SCHWAB CHARLES CORP
Form 10-Q
November 05, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

Commission File Number: 1-9700

THE CHARLES SCHWAB CORPORATION

(Exact name of registrant as specified in its charter)

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

211 Main Street, San Francisco, CA 94105

(Address of principal executive offices and zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

1,316,523,363 shares of $.01 par value Common Stock

Outstanding on October 26, 2015

THE CHARLES SCHWAB CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2015

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Part I – FINANCIAL INFORMATION

THE CHARLES SCHWAB CORPORATION

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

INTRODUCTION

The Charles Schwab Corporation (CSC) is a savings and loan holding company engaged, through its subsidiaries, in wealth management, securities brokerage, banking, money management, and financial advisory services. Charles Schwab & Co., Inc. (Schwab) is a securities broker-dealer with over 325 domestic branch offices in 45 states, as well as a branch in each of the Commonwealth of Puerto Rico and London, England. In addition, Schwab serves clients in Hong Kong through one of CSC's subsidiaries. Other subsidiaries include Charles Schwab Bank (Schwab Bank), a federal savings bank, and Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds, which are referred to as the Schwab Funds®, and for Schwab's exchange-traded funds, which are referred to as the Schwab ETFs™.

CSC and its subsidiaries (collectively referred to as the Company) operate through two reportable segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking services to individual investors, retirement plan services, and corporate brokerage services. The Advisor Services segment provides custodial, trading, and support services to independent investment advisors, and retirement business services to independent retirement plan advisors and recordkeepers whose plan assets are held at Schwab Bank.

Forward-Looking Statements

In addition to historical information, this Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," "estimate," "appear," "aim," "target," "could," 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 impact of current market conditions on the Company's results of operations (see "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations - Current Market and Regulatory Environment and Other Developments" and "- Results of Operations – Net Interest Revenue");
- the expected impact of the new liquidity coverage ratio (LCR) rules (see "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations - Current Market and Regulatory Environment and Other Developments");
- sources of liquidity, capital, and level of dividends (see "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" and "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 12. Regulatory Requirements");
- target capital and debt ratios (see "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" and "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 12. Regulatory Requirements");
- capital expenditures (see "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Capital Expenditures");
- the impact of changes in the likelihood of indemnification and guarantee payment obligations on the Company's results of operations (see "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 6. Commitments and Contingencies"); and
- the impact of legal proceedings and regulatory matters (see "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 6. Commitments and Contingencies – Legal contingencies" and "Part II – Other Information – Item 1 – Legal Proceedings").

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

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this Quarterly Report on Form 10-Q or, in the case of documents incorporated by reference, as of the date of those documents.

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

- changes in general economic and financial market conditions;
- changes in revenues and profit margin due to changes in interest rates;
- the Company's ability to attract and retain clients and grow client assets and relationships;
- the Company's ability to develop and launch new products, services and capabilities in a timely and successful manner;
- fluctuations in client asset values due to changes in equity valuations;
- the Company's ability to monetize client assets;
- trading activity;
  - the level of interest rates, including yields available on money market mutual fund eligible instruments;
- the adverse impact of financial reform legislation and related regulations;
- investment, structural and capital adjustments made by the Company in connection with the new LCR rule;
- the amount of loans to the Company's brokerage and banking clients;
- the level of the Company's stock repurchase activity;
- the level of brokerage client cash balances and bank deposits;
- the availability and terms of external financing;
- capital needs and management;
- client sensitivity to interest rates;
- the timing, amount and impact of the migration of certain client balances from sweep money market funds into Schwab Bank;
- the timing and impact of changes in the Company's level of investments in software and equipment;
- potential breaches of contractual terms for which the Company has indemnification and guarantee obligations;
- adverse developments in litigation or regulatory matters;
- the extent of any charges associated with litigation and regulatory matters;
- amounts recovered on insurance policies;
- timing and amount of severance and other costs related to reducing the Company's San Francisco footprint;
- the Company's ability to manage expenses;
- regulatory guidance;
- the level of client assets, including cash balances;
- competitive pressures on rates and fees;
- acquisition integration costs; and
- client use of the Company's investment advisory services and other products and services.

Certain of these factors, as well as general risk factors affecting the Company, are discussed in greater detail in "Part I –Item 1A – Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, and "Part II – Other Information – Item 1A – Risk Factors."

