Horizon Technology Finance Corp
Form PRE 14A
August 14, 2018

SCHEDULE 14A

(RULE 14a-101)

Information Required in Proxy Statement
Schedule 14A Information
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

þ Preliminary Proxy Statement
¨ Definitive Proxy Statement
¨ Definitive Additional Material
¨ Soliciting Material Pursuant to Rule 14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Horizon Technology Finance Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ **No fee required.**

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials

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(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

Horizon Technology Finance Corporation

312 Farmington Avenue

Farmington, CT 06032

[ ], 2018

Dear Stockholder:

You are cordially invited to attend a Special Meeting of Stockholders (the “Special Meeting”) of Horizon Technology Finance Corporation (the “Company”) to be held on [ ], 2018 at [10:00] AM, Eastern Time, at the offices of the Company at 312 Farmington Avenue, Farmington, Connecticut 06032.

The Notice of Special Meeting of Stockholders and the Proxy Statement of the Board of Directors of the Company accompanying this letter provide an outline of the business to be conducted at the Special Meeting. At the Special Meeting, you will be asked to (1) approve the application to the Company of the reduced asset coverage requirements in Section 61(a)(2) of the Investment Company Act of 1940, as amended (the “1940 Act”), which would permit the Company to double the amount of leverage that the Company is permitted to incur, by reducing the asset coverage requirements applicable to the Company from 200% to 150% (the “Asset Coverage Proposal”) and (2) to approve a new investment management agreement between the Company and Horizon Technology Finance Management LLC (“HTFM”), the Company’s investment advisor.

If the stockholders approve the Asset Coverage Proposal at the Special Meeting, the Company will be subject to the 150% asset coverage requirement effective on the date immediately following such approval. On June 7, 2018, the Board of Directors of the Company approved the application of the reduced asset coverage requirements in Section 61(a)(2) of the 1940 Act to the Company, with such approval to be effective on June 7, 2019 if the stockholders do not approve the Asset Coverage Proposal at the Special Meeting.

Upon the effectiveness of reduced asset coverage requirements in Section 61(a)(2) of the 1940 Act to the Company, which shall be the earlier to occur of (a) the date immediately following Stockholder approval of Proposal 1 and (b) June 7, 2019, the Company and HTFM intend to reduce the base management fees payable by the Company under the investment management agreement between the Company and HTFM to an annual rate of 2.00% of the Company’s gross assets, including assets acquired with the proceeds of leverage but excluding cash and cash equivalents; provided, however, that to the extent that the value of the Company's gross assets less cash and cash equivalents exceed $250 million, and only with respect to such excess over $250 million, the base management fee will be calculated at an annual rate of 1.60% of the value of the Company's gross assets, including assets acquired with the proceeds of leverage but excluding cash and cash equivalents.

It is very important that your shares be represented at the Special Meeting. Whether or not you expect to be present in person at the Special Meeting, please sign the enclosed proxy card and return it promptly in the envelope provided, or vote via the Internet. We encourage you to vote via the Internet, as it saves the Company significant time and processing costs. To vote via the Internet, access www.proxyvote.com and follow the on-screen instructions. Have your proxy card available when you access the web page. Your vote and participation in the governance of the Company are very important to us.

Sincerely yours,

Robert D. Pomeroy, Jr.
Chief Executive Officer

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HORIZON TECHNOLOGY FINANCE CORPORATION
312 Farmington Avenue
Farmington, Connecticut 06032
(860) 676-8654

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON [ ], 2018

Notice is hereby given to the owners of shares of common stock (the “Stockholders”) of Horizon Technology Finance Corporation (the “Company”) that:

A Special Meeting of Stockholders of the Company (the “Special Meeting”) will be held at the offices of the Company, located at 312 Farmington Avenue, Farmington, Connecticut 06032, on [ ], 2018 at [10:00] AM, Eastern Time, for the following purposes:

1. To approve the application to the Company of the reduced asset coverage requirements in Section 61(a)(2) of the Investment Company Act of 1940, as amended (the “1940 Act”), which would permit the Company to double the amount of leverage that the Company is permitted to incur, by reducing the asset coverage requirements applicable to the Company from 200% to 150% (the “Asset Coverage Proposal”);

2. To approve a new investment management agreement between the Company and Horizon Technology Finance Management LLC, the Company’s investment advisor; and

3. To transact such other business as may properly come before the Special Meeting or any adjournment or postponement thereof.

If the Stockholders approve the Asset Coverage Proposal at the Special Meeting, the Company would be subject to the 150% asset coverage requirement effective on the date immediately following such approval. On June 7, 2018, the Board of Directors of the Company approved the application of the reduced asset coverage requirements in Section 61(a)(2) of the 1940 Act to Company, with such approval to be effective on June 7, 2019 if the Stockholders do not approve the Asset Coverage Proposal at the Special Meeting.

You have the right to receive notice of, and to vote at, the Special Meeting if you were a Stockholder of record at the close of business on [ ], 2018. Whether or not you expect to be present in person at the Special Meeting, please sign the enclosed proxy and return it promptly in the envelope provided, or vote via the Internet. Instructions are shown on the proxy card.

We have enclosed our Proxy Statement and a proxy card. Please sign the enclosed proxy card and return it promptly in the envelope provided, or vote via the Internet. Your vote is extremely important to us. In the event there are not sufficient votes for a quorum or to approve the proposals at the time of the Special Meeting, the Special Meeting may be adjourned in order to permit further solicitation of proxies by the Board of Directors.

THE BOARD OF DIRECTORS, INCLUDING THE INDEPENDENT DIRECTORS, UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" EACH OF THE PROPOSALS.

By Order of the Board of Directors,

John C. Bombara
Secretary
Farmington, Connecticut

[ ], 2018

This is an important meeting. To ensure proper representation at the Special Meeting, please complete, sign, date and return the proxy card in the enclosed, self-addressed envelope, or vote your shares electronically via the Internet. Please see the Proxy Statement and the enclosed proxy card for details about electronic voting. Even if you vote your shares prior to the Special Meeting, you still may attend the Special Meeting and vote your shares in person if you wish to change your vote.

HORIZON TECHNOLOGY FINANCE CORPORATION
312 Farmington Avenue
Farmington, Connecticut 06032
(860) 676-8654

PROXY STATEMENT
For
Special Meeting of Stockholders
To Be Held on [ ], 2018

This document will give you the information you need to vote on the matters listed on the accompanying Notice of Special Meeting of Stockholders (“Notice of Special Meeting”). Much of the information in this Proxy Statement is required under rules of the Securities and Exchange Commission (“SEC”), and some of it is technical in nature. If there is anything you do not understand, please contact Horizon Technology Finance Corporation (the “Company”) at 860-676-8654.

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the “Board,” “we,” “us” or “our”) of the Company for use at the Special Meeting (the “Meeting”) of the stockholders of the Company (“Stockholders”) to be held on [ ], 2018 at [10:00] AM, Eastern Time, at the offices of Horizon Technology Finance Corporation, 312 Farmington Avenue, Farmington, Connecticut 06032, and at any postponements or adjournments thereof. This Proxy Statement, along with the Notice of Special Meeting and proxy card, are being mailed to Stockholders of record as of [ ], 2018 on or about [ ], 2018.

We encourage you to vote your shares, either by voting in person at the Meeting or by voting by proxy (i.e., authorizing someone to vote your shares). Shares represented by duly executed proxies will be voted in accordance with your instructions. If you execute a proxy without specifying your voting instructions, your shares will be voted **“FOR”** each of the proposals.

You may revoke your vote on the Internet or on a proxy card at any time before it is exercised by (1) resubmitting your vote on the Internet, (2) notifying the Company’s Secretary in writing, (3) submitting a properly executed, later-dated proxy or (4) voting in person at the Meeting. Any Stockholder entitled to vote at the Meeting may attend the Meeting and vote in person, whether or not he or she has previously voted his or her shares via proxy or wishes to change a previous vote.

You will be eligible to vote your shares electronically via the Internet or by mail.

Purpose of Meeting

As described in more detail in this Proxy Statement, the Meeting is being held for the following purposes:

1. To approve the application to the Company, of the reduced asset coverage requirements in Section 61(a)(2) of the 1940 Act which would permit the Company to double the amount of leverage that the Company is permitted to incur, by reducing the asset coverage requirements applicable to the Company from 200% to 150% ("Proposal 1");

2. To approve a new investment management agreement (the "New Management Agreement") between the Company and Horizon Technology Finance Management LLC ("HTFM" or the "Advisor"), the Company's investment advisor ("Proposal 2"); and

3. To transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

If the Stockholders approve Proposal 1 at the Meeting, the Company will be subject to the 150% asset coverage requirement effective on the date immediately following such approval. On June 7, 2018, the Board approved the application of the reduced asset coverage requirements in Section 61(a)(2) of the 1940 Act to Company, with such approval to be effective on June 7, 2019 if the Stockholders do not approve Proposal 1 at the Meeting.

Upon the effectiveness of reduced asset coverage requirements in Section 61(a)(2) of the 1940 Act to the Company, which shall be the earlier to occur of (a) the date immediately following Stockholder approval of Proposal 1 and (b) June 7, 2019 (the “Asset Coverage Effective Date”), the Company and HTFM intend to reduce the base management fees payable under the investment management agreement between the Company and HTFM (as in effect at such time, the “Investment Management Agreement”) to an annual rate of 2.00% of the value of the Company’s gross assets, including assets acquired with the proceeds of leverage but excluding cash and cash equivalents; provided, however, that to the extent that the value of the Company’s gross assets less cash and cash equivalents exceeds $250 million, and only with respect to such excess over $250 million, the base management fee will be calculated at an annual rate of 1.60% of the value of the Company’s gross assets, including assets acquired with the proceeds of leverage but excluding cash and cash equivalents.

Voting Securities

You may vote your shares at the Meeting only if you were a Stockholder of record at the close of business on [   ], 2018 (the “Record Date”). There were [   ] shares of the Company’s common stock, $0.001 par value per share (the “Common Stock”), outstanding as of the Record Date. Each share of the Common Stock is entitled to one vote.

Quorum Required

A quorum must be present at the Meeting for any business to be conducted. The presence at the Meeting, in person or by proxy, of the holders of more than one-half of the voting power of all shares of Common Stock outstanding as of the Record Date will constitute a quorum. Shares that abstain will be counted for purposes of determining whether a quorum is present. Broker non-votes are not entitled to vote with respect to either proposal and, thus, will be treated as not present at the Meeting and will not be counted for quorum purposes. If there are not enough votes for a quorum, the presiding officer of the Meeting or the holders of a majority of the voting power present at the Meeting, in person or by proxy, may adjourn the Meeting to permit the further solicitation of proxies. Abstentions and broker non-votes, if any, will not have any effect on the result of the vote for adjournment.

Votes Required

Proposal 1

Approval of Proposal 1 requires the affirmative vote of a majority of the votes cast at the Special Meeting in person or by proxy.

Abstentions. With respect to approval of Proposal 1, abstentions will not be included in determining the number of votes cast and, as a result, will have no effect on Proposal 1.

Broker Non-Votes. Broker non-votes are described as votes cast by a broker or other nominee on behalf of a beneficial holder who does not provide explicit voting instructions to such broker or nominee and who does not attend the Meeting. Proposal 1 is a non-routine matter. As a result, if you hold shares in "street name" through a broker, bank or other nominee, your broker, bank or nominee will not be permitted to exercise voting discretion with respect to Proposal 1. Thus, if you do not give your broker or nominee specific instructions on how to vote for you or do not vote for yourself in accordance with the voting instructions on the proxy card, by returning a proxy card or by other arrangement with your broker or nominee, your shares will have no effect on Proposal 1.

Proposal 2

Approval of Proposal 2 requires the affirmative vote of the Stockholders holding a majority of the outstanding voting securities of the Company. For purposes of Proposal 2, the 1940 Act defines “a majority of the outstanding voting securities of a company” as: (1) 67% or more of the voting securities present at the applicable meeting if the holders of more than 50% of the outstanding voting securities of such company are present or represented by proxy or (2) more than 50% of the outstanding voting securities of such company, whichever is less.

Abstentions. An abstention will have the effect of a vote against Proposal 2.

Broker Non-Votes. Proposal 2 is a non-routine matter. As a result, if you hold shares in “street name” through a broker, bank or other nominee, your broker, bank or nominee will not be permitted to exercise voting discretion with respect to Proposal 2 and your shares will not be treated as present at the Meeting. Thus, such shares will have no effect on the Company’s ability to obtain the approval of 67% or more of the voting securities present at the Meeting and will have the same effect as a vote against Proposal 2 if the Company does not obtain the approval of 67% or more of the voting securities present and instead seeks to obtain the affirmative vote of 50% of the outstanding voting securities of the Company.

Adjournment and Additional Solicitation

If there appear not to be enough votes to approve the proposals at the Meeting, either the presiding officer of the Meeting or the Stockholders present at the Meeting, in person or by proxy, may adjourn the Meeting to permit the further solicitation of proxies. Any such adjournment by the Stockholders will require the affirmative vote of a majority of the votes entitled to be cast by the Stockholders entitled to vote at the Meeting, present in person or by proxy. Robert D. Pomeroy, Jr. and Daniel R. Trolio are the persons named as proxies and intend to vote proxies held by them for such adjournment to permit further solicitation of proxies, unless marked to be voted against any proposal for which an adjournment is sought.

Information Regarding This Solicitation

The Company will bear the expense of the solicitation of proxies for the Meeting, including the cost of preparing and posting this Proxy Statement to the Internet and the cost of mailing this Proxy Statement, Notice of Special Meeting and proxy card. The Company intends to use the services of Broadridge Financial Solutions, Inc., a leading provider of investor communications solutions, to aid in the distribution and collection of proxy votes. The Company expects to pay market rates for such services. The Company reimburses brokers, trustees, fiduciaries and other institutions for their reasonable expenses incurred in forwarding proxy materials to the beneficial owners and soliciting them to execute proxies.

In addition to the solicitation of proxies via the Internet, proxies may be solicited in person and/or by telephone, mail or facsimile transmission by directors or officers of the Company, officers or employees of HTFM, whose principal business address is 312 Farmington Avenue, Farmington, Connecticut 06032, and/or by a solicitor retained by the Company (the "Solicitor"). No additional compensation will be paid to directors, officers or regular employees for such services. The Company has estimated that, if it hires a Solicitor, it will pay approximately $50,000 for services provided by the Solicitor plus out of pocket expenses. The Solicitor may contact you by telephone on behalf of the Company and urge you to vote. The Solicitor will not attempt to influence how you vote your shares but will only ask that you take the time to cast a vote. You may also be asked if you would like to vote over the telephone and to have your vote transmitted to the Company's proxy tabulation firm.

Stockholders may provide their voting instructions through the Internet or by mail by following the instructions on the proxy card. These options require Stockholders to input an identifying number (the "Control number"), which is provided with the proxy card. If you vote using the Internet, after visiting www.proxyvote.com and inputting your Control Number, you will be prompted to provide your voting instructions. Stockholders will have an opportunity to review their voting instructions and make any necessary changes before submitting their voting instructions and terminating their Internet link. Stockholders who vote via the Internet, in addition to confirming their voting instructions prior to submission, also will receive an e-mail confirming their instructions upon request.

If a Stockholder wishes to participate in the Meeting, but does not wish to give a proxy by Internet or mail, the Stockholder may attend the Meeting and vote in person.

Any proxy authorized pursuant to this solicitation may be revoked by notice from the person giving the proxy at any time before it is exercised. A revocation may be effected by resubmitting voting instructions via the Internet voting site, by obtaining and properly completing another proxy card that is dated later than the original proxy and returning it, by mail, in time to be received before the Meeting, by attending the Meeting and voting in person or by a notice, provided in writing and signed by the Stockholder, delivered to the Company's Secretary on any business day before the date of the Meeting.

Security Ownership of Certain Beneficial Owners and Management

As of the Record Date, to our knowledge, there are no persons who would be deemed to "control" the Company, as such term is defined in the 1940 Act. Our directors consist of interested directors and independent directors. Interested directors are "interested persons" of the Company, as defined in the 1940 Act, and independent directors are all other directors (the "Independent Directors").

