UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from to .

Commission File Number 1-11921

E*TRADE Financial Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware	**94-2844166**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1271 Avenue of the Americas, 14th Floor, New York, New York 10020
(Address of principal executive offices and Zip Code)

(646) 521-4300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

As of October 31, 2016, there were 273,812,280 shares of common stock outstanding.

E*TRADE FINANCIAL CORPORATION
FORM 10-Q QUARTERLY REPORT
For the Quarter Ended September 30, 2016
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Unless otherwise indicated, references to "the Company," "we," "us," "our" and "E*TRADE" mean E*TRADE Financial Corporation and its subsidiaries, and references to the parent company mean E*TRADE Financial Corporation but not its subsidiaries.

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PART I

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. These statements discuss, among other things, our future plans, objectives, outlook, strategies, expectations and intentions relating to our business and future financial and operating results and the assumptions that underlie these matters and include any statement that is not historical in nature. These statements may be identified by the use of words such as "assume," "expect," "believe," "may," "will," "should," "anticipate," "intend," "plan," "estimate," "continue" and similar expressions. We caution that actual results could differ materially from those discussed in these forward-looking statements. Important factors that could contribute to our actual results differing materially from any forward-looking statements include, but are not limited to, those discussed under *Part II. Item 1A. Risk Factors* and *Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations* of this Form 10-Q; and *Part I. Item 1A. Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission ("SEC"), which are incorporated herein by reference. By their nature forward-looking statements are not guarantees of future performance or results and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Actual future results may vary materially from expectations expressed or implied in this report or any of our prior communications. The forward-looking statements contained in this report reflect our expectations only as of the date of this report. You should not place undue reliance on forward-looking statements, as we do not undertake to update or revise forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made, except as required by law.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this document and with the Annual Report on Form 10-K for the year ended December 31, 2015.

GLOSSARY OF TERMS

In analyzing and discussing our business, we utilize certain metrics, ratios and other terms that are defined in the *Glossary of Terms*, which is located at the end of this item.

OVERVIEW

Strategy

Our business strategy is centered on two key objectives: accelerating the growth of our core brokerage business to drive organic growth and improve market share, and generating robust earnings growth and healthy returns on capital to deliver long-term value for our stockholders.

Accelerate Growth of Core Brokerage Business

- *Enhance digital and offline customer experience*

  We are focused on delivering cutting-edge trading solutions while improving our market position in investing products. Through these offerings, we aim to continue growing our customer base while deepening engagement with our existing customers.

- *Capitalize on value of corporate services channel*

  We leverage our industry-leading position in corporate stock plan administration to improve client acquisition and engage with plan participants to bolster awareness of our full suite of offerings. Our corporate services channel is a strategically important driver of brokerage account and asset growth.

Generate Robust Earnings Growth and Healthy Returns on Capital

- *Utilize balance sheet to enhance returns*

  We utilize our bank structure to effectively monetize brokerage relationships by investing stable, low-cost deposits primarily in agency mortgage-backed securities. Meanwhile, we continue to manage down the size and risk associated with our legacy loan portfolio.

- *Put capital to work for shareholders*

  As we continue to deliver on our capital plan initiatives, we are focused on generating and effectively deploying excess capital for the benefit of our shareholders.

Key Factors Affecting Financial Performance

Our financial performance is affected by a number of factors outside of our control, including:

- customer demand for financial products and services;
- performance, volume and volatility of the equity and capital markets;
- the level and volatility of interest rates;
- our ability to move capital to our parent company from our subsidiaries subject to regulatory approvals or notifications;
- changes to the rules and regulations governing the financial services industry;
- the performance of the residential real estate and credit markets; and
- market demand and liquidity in the secondary market for agency mortgage-backed securities.

In addition to the items noted above, our success in the future will depend upon, among other things, our ability to execute on our business strategy.

Financial Statement Presentation

Beginning January 1, 2016, we changed our segment reporting structure to align with the manner in which business performance is now reviewed and resource allocation decisions are now made. As business performance assessments and resource allocation decisions are based on consolidated operating margin, we no longer have separate operating segments and, accordingly, no longer present disaggregated segment financial results. We also updated the presentation of the consolidated statement of income (loss) to reflect how business performance is now measured and prior periods have been reclassified to conform to the current period presentation:

- interest expense related to corporate debt and interest income related to corporate cash reclassified from other income (expense) to net interest income;
- losses on early extinguishment of debt, net reclassified from other income (expense) to non-interest expense; and
- other income (expense) reclassified from other income (expense) to gains (losses) on securities and other, net.

Our net revenue is generated primarily from net interest income, commissions and fees and service charges. Net interest income is largely impacted by the size of our balance sheet, our balance sheet mix, and average yields on our assets and liabilities. Net interest income is driven primarily from interest earned on margin receivables and investment securities, less interest paid on interest-bearing liabilities, including deposits, customer payables, corporate debt and other borrowings. Net interest income is also earned on our legacy loan portfolio which we expect to continue to run off in future periods. Commissions revenue is generated by customer trades and is largely impacted by trade volume and commission rates. Fees and service charges revenue is mainly impacted by order flow revenue, fees earned on off-balance sheet customer cash and other assets, and advisor management fees. Our net revenue is offset by non-interest expenses, the largest of which are compensation and benefits and advertising and market development.

Significant Events in the Third Quarter of 2016

Completed the Acquisition of OptionsHouse

- On September 12, 2016, we completed the acquisition of Aperture New Holdings, Inc., the ultimate parent company of OptionsHouse, an online brokerage, for $725 million. We funded the transaction through the issuance of fixed-to-floating rate non-cumulative perpetual preferred stock for gross proceeds of $400 million, and the remainder with existing corporate cash. For additional information, see *Note 2—Business Acquisition*.

Converted a substantial portion of off-balance sheet customer cash into our sweep deposit account program

- During the third quarter of 2016, we converted $4.1 billion of customer cash to our sweep deposit account program. This conversion, along with the acquisition of OptionsHouse, increased the total amount of customer cash that will be available to bring back on to our balance sheet to approximately $11 billion. We expect to cross the $50 billion consolidated assets regulatory threshold during the first half of 2017 and anticipate ending the second quarter of 2017 with approximately $56 billion of total consolidated assets. We are continuing to monitor and prepare for the incremental regulatory and reporting requirements that may become applicable.

$125 million in dividends paid from bank and broker-dealer subsidiaries to the parent company

- E*TRADE Bank paid a dividend of $40 million to the parent company during the third quarter of 2016.
- E*TRADE Clearing paid a dividend of $28 million to the parent company during the third quarter of 2016.
- E*TRADE Securities paid a dividend of $57 million to the parent company during the third quarter of 2016.

Key Performance Metrics

Management monitors a number of metrics in evaluating the Company's performance. The most significant of these are shown in the table and discussed in the text below:

	Three Months Ended September 30,		Variance	Nine Months Ended September 30,		Variance
	2016(1)	2015	2016 vs. 2015	2016(1)	2015	2016 vs. 2015
Customer Activity Metrics:						
Daily average revenue trades ("DARTs")	151,905	155,985	(3)%	156,368	158,326	(1)%
Derivative DARTs %	26%	25 %	1 %	25%	24 %	1 %
Average commission per trade	$ 10.97	$ 10.87	1 %	$ 10.81	$ 10.92	(1)%
Customer margin balances (dollars in billions)	$ 6.8	$ 7.9	(14)%	$ 6.8	$ 7.9	(14)%
End of period brokerage accounts(2)	3,438,975	3,203,531	7 %	3,438,975	3,203,531	7 %
Net new brokerage accounts(2)	161,885	2,205	*	225,434	59,608	*
Brokerage account attrition rate(2)	8.0%	11.4 %	(3.4)%	8.1%	10.0 %	(1.9)%
Customer assets (dollars in billions)	$ 306.8	$ 276.6	11 %	$ 306.8	$ 276.6	11 %
Net new brokerage assets (dollars in billions)	$ 5.4	$ 2.1	157 %	$ 9.9	$ 6.5	52 %
Brokerage related cash (dollars in billions)	$ 48.3	$ 40.2	20 %	$ 48.3	$ 40.2	20 %
Company Metrics:						
Operating margin	46%	(403)%	*	44%	(7)%	*
Adjusted operating margin(3)	34%	32 %	2 %	35%	31 %	4 %
Cash and equivalents (dollars in millions)	$ 1,467	$ 1,453	1 %	$ 1,467	$ 1,453	1 %
Corporate cash (dollars in millions)(4)	$ 306	$ 432	(29)%	$ 306	$ 432	(29)%
E*TRADE Financial Tier 1 leverage ratio	7.3%	8.5 %	(1.2)%	7.3%	8.5 %	(1.2)%
E*TRADE Bank Tier 1 leverage ratio(5)	8.5%	9.2 %	(0.7)%	8.5%	9.2 %	(0.7)%
Special mention loan delinquencies (dollars in millions)	$ 107	$ 113	(5)%	$ 107	$ 113	(5)%
Allowance for loan losses (dollars in millions)	$ 235	$ 376	(38)%	$ 235	$ 376	(38)%
Net interest margin (basis points)	259	247	5 %	267	242	10 %
Interest-earning assets (average dollars in billions)	$ 44.5	$ 40.5	10 %	$ 42.9	$ 41.4	4 %
Total employees (period end)	3,655	3,310	10 %	3,655	3,310	10 %

* Percentage not meaningful.

(1) Includes OptionsHouse activity from the September 12, 2016 acquisition date, as follows, for the three and nine months ended September 30, 2016: DARTs of 6,492 and 2,198, respectively; addition to derivatives as a percentage of total DARTs of 2% and 1%, respectively; customer margin balances of $0.3 billion; net new and end of period brokerage accounts of 147,761; customer assets and net new brokerage assets of $3.7 billion; and brokerage related cash of $1.5 billion.

(2) Net new and end of period brokerage accounts for the nine months ended September 30, 2016 were impacted by the closure of 4,430 accounts related to the shutdown of the Company's Hong Kong and Singapore operations. Excluding the impact of these closed accounts, brokerage account attrition rate was 8.0% for the nine months ended September 30, 2016. Net new brokerage accounts and end of period brokerage accounts for the nine months ended September 30, 2015 were impacted by the closure of 3,484 accounts related to the escheatment of unclaimed property and 16,818 and 20,143 accounts during the three and nine months ended September 30, 2015, respectively, related to the shutdown of the Company's global trading platform. Excluding the impact of these items, brokerage account attrition rate was 9.3% and 9.0% for the three and nine months ended September 30, 2015, respectively.

(3) See *Earnings Overview* for a reconciliation of this non-GAAP measure to the most directly comparable GAAP measure.

(4) See *Liquidity and Capital Resources* for a reconciliation of this non-GAAP measure to the most directly comparable GAAP measure.

(5) E*TRADE Securities and E*TRADE Clearing were moved out from under E*TRADE Bank in February 2015 and July 2015, respectively.

Customer Activity Metrics

- DARTs are the predominant driver of commissions revenue from our customers. Derivative DARTs include options and futures.
- Average commission per trade is an indicator of changes in our customer mix, product mix and/or product pricing.
- Customer margin balances represent credit extended to customers to finance their purchases of securities by borrowing against securities they own. Customer margin includes margin receivables held on the Company's balance sheet, which are a key driver of net interest income. It also includes margin receivables of OptionsHouse customers that are held by a third party clearing firm.
- End of period brokerage accounts, net new brokerage accounts and brokerage account attrition rate are indicators of our ability to attract and retain brokerage customers. The brokerage account attrition rate is calculated by dividing attriting brokerage accounts by total brokerage accounts at the previous period end, and is presented on an annualized basis. Attriting brokerage accounts are derived by subtracting net new brokerage accounts from gross new brokerage accounts.
- Changes in customer assets are an indicator of the value of our relationship with the customer. An increase in customer assets generally indicates that the use of our products and services by existing and new customers is expanding. Changes in this metric are also driven by changes in the valuations of our customers' underlying securities.
- Net new brokerage assets are total inflows to all new and existing brokerage accounts less total outflows from all closed and existing brokerage accounts and are a general indicator of the use of our products and services by new and existing brokerage customers.
- Brokerage related cash is an indicator of the level of engagement with our brokerage customers and is a key driver of net interest income as well as fees and service charges revenue, which includes fees earned on customer cash held by third parties.

Company Metrics

- Operating margin is the percentage of net revenue that results in income before income taxes. The percentage is calculated by dividing income before income taxes by total net revenue.
- Adjusted operating margin is a non-GAAP measure calculated by dividing adjusted income before income taxes by adjusted total net revenue. Adjusted income before income taxes excludes the loss on termination of legacy wholesale funding obligations recognized in the gains (losses) on securities and other, net line item, provision (benefit) for loan losses and the losses on early extinguishment of debt, net line item. Adjusted total net revenue excludes the loss on termination of legacy wholesale funding obligations from total net revenue. Adjusted operating margin provides a useful measure of our ongoing operating performance and is used by management for this purpose as these adjustments are not viewed as key factors governing our investments in the business. See *Earnings Overview* for a reconciliation of this non-GAAP measure to the most directly comparable GAAP measure.
- Corporate cash is a component of cash and equivalents and is the primary source of capital above and beyond the capital deployed in our regulated subsidiaries. See *Liquidity and Capital Resources* for a reconciliation of this non-GAAP measure to the most directly comparable GAAP measure.
- Tier 1 leverage ratio is an indication of capital adequacy for E*TRADE Financial and E*TRADE Bank. Tier 1 leverage ratio is Tier 1 capital divided by adjusted average assets for leverage capital purposes. See *Liquidity and Capital Resources* for additional information, including the calculation of regulatory capital ratios.
- Special mention loan delinquencies are loans 30-89 days past due and are an indicator of the expected trend for charge-offs in future periods as these loans have a greater propensity to migrate into nonaccrual status and to ultimately be charged-off.
- Allowance for loan losses is an estimate of probable losses inherent in the loan portfolio as of the balance sheet date, as well as the forecasted losses, including economic concessions to borrowers, over the estimated remaining life of loans modified as troubled debt restructurings ("TDRs").

- Net interest margin is a measure of the net yield on our average interest-bearing assets. Net interest margin is calculated for a given period by dividing the annualized sum of net interest income by average interest-bearing assets.
- Interest-earning assets, in conjunction with our net interest margin, are indicators of our ability to generate net interest income.

REGULATORY DEVELOPMENTS

On April 6, 2016, the U.S. Department of Labor published its final fiduciary regulations under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986. These regulations, which begin to take effect in April 2017, will subject certain persons, such as broker-dealers and other financial services providers that provide investment assistance to individual retirement accounts and other qualified retirement plans and accounts, to fiduciary duties and prohibited transaction restrictions for a wider range of customer interactions. This may require changes to the services and products we offer for our customers' tax-qualified retirement accounts and benefit plans and could diminish our profitability and increase our potential liabilities with respect to these accounts and plans.

Each of our banking entities has deposits insured by the Federal Deposit Insurance Corporation ("FDIC") and pays quarterly assessments to the Deposit Insurance Fund ("DIF"), maintained by the FDIC, for this insurance coverage. On March 25, 2016, the FDIC published its final rule to add a surcharge to the regular DIF assessments of banks with $10 billion or more in assets, which includes E*TRADE Bank. Under the final rule, E*TRADE Bank is subject to an additional surcharge applied to its assessment base, which took effect for the assessment period beginning on July 1, 2016. Surcharges at an annual rate of 4.5 basis points will be assessed until the sooner of (1) the fund attaining 1.35 percent or (2) fourth quarter 2018. The FDIC anticipates eight quarters of "surcharge assessments." There may be a one-time “shortfall assessment” in the first quarter of 2019 to bring the fund immediately to 1.35 percent if needed. The surcharge has not had and is not expected to have a material impact on our financial condition, results of operations or cash flows.

For additional information, see *Part I. Item 1. Business—Regulation* in our Annual Report on Form 10-K for the year ended December 31, 2015.

EARNINGS OVERVIEW

The following table sets forth the significant components of the consolidated statement of income (loss) (dollars in millions except per share amounts):

	Three Months Ended September 30,		Variance 2016 vs. 2015		Nine Months Ended September 30,		Variance 2016 vs. 2015	
	2016	2015	Amount	%	2016	2015	Amount	%
Net interest income	$ 287	$ 249	$ 38	15 %	$ 860	$ 751	$ 109	15 %
Total non-interest income (loss)	199	(188)	387	*	572	180	392	218 %
Total net revenue	486	61	425	697 %	1,432	931	501	54 %
Provision (benefit) for loan losses	(62)	(25)	(37)	148 %	(131)	(17)	(114)	671 %
Total non-interest expense	323	332	(9)	(3)%	930	1,014	(84)	(8)%
Income (loss) before income tax expense (benefit)	225	(246)	471	*	633	(66)	699	*
Income tax expense (benefit)	86	(93)	179	*	208	(245)	453	*
Net income (loss)	$ 139	$ (153)	$ 292	*	$ 425	$ 179	$ 246	137 %
Diluted earnings (loss) per share	$ 0.51	$ (0.53)	$ 1.04	*	$ 1.52	$ 0.61	$ 0.91	149 %

* Percentage not meaningful.

Net income (loss) was $139 million and $(153) million, or $0.51 and $(0.53) per diluted share for the three months ended September 30, 2016 and 2015, respectively. Net income increased 137% to $425 million, or $1.52 per diluted share, for the nine months ended September 30, 2016, respectively, compared to the same period in 2015. The net loss for the three months ended September 30, 2015 was primarily driven by the $413 million pre-tax charge on the termination of legacy wholesale funding obligations recognized during the third quarter of 2015. This pre-tax charge included $43 million of losses on early extinguishment of debt, and $370 million of losses that were reclassified from accumulated other comprehensive loss related to cash flow hedges into the gains (losses) on securities and other, net line item. In addition, the nine months ended September 30, 2015 included a $73 million pre-tax loss on early extinguishment of debt recognized in the first quarter of 2015 which was offset by a $220 million income tax benefit resulting from the settlement of an IRS examination in the second quarter of 2015.

Net Revenue

The components of net revenue and the resulting variances are as follows (dollars in millions):

	Three Months Ended September 30,		Variance 2016 vs. 2015		Nine Months Ended September 30,		Variance 2016 vs. 2015	
	2016	2015	Amount	%	2016	2015	Amount	%
Net interest income	$ 287	$ 249	$ 38	15 %	$ 860	$ 751	$ 109	15 %
Commissions	107	108	(1)	(1)%	320	325	(5)	(2)%
Fees and service charges	68	52	16	31 %	188	159	29	18 %
Gains (losses) on securities and other, net	14	(358)	372	*	34	(333)	367	*
Other revenues	10	10	—	— %	30	29	1	3 %
Total non-interest income	199	(188)	387	*	572	180	392	218 %
Total net revenue	$ 486	$ 61	$ 425	697 %	$ 1,432	$ 931	$ 501	54 %

* Percentage not meaningful.

Net Interest Income

Net interest income increased 15% to $287 million and 15% to $860 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. Net interest income is earned primarily through investment securities, margin receivables and our legacy loan portfolio, which will continue to run off in future periods, offset by funding costs. During the third quarter of 2015, we terminated $4.4 billion of legacy wholesale funding obligations, which has significantly reduced our funding costs and improved our ability to generate net interest income.

The following table presents average balance sheet data and interest income and expense data, as well as the related net interest margin, yields and rates prepared on the basis required by the SEC's Industry Guide 3, "*Statistical Disclosure by Bank Holding Companies*" (dollars in millions):

	Three Months Ended September 30, (1)					
	2016			2015		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
Cash and equivalents	$ 1,989	$ 2	0.42%	$ 1,806	$ 1	0.18%
Cash required to be segregated under federal or other regulation	1,885	2	0.33%	318	1	0.18%
Available-for-sale securities	13,301	66	1.99%	12,584	57	1.83%
Held-to-maturity securities	15,937	109	2.73%	11,879	85	2.84%
Margin receivables	6,479	60	3.68%	7,984	70	3.51%
Loans (2)	4,202	46	4.44%	5,453	58	4.25%
Broker-related receivables and other	696	—	0.13%	461	—	0.69%
Subtotal interest-earning assets	44,489	285	2.56%	40,485	272	2.68%
Other interest revenue (3)	—	24		—	25	
Total interest-earning assets	44,489	309	2.77%	40,485	297	2.93%
Total non-interest-earning assets (4)	4,793			4,220		
Total assets	$ 49,282			$ 44,705		
Deposits	$ 32,285	$ 1	0.01%	$ 25,659	$ 1	0.01%
Customer payables	7,592	2	0.06%	6,348	2	0.07%
Broker-related payables and other	1,258	—	0.00%	1,749	—	0.00%
Other borrowings (5)	409	4	4.15%	3,582	30	3.38%
Corporate debt	993	13	5.40%	1,023	13	5.23%
Subtotal interest-bearing liabilities	42,537	20	0.19%	38,361	46	0.48%
Other interest expense (6)	—	2		—	2	
Total interest-bearing liabilities	42,537	22	0.20%	38,361	48	0.49%
Total non-interest-bearing liabilities (7)	719			573		
Total liabilities	43,256			38,934		
Total shareholders' equity	6,026			5,771		
Total liabilities and shareholders' equity	$ 49,282			$ 44,705		
Excess of interest earning assets over interest bearing liabilities/net interest income/net interest margin	$ 1,952	$ 287	2.59%	$ 2,124	$ 249	2.47%

(1) Beginning in 2016, interest expense related to corporate debt and interest income related to corporate cash are presented within net interest income. Prior periods have been reclassified to conform with current period presentation.
(2) Nonaccrual loans are included in the average loan balances. Interest payments received on nonaccrual loans are recognized on a cash basis in interest income until it is doubtful that full payment will be collected, at which point payments are applied to principal.
(3) Represents interest income on securities loaned.
(4) Non-interest earning assets consist of property and equipment, net, goodwill, other intangibles, net and other assets that do not generate interest income.
(5) In September 2015, we terminated $4.4 billion of legacy wholesale funding obligations.
(6) Represents interest expense on securities borrowed.
(7) Non-interest bearing liabilities consist of other liabilities that do not generate interest expense.

	Nine Months Ended September 30, (1)					
	2016			2015		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
Cash and equivalents	$ 1,730	$ 5	0.40%	$ 1,692	$ 2	0.17%
Cash required to be segregated under federal or other regulation	1,540	4	0.33%	335	1	0.14%
Available-for-sale securities	13,149	198	2.01%	12,838	189	1.97%
Held-to-maturity securities	14,993	319	2.84%	12,173	259	2.83%
Margin receivables	6,553	185	3.77%	7,997	208	3.48%
Loans (2)	4,505	146	4.33%	5,838	177	4.04%
Broker-related receivables and other	470	1	0.21%	575	2	0.68%
Subtotal interest-earning assets	42,940	858	2.67%	41,448	838	2.70%
Other interest revenue (3)	—	65		—	85	
Total interest-earning assets	42,940	923	2.87%	41,448	923	2.97%
Total non-interest-earning assets (4)	4,882			4,528		
Total assets	$ 47,822			$ 45,976		
Deposits	$ 31,243	$ 3	0.01%	$ 25,667	$ 4	0.02%
Customer payables	6,988	4	0.07%	6,438	4	0.08%
Broker-related payables and other	1,351	—	0.00%	1,779	—	0.00%
Other borrowings (5)	418	13	4.23%	4,514	112	3.35%
Corporate debt	994	40	5.40%	1,103	46	5.70%
Subtotal interest-bearing liabilities	40,994	60	0.19%	39,501	166	0.57%
Other interest expense (6)	—	3		—	6	
Total interest-bearing liabilities	40,994	63	0.20%	39,501	172	0.57%
Total non-interest-bearing liabilities (7)	1,010			874		
Total liabilities	42,004			40,375		
Total shareholders' equity	5,818			5,601		
Total liabilities and shareholders' equity	$ 47,822			$ 45,976		
Excess of interest earning assets over interest bearing liabilities/net interest income/net interest margin	$ 1,946	$ 860	2.67%	$ 1,947	$ 751	2.42%

(1) Beginning in 2016, interest expense related to corporate debt and interest income related to corporate cash are presented within net interest income. Prior periods have been reclassified to conform with current period presentation.
(2) Nonaccrual loans are included in the average loan balances. Interest payments received on nonaccrual loans are recognized on a cash basis in interest income until it is doubtful that full payment will be collected, at which point payments are applied to principal.
(3) Represents interest income on securities loaned.
(4) Non-interest earning assets consist of property and equipment, net, goodwill, other intangibles, net and other assets that do not generate interest income.
(5) In September 2015, we terminated $4.4 billion of legacy wholesale funding obligations.
(6) Represents interest expense on securities borrowed.
(7) Non-interest bearing liabilities consist of other liabilities that do not generate interest expense.

Average interest-earning assets increased 10% to $44.5 billion and 4% to $42.9 billion for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The fluctuation in interest-earning assets is generally driven by changes in interest-bearing liabilities, primarily deposits and customer payables. Average interest-bearing liabilities increased 11% to $42.5 billion and 4% to $41.0 billion for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The increases were primarily due to increased deposits as a result of transferring customer cash held by third parties to our balance sheet using our sweep deposit platform. The increases were partially offset by the termination of our legacy wholesale funding obligations during the third quarter of 2015. For additional information on our balance sheet growth and customer cash held by third parties, see *Balance Sheet Overview*.

Beginning in 2016, we transitioned to utilizing net interest margin as the key metric for measuring our performance in leveraging our bank structure to effectively monetize brokerage relationships. Net interest margin increased 12 basis points to 2.59% and 25 basis points to 2.67% for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. Net interest margin is driven by the mix of asset and liability average balances and the interest rates earned or paid on those balances. The increases were primarily due to lower borrowing costs resulting from the termination of $4.4 billion of legacy wholesale funding obligations during the third quarter of 2015. In addition, for the three and nine months ended September 30, 2016, revenue from investments in securities increased primarily as a result of increased balances compared to the prior periods. These increases were partially offset by the lower rates earned on reinvesting funds in securities as our legacy loan portfolios continue to pay down. Margin balances also decreased 19% and 18%, respectively, for the three and nine months ended September 30, 2016 compared to the same periods in 2015; however, the impact of the margin receivables decrease was partially offset by increased rates earned on margin due to the increase in market interest rates and changes in customer mix.

Commissions

Commissions revenue decreased 1% to $107 million and 2% to $320 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The main factors that affect commissions revenue are DARTs, average commission per trade and the number of trading days.

DARTs volume decreased 3% to 151,905 and 1% to 156,368 for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. Derivative DARTs represented 26% and 25% of trading volume for the three and nine months ended September 30, 2016, respectively, compared to 25% and 24% of trading volume for the same periods in 2015.