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OVERVIEW

Management of the Company focuses on several key client activity and financial metrics in evaluating the Company's financial position and operating performance. Management believes that net revenue growth, pre-tax profit margin, earnings per common share (EPS), and return on average common stockholders' equity provide broad indicators of the Company's overall financial health, operating efficiency, and ability to generate acceptable returns. Expenses excluding interest as a percentage of average client assets are considered by management to be a measure of operating efficiency. Results for the third quarters and first nine months of 2015 and 2014 are:

	Three Months Ended September 30, 2015	2014	Percent Change	Nine Months Ended September 30, 2015	2014	Percent Change
Client Metrics:						
Net new client assets (1) (in billions)	$ 30.8	$ 34.7	(11) %	$ 96.5	$ 91.6	5 %
Client assets (2) (in billions, at quarter end)	$ 2,415.9	$ 2,403.7	1 %			
Average client assets (3) (in billions)	$ 2,513.5	$ 2,437.8	3 %	$ 2,532.7	$ 2,363.3	7 %
New brokerage accounts (4) (in thousands)	254	229	11 %	808	729	11 %
Active brokerage accounts (5) (in thousands, at quarter end)	9,691	9,309	4 %			
Assets receiving ongoing advisory services (6) (in billions, at quarter end)	$ 1,204.8	$ 1,192.6	1 %			
Client cash as a percentage of client assets (7) (at quarter end)	12.9 %	12.2 %				
Company Financial Metrics:						
Net revenues	$ 1,597	$ 1,551	3 %	$ 4,689	$ 4,507	4 %
Expenses excluding interest	1,014	1,033	(2) %	3,055	2,946	4 %
Income before taxes on income	583	518	13 %	1,634	1,561	5 %
Taxes on income	207	197	5 %	603	590	2 %
Net income	376	321	17 %	1,031	971	6 %
Preferred stock dividends and other	11	9	22 %	45	39	15 %
	$ 365	$ 312	17 %	$ 986	$ 932	6 %

Net income available to common stockholders						
Earnings per common share – diluted	$ .28	$ .24	17 %	$ .74	$ .70	6 %
Net revenue growth from prior year	3 %	13 %		4 %	13 %	
Pre-tax profit margin	36.5 %	33.4 %		34.9 %	34.6 %	
Return on average common stockholders' equity (annualized) (8)	13 %	12 %		12 %	12 %	
Expenses excluding interest as a percentage of average client assets (annualized)	0.16 %	0.18 %		0.16 %	0.17 %	

(1) Net new client assets is defined as the total inflows of client cash and securities to the firm less client outflows. Management believes that this metric, along with core net new assets, depicts how well the Company's products and services appeal to new and existing clients. Core net new assets were $30.8 billion and $102.0 billion during the third quarter and first nine months of 2015, respectively. See the following page for items excluded from core net new assets in 2015. There were no significant one-time flows during the third quarter and first nine months of 2014.

(2) Client assets represent the market value of all client assets custodied at the Company. Management considers client assets to be indicative of the Company's appeal in the marketplace. Additionally, fluctuations in certain components of client assets (e.g., Mutual Fund OneSource® funds) directly impact asset management and administration fees.

(3) Average client assets is defined as the daily average client asset balance for the period.

(4) New brokerage accounts include all brokerage accounts opened during the period, as well as any accounts added via acquisition. This metric measures the Company's effectiveness in attracting new clients and building stronger relationships with existing clients.

(5) Active brokerage accounts include accounts with balances or activity within the preceding eight months. This metric is an indicator of the Company's success in both attracting and retaining clients.

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(6) Assets receiving ongoing advisory services include relationships under the guidance of independent advisors and assets enrolled in one of the Company's retail or other advisory solutions. This metric depicts how well the Company's advisory products and services appeal to new and existing clients.
(7) Client cash as a percentage of client assets includes Schwab One®, certain cash equivalents, bank deposits and money market fund balances, as a percentage of client assets. This measure is an indicator of clients' engagement in the fixed income and equity markets.
(8) Calculated as net income available to common stockholders divided by average common stockholders' equity.

Core net new client assets is defined as net new client assets before significant one-time flows. Management considers this to be a useful metric when comparing period-to-period client asset flows. The following one-time flows were excluded from core net new assets.

· An outflow of $11.6 billion in the first nine months of 2015 relating to the Company's planned resignation from an Advisor Services cash management relationship.
· An inflow of $6.1 billion in the first nine months of 2015 to reflect the final impact of the consolidation of its retirement plan recordkeeping platforms as previously announced in the third quarter of 2013.

The Company's financial results are influenced by market conditions. Asset management and administration fees vary with the changes in the balances of client assets due to market fluctuations. In addition, volatility in the markets can influence client behavior in terms of investment decisions and volume of trading activity. Interest rates have a direct correlation to the Company's ability to generate net interest revenue as interest-earning assets and funding sources are sensitive to changes in the rate environment.

During the third quarter, there was heightened volatility in the equities markets. In the month of August, the S&P 500 dropped 11% in six trading days and the CBOE Volatility Index spiked to 41 on August 24, 2015, after averaging 14 for the prior four weeks. This decline eroded the majority of the equity market gains generated over the past 12 months. The Nasdaq Composite Index finished up 3% at the end of the third quarter of 2015 compared to the same period in 2014 while the Standard & Poor's 500 Index declined 3% over the same period. Meanwhile, short-term interest rates continued to be constrained as the federal funds target rate remained unchanged at a range of zero to 0.25% and the average 3-month LIBOR yield improved 8 basis points to .31% compared to the third quarter of 2014. Long-term interest rates decreased in the third quarter of 2015 compared to the same period in 2014. The average 10-year yield during the third quarter of 2015 was 2.22% which was 27 basis points lower than the average yield during the third quarter of 2014.