The following table sets forth, as of [ ], 2018, certain ownership information with respect to the Common Stock for all executive officers and directors, individually and as a group.

Name and Address	Type of Ownership	Shares Owned	Percentage of Common Stock Outstanding
Independent Directors			
James J. Bottiglieri[(1)]	Record/Beneficial	[9,071]	*
Edmund V. Mahoney[(1)]	Record/Beneficial	5,725	*
Elaine A. Sarsynski[(1)]	Record/Beneficial	5,000	*
Joseph J. Savage[(1)]	Record/Beneficial	18,500	*
Interested directors			
Robert D. Pomeroy, Jr.[(1)]	Record/Beneficial	76,245	*
Gerald A. Michaud[(1)]	Record/Beneficial	70,519	*
Executive officers			
Daniel R. Trolio[(1)]	Record/Beneficial	—	*
John C. Bombara[(1)]	Record/Beneficial	7,648	*
Daniel S. Devorsetz[(1)]	Record/Beneficial	5,098	*
All directors, director nominees and executive officers as a group (9 persons)	Record/Beneficial	[197,806]	[1.7] %

(1) The address for each executive officer and director is c/o Horizon Technology Finance Management LLC, 312 Farmington Avenue, Farmington, Connecticut 06032.

* Less than 1 percent.

Dollar Range of Securities Beneficially Owned by Directors

The following table sets forth the dollar range of the Common Stock beneficially owned by each of the Company's directors as of [ ], 2018. Information as to the beneficial ownership of the Company's directors is based on information furnished to the Company by such persons. The Company is not part of a "family of investment companies" as that term is defined in the 1940 Act.

Directors of the Company	**Dollar Range of Common Stock of the Company**[(1)]
Independent Directors	
James J. Bottiglieri	$100,001-$500,000
Edmund V. Mahoney	$50,001-$100,000
Elaine A. Sarsynski	$50,001-$100,000
Joseph J. Savage	$100,001-$500,000
Interested Directors	
Robert D. Pomeroy, Jr.	$500,001-$1,000,000
Gerald A. Michaud	$500,001-$1,000,000

(1) Dollar ranges are as follows: None; $1-$10,000; $10,001-$50,000; $50,001-$100,000; $100,001-$500,000; $500,001-$1,000,000 or over $1,000,000.

PROPOSAL 1

TO APPROVE THE APPLICATION TO THE COMPANY OF THE REDUCED ASSET COVERAGE REQUIREMENTS IN SECTION 61(A)(2) OF THE 1940 ACT WHICH WOULD PERMIT THE COMPANY TO DOUBLE THE AMOUNT OF LEVERAGE THAT IT IS PERMITTED TO INCUR, BY REDUCING THE ASSET COVERAGE REQUIREMENTS APPLICABLE TO THE COMPANY FROM 200% TO 150%.

The Company is a closed-end investment company that has elected to be regulated as a business development company ("BDC") under the 1940 Act. The 1940 Act contains asset coverage requirements which limit the ability of BDCs to incur leverage. A BDC historically has only been allowed to borrow amounts by issuing debt securities or preferred stock (collectively referred to as "senior securities") if its asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. For purposes of the 1940 Act, "asset coverage" means the ratio of (1) the total assets of a BDC, less all liabilities and indebtedness not represented by senior securities, to (2) the aggregate amount of senior securities representing indebtedness (plus, in the case of senior securities represented by preferred stock, the aggregate involuntary liquidation preference of such preferred stock).

On March 23, 2018, the Small Business Credit Availability Act (the "SBCAA") was enacted into law. The SBCAA, among other things, amended Section 61(a) of the 1940 Act to add a new Section 61(a)(2) that reduces the asset coverage requirements applicable to BDCs from 200% to 150%. This provision permits a BDC to double the maximum amount of leverage that it is permitted to incur, so long as the BDC meets certain disclosure requirements and obtains certain approvals. Under these modified asset coverage requirements, a BDC will be able to incur additional leverage, as the asset coverage requirements for senior securities (leverage) applicable to the Company pursuant to Sections 18 and 61 of the 1940 Act will be reduced to 150% (equivalent to a 2:1 debt-to-equity ratio) from 200% (equivalent to a 1:1 debt-to-equity ratio).

Effectiveness of the reduced asset coverage requirement to a BDC requires approval by either (1) a "required majority," as defined in Section 57(o) of the 1940 Act, of such BDC's board of directors, with effectiveness one year after the date of such approval or (2) a majority of votes cast at a special or annual meeting of such BDC's stockholders at which a quorum is present, with effectiveness the day after such stockholder approval. In addition, a BDC must disclose approval of the 150% asset coverage requirements in a filing with the SEC within five business days of such approval. Following such approval, the BDC must include in its quarterly reports on Form 10-Q and annual reports on Form 10-K the principal amount or liquidation preference of its senior securities and its asset coverage ratio as of the date of the most recent financial statements included in that filing, the fact that the 150% asset coverage had been approved by the Company, and the effective date of such approval along with the principal risk factors associated with the Company's senior securities.

At a meeting of the Board held on June 7, 2018, the Board, including a "required majority" of the Company's directors, as defined in Section 57(o) of the 1940 Act, approved the application of the reduced asset coverage requirements in Section 61(a)(2) of the 1940 Act to the Company as being in the best interests of the Company and the Stockholders.

As a result, subject to the disclosure requirements described above and provided such approval is not later rescinded, the reduced asset coverage requirements will apply to the Company effective as of June 7, 2019 (unless earlier approved at the Meeting).

In addition, on June 7, 2018, the Board determined that it is in the best interests of the Company and its stockholders that the reduced asset coverage requirements for senior securities in Section 61(a)(2) of the 1940 Act apply to the Company as soon as practicable. Therefore, the Board determined to hold the Meeting and has recommended that the Stockholders vote in favor of Proposal 1. **If Proposal 1 is approved by Stockholders at the Meeting, the Company would become subject to a reduced asset coverage requirements in Section 61(a)(2) the day after the Meeting instead of on June 7, 2019.**

The Board values the opinions of the Stockholders and will reconvene to reconsider its approval of the reduced asset coverage requirements if Proposal 1 is not approved by Stockholders. There can be no assurance that the Board would rescind its approval if Proposal 1 is not approved by Stockholders. If Proposal 1 is not approved by Stockholders and the Board does not rescind its approval, then the Company will be subject to the reduced asset coverage requirements in Section 61(a)(2) beginning June 7, 2019.

If Proposal 1 is approved, the reduction in the asset coverage requirements will increase the amount of debt that the Company is permitted to incur. As a result, the Company would be able to incur additional indebtedness in the future, and therefore, the risk of an investment in the Company may increase.

Recommendation of the Board; Reasons for the Asset Coverage Ratio Proposal

Although the Company may choose not to significantly increase its leverage immediately after it becomes subject to the reduced asset coverage requirements or ever to reduce its asset coverage below 200%, the Board believes that having the flexibility for the Company to incur additional leverage within prudent limits is in the best interests of Stockholders. Specifically, the Board approved the modified asset coverage requirement after considering (1) the additional flexibility it will provide in managing the Company's portfolio, (2) the Company's historical use of leverage, (3) the potential impact on the Company's net investment income, return to stockholders and net asset value, and (4) the impact on fees payable to HTFM.

Additional Flexibility in Managing the Company's Portfolio

The Board considered that having the flexibility to incur additional leverage would allow the Company to grow and diversify its assets and investment portfolio. The Board noted that having the ability to incur additional leverage will also provide the Company greater flexibility to manage its debt-to-equity ratio, capital structure, and liquidity. In particular, incurring additional leverage would give the Company the ability to use lower cost debt capital as compared to incremental equity capital. In addition, the Board considered that the reduced asset coverage requirements will allow the Company to raise additional debt capital in order to grow and diversify its assets and investment portfolio and capitalize on strong demand for venture growth stage lending when (1) the Company is unable to raise additional equity due to the 1940 Act limitations on the issuance of Common Stock at prices below net asset value per share absent stockholder approval (which the Company does not currently have) or (2) market conditions are not attractive for raising equity capital.

The Company's targeted debt investment yields are between 10% and 16%, and the Company's debt investment yields have generally been between 13% and 16.5% since the Company's initial public offering. While there can be no assurance that the Company's debt investment yield will be consistent with historical levels, the Company does not plan to change its investment strategy, product mix, security profile, or targeted yield profile of the investments we will make as a result of incurring additional leverage. Rather, the ability to incur additional leverage should enable the Company to make more investments consistent with its investment strategy and targeted yield profile.

Historical Use of Leverage

The Board considered the Company's history of strategically using leverage, managing both short term and long-term credit, and building and maintaining strong relationships with its lenders. The Company has regularly used its revolving credit facility led by KeyBank National Association ("Credit Facility"), which represents the Company's lowest cost of capital, to support the growth of its investment portfolio. Given this is a credit facility, with floating rate interest costs, a 50% advance rate and certain asset eligibility requirements and financial covenants, the Company complements the Credit Facility with more flexible long term debt, most recently, through its issuance of $37.4 million of publicly traded 6.25% Notes due 2022.

The Board also considered the Company's prudent use of leverage in the past. As of June 30, 2018, the Company's asset coverage ratio was 227%, and the Company expects to continue to be prudent in its utilization of leverage. The Company regularly analyzes its portfolio risk profile, interest rates on its outstanding debt and other factors when determining its target leverage ratio. Upon the effectiveness of the modified asset coverage requirements, the Company intends to increase its target leverage ratio range to 0.8x to 1.2x from its current target leverage ratio range of 0.7x to 0.8x. The Company anticipates incurring additional leverage through both long term and short term debt with floating and fixed interest rates to optimize its cost of capital and the amount of debt outstanding with the primary goal of growing and diversifying the Company's assets and investment portfolio while capitalizing on demand for venture growth stage lending. Such flexibility will permit the Company to use lower cost debt capital while potentially delaying higher cost equity capital raises until it believes market conditions are optimal for such an equity raise. Given the short term duration, amortizing nature and frequency of prepayments of the Company's investments, the Company believes there may be periods when it may be below or above this target leverage ratio range, but expects to use proceeds from prepayments and repayments, as well as proceeds from equity capital raises, to reduce its outstanding leverage when possible and increase its asset coverage until the Company is able to fund new investments as well as enter into unfunded commitments to provide visibility for near term investment portfolio growth.

In order to mitigate the increase in the management fee expenses that may occur, if and when the Company is subject to the 150% asset coverage ratio, the Advisor has agreed that the base management fee percentage calculated on the amount by which (1) gross assets less (2) cash and cash equivalents exceeds $250 million will be reduced to 1.60%. This reduction in the base management fee upon a reduction in the asset coverage ratio to 150% will occur whether or not Proposal 2 (as described below) is approved by the Stockholders.

Consideration by the Board of Directors

In reaching its recommendation to the Stockholders to approve Proposal 1, the Board considered possible sources of conflicts of interest due to the following factors:

- Because the base management fees payable to the Advisor are based on the value of the Company's total assets, the Advisor may benefit when the Company incurs additional leverage. This fee structure could encourage the Advisor to cause the Company to borrow more money to finance additional investments.

- Because of the way the incentive fee payable to the Advisor is determined, it may encourage the Advisor to use additional leverage to increase the return on the Company's investments.

Risks Related to Board Approval of Proposal 1

In addition to the risks identified in our annual report for the year ended December 31, 2017, Stockholders should consider the following risks related to the approval of Proposal 1:

Because the Company has received the Board's approval, it may be subject to the reduced asset coverage requirements under Section 61(a)(2) of the 1940 Act beginning on June 7, 2019 even if Proposal 1 is not approved.

As described above, the SBCA provides that in order for a BDC whose common stock is traded on a national securities exchange to be subject to 150% asset coverage ratio, such BDC must obtain either: (1) approval of the required majority of its non-interested directors who have no financial interest in the proposal of the reduced asset coverage requirements under Section 61(a)(2) of the 1940 Act, which would become effective one (1) year after the date of such approval, or (2) Stockholder approval (of more than 50% of the votes cast for the proposal) of the reduced asset coverage requirements under Section 61(a)(2) of the 1940 Act, which would become effective on the first day after the date of such Stockholder approval. The Board values the opinions of our Stockholders and intends to reconvene to reconsider its approval of the modified asset coverage requirements if Proposal 1 is not approved by Stockholders. There can be no assurance that the Board would rescind its approval if Proposal 1 is not approved by Stockholders. If Proposal 1 is not approved by the Stockholders and the Board does not rescind its approval, we will be subject to the reduced asset coverage requirements under Section 61(a)(2) of the 1940 Act, beginning June 7, 2019.

Incurring additional leverage could increase the risk of investing in the Company.

Leverage magnifies the potential for loss on investments in our indebtedness and on invested equity capital. As the Company uses leverage to partially finance our investments, you will experience increased risks of investing in the Company's securities. If the value of the Company's assets increases, then leveraging would cause the net asset value attributable to the Common Stock to increase more sharply than it would have had the Company not leveraged. Conversely, if the value of the Company's assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had the Company not leveraged our business. Similarly, any increase in the Company's income in excess of interest payable on the borrowed funds would cause the Company's net investment income to increase more than it would without the leverage, while any decrease in the Company's income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect the Company's ability to pay common stock dividends, scheduled debt payments or other payments related to the Company's securities. If Proposal 1is approved, the Company will be permitted to increase its use of leverage beyond levels that were previously permitted by the 1940 Act effective the day after the Meeting. Because the Company have received the Board's approval, if Proposal 1 is not approved at the Meeting and the Board does not rescind its approval, the Company would be subject to the reduced asset coverage requirements under Section 61(a)(2) of the 1940 Act beginning on June 7, 2019. If the Company incurs such additional leverage, you will experience increased risks of investing in the Common Stock.

The Company finances certain of its investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and increases the risk of investing in the Company.

The Company finances certain of its investments with borrowed money when the Company expects the return on its investment to exceed the cost of borrowing. As of June 30, 2018, the Company has $68.0 million of principal outstanding under the Credit Facility and $37.4 million of principal outstanding on our 6.25% Notes due 2022 (the "2022 Notes"), before reducing the unamortized debt issuance costs. The use of leverage magnifies the potential for gain or loss on amounts invested. The use of leverage is generally considered a speculative investment technique and increases the risks associated with investing in shares of the Common Stock. Lenders will have fixed dollar claims on the Company's assets that are superior to the claims of Stockholders, and the Company would expect such lenders to seek recovery against its assets in the event of a default. The Company may pledge up to 100% of our assets or the assets of a subsidiary under the terms of any debt instruments it may enter into with lenders. In addition, under the terms of the Credit Facility and 2022 Notes and any borrowing facility or other debt instrument the Company may enter into in the future, the Company is or will likely be required to use the net proceeds of any investments that the Company's sell to repay a portion of the amount borrowed under such facility or instrument before applying such net proceeds to any other uses. If the value of our assets decreases, leveraging would cause our net asset value to decline more sharply than it otherwise would have had the Company not leveraged, thereby magnifying losses, potentially triggering mandatory debt payments or asset contributions under the Credit Facility or eliminating our stake in a leveraged investment. Similarly, any decrease in the Company's revenue or income will cause our net income to decline more sharply than it would have had the Company not borrowed. Such a decline would also negatively affect the Company's ability to make distributions with respect to its common stock. The Company's ability to service any debt depends largely on its financial performance and is subject to prevailing economic conditions and competitive pressures.

As a BDC, the Company generally is required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of its borrowings and any preferred stock that the Company may issue in the future, of at least 200% (or 150% effective June 7, 2019 or, if the Company receives approval of our Stockholders, to be effective the day after the Meeting). If this ratio declines below 200% (or 150% June 7, 2019 or, if the Company receives approval of our Stockholders, to be effective the day after the Meeting), the Company will not be able to incur additional debt and could be required to sell a portion of the Company's investments to repay some debt when it is otherwise disadvantageous for the Company to do so. This could have a material adverse effect on the Company's operations, and it may not be able to make distributions. The amount of leverage that the Company's employ depends on Advisor's and the Board's assessment of market and other factors at the time of any proposed borrowing. The Company cannot assure you that it will be able to obtain credit at all or on terms acceptable to us.