Average commission per trade increased 1% to $10.97 and decreased 1% to $10.81 for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. Average commission per trade is impacted by customer mix and the different commission rates on various trade types (e.g. equities, derivatives, stock plan, and mutual funds).

Fees and Service Charges

Fees and service charges increased 31% to $68 million and 18% to $188 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The components of fees and service charges and the resulting variances are as follows (dollars in millions):

	Three Months Ended September 30,		Variance 2016 vs. 2015		Nine Months Ended September 30,		Variance 2016 vs. 2015	
	2016	2015	Amount	%	2016	2015	Amount	%
Order flow revenue	$ 24	$ 21	$ 3	14 %	$ 68	$ 65	$ 3	5 %
Money market funds and sweep deposits revenue[1]	13	7	6	86 %	31	18	13	72 %
Mutual fund service fees	9	7	2	29 %	27	19	8	42 %
Advisor management fees	8	6	2	33 %	21	20	1	5 %
Foreign exchange revenue	6	3	3	100 %	15	12	3	25 %
Reorganization fees	4	3	1	33 %	11	8	3	38 %
Other fees and service charges	4	5	(1)	(20)%	15	17	(2)	(12)%
Total fees and service charges	$ 68	$ 52	$ 16	31 %	$ 188	$ 159	$ 29	18 %

(1) Includes revenue earned on average customer cash held by third parties based on the federal funds rate or LIBOR plus a negotiated spread or other contractual arrangements with the third party institutions.

The increase in fees and services charges for the three and nine months ended September 30, 2016, compared to the same periods in 2015, was primarily driven by increased mutual fund service fees and the impact of increased market interest rates on customer cash held by third parties. Fees and service charges may decline in future periods as we continue to transfer customer cash held by third parties onto our balance sheet.

Gains (Losses) on Securities and Other, Net

The components of gains (losses) on securities and other, net and the resulting variances are as follows (dollars in millions):

	Three Months Ended September 30,		Variance 2016 vs. 2015		Nine Months Ended September 30,		Variance 2016 vs. 2015	
	2016	2015	Amount	%	2016	2015	Amount	%
Reclassification of deferred losses on cash flow hedges	$ —	$ (370)	$ 370	(100)%	$ —	$ (370)	$ 370	(100)%
Gains on available-for-sale securities, net:								
Gains on available-for-sale securities	17	30	(13)	(43)%	46	48	(2)	(4)%
Losses on available-for-sale securities	—	(19)	19	(100)%	—	(19)	19	(100)%
Subtotal	17	11	6	55 %	46	29	17	59 %
Hedge ineffectiveness	(4)	(2)	(2)	100 %	(8)	—	(8)	*
Equity method investment income (loss) and other	1	3	(2)	(67)%	(4)	8	(12)	*
Gains (losses) on securities and other, net	$ 14	$ (358)	$ 372	*	$ 34	$ (333)	$ 367	*

* Percentage not meaningful.

Gains (losses) on securities and other, net was $14 million and $34 million for the three and nine months ended September 30, 2016, respectively, compared to $(358) million and $(333) million for the same periods in 2015. During the three and nine months ended September 30, 2016 increased net gains on the sale of available-for-sale agency securities were partially offset by losses on hedge ineffectiveness, and for nine months ended September 30, 2016 additionally by losses on equity method investments. Gains (losses) on securities and other, net for the three and nine months ended September 30, 2015 included $370 million of losses reclassified from accumulated other comprehensive loss related to cash flow hedges as a result of the termination of $4.4 billion of legacy wholesale funding obligations during the third quarter of 2015.

Provision (Benefit) for Loan Losses

We recognized a benefit for loan losses of $62 million and $131 million for the three and nine months ended September 30, 2016, respectively, compared to a benefit of $25 million and $17 million for the same periods in 2015. The current period provision benefit of $62 million includes approximately $40 million resulting from updated performance expectations based on the sustained outperformance of a substantial volume of high-risk home equity lines of credit ("HELOCs"). The current period benefit also reflected recoveries in excess of prior expectations, including recoveries of previous charge-offs that were not included in our loss estimates, as well as payoffs on loans converting to amortizing. The timing and magnitude of the provision (benefit) for loan losses is affected by many factors that could result in variability, particularly as mortgage loans reach the end of their interest-only period. For additional information on management's estimate of the allowance for loan losses, see *Concentrations of Credit Risk*.

Non-Interest Expense

The components of non-interest expense and the resulting variances are as follows (dollars in millions):

	Three Months Ended September 30,		Variance 2016 vs. 2015		Nine Months Ended September 30,		Variance 2016 vs. 2015	
	2016	2015	Amount	%	2016	2015	Amount	%
Compensation and benefits	$ 123	$ 123	$ —	— %	$ 374	$ 354	$ 20	6 %
Advertising and market development	27	23	4	17 %	100	89	11	12 %
Clearing and servicing	26	23	3	13 %	75	72	3	4 %
Professional services	26	24	2	8 %	70	77	(7)	(9)%
Occupancy and equipment	24	21	3	14 %	71	64	7	11 %
Communications	22	24	(2)	(8)%	65	62	3	5 %
Depreciation and amortization	20	21	(1)	(5)%	60	61	(1)	(2)%
FDIC insurance premiums	6	7	(1)	(14)%	18	36	(18)	(50)%
Amortization of other intangibles	5	5	—	— %	15	15	—	— %
Restructuring and acquisition-related activities	25	2	23	*	28	8	20	250 %
Losses on early extinguishment of debt, net	—	39	(39)	(100)%	—	112	(112)	(100)%
Other non-interest expenses	19	20	(1)	(5)%	54	64	(10)	(16)%
Total non-interest expense	$ 323	$ 332	$ (9)	(3)%	$ 930	$ 1,014	$ (84)	(8)%

* Percentage not meaningful.

Compensation and Benefits

Compensation and benefits remained unchanged at $123 million and increased 6% to $374 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. Employee headcount at September 30, 2016 compared to September 30, 2015 increased 10% as we hired additional customer service professionals and financial consultants consistent with our key business objective of accelerating growth of the core brokerage business. Executive severance expense of $6 million was recognized during both the three months ended September 30, 2016 and the nine months ended September 30, 2015. However, the impact of this hiring and severance expense for the three months ended September 30, 2016 was offset by the reversal of share-based compensation and other incentive compensation that will not vest due to the Company's restructuring activities during the three months ended September 30, 2016. For additional information, see *Note 3—Restructuring and Acquisition-Related Activities.*

Advertising and Market Development

Advertising and market development increased 17% to $27 million and 12% to $100 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The increases were primarily due to investments to drive customer acquisition and deepen engagement during the three and nine months ended September 30, 2016.

Professional Services

Professional services expense increased 8% to $26 million and decreased 9% to $70 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The decrease for the nine months ended September 30, 2016 was primarily driven by lower project-based consulting expenses, compared to the same period in 2015.

Occupancy and Equipment

Occupancy and equipment expense increased 14% to $24 million and 11% to $71 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The increases were primarily driven by higher facilities expenses and increased software maintenance and licensing costs compared to the same periods in 2015.

FDIC Insurance Premiums

FDIC insurance premiums decreased 14% to $6 million and 50% to $18 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The decrease for the nine months ended September 30, 2016 was driven by lower rate assessments due to continued improvement in our overall risk profile compared to the same period in 2015. The three months ended September 30, 2016 also reflected the impact of the FDIC's DIF assessment changes which included decreases to the initial assessment rates that were partially offset by the surcharge.

Restructuring and Acquisition-Related Activities

Restructuring and acquisition-related activities were $25 million and $28 million for the three and nine months ended September 30, 2016, compared to $2 million and $8 million for the same periods in 2015. Restructuring and acquisition-related activities during the three and nine months ended September 30, 2016 reflected $18 million and $21 million, respectively, of restructuring costs and $7 million of expense related to the OptionsHouse acquisition. The restructuring costs for the three and nine months ended September 30, 2016 primarily related to severance charges from the realignment of our core brokerage business and a focused review of our organizational structure and expenses. These restructuring activities are expected to eliminate approximately $21 million of future annual expenses, primarily compensation and benefits. We expect to incur additional restructuring costs in the future as we complete the integration of OptionsHouse by the third quarter of 2017. For additional information, see *Note 3—Restructuring and Acquisition-Related Activities.*

Losses on Early Extinguishment of Debt, Net

There were no losses on early extinguishment of debt, net for the three and nine months ended September 30, 2016, compared to $39 million and $112 million for the three and nine months ended September 30, 2015. During the third quarter of 2015, we terminated legacy wholesale funding obligations which resulted in a pre-tax loss of $43 million that was offset by a $4 million gain on the extinguishment of certain trust preferred securities. During the first quarter of 2015 we issued 4 5/8% Senior Notes and used the net proceeds together with corporate cash to redeem the 6 3/8% Senior Notes, which resulted in a $73 million pre-tax loss on early extinguishment of debt.

Other Non-Interest Expenses

Other non-interest expenses decreased 5% to $19 million and 16% to $54 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The decrease for the nine months ended September 30, 2016, compared to the same period in 2015 was primarily driven by a $9 million expense related to a third party contract amendment executed during the second quarter of 2015.

Operating Margin

Operating margin was 46% and 44% for the three and nine months ended September 30, 2016, respectively, compared to (403)% and (7)% for the same periods in 2015. Adjusted operating margin, a non-GAAP measure, was 34% and 35% for the three and nine months ended September 30, 2016, respectively, compared to 32% and 31% for the same periods in 2015.

Adjusted operating margin is a non-GAAP measure calculated by dividing adjusted income before income taxes by adjusted total net revenue. Adjusted income before income taxes excludes the loss on termination of legacy wholesale funding obligations recognized in the gains (losses) on securities and other, net line item, provision (benefit) for loan losses and the losses on early extinguishment of debt, net line item. The following table provides a reconciliation of adjusted income before income tax expense and adjusted operating margin, non-GAAP measures, to the most directly comparable GAAP measures (dollars in millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	Amount	Operating Margin %	Amount	Operating Margin %	Amount	Operating Margin %	Amount	Operating Margin %
Income (loss) before income tax expense (benefit) / operating margin	$ 225	46%	$ (246)	(403)%	$ 633	44%	$ (66)	(7)%
Add back impact of pre-tax items:								
Loss included in Gains (losses) on securities and other, net	—		370		—		370	
Provision (benefit) for loan losses	(62)		(25)		(131)		(17)	
Losses on early extinguishment of debt, net[(1)]	—		39		—		112	
Subtotal	(62)		384		(131)		465	
Adjusted income before income tax expense (benefit) / adjusted operating margin	$ 163	34%	$ 138	32%	$ 502	35%	$ 399	31%

(1) Includes $43 million losses on early extinguishment of debt related to the termination of legacy wholesale funding obligations, partially offset by $4 million gain on the extinguishment of certain trust preferred securities for both the three and nine months ended September 30, 2015. The nine months ended September 30, 2015 also includes $73 million losses on early extinguishment of debt.

Adjusted total net revenue excludes the loss on termination of legacy wholesale funding obligations from total net revenue. The following table provides a reconciliation of adjusted total net revenue, a non-GAAP measure, to the most directly comparable GAAP measure (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total net revenue	$ 486	$ 61	$ 1,432	$ 931
Add back impact of termination of legacy wholesale funding obligations:				
Loss included in Gains (losses) on securities and other, net	—	370	—	370
Adjusted total net revenue	$ 486	$ 431	$ 1,432	$ 1,301

Income Tax Expense (Benefit)

Income tax expense was $86 million and $208 million for the three and nine months ended September 30, 2016, respectively, compared to an income tax benefit of $93 million and $245 million for the same periods in 2015. The effective tax rates were 38% and 33% for the three and nine months ended September 30, 2016, respectively, compared to 38% and 372% for the same periods in 2015.

The effective tax rate of 33% for the nine months ended September 30, 2016 was primarily driven by a $31 million tax benefit recognized during the three months ended March 31, 2016 related to the release of valuation allowances against certain state deferred tax assets. Effective January 1, 2016, we elected to treat E*TRADE Securities and E*TRADE Clearing as single member LLCs for tax purposes. Prior to this election, the broker-dealers were treated as separate taxable corporations. The election to be treated as single member LLCs, in addition to the future income projections at the broker-dealers, will result in the utilization of certain state deferred tax assets, primarily state NOLs, against which we had previously recorded valuation allowances.

The effective tax rate of 372% for the nine months ended September 30, 2015 was driven by the settlement of an IRS examination, resulting in a $220 million income tax benefit in the second quarter of 2015. For additional information, see *Note 13—Income Taxes*.

BALANCE SHEET OVERVIEW

The following table sets forth the significant components of the consolidated balance sheet (dollars in millions):

	September 30, 2016	December 31, 2015	Variance 2016 vs. 2015 Amount	Variance 2016 vs. 2015 %
Assets:				
Cash and equivalents	$ 1,467	$ 2,233	$ (766)	(34)%
Segregated cash	2,159	1,057	1,102	104 %
Securities[1]	29,682	25,602	4,080	16 %
Margin receivables	6,552	7,398	(846)	(11)%
Loans receivable, net	3,832	4,613	(781)	(17)%
Receivables from brokers, dealers and clearing organizations[2]	1,118	520	598	115 %
Goodwill and other intangibles, net	2,698	1,966	732	37 %
Deferred tax assets, net	725	1,033	(308)	(30)%
Other[3]	966	1,005	(39)	(4)%
Total assets	$ 49,199	$ 45,427	$ 3,772	8 %
Liabilities and shareholders' equity:				
Deposits	$ 31,697	$ 29,445	$ 2,252	8 %
Customer payables	7,827	6,544	1,283	20 %
Payables to brokers, dealers and clearing organizations[4]	1,227	1,576	(349)	(22)%
Other borrowings	409	491	(82)	(17)%
Corporate debt	994	997	(3)	— %
Other liabilities	729	575	154	27 %
Total liabilities	42,883	39,628	3,255	8 %
Shareholders' equity	6,316	5,799	517	9 %
Total liabilities and shareholders' equity	$ 49,199	$ 45,427	$ 3,772	8 %

(1) Includes balance sheet line items available-for-sale and held-to-maturity securities.
(2) Includes deposits paid for securities borrowed of $657 million and $120 million as of September 30, 2016 and December 31, 2015, respectively.
(3) Includes balance sheet line items property and equipment, net and other assets.
(4) Includes deposits received for securities loaned of $1.2 billion and $1.5 billion as of September 30, 2016 and December 31, 2015, respectively.

Cash and Equivalents

Cash and equivalents decreased 34% to $1.5 billion during the nine months ended September 30, 2016. We used existing corporate cash along with the gross proceeds from the issuance of $400 million of fixed-to-floating rate non-cumulative preferred stock to fund the acquisition of OptionsHouse in the third quarter of 2016. In addition, cash was used for repurchases of common stock and purchases of investment securities during the nine months ended September 30, 2016. For additional information on our use of corporate cash, see *Liquidity and Capital Resources.*

Segregated Cash

Segregated cash increased 104% to $2.2 billion during the nine months ended September 30, 2016. The level of cash required to be segregated under federal or other regulations, or segregated cash, is driven largely by customer payables and securities lending balances we hold as liabilities in excess of the amount of margin receivables and securities borrowed balances we hold as assets. The excess represents customer cash that we are required by our regulators to segregate for the exclusive benefit of our brokerage customers.

Securities

Available-for-sale and held-to-maturity securities are summarized as follows (dollars in millions):

	September 30, 2016	December 31, 2015	Variance 2016 vs. 2015 Amount	Variance 2016 vs. 2015 %
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities and CMOs	$ 12,180	$ 11,763	$ 417	4%
Other debt securities	1,280	794	486	61%
Total debt securities	13,460	12,557	903	7%
Publicly traded equity securities[(1)]	33	32	1	3%
Total available-for-sale securities	$ 13,493	$ 12,589	$ 904	7%
Held-to-maturity securities:				
Agency mortgage-backed securities and CMOs	$ 13,176	$ 10,353	$ 2,823	27%
Other debt securities	3,013	2,660	353	13%
Total held-to-maturity securities	$ 16,189	$ 13,013	$ 3,176	24%
Total investments in securities	$ 29,682	$ 25,602	$ 4,080	16%

(1) Consists of investments in a mutual fund related to the Community Reinvestment Act.

Securities represented 60% and 56% of total assets at September 30, 2016 and December 31, 2015, respectively. We classify debt securities as available-for-sale or held-to-maturity based on our investment strategy and management's assessment of our intent and ability to hold the debt securities until maturity.

The increase in total investments in securities during the nine months ended September 30, 2016 was primarily due to net purchases of investment securities as a result of increased sweep deposits and the reinvestment of funds as our loan portfolios pay down. During the three months ended June 30, 2016, securities with a fair value of approximately $492 million were transferred from available-for-sale to held-to-maturity pursuant to an evaluation of our investment strategy and an assessment by management about our intent and ability to hold those particular securities until maturity. See *Note 14—Shareholders' Equity* for additional information.

Margin Receivables

Margin receivables decreased 11% to $6.6 billion during the nine months ended September 30, 2016. The decrease in margin receivables was primarily driven by overall customer market sentiment during the period, lowering demand for additional margin lending. Average margin receivables were $6.6 billion for the nine months ended September 30, 2016.

Loans Receivable, Net

Loans receivable, net are summarized as follows (dollars in millions):

	September 30, 2016	December 31, 2015	Variance 2016 vs. 2015 Amount	Variance 2016 vs. 2015 %
One- to four-family	$ 2,094	$ 2,488	$ (394)	(16)%
Home equity	1,685	2,114	(429)	(20)%
Consumer	271	341	(70)	(21)%
Total loans receivable	4,050	4,943	(893)	(18)%
Unamortized premiums, net	17	23	(6)	(26)%
Allowance for loan losses	(235)	(353)	118	(33)%
Total loans receivable, net	$ 3,832	$ 4,613	$ (781)	(17)%

Loans receivable, net decreased 17% to $3.8 billion during the nine months ended September 30, 2016. We plan on reducing balance sheet risk through loan portfolio run-off for the foreseeable future. As our portfolio ages, we continue to gather substantive performance history on loan conversions from interest-only to amortizing and assess the economic environment and the value of our portfolio in the marketplace. While it is our intention to hold these loans, if the markets improve our strategy could change. For additional information on management's estimate of the allowance for loan losses, see *Concentrations of Credit Risk*.

Goodwill and Other Intangibles, net

Goodwill and other intangibles, net increased 37% to $2.7 billion during the nine months ended September 30, 2016. The increase was driven by $578 million and $169 million in provisional goodwill and intangible assets, respectively, recorded in connection with the OptionsHouse acquisition. For additional information, see *Note 2—Business Acquisition*.

Deposits

Deposits are summarized as follows (dollars in millions):

	September 30, 2016	December 31, 2015	Variance 2016 vs. 2015 Amount	Variance 2016 vs. 2015 %
Sweep deposits	$ 26,464	$ 24,018	$ 2,446	10 %
Complete savings deposits	3,182	3,357	(175)	(5)%
Checking deposits	1,252	1,239	13	1 %
Other money market and savings deposits	765	792	(27)	(3)%
Time deposits	34	39	(5)	(13)%
Total deposits	$ 31,697	$ 29,445	$ 2,252	8 %

Deposits represented 74% of total liabilities at both September 30, 2016 and December 31, 2015. At September 30, 2016, approximately 90% of our customer deposits were covered by FDIC insurance.

The majority of the deposits balance, specifically sweep deposits, is included in brokerage related cash, which is reported as a customer activity metric. Total brokerage related cash is summarized as follows (dollars in millions):

	September 30, 2016	December 31, 2015	Variance 2016 vs. 2015 Amount	Variance 2016 vs. 2015 %
Sweep deposits(1)	$ 26,464	$ 24,018	$ 2,446	10%
Customer payables	7,827	6,544	1,283	20%
Subtotal	34,291	30,562	3,729	12%
Customer cash held by third parties(2)	14,024	11,173	2,851	26%
Total brokerage related cash	$ 48,315	$ 41,735	$ 6,580	16%

(1) Sweep deposits are held at bank subsidiaries and are included in the deposits line item on our consolidated balance sheet.
(2) Customer cash held by third parties is not reflected on our consolidated balance sheet and are not immediately available for liquidity purposes.

We offer an extended insurance sweep deposit account ("ESDA") program to our brokerage customers. The ESDA program utilizes our bank subsidiaries, in combination with additional third party program banks, to allow customers the ability to have aggregate deposits they hold in the ESDA program insured up to $1,250,000 for each category of legal ownership. As of September 30, 2016, approximately 98% of sweep deposits were in the ESDA program.

Customer payables increased 20% to $7.8 billion during the nine months ended September 30, 2016, primarily driven by net sales of securities in brokerage customer accounts.

Customer cash held by third parties is maintained at unaffiliated financial institutions. The components of customer cash held by third parties are summarized as follows (dollars in millions):

	September 30, 2016	December 31, 2015	Variance 2016 vs. 2015 Amount	Variance 2016 vs. 2015 %
Sweep deposits at unaffiliated financial institutions	$ 12,336	$ 5,818	$ 6,518	112 %
Customer cash held at third party clearing firm(1)	1,535	—	1,535	100 %
Municipal funds and other	153	3,599	(3,446)	(96)%
Money market fund	—	1,756	(1,756)	(100)%
Customer cash held by third parties	$ 14,024	$ 11,173	$ 2,851	26 %

(1) Represents OptionsHouse's customer cash held by third party.

During the nine months ended September 30, 2016, we transferred a net total of $2.8 billion of customer cash held at third party institutions back onto our balance sheet. This amount included $1.6 billion of customer balances converted from the money market fund product held by third parties to our ESDA program during the first quarter of 2016, allowing us to more efficiently manage our balance sheet size through our sweep deposits platform. During the third quarter of 2016, we converted $4.1 billion of customer cash to our ESDA program. This conversion, along with the acquisition of OptionsHouse, increased the total amount of customer cash that will be available to bring back on to our balance sheet to approximately $11 billion. We expect to exceed $50 billion in consolidated assets regulatory threshold during the first half of 2017, and anticipate ending the second quarter of 2017 with approximately $56 billion of total consolidated assets.

Other Borrowings

Other borrowings, which includes securities sold under agreements to repurchase and trust preferred securities ("TRUPs"), are summarized as follows (dollars in millions):

	September 30, 2016	December 31, 2015	Variance 2016 vs. 2015 Amount	Variance 2016 vs. 2015 %
Trust preferred securities	$ 409	$ 409	$ —	— %
Repurchase agreements	—	82	(82)	(100)%
Total other borrowings	$ 409	$ 491	$ (82)	(17)%

Other borrowings represented 1% of total liabilities at both September 30, 2016 and December 31, 2015.

Corporate Debt

Corporate debt is summarized as follows (dollars in millions):

	Face Value	Discount	Net
September 30, 2016			
Interest-bearing notes:			
5 3/8% Notes, due 2022	$ 540	$ (4)	$ 536
4 5/8% Notes, due 2023	460	(5)	455
Total interest-bearing notes	1,000	(9)	991
Non-interest-bearing debt:			
0% Convertible debentures, due 2019	3	—	3
Total corporate debt	$ 1,003	$ (9)	$ 994

	Face Value	Discount	Net
December 31, 2015			
Interest-bearing notes:			
5 3/8% Notes, due 2022	$ 540	$ (6)	$ 534
4 5/8% Notes, due 2023	460	(5)	455
Total interest-bearing notes	1,000	(11)	989
Non-interest-bearing debt:			
0% Convertible debentures, due 2019	8	—	8
Total corporate debt	$ 1,008	$ (11)	$ 997

During the nine months ended September 30, 2016, $5 million of convertible debentures were converted into 0.5 million shares of common stock.

Shareholders' Equity

The activity in shareholders' equity during the nine months ended September 30, 2016 is summarized as follows (dollars in millions):

	Preferred Stock	Common Stock / Additional Paid-In Capital	Accumulated Deficit / Other Comprehensive Income (Loss)	Total
Beginning balance, December 31, 2015	$ —	$ 7,359	$ (1,560)	$ 5,799
Net income	—	—	425	425
Net change from available-for-sale securities	—	—	138	138
Issuance of preferred stock	394	—	—	394
Repurchases of common stock	—	(452)	—	(452)
Other(1)	—	12	—	12
Ending balance, September 30, 2016	$ 394	$ 6,919	$ (997)	$ 6,316

(1) Other includes employee share-based compensation and conversions of convertible debentures.

On August 25, 2016, we issued 400,000 shares of Series A fixed-to-floating rate non-cumulative perpetual preferred stock for gross proceeds of $400 million. Net proceeds, after issuance cost, were approximately $394 million. For additional information, see *Note 14—Shareholders' Equity*.

LIQUIDITY AND CAPITAL RESOURCES

We have established liquidity and capital policies to support the successful execution of our business strategy, while ensuring ongoing and sufficient liquidity through the business cycle. We believe liquidity is of critical importance to the Company and especially important within E*TRADE Bank and our broker-dealer subsidiaries. The objective of our policies is to ensure that we can meet our corporate, banking and broker-dealer liquidity needs under both normal operating conditions and under periods of stress in the financial markets. For additional information, see *Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the year ended December 31, 2015.

Liquidity

Our corporate liquidity needs are primarily driven by capital needs at E*TRADE Bank and E*TRADE Clearing as well as by the principal and interest due on our corporate debt and the amount of dividend payments on our preferred stock. Our banking and brokerage subsidiaries' liquidity needs are driven primarily by the level and volatility of our customer activity. Management maintains a set of liquidity sources and monitors certain business trends and market metrics closely in an effort to ensure we have sufficient liquidity.

Management believes the following are the key sources of liquidity that impact our ability to meet our liquidity needs: corporate cash, bank cash, deposits, customer payables, securities lending, Federal Home Loan Bank ("FHLB") borrowing capacity, E*TRADE Clearing's liquidity lines and the revolving credit facility at the parent company. Loans by E*TRADE Bank to the parent company and its other non-bank subsidiaries are subject to various quantitative, arm's length, collateralization and other requirements.

Corporate Cash

Corporate cash, a non-GAAP measure and a component of consolidated cash and equivalents, is the primary source of liquidity at the parent company. We define corporate cash as cash held at the parent company and certain subsidiaries, not including bank and broker-dealer subsidiaries, that can be distributed to the parent company without any regulatory approval or notification. E*TRADE Bank and its subsidiaries require regulatory approval prior to the payment of dividends to the parent company. Our broker-dealer subsidiaries can pay dividends to the parent company with proper regulatory notifications.