Strong client momentum continued as the Company’s innovative, full-service model continued to resonate with clients and drive growth during the third quarter of 2015. Core net new assets totaled $30.8 billion in the third quarter of 2015 compared to $34.7 billion in the same prior year period. Core net new client assets increased $10.4 billion to $102.0 billion for the first nine months of 2015 compared to the same period in 2014. Total client assets ended the third quarter of 2015 at $2.42 trillion, up 1% from the third quarter of 2014, inclusive of the $117.5 billion impact of reduced market valuation on client portfolios over the last 12 months.

The Company added 254,000 new brokerage accounts to its client base during the third quarter of 2015, up 11% compared to the third quarter of 2014. Active brokerage accounts ended the third quarter at 9.7 million, also up 4% on a year-over-year basis. Faced with economic uncertainty and the resulting market volatility, investors increasingly turned to advice offerings throughout the quarter. Approximately 36,000 accounts enrolled in one of the Company’s retail advisory solutions during the third quarter, 57% more than the year-earlier period, and total accounts using these solutions reached 550,000, up 13% year-over-year.

For the third quarter of 2015, the Company’s net revenues increased 3% compared to the third quarter of 2014 primarily due to increases in net interest revenue, trading revenue and asset management and administration fees, partially offset by a decrease in other revenue. For the first nine months of 2015, the Company’s net revenues increased 4% compared to the same prior year period primarily due to increases in net interest revenue and asset management and administration fees, partially offset by decreases in other revenue and trading revenue.

· Net interest revenue increased primarily due to higher balances of interest-earning assets, including margin loans and the Company’s investment portfolio (securities available for sale and securities held to maturity), partially offset by the effect lower average interest rates had on the Company’s average net interest margin.

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- Asset management and administration fees increased due to higher client asset balances in advice solutions and higher net yields earned on money market funds.
- Trading revenue increased for the third quarter of 2015 primarily due to higher trade volume. Trading revenue decreased for the first nine months of 2015 primarily due to a decrease in the average commission rate.
- Other revenue decreased due to a non-recurring net insurance settlement during the third quarter and first nine months of 2014 and a decrease in sales of securities available for sale during the third quarter and first nine months of 2015.

Expenses excluding interest decreased 2% in the third quarter of 2015 compared to the same period in 2014 primarily due to a charge of $68 million in the third quarter of 2014 for estimated future severance benefits resulting from changes in the Company's geographic footprint. Partially offsetting this charge are increases in compensation and benefits associated with higher headcounts in 2015 and expenses associated with investments in new technology enhancements and new facilities and service centers. Expenses excluding interest increased 4% in the first nine months of 2015 compared to the same period in 2014 primarily due to increases in compensation and benefits, other expense, depreciation and amortization, and occupancy and equipment.

The combined effect of the market conditions, strong business growth, and the Company's overall spending discipline resulted in a pre-tax profit margin of 36.5% and 34.9% in the third quarter and first nine months of 2015, respectively. Included in taxes on income during the third quarter and first nine months of 2015 are $14 million of net tax benefits attributable to changes in estimates for positions taken for tax years 2011 to 2014.

Net revenue growth drove the increase in net income of 17% and 6% in the third quarter and first nine months of 2015, compared to the same periods in 2014. The return on average common stockholders' equity was 13% and 12% in the third quarter and first nine months of 2015, respectively.

CURRENT MARKET AND REGULATORY ENVIRONMENT AND OTHER DEVELOPMENTS

To the extent short-term interest rates remain at current low levels, the Company's net interest revenue will continue to be constrained, even as growth in average balances helps to increase such revenue. The low short-term interest rate environment also affects asset management and administration fees. The Company continues to waive a portion of its management fees, as the overall yields on certain Schwab-sponsored money market mutual funds have remained at levels at or below the management fees on those funds. These and certain other Schwab-sponsored money market mutual funds may not be able to replace maturing securities with securities of equal or higher yields. As a result, the yields on such funds may remain at or decline from their current levels and therefore, below the stated management fees on those funds. To the extent this occurs, asset management and administration fees may continue to be negatively affected.

In July 2013, the United States (U.S.) banking agencies issued regulatory capital rules that implemented BASEL III and relevant provisions of the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the Dodd-Frank Act) (Final Regulatory Capital Rules), which are applicable to savings and loan holding companies, such as CSC, and federal savings banks, such as Schwab Bank. The implementation of the rules began on January 1, 2015.