In addition, the Credit Facility imposes, and any debt facilities the Company may enter into in the future may impose, financial and operating covenants that restrict our business activities, including limitations that hinder its ability to finance additional loans and investments or to make the distributions required to maintain our ability to be subject to tax treatment as a RIC under the Code.

Because the Company uses debt to finance certain of its investments, if market interest rates were to increase, the Company's cost of capital could increase, which could reduce the Company's net income. In addition, if the Credit Facility were to become unavailable, it could have a materially adverse effect on our business, financial condition and results of operations.

Because the Company borrows money to finance certain of its investments, including under the Credit Facility, our net income will depend, in part, upon the difference between the rate at which the Company borrows funds and the rate at which it invests those funds. As a result, the Company can offer no assurance that a significant change in market interest rates would not have a material adverse effect on its net income in the event the Company uses debt to finance our investments. In periods of rising interest rates, the Company's cost of funds would increase, which could reduce its net income. In addition, if the Credit Facility were to become unavailable to the Company and attractive alternative financing sources were not available, it could have a materially adverse effect on the Company's business, financial condition and results of operations.

In addition, a rise in the general level of interest rates typically leads to higher interest rates applicable to the Company's secured loans. Accordingly, an increase in interest rates may result in an increase of the Company's income and, as a result, an increase in the incentive fee payable to the Advisor.

The Company's incentive fee may induce the Advisor to pursue speculative investments and to use leverage when it may be unwise to do so.

The incentive fee payable by us to the Advisor may create an incentive for the Advisor to make investments on its behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to the Advisor is determined, which is calculated separately in two components as a percentage of the interest and other investment income in excess of a quarterly minimum hurdle rate and as a percentage of the realized gain on invested capital, may encourage the Advisor to use leverage or take additional risk to increase the return on the Company's investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of the Common Stock or of securities convertible into the Common Stock or warrant investments representing rights to purchase the Common Stock or securities convertible into the Common Stock. In addition, the Advisor receives the incentive fee based, in part, upon net capital gains realized on the Company's investments. Unlike the portion of the incentive fee based on investment income, there is no minimum level of gain applicable to the portion of the incentive fee based on net capital gains. As a result, the Advisor may have an incentive to invest more in investments that are likely to result in capital gains as compared to income producing securities or to advance or delay realizing a gain in order to enhance its incentive fee. This practice could result in the Company investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns. A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to certain of the Company's debt investments and may accordingly result in a substantial increase of the amount of incentive fees payable to the Advisor with respect to the Company's pre-incentive fee net investment income.

Illustrations of the Effect of Lowering the Required Asset Coverage Ratio

Effect of Leverage of Returns to Stockholders. The following table illustrates the effect of leverage on returns from an investment in the Common Stock assuming that the Company employs leverage such that its asset coverage equals (1) its actual asset coverage as of June 30, 2018 and (2) 150% at various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing in the table below.

	Assumed Return on Portfolio (Net of Expenses)				
	-10%	-5%	0%	5%	10%
Corresponding return to common stockholder assuming actual asset coverage as of June 30, 2018 (227%)[(1)]	(22.62%)	(13.55%)	(4.48 %)	4.58%	13.65%
Corresponding return to common stockholder assuming 150% asset coverage ratio[(2)]	(41.74%)	(26.59%)	(11.45%)	3.70%	18.85%

(1)

Assumes $243 million in total assets, $105 million in outstanding debt, $134 million in net assets, and an average cost of borrowed funds of 5.72% at June 30, 2018.

(2) Assumes $406 million in total assets, $268 million in outstanding debt, $134 million in net assets, and an average cost of borrowed funds of 5.72% at June 30, 2018 and that the management fee on total assets in excess of $250 million is calculated at an annual rate of 1.60% of the value of the Company’s gross assets (including assets purchased with borrowed amounts, but excluding assets purchased with borrowed funds).

Effect of Leverage on Expenses. The following table is intended to assist Stockholders in understanding the costs and expenses that an investor in the Common Stock will bear, directly or indirectly, based on the assumptions set forth below. The Company cautions you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, the Company will pay such fees and expenses out of its net assets and, consequently, Stockholders will indirectly bear such fees or expenses as investors in the Company.

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Estimated Annual Expenses (as percentage of net assets attributable to common stock)

	Actual Asset Coverage As of June 30, 2018 (227%)	200% Asset Coverage Ratio	150% Asset Coverage Ratio
Base management fee under the Investment Management Agreement (1)	3.6 %	182	196
Net Income	302	326	
Preferred stock dividends and other (1)	11	8	
Net Income Available to Common Stockholders	$ 291	$ 318	
Weighted-Average Common Shares Outstanding — Diluted	1,323	1,311	
Earnings Per Common Share — Basic	$ .22	$ .24	
Earnings Per Common Share — Diluted	$ .22	$ .24	

(1) Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statements of Comprehensive Income

(In Millions)

(Unaudited)

	Three Months Ended March 31, 2015	2014
Net Income	$ 302	$ 326
Other comprehensive income, before tax:		
Change in net unrealized gain on securities available for sale:		
Net unrealized gain	107	159
Other reclassifications included in other revenue	-	(1)
Other comprehensive income, before tax	107	158
Income tax effect	(41)	(59)
Other comprehensive income, net of tax	66	99
Comprehensive Income	$ 368	$ 425

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Balance Sheets

(In Millions, Except Per Share and Share Amounts)

(Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$ 9,011	$ 11,363
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $9,806 at March 31, 2015 and $10,186 at December 31, 2014)	19,384	20,781
Receivables from brokers, dealers, and clearing organizations	457	469
Receivables from brokerage clients — net	16,013	15,669
Other securities owned — at fair value	657	516
Securities available for sale	61,366	54,783
Securities held to maturity (fair value — $37,110 at March 31, 2015 and $34,743 at December 31, 2014)	36,321	34,389
Bank loans — net	13,603	13,399
Equipment, office facilities, and property — net	1,058	1,039
Goodwill	1,227	1,227
Intangible assets — net	216	227
Other assets	856	780
Total assets	$ 160,169	$ 154,642
Liabilities and Stockholders' Equity		
Bank deposits	$ 109,503	$ 102,815
Payables to brokers, dealers, and clearing organizations	2,410	2,004
Payables to brokerage clients	31,617	34,305
Accrued expenses and other liabilities	1,586	1,816
Long-term debt	2,895	1,899
Total liabilities	148,011	142,839
Stockholders' equity:		
Preferred stock — $.01 par value per share; aggregate liquidation preference of $885	873	872
Common stock — 3 billion shares authorized; $.01 par value per share; 1,487,543,446 shares issued	15	15

Additional paid-in capital	4,085	4,050
Retained earnings	10,412	10,198
Treasury stock, at cost — 174,397,672 shares at March 31, 2015 and 176,821,202 shares at December 31, 2014	(3,458)	(3,497)
Accumulated other comprehensive income	231	165
Total stockholders' equity	12,158	11,803
Total liabilities and stockholders' equity	$ 160,169	$ 154,642

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statements of Cash Flows

(In Millions)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash Flows from Operating Activities		
Net income	$ 302	$ 326
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Provision for loan losses	(4)	1
Stock-based compensation	39	29
Depreciation and amortization	54	48
Premium amortization, net, on securities available for sale and securities held to maturity	38	27
Other	(2)	2
Net change in:		
Cash and investments segregated and on deposit for regulatory purposes	1,397	3,005
Receivables from brokers, dealers, and clearing organizations	12	29
Receivables from brokerage clients	(345)	(622)
Other securities owned	(141)	61
Other assets	(21)	(24)
Payables to brokers, dealers, and clearing organizations	345	293
Payables to brokerage clients	(2,688)	(3,025)
Accrued expenses and other liabilities	(291)	(81)
Net cash (used for) provided by operating activities	(1,305)	69
Cash Flows from Investing Activities		
Purchases of securities available for sale	(8,057)	(4,250)
Proceeds from sales of securities available for sale	150	1,285
Principal payments on securities available for sale	1,412	1,738
Purchases of securities held to maturity	(2,658)	(2,271)
Principal payments on securities held to maturity	767	520
Net increase in bank loans	(221)	(171)
Purchase of equipment, office facilities, and property	(55)	(53)
Other investing activities	-	(8)
Net cash used for investing activities	(8,662)	(3,210)
Cash Flows from Financing Activities		
Net change in bank deposits	6,688	2,619
Issuance of long-term debt	998	-
Repayment of long-term debt	(2)	(2)
Dividends paid	(100)	(100)

Proceeds from stock options exercised and other	28	65
Other financing activities	3	4
Net cash provided by financing activities	7,615	2,586
Decrease in Cash and Cash Equivalents	(2,352)	(555)
Cash and Cash Equivalents at Beginning of Period	11,363	7,728
Cash and Cash Equivalents at End of Period	$ 9,011	$ 7,173
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	$ 46	$ 40
Income taxes	$ 54	$ 51
Non-cash investing activity:		
Securities purchased during the period but settled after period end	$ 60	$ 158

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

1.Introduction and Basis of Presentation

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™.

The accompanying unaudited condensed consolidated financial statements include CSC and its majority-owned subsidiaries (collectively referred to as the Company). Intercompany balances and transactions have been eliminated. These condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (U.S.), which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying financial statements. Certain estimates relate to valuation of goodwill, allowance for loan losses, legal and regulatory reserves, and other-than-temporary impairment (OTTI) of securities available for sale and securities held to maturity. Actual results may differ from those estimates. These condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the periods presented. These adjustments are of a normal recurring nature. The Company's results for any interim period are not necessarily indicative of results for a full year or any other interim period. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The Company's significant accounting policies are included in note "2 – Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. There have been no significant changes to these accounting policies during the first quarter of 2015.

2.New Accounting Standards

Adoption of New Accounting Standard

In January 2014, the Financial Accounting Standards Board (FASB) issued new guidance for creditors of consumer mortgage loans, which was effective January 1, 2015. The guidance clarifies when physical possession of a property underlying a consumer mortgage loan transfers to the creditor, and therefore when a loan receivable should be derecognized and the real estate property underlying the loan should be recognized. The adoption of this new guidance in the first quarter of 2015 did not have an impact on the Company's financial statements or earnings per common share (EPS) as the Company's practice for recognizing foreclosed real estate was already consistent with the guidance.

New Accounting Standards Not Yet Adopted

In May 2014, the FASB issued new guidance on revenue recognition, which will become effective January 1, 2017. The guidance clarifies that revenue from contracts with customers should be recognized in a manner that depicts the timing of the related transfer of goods or performance of services at an amount that reflects the expected consideration. The Company is currently evaluating the impact of this new guidance on its financial statements and EPS.

In February 2015, the FASB issued new guidance that amends the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance will become effective January 1, 2016, and is applicable to all entities but provides an exception for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The Company is currently evaluating the impact of this new guidance on its financial statements and EPS.

In April 2015, the FASB issued new guidance that changes the presentation of debt issuance costs. The new guidance will require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Currently, debt issuance costs are presented as a separate asset. The new guidance, which will become effective January 1, 2016, will not impact the Company's financial

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Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

results or EPS as the change only affects the balance sheet presentation of debt issuance costs; recognition and measurement of debt issuance costs will not be affected.

In April 2015, the FASB issued new guidance that clarifies customer's accounting for fees paid in a cloud computing arrangement. Under the new guidance, if a cloud computing arrangement includes a software license, the customer shall account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, the customer shall account for the arrangement as a service contract. The guidance will become effective January 1, 2016. The Company is currently evaluating the impact of this new guidance on its financial statements and EPS.

3.Securities Available for Sale and Securities Held to Maturity

The amortized cost, gross unrealized gains and losses, and fair value of securities available for sale and securities held to maturity are as follows:

March 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. agency mortgage-backed securities	$ 20,260	$ 277	$ 6	$ 20,531
Asset-backed securities	20,459	69	24	20,504
Corporate debt securities	9,370	46	3	9,413
U.S. agency notes	5,233	2	13	5,222
Treasury securities	3,567	14	-	3,581
Certificates of deposit	1,783	1	-	1,784
Non-agency commercial mortgage-backed securities	309	7	-	316
Other securities	15	-	-	15
Total securities available for sale	$ 60,996	$ 416	$ 46	$ 61,366
Securities held to maturity:				
U.S. agency mortgage-backed securities	$ 35,097	$ 811	$ 48	$ 35,860

Non-agency commercial mortgage-backed securities	1,001	23	-	1,024
Treasury securities	223	3	-	226
Total securities held to maturity	$ 36,321	$ 837	$ 48	$ 37,110

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Asset-backed securities	$ 19,320	$ 64	$ 18	$ 19,366
U.S. agency mortgage-backed securities	18,487	242	12	18,717
Corporate debt securities	8,023	30	8	8,045
U.S. agency notes	3,839	-	44	3,795
Treasury securities	2,993	2	1	2,994
Certificates of deposit	1,533	1	-	1,534
Non-agency commercial mortgage-backed securities	310	7	-	317
Other securities	15	-	-	15
Total securities available for sale	$ 54,520	$ 346	$ 83	$ 54,783
Securities held to maturity:				
U.S. agency mortgage-backed securities	$ 33,388	$ 531	$ 174	$ 33,745
Non-agency commercial mortgage-backed securities	1,001	11	14	998
Total securities held to maturity	$ 34,389	$ 542	$ 188	$ 34,743

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Schwab Bank pledges securities issued by federal agencies to secure certain trust deposits. The fair value of these pledged securities was $120 million at March 31, 2015.

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

March 31, 2015	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Securities available for sale:						
U.S. agency mortgage-backed securities	$ 3,247	$ 3	$ 1,135	$ 3	$ 4,382	$ 6
Asset-backed securities	5,694	19	750	5	6,444	24
Corporate debt securities	1,079	1	655	2	1,734	3
U.S. agency notes	1,373	2	2,254	11	3,627	13
Total	$ 11,393	$ 25	$ 4,794	$ 21	$ 16,187	$ 46
Securities held to maturity:						
U.S. agency mortgage-backed securities	$ 6,253	$ 30	$ 2,044	$ 18	$ 8,297	$ 48
Total	$ 6,253	$ 30	$ 2,044	$ 18	$ 8,297	$ 48
Total securities with unrealized losses (1)	$ 17,646	$ 55	$ 6,838	$ 39	$ 24,484	$ 94

(1) The number of investment positions with unrealized losses totaled 174 for securities available for sale and 71 for securities held to maturity.

December 31, 2014	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Securities available for sale:						
Asset-backed securities	$ 5,754	$ 15	$ 792	$ 3	$ 6,546	$ 18
U.S. agency mortgage-backed securities	2,247	5	$ 1,767	7	$ 4,014	12

Corporate debt securities		1,781		4		552		4		2,333		8
U.S. agency notes		-		-		3,696		44		3,696		44
Treasury securities		1,246		1		-		-		1,246		1
Total	$	11,028	$	25	$	6,807	$	58	$	17,835	$	83
Securities held to maturity:												
U.S. agency mortgage-backed securities	$	264	$	1	$	10,415	$	173	$	10,679	$	174
Non-agency commercial mortgage-backed securities		-		-		660		14		660		14
Total	$	264	$	1	$	11,075	$	187	$	11,339	$	188
Total securities with unrealized losses (1)	$	11,292	$	26	$	17,882	$	245	$	29,174	$	271

(1) The number of investment positions with unrealized losses totaled 173 for securities available for sale and 111 for securities held to maturity.

Management evaluates whether securities available for sale and securities held to maturity are OTTI on a quarterly basis as described in note “2—Summary of Significant Accounting Policies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. There were no impairment charges recognized during the first quarters of 2015 or 2014.