We believe corporate cash is a useful measure of the parent company's liquidity as it is the primary source of capital above and beyond the capital deployed in our regulated subsidiaries. Corporate cash can fluctuate in any given quarter and is impacted primarily by the following:

- approval and timing of subsidiary dividends;
- debt service costs;
- non-cumulative preferred stock dividends;
- tax settlements and the reimbursement from the parent company's subsidiaries for the use of its deferred tax assets;
- other overhead cost sharing arrangements;
- share repurchases; and
- acquisitions and investments.

The following table provides a reconciliation of consolidated cash and equivalents to corporate cash, a non-GAAP measure (dollars in millions):

	September 30, 2016	December 31, 2015	September 30, 2015
Consolidated cash and equivalents	$ 1,467	$ 2,233	$ 1,453
Less: Bank cash	(482)	(1,264)	(443)
Less: U.S. broker-dealers' cash	(646)	(497)	(549)
Less: Other cash	(33)	(25)	(29)
Corporate cash	$ 306	$ 447	$ 432

Corporate cash decreased $141 million to $306 million during the nine months ended September 30, 2016. Corporate cash included dividends of $373 million from E*TRADE Bank, $227 million from E*TRADE Clearing and $108 million from E*TRADE Securities to the parent company during the nine months ended September 30, 2016.

On September 12, 2016, we completed the acquisition of Aperture New Holdings, Inc., the ultimate parent company of OptionsHouse, an online brokerage, for $725 million. We funded the transaction through the issuance of fixed-to-floating rate non-cumulative perpetual preferred stock for gross proceeds of $400 million, and the remainder with existing corporate cash. For additional information on the issuance of preferred stock, see *Note 14—Shareholders' Equity*.

We used corporate cash to repurchase a total of $452 million, or 19.0 million shares, of common stock during the six months ended June 30, 2016. Due to the OptionsHouse acquisition, we did not repurchase shares during the third quarter of 2016. We will continue to assess the best use of corporate cash and anticipate resuming share repurchases in the second half of 2017.

During 2015, we reduced our total corporate debt to $1.0 billion and, in conjunction with a refinancing, decreased our annual debt service costs to $50 million. We maintain corporate cash at a minimum of two times our scheduled annual corporate debt service payments and scheduled maturities over the next 12 months. As we do not have any scheduled maturities of corporate debt in the coming year, our current minimum is approximately $100 million. Our nearest maturity of interest-bearing corporate debt is November 2022.

Revolving Credit Facility

At September 30, 2016, we have a senior secured revolving credit facility at the parent company with an available line of credit of $250 million. The revolving credit facility enhances our ability to meet liquidity needs at the parent company, as we have the ability to borrow against this facility for working capital and general corporate purposes. Our revolving credit facility contains certain covenants, including the requirement for the parent company to maintain unrestricted cash of at least $100 million. At September 30, 2016, there was no outstanding balance under this revolving credit facility.

*E*TRADE Bank Liquidity*

E*TRADE Bank relies on bank cash and deposits for liquidity needs. Management believes that within deposits, sweep deposits are of particular importance as they are a stable source of liquidity for E*TRADE Bank. We have the ability to generate liquidity in the form of additional deposits by raising the yield on our customer deposit products and by bringing additional deposits onto our balance sheet. Sweep deposits on our balance sheet as of September 30, 2016 increased $2.4 billion compared to December 31, 2015. We utilize our sweep deposit platform to efficiently manage our balance sheet size.

We may utilize wholesale funding sources for short-term liquidity and contingency funding requirements. Our ability to borrow these funds is dependent upon the continued availability of funding in the wholesale borrowings market. In addition, we can borrow from the Federal Reserve Bank's discount window to meet short-term liquidity requirements, although it is not viewed as a primary source of funding. At September 30, 2016, E*TRADE Bank had approximately $2.7 billion and $0.7 billion in additional collateralized borrowing capacity with the FHLB and the Federal Reserve Bank, respectively.

*E*TRADE Clearing Liquidity*

E*TRADE Clearing relies on customer payables, securities lending, and internal and external lines of credit to provide liquidity and to finance margin lending. At September 30, 2016, E*TRADE Clearing's external liquidity lines totaled approximately $1.1 billion and included the following:

- a 364-day, $400 million senior unsecured committed revolving credit facility with a syndicate of banks that matures in June 2017;
- secured committed lines of credit with two unaffiliated banks, aggregating to $175 million with a maturity date of June 2017;
- unsecured uncommitted lines of credit with two unaffiliated banks, aggregating to $100 million, of which $75 million was renewed and is scheduled to mature in June 2017 and the remaining line has no maturity date; and
- secured uncommitted lines of credit with several unaffiliated banks, aggregating to $375 million with no maturity date.

The revolving credit facility contains certain covenants including maintenance covenants related to E*TRADE Clearing's minimum consolidated tangible net worth and regulatory net capital ratio. There were no outstanding balances for any of these lines at September 30, 2016. E*TRADE Clearing also maintains lines of credit with the parent company and E*TRADE Bank.

Capital Resources

Creating capital efficiency is a priority for us. The $708 million of dividends paid to the parent company during the nine months ended September 30, 2016 included the following:

- $373 million from E*TRADE Bank, from earnings and excess capital as a result of regulatory approval to operate E*TRADE Bank at an 8.0% Tier 1 leverage ratio; and
- $335 million from our broker-dealers, from earnings and other sources of excess capital.

The timing and amount of dividends from E*TRADE Bank will vary as we utilize capital for balance sheet growth and is subject to regulatory approvals. As it relates to our broker-dealer subsidiaries, on October 1, 2016, we merged E*TRADE Securities, the introducing broker, with E*TRADE Clearing. We plan to continue quarterly distributions of excess capital generated by the consolidated broker-dealer.

Bank Capital Requirements

The Dodd-Frank Act requires all companies, including savings and loan holding companies, that directly or indirectly control an insured depository institution to serve as a source of strength for the institution. The Company and E*TRADE Bank are subject to banking regulatory capital requirements. Some of these requirements are still subject to phase-in periods, including certain regulatory deductions and adjustments that will be fully implemented at 100% in 2018. For additional information on bank regulatory requirements and phase-in periods, see *Part I. Item 1. Business—Regulation* in our Annual Report on Form 10-K for the year ended December 31, 2015. At September 30, 2016, our regulatory capital ratios for E*TRADE Financial were well above the minimum ratios required to be "well capitalized." E*TRADE Financial's capital ratios are calculated as follows (dollars in millions):

	September 30, 2016	December 31, 2015	September 30, 2015
E*TRADE Financial shareholders' equity	$ 6,316	$ 5,799	$ 5,812
Deduct:			
Preferred stock	(394)	—	—
E*TRADE Financial Common Equity Tier 1 capital before regulatory adjustments	$ 5,922	$ 5,799	$ 5,812
Add:			
(Gains) losses in other comprehensive income on available-for-sale debt securities, net of tax	(37)	101	14
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(2,043)	(1,419)	(1,428)
Disallowed deferred tax assets	(556)	(838)	(873)
Other[1]	—	104	105
E*TRADE Financial Common Equity Tier 1 capital	3,286	3,747	3,630
Add:			
Preferred stock	394	—	—
Deduct:			
Disallowed deferred tax assets	(284)	—	—
E*TRADE Financial Tier 1 capital	$ 3,396	$ 3,747	$ 3,630
Add:			
Allowable allowance for loan losses	128	129	126
Non-qualifying capital instruments subject to phase-out (trust preferred securities)[1]	414	310	314
E*TRADE Financial total capital	$ 3,938	$ 4,186	$ 4,070
E*TRADE Financial average assets for leverage capital purposes	$ 49,240	$ 44,016	$ 44,732
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(2,043)	(1,419)	(1,428)
Disallowed deferred tax assets	(840)	(839)	(873)
Other[1]	—	104	105
E*TRADE Financial adjusted average assets for leverage capital purposes	$ 46,357	$ 41,862	$ 42,536
E*TRADE Financial total risk-weighted assets[2]	$ 9,678	$ 9,536	$ 9,196
E*TRADE Financial Tier 1 leverage ratio (Tier 1 capital / Adjusted average assets for leverage capital purposes)	7.3%	9.0%	8.5%
E*TRADE Financial Common Equity Tier 1 capital / Total risk-weighted assets	34.0%	39.3%	39.5%
E*TRADE Financial Tier 1 capital / Total risk-weighted assets	35.1%	39.3%	39.5%
E*TRADE Financial total capital / Total risk-weighted assets	40.7%	43.9%	44.3%

(1) As a result of applying the transition provisions under Basel III in 2015, the Company included 25% of the TRUPs in the calculation of E*TRADE Financial's Tier 1 capital and 75% of the TRUPs in the calculation of E*TRADE Financial's total capital. In accordance with the transition provisions, the TRUPs were fully phased out of E*TRADE Financial's Tier 1 capital in 2016.

(2) Under the regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total risk-weighted assets.

At September 30, 2016, our regulatory capital ratios for E*TRADE Bank were well above the minimum ratios required to be "well capitalized." E*TRADE Bank's capital ratios are calculated as follows (dollars in millions):

	September 30, 2016	December 31, 2015[1]	September 30, 2015[1]
E*TRADE Bank shareholder's equity	$ 3,278	$ 3,181	$ 3,171
Add:			
(Gains) losses in other comprehensive income on available-for-sale debt securities, net of tax	(37)	101	14
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(38)	(38)	(38)
Disallowed deferred tax assets	(134)	(169)	(187)
E*TRADE Bank Common Equity Tier 1 capital / Tier 1 capital	3,069	3,075	2,960
Add:			
Allowable allowance for loan losses	107	110	108
E*TRADE Bank total capital	$ 3,176	$ 3,185	$ 3,068
E*TRADE Bank average assets for leverage capital purposes	$ 36,300	$ 31,785	$ 32,466
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(38)	(38)	(38)
Disallowed deferred tax assets	(134)	(169)	(187)
E*TRADE Bank adjusted average assets for leverage capital purposes	$ 36,128	$ 31,578	$ 32,241
E*TRADE Bank total risk-weighted assets[1]	$ 8,368	$ 8,424	$ 8,230
E*TRADE Bank Tier 1 leverage ratio (Tier 1 capital / Adjusted average assets for leverage capital purposes)	8.5%	9.7%	9.2%
E*TRADE Bank Common Equity Tier 1 capital / Total risk-weighted assets	36.7%	36.5%	36.0%
E*TRADE Bank Tier 1 capital / Total risk-weighted assets	36.7%	36.5%	36.0%
E*TRADE Bank total capital / Total risk-weighted assets	38.0%	37.8%	37.3%

(1) Under the regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total risk-weighted assets.

Broker-Dealer Capital Requirements

Our broker-dealer subsidiaries are subject to capital requirements determined by their respective regulators. At September 30, 2016, all of our brokerage subsidiaries met their minimum net capital requirements, ending the period with excess net capital of $838 million.

Off-Balance Sheet Arrangements

We enter into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our customers and to reduce our own exposure to interest rate risk. These arrangements include firm commitments to extend credit. Additionally, we enter into guarantees and other similar arrangements as part of transactions in the ordinary course of business. For additional information on these arrangements, see *Item 1. Consolidated Financial Statements (Unaudited).*

RISK MANAGEMENT

As a financial services company, our business is exposed to certain risks. The identification, mitigation and management of existing and potential risks is critical to effective enterprise risk management. There are certain risks inherent to our industry (e.g. execution of transactions) and certain risks that will surface through the conduct of our business operations. We seek to monitor and manage our significant risk exposures by operating under a set of Board-approved limits and by monitoring certain risk indicators. Our governance framework requires regular reporting on metrics, significant risks and exposures to senior management and the Board of Directors. Our risk management framework is subject to the risk committee requirement for publicly traded bank holding companies with total consolidated assets of greater than $10 billion and less than $50 billion, contained in the Federal Reserve’s enhanced prudential standards for bank holding companies and foreign banking organizations. Our framework, as described below, is in compliance with all applicable requirements.

We have a Board-approved Enterprise Risk Appetite Statement ("RAS") that is provided to all employees. The RAS specifies significant risk exposures and addresses the Company's tolerance of those risks, which are categorized as follows, with further information provided elsewhere in this Form 10-Q or in our Annual Report on Form 10-K for the year ended December 31, 2015, as indicated:

- *Credit Risk*—the risk of loss arising from the failure of a borrower or counterparty to meet its credit obligations. For additional information, see *Credit Risk Management* below.
- *Interest Rate Risk*—the risk of adverse changes in earnings or market value arising from our balance sheet positions due to changes in interest rates. This includes convexity risk, which arises primarily from prepayment options on mortgages as well as the ability of customers to withdraw deposits. For additional information, see *Item 3. Quantitative and Qualitative Disclosures about Market Risk*.
- *Liquidity Risk*—the potential inability to meet contractual and contingent financial obligations, either on- or off-balance sheet, in a timely and cost-effective manner as they come due. For additional information, see *Liquidity and Capital Resources.*
- *Market Risk*—the risk that asset values or income streams will be adversely affected by changes in market conditions. For additional information, see *Item 3. Quantitative and Qualitative Disclosures about Market Risk* in this Form 10-Q and *Item 7A. Quantitative and Qualitative Disclosures about Market Risk* in our Annual Report on Form 10-K for the year ended December 31, 2015.

For additional information on the following risks, see *Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the year ended December 31, 2015:

- *Operational Risk*—the risk of loss due to failure of people, processes, and systems, or damage to physical assets.
- *Information Technology and Cybersecurity Risk*—the risk of loss of customer or company data, integrity, or availability of systems through the compromise of our electronic digital media (e.g., computers, mobile devices, etc.).
- *Strategic Risk*—the risk of loss of market size, market share, or margin in any product, leading to lost revenues and potentially significant reductions to net income and/or market value.
- *Reputational Risk*—the potential that negative perceptions regarding our conduct or business practices, or capacity to conduct business, will adversely affect valuation, profitability, operations or the customer base, or require costly litigation or other measures.
- *Legal, Regulatory and Compliance Risk*—the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, applicable guidance, internal policies and procedures, or ethical standards.

We are also subject to other risks that could impact our business, financial condition, results of operations or cash flows in future periods. See *Part I. Item 1A. Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2015.

Credit Risk Management

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its credit obligations. We are exposed to credit risk in the following areas:

- We hold credit risk exposure in our loan portfolio. We are not currently originating or purchasing loans, and we are continuing our strategy of reducing balance sheet risk through loan portfolio run-off.
- We extend margin loans to our brokerage customers which exposes us to the risk of credit losses in the event adverse market conditions result in an unsecured margin balance that the customer is not able or willing to cover.
- We engage in financial transactions with counterparties which expose us to credit losses in the event a counterparty cannot meet its obligations. These financial transactions include our invested cash, securities lending, repurchase and reverse repurchase agreements, and derivatives portfolios, as well as the settlement of trades.

Credit risk is monitored by our Credit Committee and Margin Risk Committee. The Credit Committee's objective is to evaluate current and expected credit performance of our loans, investments, borrowers and counterparties relative to market conditions and the probable impact on our financial performance. They establish credit risk guidelines in accordance with our strategic objectives and existing policies, and they review investment and lending activities with credit risk to ensure consistency with those established guidelines. These reviews involve an analysis of portfolio balances, delinquencies, losses, recoveries, default management and collateral liquidation performance, as well as any credit risk mitigation efforts relating to the portfolios. In addition, the Credit Committee reviews and approves credit related counterparties engaged in financial transactions with us. The Margin Risk Committee is responsible for corporate governance and oversight with regard to margin risk. The Committee identifies, monitors and mitigates where necessary market, operational and credit risks related to E*TRADE’s margin lending activities.

Loss Mitigation on the Loan Portfolio

Our credit risk operations team manages the mitigation of credit risk within the loan portfolio. Through a variety of strategies, including voluntary line closures, automatically freezing lines on all delinquent accounts, and freezing lines on loans with materially reduced home equity, we reduced our exposure to open home equity lines from a high of over $7 billion in 2007 to approximately $32 million at September 30, 2016. In addition, we have continued a loan modification program initiated in 2015 that targets borrowers of HELOCs whose original contract terms provided an option to accelerate the date at which the loan begins amortizing. This program, certain terms of which represented economic concessions such as extended amortization periods, resulted in $15 million and $14 million, respectively, of modifications classified as TDRs and $65 million and $44 million, respectively, of modifications not classified as TDRs during the nine months ended September 30, 2016 and 2015.

We continue to have loan modification programs that were established to minimize potential losses in the mortgage portfolios by targeting borrowers experiencing financial difficulties. During the nine months ended September 30, 2016 and 2015, these programs were utilized to modify $7 million and $10 million, respectively, of one- to four-family loans, and $19 million and $11 million, respectively, of home equity loans. These modifications were classified as TDRs. We also process minor modifications on certain loans in the normal course of servicing delinquent accounts. Minor modifications resulting in an insignificant delay in the timing of payments are not considered economic concessions and therefore are not classified as TDRs. At September 30, 2016 and December 31, 2015, we had $16 million and $20 million, respectively, of mortgage loans with minor modifications that were not considered TDRs. We currently do not have any active loan modification programs for consumer loans. Loan modification balances may increase in future periods to mitigate potential losses as the volume of mortgage loans reaching the end of their interest-only period increases. The impact to our financial results from such modifications is dependent on a variety of factors, including any allowance previously established on the modified principal balance.

Currently, our entire loan portfolio is serviced by third parties. To reduce vendor, operational and regulatory risks, we have assessed our servicing relationships and, where appropriate, consolidated providers or transferred certain mortgage loans to servicers that specialize in managing troubled assets. At September 30, 2016, $2.6 billion gross unpaid principal balance of our mortgage loans were held at servicers that specialize in managing troubled assets. We believe this initiative has improved and will continue to improve the credit performance of the loans transferred compared to the expected credit performance of these same loans if they had not been transferred.

During the first quarter of 2016, we completed our review of the mortgage loan portfolio that was aimed at identifying loans to be repurchased by the originator. Our review primarily focused on identifying loans with violations of transaction representations and warranties or material misrepresentation on the part of the seller. Any loans identified with these deficiencies were submitted to the original seller for repurchase. During the three months ended March 31, 2016 and the nine months ended September 30, 2015, we received one-time payments of $3 million and $2 million, respectively, from third party mortgage originators to satisfy in full all pending and future repurchase requests with them. We recognized these settlements as recoveries to the allowance for loan losses, resulting in a corresponding reduction to net charge-offs and, ultimately, a benefit to our provision (benefit) for loan losses. A total of $464 million of loans have been repurchased by or settled with third party mortgage originators since we began the review process in 2008. As our review is complete, we do not expect any future repurchases or settlements on the mortgage loan portfolio.

CONCENTRATIONS OF CREDIT RISK

Loans

Interest-Only Loans

One- to four-family loans include loans for a five to ten year interest-only period, followed by an amortizing period ranging from 20 to 25 years. At September 30, 2016, 31% of our one- to four-family portfolio was not yet amortizing. During the trailing twelve months ended September 30, 2016, borrowers of approximately 15% of the portfolio made voluntary annual principal payments of at least $2,500 and of this population, nearly half made principal payments that were $10,000 or greater.

The home equity loan portfolio is primarily second lien loans on residential real estate properties, which have a higher level of credit risk than first lien mortgage loans. Approximately 13% of the home equity loan portfolio was in the first lien position and we held both the first and second lien positions in less than 1% of the home equity loan portfolio at September 30, 2016. The home equity loan portfolio consisted of approximately 18% of home equity installment loans and approximately 82% of HELOCs at September 30, 2016. Home equity installment loans are primarily fixed rate and fixed term, fully amortizing loans that do not offer the option of an interest-only payment. The majority of HELOCs convert to amortizing loans at the end of the draw period, which typically ranges from five to ten years. At September 30, 2016, approximately 1% of this portfolio will require the borrowers to repay the loan in full at the end of the draw period in a future period. At September 30, 2016, 27% of the HELOC portfolio had not converted from the interest-only draw period and had not begun amortizing. During the trailing twelve months ended September 30, 2016, borrowers of approximately 40% of the portfolio made voluntary annual principal payments of at least $500 on their HELOCs and slightly under half of those reduced their principal balance by at least $2,500.

The following table outlines when one- to four-family and HELOCs convert to amortizing by percentage of the one- to four-family and HELOC portfolios, respectively, at September 30, 2016:

Period of Conversion to Amortizing Loan	% of One- to Four-Family Portfolio	% of Home Equity Line of Credit Portfolio
Already amortizing	69%	73%
Through December 31, 2016	7%	12%
Year ending December 31, 2017	24%	14%
Year ending December 31, 2018 or later	—%	1%

Nonperforming Assets

We classify loans as nonperforming when they are no longer accruing interest, which includes loans that are 90 days and greater past due, TDRs that are on nonaccrual status for all classes of loans (including loans in bankruptcy) and certain junior liens that have a delinquent senior lien. The following table shows the comparative data for nonperforming loans and assets at September 30, 2016 and December 31, 2015 (dollars in millions):

	September 30, 2016	December 31, 2015
One- to four-family	$ 230	$ 263
Home equity	150	154
Consumer	—	1
Total nonperforming loans receivable	380	418
Real estate owned and other repossessed assets, net	31	29
Total nonperforming assets, net	$ 411	$ 447
Nonperforming loans receivable as a percentage of gross loans receivable	9.4%	8.5%
One- to four-family allowance for loan losses as a percentage of one- to four-family nonperforming loans receivable	20.4%	15.3%
Home equity allowance for loan losses as a percentage of home equity nonperforming loans receivable	122.1%	198.8%
Consumer allowance for loan losses as a percentage of consumer nonperforming loans receivable	1,483.2%	667.0%
Total allowance for loan losses as a percentage of total nonperforming loans receivable	61.8%	84.6%

Nonperforming assets, net decreased $36 million to $411 million during the nine months ended September 30, 2016. This decrease reflected continued improvement in economic conditions and loan portfolio run-off. The decrease was partially offset by our recent offers of loan modification programs to a subset of borrowers with HELOCs whose original loan terms provided the borrowers the option to accelerate their date of conversion to amortizing loans. As certain terms of our offer represented economic concessions, such as longer amortization periods than were in the original loan agreements, this program resulted in $15 million of TDRs during the nine months ended September 30, 2016. See *Risk Management* for additional information.

Allowance for Loan Losses

The allowance for loan losses is management's estimate of probable losses inherent in the loan portfolio at the balance sheet date, as well as the forecasted losses, including economic concessions to borrowers, over the estimated remaining life of loans modified as TDRs. The general allowance for loan losses includes a qualitative component to account for a variety of factors that present additional uncertainty that may not be fully considered in the quantitative loss model but are factors we believe may impact the level of credit losses. The following table presents the allowance for loan losses by loan portfolio at September 30, 2016 and December 31, 2015 (dollars in millions):

	One- to Four-Family		Home Equity		Consumer		Total	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
General reserve:								
Quantitative component	$ 37	$ 28	$ 130	$ 245	$ 5	$ 6	$ 172	$ 279
Qualitative component	4	3	2	10	—	—	6	13
Specific valuation allowance	6	9	51	52	—	—	57	61
Total allowance for loan losses	$ 47	$ 40	$ 183	$ 307	$ 5	$ 6	$ 235	$ 353
Allowance as a % of loans receivable(1)	2.2%	1.6%	10.8%	14.5%	2.0%	1.9%	5.8%	7.1%

(1) Allowance as a percentage of loans receivable is calculated based on the gross loans receivable including net unamortized premiums for each respective category.

Total loans receivable designated as held-for-investment decreased $0.8 billion during the nine months ended September 30, 2016. The allowance for loan losses was $235 million, or 5.8% of total loans receivable, as of

September 30, 2016 compared to $353 million, or 7.1% of total loans receivable, as of December 31, 2015. Our quantitative allowance methodology continues to include the identification of higher risk mortgage loans and the period of our forecasted loan losses captured within the general allowance includes the total probable loss over the remaining life of these loans. The decrease in the allowance for loan losses reflects updated performance expectations based on the sustained outperformance of a substantial volume of the higher-risk loans in the HELOC portfolio. For additional information on management's estimate of the allowance for loan losses, see *Summary of Critical Accounting Policies and Estimates in Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* in the annual report on Form 10-K for the year ended December 31, 2015.

Net Charge-offs

The following table provides an analysis of net charge-offs for the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Charge-offs	Recoveries(1)	Net (Charge-Offs) Recoveries	% of Average Loans (Annualized)
Three Months Ended September 30, 2016				
One- to four-family	$ —	$ 3	$ 3	(0.54)%
Home equity	(4)	6	2	(0.41)%
Consumer	(1)	—	(1)	0.95 %
Total	$ (5)	$ 9	$ 4	(0.39)%
Three Months Ended September 30, 2015				
One- to four-family	$ —	$ —	$ —	— %
Home equity	(7)	7	—	0.01 %
Consumer	(2)	1	(1)	0.97 %
Total	$ (9)	$ 8	$ (1)	0.05 %

	Charge-offs	Recoveries(1)	Net (Charge-Offs) Recoveries	% of Average Loans (Annualized)
Nine Months Ended September 30, 2016				
One- to four-family	$ (1)	$ 6	$ 5	(0.26)%
Home equity	(13)	23	10	(0.70)%
Consumer	(5)	3	(2)	1.00 %
Total	$ (19)	$ 32	$ 13	(0.36)%
Nine Months Ended September 30, 2015				
One- to four-family	$ (3)	$ —	$ (3)	0.13 %
Home equity	(26)	21	(5)	0.25 %
Consumer	(8)	5	(3)	0.86 %
Total	$ (37)	$ 26	$ (11)	0.23 %

(1) Recoveries include the impact of mortgage originator settlements.

Loan losses are recognized when, based on management's estimate, it is probable that a loss has been incurred. The charge-off policy for both one- to four-family and home equity loans is to assess the value of the property when the loan has been delinquent for 180 days or has received bankruptcy notification, regardless of whether or not the property is in foreclosure, and charge off the amount of the loan balance in excess of the estimated current value of the underlying property less estimated selling costs. Modified loans considered TDRs are charged off when they are identified as collateral dependent based on certain terms of the modification. In order to determine if a loan is collateral dependent, the Company reviews multiple credit quality attributes and assigns a higher level of risk to loans in which the LTV or CLTV is greater than 110% or 125%, respectively, or if a borrower's credit score is less than 600. Closed-end consumer loans are charged off when the loan has been 120 days delinquent or when it is determined that collection is not probable.

Net recoveries for the three and nine months ended September 30, 2016 increased $5 million and $24 million, respectively, compared to the same periods in 2015. This increase reflected continued improvement in economic conditions, an increase in recoveries of previous charge-offs and loan portfolio run-off. The timing and magnitude of charge-offs are affected by many factors and we anticipate variability from quarter to quarter, particularly as HELOCs convert to amortizing loans.