The Final Regulatory Capital Rules, among other things:

- subject savings and loan holding companies to consolidated capital requirements;
- revise the required minimum risk-based and leverage capital requirements by (1) establishing a new minimum Common Equity Tier 1 Risk-Based Capital Ratio (common equity Tier 1 capital to total risk-weighted assets) of 4.5%; (2) raising the minimum Tier 1 Risk-Based Capital Ratio from 4.0% to 6.0%; (3) maintaining the minimum Total Risk-Based Capital Ratio of 8.0%; and (4) maintaining a minimum Tier 1 Leverage Ratio (Tier 1 capital to adjusted average consolidated assets) of 4.0%;
- add a requirement to maintain a minimum capital conservation buffer, composed of common equity Tier 1 capital, of 2.5% of risk-weighted assets, which means that banking organizations, on a fully phased-in basis no later than January 1, 2019, must maintain a Common Equity Tier 1 Risk-Based Capital Ratio greater than 7.0%; a Tier 1 Risk-Based Capital Ratio greater than 8.5% and a Total Risk-Based Capital Ratio greater than 10.5%;
- change the definition of capital categories for an insured depository: to be considered "well-capitalized", Schwab Bank must have a Common Equity Tier 1 Risk-Based Capital Ratio of at least 6.5%, a Tier 1 Risk-Based Capital Ratio of at least 8%, a Total Risk-Based Capital Ratio of at least 10% and a Tier 1 Leverage Ratio of at least 5%; and
- change the calculation of risk-weighted assets, including investment securities and unused commitments.

The application of the revised risk-weighting of assets resulted in a decrease in the Company's Common Equity Tier 1 Risk-Based Capital, Tier 1 Risk-Based Capital, and Total Risk-Based Capital ratios of approximately 3.5% in 2015. The required minimum capital conservation buffer will be phased in incrementally, starting at 0.625% on January 1, 2016 and increasing to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on January 1, 2019.

The Final Regulatory Capital Rules provide that the failure to maintain the minimum capital conservation buffer will result in restrictions on capital distributions and discretionary cash bonus payments to executive officers.

In September 2014, the Board of Governors of the Federal Reserve System (Federal Reserve), in collaboration with the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC), issued a rule implementing a quantitative liquidity requirement generally consistent with the LCR standard established by Basel III. The LCR applies to all internationally active banking organizations. The Federal Reserve also issued a modified LCR that applies to the Company. Under the modified LCR, a depository institution holding company is required to maintain high-quality liquid assets in an amount related to its total estimated net cash outflows over a prospective period. The modified LCR will be phased in beginning on January 1, 2016, with a minimum requirement of 90%, increasing to 100% at January 1, 2017. The Company expects to be compliant with the modified LCR by January 1, 2016 and does not expect a material impact to the Company's business, financial condition, and results of operations.

In October 2015, the FDIC issued a notice of proposed rulemaking that would impose a surcharge on the quarterly assessments of insured depository institutions with total assets of $10 billion or more. The surcharge would equal an annual rate of 4.5 basis points applied to the institution's assessment base, with certain adjustments. The FDIC expects the proposed surcharge to commence in 2016 and continue through the quarter that the reserve ratio of the Deposit Insurance Fund reaches 1.35%. Under the proposed rule, if by year-end 2018, the reserve ratio has not reached 1.35%, the FDIC would impose a shortfall assessment on the institutions subject to the surcharge. The proposed rule is subject to a comment period which will end 60 days after the proposed rule is published in the Federal Register and is subject to further modification. The Company is currently evaluating the impact of the proposed rule.

In April 2015, the Department of Labor published notice of a rule proposal to significantly broaden the definition of "fiduciary" under the Employee Retirement Income Security Act of 1974. If adopted, among other things, the new rule would subject broker-dealers who provide non-discretionary investment advice to retirement plans and accounts to a "best interest" standard, as well as other conditions and requirements. The second comment period for the rule proposal ended on September 24, 2015 and the rule proposal is subject to further modification. The Company will continue to evaluate the impact of the proposed rule.

The Company is pursuing lawsuits in state court in San Francisco for rescission and damages against issuers, underwriters, and dealers of individual non-agency residential mortgage-backed securities on which the Company experienced losses. The lawsuits allege that offering documents for the securities contained material untrue and misleading statements about the securities and the underwriting standards and credit quality of the underlying loans. On January 27, 2012, and July 24, 2012, the court denied defendants' motions to dismiss the claims and discovery is proceeding. As of September 30, 2015, the Company has realized $48 million in net settlement proceeds on such claims, and an initial trial relating to certain of the defendants who remain in the case is set for February 2016.

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Results of Operations

The following discussion presents an analysis of the Company's results of operations for the third quarter and first nine months of 2015 compared to the same periods in 2014.

Three Months Ended September 30,		2015		2014	
	Percent Change	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Asset management and administration fees					
Mutual funds service fees (1)	2 %	$ 314	20 %	$ 308	20 %
Advice solutions	5 %	225	14 %	215	14 %
Other (1)	(2) %	124	8 %	126	8 %
Asset management and administration fees	2 %	663	42 %	649	42 %
Net interest revenue					
Interest revenue	12 %	669	42 %	600	39 %
Interest expense	26 %	(34)	(2) %	(27)	(2) %
Net interest revenue	11 %	635	40 %	573	37 %
Trading revenue					
Commissions	9 %	214	13 %	197	12 %
Principal transactions	17 %	14	1 %	12	1 %
Trading revenue	9 %	228	14 %	209	13 %
Other	(45) %	66	4 %	120	8 %
Provision for loan losses	N/M	5	-	1	-
Net impairment losses on securities	(100) %	-	-	(1)	-
Total net revenues	3 %	$ 1,597	100 %	$ 1,551	100 %

(1) Beginning in the second quarter of 2015, certain Mutual Fund OneSource® balances were reclassified to Other third-party mutual funds. Related revenues have been reclassified to Other asset management and administration fees. Prior period information has been recast to reflect this change.