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

(Unaudited)

The maturities of securities available for sale and securities held to maturity at March 31, 2015 are as follows:

	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Securities available for sale:					
U.S. agency mortgage-backed securities (1)	$ -	$ 1,440	$ 6,866	$ 12,225	$ 20,531
Asset-backed securities	2	3,470	5,474	11,558	20,504
Corporate debt securities	1,441	7,972	-	-	9,413
U.S. agency notes	-	5,222	-	-	5,222
Treasury securities	-	3,581	-	-	3,581
Certificates of deposit	873	911	-	-	1,784
Non-agency commercial mortgage-backed securities (1)	-	-	-	316	316
Other securities	-	-	-	15	15
Total fair value	$ 2,316	$ 22,596	$ 12,340	$ 24,114	$ 61,366
Total amortized cost	$ 2,314	$ 22,525	$ 12,230	$ 23,927	$ 60,996
Securities held to maturity:					
U.S. agency mortgage-backed securities (1)	$ -	$ 868	$ 17,764	$ 17,228	$ 35,860
Non-agency commercial mortgage-backed securities (1)	-	-	369	655	1,024
Treasury securities	-	-	226	-	226
Total fair value	$ -	$ 868	$ 18,359	$ 17,883	$ 37,110
Total amortized cost	$ -	$ 853	$ 17,857	$ 17,611	$ 36,321

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

Proceeds and gross realized gains from sales of securities available for sale are as follows:

	Three Months Ended March 31,	
	2015	2014
Proceeds	$ 150	$ 1,285
Gross realized gains	$ -	$ 1

4.Bank Loans and Related Allowance for Loan Losses

The composition of bank loans by loan segment is as follows:

	March 31, 2015	December 31, 2014
Residential real estate mortgages	$ 8,172	$ 8,127
Home equity loans and lines of credit	2,878	2,955
Personal loans secured by securities	2,549	2,320
Other	42	39
Total bank loans (1)	13,641	13,441
Allowance for loan losses	(38)	(42)
Total bank loans – net	$ 13,603	$ 13,399

(1) All loans are evaluated for impairment by loan segment.

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

(Unaudited)

The Company has commitments to extend credit related to unused home equity lines of credit (HELOCs), personal loans secured by securities, and other lines of credit, which totaled $6.9 billion and $6.7 billion at March 31, 2015 and December 31, 2014, respectively. All of the personal loans were fully collateralized by securities with fair values in excess of borrowings at March 31, 2015 and December 31, 2014.

Schwab Bank provides a co-branded loan origination program for Schwab Bank clients (the Program) with Quicken Loans, Inc. (Quicken Loans®). Pursuant to the Program, Quicken Loans originates and services first lien residential real estate mortgage loans (First Mortgages) and HELOCs for Schwab Bank clients. Under the Program, Schwab Bank purchases certain First Mortgages and HELOCs that are originated by Quicken Loans. Schwab Bank purchased First Mortgages of $440 million and $286 million during the first quarters of 2015 and 2014, respectively. Schwab Bank purchased HELOCs with commitments of $117 million and $172 million during the first quarters of 2015 and 2014, respectively.

Credit Quality

Changes in the allowance for loan losses were as follows:

Three Months Ended	March 31, 2015			March 31, 2014		
	Residential Real Estate Mortgages	Home Equity Loans and Lines of Credit	Total	Residential Real Estate Mortgages	Home Equity Loans and Lines of Credit	Total
Balance at beginning of period	$ 29	$ 13	$ 42	$ 34	$ 14	$ 48
Charge-offs	-	(1)	(1)	(1)	(1)	(2)
Recoveries	-	1	1	-	1	1
Provision for loan losses	(3)	(1)	(4)	-	1	1
Balance at end of period	$ 26	$ 12	$ 38	$ 33	$ 15	$ 48

The delinquency and nonaccrual analysis by loan class is as follows:

March 31, 2015	Current	30-59 days past due	60-89 days past due	>90 days past due and other nonaccrual loans	Total past due and other nonaccrual loans	Total loans
Residential real estate mortgages	$ 8,140	$ 9	$ 1	$ 22	$ 32	$ 8,172
Home equity loans and lines of credit	2,865	3	1	9	13	2,878
Personal loans secured by securities	2,549	-	-	-	-	2,549
Other	42	-	-	-	-	42
Total bank loans	$ 13,596	$ 12	$ 2	$ 31	$ 45	$ 13,641

December 31, 2014	Current	30-59 days past due	60-89 days past due	>90 days past due and other nonaccrual loans	Total past due and other nonaccrual loans	Total loans
Residential real estate mortgages	$ 8,092	$ 9	$ 2	$ 24	$ 35	$ 8,127
Home equity loans and lines of credit	2,942	1	1	11	13	2,955
Personal loans secured by securities	2,320	-	-	-	-	2,320
Other	38	1	-	-	1	39
Total bank loans	$ 13,392	$ 11	$ 3	$ 35	$ 49	$ 13,441

There were no loans accruing interest that were contractually 90 days or more past due at March 31, 2015 or December 31, 2014. Nonperforming assets, which include nonaccrual loans and other real estate owned, totaled $40 million and $44 million at March 31, 2015 and December 31, 2014, respectively. Troubled debt restructurings were not material at March 31, 2015 or December 31, 2014.

In addition to monitoring delinquency, the Company monitors the credit quality of residential real estate mortgages and HELOCs by stratifying the portfolios by the year of origination, borrower FICO scores at origination (Origination FICO),

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updated borrower FICO scores (Updated FICO), loan-to-value (LTV) ratios at origination (Origination LTV), and estimated current LTV ratios (Estimated Current LTV), as presented in the following tables. Borrowers' FICO scores are provided by an independent third-party credit reporting service and were last updated in March 2015. The Origination LTV and Estimated Current LTV ratios for a HELOC include any first lien mortgage outstanding on the same property at the time of the HELOC's origination. The Estimated Current LTV for each loan is estimated by reference to a home price appreciation index.

March 31, 2015	Balance	Weighted Average Updated FICO	Utilization Rate (1)	Percent of Loans that are on Nonaccrual Status
Residential real estate mortgages:				
Estimated Current LTV				
<70%	$ 7,128	776	N/A	0.02 %
>70% – <90%	938	767	N/A	0.47 %
>90% – <100%	56	741	N/A	2.27 %
>100%	50	728	N/A	10.88 %
Total	$ 8,172	774	N/A	0.16 %
Home equity loans and lines of credit:				
Estimated Current LTV				
<70%	$ 2,225	774	36 %	0.08 %
>70% – <90%	504	764	48 %	0.30 %
>90% – <100%	83	754	61 %	0.73 %
>100%	66	743	61 %	1.12 %
Total	$ 2,878	771	38 %	0.16 %

(1) The Utilization Rate is calculated using the outstanding HELOC balance divided by the associated total line of credit.

N/A Not applicable.

	Residential Real Estate	Home Equity Loans and

March 31, 2015	Mortgages	Lines of Credit
Year of origination		
Pre-2011	$ 1,066	$ 2,161
2011	545	129
2012	2,007	139
2013	2,920	243
2014	1,208	184
2015	426	22
Total	$ 8,172	$ 2,878
Origination FICO		
<620	$ 10	$ 1
620 – 679	95	17
680 – 739	1,367	530
>740	6,700	2,330
Total	$ 8,172	$ 2,878
Origination LTV		
<70%	$ 5,644	$ 1,932
>70% – <90%	2,512	926
>90% – <100%	16	20
Total	$ 8,172	$ 2,878

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December 31, 2014	Balance	Weighted Average Updated FICO	Utilization Rate (1)	Percent of Loans that are on Nonaccrual Status
Residential real estate mortgages:				
Estimated Current LTV				
<70%	$ 7,131	774	N/A	0.04 %
>70% – <90%	882	765	N/A	0.50 %
>90% – <100%	61	740	N/A	2.95 %
>100%	53	726	N/A	10.95 %
Total	$ 8,127	773	N/A	0.18 %
Home equity loans and lines of credit:				
Estimated Current LTV				
<70%	$ 2,282	773	36 %	0.08 %
>70% – <90%	526	762	48 %	0.34 %
>90% – <100%	81	749	61 %	1.67 %
>100%	66	742	63 %	1.54 %
Total	$ 2,955	769	39 %	0.20 %

(1) The Utilization Rate is calculated using the outstanding HELOC balance divided by the associated total line of credit.

N/A Not applicable.

December 31, 2014	Residential Real Estate Mortgages	Home Equity Loans and Lines of Credit
Year of origination		
Pre-2011	$ 1,119	$ 2,244
2011	588	137
2012	2,107	147
2013	3,047	250
2014	1,266	177
Total	$ 8,127	$ 2,955

Origination FICO		
<620	$ 10	$ -
620 – 679	97	18
680 – 739	1,366	549
>740	6,654	2,388
Total	$ 8,127	$ 2,955
Origination LTV		
<70%	$ 5,572	$ 1,979
>70% – <90%	2,538	955
>90% – <100%	17	21
Total	$ 8,127	$ 2,955

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5.Borrowings

See note “13 – Borrowings” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. There have been no significant changes to the Company’s borrowings with the exception of the issuance disclosed below.

Long-term debt, including unamortized debt discounts and premiums, where applicable, consists of the following:

	March 31, 2015	December 31, 2014
Senior Notes	$ 2,565	$ 1,567
Senior Medium-Term Notes, Series A	249	249
Finance lease obligation	81	83
Total long-term debt	$ 2,895	$ 1,899

On March 10, 2015, CSC issued $625 million aggregate principal amount of Senior Notes that mature in 2018 and $375 million aggregate principal amount of Senior Notes that mature in 2025 under its universal shelf registration statement on file with the SEC. The Senior Notes due 2018 have a fixed interest rate of 1.50% with interest payable semi-annually. The Senior Notes due 2025 have a fixed interest rate of 3.00% with interest payable semi-annually.

Annual maturities on long-term debt outstanding at March 31, 2015 are as follows:

2015	$ 355
2016	7

2017		258
2018		908
2019		8
Thereafter		1,376
Total maturities		2,912
Unamortized discount, net		(17)
Total long-term debt	$	2,895

6.Commitments and Contingencies

The Company has clients that sell (i.e., write) listed option contracts that are cleared by the Options Clearing Corporation – a clearing house that establishes margin requirements on these transactions. The Company partially satisfies the margin requirements by arranging unsecured standby letter of credit agreements (LOCs), in favor of the Options Clearing Corporation, which are issued by multiple banks. At March 31, 2015, the aggregate face amount of these LOCs totaled $240 million. There were no funds drawn under any of these LOCs at March 31, 2015. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The Company satisfies the collateral requirements by providing cash as collateral.

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

The Company has recorded a liability of $37 million for unfunded commitments related to investments in qualified affordable housing projects at March 31, 2015, which is included in accrued expenses and other liabilities on the balance sheet. These commitments are expected to be paid during the years from 2015 to 2020. The Company also recorded a corresponding asset for the funded and unfunded investments in qualified affordable housing projects of $44 million at March 31, 2015, which is included in other assets on the balance sheet.

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

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

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

Total Bond Market Fund Litigation: On August 28, 2008, a class action lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of investors in the Schwab Total Bond Market Fund™. The lawsuit, which alleges violations of state law and federal securities law in connection with the fund’s investment policy, names Schwab Investments (registrant and issuer of the fund’s shares) and CSIM as defendants. Allegations include that the fund improperly deviated from its stated investment objectives by investing in collateralized mortgage obligations

(CMOs) and investing more than 25% of fund assets in CMOs and mortgage-backed securities without obtaining a shareholder vote. Plaintiffs seek unspecified compensatory and rescission damages, unspecified equitable and injunctive relief, costs and attorneys' fees. Plaintiffs' federal securities law claim and certain of plaintiffs' state law claims were dismissed. On August 8, 2011, the court dismissed plaintiffs' remaining claims with prejudice. Plaintiffs appealed to the Ninth Circuit, which issued a ruling on March 9, 2015 reversing the district court's dismissal of the case and remanding the case for further proceedings. Defendants' petition for rehearing was denied on April 28, 2015.

Other Regulatory Matters: On April 16, 2012, optionsXpress, Inc. was charged by the SEC in an administrative proceeding alleging violations of the firm's close-out obligations under Regulation SHO (short sale delivery rules) in connection with certain customer trading activity. Following trial, in a decision issued June 7, 2013, the judge held that the firm had violated Regulation SHO and aided and abetted fraudulent trading activity by its customer, and ordered the firm and the customer to pay disgorgement and penalties in an amount which would not be material. The Company continues to dispute the allegations and is appealing the decision.

7.Offsetting Assets and Liabilities

Resale and repurchase agreements: Schwab enters into collateralized resale agreements principally with other broker-dealers, which could result in losses in the event the counterparty fails to purchase the securities held as collateral for the cash advanced and the fair value of the securities declines. To mitigate this risk, Schwab requires that the counterparty deliver securities to a custodian, to be held as collateral, with a fair value in excess of the resale price. Schwab also sets standards for the credit quality of the counterparty, monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest, and requires additional collateral where deemed appropriate. The fair value of collateral received in connection with resale agreements that are available to be repledged or sold was $10.0 billion at

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March 31, 2015 and $10.4 billion at December 31, 2014. Schwab utilizes the collateral provided under these resale agreements to meet obligations under broker-dealer client protection rules, which place limitations on its ability to access such segregated securities. For Schwab to repledge or sell this collateral, it would be required to deposit cash and/or securities of an equal amount into its segregated reserve bank accounts in order to meet its segregated cash and investment requirement. The Company's resale agreements are not subject to master netting arrangements.

Securities lending: The Company loans client securities temporarily to other brokers in connection with its securities lending activities and receives cash as collateral for the securities loaned. Increases in security prices may cause the fair value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities or provide additional cash collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its client obligations. The Company mitigates this risk by requiring credit approvals for counterparties, monitoring the fair value of securities loaned, and requiring additional cash as collateral when necessary. The fair value of client securities pledged in securities lending transactions to other broker-dealers was $1.7 billion at March 31, 2015 and $1.3 billion at December 31, 2014. The Company has also pledged a portion of its securities owned in connection with securities lending transactions to other broker-dealers. Additionally, the Company borrows securities from other broker-dealers to fulfill short sales by clients and delivers cash to the lender in exchange for the securities. The fair value of these borrowed securities was $44 million at March 31, 2015 and $88 million at December 31, 2014. All of the Company's securities lending transactions are subject to enforceable master netting arrangements with other broker-dealers. However, the Company does not net securities lending transactions and therefore, the Company's securities loaned and securities borrowed are presented gross in the consolidated balance sheets.

The following table presents information about the Company's resale agreements and securities lending activity to enable the users of the Company's financial statements to evaluate the potential effect of rights of setoff between these recognized assets and recognized liabilities at March 31, 2015 and December 31, 2014.

	Gross Assets/ Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
				Counterparty Offsetting	Collateral	
March 31, 2015						
Assets:						

Resale agreements (1)	$ 9,806	$ -	$ 9,806	$ -	$ (9,806) (2)	$ -
Securities borrowed (3)	167	-	167	(40)	(126)	1
Total	$ 9,973	$ -	$ 9,973	$ (40)	$ (9,932)	$ 1
Liabilities:						
Securities loaned (4)	$ 1,956	$ -	$ 1,956	$ (40)	$ (1,770)	$ 146
Total	$ 1,956	$ -	$ 1,956	$ (40)	$ (1,770)	$ 146
December 31, 2014						
Assets:						
Resale agreements (1)	$ 10,186	$ -	$ 10,186	$ -	$ (10,186)(2)	$ -
Securities borrowed (3)	187	-	187	(69)	(117)	1
Total	$ 10,373	$ -	$ 10,373	$ (69)	$ (10,303)	$ 1
Liabilities:						
Securities loaned (4)	$ 1,477	$ -	$ 1,477	$ (69)	$ (1,293)	$ 115
Total	$ 1,477	$ -	$ 1,477	$ (69)	$ (1,293)	$ 115

(1) Included in cash and investments segregated and on deposit for regulatory purposes in the Company's consolidated balance sheets.
(2) Actual collateral was greater than 102% of the related assets.
(3) Included in receivables from brokers, dealers, and clearing organizations in the Company's consolidated balance sheets.
(4) Included in payables to brokers, dealers, and clearing organizations in the Company's consolidated balance sheets.

