of bold, innovative steps to help investors and savers make the most of their money.

In the spring, we introduced a high yield savings account that, in the Schwab tradition, offered a great rate on every client’s first dollar — no catches or fine-print “gotchas.”

In order to deliver effective products and services at a great value for all clients — especially when the environment put such tremendous pressure on margins—we had to be disciplined and efficient in our internal operations.

Early last year, we faced very difficult choices as we worked to address this challenge. We made the painful decision to cut some jobs, but we made those decisions carefully and thoughtfully — and we simply refused to make cuts that would negatively impact client services. As a result of our operating discipline, we were in a position to deliver even greater value to clients while generating healthy financial performance for our stockholders.

In March, we lowered the expense ratio of the Schwab Hedged Equity FundTM. A month later, we enhanced our Schwab Target Funds by reducing expenses charged to investors, adjusting the asset allocation “glide path” to be more conservative as investors near retirement, and expanding the underlying funds that we invest in. Only two weeks passed before we cut fund fees again — this time for all Schwab equity index funds — to some of
Our faith in the individual investor has been rewarded with their trust in Schwab. Since 1993, Schwab has posted positive net new assets and new brokerage accounts for each and every quarter. That’s a track record we’re proud of, and one we intend to keep going.

As we look toward 2010 and beyond, we will continue to focus on what is unchanging about Schwab — our purpose, our strategy, and our day-to-day behaviors.

- We will continue to focus on the needs of both individual and institutional clients, delivering superior service and a great value.
- We will be innovative on behalf of consumers, introducing targeted new products and services and finding new ways to be a “game-changer” in a financial services industry where many competitors would prefer the status quo.
- We will be disciplined in the way we operate and manage our capital so that we have resources to reinvest in an ever-improving client experience and the continued growth of our business.
- We will manage the company from a holistic perspective, putting our investments and scale to work on behalf of the widest range of clients — even as we work together to build financial literacy for others who may not be our clients. As a result, we will continue to share our expertise through our Schwab MoneyWise® program as well as our work with nonprofit organizations like SingleStop and Boys & Girls Clubs of America.

At Schwab, our advocacy for investors and savers isn’t just words on paper — it is the way we do business every day. You can be assured that we will continue to walk the talk, because when we lead the way to financial fitness, we want ever more people to follow. After all, our success is built one client at a time — as we see the world through clients’ eyes.

Walt Bettinger
March 10, 2010
Keeping Our Commitments in a Tough Environment

There’s no question that the big driver of our story for 2009 was the macro economic environment and its pervasive effects on our business. Let’s acknowledge last year’s apparent paradox right up front — in many ways, 2009 “felt” better than 2008, yet it ended up being much tougher on our financial performance. In my comments to you this year, I’d like to start by describing the forces that caused such a situation so that I can review our 2009 results in proper context, and then I’ll move on to discuss our financial picture as we enter 2010.

With the economy showing signs of improvement and the equity markets rebounding from their March 2009 lows, our clients saw the market value of their assets at Schwab rise by more than $260 billion in the last nine months of the year. In addition, as Walt mentioned, the strength of engagement measures such as phone calls, branch and Web site visits, and trading activity provided clear signs that investors continued to seek Schwab’s help in finding the right way forward in the midst of a shifting environment. Tough as that environment was, our net new assets were down from 2008 levels, but as Walt also mentioned, at $47.3 billion they were still far ahead of the pace reported by any other firm.

Coupling strong engagement with ongoing success in building our client base and attracting new assets helped drive substantial expansion of the company’s earnings power in several ways. For example, the dollar value of client assets held at Schwab in fee-generating mutual funds — including proprietary, Mutual Fund OneSource®, and Clearing balances — rose by $61.2 billion, or 15 percent, during 2009, even after a $38.5 billion decline in asset management and administration fees.

Furthermore, we keep a large portion of our interest-earning assets in shorter term securities to help ensure we’re always ready to accommodate client cash needs. As the yield on those assets continued to decline during 2009 and we literally ran out of room to lower the rate paid on client cash, the resulting drop in our net interest margin overwhelmed the effect of balance sheet growth, and our net interest revenue declined by 28 percent. Finally, while client trading activity remained healthy in 2009, trading revenue declined by 8 percent as the market volatility and record setting volumes of late 2008 eventually eased.