N/M Not meaningful.

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Nine Months Ended September 30,		2015		2014	
	Percent Change	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Asset management and administration fees					
Mutual funds service fees (1)	3 %	$ 935	20 %	$ 907	20 %
Advice solutions	8 %	673	14 %	623	14 %
Other (1)	2 %	369	8 %	362	8 %
Asset management and administration fees	4 %	1,977	42 %	1,892	42 %
Net interest revenue					
Interest revenue	9 %	1,931	41 %	1,767	39 %
Interest expense	22 %	(96)	(2) %	(79)	(2) %
Net interest revenue	9 %	1,835	39 %	1,688	37 %
Trading revenue					
Commissions	(1) %	623	13 %	630	14 %
Principal transactions	(8) %	35	1 %	38	1 %
Trading revenue	(1) %	658	14 %	668	15 %
Other	(18) %	208	5 %	253	6 %
Provision for loan losses	57 %	11	-	7	-
Net impairment losses on securities	(100) %	-	-	(1)	-
Total net revenues	4 %	$ 4,689	100 %	$ 4,507	100 %

(1) Beginning in the second quarter of 2015, certain Mutual Fund OneSource® balances were reclassified to Other third-party mutual funds. Related revenues have been reclassified to Other asset management and administration fees. Prior period information has been recast to reflect this change.

Asset Management and Administration Fees

Asset management and administration fees include mutual fund service fees and fees for other asset-based financial services provided to individual and institutional clients. The Company earns mutual fund service fees for shareholder services, administration, and investment management provided to its proprietary funds, and recordkeeping and shareholder services provided to third-party funds. These fees are based upon the daily balances of client assets invested in these funds. The Company also earns asset management fees for advice solutions, which include advisory and managed account services that are based on the daily balances of client assets subject to the specific fee for service. The fair values of client assets included in proprietary and third-party mutual funds are based on quoted market prices and other observable market data. Other asset management and administration fees include various asset-based fees, such as third-party mutual fund service fees, trust fees, 401(k) recordkeeping fees, and mutual fund clearing and other service fees. Asset management and administration fees vary with changes in the balances of client assets due to market fluctuations and client activity. For a discussion of the impact of current market conditions on asset management and administration fees, see "Current Market and Regulatory Environment and Other Developments."

The following tables present a roll forward of client assets for the Schwab money market funds, Schwab equity and bond funds and Mutual Fund OneSource:

	Schwab Money Market Funds		Schwab Equity and Bond Funds (1)		Mutual Fund OneSource®	
Three Months Ended September 30,	2015	2014	2015	2014	2015	2014
Balance at beginning of period	$ 155,577	$ 159,954	$ 98,399	$ 80,582	$ 231,247	$ 245,671
Net inflows (outflows)	6,221	4,964	2,457	2,430	(6,289)	(3,234)
Net market gains (losses) and other	9	(193)	(7,391)	(1,095)	(14,213)	(5,549)
Balance at end of period	$ 161,807	$ 164,725	$ 93,465	$ 81,917	$ 210,745	$ 236,888

(1) Includes Schwab Exchange-traded Funds.

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	Schwab Money Market Funds		Schwab Equity and Bond Funds (1)		Mutual Fund OneSource®	
Nine Months Ended September 30,	2015	2014	2015	2014	2015	2014
Balance at beginning of period	$ 167,909	$ 167,738	$ 88,450	$ 71,249	$ 234,381	$ 234,777
Net inflows (outflows)	(6,285)	(2,842)	10,753	7,370	(15,164)	(4,131)
Net market gains (losses) and other	183	(171)	(5,738)	3,298	(8,472)	6,242
Balance at end of period	$ 161,807	$ 164,725	$ 93,465	$ 81,917	$ 210,745	$ 236,888

(1) Includes Schwab Exchange-traded Funds.

The following tables present asset management and administration fees, average client assets, and average fee rate:

Three Months Ended September 30,	2015			2014		
	Average Client Assets	Revenue	Average Fee	Average Client Assets	Revenue	Average Fee
Schwab money market funds before fee waivers	$ 160,266	$ 237	0.59%	$ 162,805	$ 240	0.58%
Fee waivers		(166)			(190)	
Schwab money market funds	160,266	71	0.18%	162,805	50	0.12%
Schwab equity and bond funds (1)	102,898	55	0.21%	86,416	50	0.23%
Mutual Fund OneSource ® (2)	230,235	188	0.32%	249,427	208	0.33%
Total mutual funds (3)	$ 493,399	314	0.25%	$ 498,648	308	0.25%
Advice solutions (3) :						
Fee-based	$ 170,211	225	0.52%	$ 161,783	215	0.53%
Intelligent Portfolios	3,714	-	-	N/A	N/A	N/A
Legacy Non-Fee	16,372	N/A	N/A	16,021	N/A	N/A
Total advice solutions	$ 190,297	225	0.47%	$ 177,804	215	0.48%
Other (2,4)		124			126	
Total asset management and administration fees		$ 663			$ 649	

(1) Includes Schwab Exchange-traded Funds.