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8.Fair Values of Assets and Liabilities

For a description of the fair value hierarchy and the Company’s fair value methodologies, including the use of independent third-party pricing services, see note “2 – Summary of Significant Accounting Policies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. There were no significant changes in these methodologies during the quarter ended March 31, 2015. The Company did not transfer any assets or liabilities between Level 1, Level 2, or Level 3 during the quarter ended March 31, 2015, or the year ended December 31, 2014. In addition, the Company did not adjust prices received from the primary independent third-party pricing service at March 31, 2015 or December 31, 2014.

Financial Instruments Recorded at Fair Value

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

March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 641	$ -	$ -	$ 641
Commercial paper	-	27	-	27
Total cash equivalents	641	27	-	668
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	-	2,951	-	2,951
U.S. Government securities	-	2,334	-	2,334
Total investments segregated and on deposit for regulatory purposes	-	5,285	-	5,285

Other securities owned:				
Schwab Funds® money market funds	384	-	-	384
Equity and bond mutual funds	203	-	-	203
State and municipal debt obligations	-	50	-	50
Equity, U.S. Government and corporate debt, and other securities	1	19	-	20
Total other securities owned	588	69	-	657
Securities available for sale:				
U.S. agency mortgage-backed securities	-	20,531	-	20,531
Asset-backed securities	-	20,504	-	20,504
Corporate debt securities	-	9,413	-	9,413
U.S. agency notes	-	5,222	-	5,222
Treasury securities	-	3,581	-	3,581
Certificates of deposit	-	1,784	-	1,784
Non-agency commercial mortgage-backed securities	-	316	-	316
Other securities	-	15	-	15
Total securities available for sale	-	61,366	-	61,366
Total	$ 1,229	$ 66,747	$ -	$ 67,976

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December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 2,142	$ -	$ -	$ 2,142
Commercial paper	-	32	-	32
Total cash equivalents	2,142	32	-	2,174
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	-	4,125	-	4,125
U.S. Government securities	-	2,186	-	2,186
Total investments segregated and on deposit for regulatory purposes	-	6,311	-	6,311
Other securities owned:				
Schwab Funds® money market funds	224	-	-	224
Equity and bond mutual funds	215	-	-	215
State and municipal debt obligations	-	51	-	51
Equity, U.S. Government and corporate debt, and other securities	2	24	-	26
Total other securities owned	441	75	-	516
Securities available for sale:				
Asset-backed securities	-	19,366	-	19,366
U.S. agency mortgage-backed securities	-	18,717	-	18,717
Corporate debt securities	-	8,045	-	8,045
U.S. agency notes	-	3,795	-	3,795
Treasury securities	-	2,994	-	2,994
Certificates of deposit	-	1,534	-	1,534
Non-agency commercial mortgage-backed securities	-	317	-	317
Other securities	-	15	-	15
Total securities available for sale	-	54,783	-	54,783
Total	$ 2,583	$ 61,201	$ -	$ 63,784

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Financial Instruments Not Recorded at Fair Value

Descriptions of the valuation methodologies and assumptions used to estimate the fair value of financial instruments not recorded at fair value are also described in note “2 – Summary of Significant Accounting Policies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. There were no significant changes in these methodologies or assumptions during the quarter ended March 31, 2015. The following tables present the fair value hierarchy for financial instruments not recorded at fair value:

March 31, 2015	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 8,343	$ -	$ 8,343	$ -	$ 8,343
Cash and investments segregated and on deposit for regulatory purposes	14,097	-	14,097	-	14,097
Receivables from brokers, dealers, and clearing organizations	457	-	457	-	457
Receivables from brokerage clients – net	16,010	-	16,010	-	16,010
Securities held to maturity:					
U.S. agency mortgage-backed securities	35,097	-	35,860	-	35,860
Non-agency commercial mortgage-backed securities	1,001	-	1,024	-	1,024
Treasury securities	223	-	226	-	226
Total securities held to maturity	36,321	-	37,110	-	37,110
Bank loans: (1)					
Residential real estate mortgages	8,172	-	8,014	-	8,014
Home equity loans and lines of credit	2,878	-	2,967	-	2,967
Personal loans secured by securities	2,549	-	2,549	-	2,549
Other	42	-	42	-	42
Total bank loans	13,641	-	13,572	-	13,572

Other assets	112	-	112	-	112
Total	$ 88,981	$ -	$ 89,701	$ -	$ 89,701
Liabilities:					
Bank deposits	$ 109,503	$ -	$ 109,503	$ -	$ 109,503
Payables to brokers, dealers, and clearing organizations	2,410	-	2,410	-	2,410
Payables to brokerage clients	31,617	-	31,617	-	31,617
Accrued expenses and other liabilities	548	-	548	-	548
Long-term debt	2,895	-	3,034	-	3,034
Total	$ 146,973	$ -	$ 147,112	$ -	$ 147,112

(1) The carrying value of bank loans excludes the allowance for loan losses of $38 million at March 31, 2015.

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December 31, 2014	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 9,189	$ -	$ 9,189	$ -	$ 9,189
Cash and investments segregated and on deposit for regulatory purposes	14,466	-	14,466	-	14,466
Receivables from brokers, dealers, and clearing organizations	469	-	469	-	469
Receivables from brokerage clients – net	15,666	-	15,666	-	15,666
Securities held to maturity:					
U.S. agency mortgage-backed securities	33,388	-	33,745	-	33,745
Non-agency commercial mortgage-backed securities	1,001	-	998	-	998
Total securities held to maturity	34,389	-	34,743	-	34,743
Bank loans: (1)					
Residential real estate mortgages	8,127	-	8,158	-	8,158
Home equity loans and lines of credit	2,955	-	3,026	-	3,026
Personal loans secured by securities	2,320	-	2,320	-	2,320
Other	39	-	38	-	38
Total bank loans	13,441	-	13,542	-	13,542
Other assets	76	-	76	-	76
Total	$ 87,696	$ -	$ 88,151	$ -	$ 88,151
Liabilities:					
Bank deposits	$ 102,815	$ -	$ 102,815	$ -	$ 102,815
Payables to brokers, dealers, and clearing organizations	2,004	-	2,004	-	2,004
Payables to brokerage clients	34,305	-	34,305	-	34,305
Accrued expenses and other liabilities	687	-	687	-	687
Long-term debt	1,899	-	2,010	-	2,010
Total	$ 141,710	$ -	$ 141,821	$ -	$ 141,821

(1) The carrying value of bank loans excludes the allowance for loan losses of $42 million at December 31, 2014.

9.Accumulated Other Comprehensive Income

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

Three Months Ended March 31,		2015			2014	
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Change in net unrealized gain on securities available for sale:						
Net unrealized gain	$ 107	$ (41)	$ 66	$ 159	$ (59)	$ 100
Other reclassifications included in other revenue	-	-	-	(1)	-	(1)
Change in net unrealized gain on securities available for sale	107	(41)	66	158	(59)	99
Other comprehensive income	$ 107	$ (41)	$ 66	$ 158	$ (59)	$ 99

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Accumulated other comprehensive income balances are as follows:

	Total Accumulated Other Comprehensive Income
Balance at December 31, 2013	$ 9
Net unrealized gain on securities available for sale	99
Balance at March 31, 2014	$ 108
Balance at December 31, 2014	$ 165
Net unrealized gain on securities available for sale	66
Balance at March 31, 2015	$ 231

10.Earnings Per Common Share

Basic EPS is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. Dilutive potential common shares include, if dilutive, the effect of outstanding stock options and unvested restricted stock awards and units. EPS under the basic and diluted computations is as follows:

Three Months Ended March 31,

	2015	2014
Net income	$ 302	$ 326
Preferred stock dividends and other (1)	(11)	(8)
Net income available to common stockholders	$ 291	$ 318
Weighted-average common shares outstanding — basic	1,312	1,299
Common stock equivalent shares related to stock incentive plans	11	12
Weighted-average common shares outstanding — diluted (2)	1,323	1,311
Basic EPS	$ .22	$ .24
Diluted EPS	$ .22	$ .24

(1) Includes preferred stock dividends and undistributed earnings and dividends allocated to non-vested restricted stock units.
(2) Antidilutive stock options and restricted stock awards excluded from the calculation of diluted EPS totaled 17 million shares for both the first quarters of 2015 and 2014.

11.Regulatory Requirements

CSC is a savings and loan holding company and Schwab Bank, CSC's depository institution subsidiary, is a federal savings bank. CSC is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve). Schwab Bank is subject to supervision and regulation by the Office of the Comptroller of the Currency (the OCC), as its primary regulator, the Federal Deposit Insurance Corporation, as its deposit insurer, and the Consumer Financial Protection Bureau. CSC is required to serve as a source of strength for Schwab Bank. Prior to January 1, 2015, CSC, as a savings and loan holding company, was not subject to certain statutory capital requirements. Beginning on January 1, 2015, CSC is subject to new capital requirements set by the Federal Reserve.

Schwab Bank is subject to regulation and supervision and to various requirements and restrictions under federal and state laws, including regulatory capital guidelines. Among other things, these requirements also restrict and govern the terms of affiliate transactions, such as extensions of credit and repayment of loans between Schwab Bank and CSC or CSC's other subsidiaries. In addition, Schwab Bank is required to provide notice to and may be required to obtain approval of the OCC

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(Unaudited)

and the Federal Reserve to declare dividends to CSC. The federal banking agencies have broad powers to enforce these regulations, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. Under the Federal Deposit Insurance Act, Schwab Bank could be subject to restrictive actions if it were to fall within one of the lowest three of five capital categories. CSC and Schwab Bank are required to maintain minimum capital levels as specified in federal banking laws and regulations. Failure to meet the minimum levels could result in certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on CSC and Schwab Bank. At March 31, 2015, CSC and Schwab Bank met the capital level requirements.

The new regulatory capital and ratios for CSC and Schwab Bank at March 31, 2015 are as follows:

	Actual		Minimum to be Well Capitalized		Minimum Capital Requirement	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
CSC						
Common Equity Tier 1 Risk-Based Capital	$ 9,611	14.6 %	N/A		$ 2,960	4.5 %
Tier 1 Risk-Based Capital	$ 10,484	15.9 %	N/A		$ 3,947	6.0 %
Total Risk-Based Capital	$ 10,523	16.0 %	N/A		$ 5,262	8.0 %
Tier 1 Leverage	$ 10,484	6.8 %	N/A		$ 6,138	4.0 %
Schwab Bank						
Common Equity Tier 1 Risk-Based Capital	$ 8,099	17.9 %	$ 2,939	6.5 %	$ 2,035	4.5 %
Tier 1 Risk-Based Capital	$ 8,099	17.9 %	$ 3,617	8.0 %	$ 2,713	6.0 %
Total Risk-Based Capital	$ 8,138	18.0 %	$ 4,522	10.0 %	$ 3,617	8.0 %
Tier 1 Leverage	$ 8,099	7.1 %	$ 5,728	5.0 %	$ 4,583	4.0 %

N/A Not applicable.

Based on its regulatory capital ratios at March 31, 2015, Schwab Bank is considered well capitalized (the highest category) pursuant to banking regulatory guidelines. There are no conditions or events since March 31, 2015, that management believes have changed Schwab Bank’s capital category.

CSC's principal U.S. broker-dealers are Schwab and optionsXpress, Inc. Schwab and optionsXpress, Inc. are both subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the Uniform Net Capital Rule). Schwab and optionsXpress, Inc. compute net capital under the alternative method permitted by the Uniform Net Capital Rule. This method requires the maintenance of minimum net capital, as defined, of the greater of 2% of aggregate debit balances arising from client transactions or a minimum dollar requirement ($250,000), which is based on the type of business conducted by the broker-dealer. Under the alternative method, a broker-dealer may not repay subordinated borrowings, pay cash dividends, or make any unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement.

optionsXpress, Inc. is also subject to Commodity Futures Trading Commission Regulation 1.17 (Reg. 1.17) under the Commodity Exchange Act, which also requires the maintenance of minimum net capital. optionsXpress, Inc., as a futures commission merchant, is required to maintain minimum net capital equal to the greater of its net capital requirement under Reg. 1.17 ($1 million), or the sum of 8% of the total risk margin requirements for all positions carried in client accounts and 8% of the total risk margin requirements for all positions carried in non-client accounts (as defined in Reg. 1.17).

Net capital and net capital requirements for Schwab and optionsXpress, Inc. at March 31, 2015 are as follows:

	Net Capital	% of Aggregate Debit Balances	Minimum Net Capital Required	2% of Aggregate Debit Balances	Net Capital in Excess of Required Net Capital	Net Capital in Excess of 5% of Aggregate Debit Balances
Schwab	$ 1,581	10 %	$ 0.250	$ 331	$ 1,250	$ 753
optionsXpress, Inc.	$ 127	35 %	$ 1	$ 7	$ 120	$ 109

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12.Segment Information

The Company's two reportable segments are Investor Services and Advisor Services. The Company structures its operating segments according to its clients and the services provided to those clients. The Investor Services segment provides retail brokerage and banking services 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. Revenues and expenses are allocated to the Company's two segments based on which segment services the client.

The Company evaluates the performance of its segments on a pre-tax basis, excluding extraordinary or significant non-recurring items and results of discontinued operations. Segment assets and liabilities are not used for evaluating segment performance or in deciding how to allocate resources to segments. There are no revenues from transactions between the segments.

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

	Investor Services		Advisor Services		Unallocated		Total	
Three Months Ended March 31,	2015	2014	2015	2014	2015	2014	2015	2014
Net Revenues:								
Asset management and administration fees	$ 454	$ 428	$ 190	$ 183	$ -	$ -	$ 644	$ 611
Net interest revenue	510	495	78	58	-	-	588	553
Trading revenue	151	171	76	76	-	-	227	247
Other	45	51	18	17	-	-	63	68
Provision for loan losses	4	(1)	-	-	-	-	4	(1)
Total net revenues	1,164	1,144	362	334	-	-	1,526	1,478

Expenses Excluding Interest	795	738	247	218	-	-	1,042	956
Income before taxes on income	$ 369	$ 406	$ 115	$ 116	$ -	$ -	$ 484	$ 522
Taxes on income							182	196
Net Income							$ 302	$ 326

13.Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to March 31, 2015, through the date the condensed consolidated financial statements were filed with the SEC. Based on this evaluation, other than as recorded or disclosed within these condensed consolidated financial statements and related notes, the Company has determined none of these events were required to be recognized or disclosed.

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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

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 "Current Market and Regulatory Environment and Other Developments" and "Results of Operations – Net Interest Revenue");
- 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");
- 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");
- target capital and debt ratios (see "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 11. Regulatory Requirements" and "Liquidity and Capital Resources");
- the expected impact of the new liquidity coverage ratio (LCR) rules (see "Current Market and Regulatory Environment and Other Developments");
- sources of liquidity, capital, and level of dividends (see "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 11. Regulatory Requirements" and "Liquidity and Capital Resources"); and
- the impact of the revised underwriting criteria on the credit quality of the Company's mortgage portfolio (see "Risk Management – Credit Risk Exposures").

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

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

- 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, including Intelligent Portfolios™;
- 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;
- 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;
- the amount of loans to the Company’s brokerage and banking clients;
- the level of the Company’s stock repurchase activity;
- capital needs and management;
- the level of brokerage client cash balances and bank deposits;
- investment, structural and capital adjustments made by the Company in connection with the new LCR rule;
- the availability and terms of external financing;
- the extent to which past performance of the Company’s mortgage portfolio is indicative of future performance;

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- 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."