I’d like to say the hard work is done and all we have to do in 2010 is sit back and watch the client assets roll in and the revenue dollars pile up. Actually, we do believe that our revenue story is finally poised for improvement now that the economy seems to be solidly on a recovery track and interest rates can’t do much more harm. Even if the Fed Funds target is not raised from year-end 2009 levels, we currently believe that the sequential improvement in net interest revenue we achieved in the fourth quarter of 2009 will spread to our other major sources of revenue during the first half of this year, and that the company will achieve year-over-year revenue growth of at least 1 percent in 2010. To the extent the Fed Funds target is adjusted upward starting in the middle of the year and ends 2010 at 1 percent, we’d expect revenue growth to reach approximately 15 percent.

With revenues likely on the mend, the hard part is expense discipline. I’ve said this before and it bears repeating: Schwab is a growth company, managed by folks who come to work every day thinking about how we can do a better job for clients, how to offer them better products, better service, and better value. We love our competitive strength, the world-class, seemingly inexorable asset gathering, but we’re always coming up with more ideas about how to enhance that momentum than we can effectively pursue with the managerial bandwidth and resources at hand. So, our ability to apply judgment — to prioritize our reinvestment in the company and work on the things that matter most to our clients — remains critical.

In 2010, we see an opportunity to push harder on projects that will benefit clients, as well as the need to spend a little more to accommodate the strong growth we’ve continued to achieve even as the financial and economic crisis of the last few years has played out. We therefore expect expenses to rise by at least 4 percent between 2009 and 2010. We also expect, however, that any upside to that increase will be linked to the higher level of revenue growth projected when interest rates begin to rise. If that happens, we’d expect to increase employee bonuses as appropriate while keeping other expenses at their planned levels. By staying disciplined, we believe we can continue to successfully balance investment for long-term growth with near-term profitability in 2010, which we’d translate into pre-tax profit margins of at least 25 percent and 35 percent, respectively, in our flat-rate and 1 percent Fed Funds rate scenarios.

We continue to focus on growth, knowing that the full earnings power associated with that growth will become clear as interest rates inevitably move toward more sustainable levels. We also continue to focus on the conservative financial management that our clients, stockholders, and employees expect from Schwab. I come to work every day knowing it’s my job to ensure the company is ready to support the growth that my colleagues are so busily generating, and to do so as a stable, enduring institution. We appreciate your ongoing support as we aim for sustained, profitable growth in 2010 and beyond.

Joe Martinetto
March 10, 2010

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*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.
## Financial Highlights

### Growth in Client Assets and Accounts

<table>
<thead>
<tr>
<th>Category</th>
<th>2005-09</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Revenues (in Millions)</td>
<td>$1,422.6</td>
<td>$1,445.5</td>
<td>$1,239.2</td>
<td>$1,053.5</td>
<td>$875.9</td>
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<tr>
<td>Growth Rate</td>
<td>28%</td>
<td>17%</td>
<td>16%</td>
<td>11%</td>
<td>11%</td>
</tr>
</tbody>
</table>

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

1. Excludes all proprietary money market, equity, and bond funds.
2. Certain client assets at December 31, 2006, have been reclassified from Mutual Fund Clearing Services to other business lines.
3. Includes flows of $11.8 billion in 2007 related to the acquisition of The 401(k) Company, includes flows of $3.2 billion in 2006.
5. The Company reviews its active account base periodically. The Company identified over 400,000 brokerage accounts that met its current definition of active, but had little or no balance and no likelihood of further activity. Effective March 31, 2006, the Company reviewed over 400,000 accounts from its active brokerage account base.
6. Inflows include $2.9 billion related to The 401(k) Company, $1.4 billion related to Schwab Personal Choice Retirement Account® and $2.2 billion related to Schwab Personal Choice Retirement Account®.
7. Includes inflows of $17.8 billion in 2007 related to the acquisition of The 401(k) Company. Includes inflows of $3.3 billion and $3.6 billion in 2007 and 2006, respectively.
<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
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<tbody>
<tr>
<td>Charles R. Schwab</td>
<td>Chairman of the Board</td>
</tr>
<tr>
<td>Walter W. Bettinger II</td>
<td>President and Chief Executive Officer</td>
</tr>
<tr>
<td>Jay L. Allen</td>
<td>Executive Vice President, Human Resources and Employee Services</td>
</tr>
<tr>
<td>Benjamin L. Brigeman</td>
<td>Executive Vice President, Investor Services</td>
</tr>
<tr>
<td>John S. Clendening</td>
<td>Executive Vice President, Shared Strategic Services</td>
</tr>
<tr>
<td>Carrie E. Dwyer</td>
<td>Executive Vice President, General Counsel and Corporate Secretary</td>
</tr>
<tr>
<td>Jan Hier-King</td>
<td>Executive Vice President, Shared Support Services</td>
</tr>
<tr>
<td>Lisa Kidd Hunt</td>
<td>Executive Vice President, Investor Development</td>
</tr>
<tr>
<td>Joseph R. Martinetto</td>
<td>Executive Vice President and Chief Financial Officer</td>
</tr>
<tr>
<td>James D. McCool</td>
<td>Executive Vice President, Institutional Services</td>
</tr>
<tr>
<td>Randall W. Merk</td>
<td>Executive Vice President, Investment Management Services</td>
</tr>
<tr>
<td>Rebecca Saeger</td>
<td>Executive Vice President and Chief Marketing Officer</td>
</tr>
<tr>
<td>Paul V. Woolway</td>
<td>Executive Vice President and President, Charles Schwab Bank</td>
</tr>
</tbody>
</table>