For additional information on the loans portfolio, see *Note 8—Loans Receivable, Net.*

Securities

We focus primarily on security type and credit rating to monitor credit risk in our securities portfolios. We consider securities backed by the U.S. government or its agencies to have low credit risk as the long-term debt rating of the U.S. government is AA+ by S&P and AAA by Moody's and Fitch at September 30, 2016. The amortized cost of these securities accounted for over 99% of our total securities portfolio at September 30, 2016. We review the remaining debt securities that were not backed by the U.S. government or its agencies according to their credit ratings from S&P, Moody's and Fitch where available. At September 30, 2016, all municipal bonds and corporate bonds in our securities portfolio were rated investment grade (defined as a rating equivalent to a Moody's rating of "Baa3" or higher, or a S&P or Fitch rating of "BBB-" or higher).

SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with GAAP. *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* in Part II. Item 8. Financial Statements and Supplementary Data in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented. We believe that of our significant accounting policies, the following are critical because they are based on estimates and assumptions that require complex and subjective judgments by management: allowance for loan losses; asset impairment, including goodwill impairment and other-than-temporary impairment ("OTTI"); estimates of effective tax rates, deferred taxes and valuation allowance; accounting for derivative instruments; and fair value measurements. Changes in these estimates or assumptions could materially impact our financial condition and results of operations, and actual results could differ from our estimates. These policies are more fully described in Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—*Summary of Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the year ended December 31, 2015.

GLOSSARY OF TERMS

Agency—U.S. Government sponsored enterprises and federal agencies, such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, the Small Business Administration and the Federal Home Loan Bank.

ALCO—Asset Liability Committee.

Average commission per trade—Total commissions revenue divided by total number of revenue trades.

Bank—ETB Holdings, Inc. ("ETBH"), the entity that is our bank holding company and parent to E*TRADE Bank.

Basis point—One one-hundredth of a percentage point.

Brokerage account attrition rate—The brokerage account attrition rate is calculated by dividing attriting brokerage accounts by total brokerage accounts from the previous period end, and is presented on an annualized basis. Attriting brokerage accounts are derived by subtracting net new brokerage accounts from gross new brokerage accounts.

Brokerage related cash—Customer sweep deposits held at banking subsidiaries, customer payables and customer cash held by third parties.

BPO—Broker price opinion.

Cash flow hedge—A derivative instrument designated in a hedging relationship that mitigates exposure to variability in expected future cash flows attributable to a particular risk.

CFTC—Commodity Futures Trading Commission.

Charge-off—The result of removing a loan or portion of a loan from an entity's balance sheet because the loan is considered to be uncollectible.

CLTV—Combined loan-to-value.

CMOs—Collateralized mortgage obligations.

Common Equity Tier 1 Capital—A measurement of the Company's core equity capital. Common Equity Tier 1 Capital equals: total shareholders' equity, less preferred stock and related surplus, plus/(less) unrealized losses (gains) on available-for-sale securities and cash flow hedges, less goodwill and certain other intangible assets, disallowed deferred tax assets and other applicable adjustments.

Consumer loans—Loans that are secured by real personal property, such as recreational vehicles.

Corporate cash—Cash held at the parent company as well as cash held in certain subsidiaries that can distribute cash to the parent company without any regulatory approval or notification.

Customer assets—Market value of all customer assets held by the Company including security holdings, deposits and customer payables, as well as customer cash held by third parties and vested unexercised options.

Daily average revenue trades ("DARTs")—Total revenue trades in a period divided by the number of trading days during that period.

Derivative—A financial instrument or other contract, the price of which is directly dependent upon the value of one or more underlying securities, interest rates or any agreed upon pricing index. Derivatives cover a wide assortment of financial contracts, including options and swaps.

Derivative DARTs—Options and futures trades in a period divided by the number of trading days during that period.

DIF—Depositors Insurance Fund.

Earnings at Risk ("EAR")—The sensitivity of GAAP earnings to changes in interest rates over a twelve month horizon. It is a short-term measurement of interest rate risk and does not consider risks beyond the simulation time horizon. In addition, it requires reinvestment, funding, and hedging assumptions for the horizon.

Economic Value of Equity ("EVE")—The present value of expected cash inflows from existing assets, minus the present value of expected cash outflows from existing liabilities, plus the expected cash inflows and outflows from existing derivatives and forward commitments.

ESDA—Extended insurance sweep deposit accounts.

Fair value—The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hedge—A derivative instrument designated in a hedging relationship that mitigates exposure to changes in the fair value of a recognized asset or liability or a firm commitment.

FASB—Financial Accounting Standards Board.

FDIC—Federal Deposit Insurance Corporation.

Federal Reserve—Board of Governors of the Federal Reserve System.

FHLB—Federal Home Loan Bank.

FICO—Fair Isaac Credit Organization.

FINRA—Financial Industry Regulatory Authority.

FCM—Futures Commission Merchant.

Generally Accepted Accounting Principles ("GAAP")—Accounting principles generally accepted in the United States of America.

Gross loans receivable—Includes unpaid principal balances and premiums (discounts).

HELOC—Home equity lines of credit.

Interest-bearing liabilities—Liabilities such as deposits, customer payables, other borrowings, corporate debt and certain customer credit balances and securities loaned programs on which the Company pays interest; excludes customer balances held by third parties.

Interest-earning assets—Assets such as loans, available-for-sale securities, held-to-maturity securities, margin receivables, securities borrowed balances and cash and investments required to be segregated under regulatory guidelines that earn interest for the Company.

Interest rate swaps—Contracts that are entered into primarily as an asset/liability management strategy to reduce interest rate risk. Interest rate swap contracts are exchanges of interest rate payments, such as fixed-rate payments for floating-rate payments, based on notional principal amounts.

LIBOR—London Interbank Offered Rate. LIBOR is the interest rate at which banks borrow funds from other banks in the London wholesale money market (or interbank market).

LLC—Limited liability company.

LTV—Loan-to-value.

Net interest income—A measure of interest revenue, net interest income is equal to interest income less interest expense.

Net interest margin—A measure of the net yield on our average interest-bearing assets. Net interest margin is calculated for a given period by dividing the annualized sum of net interest income by average interest-bearing assets.

Net new brokerage assets—The total inflows to all new and existing brokerage customer accounts less total outflows from all closed and existing brokerage customer accounts, excluding the effects of market movements in the value of brokerage customer assets.

NFA—National Futures Association.

NOLs—Net operating losses.

Nonperforming assets—Assets originally acquired to earn income (nonperforming loans) and those not intended to earn income (real estate owned). Loans are classified as nonperforming when they are no longer accruing interest, which includes loans that are 90 days and greater past due, TDRs that are on nonaccrual status for all classes of loans (including loans in bankruptcy) and certain junior liens that have a delinquent senior lien.

Notional amount—The specified dollar amount underlying a derivative on which the calculated payments are based.

OCC—Office of the Comptroller of the Currency.

Options—Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to either purchase or sell the associated financial instrument at a set price during a period or at a specified date in the future.

OTTI—Other-than-temporary impairment.

RAS—Risk Appetite Statement.

Real estate owned and other repossessed assets—Ownership or physical possession of real property by the Company, generally acquired as a result of foreclosure or repossession.

Recovery—Cash proceeds received on a loan that had been previously charged off.

Repurchase agreement—An agreement giving the seller of an asset the right or obligation to buy back the same or similar securities at a specified price on a given date. These agreements are generally collateralized by mortgage-backed or investment-grade securities.

Risk-weighted assets—Primarily computed by the assignment of specific risk-weightings assigned by the regulators to assets and off-balance sheet instruments for capital adequacy calculations.

S&P—Standard & Poor's.

SEC—U.S. Securities and Exchange Commission.

Special mention loans—Loans where a borrower's current credit history casts doubt on their ability to repay a loan. Loans are classified as special mention when loans are between 30 and 89 days past due.

Sweep deposit accounts—Accounts with the functionality to transfer customer deposit balances to and from an FDIC insured account.

Tier 1 capital—Adjusted equity capital used in the calculation of capital adequacy ratios. Tier 1 capital equals: Common Equity Tier 1 capital plus preferred stock and related surplus, plus/(less) disallowed deferred tax assets, and other applicable adjustments.

Troubled Debt Restructuring ("TDR")—A loan modification that involves granting an economic concession to a borrower who is experiencing financial difficulty, and loans that have been charged-off due to bankruptcy notification.

TRUPs—Trust preferred securities.

VIE—Variable interest entity.

Wholesale borrowings—Borrowings that consist of securities sold under agreements to repurchase and FHLB advances and other borrowings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion about market risk includes forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of certain factors, including, but not limited to, those set forth in *Part I. Item 1A. Risk Factors* in the Annual Report on Form 10-K for the year ended December 31, 2015.

Interest Rate Risk

Our exposure to interest rate risk is related primarily to interest-earning assets and interest-bearing liabilities. Managing interest rate risk is essential to profitability. The primary objective of the management of interest rate risk is to control exposure to interest rates within the Board-approved limits and with limited exposure to earnings volatility resulting from interest rate fluctuations. Our general strategies to manage interest rate risk include balancing variable-rate and fixed-rate assets and liabilities and utilizing derivatives in a way that reduces overall exposure to changes in interest rates. Exposure to interest rate risk requires management to make complex assumptions regarding maturities, market interest rates and customer behavior. Changes in interest rates, including the following, could impact interest income and expense:

- Interest-earning assets and interest-bearing liabilities may re-price at different times or by different amounts, creating a mismatch.
- The yield curve may steepen, flatten or otherwise change shape, which could affect the spread between short- and long-term rates. Widening or narrowing spreads could impact net interest income.
- Market interest rates may influence prepayments, resulting in maturity mismatches. In addition, prepayments could impact yields as premiums and discounts amortize.

Exposure to interest rate risk is dependent upon the distribution and composition of interest-earning assets, interest-bearing liabilities and derivatives. The differing risk characteristics of each product are managed to mitigate our exposure to interest rate fluctuations. At September 30, 2016, 90% of our total assets were interest-earning assets and we had no securities classified as trading.

At September 30, 2016, approximately 59% of total assets were available-for-sale and held-to-maturity mortgage-backed securities and residential real estate loans. The values of these assets are sensitive to changes in interest rates as well as expected prepayment levels. As interest rates increase, fixed-rate residential mortgages and mortgage-backed securities tend to exhibit lower prepayments. The inverse is true in a falling rate environment.

When real estate loans are prepaid, unamortized premiums and/or discounts are recognized immediately in interest income. Depending on the timing of the prepayment, these adjustments to income would impact anticipated yields. The Asset Liability Committee ("ALCO") reviews estimates of the impact of changing market rates on prepayments. This information is incorporated into our interest rate risk management strategy.

Our liability structure consists of two central sources of funding: deposits and customer payables. Deposit products, including sweep deposit accounts, complete savings accounts, checking accounts and other money market and savings accounts, as well as customer payables, re-price at management's discretion. We may utilize wholesale funding sources as needed for short-term liquidity and contingency funding requirements.

Derivative Instruments

We use derivative instruments to help manage interest rate risk using designated hedge relationships. Interest rate swaps involve the exchange of fixed-rate and variable-rate interest payments between two parties based on a contractual underlying notional amount, but do not involve the exchange of the underlying notional amounts. See *Note 9—Derivative Instruments and Hedging Activities* for additional information about our use of derivative contracts.

Scenario Analysis

Scenario analysis is an advanced approach to estimating interest rate risk exposure. The ALCO monitors interest rate risk using the Economic Value of Equity ("EVE") approach and the Earnings-at-Risk ("EAR") approach.

Under the EVE approach, the present value of expected cash flows of all existing interest-earning assets, interest-bearing liabilities, derivatives and forward commitments are estimated and combined to produce an EVE figure. EVE is a long-term sensitivity measure of interest rate risk. The approach values only the current balance sheet in which the most significant assumptions are the prepayment rates of the loan portfolio and mortgage-backed securities and the repricing of deposits. This approach does not incorporate assumptions related to business growth, or liquidation and re-investment of instruments. This approach provides an indicator of future earnings and capital levels because changes in EVE indicate the anticipated change in the value of future cash flows. The sensitivity of this value to changes in interest rates is then determined by applying alternative interest rate scenarios. The change in EVE amounts fluctuate based on instantaneous parallel shifts in interest rates primarily due to the change in timing of cash flows in the Company's residential loan and mortgage-backed securities portfolios. Expected prepayment rates on residential mortgage loans and mortgage-backed securities increase as interest rates decline, whereas expected prepayment rates decrease in a rising interest rate environment.

EAR is a short-term sensitivity measure of interest rate risk and illustrates the impact of alternative interest rate scenarios on net interest income, including corporate interest expense, over a twelve month time frame. In measuring the sensitivity of net interest income to changes in interest rates, we assume instantaneous parallel interest rate shocks applied to the forward curve. In addition, we assume that cash flows from loan payoffs are reinvested in mortgage-backed securities, we exclude revenue from off-balance sheet customer cash and we assume no balance sheet growth.

The sensitivity of EAR and EVE at the consolidated E*TRADE Financial level at September 30, 2016 and December 31, 2015 is as follows (dollars in millions):

Instantaneous Parallel Change in Interest Rates (basis points) (1)	Economic Value of Equity				Earnings-at-Risk			
	September 30, 2016		December 31, 2015		September 30, 2016		December 31, 2015	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
+200	$ (69)	(1.2)%	$ (148)	(2.6)%	$ 163	14.2 %	$ 178	15.8 %
+100	$ 128	2.3 %	$ 58	1.0 %	$ 106	9.2 %	$ 116	10.3 %
-50	$ (155)	(2.7)%	$ (107)	(1.9)%	$ (67)	(5.8)%	$ (64)	(5.7)%

(1) These scenario analyses assume a balance sheet size as of the dates indicated. Any changes in size would cause the amounts to vary.

We actively manage interest rate risk positions. As interest rates change, we will adjust our strategy and mix of assets, liabilities and derivatives to optimize our position. For example, a 100 basis points increase in rates may not result in a change in value as indicated above. We compare the instantaneous parallel shift in interest rate changes in EVE and EAR to the established limits set by the Board of Directors in order to assess interest rate risk. In the event that the percentage change in EVE or EAR exceeds the Board limits, our Chief Executive Officer, Chief Risk Officer, Chief Financial Officer and Treasurer must all be promptly notified in writing and decide upon a plan of remediation. In addition, the Board of Directors must be promptly notified of the exception and the planned resolution. At September 30, 2016, the EVE and EAR percentage changes were within our Board limits.

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME (LOSS)
(In millions, except share data and per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Interest income	$ 309	$ 297	$ 923	$ 923
Interest expense	(22)	(48)	(63)	(172)
Net interest income	287	249	860	751
Commissions	107	108	320	325
Fees and service charges	68	52	188	159
Gains (losses) on securities and other, net	14	(358)	34	(333)
Other revenue	10	10	30	29
Total non-interest income (loss)	199	(188)	572	180
Total net revenue	486	61	1,432	931
Provision (benefit) for loan losses	(62)	(25)	(131)	(17)
Non-interest expense:				
Compensation and benefits	123	123	374	354
Advertising and market development	27	23	100	89
Clearing and servicing	26	23	75	72
Professional services	26	24	70	77
Occupancy and equipment	24	21	71	64
Communications	22	24	65	62
Depreciation and amortization	20	21	60	61
FDIC insurance premiums	6	7	18	36
Amortization of other intangibles	5	5	15	15
Restructuring and acquisition-related activities	25	2	28	8
Losses on early extinguishment of debt, net	—	39	—	112
Other non-interest expenses	19	20	54	64
Total non-interest expense	323	332	930	1,014
Income (loss) before income tax expense (benefit)	225	(246)	633	(66)
Income tax expense (benefit)	86	(93)	208	(245)
Net income (loss)	$ 139	$ (153)	$ 425	$ 179
Basic earnings (loss) per share	$ 0.51	$ (0.53)	$ 1.53	$ 0.62
Diluted earnings (loss) per share	$ 0.51	$ (0.53)	$ 1.52	$ 0.61
Shares used in computation of per share data:				
Basic (in thousands)	274,362	290,480	278,864	290,105
Diluted (in thousands)	275,472	290,480	280,136	294,998

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$ 139	$ (153)	$ 425	$ 179
Other comprehensive income (loss), net of tax				
Available-for-sale securities:				
Unrealized gains (losses), net	3	17	166	(3)
Reclassification into earnings, net	(10)	(7)	(28)	(18)
Net change from available-for-sale securities	(7)	10	138	(21)
Cash flow hedging instruments:				
Unrealized losses, net	—	(5)	—	(10)
Reclassification into earnings, net	—	239	—	271
Net change from cash flow hedging instruments	—	234	—	261
Other comprehensive income (loss)	(7)	244	138	240
Comprehensive income	$ 132	$ 91	$ 563	$ 419

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In millions, except share data)
(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and equivalents	$ 1,467	$ 2,233
Cash required to be segregated under federal or other regulations	2,159	1,057
Available-for-sale securities	13,493	12,589
Held-to-maturity securities (fair value of $16,670 and $13,123 at September 30, 2016 and December 31, 2015, respectively)	16,189	13,013
Margin receivables	6,552	7,398
Loans receivable, net (net of allowance for loan losses of $235 and $353 at September 30, 2016 and December 31, 2015, respectively)	3,832	4,613
Receivables from brokers, dealers and clearing organizations	1,118	520
Property and equipment, net	231	236
Goodwill	2,370	1,792
Other intangibles, net	328	174
Deferred tax assets, net	725	1,033
Other assets	735	769
Total assets	$ 49,199	$ 45,427
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 31,697	$ 29,445
Customer payables	7,827	6,544
Payables to brokers, dealers and clearing organizations	1,227	1,576
Other borrowings	409	491
Corporate debt	994	997
Other liabilities	729	575
Total liabilities	42,883	39,628
Commitments and contingencies (see Note 17)		
Shareholders' equity:		
Preferred stock, $0.01 par value, $1,000 liquidation preference, shares authorized: 1,000,000 at September 30, 2016 and December 31, 2015; shares issued and outstanding: 400,000 at September 30, 2016 and none at December 31, 2015	394	—
Common stock, $0.01 par value, shares authorized: 400,000,000 at September 30, 2016 and December 31, 2015; shares issued and outstanding: 273,810,222 and 291,335,241 at September 30, 2016 and December 31, 2015, respectively	3	3
Additional paid-in-capital	6,916	7,356
Accumulated deficit	(1,036)	(1,461)
Accumulated other comprehensive income (loss)	39	(99)
Total shareholders' equity	6,316	5,799
Total liabilities and shareholders' equity	$ 49,199	$ 45,427

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(In millions)
(Unaudited)

	Preferred Stock	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Amount	Shares	Amount				
Balance at December 31, 2015	$ —	291	$ 3	$ 7,356	$ (1,461)	$ (99)	$ 5,799
Net income	—	—	—	—	425	—	425
Other comprehensive income	—	—	—	—	—	138	138
Conversion of convertible debentures	—	1	—	5	—	—	5
Exercise of stock options and related tax effects	—	—	—	3	—	—	3
Issuance of preferred stock	394	—	—	—	—	—	394
Repurchases of common stock	—	(19)	—	(452)	—	—	(452)
Issuance of restricted stock, net of forfeitures and retirements to pay taxes	—	1	—	(17)	—	—	(17)
Share-based compensation	—	—	—	21	—	—	21
Balance at September 30, 2016	$ 394	274	$ 3	$ 6,916	$ (1,036)	$ 39	$ 6,316

	Preferred Stock	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Amount	Shares	Amount				
Balance at December 31, 2014	$ —	289	$ 3	$ 7,350	$ (1,729)	$ (249)	$ 5,375
Net income	—	—	—	—	179	—	179
Other comprehensive income	—	—	—	—	—	240	240
Conversion of convertible debentures	—	—	—	4	—	—	4
Exercise of stock options and related tax effects	—	—	—	2	—	—	2
Issuance of restricted stock, net of forfeitures and retirements to pay taxes	—	1	—	(11)	—	—	(11)
Share-based compensation	—	—	—	23	—	—	23
Balance at September 30, 2015	$ —	290	$ 3	$ 7,368	$ (1,550)	$ (9)	$ 5,812

See accompanying notes to the consolidated financial statements

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E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2016	**2015**
Cash flows from operating activities:		
Net income	$ 425	$ 179
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (benefit) for loan losses	(131)	(17)
Depreciation and amortization (including discount amortization and accretion)	174	271
(Gains) losses on securities and other, net	(34)	333
Losses on early extinguishment of debt, net	—	37
Share-based compensation	21	23
Deferred tax expense (benefit)	190	(242)
Other	(4)	—
Net effect of changes in assets and liabilities:		
(Increase) decrease in cash required to be segregated under federal or other regulations	(1,101)	412
(Increase) decrease in receivables from brokers, dealers and clearing organizations	(591)	353
Decrease (increase) in margin receivables	846	(258)
Decrease in other assets	27	12
(Decrease) increase in payables to brokers, dealers and clearing organizations	(349)	30
Increase (decrease) in customer payables	1,283	(415)
Decrease in other liabilities	(28)	(50)
Net cash provided by operating activities	728	668
Cash flows from investing activities:		
Purchases of available-for-sale securities	(4,490)	(3,550)
Proceeds from sales of available-for-sale securities	2,494	3,725
Proceeds from maturities of and principal payments on available-for-sale securities	1,111	1,370
Purchases of held-to-maturity securities	(4,221)	(898)
Proceeds from maturities of and principal payments on held-to-maturity securities	1,476	1,483
Proceeds from sale of loans	—	40
Decrease in loans receivable	888	1,030
Capital expenditures for property and equipment	(51)	(52)
Proceeds from sale of real estate owned and repossessed assets	15	24
Acquisition of OptionsHouse, net of cash acquired	(723)	—
Net cash flow from derivative contracts	(107)	1
Other	3	75
Net cash (used in) provided by investing activities	(3,605)	3,248

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS—(Continued)
(In millions)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from financing activities:		
Net increase in deposits	$ 2,252	$ 720
Net decrease in securities sold under agreements to repurchase	(82)	(3,672)
Advances from FHLB	—	810
Payments on advances from FHLB	—	(1,730)
Proceeds from issuance of senior notes	—	460
Payments on senior notes	—	(800)
Repurchases of trust preferred securities	—	(10)
Proceeds from issuance of preferred stock	400	—
Repurchases of common stock	(452)	—
Net cash flow from derivatives hedging liabilities	—	(16)
Other	(7)	(8)
Net cash provided by (used in) financing activities	2,111	(4,246)
Decrease in cash and equivalents	(766)	(330)
Cash and equivalents, beginning of period	2,233	1,783
Cash and equivalents, end of period	$ 1,467	$ 1,453
Supplemental disclosures:		
Cash paid for interest	$ 58	$ 189
Cash paid for income taxes, net of refunds	$ 6	$ 4
Non-cash investing and financing activities:		
Transfers of loans held-for-investment to loans held-for-sale	$ —	$ 39
Transfers from loans to other real estate owned and repossessed assets	$ 23	$ 20
Conversion of convertible debentures to common stock	$ 5	$ 4
Transfer of available-for-sale securities to held-to-maturity securities	$ 492	$ —

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1—ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—E*TRADE Financial Corporation is a financial services company that provides brokerage and related products and services primarily to individual retail investors under the brand "E*TRADE Financial." The Company also provides investor-focused banking products, primarily sweep deposits, to retail investors.

Basis of Presentation—The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries as determined under the voting interest model. Entities in which the Company has the ability to exercise significant influence but in which the Company does not possess control are generally accounted for by the equity method. Entities in which the Company does not have the ability to exercise significant influence are generally carried at cost. However, investments in marketable equity securities where the Company does not have the ability to exercise significant influence over the entities are accounted for as available-for-sale equity securities. The Company also evaluates its initial and continuing involvement with certain entities to determine if the Company is required to consolidate the entities under the variable interest entity ("VIE") model. This evaluation is based on a qualitative assessment of whether the Company is the primary beneficiary of the VIE, which requires the Company to possess both: 1) the power to direct the activities that most significantly impact the economic performance of the VIE; and 2) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

The Company's consolidated financial statements are prepared in accordance with GAAP. Intercompany accounts and transactions are eliminated in consolidation. These consolidated financial statements reflect all adjustments, which are all normal and recurring in nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These consolidated financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2015.

Beginning January 1, 2016, the Company changed its segment reporting structure to align with the manner in which the Chief Operating Decision Maker now reviews business performance and makes resource allocation decisions. As the Chief Operating Decision Maker's business performance assessments and resource allocation decisions are based on consolidated operating margin, the Company no longer has separate operating segments and, accordingly, no longer presents disaggregated segment financial results. The Company also updated the presentation of its consolidated statement of income (loss) to reflect how business performance is now measured and prior periods have been reclassified to conform to the current period presentation as follows:

- interest expense related to corporate debt and interest income related to corporate cash reclassified from other income (expense) to net interest income;
- losses on early extinguishment of debt, net reclassified from other income (expense) to non-interest expense; and
- other income (expense) reclassified from other income (expense) to gains (losses) on securities and other, net.

Use of Estimates—Preparing the Company's consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented. Actual results could differ from management's estimates. Certain significant accounting policies are critical because they are based on estimates and assumptions that require complex and subjective judgments by management. Changes in these estimates or assumptions could materially impact the Company's financial condition and results of operations. Material estimates in which management believes changes could reasonably occur include: allowance for loan losses; asset impairment, including goodwill impairment and OTTI; estimates of effective tax rates, deferred taxes and valuation allowance; accounting for derivative instruments; and fair value measurements.

Financial Statement Descriptions and Related Accounting Policies

Margin Receivables—Margin receivables represent credit extended to customers to finance their purchases of securities by borrowing against securities the customers own. Securities owned by customers are held as collateral for amounts due on the margin receivables, the value of which is not reflected in the consolidated balance sheet. The Company is permitted to sell or re-pledge these securities held as collateral and to use the securities to enter into securities lending transactions, to collateralize borrowings or for delivery to counterparties to cover customer short positions.

The fair value of securities that the Company received as collateral in connection with margin receivables and securities borrowing activities, where the Company is permitted to sell or re-pledge the securities, was approximately $9.4 billion and $10.1 billion at September 30, 2016 and December 31, 2015, respectively. Of this amount, $2.1 billion and $2.5 billion had been pledged or sold in connection with securities loans and deposits with clearing organizations at September 30, 2016 and December 31, 2015, respectively.

