

Safeguards Designed to Protect Your Assets

The Charles Schwab Corporation (“the Company”) and Charles Schwab & Co., Inc. (“Schwab”) are financially strong, positioned for long-term stability, and firmly committed to providing the security and protection you require. We believe this is the best assurance for any investor.

Industry Regulations and Security for Your Assets

For over 30 years, investors have entrusted Schwab as they work toward their financial goals. We honor that trust by implementing internal protective practices and upholding stringent business standards designed to meet our industry’s rigorous regulations.

Schwab, a registered broker-dealer, is subject to the rules and regulations of the Securities and Exchange Commission (SEC), the National Association of Securities Dealers (NASD), the Municipal Securities Rulemaking Board (MSRB) and all other exchanges of which Schwab is a member. These regulatory entities have established rules designed to help safeguard client assets.

Among the regulations is the SEC’s Net Capital Rule 15c3-1, which outlines basic financial responsibilities for broker-dealers. For instance, the SEC requires that broker-dealers maintain net capital reserves at sufficient levels to help protect client assets.

Additionally, SEC Rule 17a-5 requires all registered broker-dealers to routinely file periodic reports—regulatory and surveillance information that details their current financial and operational condition. Schwab files these reports monthly and quarterly.

Schwab is also subject to the SEC Customer Protection Rule 15c3-3, which stipulates guidelines for broker-dealers to protect client cash and securities. For example, client securities that are fully paid for, including excess margin securities held by Schwab, must be segregated from other securities and cannot be used for any purpose by Schwab.

Schwab Enhances Asset Security with Added Protections

Rigorous Internal Checks and Balances—Schwab has established internal procedures designed to monitor our compliance with our industry’s regulatory requirements. In addition, our extensive Emergency Contingency Plan provides a wide range of measures designed to protect client assets and vital account information in the event of business interruption.

Account Protection—Since Schwab is required to be a member of the Securities Investor Protection Corporation (SIPC), the assets you custody with us are insured by this entity. SIPC provides up to \$500,000 of protection for accounts you hold in each separate account capacity (e.g., joint tenant or sole owner), with a limit of \$100,000 for claims of cash balances.

More information about SIPC protection is available at www.sipc.org.

Additional Account Protection—Additional account protection is provided through underwriters at Lloyd’s of London. Under the policy secured with Lloyd’s underwriters, the additional protection of securities and cash is provided up to an aggregate of \$600 million, limited to a combined

return to any customer from a Trustee, SIPC and Lloyd's of \$150 million, including cash of up to \$900,000 by the Lloyd's policy. This additional protection becomes available in the event that SIPC limits are exhausted.

Account protection does not cover fluctuations in the market value of your securities. Account protection is not provided for accounts that are maintained by banks or broker-dealers.

Schwab's Financial Picture

We understand that our clients want to feel confident that their assets have been placed with a company that is financially healthy. To that end, we set aggressive business standards to position ourselves as a stable custodian with whom you and your advisor may work toward your financial goals.

The Charles Schwab Corporation has instituted systems and safeguards that continue to help it remain financially healthy and secure, as evidenced by some key measures. As of June 30, 2006, the Company reported:

- **Strong cash reserves**—Available liquidity of about \$650 million
- **Low debt**—Long-term debt of 9.2% of total financial capital
- **Net new assets**—\$125 billion, reported over the last 18 months, bringing the Company's total client assets to \$1.3 trillion
- **New brokerage accounts**—Totaled 938,000 over the last 18 months, bringing the Company's total to 6.8 million active brokerage accounts

Your assets are custodied with Charles Schwab & Co., Inc. (Schwab), a subsidiary of The Charles Schwab Corporation. You can feel confident that your assets have been placed with a company that is financially sound. As of June 30, 2006, Schwab reported:

- **Strong capital position**—Net capital was \$1.1 billion, \$894 million in excess of the regulatory minimum required net capital

In addition, our ongoing business practices are designed to support our goals for financial health.

Diversified revenue mix—By increasing our reliance on fee-related services and balance-related income rather than on trading commissions, we strive to increase the stability of our revenues during fluctuating market conditions.

Prudent expense management—As a matter of course, we keep a close eye on operational expenses to prudently manage our company. In a difficult market environment, we adjust expenses where necessary on a quarter-by-quarter basis. Through vigilant attention to these factors, we place an emphasis on remaining a strong financial resource for our clients.