(2) Beginning in the second quarter of 2015, certain Mutual Fund OneSource balances were reclassified to Other third-party mutual funds. Related revenues have been reclassified to Other asset management and administration fees. Prior-period information has been recast to reflect this change.

(3) Advice solutions include managed portfolios, specialized strategies and customized investment advice. Fee-based advice solutions include Schwab Private Client™, Schwab Managed Portfolios™, Managed Account Select, Schwab Advisor Network®, Windhaven® Strategies®, Thomas Partners® Dividend Growth Strategy, and Schwab Index Advantage® advised retirement plan balances. Intelligent Portfolios include Schwab Intelligent Portfolios™, launched in March 2015, and Institutional Intelligent Portfolios™, launched in June 2015. Legacy Non-Fee advice solutions include superseded programs such as Schwab Advisor Source and certain retirement plan balances. Average client assets for advice solutions may also include the asset balances contained in the three categories of mutual funds listed above.

(4) Includes various asset-based fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees.

N/A Not applicable.

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Nine Months Ended September 30,	2015 Average Client Assets	2015 Revenue	2015 Average Fee	2014 Average Client Assets	2014 Revenue	2014 Average Fee
Schwab money market funds before fee waivers	$ 161,029	$ 706	0.59%	$ 164,208	$ 714	0.58%
Fee waivers		(519)			(558)	
Schwab money market funds	161,029	187	0.16%	164,208	156	0.13%
Schwab equity and bond funds (1)	101,337	163	0.22%	81,770	142	0.23%
Mutual Fund OneSource ® (2)	239,633	585	0.33%	246,210	609	0.33%
Total mutual funds (3)	$ 501,999	935	0.25%	$ 492,188	907	0.25%
Advice solutions (3) :						
Fee-based	$ 171,516	673	0.52%	$ 155,970	623	0.53%
Intelligent Portfolios	2,578	-	-	N/A	N/A	N/A
Legacy Non-Fee	16,573	N/A	N/A	15,717	N/A	N/A
Total advice solutions	$ 190,667	673	0.47%	$ 171,687	623	0.49%
Other (2,4)		369			362	
Total asset management and administration fees		$ 1,977			$ 1,892	

(1) Includes Schwab Exchange-traded Funds.
(2) Beginning in the second quarter of 2015, certain Mutual Fund OneSource balances were reclassified to Other third-party mutual funds. Related revenues have been reclassified to Other asset management and administration fees. Prior-period information has been recast to reflect this change.
(3) Advice solutions include managed portfolios, specialized strategies and customized investment advice. Fee-based advice solutions include Schwab Private Client, Schwab Managed Portfolios, Managed Account Select, Schwab Advisor Network, Windhaven Strategies, Thomas Partners Dividend Growth Strategy, and Schwab Index Advantage advised retirement plan balances. Intelligent Portfolios include Schwab Intelligent Portfolios, launched in March 2015, and Institutional Intelligent Portfolios, launched in June 2015. Legacy Non-Fee advice solutions include superseded programs such as Schwab Advisor Source and certain retirement plan balances. Average client assets for advice solutions may also include the asset balances contained in the three categories of mutual funds listed above.
(4) Includes various asset-based fees, such as trust fees, 401(k) recordkeeping fees, and mutual fund clearing fees and other service fees.

N/A Not applicable.

Asset management and administration fees increased by $14 million, or 2%, and $85 million, or 4% in the third quarter and first nine months of 2015 compared to the same periods in 2014, due to the following items.

- Mutual fund service fees increased by $6 million, or 2%, and $28 million, or 3%, in the third quarter and first nine months of 2015 compared to the same periods in 2014, primarily due to higher net yields on money market fund assets and growth in client assets in equity and bond funds, partially offset by a reduction in client assets in money market funds and Mutual Fund OneSource.
- Advice solutions fees increased by $10 million, or 5%, and $50 million, or 8%, in the third quarter and first nine months of 2015 compared to the same periods in 2014, primarily due to growth in client assets enrolled in advisory offers, including Schwab Private Client™, Managed Account Select and ThomasPartners®, partially offset by a decrease in Windhaven® assets.
- Other asset management and administration service fees decreased by $2 million, or 2%, and increased $7 million, or 2%, in the third quarter and first nine months of 2015 compared to the same periods in 2014. The increase in the first nine months of 2015 is a result of third-party mutual fund service fees on higher client asset balances invested in other third-party mutual funds.

Net Interest Revenue

Net interest revenue is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest revenue is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies.

Schwab Bank maintains available for sale and held to maturity investment portfolios for liquidity as well as to earn interest by investing funds from deposits that are in excess of bank loans and liquidity requirements. Schwab Bank lends funds to banking clients primarily in the form of mortgage loans, home equity lines of credit (HELOCs), and personal loans secured by securities. These loans are largely funded by interest-bearing bank deposits.