New Accounting and Disclosure Guidance—Below is the new accounting and disclosure guidance that relates to activities in which the Company is engaged.

Adoption of New Accounting Standards

Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB amended the guidance related to an entity's evaluations and disclosures of going concern uncertainties. The new guidance requires management to perform interim and annual assessments of the entity's ability to continue as a going concern within one year of the date the financial statements are issued, and to provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The Company adopted the amended guidance for annual and interim periods beginning on January 1, 2016. The adoption of the amended guidance did not impact the Company's financial condition, results of operations or cash flows.

Consolidation

In February 2015, the FASB amended the guidance on consolidation of certain legal entities. The amended guidance modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, and clarifies how to determine whether a group of equity holders has power over an entity. The Company adopted the amended guidance for annual and interim periods beginning on January 1, 2016 on a modified retrospective basis. The adoption of the amended guidance did not impact the Company's financial condition, results of operations or cash flows.

Accounting for Customer Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB amended the accounting guidance on customer fees paid in a cloud computing arrangement. The amended guidance requires that internal-use software accessed by a customer in cloud computing arrangements be accounted for as software licenses if specific criteria are met; otherwise they should be accounted for as service contracts. The Company adopted the amended guidance for annual and interim periods beginning on January 1, 2016 on a prospective basis. The adoption of the amended guidance did not impact the Company's financial condition, results of operations or cash flows.

New Accounting Standards Not Yet Adopted

Revenue Recognition on Contracts with Customers

In May 2014, the FASB amended the guidance on revenue recognition on contracts with customers. The new standard outlines a single comprehensive model for entities to apply in accounting for revenue arising from contracts with customers. The FASB issued supplemental amendments to the new standard to clarify certain accounting guidance and provide narrow scope improvements and practical expedients in the first half of 2016. The amended guidance will be effective for annual and interim periods beginning on January 1, 2018 for the Company and may be applied on either a full retrospective or modified retrospective basis. The Company is currently evaluating the impact of the new accounting guidance and expects to complete this evaluation in 2017; however, the adoption of the amended guidance is not expected to have a material impact on the Company’s financial condition, results of operations or cash flows.

Classification and Measurement of Financial Instruments

In January 2016, the FASB amended the accounting and disclosure guidance on the classification and measurement of financial instruments. Relevant changes in the amended guidance include the requirement that equity investments, excluding those accounted for under the equity method of accounting or those resulting in consolidation of the investee, be measured at fair value in the consolidated balance sheet with changes in fair value recognized in net income. For disclosure purposes, the Company will no longer be required to disclose the methods and significant assumptions used to estimate fair value for financial instruments measured at amortized cost in the consolidated balance sheet. The amended guidance will be effective for interim and annual periods beginning on January 1, 2018 for the Company and is required to be applied on a modified retrospective basis by means of a cumulative-effect adjustment to the consolidated balance sheet on that date. While the Company is currently evaluating the impact of the new accounting guidance, the adoption of the amended guidance is not expected to have a material impact on the Company’s financial condition, results of operations or cash flows.

Accounting for Leases

In February 2016, the FASB amended the guidance on accounting for leases. The new standard requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all qualifying leases with terms of more than twelve months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee remains substantially unchanged and depends on classification as a finance or operating lease. The new standard also requires additional quantitative and qualitative disclosures that provide additional information about the amounts related to leasing arrangements recorded in the financial statements. The new guidance will be effective for interim and annual periods beginning on January 1, 2019 for the Company and is required to be applied on a modified retrospective basis to the earliest period presented, which includes practical expedient options in certain circumstances. The Company is currently evaluating the impact of the new accounting guidance on the Company's financial condition, results of operations and cash flows.

Accounting for Employee Share-based Payments

In March 2016, the FASB amended the accounting guidance on employee shared-based payments. Relevant changes in the amended guidance include the requirement to recognize all excess tax benefits and deficiencies upon exercise or vesting as income tax expense or benefit in the income statement; to treat excess tax benefits and deficiencies as discrete items in the reporting period they occur; to not delay recognition of excess tax benefits until the tax benefit is realized through a reduction in current taxes payable; and to make an accounting policy election to either estimate forfeitures or account for forfeiture as they occur. The new guidance will be effective for interim and annual periods beginning on January 1, 2017 for the Company and application methods vary based on the amended guidance. Early adoption in interim periods is permitted. The adoption of the amended guidance is not expected to have a material impact on the Company’s financial condition, results of operations or cash flows.

Accounting for Credit Losses

In June 2016, the FASB amended the accounting guidance on accounting for credit losses. The amended guidance requires measurement of all expected credit losses for financial instruments and other commitments to extend credit held at the reporting date. For financial assets measured at amortized cost, factors such as historical experience, current conditions, and reasonable and supportable forecasts will be used to estimate expected credit losses. The amended guidance will also change the manner in which credit losses are recognized on debt securities classified as available-for-sale. The new guidance will be effective for interim and annual periods beginning January 1, 2020 for the Company. Early adoption is permitted. The Company is currently evaluating the impact of the new accounting guidance on the Company's financial condition, results of operations and cash flows.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB amended the guidance on the presentation and classification of certain cash receipts and cash payments in the statement of cash flows to eliminate current diversity in practice. The new guidance will be effective for interim and annual periods beginning January 1, 2018 for the Company and must be applied using a retrospective transition method to each period presented. Early adoption is permitted. The Company is currently evaluating the impact of the new accounting guidance.

NOTE 2—BUSINESS ACQUISITION

OptionsHouse Acquisition

On September 12, 2016, the Company completed its acquisition of all of the outstanding equity of Aperture New Holdings, Inc., the ultimate parent company of OptionsHouse, from Aperture Holdings, L.P. for $725 million. OptionsHouse is an online brokerage firm focused on serving active traders through its derivatives platform. The acquisition will enhance E*TRADE's derivatives capabilities and offerings to current customers while providing the benefit of an expanded breadth of offerings, including 24 hour customer service, long-term investing tools, and mobile experience, for current OptionsHouse customers.

The results of OptionsHouse's operations have been included in the Company's consolidated statement of income (loss) for the three and nine months ended September 30, 2016 from the date of the acquisition. OptionsHouse's net revenue from September 12, 2016 through September 30, 2016 was $6 million. Supplemental pro forma financial information related to the acquisition is not included because the impact on the Company's consolidated statement of income (loss) is not material.

The following table summarizes the provisional allocation of the purchase price to the net assets of OptionsHouse as of September 12, 2016 (dollars in millions):

	September 12, 2016
Purchase price	$ 725
Purchased cash adjustment	26
Working capital adjustment	(2)
Total cash consideration paid	$ 749
Fair value of net assets acquired	$ 171
Provisional goodwill	$ 578

The following table summarizes the provisional fair values of the assets acquired and liabilities assumed as of the acquisition date. The allocation of the purchase price is provisional and subject to further adjustment as information relative to the acquisition date fair value of intangible assets is finalized. We do not expect that any adjustments to the provisional fair value will be material to the Company's consolidated financial statements (dollars in millions):

	September 12, 2016
Assets	
Cash and equivalents	$ 26
Identifiable intangible assets	169
Property and equipment	6
Other assets	12
Total assets acquired	$ 213
Liabilities	
Deferred tax liabilities, net	$ 31
Accrued expenses and other liabilities	11
Total liabilities assumed	$ 42
Net assets acquired	$ 171

The provisional goodwill of $578 million, which is allocated to the retail brokerage reporting unit, is composed primarily of the synergies expected to result from combining operations with OptionsHouse and coupling its derivatives platform with the Company's existing product offerings. Approximately $122 million of this goodwill will be deductible for tax purposes.

The Company recorded provisional intangible assets of $169 million, which are subject to amortization over their estimated useful lives. Approximately $63 million of the intangible assets will be deductible for tax purposes. The provisional fair value of the intangible assets was determined under the income approach. The following table summarizes the provisional estimated fair value and estimated useful lives of the intangible assets (dollars in millions):

	Estimated Fair Value	Estimated Useful Life (In Years)
Customer relationships	$ 118	14
Technology	48	7
Trade name	3	2
Total intangible assets	$ 169	

NOTE 3— RESTRUCTURING AND ACQUISITION-RELATED ACTIVITIES

The following table shows the components of restructuring and acquisition-related activities expense for the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Restructuring activities	$ 18	$ 2	$ 21	$ 8
Acquisition-related costs	7	—	7	—
Total restructuring and acquisition-related activities	$ 25	$ 2	$ 28	$ 8

The Company incurred $7 million of acquisition-related costs in connection with its purchase of OptionsHouse, which was completed on September 12, 2016. Restructuring activities during the three and nine months ended September 30, 2016 includes approximately $16 million of costs, primarily related to employee severance, from the realignment of our core brokerage business and organizational structure. The liability for restructuring activities at September 30, 2016 was $11 million.

NOTE 4— INTEREST INCOME AND INTEREST EXPENSE

The following table shows the components of interest income and interest expense for the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income:				
Cash and equivalents	$ 2	$ 1	$ 5	$ 2
Cash required to be segregated under federal or other regulation	2	1	4	1
Available-for-sale securities	66	57	198	189
Held-to-maturity securities	109	85	319	259
Margin receivables	60	70	185	208
Loans	46	58	146	177
Broker-related receivables and other	—	—	1	2
Subtotal interest income	285	272	858	838
Other interest revenue(1)	24	25	65	85
Total interest income	309	297	923	923
Interest expense:				
Deposits	(1)	(1)	(3)	(4)
Customer payables	(2)	(2)	(4)	(4)
Other borrowings(2)	(4)	(30)	(13)	(112)
Corporate debt	(13)	(13)	(40)	(46)
Subtotal interest expense	(20)	(46)	(60)	(166)
Other interest expense(3)	(2)	(2)	(3)	(6)
Total interest expense	(22)	(48)	(63)	(172)
Net interest income(4)	$ 287	$ 249	$ 860	$ 751

(1) Represents interest income on securities loaned.
(2) In September 2015, the Company terminated $4.4 billion of legacy wholesale funding obligations.
(3) Represents interest expense on securities borrowed.
(4) Beginning in 2016, interest expense related to corporate debt and interest income related to corporate cash are presented within net interest income. Prior periods have been reclassified to conform with current period presentation.

NOTE 5—FAIR VALUE DISCLOSURES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company may use various valuation approaches, including market, income and/or cost approaches. The fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. Accordingly, even when market assumptions are not readily available, the Company's own assumptions reflect those that market participants would use in pricing the asset or liability at the measurement date. The fair value measurement accounting guidance describes the following three levels used to classify fair value measurements:

- Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible by the Company.
- Level 2—Quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3—Unobservable inputs that are significant to the fair value of the assets or liabilities.

The availability of observable inputs can vary and in certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to a fair value measurement requires judgment and consideration of factors specific to the asset or liability.

Recurring Fair Value Measurement Techniques

Mortgage-backed Securities

The Company’s mortgage-backed securities portfolio is primarily comprised of agency mortgage-backed securities and collateralized mortgage obligations ("CMOs"). Agency mortgage-backed securities and CMOs are guaranteed by U.S. government sponsored enterprises and federal agencies. The weighted average coupon rates for the available-for-sale mortgage-backed securities at September 30, 2016 are shown in the following table:

	Weighted Average Coupon Rate
Agency mortgage-backed securities	2.83%
Agency CMOs	3.27%

The fair value of agency mortgage-backed securities was determined using a market approach with quoted market prices, recent market transactions and spread data for similar instruments. The fair value of agency CMOs was determined using market and income approaches along with the Company’s own trading activities for identical or similar instruments. Agency mortgage-backed securities and CMOs were categorized in Level 2 of the fair value hierarchy.

Other Debt Securities

The Company's fair value level classification of U.S. Treasuries is based on the original maturity dates of the securities and whether the securities are the most recent issuances of a given maturity. U.S. Treasuries with original maturities less than one year are classified as Level 1. U.S. Treasuries with original maturities longer than one year are classified as Level 1 if they represent the most recent issuance of a given maturity; otherwise, these securities are classified as Level 2.

The fair value measurements of agency debentures and agency debt securities were determined using market and income approaches along with the Company’s own trading activities for identical or similar instruments and were categorized in Level 2 of the fair value hierarchy.

The Company’s municipal bonds are revenue bonds issued by state and other local government agencies. The valuation of corporate bonds is impacted by the credit worthiness of the corporate issuer. All of the Company’s municipal bonds and corporate bonds were rated investment grade at September 30, 2016. These securities were valued using a market approach with pricing service valuations corroborated by recent market transactions for identical or similar bonds. Municipal bonds and corporate bonds were categorized in Level 2 of the fair value hierarchy.

Publicly Traded Equity Securities

The fair value measurements of the Company's publicly traded equity securities were classified as Level 1 of the fair value hierarchy as they were based on quoted market prices in active markets.

Derivative Instruments

Interest rate swap and option contracts were valued with an income approach using pricing models that are commonly used by the financial services industry. The market observable inputs used in the pricing models include the swap curve, the volatility surface, and prime or overnight indexed swap basis from a financial data provider. The Company does not consider these models to involve significant judgment on the part of management, and the Company corroborated the fair value measurements with counterparty valuations. The Company’s derivative instruments were categorized in Level 2 of the fair value hierarchy. The consideration of credit risk, the Company’s or the counterparty’s, did not result in an adjustment to the valuation of its derivative instruments in the periods presented.

Nonrecurring Fair Value Measurement Techniques

Certain other assets are recorded at fair value on a nonrecurring basis: 1) one- to four-family and home equity loans in which the amount of the loan balance in excess of the estimated current value of the underlying property less estimated selling costs has been charged-off; and 2) real estate owned that is carried at the lower of the property's carrying value or fair value less estimated selling costs.

The Company evaluates and reviews assets that have been subject to fair value measurement requirements on a quarterly basis in accordance with policies and procedures that were designed to be in compliance with guidance from the Company's regulators. These policies and procedures govern the frequency of the review, the use of acceptable valuation methods, and the consideration of estimated selling costs.

Loans Receivable

Loans that have been delinquent for 180 days or that are in bankruptcy and certain TDR loan modifications are charged-off based on the estimated current value of the underlying property less estimated selling costs. Property valuations for these one- to four-family and home equity loans are based on the most recent "as is" property valuation data available, which may include appraisals, broker price opinions ("BPOs"), automated valuation models or updated values using home price indices. Subsequent to the recording of an initial fair value measurement, these loans continue to be measured at fair value on a nonrecurring basis, utilizing the estimated value of the underlying property less estimated selling costs. These property valuations are updated on a monthly, quarterly or semi-annual basis depending on the type of valuation initially used. If the value of the underlying property has declined, an additional charge-off is recorded. If the value of the underlying property has increased, previously charged-off amounts are not reversed. If the valuation data obtained is significantly different from the valuation previously received, the Company reviews additional property valuation data to corroborate or update the valuation.

BPOs are a type of valuation input used to determine the estimated property values of our collateral dependent mortgage loans. In addition, when available, BPOs are used in various loss mitigation, default management and portfolio monitoring efforts, allowance for loan losses modeling and CLTV estimates. The Company validates BPOs through quality control measures, including comparison to tax records, comparable sale and listing data, prior BPO values and original appraisals. The Company does not adjust BPO values but will only utilize BPOs that pass validation.

Real Estate Owned

Property valuations for real estate owned are based on the lowest value of the most recent property valuation data available, which may include appraisals, listing prices or approved offer prices.

Nonrecurring fair value measurements on one- to four-family and home equity loans and real estate owned were classified as Level 3 of the fair value hierarchy as the valuations included unobservable inputs that were significant to the fair value. The following table presents additional information about significant unobservable inputs used in the valuation of assets measured at fair value on a nonrecurring basis that were categorized in Level 3 of the fair value hierarchy at September 30, 2016 and December 31, 2015:

	Unobservable Inputs	Average	Range
September 30, 2016			
Loans receivable:			
One- to four-family	Appraised value	$ 440,700	$39,800-$1,954,000
Home equity	Appraised value	$ 303,700	$6,000-$2,450,000
Real estate owned	Appraised value	$ 330,300	$17,000-$1,900,000
December 31, 2015			
Loans receivable:			
One- to four-family	Appraised value	$ 422,900	$8,500-$1,900,000
Home equity	Appraised value	$ 274,100	$9,000-$1,300,000
Real estate owned	Appraised value	$ 330,700	$26,500-$1,250,000

Recurring and Nonrecurring Fair Value Measurements

Assets and liabilities measured at fair value at September 30, 2016 and December 31, 2015 are summarized in the following tables (dollars in millions):

	Level 1	Level 2	Level 3	Total Fair Value
September 30, 2016:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities and CMOs	$ —	$ 12,180	$ —	$ 12,180
Agency debentures	—	850	—	850
U.S. Treasuries	—	311	—	311
Agency debt securities	—	81	—	81
Municipal bonds	—	34	—	34
Corporate bonds	—	4	—	4
Total debt securities	—	13,460	—	13,460
Publicly traded equity securities	33	—	—	33
Total available-for-sale securities	33	13,460	—	13,493
Other assets:				
Derivative assets(1)	—	4	—	4
Total assets measured at fair value on a recurring basis(2)	$ 33	$ 13,464	$ —	$ 13,497
Liabilities				
Derivative liabilities(1)	$ —	$ 131	$ —	$ 131
Total liabilities measured at fair value on a recurring basis(2)	$ —	$ 131	$ —	$ 131
Nonrecurring fair value measurements:				
Loans receivable:				
One- to four-family	$ —	$ —	$ 24	$ 24
Home equity	—	—	19	19
Total loans receivable	—	—	43	43
Real estate owned	—	—	28	28
Total assets measured at fair value on a nonrecurring basis(3)	$ —	$ —	$ 71	$ 71

(1) All derivative assets and liabilities were interest rate contracts at September 30, 2016. Information related to derivative instruments is detailed in *Note 9—Derivative Instruments and Hedging Activities*.
(2) Assets and liabilities measured at fair value on a recurring basis represented 27% and less than 1% of the Company's total assets and total liabilities, respectively, at September 30, 2016.
(3) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at September 30, 2016, and for which a fair value measurement was recorded during the period.

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2015:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities and CMOs	$ —	$ 11,763	$ —	$ 11,763
Agency debentures	—	557	—	557
U.S. Treasuries	—	143	—	143
Agency debt securities	—	55	—	55
Municipal bonds	—	35	—	35
Corporate bonds	—	4	—	4
Total debt securities	—	12,557	—	12,557
Publicly traded equity securities	32	—	—	32
Total available-for-sale securities	32	12,557	—	12,589
Other assets:				
Derivative assets(1)	—	10	—	10
Total assets measured at fair value on a recurring basis(2)	$ 32	$ 12,567	$ —	$ 12,599
Liabilities				
Derivative liabilities(1)	$ —	$ 55	$ —	$ 55
Total liabilities measured at fair value on a recurring basis(2)	$ —	$ 55	$ —	$ 55
Nonrecurring fair value measurements:				
Loans receivable:				
One- to four-family	$ —	$ —	$ 41	$ 41
Home equity	—	—	22	22
Total loans receivable	—	—	63	63
Real estate owned	—	—	26	26
Total assets measured at fair value on a nonrecurring basis(3)	$ —	$ —	$ 89	$ 89

(1) All derivative assets and liabilities were interest rate contracts at December 31, 2015. Information related to derivative instruments is detailed in *Note 9—Derivative Instruments and Hedging Activities*.
(2) Assets and liabilities measured at fair value on a recurring basis represented 28% and less than 1% of the Company's total assets and total liabilities, respectively, at December 31, 2015.
(3) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at December 31, 2015, and for which a fair value measurement was recorded during the period.

The following table presents losses recognized on assets measured at fair value on a nonrecurring basis during the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
One- to four-family	$ 1	$ 1	$ 3	$ 6
Home equity	2	4	9	12
Total losses on loans receivable measured at fair value	$ 3	$ 5	$ 12	$ 18
Losses (gains) on real estate owned measured at fair value	$ (1)	$ —	$ —	$ 1

Transfers Between Levels 1 and 2

For assets and liabilities measured at fair value on a recurring basis, the Company's transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period on a quarterly basis. The Company had no transfers between Level 1 and 2 during the nine months ended September 30, 2016 and 2015.

Recurring Fair Value Measurements Categorized within Level 3

For the periods presented, no assets or liabilities measured at fair value on a recurring basis were categorized within Level 3 of the fair value hierarchy.

Fair Value of Financial Instruments Not Carried at Fair Value

The following table summarizes the carrying values, fair values and fair value hierarchy level classification of financial instruments that are not carried at fair value on the consolidated balance sheet at September 30, 2016 and December 31, 2015 (dollars in millions):

	September 30, 2016				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	$ 1,467	$ 1,467	$ —	$ —	$ 1,467
Cash required to be segregated under federal or other regulations	$ 2,159	$ 2,159	$ —	$ —	$ 2,159
Held-to-maturity securities:					
Agency mortgage-backed securities and CMOs	$ 13,176	$ —	$ 13,564	$ —	$ 13,564
Agency debentures	119	—	120	—	120
Agency debt securities	2,894	—	2,986	—	2,986
Total held-to-maturity securities	$ 16,189	$ —	$ 16,670	$ —	$ 16,670
Margin receivables	$ 6,552	$ —	$ 6,552	$ —	$ 6,552
Loans receivable, net:					
One- to four-family	$ 2,061	$ —	$ —	$ 2,061	$ 2,061
Home equity	1,503	—	—	1,446	1,446
Consumer	268	—	—	273	273
Total loans receivable, net(1)	$ 3,832	$ —	$ —	$ 3,780	$ 3,780
Receivables from brokers, dealers and clearing organizations	$ 1,118	$ —	$ 1,118	$ —	$ 1,118
Liabilities					
Deposits	$ 31,697	$ —	$ 31,697	$ —	$ 31,697
Customer payables	$ 7,827	$ —	$ 7,827	$ —	$ 7,827
Payables to brokers, dealers and clearing organizations	$ 1,227	$ —	$ 1,227	$ —	$ 1,227
Trust preferred securities	$ 409	$ —	$ —	$ 285	$ 285
Corporate debt	$ 994	$ —	$ 1,068	$ —	$ 1,068

(1) The carrying value of loans receivable, net includes the allowance for loan losses of $235 million and loans that are recorded at fair value on a nonrecurring basis at September 30, 2016.

	December 31, 2015				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	$ 2,233	$ 2,233	$ —	$ —	$ 2,233
Cash required to be segregated under federal or other regulations	$ 1,057	$ 1,057	$ —	$ —	$ 1,057
Held-to-maturity securities:					
Agency mortgage-backed securities and CMOs	$ 10,353	$ —	$ 10,444	$ —	$ 10,444
Agency debentures	127	—	125	—	125
Agency debt securities	2,523	—	2,544	—	2,544
Other non-agency debt securities	10	—	—	10	10
Total held-to-maturity securities	$ 13,013	$ —	$ 13,113	$ 10	$ 13,123
Margin receivables	$ 7,398	$ —	$ 7,398	$ —	$ 7,398
Loans receivable, net:					
One- to four-family	$ 2,465	$ —	$ —	$ 2,409	$ 2,409
Home equity	1,810	—	—	1,660	1,660
Consumer	338	—	—	343	343
Total loans receivable, net(1)	$ 4,613	$ —	$ —	$ 4,412	$ 4,412
Receivables from brokers, dealers and clearing organizations	$ 520	$ —	$ 520	$ —	$ 520
Liabilities					
Deposits	$ 29,445	$ —	$ 29,444	$ —	$ 29,444
Customer Payables	$ 6,544	$ —	$ 6,544	$ —	$ 6,544
Payables to brokers, dealers and clearing organizations	$ 1,576	$ —	$ 1,576	$ —	$ 1,576
Other borrowings:					
Securities sold under agreements to repurchase	$ 82	$ —	$ 82	$ —	$ 82
Trust preferred securities	409	—	—	252	252
Total other borrowings	$ 491	$ —	$ 82	$ 252	$ 334
Corporate debt	$ 997	$ —	$ 1,055	$ —	$ 1,055

(1) The carrying value of loans receivable, net includes the allowance for loan losses of $353 million and loans that are recorded at fair value on a nonrecurring basis at December 31, 2015.

The fair value measurement techniques for financial instruments not carried at fair value on the consolidated balance sheet at September 30, 2016 and December 31, 2015 are summarized as follows:

Cash and equivalents, cash required to be segregated under federal or other regulations, margin receivables, receivables from brokers, dealers and clearing organizations, customer payables and payables to brokers, dealers and clearing organizations—Due to their short term nature, fair value is estimated to be carrying value.

Held-to-maturity securities—The held-to-maturity securities portfolio included agency mortgage-backed securities and CMOs, agency debentures, agency debt securities, and other non-agency debt securities. The fair value of agency mortgage-backed securities is determined using market and income approaches with quoted market prices, recent market transactions and spread data for similar instruments. The fair value of agency CMOs and agency debt securities is determined using market and income approaches along with the Company's own trading activities for identical or similar instruments. The fair value of agency debentures is based on quoted market prices that were derived from assumptions observable in the marketplace. Fair value of other non-agency debt securities is estimated to be carrying value.

Loans receivable, net—Fair value is estimated using a discounted cash flow model. Loans are differentiated based on their individual portfolio characteristics, such as product classification, loan category and pricing features. Assumptions for expected losses, prepayments, cash flows and discount rates are adjusted to reflect the individual characteristics of the loans, such as credit risk, coupon, lien position, and payment characteristics, as well as the secondary market conditions for these types of loans.

Although the market for one- to four-family and home equity loan portfolios has improved, given the lack of observability of valuation inputs, these fair value measurements cannot be determined with precision and changes in the underlying assumptions used, including discount rates, could significantly affect the results of current or future fair value estimates. In addition, the amount that would be realized in a forced liquidation, an actual sale or immediate settlement could be lower than both the carrying value and the estimated fair value of the portfolio.

Deposits—Fair value is the amount payable on demand at the reporting date for sweep deposits, complete savings deposits, other money market and savings deposits and checking deposits. For certificates of deposit, fair value is estimated by discounting future cash flows using discount factors derived from current observable rates implied for other similar instruments with similar remaining maturities.

Securities sold under agreements to repurchase—Fair value for securities sold under agreements to repurchase was determined by discounting future cash flows using discount factors derived from current observable rates implied for other similar instruments with similar remaining maturities.

Trust preferred securities—For subordinated debentures, fair value is estimated by discounting future cash flows at the yield implied by dealer pricing quotes.

Corporate debt—For interest-bearing corporate debt, fair value is estimated using dealer pricing quotes. The fair value of the non-interest-bearing convertible debentures is directly correlated to the intrinsic value of the Company's underlying stock; therefore, as the price of the Company's stock increases relative to the conversion price, the fair value of the convertible debentures increases.