Client Service Specialist Renna Swayne
Charles R. Schwab  
Chairman of the Board,  
The Charles Schwab Corporation  
Age: 72. Director since 1986; term expires in 2011.

William F. Aldinger III  
Former Chairman, President, and Chief Executive Officer, Capmark Financial Group Inc., a financial services company  
Age: 62. Director since 2005; term expires this year.  
Member of the Audit Committee; Nominating and Corporate Governance Committee.

Nancy H. Bechtle  
Former President and Chief Executive Officer, San Francisco Symphony  
Member of the Compensation Committee; Nominating and Corporate Governance Committee.

Walter W. Bettinger II  
President and Chief Executive Officer, The Charles Schwab Corporation  
Age: 49. Director since 2008; term expires in 2012.

C. Preston Butcher  
Chairman and Chief Executive Officer, Legacy Partners, a real estate development and management firm  
Age: 71. Director since 1988; term expires in 2012.  
Member of the Audit Committee; Nominating and Corporate Governance Committee.

Frank C. Herringer  
Chairman of the Board of Transamerica Corporation, a financial services company  
Chairman of the Nominating and Corporate Governance Committee; member of the Compensation Committee.

Stephen T. McLin  
Chairman and Chief Executive Officer, STM Holdings LLC, which offers merger and acquisition advice  
Age: 63. Director since 1988; term expires in 2011.  
Chairman of the Audit Committee; member of the Nominating and Corporate Governance Committee.

Arun Sarin  
Former Chief Executive Officer, Vodafone Group Plc, a mobile telecommunications company  
Age: 55. Director since 2009; term expires this year.  
Member of the Audit Committee; Nominating and Corporate Governance Committee.

Paula A. Sneed  
Chairman and Chief Executive Officer, Phelps Prescott Group, LLC, a strategy and management consulting firm  
Age: 62. Director since 2002; term expires this year.  
Member of the Compensation Committee; Nominating and Corporate Governance Committee.

Roger O. Walther  
Chairman and Chief Executive Officer, Tusker Corporation, a real estate and business management company  
Age: 74. Director since 1989; term expires in 2011.  
Chairman of the Compensation Committee; member of the Nominating and Corporate Governance Committee.

Robert N. Wilson  
Chairman, Still River Systems, a medical device company  
Age: 69. Director since 2003; term expires in 2011.  
Member of the Compensation Committee; Nominating and Corporate Governance Committee.

In Memoriam for Don Fisher  
“The Charles Schwab Corporation, our employees, and clients lost a longtime supporter, trusted advisor, and great friend last September. Don Fisher played a key role in the transformative growth of our company, where his insights, strategic counsel, optimism, and entrepreneurial spirit were invaluable during his 21 years of service to Schwab. Don had an extraordinarily generous spirit and commitment to others that was exemplified here in the San Francisco community through his philanthropy, community service, and support for the arts and education. We will all miss him deeply.”

Charles R. Schwab, Chairman of the Board  
Walter W. Bettinger II, President and Chief Executive Officer
Kamilah Mulkey plans Schwab retail branch events for the Southern and Great Lakes regions.