In clearing their clients’ trades, Schwab and optionsXpress, Inc., a securities broker-dealer and wholly-owned subsidiary of optionsXpress Holdings, Inc. (optionsXpress), hold cash balances payable to clients. In most cases, Schwab and optionsXpress, Inc. pay their clients interest on cash balances awaiting investment, and in turn invest these funds and earn interest revenue. Receivables from brokerage clients consist primarily of margin loans to brokerage clients. Margin loans are loans made to clients on a secured basis to purchase securities. Pursuant to applicable regulations, client cash balances that are not used for margin lending are generally segregated into investment accounts that are maintained for the exclusive benefit of clients, which are recorded in cash and investments segregated on the Company’s condensed consolidated balance sheets.

The Company’s interest-earning assets are primarily funded through brokerage client cash balances and bank deposits. These interest-bearing liabilities are primarily sensitive to short-term rates, and the Company establishes the rates paid on most of these liabilities. The Company expects that the rate paid on these liabilities will generally adjust at some fraction of the movement in short-term market rates. The rates on the majority of the firm’s investment securities and loans re-price or reset based on short-term market rates. A smaller portion is invested in fixed-rate loans and securities. As such, the Company expects that net interest revenue will increase as short-term market rates increase, and decline as rates fall from current levels. When interest rates fall, the Company may attempt to mitigate some of this negative impact by lowering rates paid to clients on interest-bearing liabilities. The current low interest rate environment limits the extent to which the Company can reduce interest expense on funding sources. The Company may also alter the amount and type of fixed-rate loans and securities that are added to the portfolio. Generally, increases in the percentage of fixed-rate assets relative to total interest-bearing liabilities will reduce the rate at which net interest revenue changes if rates move.

Non-interest-bearing funding sources include non-interest-bearing brokerage client cash balances, stockholders' equity, and proceeds from stock-lending activities. Revenue from stock-lending activities is included in other interest revenue.

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

Three Months Ended September 30,	2015			2014		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets:						
Cash and cash equivalents	$ 9,764	$ 6	0.24 %	$ 7,961	$ 4	0.20 %
Cash and investments segregated	18,061	8	0.18 %	19,542	6	0.12 %
Broker-related receivables (1)	312	-	0.09 %	363	-	0.01 %
Receivables from brokerage clients	15,594	130	3.31 %	13,965	122	3.47 %
Securities available for sale (2)	63,916	159	0.99 %	51,425	135	1.04 %
Securities held to maturity	38,533	241	2.48 %	32,609	208	2.53 %
Bank loans	14,137	93	2.61 %	13,001	89	2.72 %
Total interest-earning assets	160,317	637	1.58 %	138,866	564	1.61 %
Other interest revenue		32			36	
Total interest-earning assets	$ 160,317	$ 669	1.66 %	$ 138,866	$ 600	1.72 %
Funding sources:						
Bank deposits	$ 115,606	$ 8	0.03 %	$ 96,114	$ 7	0.03 %
Payables to brokerage clients	25,585	1	0.01 %	26,403	1	0.01 %
Long-term debt	2,900	24	3.28 %	1,900	19	3.97 %
Total interest-bearing liabilities	144,091	33	0.09 %	124,417	27	0.09 %
Non-interest-bearing funding sources	16,226			14,449		
Other interest expense (1,3)		1			-	
Total funding sources	$ 160,317	$ 34	0.09 %	$ 138,866	$ 27	0.08 %
Net interest revenue		$ 635	1.57 %		$ 573	1.64 %

(1) Interest revenue or expense was less than $500,000 in the period or periods presented.
(2) Amounts have been calculated based on amortized cost.
(3) Includes the impact of capitalizing interest on building construction and software development.

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Nine Months Ended September 30,	2015			2014		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets:						
Cash and cash equivalents	$ 9,230	$ 17	0.25 %	$ 6,892	$ 11	0.21 %
Cash and investments segregated	18,607	21	0.15 %	20,251	18	0.12 %
Broker-related receivables (1)	285	-	0.07 %	323	-	0.10 %
Receivables from brokerage clients	15,043	374	3.32 %	13,589	358	3.52 %
Securities available for sale (2)	60,866	454	1.00 %	51,984	413	1.06 %
Securities held to maturity	36,637	686	2.50 %	31,839	613	2.57 %
Bank loans	13,848	274	2.65 %	12,776	264	2.76 %
Total interest-earning assets	154,516	1,826	1.58 %	137,654	1,677	1.63 %
Other interest revenue		105			90	
Total interest-earning assets	$ 154,516	$ 1,931	1.67 %	$ 137,654	$ 1,767	1.72 %
Funding sources:						
Bank deposits	$ 110,569	$ 22	0.03 %	$ 94,951	$ 22	0.03 %
Payables to brokerage clients	25,596	2	0.01 %	26,652	2	0.01 %
Long-term debt	2,652	67	3.38 %	1,901	55	3.87 %
Total interest-bearing liabilities	138,817	91	0.09 %	123,504	79	0.09 %
Non-interest-bearing funding sources	15,699			14,150		
Other interest expense (1,3)		5			-	
Total funding sources	$ 154,516	$ 96	0.08 %	$ 137,654	$ 79	0.08 %
Net interest revenue		$ 1,835	1.59 %		$ 1,688	1.64 %

(1) Interest revenue or expense was less than $500,000 in the period or periods presented.
(2) Amounts have been calculated based on amortized cost.
(3) Includes the impact of capitalizing interest on building construction and software development.