Fair Value of Commitments and Contingencies

In the normal course of business, the Company makes various commitments to extend credit and incur contingent liabilities that are not reflected in the consolidated balance sheet. Changes in the economy or interest rates may influence the impact that these commitments and contingencies have on the Company in the future. The Company does not estimate the fair value of those commitments. The Company has the right to cancel these commitments in certain circumstances and has closed a significant amount of customer HELOCs in the past eight years. At September 30, 2016, the Company had approximately $32 million of unfunded commitments to extend credit. Information related to such commitments and contingent liabilities is included in *Note 17—Commitments, Contingencies and Other Regulatory Matters*.

NOTE 6—OFFSETTING ASSETS AND LIABILITIES

For financial statement purposes, the Company does not offset derivative instruments, repurchase agreements, or securities borrowing and securities lending transactions. These activities are generally transacted under master agreements that are widely used by counterparties and that may allow for net settlements of payments in the normal course, as well as offsetting of all contracts with a given counterparty in the event of bankruptcy or default of one of the two parties to the transaction. The following table presents information about these transactions to enable the users of the Company's financial statements to evaluate the potential effect of rights of set-off between these recognized assets and recognized liabilities at September 30, 2016 and December 31, 2015 (dollars in millions):

	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet (1)(2)	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet: Collateral Received or Pledged (Including Cash)	Net Amount
September 30, 2016						
Assets:						
Deposits paid for securities borrowed (3)	$ 657	$ —	$ 657	$ (195)	$ (449)	$ 13
Total	$ 657	$ —	$ 657	$ (195)	$ (449)	$ 13
Liabilities:						
Deposits received for securities loaned (4)	$ 1,188	$ —	$ 1,188	$ (195)	$ (922)	$ 71
Derivative liabilities (5)(6)	32	—	32	—	(32)	—
Total	$ 1,220	$ —	$ 1,220	$ (195)	$ (954)	$ 71
December 31, 2015						
Assets:						
Deposits paid for securities borrowed (3)	$ 120	$ —	$ 120	$ (94)	$ (18)	$ 8
Total	$ 120	$ —	$ 120	$ (94)	$ (18)	$ 8
Liabilities:						
Deposits received for securities loaned (4)	$ 1,535	$ —	$ 1,535	$ (94)	$ (1,314)	$ 127
Repurchase agreements (6)	82	—	82	—	(81)	1
Derivative liabilities (5)(6)	11	—	11	—	(11)	—
Total	$ 1,628	$ —	$ 1,628	$ (94)	$ (1,406)	$ 128

(1) Net amount of deposits paid for securities borrowed are reflected in the receivables from brokers, dealers and clearing organizations line item in the consolidated balance sheet.
(2) Net amount of deposits received for securities loaned, repurchase agreements and derivative liabilities are reflected in the payables to brokers, dealers and clearing organizations, other borrowings and other liabilities line items in the consolidated balance sheet, respectively.
(3) Included in the gross amounts of deposits paid for securities borrowed was $359 million and $34 million at September 30, 2016 and December 31, 2015, respectively, transacted through a program with a clearing organization, which guarantees the return of cash to the Company. For presentation purposes, these amounts presented are based on the counterparties under the Company's master securities loan agreements.
(4) Included in the gross amounts of deposits received for securities loaned was $703 million and $722 million at September 30, 2016 and December 31, 2015, respectively, transacted through a program with a clearing organization, which guarantees the return of securities to the Company. For presentation purposes, these amounts presented are based on the counterparties under the Company's master securities loan agreements.
(5) Excludes net accrued interest payable of $1 million and $3 million at September 30, 2016 and December 31, 2015, respectively.
(6) The Company pledges available-for-sale and held-to-maturity securities as collateral for amounts due on repurchase agreements and derivative liabilities. The collateral pledged included available-for-sale securities at fair value and held-to-maturity securities at amortized cost for September 30, 2016 and available-for-sale securities at fair value for December 31, 2015.

Derivative Transactions

Certain types of derivatives that the Company utilizes in its hedging activities are subject to derivatives clearing agreements ("cleared derivatives contracts") under the Dodd-Frank Act. These cleared derivatives contracts enable clearing by a derivatives clearing organization through a clearing member. Under the contracts, the clearing member typically has a one-way right to offset all contracts in the event of the Company's default or bankruptcy. Collateral exchanged under these contracts is not included in the table above as the contracts may not qualify as master netting agreements. At September 30, 2016 and December 31, 2015, the Company had $4 million and $10 million, respectively, of cleared derivative contract assets. At September 30, 2016 and December 31, 2015, the Company had $99 million and $44 million, respectively, of cleared derivative contract liabilities.

Securities Lending Transactions

Deposits paid for securities borrowed and deposits received for securities loaned are recorded at the amount of cash collateral advanced or received. Deposits paid for securities borrowing transactions require the Company to deposit cash with the lender whereas deposits received for securities loaned result in the Company receiving collateral in the form of cash in an amount generally in excess of the market value of the securities loaned. Securities lending transactions have overnight or continuous remaining contractual maturities.

Securities lending transactions expose the Company to counterparty credit risk and market risk. To manage the counterparty risk, the Company maintains internal standards for approving counterparties, reviews and analyzes the credit rating of each counterparty, and monitors its positions with each counterparty on an ongoing basis. In addition, for certain of the Company's securities lending transactions, the Company uses a program with a clearing organization that guarantees the return of securities. The Company monitors the market value of the securities borrowed and loaned using collateral arrangements that require additional collateral to be obtained from or excess collateral to be returned to the counterparties based on changes in market value, to maintain specified collateral levels.

NOTE 7—AVAILABLE-FOR-SALE AND HELD-TO-MATURITY SECURITIES

The amortized cost and fair value of available-for-sale and held-to-maturity securities at September 30, 2016 and December 31, 2015 are shown in the following tables (dollars in millions):

	Amortized Cost	Gross Unrealized / Unrecognized Gains	Gross Unrealized / Unrecognized Losses	Fair Value
September 30, 2016:				
Available-for-sale securities:(1)				
Debt securities:				
Agency mortgage-backed securities and CMOs	$ 12,064	$ 140	$ (24)	$ 12,180
Agency debentures	794	59	(3)	850
U.S. Treasuries	300	15	(4)	311
Agency debt securities	79	2	—	81
Municipal bonds	33	1	—	34
Corporate bonds	5	—	(1)	4
Total debt securities	13,275	217	(32)	13,460
Publicly traded equity securities(2)	33	—	—	33
Total available-for-sale securities	$ 13,308	$ 217	$ (32)	$ 13,493
Held-to-maturity securities:(1)				
Agency mortgage-backed securities and CMOs	$ 13,176	$ 406	$ (18)	$ 13,564
Agency debentures	119	1	—	120
Agency debt securities	2,894	92	—	2,986
Total held-to-maturity securities	$ 16,189	$ 499	$ (18)	$ 16,670
December 31, 2015:				
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities and CMOs	$ 11,888	$ 41	$ (166)	$ 11,763
Agency debentures	551	18	(12)	557
U.S. Treasuries	147	—	(4)	143
Agency debt securities	55	—	—	55
Municipal bonds	35	—	—	35
Corporate bonds	5	—	(1)	4
Total debt securities	12,681	59	(183)	12,557
Publicly traded equity securities(2)	33	—	(1)	32
Total available-for-sale securities	$ 12,714	$ 59	$ (184)	$ 12,589
Held-to-maturity securities:				
Agency mortgage-backed securities and CMOs	$ 10,353	$ 149	$ (58)	$ 10,444
Agency debentures	127	—	(2)	125
Agency debt securities	2,523	34	(13)	2,544
Other non-agency debt securities	10	—	—	10
Total held-to-maturity securities	$ 13,013	$ 183	$ (73)	$ 13,123

(1) During the three months ended June 30, 2016, securities with a fair value of approximately $492 million were transferred from available-for-sale securities to held-to-maturity securities pursuant to an evaluation of our investment strategy and an assessment by management about our intent and ability to hold those particular securities until maturity. See *Note 14—Shareholders' Equity* for information on the impact to accumulated other comprehensive income.

(2) Consists of investments in a mutual fund related to the Community Reinvestment Act.

Contractual Maturities

The contractual maturities of all available-for-sale and held-to-maturity debt securities at September 30, 2016 are shown in the following table (dollars in millions):

	Amortized Cost	Fair Value
Available-for-sale debt securities:		
Due within one year	$ —	$ —
Due within one to five years	11	11
Due within five to ten years	3,756	3,835
Due after ten years	9,508	9,614
Total available-for-sale debt securities	$ 13,275	$ 13,460
Held-to-maturity debt securities:		
Due within one year	$ —	$ —
Due within one to five years	1,382	1,440
Due within five to ten years	4,615	4,783
Due after ten years	10,192	10,447
Total held-to-maturity debt securities	$ 16,189	$ 16,670

At September 30, 2016, the Company pledged $6 million of available-for-sale debt securities and $0.6 billion of held-to-maturity debt securities as collateral for derivatives and other purposes. At December 31, 2015, the Company pledged $17 million of available-for-sale debt securities and $0.7 billion of held-to-maturity debt securities as collateral for derivatives and other purposes.

Investments with Unrealized or Unrecognized Losses

The following tables show the fair value and unrealized or unrecognized losses on available-for-sale and held-to-maturity securities, aggregated by investment category, and the length of time that individual securities have been in a continuous unrealized or unrecognized loss position at September 30, 2016 and December 31, 2015 (dollars in millions):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized / Unrecognized Losses	Fair Value	Unrealized / Unrecognized Losses	Fair Value	Unrealized / Unrecognized Losses
September 30, 2016:						
Available-for-sale securities:						
Debt securities:						
Agency mortgage-backed securities and CMOs	$ 2,911	$ (15)	$ 1,186	$ (9)	$ 4,097	$ (24)
Agency debentures	128	(3)	—	—	128	(3)
U.S. Treasuries	150	(4)	—	—	150	(4)
Corporate bonds	—	—	4	(1)	4	(1)
Total temporarily impaired available-for-sale securities	$ 3,189	$ (22)	$ 1,190	$ (10)	$ 4,379	$ (32)
Held-to-maturity securities:						
Agency mortgage-backed securities and CMOs	$ 529	$ (2)	$ 1,311	$ (16)	$ 1,840	$ (18)
Agency debt securities	77	—	18	—	95	—
Total temporarily impaired held-to-maturity securities	$ 606	$ (2)	$ 1,329	$ (16)	$ 1,935	$ (18)
December 31, 2015:						
Available-for-sale securities:						
Debt securities:						
Agency mortgage-backed securities and CMOs	$ 6,832	$ (88)	$ 2,496	$ (78)	$ 9,328	$ (166)
Agency debentures	329	(12)	9	—	338	(12)
U.S. Treasuries	143	(4)	—	—	143	(4)
Agency debt securities	55	—	—	—	55	—
Municipal bonds	—	—	15	—	15	—
Corporate bonds	—	—	4	(1)	4	(1)
Publicly traded equity securities	32	(1)	—	—	32	(1)
Total temporarily impaired available-for-sale securities	$ 7,391	$ (105)	$ 2,524	$ (79)	$ 9,915	$ (184)
Held-to-maturity securities:						
Agency mortgage-backed securities and CMOs	$ 2,807	$ (25)	$ 1,495	$ (33)	$ 4,302	$ (58)
Agency debentures	114	(2)	—	—	114	(2)
Agency debt securities	1,006	(10)	134	(3)	1,140	(13)
Total temporarily impaired held-to-maturity securities	$ 3,927	$ (37)	$ 1,629	$ (36)	$ 5,556	$ (73)

The Company does not believe that any individual unrealized loss in the available-for-sale portfolio or unrecognized loss in the held-to-maturity portfolio as of September 30, 2016 represents a credit loss. The Company does not intend to sell the debt securities in an unrealized or unrecognized loss position as of the balance sheet date and it is not more likely than not that the Company will be required to sell the debt securities before the anticipated recovery of its remaining amortized cost of the debt securities in an unrealized or unrecognized loss position at September 30, 2016.

There were no impairment losses recognized in earnings on available-for-sale or held-to-maturity securities during the nine months ended September 30, 2016 and 2015, respectively.

Included within the Company's securities portfolios are securities that have been written-down to a zero carrying value. The credit loss component of debt securities held by the Company that had a noncredit loss component previously recognized in other comprehensive income decreased to $136 million at September 30, 2016 from $152 million at December 31, 2015, as a result of the sale and pay off of our remaining impaired securities during the third quarter of 2016. Of these amounts, $136 million and $123 million at September 30, 2016 and December 31, 2015, respectively, relate to debt securities that have been factored to zero, but the Company still holds legal title to these securities until maturity or until they are sold.

Gains (Losses) on Securities and Other, Net

The following table shows the components of the gains (losses) on securities and other, net line items on the consolidated statement of income (loss) for the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Reclassification of deferred losses on cash flow hedges	$ —	$ (370)	$ —	$ (370)
Gains on available-for-sale securities, net:				
Gains on available-for-sale securities	17	30	46	48
Losses on available-for-sale securities	—	(19)	—	(19)
Subtotal	17	11	46	29
Hedge ineffectiveness	(4)	(2)	(8)	—
Equity method investment income (loss) and other	1	3	(4)	8
Gains (losses) on securities and other, net	$ 14	$ (358)	$ 34	$ (333)

NOTE 8—LOANS RECEIVABLE, NET

Loans receivable, net at September 30, 2016 and December 31, 2015 are summarized as follows (dollars in millions):

	September 30, 2016	December 31, 2015
One- to four-family	$ 2,094	$ 2,488
Home equity	1,685	2,114
Consumer	271	341
Total loans receivable	4,050	4,943
Unamortized premiums, net	17	23
Allowance for loan losses	(235)	(353)
Total loans receivable, net	$ 3,832	$ 4,613

At September 30, 2016, the Company pledged $3.4 billion and $0.3 billion of loans as collateral to the FHLB and Federal Reserve Bank, respectively. At December 31, 2015, the Company pledged $4.2 billion and $0.3 billion of loans as collateral to the FHLB and Federal Reserve Bank, respectively.

The following table presents the total recorded investment in loans receivable and allowance for loan losses by loans that have been collectively evaluated for impairment and those that have been individually evaluated for impairment by loan class at September 30, 2016 and December 31, 2015 (dollars in millions):

	Recorded Investment		Allowance for Loan Losses	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Collectively evaluated for impairment:				
One- to four-family	$ 1,850	$ 2,219	$ 41	$ 31
Home equity	1,484	1,915	132	255
Consumer	273	344	5	6
Total collectively evaluated for impairment	3,607	4,478	178	292
Individually evaluated for impairment:				
One- to four-family	258	286	6	9
Home equity	202	202	51	52
Total individually evaluated for impairment	460	488	57	61
Total	$ 4,067	$ 4,966	$ 235	$ 353

Credit Quality and Concentrations of Credit Risk

The Company tracks and reviews factors to predict and monitor credit risk in its mortgage loan portfolio on an ongoing basis. These factors include: loan type, estimated current LTV/CLTV ratios, delinquency history, borrowers' current credit scores, housing prices, loan vintage and geographic location of the property. The Company believes LTV/CLTV ratios and credit scores are the key factors in determining future loan performance. The factors are updated on at least a quarterly basis. The Company tracks and reviews delinquency status to predict and monitor credit risk in the consumer loan portfolio on at least a quarterly basis.

Credit Quality

The following tables show the distribution of the Company's mortgage loan portfolios by credit quality indicator at September 30, 2016 and December 31, 2015 (dollars in millions):

	One- to Four-Family		Home Equity	
Current LTV/CLTV (1)	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
<=80%	$ 1,368	$ 1,519	$ 721	$ 843
80%-100%	462	609	448	549
100%-120%	162	227	308	420
>120%	102	133	208	302
Total mortgage loans receivable	$ 2,094	$ 2,488	$ 1,685	$ 2,114
Average estimated current LTV/CLTV (2)	74%	77%	88%	90%
Average LTV/CLTV at loan origination (3)	71%	71%	81%	81%

(1) Current CLTV calculations for home equity loans are based on the maximum available line for HELOCs and outstanding principal balance for home equity installment loans. For home equity loans in the second lien position, the original balance of the first lien loan at origination date and updated valuations on the property underlying the loan are used to calculate CLTV. Current property values are updated on a quarterly basis using the most recent property value data available to the Company. For properties in which the Company did not have an updated valuation, home price indices were utilized to estimate the current property value.

(2) The average estimated current LTV/CLTV ratio reflects the outstanding balance at the balance sheet date and the maximum available line for HELOCs, divided by the estimated current value of the underlying property.

(3) Average LTV/CLTV at loan origination calculations are based on LTV/CLTV at time of purchase for one- to four-family purchased loans and home equity installment loans and maximum available line for HELOCs.

Current FICO (1)	One- to Four-Family		Home Equity	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
>=720	$ 1,224	$ 1,423	$ 852	$ 1,069
719 - 700	189	246	163	222
699 - 680	149	198	145	183
679 - 660	132	150	125	152
659 - 620	166	198	161	203
<620	234	273	239	285
Total mortgage loans receivable	$ 2,094	$ 2,488	$ 1,685	$ 2,114

(1) FICO scores are updated on a quarterly basis; however, there were approximately $31 million and $39 million of one- to four-family loans at September 30, 2016 and December 31, 2015, respectively, and $2 million and $3 million of home equity loans at September 30, 2016 and December 31, 2015, respectively, for which the updated FICO scores were not available. For these loans, the current FICO distribution included the most recent FICO scores where available, otherwise the original FICO score was used.

Concentrations of Credit Risk

One- to four-family loans include loans for a five to ten year interest-only period, followed by an amortizing period ranging from 20 to 25 years. At September 30, 2016, 31% of the Company's one- to four-family portfolio was not yet amortizing. During the trailing twelve months ended September 30, 2016, borrowers of approximately 15% of the portfolio made voluntary annual principal payments of at least $2,500 and of this population, nearly half made principal payments that were $10,000 or greater.

The home equity loan portfolio is primarily second lien loans on residential real estate properties, which have a higher level of credit risk than first lien mortgage loans. Approximately 13% of the home equity portfolio was in the first lien position and the Company holds both the first and second lien positions in less than 1% of the home equity loan portfolio at September 30, 2016. The home equity loan portfolio consists of approximately 18% of home equity installment loans and approximately 82% of HELOCs at September 30, 2016.

Home equity installment loans are primarily fixed rate and fixed term, fully amortizing loans that do not offer the option of an interest-only payment. The majority of HELOCs convert to amortizing loans at the end of the draw period, which typically ranges from five to ten years. At September 30, 2016, approximately 1% of this portfolio will require the borrowers to repay the loan in full at the end of the draw period in a future period. At September 30, 2016, 27% of the HELOC portfolio had not converted from the interest-only draw period and had not begun amortizing. During the trailing twelve months ended September 30, 2016, borrowers of approximately 40% of the portfolio made annual principal payments of at least $500 on their HELOCs and slightly under half reduced their principal balance by at least $2,500.

The following table outlines when one- to four-family and HELOCs convert to amortizing by percentage of the one- to four-family portfolio and HELOC portfolios, respectively, at September 30, 2016:

Period of Conversion to Amortizing Loan	% of One- to Four-Family Portfolio	% of Home Equity Line of Credit Portfolio
Already amortizing	69%	73%
Through December 31, 2016	7%	12%
Year ending December 31, 2017	24%	14%
Year ending December 31, 2018 or later	—%	1%

The average age of our mortgage loans receivable was 10.6 and 9.9 years at September 30, 2016 and December 31, 2015, respectively. Approximately 36% and 37% of the Company’s mortgage loans receivable were concentrated in California at September 30, 2016 and December 31, 2015, respectively. No other state had concentrations of mortgage loans that represented 10% or more of the Company’s mortgage loans receivable at September 30, 2016 and December 31, 2015.

Delinquent Loans

The following table shows total loans receivable by delinquency category at September 30, 2016 and December 31, 2015 (dollars in millions):

	Current	30-89 Days Delinquent	90-179 Days Delinquent	180+ Days Delinquent	Total
September 30, 2016					
One- to four-family	$ 1,913	$ 65	$ 19	$ 97	$ 2,094
Home equity	1,568	38	24	55	1,685
Consumer	267	4	—	—	271
Total loans receivable	$ 3,748	$ 107	$ 43	$ 152	$ 4,050
December 31, 2015					
One- to four-family	$ 2,279	$ 72	$ 26	$ 111	$ 2,488
Home equity	1,978	52	31	53	2,114
Consumer	334	6	1	—	341
Total loans receivable	$ 4,591	$ 130	$ 58	$ 164	$ 4,943

Loans delinquent 180 days and greater have been written down to their expected recovery value. Loans delinquent 90 to 179 days generally have not been written down to their expected recovery value (unless they are in process of bankruptcy or are modifications for which there is substantial doubt as to the borrower's ability to repay the loan), but present a risk of future charge-off. Additional charge-offs on loans delinquent 180 days and greater are possible if home prices decline beyond current estimates.

The Company monitors loans in which a borrower's current credit history casts doubt on their ability to repay a loan. Loans are classified as special mention when they are between 30 and 89 days past due. The trend in special mention loan balances is generally indicative of the expected trend for charge-offs in future periods, as these loans have a greater propensity to migrate into nonaccrual status and ultimately charge-off. One- to four-family loans are generally secured in a first lien position by real estate assets, reducing the potential loss when compared to an unsecured loan. Home equity loans are generally secured by real estate assets; however, the majority of these loans are secured in a second lien position, which substantially increases the potential loss when compared to a first lien position. The loss severity of our second lien home equity loans was approximately 92% for a trailing twelve-month period as of September 30, 2016.

Nonperforming Loans

The Company classifies loans as nonperforming when they are no longer accruing interest, which includes loans that are 90 days and greater past due, TDRs that are on nonaccrual status for all classes of loans (including loans in bankruptcy) and certain junior liens that have a delinquent senior lien. The following table shows the comparative data for nonperforming loans at September 30, 2016 and December 31, 2015 (dollars in millions):

	September 30, 2016	December 31, 2015
One- to four-family	$ 230	$ 263
Home equity	150	154
Consumer	—	1
Total nonperforming loans receivable	$ 380	$ 418

Real Estate Owned and Loans with Formal Foreclosure Proceedings in Process

At September 30, 2016 and December 31, 2015, the Company held $30 million and $27 million, respectively, of real estate owned that were acquired through foreclosure or through a deed in lieu of foreclosure or similar legal agreement. The Company also held $104 million and $108 million of loans for which formal foreclosure proceedings were in process at September 30, 2016 and December 31, 2015, respectively.

Allowance for Loan Losses

The following table provides a roll forward by loan portfolio of the allowance for loan losses for the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Three Months Ended September 30, 2016			
	One- to Four-Family	Home Equity	Consumer	Total
Allowance for loan losses, beginning of period	$ 42	$ 245	$ 6	$ 293
Provision (benefit) for loan losses	2	(64)	—	(62)
Charge-offs	—	(4)	(1)	(5)
Recoveries	3	6	—	9
Net (charge-offs) recoveries	3	2	(1)	4
Allowance for loan losses, end of period	$ 47	$ 183	$ 5	$ 235

	Three Months Ended September 30, 2015			
	One- to Four-Family	Home Equity	Consumer	Total
Allowance for loan losses, beginning of period	$ 49	$ 345	$ 8	$ 402
Provision (benefit) for loan losses	(10)	(15)	—	(25)
Charge-offs	—	(7)	(2)	(9)
Recoveries	—	7	1	8
Net (charge-offs) recoveries	—	—	(1)	(1)
Allowance for loan losses, end of period	$ 39	$ 330	$ 7	$ 376

	Nine Months Ended September 30, 2016			
	One- to Four-Family	Home Equity	Consumer	Total
Allowance for loan losses, beginning of period	$ 40	$ 307	$ 6	$ 353
Provision (benefit) for loan losses	2	(134)	1	(131)
Charge-offs	(1)	(13)	(5)	(19)
Recoveries	6	23	3	32
Net (charge-offs) recoveries	5	10	(2)	13
Allowance for loan losses, end of period	$ 47	$ 183	$ 5	$ 235

	Nine Months Ended September 30, 2015			
	One- to Four-Family	Home Equity	Consumer	Total
Allowance for loan losses, beginning of period	$ 27	$ 367	$ 10	$ 404
Provision (benefit) for loan losses	15	(32)	—	(17)
Charge-offs	(3)	(26)	(8)	(37)
Recoveries	—	21	5	26
Net (charge-offs) recoveries	(3)	(5)	(3)	(11)
Allowance for loan losses, end of period	$ 39	$ 330	$ 7	$ 376

Total loans receivable designated as held-for-investment decreased $0.8 billion during the nine months ended September 30, 2016. The allowance for loan losses was $235 million, or 5.8% of total loans receivable, as of September 30, 2016 compared to $353 million, or 7.1% of total loans receivable, as of December 31, 2015. The benefit for loan losses was $62 million and $131 million for the three and nine months ended September 30, 2016. The quantitative allowance methodology continues to include the identification of higher risk mortgage loans and the period of forecasted loan losses captured within the general allowance includes the total probable loss over the remaining life of these loans. The current period provision benefit of $62 million includes approximately $40 million resulting from updated performance expectations based on the sustained outperformance of a substantial volume of the high-risk HELOCs. The current period benefit also reflected recoveries in excess of prior expectations, including recoveries of previous charge-offs that were not included in our loss estimates, as well as payoffs on loans converting to amortizing.

Impaired Loans—Troubled Debt Restructurings

TDRs include two categories of loans: (1) loan modifications completed under the Company's programs that involve granting an economic concession to a borrower experiencing financial difficulty, and (2) loans that have been charged off based on the estimated current value of the underlying property less estimated selling costs due to bankruptcy notification.