OVERVIEW

Management of The Charles Schwab Corporation (CSC) and its subsidiaries (collectively referred to as 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 is considered by management to be a measure of operating efficiency. Results for the first quarters of 2015 and 2014 are:

	Three Months Ended March 31, 2015	2014	Percent Change
Client Metrics:			
Net new client assets (1) (in billions)	$ 28.7	$ 34.2	(16) %
Client assets (2) (in billions, at quarter end)	$ 2,524.4	$ 2,308.0	9 %
New brokerage accounts (3) (in thousands)	274	258	6 %
Active brokerage accounts (4) (in thousands, at quarter end)	9,493	9,178	3 %
Assets receiving ongoing advisory services (5) (in billions, at quarter end)	$ 1,251.8	$ 1,132.7	11 %

Client cash as a percentage of client assets (6) (at quarter end)	12.0	%	12.7	%		
Company Financial Metrics:						
Net revenues	$ 1,526		$ 1,478		3	%
Expenses excluding interest	1,042		956		9	%
Income before taxes on income	484		522		(7)	%
Taxes on income	182		196		(7)	%
Net income	$ 302		$ 326		(7)	%
Preferred stock dividends and other	$ 11		$ 8		38	%
Net income available to common stockholders	$ 291		$ 318		(8)	%
Earnings per common share – diluted	$ .22		$ .24		(8)	%
Net revenue growth from prior year	3	%	15	%		
Pre-tax profit margin	31.7	%	35.3	%		
Return on average common stockholders' equity (annualized) (7)	10	%	13	%		
Expenses excluding interest as a percentage of average client assets (annualized)	0.17	%	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 $34.2 billion during the first quarter of 2015. There were no significant one-time flows during the first quarter of 2014. See below for items excluded from core net new assets.

(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.

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(3) 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.
(4) 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.
(5) 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.
(6) 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.
(7) 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.

· First quarter of 2015 includes an outflow of $11.6 billion relating to the Company's planned resignation from an Advisor Services cash management relationship.
· The Company increased its reported total for overall client assets by $6.1 billion in the first quarter 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 operating environment included volatile equity market performance during the first quarter of 2015. The Nasdaq Composite Index, Standard & Poor's 500 Index, and Dow Jones Industrial Average fluctuated during the first quarter of 2015, yet ended the quarter up 17%, 10%, and 8% from the first quarter of 2014, respectively. 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 Treasury Bill yield decreased by 3 basis points to 0.01% compared to the first quarter of 2014. In addition, long-term interest rates decreased compared to the first quarter of 2014, including the average 10-year Treasury yield, which decreased by 80 basis points to 1.96%.

Strong client momentum continued in the first quarter of 2015, as the Company's innovative, full-service model continued to resonate with clients and drive growth during the first quarter of 2015. Core net new assets totaled $34.2 billion in the first quarter of 2015, which were flat compared to net new client assets in the first quarter of 2014. Total client assets ended the first quarter of 2015 at $2.52 trillion, up 9% from the first quarter of 2014. The Company added 274,000 new brokerage accounts to its client base during the first quarter of 2015, up 6% compared to the first quarter of 2014. Active brokerage accounts ended the first quarter of 2015 at 9.5 million, also up 3% on a year-over-year basis.

For the first quarter of 2015, the Company’s net revenues increased 3% compared to the first quarter of 2014, primarily due to increases in net interest revenue and asset management and administration fees, partially offset by a decrease in trading revenue. Net interest revenue increased primarily due to higher balances of interest-earning assets, 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. Asset management and administration fees increased due to fees from mutual fund services, advice solutions, and other asset management and administration services. Trading revenue decreased primarily due to a decrease in commission revenue as a result of lower daily average revenue trades.

Expenses excluding interest increased 9% in the first quarter of 2015 compared to the first quarter of 2014, primarily due to increases in compensation and benefits, professional services, and other expense.

The combined effect of the environment, strong business growth, and the Company’s overall spending resulted in a pre-tax profit margin of 31.7% in the first quarter of 2015. Overall, net income decreased by 7% in the first quarter of 2015 compared to the first quarter of 2014. The return on average common stockholders’ equity was 10% in the first quarter of 2015.

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 around 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 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 Charles Schwab Bank (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 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.

At March 31, 2015, 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%. 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, 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 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 rule proposal is in a comment period and is subject to further modification. The Company is currently evaluating the impact of the proposed rule.

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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 has experienced realized and unrealized 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. To date, the Company has realized $28 million in net settlement proceeds on such claims, and an initial trial date relating to certain of the defendants who remain in the case is set for August 2015.

Results of Operations

The following discussion presents an analysis of the Company's results of operations for the first quarter of 2015 compared to the first quarter of 2014.

Net Revenues

The Company's major sources of net revenues are asset management and administration fees, net interest revenue, and trading revenue. Asset management and administration fees and net interest revenue increased, while trading revenue decreased in the first quarter of 2015 compared to the first quarter of 2014.

Three Months Ended March 31,		2015		2014	
	Percent Change	Amount	% of Total Net Revenues	Amount	% of Total Net Revenues
Asset management and administration fees					

Schwab money market funds before fee waivers	-		$ 238			$ 239		
Fee waivers	(1)	%	(184)			(185)		
Schwab money market funds after fee waivers	-		54	4	%	54	4	%
Equity and bond funds	16	%	52	3	%	45	3	%
Mutual Fund OneSource®	-		204	13	%	204	14	%
Total mutual funds service fees	2	%	310	20	%	303	21	%
Advice solutions	11	%	220	14	%	199	13	%
Other	5	%	114	8	%	109	7	%
Asset management and administration fees	5	%	644	42	%	611	41	%
Net interest revenue								
Interest revenue	7	%	617	41	%	579	39	%
Interest expense	12	%	(29)	(2)	%	(26)	(2)	%
Net interest revenue	6	%	588	39	%	553	37	%
Trading revenue								
Commissions	(7)	%	218	14	%	234	16	%
Principal transactions	(31)	%	9	1	%	13	1	%
Trading revenue	(8)	%	227	15	%	247	17	%
Other	(7)	%	63	4	%	68	5	%
Provision for loan losses	N/M		4	-		(1)	-	
Total net revenues	3	%	$ 1,526	100	%	$ 1,478	100	%

N/M Not meaningful.

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."

Asset management and administration fees increased by $33 million, or 5%, in the first quarter of 2015 compared to the first quarter of 2014, due to fees from advice solutions, mutual fund services, and other asset management and administration services.

Mutual fund service fees increased by $7 million, or 2%, in the first quarter of 2015 compared to the first quarter of 2014, primarily due to growth in client assets invested in equity and bond funds.

Advice solutions fees increased by $21 million, or 11%, in the first quarter of 2015 compared to the first quarter of 2014, primarily due to growth in client assets enrolled in advisory offers, including Schwab Private Client™, ThomasPartners®, and Schwab Managed Portfolios™, partially offset by a decrease in Windhaven® assets.

Other asset management and administration service fees increased by $5 million, or 5%, in the first quarter of 2015 compared to the first quarter of 2014, primarily due to 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.

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.

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, HELOCs, and personal loans secured by securities. These loans are largely funded by interest-bearing bank deposits.

In clearing their clients' trades, Charles Schwab & Co., Inc. (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

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

Three Months Ended March 31,	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	$ 9,383	$ 5	0.22 %	$ 6,701	$ 4	0.24 %
Cash and investments segregated	19,510	6	0.12 %	21,619	6	0.11 %
Broker-related receivables (1)	280	-	0.10 %	294	-	0.35 %
Receivables from brokerage clients	14,416	119	3.35 %	13,158	116	3.58 %
Securities available for sale (2)	57,416	142	1.00 %	51,971	140	1.09 %
Securities held to maturity	34,879	218	2.53 %	30,846	199	2.62 %
Bank loans	13,534	90	2.70 %	12,546	87	2.81 %
Total interest-earning assets	149,418	580	1.57 %	137,135	552	1.63 %
Other interest revenue		37			27	
Total interest-earning assets	$ 149,418	$ 617	1.67 %	$ 137,135	$ 579	1.71 %
Funding sources:						
Bank deposits	$ 105,834	$ 8	0.03 %	$ 93,776	$ 7	0.03 %
Payables to brokerage clients	26,071	1	0.01 %	27,210	1	0.01 %
Long-term debt	2,148	19	3.59 %	1,902	18	3.84 %
Total interest-bearing liabilities	134,053	28	0.08 %	122,888	26	0.09 %
Non-interest-bearing funding sources	15,365			14,247		
Other interest expense (1,3)		1			-	
Total funding sources	$ 149,418	$ 29	0.07 %	$ 137,135	$ 26	0.07 %
Net interest revenue		$ 588	1.60 %		$ 553	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 first quarter of 2015 compared to the first quarter of 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 balance of bank deposits funded the increase in the balances of securities held to maturity and securities available for sale.

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. To accommodate clients' fixed income trading activity, the Company maintains positions in fixed income securities, including 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. Factors that influence principal transaction revenue include the volume of client trades and market price volatility.

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Trading revenue decreased by $20 million, or 8%, in the first quarter of 2015 compared to the first quarter of 2014, primarily due to a decrease in commission revenue as a result of lower daily average revenue trades. Daily average revenue trades decreased in the first quarter of 2015 primarily due to a lower volume of equity, future, and option trades. Average revenue per revenue trade remained relatively flat in the first quarter of 2015 compared to the first quarter of 2014.

	Three Months Ended March 31,		Percent
	2015	2014	Change
Daily average revenue trades (1) (in thousands)	313	337	(7) %
Clients' daily average trades (2) (in thousands)	582	554	5 %
Number of trading days	61.0	61.0	-
Average revenue per revenue trade	$ 11.98	$ 12.03	-

(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.

Other Revenue

Other revenue includes order flow revenue, nonrecurring gains, software fees from the Company's portfolio management services, exchange processing fees, realized gains or losses on sales of securities available for sale, and other service fees. Other revenue decreased by $5 million, or 7%, in the first quarter of 2015 compared to the first quarter of 2014, primarily due to a decrease in order flow revenue.

Expenses Excluding Interest

As shown in the table below, expenses excluding interest increased in the first quarter of 2015 compared to the first quarter of 2014, primarily due to increases in compensation and benefits, professional services, and other expense.

	Three Months Ended March 31, 2015	2014	Percent Change
Compensation and benefits	$ 581	$ 528	10 %
Professional services	114	106	8 %
Occupancy and equipment	83	80	4 %
Advertising and market development	69	63	10 %
Communications	58	56	4 %
Depreciation and amortization	54	48	13 %
Other	83	75	11 %
Total expenses excluding interest	$ 1,042	$ 956	9 %
Expenses as a percentage of total net revenues:			
Compensation and benefits	38 %	36 %	
Advertising and market development	5 %	4 %	

Compensation and Benefits

Compensation and benefits expense includes salaries and wages, incentive compensation, and related employee benefits and taxes. Incentive compensation includes variable compensation, discretionary bonuses, and stock-based compensation. Variable compensation includes payments to certain individuals based on their sales performance. Discretionary bonuses are based on the Company’s overall performance as measured by EPS, and therefore will fluctuate with this measure. Stock-based compensation primarily includes employee and board of director stock options and restricted stock.

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The following table shows a comparison of certain compensation and benefits components and employee data:

	Three Months Ended March 31, 2015	2014	Percent Change
Salaries and wages	$ 317	$ 295	7 %
Incentive compensation	157	147	7 %
Employee benefits and other	107	86	24 %
Total compensation and benefits expense	$ 581	$ 528	10 %
Full-time equivalent employees (1) (in thousands)			
At quarter end	14.9	14.0	6 %
Average	14.8	14.0	6 %

(1) Includes full-time, part-time and temporary employees, and persons employed on a contract basis, and excludes employees of outsourced service providers.

Salaries and wages increased in the first quarter of 2015 compared to the first quarter of 2014, primarily due to higher employee headcount and annual salary increases.

Incentive compensation increased in the first quarter of 2015 compared to the first quarter of 2014, primarily due to the earlier recognition of certain equity-based incentives due to plan changes and higher field incentive plan costs relating to increased asset flows.

Employee benefits and other expense increased in the first quarter of 2015 compared to the first quarter of 2014, as the Company began matching 401(k) contributions by pay period instead of annually in 2015 and more employees chose to fund their 401(k) contributions from annual bonuses. The increase in employee benefits and other expense was also due to increased healthcare costs as a result of higher claims paid and employee headcount.

Expenses Excluding Compensation and Benefits

Professional services expense increased in the first quarter of 2015 compared to the first quarter of 2014, primarily due to higher spending on technology services and an increase in fees paid to outsourced service providers and consultants.

Advertising and market development expense increased in the first quarter of 2015 compared to the first quarter of 2014, primarily due to higher spending on customer promotions.

Depreciation and amortization expense increased in the first quarter of 2015 compared to the first quarter of 2014, primarily due to increased amortization of internally-developed software.

Other expense increased in the first quarter of 2015 compared to the first quarter of 2014, primarily due to an increase in legal expenses.

Taxes on Income

The Company’s effective income tax rate on income before taxes was 37.6% and 37.5% for the first quarters of 2015 and 2014, respectively.

Segment Information

The Company provides financial services to individuals and institutional clients through two segments – Investor Services and Advisor Services. The Investor Services segment provides retail brokerage and banking services 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. Banking revenues and expenses are allocated to the Company’s two segments based on which segment services the client. The Company evaluates the performance of its

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segments on a pre-tax basis, excluding items such as significant nonrecurring gains, impairment charges on non-financial assets, discontinued operations, extraordinary items, and significant restructuring and other charges. Segment assets and liabilities are not used for evaluating segment performance or in deciding how to allocate resources to segments.

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

	Investor Services			Advisor Services		
Three Months Ended March 31,	Percent Change	2015	2014	Percent Change	2015	2014
Net Revenues:						
Asset management and administration fees	6 %	$ 454	$ 428	4 %	$ 190	$ 183
Net interest revenue	3 %	510	495	34 %	78	58
Trading revenue	(12) %	151	171	-	76	76
Other	(12) %	45	51	6 %	18	17
Provision for loan losses	N/M	4	(1)	-	-	-
Total net revenues	2 %	1,164	1,144	8 %	362	334
Expenses Excluding Interest	8 %	795	738	13 %	247	218
Income before taxes on income	(9) %	$ 369	$ 406	(1) %	$ 115	$ 116

	Unallocated			Total		
Three Months Ended March 31,	Percent Change	2015	2014	Percent Change	2015	2014
Net Revenues:						
Asset management and administration fees	-	$ -	$ -	5 %	$ 644	$ 611
Net interest revenue	-	-	-	6 %	588	553
Trading revenue	-	-	-	(8) %	227	247
Other	-	-	-	(7) %	63	68
Provision for loan losses	-	-	-	N/M	4	(1)
Total net revenues	-	-	-	3 %	1,526	1,478
Expenses Excluding Interest	-	-	-	9 %	1,042	956
Income before taxes on income	-	$ -	$ -	(7) %	$ 484	$ 522
Taxes on income				(7) %	182	196
Net Income				(7) %	$ 302	$ 326

N/M Not meaningful.

Investor Services

Net revenues increased by $20 million, or 2%, in the first quarter of 2015 compared to the first quarter of 2014 primarily due to increases in asset management and administration fees and net interest revenue, partially offset by a decrease in trading revenue. Asset management and administration fees increased primarily due to fees from advice solutions. Advice solutions fees increased primarily due to growth in client assets enrolled in advisory offers. Net interest revenue increased 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. Trading revenue decreased primarily due to a decrease in commission revenue as a result of lower daily average revenue trades.

Expenses excluding interest increased by $57 million, or 8%, in the first quarter of 2015 compared to the first quarter of 2014, primarily due to increases in compensation and benefits and professional services expense.

Advisor Services

Net revenues increased by $28 million, or 8%, in the first quarter of 2015 compared to the first quarter of 2014 primarily due to increases in net interest revenue and asset management and administration fees. Net interest revenue increased 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. Asset management and administration fees increased

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due to fees from mutual fund services and other asset management and administration services. Mutual fund service fees increased primarily due to growth in client assets invested in equity and bond funds. Other asset management and administration service fees increased primarily due to third-party mutual fund service fees on higher client asset balances invested in other third-party mutual funds.

Expenses excluding interest increased by $29 million, or 13%, in the first quarter of 2015 compared to the first quarter of 2014 primarily due to increases in compensation and benefits and other expense.

Liquidity and Capital Resources

CSC conducts substantially all of its business through its wholly-owned subsidiaries. The Company's capital structure is designed to provide each subsidiary with capital and liquidity to meet its operational needs and regulatory requirements.