Net interest revenue increased in the third quarter and first nine months of 2015 compared to the same periods in 2014, primarily due to higher balances of interest-earning assets, including the Company’s investment portfolio, partially offset by the effect lower average interest rates had on the Company’s average net interest margin. The growth in the average balances in bank deposits resulted from an increase in the excess cash balances in certain brokerage client accounts swept to Schwab Bank. The growth in bank deposits helped support the increase in interest-earning assets.

Trading Revenue

Trading revenue includes commission and principal transaction revenues. Commission revenue is affected by the number of revenue trades executed and the average revenue earned per revenue trade. Principal transaction revenue is primarily comprised of revenue from trading activity in client fixed income securities. Factors that influence principal transaction revenue include the volume of client trades and market price volatility. To accommodate clients' fixed income trading activity, the Company maintains positions in fixed income securities, including U.S. state and municipal debt obligations, U.S. Government, corporate debt, and other securities. The difference between the price at which the Company buys and sells securities to and from its clients and other broker-dealers is recognized as principal transaction revenue. Principal transaction revenue also includes adjustments to the fair value of these securities positions.

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	Three Months Ended September 30, 2015	2014	Percent Change	Nine Months Ended September 30, 2015	2014	Percent Change
Daily average revenue trades (1) (in thousands)	304	269	13 %	295	293	1 %
Clients' daily average trades (2) (in thousands)	537	469	14 %	537	501	7 %
Number of trading days	64.0	63.5	1 %	188.0	187.5	-
Average revenue per revenue trade	$ 11.67	$ 12.24	(5) %	$ 11.87	$ 12.17	(2) %

(1) Includes all client trades that generate trading revenue (i.e., commission revenue or principal transaction revenue).
(2) Includes daily average revenue trades, trades by clients in asset-based pricing relationships, and all commission-free trades, including the Company's Mutual Fund OneSource funds and exchange-traded funds (ETFs), and other proprietary products. Clients' daily average trades is an indicator of client engagement with securities markets.

Trading revenue increased by $19 million, or 9%, in the third quarter of 2015 compared to the third quarter of 2014, primarily due to an increase in commission revenue as a result of higher daily average revenue trades, partially offset by lower commissions per revenue trade. Trading revenue decreased by $10 million, or 1%, in the first nine months of 2015 compared to the first nine months of 2014 primarily due to a decrease in commission revenue as a result of lower commissions per revenue trade, partially offset by higher daily average revenue trades. Daily average revenue trades increased in the third quarter and first nine months of 2015 primarily due to a higher volume of mutual fund and equity trades. Average revenue per revenue trade decreased 5% and 2%, respectively, in the third quarter and first nine months of 2015 compared to the same periods in 2014.

Other Revenue

Other revenue includes order flow revenue, nonrecurring gains, software fees from the Company's portfolio management services, exchange processing fees, and other service fees.

Other revenue decreased by $54 million, or 45%, in the third quarter of 2015 compared to the third quarter of 2014, primarily due to a non-recurring net insurance settlement during the third quarter of 2014 and lower gains on sales of securities available for sale. Other revenue decreased by $45 million, or 18%, in the first nine months of 2015 compared to the same period in 2014, primarily due to a non-recurring net insurance settlement during the first nine months of 2014, lower gains on sales of securities available for sale and order flow revenue, partially offset by litigation proceeds of $17 million relating to the Company's non-agency residential mortgage-backed securities portfolio in 2015.

Order flow revenue was $26 million and $78 million during the third quarter and first nine months of 2015, compared to $27 million and $86 million during the third quarter and first nine months of 2014. Order flow revenue in the third quarter of 2015 was relatively flat compared to the same prior year period. The decrease in the first nine months of 2015, compared to the same prior year period, was primarily due to changes in the composition and volume of different types of orders and the fees and rebates for such orders, partially offset by higher trading volume and an additional half trading day in the first nine months of 2015.

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Expenses Excluding Interest

The following table shows a comparison of expenses excluding interest:

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Percent Change	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	Percent Change
Compensation and benefits	$ 548	$ 593	(8) %	$ 1,669	$ 1,641	2 %
Professional services	114	117	(3) %	340	335	1 %
Occupancy and equipment	92	82	12 %	260	242	7 %
Advertising and market development	58	59	(2) %	189	187	1 %
Communications	58	55	5 %	175	168	4 %
Depreciation and amortization	57	49	16 %	166	145	14 %
Other	87	78	12 %	256	228	12 %
Total expenses excluding interest	$ 1,014	$ 1,033	(2) %	$ 3,055	$ 2,946	4 %
Expenses as a percentage of total net revenues:						
Compensation and benefits	34 %	38 %		36 %	36 %	