Delinquency status is the primary measure the Company uses to evaluate the performance of loans modified as TDRs. As mentioned above, the Company classifies loans as nonperforming when they are no longer accruing interest, which includes loans that are 90 days and greater past due, TDRs that are on nonaccrual status for all classes of loans, including loans in bankruptcy, and certain junior liens that have a delinquent senior lien. The following table shows a summary of the Company's recorded investment in TDRs that were on accrual and nonaccrual status, further disaggregated by delinquency status, in addition to the recorded investment in TDRs at September 30, 2016 and December 31, 2015 (dollars in millions):

		Nonaccrual TDRs				
	Accrual TDRs[1]	Current[2]	30-89 Days Delinquent	90-179 Days Delinquent	180+ Days Delinquent	Total Recorded Investment in TDRs [3][4]
September 30, 2016						
One- to four-family	$ 100	$ 96	$ 18	$ 4	$ 40	$ 258
Home equity	116	50	8	5	23	202
Total	$ 216	$ 146	$ 26	$ 9	$ 63	$ 460
December 31, 2015						
One- to four-family	$ 106	$ 106	$ 19	$ 8	$ 47	$ 286
Home equity	120	42	11	8	21	202
Total	$ 226	$ 148	$ 30	$ 16	$ 68	$ 488

(1) Represents loans modified as TDRs that are current and have made six or more consecutive payments.
(2) Represents loans modified as TDRs that are current but have not yet made six consecutive payments, bankruptcy loans and certain junior lien TDRs that have a delinquent senior lien.
(3) The unpaid principal balance in one- to four-family TDRs was $256 million and $283 million at September 30, 2016 and December 31, 2015, respectively. For home equity loans, the recorded investment in TDRs represents the unpaid principal balance.
(4) Total recorded investment in TDRs at September 30, 2016 consisted of $325 million of loans modified as TDRs and $135 million of loans that have been charged off due to bankruptcy notification. Total recorded investment in TDRs at December 31, 2015 consisted of $334 million of loans modified as TDRs and $154 million of loans that have been charged off due to bankruptcy notification.

The following table shows the average recorded investment and interest income recognized both on a cash and accrual basis for the Company's TDRs during the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Average Recorded Investment		Interest Income Recognized	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
One- to four-family	$ 264	$ 300	$ 2	$ 3
Home equity	205	212	5	4
Total	$ 469	$ 512	$ 7	$ 7

	Average Recorded Investment		Interest Income Recognized	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
One- to four-family	$ 275	$ 307	$ 7	$ 7
Home equity	205	216	13	13
Total	$ 480	$ 523	$ 20	$ 20

Included in the allowance for loan losses was a specific valuation allowance of $57 million and $61 million that was established for TDRs at September 30, 2016 and December 31, 2015, respectively. The specific allowance for these individually impaired loans represents the forecasted losses over the estimated remaining life of the loans, including the economic concessions granted to the borrowers. The following table shows detailed information related to the Company's TDRs at September 30, 2016 and December 31, 2015 (dollars in millions):

	September 30, 2016			December 31, 2015		
	Recorded Investment in TDRs	Specific Valuation Allowance	Net Investment in TDRs	Recorded Investment in TDRs	Specific Valuation Allowance	Net Investment in TDRs
With a recorded allowance:						
One- to four-family	$ 61	$ 6	$ 55	$ 72	$ 9	$ 63
Home equity	$ 112	$ 51	$ 61	$ 111	$ 52	$ 59
Without a recorded allowance:(1)						
One- to four-family	$ 197	$ —	$ 197	$ 214	$ —	$ 214
Home equity	$ 90	$ —	$ 90	$ 91	$ —	$ 91
Total:						
One- to four-family	$ 258	$ 6	$ 252	$ 286	$ 9	$ 277
Home equity	$ 202	$ 51	$ 151	$ 202	$ 52	$ 150

(1) Represents loans where the discounted cash flow analysis or collateral value is equal to or exceeds the recorded investment in the loan.

Troubled Debt Restructurings — Loan Modifications

The Company has loan modification programs that focus on the mitigation of potential losses in the one- to four-family and home equity mortgage loan portfolio. The Company currently does not have an active loan modification program for consumer loans. The various types of economic concessions that may be granted in a loan modification typically consist of interest rate reductions, maturity date extensions, principal forgiveness or a combination of these concessions. The Company uses specialized servicers that focus on loan modifications and pursue trial modifications for loans that are more than 180 days delinquent. Trial modifications are classified immediately as TDRs and continue to be reported as delinquent until the successful completion of the trial period, which is typically 90 days. The loan then becomes a permanent modification reported as current but remains on nonaccrual status until six consecutive payments have been made.

The following table shows loans modified as TDRs by delinquency category at September 30, 2016 and December 31, 2015 (dollars in millions):

	Modifications Current	Modifications 30-89 Days Delinquent	Modifications 90-179 Days Delinquent	Modifications 180+ Days Delinquent	Total Recorded Investment in Modifications(1)
September 30, 2016					
One- to four-family	$ 130	$ 10	$ 2	$ 14	$ 156
Home equity	146	6	4	13	169
Total	$ 276	$ 16	$ 6	$ 27	$ 325
December 31, 2015					
One- to four-family	$ 138	$ 11	$ 5	$ 16	$ 170
Home equity	139	8	6	11	164
Total	$ 277	$ 19	$ 11	$ 27	$ 334

(1) Includes loans modified as TDRs that also had received a bankruptcy notification of $44 million and $42 million at September 30, 2016 and December 31, 2015, respectively.

The following table shows loans modified as TDRs and the specific valuation allowance by loan portfolio as well as the percentage of total expected losses at September 30, 2016 and December 31, 2015 (dollars in millions):

	Recorded Investment in Modifications before Charge-offs	Charge-offs	Recorded Investment in Modifications	Specific Valuation Allowance	Net Investment in Modifications	Specific Valuation Allowance as a % of Modifications	Total Expected Losses
September 30, 2016							
One- to four-family	$ 200	$ (44)	$ 156	$ (6)	$ 150	4%	25%
Home equity	279	(110)	169	(51)	118	30%	57%
Total	$ 479	$ (154)	$ 325	$ (57)	$ 268	17%	44%
December 31, 2015							
One- to four-family	$ 216	$ (46)	$ 170	$ (9)	$ 161	5%	25%
Home equity	284	(120)	164	(52)	112	32%	61%
Total	$ 500	$ (166)	$ 334	$ (61)	$ 273	18%	45%

The recorded investment in loans modified as TDRs includes the charge-offs related to certain loans that were written down to the estimated current value of the underlying property less estimated selling costs. These charge-offs were recorded on modified loans that were delinquent in excess of 180 days, in bankruptcy, or when certain characteristics of the loan, including CLTV, borrower's credit and type of modification, cast substantial doubt on the borrower's ability to repay the loan. The total expected loss on loans modified as TDRs includes both the previously recorded charge-offs and the specific valuation allowance.

The vast majority of the Company's loans modified as TDRs include an interest rate reduction in combination with another type of concession. The Company prioritizes the interest rate reduction modifications in combination with the other modification categories. Each class is mutually exclusive in that if a modification had an interest rate reduction with an extension and other modification, the modification would only be presented in the extension column in the table below. The following tables provide the number of loans and post-modification balances immediately after being modified by major class during the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Three Months Ended September 30, 2016				
		Interest Rate Reduction			
	Number of Loans	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other[(1)]	Total
One- to four-family	11	$ 2	$ —	$ 2	$ 4
Home equity	102	2	—	5	7
Total	113	$ 4	$ —	$ 7	$ 11

	Three Months Ended September 30, 2015				
		Interest Rate Reduction			
	Number of Loans	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other	Total
One- to four-family	12	$ 4	$ —	$ 1	$ 5
Home equity	40	1	1	1	3
Total	52	$ 5	$ 1	$ 2	$ 8

	Nine Months Ended September 30, 2016				
		Interest Rate Reduction			
	Number of Loans	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other[(1)]	Total
One- to four-family	32	$ 8	$ —	$ 4	$ 12
Home equity	459	7	3	23	33
Total	491	$ 15	$ 3	$ 27	$ 45

	Nine Months Ended September 30, 2015				
		Interest Rate Reduction			
	Number of Loans	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other[(1)]	Total
One- to four-family	28	$ 7	$ —	$ 2	$ 9
Home equity	293	3	2	17	22
Total	321	$ 10	$ 2	$ 19	$ 31

(1) Includes TDRs that resulted from a loan modification program being offered to a subset of borrowers with HELOCs whose original loan terms provided the borrowers the option to accelerate their date of conversion to amortizing loans. As certain terms of the Company's offer represented economic concessions, such as longer amortization periods than were in the original loan agreements, to certain borrowers experiencing financial difficulty, this program resulted in less than $1 million and $15 million of TDRs during the three and nine months ended September 30, 2016, respectively, and $14 million of TDRs during the nine months ended September 30, 2015.

The Company considers modifications that become 30 days past due to have experienced a payment default. The following table shows the recorded investment in modifications that experienced a payment default within 12 months after the modification for the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Three Months Ended September 30,			
	2016		2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
One- to four-family(1)	1	$ —	2	$ 1
Home equity(2)	19	1	11	1
Total	20	$ 1	13	$ 2

	Nine Months Ended September 30,			
	2016		2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
One- to four-family(1)	8	$ 3	4	$ 2
Home equity(2)(3)	49	3	79	4
Total	57	$ 6	83	$ 6

(1) For the three and nine months ended September 30, 2016, less than $1 million and 1 million, respectively, of the recorded investment in one- to four-family loans had a payment default in the trailing 12 months that was classified as current, compared to less than $1 million for both the three and nine months ended September 30, 2015.
(2) For the three and nine months ended September 30, 2016, $1 million and $2 million, respectively, of the recorded investment in home equity loans had a payment default in the trailing 12 months that was classified as current, compared to less than $1 million and $3 million for the three and nine months ended September 30, 2015, respectively.
(3) The majority of these home equity modifications during the nine months ended September 30, 2015 experienced servicer transfers during this same period.

NOTE 9—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company enters into derivative transactions primarily to protect against interest rate risk on the value of certain assets, liabilities and future cash flows. Each derivative instrument is recorded on the consolidated balance sheet at fair value as a freestanding asset or liability. The following table summarizes the fair value of derivatives as reported in the consolidated balance sheet at September 30, 2016 and December 31, 2015 (dollars in millions):

		Fair Value		
	Notional	Asset(1)	Liability(2)	Net(3)
September 30, 2016				
Interest rate contracts:				
Fair value hedges	$ 2,295	$ 4	$ (131)	$ (127)
Total derivatives designated as hedging instruments(4)	$ 2,295	$ 4	$ (131)	$ (127)
December 31, 2015				
Interest rate contracts:				
Fair value hedges	$ 2,204	$ 10	$ (55)	$ (45)
Total derivatives designated as hedging instruments(4)	$ 2,204	$ 10	$ (55)	$ (45)

(1) Reflected in the other assets line item on the consolidated balance sheet.
(2) Reflected in the other liabilities line item on the consolidated balance sheet.
(3) Represents net fair value of derivative instruments for disclosure purposes only.
(4) All derivatives were designated as hedging instruments at September 30, 2016 and December 31, 2015.

Cash Flow Hedges

The Company terminated $4.4 billion of legacy wholesale funding obligations during the third quarter of 2015 along with the cash flow hedges used to hedge the forecasted transactions related to these obligations. As the Company's intent changed and the hedged forecasted transactions became probable of not occurring, the Company reclassified $370 million of pre-tax losses on cash flow hedges from accumulated other comprehensive loss into earnings during the three months ended September 30, 2015. See *Note 11— Other Borrowings* for additional information.

Fair Value Hedges

Fair value hedges are used to offset exposure to changes in value of certain fixed-rate assets and liabilities. Fair value hedges are accounted for by recording the fair value of the derivative instrument and the fair value of the asset or liability being hedged on the consolidated balance sheet. Changes in the fair value of both the derivative instruments and the underlying assets or liabilities are recognized in the gains (losses) on securities and other, net line item in the consolidated statement of income (loss). To the extent that the hedge is ineffective, the changes in the fair values will not offset and the difference, or hedge ineffectiveness, is reflected in the gains (losses) on securities and other, net line item in the consolidated statement of income (loss).

Hedge accounting is discontinued for fair value hedges if a derivative instrument is sold, terminated or otherwise de-designated. If fair value hedge accounting is discontinued, the previously hedged item is no longer adjusted for changes in fair value through the consolidated statement of income (loss) and the cumulative net gain or loss on the hedged asset or liability at the time of de-designation is amortized to interest income or interest expense using the effective interest method over the expected remaining life of the hedged item. Changes in the fair value of the derivative instruments after de-designation of fair value hedge accounting are recorded in the gains (losses) on securities and other, net line item in the consolidated statement of income (loss).

The following table summarizes the effect of interest rate contracts designated as fair value hedges and related hedged items on the consolidated statement of income (loss) for the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Three Months Ended September 30,					
	2016			2015		
	Hedging Instrument	Hedged Item	Hedge Ineffectiveness(1)	Hedging Instrument	Hedged Item	Hedge Ineffectiveness(1)
Agency debentures	$ 1	$ (3)	$ (2)	$ (30)	$ 30	$ —
Agency mortgage-backed securities	14	(16)	(2)	(72)	70	(2)
Total gains (losses) included in earnings	$ 15	$ (19)	$ (4)	$ (102)	$ 100	$ (2)

	Nine Months Ended September 30,					
	2016			2015		
	Hedging Instrument	Hedged Item	Hedge Ineffectiveness(1)	Hedging Instrument	Hedged Item	Hedge Ineffectiveness(1)
Agency debentures	$ (89)	$ 85	$ (4)	$ (15)	$ 15	$ —
Agency mortgage-backed securities	(100)	96	(4)	(32)	32	—
Total gains (losses) included in earnings	$ (189)	$ 181	$ (8)	$ (47)	$ 47	$ —

(1) Reflected in the gains (losses) on securities and other, net line item on the consolidated statement of income (loss).

NOTE 10—DEPOSITS

Deposits are summarized as follows (dollars in millions):

	Amount		Weighted-Average Rate	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Sweep deposits	$ 26,464	$ 24,018	0.01%	0.01%
Complete savings deposits	3,182	3,357	0.01%	0.01%
Checking deposits	1,252	1,239	0.03%	0.03%
Other money market and savings deposits	765	792	0.01%	0.01%
Time deposits(1)	34	39	0.18%	0.38%
Total deposits(2)	$ 31,697	$ 29,445	0.01%	0.01%

(1) Time deposits represent certificates of deposit as of September 30, 2016 and December 31, 2015, and include brokered certificates of deposit as of December 31, 2015.
(2) As of September 30, 2016 and December 31, 2015, the Company had $172 million and $173 million in non-interest bearing deposits, respectively.

NOTE 11— OTHER BORROWINGS

Other borrowings at September 30, 2016 and December 31, 2015 are summarized as follows (dollars in millions):

	September 30, 2016	December 31, 2015
Trust preferred securities(1)	$ 409	$ 409
Repurchase agreements(2)	—	82
Total other borrowings	$ 409	$ 491

(1) The Company's TRUPs begin maturing in 2031.
(2) The maximum amount at any month end for repurchase agreements was $3.8 billion for the year ended December 31, 2015.

The Company terminated $4.4 billion of legacy wholesale funding obligations during the third quarter of 2015. In connection with this termination, the Company recorded a pre-tax charge of $413 million in consolidated statement of income (loss), including $43 million in the losses on early extinguishment of debt, net line item, and $370 million in the gains (losses) on securities and other, net line item that were reclassified from accumulated other comprehensive loss attributable to cash flow hedges.

The Company repurchased $14 million of trust preferred securities in advance of maturity during the third quarter of 2015 and recorded a gain on early extinguishment of debt of $4 million.

*External Lines of Credit maintained at E*TRADE Clearing*

E*TRADE Clearing's external liquidity lines total approximately $1.1 billion as of September 30, 2016 and include the following:

- a 364-day, $400 million senior unsecured committed revolving credit facility with a syndicate of banks that matures in June 2017;
- secured committed lines of credit with two unaffiliated banks, aggregating to $175 million with a maturity date of June 2017;
- unsecured uncommitted lines of credit with two unaffiliated banks aggregating to $100 million, of which $75 million was renewed and is scheduled to mature in June 2017 and the remaining line has no maturity date; and
- secured uncommitted lines of credit with several unaffiliated banks aggregating to $375 million with no maturity date.

The revolving credit facility contains maintenance covenants relating to E*TRADE Clearing's minimum consolidated tangible net worth and regulatory net capital ratio. There were no outstanding balances for these lines at September 30, 2016.

NOTE 12—CORPORATE DEBT

Corporate debt at September 30, 2016 and December 31, 2015 is outlined in the following table (dollars in millions):

	Face Value	Discount	Net
September 30, 2016			
Interest-bearing notes:			
5 3/8% Notes, due 2022	$ 540	$ (4)	$ 536
4 5/8% Notes, due 2023	460	(5)	455
Total interest-bearing notes	1,000	(9)	991
Non-interest-bearing debt:			
0% Convertible debentures, due 2019	3	—	3
Total corporate debt	$ 1,003	$ (9)	$ 994

	Face Value	Discount	Net
December 31, 2015			
Interest-bearing notes:			
5 3/8% Notes, due 2022	$ 540	$ (6)	$ 534
4 5/8% Notes, due 2023	460	(5)	455
Total interest-bearing notes	1,000	(11)	989
Non-interest-bearing debt:			
0% Convertible debentures, due 2019	8	—	8
Total corporate debt	$ 1,008	$ (11)	$ 997

4 5/8% Notes

In March 2015, the Company issued an aggregate principal amount of $460 million in 4 5/8% Notes due September 2023. Interest is payable semi-annually and the notes may be called by the Company beginning March 15, 2018 at a premium, which declines over time. The Company used the net proceeds from the issuance of the 4 5/8% Notes, along with approximately $432 million of existing corporate cash to redeem all of the outstanding 6 3/8% Notes including paying the associated redemption premiums of $68 million, accrued interest and related fees and expenses. This resulted in $73 million in losses on early extinguishment of debt for the quarter ended March 31, 2015.

Credit Facility

In November 2014, the Company entered into a $200 million senior secured revolving credit facility and in February of 2015, entered into an amendment to increase commitments thereunder by $50 million. At September 30, 2016, there was no outstanding balance under the revolving credit facility and available capacity for borrowings was $250 million. The credit facility expires in November 2017. The Company has the ability to borrow against the credit facility for working capital and general corporate purposes. The credit facility contains certain maintenance covenants, including the requirement for the parent company to maintain unrestricted cash of $100 million.

NOTE 13—INCOME TAXES

Income Tax Expense (Benefit)

Income tax expense was $86 million and $208 million for the three and nine months ended September 30, 2016, respectively, compared to an income tax benefit of $93 million and $245 million for the same periods in 2015. The effective tax rates were 38% and 33% for the three and nine months ended September 30, 2016, respectively, compared to 38% and 372% for the same periods in 2015.

The effective tax rate of 33% for the nine months ended September 30, 2016 was primarily driven by the release of valuation allowances on certain state deferred tax assets. Effective January 1, 2016, the Company elected to treat its broker-dealers, E*TRADE Securities and E*TRADE Clearing, as single member LLCs for tax purposes. The election to be treated as single member LLCs and future income projections at the broker-dealers will result in the utilization of certain state deferred tax assets, primarily state NOLs, against which the Company had recorded valuation allowances. Accordingly, the Company recognized a tax benefit of $31 million during the three months ended March 31, 2016.

The effective tax rate of 372% for the nine months ended September 30, 2015, was primarily driven by the settlement of an IRS examination of the Company's 2007, 2009, and 2010 federal tax returns, which resulted in the recognition of a $220 million income tax benefit in the second quarter of 2015.

Deferred Taxes and Valuation Allowance

Deferred income taxes are recorded when revenues and expenses are recognized in different periods for financial statement and tax return purposes. The Company maintains valuation allowances against the portion of deferred tax assets that it does not believe would be realized. The Company’s deferred tax asset, valuation allowance, and deferred tax liability balances at September 30, 2016 and December 31, 2015 are summarized in the following table (dollars in millions):

	September 30, 2016	December 31, 2015
Total deferred tax assets	$ 1,266	$ 1,548
Valuation allowance	(42)	(82)
Total deferred tax assets, net of valuation allowance	1,224	1,466
Total deferred tax liabilities	(499)	(433)
Deferred tax assets, net	$ 725	$ 1,033

NOTE 14—SHAREHOLDERS' EQUITY

The following tables present after-tax changes in each component of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Available-for-Sale Securities[(1)]	Cash Flow Hedging Instruments	Foreign Currency Translation	Total
Balance, December 31, 2015	$ (101)	$ —	$ 2	$ (99)
Other comprehensive income before reclassifications	94	—	—	94
Amounts reclassified from accumulated other comprehensive loss	(9)	—	—	(9)
Net change	85	—	—	85
Balance, March 31, 2016	$ (16)	$ —	$ 2	$ (14)
Other comprehensive income before reclassifications	69	—	—	69
Amounts reclassified from accumulated other comprehensive income	(9)	—	—	(9)
Net change	60	—	—	60
Balance, June 30, 2016	$ 44	$ —	$ 2	$ 46
Other comprehensive income before reclassifications	3	—	—	3
Amounts reclassified from accumulated other comprehensive income	(10)	—	—	(10)
Net change	(7)	—	—	(7)
Balance, September 30, 2016	$ 37	$ —	$ 2	$ 39

(1) Includes unamortized unrealized losses of approximately $8 million at September 30, 2016, related to available-for-sale securities that were transferred to held-to-maturity during the three months ended June 30, 2016. See *Note 7—Available-for-Sale and Held-to-Maturity Securities* for additional information.

	Available-for-Sale Securities	Cash Flow Hedging Instruments	Foreign Currency Translation	Total
Balance, December 31, 2014	$ 7	$ (261)	$ 5	$ (249)
Other comprehensive income (loss) before reclassifications	39	(11)	—	28
Amounts reclassified from accumulated other comprehensive loss	(6)	16	—	10
Net change	33	5	—	38
Balance, March 31, 2015	$ 40	$ (256)	$ 5	$ (211)
Other comprehensive income (loss) before reclassifications	(59)	6	—	(53)
Amounts reclassified from accumulated other comprehensive loss	(5)	16	—	11
Net change	(64)	22	—	(42)
Balance, June 30, 2015	$ (24)	$ (234)	$ 5	$ (253)
Other comprehensive income (loss) before reclassifications	17	(5)	—	12
Amounts reclassified from accumulated other comprehensive loss	(7)	239	—	232
Net change	10	234	—	244
Balance, September 30, 2015	$ (14)	$ —	$ 5	$ (9)

The following tables present other comprehensive income (loss) activity and the related tax effect for the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

	Three Months Ended September 30,					
	2016			2015		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Available-for-sale securities:						
Unrealized gains, net	$ 5	$ (2)	$ 3	$ 28	$ (11)	$ 17
Reclassification into earnings, net	(17)	7	(10)	(11)	4	(7)
Net change from available-for-sale securities	(12)	5	(7)	17	(7)	10
Cash flow hedging instruments:						
Unrealized losses, net	—	—	—	(8)	3	(5)
Reclassification into earnings, net	—	—	—	387	(148)	239
Net change from cash flow hedging instruments	—	—	—	379	(145)	234
Other comprehensive income (loss)	$ (12)	$ 5	$ (7)	$ 396	$ (152)	$ 244

	Nine Months Ended September 30,					
	2016			2015		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Available-for-sale securities:						
Unrealized gains (losses), net	$ 269	$ (103)	$ 166	$ (5)	$ 2	$ (3)
Reclassification into earnings, net	(46)	18	(28)	(29)	11	(18)
Net change from available-for-sale securities	223	(85)	138	(34)	13	(21)
Cash flow hedging instruments:						
Unrealized losses, net	—	—	—	(17)	7	(10)
Reclassification into earnings, net	—	—	—	439	(168)	271
Net change from cash flow hedging instruments	—	—	—	422	(161)	261
Other comprehensive income	$ 223	$ (85)	$ 138	$ 388	$ (148)	$ 240

The following table presents the consolidated statement of income (loss) line items impacted by reclassifications out of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015 (dollars in millions):

Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)				Affected Line Items in the Consolidated Statement of Income (Loss)
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2016	2015	2016	2015	
Available-for-sale securities:					
	$ 17	$ 11	$ 46	$ 29	Gains (losses) on securities and other, net
	(7)	(4)	(18)	(11)	Tax expense
	$ 10	$ 7	$ 28	$ 18	Reclassification into earnings, net
Cash flow hedging instruments:					
	$ —	$ (370)	$ —	$ (370)	Gains (losses) on securities and other, net
	—	(17)	—	(69)	Interest expense
	—	(387)	—	(439)	Reclassification into earnings, before tax
	—	148	—	168	Tax benefit
	$ —	$ (239)	$ —	$ (271)	Reclassification into earnings, net

The Company terminated $4.4 billion of legacy wholesale funding obligations during the third quarter of 2015. In connection with this termination, the Company recorded a pre-tax charge of $413 million in the consolidated statement of income (loss), including $43 million in the losses on early extinguishment of debt, net line item, and $370 million in the gains (losses) on securities and other, net line item that were reclassified from accumulated other comprehensive loss attributable to cash flow hedges.

Conversions of Convertible Debentures

During the nine months ended September 30, 2016 and 2015, $5 million and $4 million of the Company's convertible debentures were converted into 0.5 million and 0.3 million shares of common stock, respectively.

Issuance of Preferred Stock

On August 25, 2016, the Company issued 400,000 shares of Series A fixed-to-floating rate non-cumulative perpetual preferred stock for gross proceeds of $400 million. Net proceeds, after issuance cost, were approximately $394 million. The shares have a par value of $0.01 and a liquidation preference of $1,000 per share. Dividends are non-cumulative and are payable semi-annually at a rate of 5.875% from the original issue date to, but excluding, September 15, 2026. Dividends thereafter are payable at a floating rate equal to the three-month U.S. dollar LIBOR on the related dividend determination date plus 4.435%. As no preferred stock dividends were declared during the three months ended September 30, 2016, the Company has not presented net income available to common shareholders on the consolidated statement of income (loss). The Company used the proceeds of the issuance, along with existing corporate cash, to fund the acquisition of OptionsHouse. See *Note 2—Business Acquisition* for additional information.

Share Repurchases

On November 19, 2015, the Company announced that its Board of Directors authorized the repurchase of up to $800 million of shares of the Company's common stock through March 31, 2017. During the six months ended June 30, 2016, the Company repurchased a total of $452 million, or 19.0 million shares, of common stock under this program which brings total repurchases to $502 million, or 20.6 million shares, since inception. As of September 30, 2016, $298 million remained available for additional repurchases. The Company accounts for share repurchases retired after repurchase by allocating the excess repurchase price over par to additional paid-in-capital. Due to the OptionsHouse acquisition, the Company did not repurchase shares during the third quarter of 2016. The Company will continue to assess the best use of corporate cash and anticipates resuming share repurchases in the second half of 2017.