CSC is a savings and loan holding company and Schwab Bank, CSC's depository institution, is a federal savings bank. CSC is subject to supervision and regulation by the Federal Reserve and Schwab Bank is subject to supervision and regulation by the OCC.

Liquidity

CSC

CSC's liquidity needs arise from funding its subsidiaries' operations, including margin and mortgage lending, and transaction settlement, in addition to funding cash dividends, acquisitions, investments, short- and long-term debt, and managing statutory capital requirements.

CSC's liquidity needs are generally met through cash generated by its subsidiaries, as well as cash provided by external financing. CSC has a universal shelf registration statement on file with the SEC which enables CSC to issue debt, equity and other securities. CSC maintains excess liquidity in the form of overnight cash deposits, short-term investments to cover daily funding needs and to support growth in the Company's business, and long-term investments to support contingent funding needs. Generally, CSC does not hold liquidity at its subsidiaries in excess of amounts deemed sufficient to support the subsidiaries' operations, including any regulatory capital requirements. Schwab, Schwab Bank, and optionsXpress, Inc. are subject to regulatory requirements that may restrict them from certain transactions with CSC, as further discussed below. Management believes that funds generated by the operations of CSC's subsidiaries will continue to be the primary funding source in meeting CSC's liquidity needs, providing adequate liquidity to meet Schwab Bank's capital guidelines, and maintaining Schwab and optionsXpress, Inc.'s net capital.

CSC is required to serve as a source of strength for Schwab Bank and must have the ability to provide financial assistance if Schwab Bank experiences financial distress. To manage capital adequacy, the Company currently utilizes a target Tier 1 Leverage Ratio for CSC, as currently defined by the Federal Reserve, of at least 6%. Beginning on January 1, 2015, CSC is subject to new capital requirements set by the Federal Reserve. Based on its regulatory capital ratios at March 31, 2015, CSC exceeded minimum capital requirements. See "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 11. Regulatory Requirements" for CSC's regulatory capital and ratios.

On March 10, 2015, CSC issued $625 million aggregate principal amount of Senior Notes that mature in 2018 and $375 million aggregate principal amount of Senior Notes that mature in 2025 under its universal shelf registration statement on file with the SEC. The Senior Notes due 2018 have a fixed interest rate of 1.50% with interest payable semi-annually. The Senior Notes due 2025 have a fixed interest rate of 3.00% with interest payable semi-annually.

In connection with the above Senior Note issuances, CSC purchased $575 million of 3-year Treasury securities and $225 million of 10-year Treasury securities that are held at CSC to augment its liquidity position.

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The following are details of CSC's long-term debt:

March 31, 2015	Par Outstanding	Maturity	Interest Rate	Moody's	Standard & Poor's	Fitch
Senior Notes	$ 2,581	2015 – 2025	0.850% to 4.45% fixed	A2	A	A
Medium-Term Notes	$ 250	2017	6.375% fixed	A2	A	A

CSC has authorization from its Board of Directors to issue unsecured commercial paper notes (Commercial Paper Notes) not to exceed $1.5 billion. Management has set a current limit for the commercial paper program of $800 million. The maturities of the Commercial Paper Notes may vary, but are not to exceed 270 days from the date of issue. The commercial paper is not redeemable prior to maturity and cannot be voluntarily prepaid. The proceeds of the commercial paper program are to be used for general corporate purposes. There were no borrowings of Commercial Paper Notes outstanding at March 31, 2015. CSC's ratings for these short-term borrowings are P1 by Moody's, A1 by Standard & Poor's, and F1 by Fitch.

CSC maintains an $800 million committed, unsecured credit facility with a group of 12 banks, which is scheduled to expire in June 2015. This facility was unused during the first quarter of 2015. The funds under this facility are available for general corporate purposes. The financial covenants under this facility require Schwab to maintain a minimum net capital ratio, as defined, Schwab Bank to be well capitalized, as defined, and CSC to maintain a minimum level of stockholders' equity, excluding accumulated other comprehensive income. At March 31, 2015, the minimum level of stockholders' equity required under this facility was $7.9 billion (CSC's stockholders' equity, excluding accumulated other comprehensive income, at March 31, 2015 was $11.9 billion). Management believes that these restrictions will not have a material effect on CSC's ability to meet foreseeable dividend or funding requirements.

CSC also has direct access to certain of the uncommitted, unsecured bank credit lines discussed below, that are primarily utilized by Schwab to manage short-term liquidity. These lines were not used by CSC during the first quarter of 2015.

Schwab

Schwab's liquidity needs relating to client trading and margin borrowing activities are met primarily through cash balances in brokerage client accounts, which were $29.3 billion and $32.0 billion at March 31, 2015 and December 31, 2014, respectively. Management believes that brokerage client cash balances and operating earnings will continue to be the primary sources of liquidity for Schwab.

Schwab is subject to regulatory requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 (the Uniform Net Capital Rule) that are intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit Schwab from repaying subordinated borrowings from CSC, paying cash dividends, or making unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement of $250,000. At March 31, 2015, Schwab's net capital was $1.6 billion (10% of aggregate debit balances), which was $1.3 billion in excess of its minimum required net capital and $753 million in excess of 5% of aggregate debit balances.

Schwab is also subject to Rule 15c3-3 under the Securities Exchange Act of 1934 and other applicable regulations that require it to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of clients. These funds are included in cash and investments segregated and on deposit for regulatory purposes in the Company's condensed consolidated balance sheets and are not available as a general source of liquidity.

Most of Schwab's assets are readily convertible to cash, consisting primarily of short-term investment-grade, interest-earning investments (the majority of which are segregated for the exclusive benefit of clients pursuant to regulatory requirements), receivables from brokerage clients, and receivables from brokers, dealers, and clearing organizations. Client margin loans are demand loan obligations secured by readily marketable securities. Receivables from and payables to brokers, dealers, and clearing organizations primarily represent current open transactions, which usually settle, or can be closed out, within a few business days.

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Schwab has a finance lease obligation related to an office building and land under a 20-year lease. The remaining finance lease obligation of $81 million at March 31, 2015 is being reduced by a portion of the lease payments over the remaining lease term of ten years.

To manage short-term liquidity, Schwab maintains uncommitted, unsecured bank credit lines with a group of banks. The need for short-term borrowings arises primarily from timing differences between cash flow requirements, scheduled liquidation of interest-earning investments, and movements of cash to meet regulatory brokerage client cash segregation requirements. Schwab used such borrowings for one day during the first quarter of 2015, with the amount borrowed of $20 million. There were no borrowings outstanding under these lines at March 31, 2015.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, Schwab has unsecured standby letter of credit agreements (LOCs) with five banks in favor of the Options Clearing Corporation aggregating $225 million at March 31, 2015. There were no funds drawn under any of these LOCs during the first quarter of 2015. In connection with its securities lending activities, Schwab is required to provide collateral to certain brokerage clients. Schwab satisfies the collateral requirements by providing cash as collateral.

To manage Schwab's regulatory capital requirement, CSC provides Schwab with a $1.4 billion subordinated revolving credit facility, which is scheduled to expire in March 2016. The amount outstanding under this facility at March 31, 2015 was $315 million. Borrowings under this subordinated lending arrangement qualify as regulatory capital for Schwab.

In addition, CSC provides Schwab with a $2.5 billion credit facility, which is scheduled to expire in December 2017. Borrowings under this facility do not qualify as regulatory capital for Schwab. There were no funds drawn under this facility at March 31, 2015.

Schwab Bank

Schwab Bank's liquidity needs are met through bank deposits and equity capital.

Bank deposits at March 31, 2015 were $109.5 billion, which includes the excess cash held in certain Schwab and optionsXpress, Inc. brokerage client accounts that is swept into deposit accounts at Schwab Bank. At March 31, 2015, these balances totaled $87.8 billion.

Schwab Bank is subject to regulatory requirements that restrict and govern the terms of affiliate transactions, such as extensions of credit and repayment of loans between Schwab Bank and CSC or CSC's other subsidiaries. In addition, Schwab Bank is required to provide notice to and may be required to obtain approval of the OCC and the Federal Reserve to declare dividends to CSC.

Schwab Bank is required to maintain capital levels as specified in federal banking laws and regulations. Failure to meet the minimum levels could result in certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on Schwab Bank. The Company currently utilizes a target Tier 1 Leverage Ratio for Schwab Bank of at least 6.25%. Beginning on January 1, 2015, Schwab Bank is subject to new capital requirements set by the OCC. Based on its regulatory capital ratios at March 31, 2015, Schwab Bank is considered well capitalized. See "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 11. Regulatory Requirements" for Schwab Bank's regulatory capital and ratios.

Schwab Bank has access to traditional funding sources such as deposits, federal funds purchased, and repurchase agreements. Additionally, Schwab Bank has access to short-term funding through the Federal Reserve Bank (FRB) discount window. Amounts available under the FRB discount window are dependent on the fair value of certain of Schwab Bank's securities available for sale and/or securities held to maturity that are pledged as collateral to the FRB. Schwab Bank maintains policies and procedures necessary to access this funding and tests discount window borrowing procedures annually. At March 31, 2015, $2.2 billion was available under this arrangement. There were no funds drawn under this arrangement during the first quarter of 2015.

Schwab Bank maintains a credit facility with the Federal Home Loan Bank System. Amounts available under this facility are dependent on the amount of Schwab Bank's residential real estate mortgages and HELOCs that are pledged as collateral.

Schwab Bank maintains policies and procedures necessary to access this funding and tests borrowing procedures annually. At March 31, 2015, $9.3 billion was available under this facility. There were no funds drawn under this facility during the first quarter of 2015.

optionsXpress, Inc.

optionsXpress, Inc.’s liquidity needs relating to client trading and margin borrowing activities are met primarily through cash balances in brokerage client accounts, which were $1.0 billion and $942 million at March 31, 2015 and December 31, 2014, respectively. Management believes that brokerage client cash balances and operating earnings will continue to be the primary sources of liquidity for optionsXpress, Inc.

optionsXpress, Inc. is subject to regulatory requirements of the Uniform Net Capital Rule that are intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit optionsXpress, Inc. from paying cash dividends or making unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement of $250,000. At March 31, 2015, optionsXpress, Inc.’s net capital was $127 million (35% of aggregate debit balances), which was $120 million in excess of its minimum required net capital and $109 million in excess of 5% of aggregate debit balances.

optionsXpress, Inc. is also subject to Commodity Futures Trading Commission Regulation 1.17 (Reg. 1.17) under the Commodity Exchange Act, which also requires the maintenance of minimum net capital. optionsXpress, Inc. as a futures commission merchant, is required to maintain minimum net capital equal to the greater of its net capital requirement under Reg. 1.17 ($1 million), or the sum of 8% of the total risk margin requirements for all positions carried in customer accounts and 8% of the total risk margin requirements for all positions carried in non-customer accounts (as defined in Reg. 1.17). At March 31, 2015, optionsXpress, Inc. met the requirements of Reg. 1.17.

Additionally, optionsXpress, Inc. is subject to Rule 15c3-3 under the Securities Exchange Act of 1934 and other applicable regulations that require it to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of clients. These funds are included in cash and investments segregated and on deposit for regulatory purposes in the Company’s condensed consolidated balance sheets and are not available as a general source of liquidity.

To partially satisfy the margin requirement of client option transactions with the Options Clearing Corporation, optionsXpress, Inc. has an unsecured standby LOC with one bank in favor of the Options Clearing Corporation in the amount of $15 million at March 31, 2015. There were no funds drawn under this LOC during the first quarter of 2015.

CSC provides optionsXpress, Inc. with a $200 million credit facility, which is scheduled to expire in December 2016. Borrowings under this facility do not qualify as regulatory capital for optionsXpress, Inc. There were no borrowings outstanding under this facility at March 31, 2015.

optionsXpress has a term loan with CSC, of which $7 million was outstanding at March 31, 2015, and it matures in December 2017.

Capital Resources

The Company’s cash position (reported as cash and cash equivalents on its condensed consolidated balance sheets) and cash flows are affected by changes in brokerage client cash balances and the associated amounts required to be segregated under regulatory guidelines. Timing differences between cash and investments actually segregated on a given date and the amount required to be segregated for that date may arise in the ordinary course of business, and are addressed by the Company in accordance with applicable regulations. Other factors which affect the Company’s cash position and cash flows include investment activity in security portfolios, levels of capital expenditures, acquisition and divestiture activity, banking client deposit activity, brokerage and banking client loan activity, financing activity in long-term debt, payments of dividends, and repurchases and issuances of CSC’s preferred and common stock. The combination of these factors can cause significant fluctuations in the cash position during specific time periods.

The Company monitors both the relative composition and absolute level of its capital structure. Management is focused on optimizing the Company’s use of capital and currently targets a long-term debt to total financial capital ratio not to exceed

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30%. The Company's total financial capital (long-term debt plus stockholders' equity) at March 31, 2015 was $15.1 billion, up $1.4 billion, or 10%, from December 31, 2014.

Long-term Debt

At March 31, 2015, the Company had long-term debt of $2.9 billion, or 19% of total financial capital, that bears interest at a weighted-average rate of 3.07%. At December 31, 2014, the Company had long term debt of $1.9 billion, or 14% of total financial capital. The Company repaid $2 million of long-term debt in the first quarter of 2015.

On March 10, 2015, CSC issued $625 million aggregate principal amount of Senior Notes that mature in 2018 and $375 million aggregate principal amount of Senior Notes that mature in 2025 under its universal shelf registration statement on file with the SEC. The Senior Notes due 2018 have a fixed interest rate of 1.50% with interest payable semi-annually. The Senior Notes due 2025 have a fixed interest rate of 3.00% with interest payable semi-annually.

Capital Expenditures

The Company's capital expenditures were $61 million and $67 million in the first quarters of 2015 and 2014, respectively. The Company's capital expenditures include $6 million and $14 million of accrued capital expenditures at March 31, 2015 and 2014, respectively. Capital expenditures in the first quarter of 2015 were primarily for developing internal-use software, buildings, and software and equipment relating to the Company's information technology systems. Capital expenditures for the first quarter of 2014 were primarily for buildings, developing internal-use software, and software and equipment relating to the Company's information technology systems. Capitalized costs for developing internal-use software were $21 million and $18 million in the first quarter of 2015 and 2014, respectively.

Dividends

CSC paid common stock cash dividends of $79 million ($0.06 per share) in both the first quarters of 2015 and 2014.

CSC paid Series A Preferred Stock cash dividends of $14 million ($35.00 per share) in both the first quarters of 2015 and 2014. CSC paid Series B Preferred Stock cash dividends of $7 million ($15.00 per share) in both the first quarters of 2015 and 2014.

Share Repurchases

There were no repurchases of CSC's common stock in the first quarters of 2015 and 2014. As of March 31, 2015, CSC had remaining authority from the Board of Directors to repurchase up to $596 million of its common stock, which is not subject to expiration.

Off-Balance Sheet Arrangements

The Company enters into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of its clients. These arrangements include firm commitments to extend credit. Additionally, the Company enters into guarantees and other similar arrangements as part of transactions in the ordinary course of business. For discussion on the Company's off-balance sheet arrangements, see "Part II – Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Off-Balance Sheet Arrangements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, and "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 6. Commitments and Contingencies."

Risk Management

The Company's business activities expose it to a variety of risks, including operational, credit, market, liquidity, compliance and legal risk. The Company has a comprehensive risk management program to identify and manage these risks and their associated potential for financial and reputational impact. Despite the Company's efforts to identify areas of risk and

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implement risk management policies and procedures, there can be no assurance that the Company will not suffer unexpected losses due to these risks.

For a discussion on risks that the Company faces and the Company’s process of risk identification and assessment, risk measurement, risk monitoring and reporting and risk mitigation, see “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Management” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. For updated information on the Company’s credit risk and concentration risk exposures, see below. See “Item 3 – Quantitative and Qualitative Disclosures About Market Risk” for additional information relating to market risk.

Credit Risk Exposures

The Company’s credit risk exposure related to bank loans is actively managed through individual and portfolio reviews performed by management. Management regularly reviews asset quality, including concentrations, delinquencies, nonaccrual loans, charge-offs, and recoveries. All are factors in the determination of an appropriate allowance for loan losses. The Company’s mortgage loan portfolios primarily include first lien residential real estate mortgage loans (First Mortgages) of $8.2 billion and HELOCs of $2.9 billion at March 31, 2015.

The Company’s underwriting guidelines include maximum loan-to-value (LTV) ratios, cash out limits, and minimum Fair Isaac Corporation (FICO) credit scores. The specific guidelines are dependent on the individual characteristics of a loan (for example, whether the property is a primary or secondary residence, whether the loan is for investment property, whether the loan is for an initial purchase of a home or refinance of an existing home, and whether the loan is conforming or jumbo). These credit underwriting standards have limited the exposure to the types of loans that experienced high foreclosures and loss rates elsewhere in the industry in recent years. In January 2014, the Company revised its First Mortgage underwriting criteria in conformance with the Consumer Financial Protection Bureau’s new guidance on Qualified Mortgage lending and a borrower’s ability to repay. Revisions were made to requirements affecting debt to income ratio, loan to value ratio, and liquid asset holdings. These revised underwriting criteria are not expected to have a material impact on the credit quality of the Company’s First Mortgage or HELOC portfolios. The Company does not purchase loans that allow for negative amortization and does not purchase subprime loans (generally defined as extensions of credit to borrowers with a FICO score of less than 620 at origination), unless the borrower has compensating credit factors. At March 31, 2015, approximately 1% of both the First Mortgage and HELOC portfolios consisted of loans to borrowers with updated FICO scores of less than 620.

At March 31, 2015, the weighted-average originated LTV ratio was 59% for both the First Mortgage and HELOC portfolios. The computation of the origination LTV ratio for a HELOC includes any first lien mortgage outstanding on the same property at the time of origination. At March 31, 2015, 21% of HELOCs ($617 million of the HELOC portfolio) were in a first lien position. The weighted-average originated FICO score was 770 and 769 for the First Mortgage and HELOC portfolios, respectively.

The Company monitors the estimated current LTV ratios of its First Mortgage and HELOC portfolios on an ongoing basis. At March 31, 2015, the weighted-average estimated current LTV ratios were 50% and 54% for the First Mortgage and HELOC portfolios, respectively. The computation of the estimated current LTV ratio for a HELOC includes any first lien mortgage outstanding on the same property at the time of the HELOC's origination. The Company estimates the current LTV ratio for each loan by reference to a home price appreciation index. The Company also monitors updated borrower FICO scores, delinquency trends, and verified liquid assets held by individual borrowers. At March 31, 2015, the weighted-average updated FICO scores were 774 and 771 for the First Mortgage and HELOC portfolios, respectively.

A portion of the Company's HELOC portfolio is secured by second liens on the associated properties. Second lien mortgage loans possess a higher degree of credit risk given the subordination to the first lien holder in the event of default. At March 31, 2015, $2.3 billion, or 79%, of the HELOC portfolio was in a second lien position. In addition to the credit monitoring activities described above, the Company also monitors credit risk on second lien HELOC loans by reviewing the delinquency status of the first lien loan on the associated property. Additionally, at March 31, 2015, approximately 30% of the HELOC borrowers that had a balance only paid the minimum amount due.

For more information on the Company's credit quality indicators relating to its First Mortgage and HELOC portfolios, including delinquency characteristics, borrower FICO scores at origination, updated borrower FICO scores, LTV ratios at

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origination, and estimated current LTV ratios, see "Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 4. Bank Loans and Related Allowance for Loan Losses."

The following table presents certain of the Company's loan quality metrics as a percentage of total outstanding loans:

	March 31, 2015	December 31, 2014
Loan delinquencies (1)	0.24 %	0.27 %
Nonaccrual loans	0.23 %	0.26 %
Allowance for loan losses	0.28 %	0.31 %

(1) Loan delinquencies include loans that are 30 days or more past due and other nonaccrual loans.

The Company has exposure to credit risk associated with its securities available for sale and securities held to maturity portfolios, whose fair values totaled $61.4 billion and $37.1 billion at March 31, 2015, respectively. These portfolios include U.S. agency and non-agency mortgage-backed securities, asset-backed securities, corporate debt securities, U.S. agency notes, treasury securities, and certificates of deposit. U.S. agency mortgage-backed securities do not have explicit credit ratings; however, management considers these to be of the highest credit quality and rating given the guarantee of principal and interest by the U.S. government-sponsored enterprises.

At March 31, 2015, with the exception of certain non-agency residential mortgage-backed securities, all securities in the available for sale and held to maturity portfolios were rated investment grade (defined as a rating equivalent to a Moody's rating of "Baa" or higher, or a Standard & Poor's rating of "BBB-" or higher).

Concentration Risk Exposures

The Company has exposure to concentration risk when holding large positions in financial instruments collateralized by assets with similar economic characteristics or in securities of a single issuer or within a particular industry.

The fair value of the Company's investments in mortgage-backed securities totaled $57.7 billion at March 31, 2015. Of these, $56.4 billion were issued by U.S. agencies and $1.3 billion were issued by private entities (non-agency securities). These U.S. agency and non-agency securities are included in securities available for sale and securities held to maturity.

The fair value of the Company's investments in asset-backed securities totaled $20.5 billion at March 31, 2015. Of these, $12.0 billion were securities backed by student loans, the majority of which are guaranteed by the U.S. federal government. These asset-backed securities are included in securities available for sale.

The fair value of the Company's investments in corporate debt securities and commercial paper totaled $9.5 billion at March 31, 2015, with the majority issued by institutions in the financial services industry. These securities are included in securities available for sale, cash and cash equivalents, and other securities owned in the Company's condensed consolidated balance sheets. Issuer, geographic, and sector concentrations are controlled by established credit policy limits to each concentration type.

The Company's bank loans include $7.4 billion of adjustable rate First Mortgage loans at March 31, 2015. The Company's adjustable rate mortgages have initial fixed interest rates for three to ten years and interest rates that adjust annually thereafter. Approximately 35% of these mortgages consisted of loans with interest-only payment terms. The interest rates on approximately 55% of these interest-only loans are not scheduled to reset for three or more years. The Company's mortgage loans do not include interest terms described as temporary introductory rates below current market rates.

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

March 31, 2015	Balance
Converted to amortizing loan by period end	$ 337
Within 1 year	273
> 1 year – 3 years	392
> 3 years – 5 years	1,044
> 5 years	832
Total	$ 2,878

The Company also has exposure to concentration risk from its margin and securities lending and client option and futures activities collateralized by or referencing securities of a single issuer, an index, or within a single industry. This concentration risk is mitigated by collateral arrangements that require the fair value of such collateral exceeds the amounts loaned.

The Company has indirect exposure to U.S. Government and agency securities held as collateral to secure its resale agreements. The Company's primary credit exposure on these resale transactions is with its counterparty. The Company would have exposure to the U.S. Government and agency securities only in the event of the counterparty's default on the resale agreements. The fair value of U.S. Government and agency securities held as collateral for resale agreements totaled $10.0 billion at March 31, 2015.

European Holdings

The Company has exposure to non-sovereign financial and non-financial institutions in Europe. The following table shows the balances of this exposure by each country in Europe in which the issuer or counterparty is domiciled. The

Company has no direct exposure to sovereign governments in Europe. The Company does not have unfunded commitments to counterparties in Europe, nor does it have exposure as a result of credit default protection purchased or sold separately as of March 31, 2015.

	Fair Value as of March 31, 2015						
	France	Netherlands	Norway	Sweden	Switzerland	United Kingdom	Total
Cash equivalents	$ 248	$ -	$ -	$ -	$ -	$ 300	$ 548
Securities available for sale	85	36	75	521	609	650	1,976
Total fair value	$ 333	$ 36	$ 75	$ 521	$ 609	$ 950	$ 2,524
Total amortized cost	$ 333	$ 35	$ 75	$ 520	$ 609	$ 950	$ 2,522
Maturities:							
Overnight	$ 248	$ -	$ -	$ -	$ -	$ 300	$ 548
1 day – < 6 months	-	-	-	-	384	-	384
6 months – < 1 year	-	-	-	50	75	350	475
1 year – 2 years	-	-	-	421	50	200	671
> 2 years	85	36	75	50	100	100	446
Total fair value	$ 333	$ 36	$ 75	$ 521	$ 609	$ 950	$ 2,524

In addition to the direct holdings of European companies listed above, the Company also has indirect exposure to Europe through its investments in Schwab sponsored money market funds (collectively, the Funds) resulting from clearing activities. At March 31, 2015, the Company had $384 million in investments in these Funds. Certain of the Funds' positions include certificates of deposits, time deposits, commercial paper and corporate debt securities issued by counterparties in Europe.

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Critical Accounting ESTIMATES

Certain of the Company's accounting policies that involve a higher degree of judgment and complexity are discussed in "Part II – Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates" in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. There have been no changes to these critical accounting estimates during the first quarter of 2015.

Item 3.Quantitative and Qualitative Disclosures About Market Risk

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

The Company is exposed to interest rate risk primarily from changes in market interest rates on its interest-earning assets relative to changes in the costs of its funding sources that finance these assets. The majority of the Company's interest-earning assets and interest-bearing liabilities are sensitive to changes in short-term interest rates. To a lesser degree, the Company is sensitive to changes in long-term interest rates through some of its investment portfolios. To manage the Company's market risk related to interest rates, management utilizes simulation models, which include the net interest revenue sensitivity analysis described below.

Net interest revenue is affected by various factors, such as the distribution and composition of interest-earning assets and interest-bearing liabilities, the spread between yields earned on interest-earning assets and rates paid on interest-bearing liabilities, which may reprice at different times or by different amounts, and the spread between short and long-term interest rates. Interest-earning assets include residential real estate loans and mortgage-backed securities. These assets are sensitive to changes in interest rates and to changes to prepayment levels that tend to increase in a declining rate environment and decrease in a rising rate environment. Because the Company establishes the rates paid on certain brokerage client cash balances and bank deposits and the rates charged on margin loans and bank loans, and controls the composition of its investment securities, it has some ability to manage its net interest spread, depending on competitive factors and market conditions.

To mitigate the risk of loss, the Company has established policies and procedures which include setting guidelines on the amount of net interest revenue at risk, and monitoring the net interest margin and average maturity of its interest-earning assets and funding sources. To remain within these guidelines, the Company manages the maturity, repricing, and cash flow characteristics of the investment portfolios.

The Company is also subject to market risk as a result of fluctuations in option and equity prices. The Company's direct holdings of option and equity securities and its associated exposure to option and equity prices are not material. The Company is indirectly exposed to option, futures, and equity market fluctuations in connection with client option and futures accounts, securities collateralizing margin loans to brokerage customers, and customer securities loaned out as part of the Company's securities lending activities. Equity market valuations may also affect the level of brokerage client trading activity, margin borrowing, and overall client engagement with the Company. Additionally, the Company earns mutual fund service fees and asset management fees based upon daily balances of certain client assets. Fluctuations in these client asset balances caused by changes in equity valuations directly impact the amount of fee revenue earned by the Company.

Financial instruments held by the Company are also subject to liquidity risk – that is, the risk that valuations will be negatively affected by changes in demand and the underlying market for a financial instrument. Current conditions in the credit markets have significantly reduced market liquidity in a wide range of financial instruments, including the types of instruments held by the Company, and fair value can differ significantly from the value implied by the credit quality and actual performance of the instrument's underlying cash flows.

For discussion of the impact of current market conditions on asset management and administration fees and net interest revenue, see "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Current Market and Regulatory Environment and Other Developments."

The Company's market risk related to financial instruments held for trading is not material.

Net Interest Revenue Simulation

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

If the Company's guidelines for its net interest revenue sensitivity are breached, management must report the breach to the Company's Corporate Asset-Liability Management and Pricing Committee (Corporate ALCO) and establish a plan to address the interest rate risk. This plan could include, but is not limited to, rebalancing certain investment portfolios or using derivative instruments to mitigate the interest rate risk. Depending on the severity and expected duration of the breach, as well as the then current interest rate environment, the plan could also be to take no action. Any plan that recommends taking action is required to be approved by the Company's Corporate ALCO. There were no breaches of the Company's net interest revenue sensitivity guidelines during the first quarter of 2015 or year ended December 31, 2014.

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

The simulations in the following table assume that the asset and liability structure of the consolidated balance sheet would not be changed as a result of the simulated changes in interest rates. As the Company actively manages its consolidated balance sheet and interest rate exposure, in all likelihood the Company would take steps to manage any additional interest rate exposure that could result from changes in the interest rate environment. The following table shows the results of a gradual 100 basis point increase or decrease in market interest rates relative to the Company's current market rates forecast on simulated net interest revenue over the next 12 months beginning March 31, 2015 and December 31, 2014.

	March 31, 2015	December 31, 2014
Increase of 100 basis points	10.9 %	11.8 %
Decrease of 100 basis points	(5.4) %	(4.9) %

The sensitivities shown in the simulation reflect the fact that short-term interest rates in the first quarter of 2015 remained at historically low levels, including the federal funds target rate, which was unchanged at a range of zero to 0.25%. The current low interest rate environment limits the extent to which the Company can reduce interest expense paid on funding sources. A decline in interest rates could negatively impact the yield on the Company's investment portfolio to a greater degree than any offsetting reduction in interest expense, further compressing net interest margin. Any increases in short-term interest rates result in a greater impact as yields on interest-earning assets are expected to rise faster than the cost of funding sources.

Item 4.Controls and Procedures

Evaluation of disclosure controls and procedures: The management of the Company, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of March 31, 2015. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2015.

Changes in internal control over financial reporting: No change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) was identified during the quarter ended March 31, 2015, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1.Legal Proceedings

For a discussion of legal proceedings, see “Part I – Financial Information – Item 1 – Condensed Consolidated Financial Statements (Unaudited) – Notes – 6. Commitments and Contingencies.”

Item 1A.Risk Factors

During the first quarter of 2015, there have been no material changes to the risk factors in “Part I – Item 1A – Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

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

Issuer Purchases of Equity Securities

The following table summarizes purchases made by or on behalf of CSC of its common stock for each calendar month in the first quarter of 2015:

Month	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1) (in thousands)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in millions)
January:				
Share repurchase program (1)	-	$ -	-	$ 596
Employee transactions (2)	7	$ 30.02	N/A	N/A
February:				
Share repurchase program (1)	-	$ -	-	$ 596
Employee transactions (2)	6	$ 27.48	N/A	N/A
March:				
Share repurchase program (1)	-	$ -	-	$ 596
Employee transactions (2)	202	$ 29.81	N/A	N/A
Total:				
Share repurchase program (1)	-	$ -	-	$ 596
Employee transactions (2)	215	$ 29.75	N/A	N/A

(1) There were no share repurchases under the Share Repurchase Program during the first quarter. There were two authorizations under this program by CSC's Board of Directors, each covering up to $500 million of common stock that were publicly announced by the Company on April 25, 2007, and March 13, 2008. The remaining authorizations do not have an expiration date.

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

N/A Not applicable.

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Item 3.Defaults Upon Senior Securities

None.

Item 4.Mine Safety Disclosures

Not applicable.

Item 5.Other Information

None.

Item 6.Exhibits

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

Exhibit Number	Exhibit

12.1	Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.	
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a), As Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	(1)
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	(1)
101.INS	XBRL Instance Document	(2)
101.SCH	XBRL Taxonomy Extension Schema	(2)
101.CAL	XBRL Taxonomy Extension Calculation	(2)
101.DEF	XBRL Extension Definition	(2)
101.LAB	XBRL Taxonomy Extension Label	(2)
101.PRE	XBRL Taxonomy Extension Presentation	(2)

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

(2) Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 are the following materials formatted in XBRL (Extensible Business Reporting Language) (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

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SIGNATURE

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

THE CHARLES SCHWAB CORPORATION
(Registrant)

Date: May 7, 2015 /s/ Joseph R. Martinetto
Joseph R. Martinetto
Executive Vice President and
Chief Financial Officer