NOTE 15—EARNINGS (LOSS) PER SHARE

The following table presents a reconciliation of basic and diluted earnings (loss) per share (in millions, except share data and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic:				
Net income (loss)	$ 139	$ (153)	$ 425	$ 179
Basic weighted-average shares outstanding (in thousands)	274,362	290,480	278,864	290,105
Basic earnings (loss) per share	$ 0.51	$ (0.53)	$ 1.53	$ 0.62
Diluted:				
Net income (loss)	$ 139	$ (153)	$ 425	$ 179
Basic weighted-average shares outstanding (in thousands)	274,362	290,480	278,864	290,105
Effect of dilutive securities:				
Weighted-average convertible debentures (in thousands)	318	—	411	3,517
Weighted-average options and restricted stock issued to employees (in thousands)	792	—	861	1,376
Diluted weighted-average shares outstanding (in thousands)	275,472	290,480	280,136	294,998
Diluted earnings (loss) per share	$ 0.51	$ (0.53)	$ 1.52	$ 0.61

The Company excluded the following shares from the calculation of diluted earnings (loss) per share as the effect would have been anti-dilutive (shares in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted-average shares excluded as a result of the Company's net loss:				
Convertible debentures	—	3.3	—	—
Stock options and restricted stock awards and units	—	1.3	—	—
Stock options and restricted stock awards and units	0.2	0.1	0.1	0.1
Total	0.2	4.7	0.1	0.1

NOTE 16—REGULATORY REQUIREMENTS

Broker-Dealer Capital Requirements

The Company’s U.S. broker-dealer subsidiaries are subject to the Uniform Net Capital Rule (the "Rule") under the Securities Exchange Act of 1934 administered by the SEC and FINRA, which requires the maintenance of minimum net capital. The minimum net capital requirements can be met under either the Aggregate Indebtedness method or the Alternative method. Under the Aggregate Indebtedness method, a broker-dealer is required to maintain minimum net capital of the greater of 6 2/3% of its aggregate indebtedness, as defined, or a minimum dollar amount. Under the Alternative method, a broker-dealer is required to maintain net capital equal to the greater of $250,000 or 2% of aggregate debit balances arising from customer transactions. The method used depends on the individual U.S. broker-dealer subsidiary. The Company’s U.S. broker-dealer subsidiaries are also subject to Commodity Futures Trading Commission (“CFTC”) regulations (“Reg. 1.17”) under the Commodity Exchange Act, which require the maintenance of minimum net capital equal to the greater of net capital requirement under Reg. 1.17 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. The Company’s international broker-dealer subsidiary is subject to capital requirements determined by its respective regulator.

At September 30, 2016 and December 31, 2015, all of the Company's broker-dealer subsidiaries met minimum net capital requirements. The tables below summarize the minimum capital requirements and excess capital for the Company's broker-dealer subsidiaries at September 30, 2016 and December 31, 2015 (dollars in millions):

	Required Net Capital	Net Capital	Excess Net Capital
September 30, 2016:			
E*TRADE Clearing(1)(2)	$ 151	$ 884	$ 733
E*TRADE Securities(1)(3)	1	75	74
OptionsHouse(4)	1	15	14
Other broker-dealer	—	17	17
Total	$ 153	$ 991	$ 838
December 31, 2015:			
E*TRADE Clearing(1)	$ 161	$ 1,007	$ 846
E*TRADE Securities(1)	—	49	49
Other broker-dealers	1	15	14
Total	$ 162	$ 1,071	$ 909

(1) Elected to use the Alternative method to compute net capital. E*TRADE Securities' minimum net capital requirement was $250,000 as of December 31, 2015 and $1 million as of September 30, 2016 as a result of its registration as a Futures Commission Merchant during the three months ended September 30, 2016.
(2) E*TRADE Clearing paid dividends of $227 million to the parent company during the nine months ended September 30, 2016. Effective October 1, 2016, E*TRADE Clearing was merged into E*TRADE Securities.
(3) E*TRADE Securities paid dividends of $108 million to the parent company during the nine months ended September 30, 2016.
(4) The Company completed the acquisition of OptionsHouse on September 12, 2016. OptionsHouse elected to use the Aggregate Indebtedness method to compute net capital; however, as OptionsHouse is an FCM, the prescribed fixed-dollar minimum capital requirement is $1 million.

Bank Capital Requirements

E*TRADE Financial and E*TRADE Bank are subject to various regulatory capital requirements administered by federal banking agencies. Beginning January 1, 2015, both E*TRADE Financial and E*TRADE Bank calculate regulatory capital under the Basel III framework using the Standardized Approach, subject to transition provisions. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on E*TRADE Financial's and E*TRADE Bank's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, E*TRADE Financial and E*TRADE Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. In addition, E*TRADE Bank may not pay dividends to the parent company without the non-objection, or in certain cases the approval, of its regulators, and any loans by E*TRADE Bank to the parent company and its other non-bank subsidiaries are subject to various quantitative, arm's length, collateralization and other requirements. E*TRADE Financial's and E*TRADE Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require E*TRADE Financial and E*TRADE Bank to meet minimum Common equity Tier 1 capital, Tier 1 risk-based capital, Total risk-based capital, and Tier 1 leverage ratios. Events beyond management's control, such as deterioration in credit markets, could adversely affect future earnings and E*TRADE Financial's and E*TRADE Bank's ability to meet future capital requirements. E*TRADE Financial and E*TRADE Bank were categorized as "well capitalized" under the regulatory framework for prompt corrective action for the periods presented in the table below (dollars in millions):

	September 30, 2016					December 31, 2015				
	Actual		Well Capitalized Minimum Capital		Excess Capital	Actual		Well Capitalized Minimum Capital		Excess Capital
	Amount	Ratio	Amount	Ratio	Amount	Amount	Ratio	Amount	Ratio	Amount
E*TRADE Financial(1)										
Tier 1 leverage	$ 3,396	7.3%	$ 2,318	5.0%	$ 1,078	$ 3,747	9.0%	$ 2,093	5.0%	$ 1,654
Common equity Tier 1 capital	$ 3,286	34.0%	$ 629	6.5%	$ 2,657	$ 3,747	39.3%	$ 620	6.5%	$ 3,127
Tier 1 risk-based capital	$ 3,396	35.1%	$ 774	8.0%	$ 2,622	$ 3,747	39.3%	$ 763	8.0%	$ 2,984
Total risk-based capital	$ 3,938	40.7%	$ 968	10.0%	$ 2,970	$ 4,186	43.9%	$ 954	10.0%	$ 3,232

	September 30, 2016					December 31, 2015				
	Actual		Well Capitalized Minimum Capital		Excess Capital	Actual		Well Capitalized Minimum Capital		Excess Capital
	Amount	Ratio	Amount	Ratio	Amount	Amount	Ratio	Amount	Ratio	Amount
E*TRADE Bank(1)(2)										
Tier 1 leverage	$ 3,069	8.5%	$ 1,806	5.0%	$ 1,263	$ 3,075	9.7%	$ 1,579	5.0%	$ 1,496
Common equity Tier 1 capital	$ 3,069	36.7%	$ 544	6.5%	$ 2,525	$ 3,075	36.5%	$ 548	6.5%	$ 2,527
Tier 1 risk-based capital	$ 3,069	36.7%	$ 669	8.0%	$ 2,400	$ 3,075	36.5%	$ 674	8.0%	$ 2,401
Total risk-based capital	$ 3,176	38.0%	$ 837	10.0%	$ 2,339	$ 3,185	37.8%	$ 842	10.0%	$ 2,343

(1) The Basel III final rule introduces a capital conservation buffer that limits a banking organization's ability to make capital distributions and discretionary bonus payments to executive officers if a banking organization fails to maintain a Common Equity Tier 1 capital conservation buffer of more than 2.5%, on a fully phased-in basis, of total risk-weighted assets above each of the following minimum risk-based capital ratio requirements: Common Equity Tier 1 (4.5%), Tier 1 (6.0%), and total risk-based capital (8.0%). This requirement was effective beginning on January 1, 2016, and will be fully phased-in by 2019. Certain new regulatory deductions and adjustments are subject to a phase-in period over a four year period, beginning at 40% in 2015 and fully implemented at 100% in 2018.

(2) E*TRADE Bank paid dividends of $373 million to the parent company during the nine months ended September 30, 2016.

NOTE 17—COMMITMENTS, CONTINGENCIES AND OTHER REGULATORY MATTERS

Legal Matters

The Company reviews its lawsuits, regulatory inquiries and other legal proceedings on an ongoing basis and provides disclosure and records loss contingencies in accordance with the loss contingencies accounting guidance. The Company establishes an accrual for losses at management's best estimate when it assesses that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The estimated liability is revised based on currently available information.

Litigation Matters

On October 27, 2000, Ajaxo, Inc. ("Ajaxo") filed a complaint in the Superior Court for the State of California, County of Santa Clara. Ajaxo sought damages and certain non-monetary relief for the Company's alleged breach of a non-disclosure agreement with Ajaxo pertaining to certain wireless technology that Ajaxo offered the Company as well as damages and other relief against the Company for their alleged misappropriation of Ajaxo's trade secrets. Following a jury trial, a judgment was entered in 2003 in favor of Ajaxo against the Company for $1 million for breach of the Ajaxo non-disclosure agreement. Although the jury found in favor of Ajaxo on its claim against the Company for misappropriation of trade secrets, the trial court subsequently denied Ajaxo's requests for additional damages and relief. On December 21, 2005, the California Court of Appeal affirmed the above-described award against the Company for breach of the nondisclosure agreement but remanded the case to the trial court for the limited purpose of determining what, if any, additional damages Ajaxo may be entitled to as a result of the jury's previous finding in favor of Ajaxo on its claim against the Company for misappropriation of trade secrets. Although the Company paid Ajaxo the full amount due on the above-described judgment, the case was remanded back to the trial court, and on May 30, 2008, a jury returned a verdict in favor of the Company denying all claims raised and demands for damages against the Company. Following the trial court's entry of judgment in favor of the Company on September 5, 2008, Ajaxo filed post-trial motions for vacating this entry of judgment and requesting a new trial. The trial court denied these motions. On December 2, 2008, Ajaxo filed a notice of appeal with the Court of Appeal of the State of California for the Sixth District. On August 30, 2010, the Court of Appeal affirmed the trial court's verdict in part and reversed the verdict in part, remanding the case. The Company petitioned the Supreme Court of California for review of the Court of Appeal decision. On December 16, 2010, the California Supreme Court denied the Company's petition for review and remanded for further proceedings to the trial court. The testimonial phase of the third trial in this matter concluded on June 12, 2012. By order dated May 28, 2014, the Court determined to conduct a second phase of this bench trial to allow Ajaxo to attempt to prove entitlement to additional royalties. Hearings in phase two of the trial concluded January 8, 2015. In a Judgment and Statement of Decision filed September 16, 2015, the Court denied all claims for royalties by Ajaxo. Ajaxo's post-trial motions were denied. Ajaxo has appealed to the Court of Appeal, Sixth District. There is no briefing schedule on this appeal. The Company will continue to defend itself vigorously.

On May 16, 2011, Droplets Inc., the holder of two patents pertaining to user interface servers, filed a complaint in the U.S. District Court for the Eastern District of Texas against E*TRADE Financial Corporation, E*TRADE Securities, E*TRADE Bank and multiple other unaffiliated financial services firms. Plaintiff contends that the defendants engaged in patent infringement under federal law. Plaintiff seeks unspecified damages and an injunction against future infringements, plus royalties, costs, interest and attorneys' fees. On March 28, 2012, a change of venue was granted and the case was transferred to the United States District Court for the Southern District of New York. The Company's motion for summary judgment on the grounds of non-infringement was granted by the U.S. District Court in a Decision and Order dated March 9, 2015. All remaining claims are stayed pending resolution of issues on Droplet's remaining patents under review by the Patent Trial and Appeal Board ("PTAB"). On July 6, 2015, the PTAB instituted an inter partes review of plaintiff's '115 patent. A hearing on the inter partes review was conducted on March 14, 2016. On June 23, 2016, the PTAB deemed Droplets' putative '115 patent to be "unpatentable." In a separate proceeding, the PTAB has also separately deemed Droplets' putative '838 patent to be "unpatentable." Droplets has appealed to the Circuit Court of Appeals for the District of Columbia. The Company will continue to defend itself vigorously in this matter.

Several cases have been filed nationwide involving the April 2007 leveraged buyout ("LBO") of the Tribune Company ("Tribune") by Sam Zell, and the subsequent bankruptcy of Tribune. In William Niese et al. v. A.G. Edwards et al., in Superior Court of Delaware, New Castle County, former Tribune employees and retirees claimed that Tribune was actually insolvent at the time of the LBO and that the LBO constituted a fraudulent transaction that depleted the plaintiffs' retirement plans, rendering them worthless. E*TRADE Clearing, along with numerous other financial institutions, is a named defendant in this case. One of the defendants removed the action to federal district court in Delaware on July 1, 2011. In Deutsche Bank Trust Company Americas et al. v. Adaly Opportunity Fund et al., filed in the Supreme Court of New York, New York County on June 3, 2011, the Trustees of certain notes issued by Tribune allege wrongdoing in connection with the LBO. In particular the Trustees claim that the LBO constituted a constructive fraudulent transfer under various state laws. G1 Execution Services, LLC (formerly known as E*TRADE Capital Markets, LLC), along with numerous other financial institutions, is a named defendant in this case. In Deutsche Bank et al. v. Ohlson et al., filed in the U.S. District Court for the Northern District of Illinois, noteholders of Tribune asserted claims of constructive fraud and G1 Execution Services, LLC is a named defendant in this case. Under the agreement governing the sale of G1 Execution Services, LLC to Susquehanna International Group, LLP, the Company remains responsible for any resulting actions taken against G1 Execution Services, LLC as a result of such investigation. In EGI-TRB LLC et al. v. ABN-AMRO et al., filed in the Circuit Court of Cook County Illinois, creditors of Tribune assert fraudulent conveyance claims against multiple shareholder defendants and E*TRADE Clearing is a named defendant in this case. These cases have been consolidated into a multi-district litigation. The Company's time to answer or otherwise respond to the complaints has been stayed pending further orders of the Court. On September 18, 2013, the Court entered the Fifth Amended Complaint. On September 23, 2013, the Court granted the defendants' motion to dismiss the individual creditors' complaint. The individual creditors filed a notice of appeal. The steering committees for plaintiffs and defendants have submitted a joint plan for the next phase of litigation. The next phase of the action will involve individual motions to dismiss. On April 22, 2014, the Court issued its protocols for dismissal motions for those defendants who were "mere conduits" who facilitated the transactions at issue. The motion to dismiss Count I of the Fifth Amended Complaint for failure to state a cause of action was fully briefed on July 2, 2014, and the parties await decision on that motion. The Litigation Trustee for the Plaintiffs dismissed all claims against E*TRADE Clearing pursuant to a Stipulation confirmed by the Court on June 7, 2016. The only E*TRADE entity remaining in the case is the E*TRADE S&P 500 Fund. The claims against the E*TRADE S&P 500 Fund are not material in amount. Nevertheless, the Company will continue to defend itself vigorously in these matters.

On April 30, 2013, a putative class action was filed by John Scranton, on behalf of himself and a class of persons similarly situated, against E*TRADE Financial Corporation and E*TRADE Securities in the Superior Court of California, County of Santa Clara, pursuant to the California procedures for a private Attorney General action. The complaint alleged that the Company misrepresented through its website that it would always automatically exercise options that were in-the-money by $0.01 or more on expiration date. Plaintiffs allege violations of the California Unfair Competition Law, the California Consumer Remedies Act, fraud, misrepresentation, negligent misrepresentation and breach of fiduciary duty. The case has been deemed complex within the meaning of the California Rules of Court, and a case management conference was held on September 13, 2013. The Company's demurrer and motion to strike the complaint were granted by order dated December 20, 2013. The Court granted leave to amend the complaint. A second amended complaint was filed on January 31, 2014. On March 11, 2014, the Company moved to strike and for a demurrer to the second amended complaint. On October 20, 2014, the Court sustained the Company's demurrer, dismissing four counts of the second amended complaint with prejudice and two counts without prejudice. The plaintiffs filed a third amended complaint on November 10, 2014. The Company filed a third demurrer and motion to strike on December 12, 2014. By order dated March 18, 2015, the Superior Court entered a final order sustaining the Company's demurrer on all remaining claims with prejudice. Final judgment was entered in the Company's favor on April 8, 2015. Plaintiff filed a Notice of Appeal April 27, 2015. Briefing is scheduled to continue through 2016. The Company will continue to defend itself vigorously in this matter.

On March 26, 2015, a putative class action was filed in the U.S. District Court for the Northern District of California by Ty Rayner, on behalf of himself and all others similarly situated, naming E*TRADE Financial Corporation and E*TRADE Securities as defendants. The complaint alleges that E*TRADE breached a fiduciary duty and unjustly enriched itself in connection with the routing of its customers' orders to various market-makers and exchanges. Plaintiff seeks unspecified damages, declaratory relief, restitution, disgorgement of payments received by the Company, and attorneys' fees. By stipulation, the parties have agreed to extend indefinitely the due date for a response to the claim. On July 23, 2016, a putative class action was filed in the U.S. District Court for the Southern District of New York by Craig L. Schwab, on behalf of himself and others similarly situated, naming E*TRADE Financial Corporation, E*TRADE Securities LLC, and former Company executives as defendants. The complaint alleges that E*TRADE violated federal securities laws in connection with the routing of its customers' orders to various market-makers and exchanges. Plaintiff seeks unspecified damages, declaratory relief, restitution, disgorgement of payments received by the Company, and attorneys' fees. By stipulation, the *Rayner* case has been consolidated with the *Schwab* case and both matters are now venued in the Southern District of New York. The Company will continue to defend itself vigorously in these matters.

In addition to the matters described above, the Company is subject to various legal proceedings and claims that arise in the normal course of business. In each pending matter, the Company contests liability or the amount of claimed damages. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages, or where investigation or discovery have yet to be completed, the Company is unable to estimate a range of reasonably possible losses on its remaining outstanding legal proceedings; however, the Company believes any losses, both individually or in the aggregate, would not be reasonably likely to have a material adverse effect on the consolidated financial condition or results of operations of the Company.

An unfavorable outcome in any matter could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows. In addition, even if the ultimate outcomes are resolved in the Company's favor, the defense of such litigation could entail considerable cost or the diversion of the efforts of management, either of which could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

Regulatory Matters

The securities, futures, foreign currency and banking industries are subject to extensive regulation under federal, state and applicable international laws. From time to time, the Company has been threatened with or named as a defendant in lawsuits, arbitrations and administrative claims involving securities, banking and other matters. The Company is also subject to periodic regulatory examinations and inspections. Compliance and trading problems that are reported to regulators, such as the SEC, Federal Reserve Bank of Richmond, FINRA, CFTC, NFA or OCC by dissatisfied customers or others are investigated by such regulators, and may, if pursued, result in formal claims being filed against the Company by customers or disciplinary action being taken against the Company or its employees by regulators. Any such claims or disciplinary actions that are decided against the Company could have a material impact on the financial results of the Company or any of its subsidiaries.

During 2012, the Company completed a review of order handling practices and pricing for order flow between E*TRADE Securities and G1 Execution Services, LLC. The Company implemented changes to its practices and procedures that were recommended during the review. Banking regulators and federal securities regulators were regularly updated during the course of the review. Subsequently, on July 11, 2013, FINRA notified E*TRADE Securities and G1 Execution Services, LLC that it was conducting an examination of both firms' order handling practices. On March 19, 2015, the Company received a Wells notice from FINRA's Market Regulation Department relating to the adequacy of E*TRADE Securities' order-routing disclosures and supervisory process for reviewing execution quality during the period covered by the Company's 2012 internal review (July 2011 - June 2012). The Company cooperated fully with FINRA in the examination. In June 2016, E*TRADE Securities entered into a settlement with FINRA whereby it agreed to a censure and paid a $900,000 fine.

Insurance

The Company maintains insurance coverage that management believes is reasonable and prudent. The principal insurance coverage it maintains covers commercial general liability; property damage; hardware/software damage; cyber liability; directors and officers; employment practices liability; certain criminal acts against the Company; and errors and omissions. The Company believes that such insurance coverage is adequate for the purpose of its business. The Company's ability to maintain this level of insurance coverage in the future, however, is subject to the availability of affordable insurance in the marketplace.

Commitments

In the normal course of business, the Company makes various commitments to extend credit and incur contingent liabilities that are not reflected in the consolidated balance sheet. Significant changes in the economy or interest rates may influence the impact that these commitments and contingencies have on the Company in the future.

The Company's equity method, cost method and other investments are generally limited liability investments in partnerships, companies and other similar entities, including tax credit partnerships and community development entities, which are not required to be consolidated. The Company had $51 million in unfunded commitments with respect to these investments at September 30, 2016.

At September 30, 2016, the Company had approximately $24 million of certificates of deposit scheduled to mature in less than one year and approximately $32 million of unfunded commitments to extend credit.

Guarantees

In prior periods when the Company sold loans, the Company provided guarantees to investors purchasing mortgage loans, which are considered standard representations and warranties within the mortgage industry. The primary guarantees are that: the mortgage and the mortgage note have been duly executed and each is the legal, valid and binding obligation of the Company, enforceable in accordance with its terms; the mortgage has been duly acknowledged and recorded and is valid; and the mortgage and the mortgage note are not subject to any right of rescission, set-off, counterclaim or defense, including, without limitation, the defense of usury, and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto. The Company is responsible for the guarantees on loans sold. If these claims prove to be untrue, the investor can require the Company to repurchase the loan and return all loan purchase and servicing release premiums. Management does not believe the potential liability exposure will have a material impact on the Company's results of operations, cash flows or financial condition due to the nature of the standard representations and warranties, which have resulted in a minimal amount of loan repurchases.

Prior to 2008, ETBH raised capital through the formation of trusts, which sold TRUPs in the capital markets. The capital securities must be redeemed in whole at the due date, which is generally 30 years after issuance. Each trust issued TRUPs at par, with a liquidation amount of $1,000 per capital security. The trusts used the proceeds from the sale of issuances to purchase subordinated debentures issued by ETBH.

During the 30-year period prior to the redemption of the TRUPs, ETBH guarantees the accrued and unpaid distributions on these securities, as well as the redemption price of the securities and certain costs that may be incurred in liquidating, terminating or dissolving the trusts (all of which would otherwise be payable by the trusts). At September 30, 2016, management estimated that the maximum potential liability under this arrangement, including the current carrying value of the trusts, was equal to approximately $418 million or the total face value of these securities plus accrued interest payable, which may be unpaid at the termination of the trust arrangement.

ITEM 4. CONTROLS AND PROCEDURES

(a) Based on an evaluation under the supervision and with the participation of our management, our Chief Executive Officer and our Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), were effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) There were no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2016, identified in connection with management's evaluation required by paragraph (d) of Exchange Act Rules 13a-15 and 15d-15, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

Information in response to this item can be found under the heading *Legal Matters* in *Note 17—Commitments, Contingencies and Other Regulatory Matters to Part I. Item 1. Consolidated Financial Statements (Unaudited)* in this Quarterly Report and is incorporated by reference into this item.

ITEM 1A. RISK FACTORS

There have been no material changes in the Company's risk factors from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2015, except for the risk factor included below:

If we do not successfully participate in consolidation opportunities, we could be at a competitive disadvantage.

There has been significant consolidation in the financial services industry and this consolidation may continue in the future. If we fail to take advantage of viable consolidation opportunities, our competitors may be able to capitalize on those opportunities and take advantage of greater scale and cost efficiencies to our detriment. Any acquisition we do consummate would likely entail significant risks to our business and financial condition.

For example, on September 12, 2016, we completed the acquisition of Aperture New Holdings, Inc., the ultimate parent company of OptionsHouse, an online brokerage, for $725 million in cash. The acquisition of Aperture will subject us to a number of risks, uncertainties, and potential costs, including that:

- We may experience significant attrition in the acquired accounts or experience other issues that would prevent us from achieving the expected synergies within the anticipated timeframe, or at all;
- Our retention of customers' assets may be impacted by our ability to successfully integrate the acquired operations, products (including pricing) and personnel;
- Attempts to retain key personnel may not succeed;
- We could be subject to undisclosed liabilities that could be material or become subject to litigation or regulatory risks as a result of the acquisition;
- Management's attention may be diverted from other business concerns;
- Unanticipated restructuring costs may be incurred;
- There may be negative changes in general economic conditions in the regions or the industries in which the combined businesses operate; and
- We will have less cash available for other purposes, including for use in acquisitions of other technologies or businesses.

Any future acquisitions could involve these and additional risks. Our ability to pursue additional strategic transactions may also be limited by our corporate debt, including our senior secured revolving credit facility. Future acquisitions may also be funded through the issuance of additional debt or preferred stock.

Any of these risks, whether with respect to our acquisition of Aperture or any future acquisitions, could have a material adverse effect on our business and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchases

The table below shows the timing and impact of our share repurchases during the three months ended September 30, 2016 (dollars in millions, except share data and per share amounts):

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share[2]	Total Number of Shares Purchased as Part of the Publicly Announced Plan[3]	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plan[3]
July 1, 2016 - July 31, 2016	2,873	$ 28.82	—	$ 297.9
August 1, 2016 - August 31, 2016	7,410	25.54	—	297.9
September 1, 2016 - September 30, 2016	128,800	28.06	—	297.9
Total	139,083	27.94	—	

(1) Includes 139,083 shares withheld to satisfy tax withholding obligations associated with restricted shares.
(2) Excludes commission paid.
(3) On November 19, 2015, the Company publicly announced that its Board of Directors authorized the repurchase of up to $800 million of shares of the Company's common stock through March 31, 2017. The timing and exact amount of any common stock repurchases will depend on various factors, including market conditions and the Company's capital position. The Company's share repurchase program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, may utilize Rule 10b5-1 plans, and may be suspended or terminated at any time at the Company's discretion.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Certificate of Designations of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A of E*TRADE Financial Corporation, effective as of August 25, 2016 (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 25, 2016)
*3.2	Amended and Restated Bylaws of E*TRADE Financial Corporation, effective as of August 25, 2016
4.1	Certificate of Designations of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A of E*TRADE Financial Corporation, effective as of August 25, 2016 (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 25, 2016)
4.2	Form of Certificate Evidencing Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A of E*TRADE Financial Corporation (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on August 25, 2016)
*10.1	Employment Agreement dated September 12, 2016 between E*TRADE Financial Corporation and Rodger A. Lawson
*10.2	Employment Agreement dated September 12, 2016 between E*TRADE Financial Corporation and Karl A. Roessner
*31.1	Certification—Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification—Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification—Section 906 of the Sarbanes-Oxley Act of 2002
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: November 3, 2016

E*TRADE Financial Corporation
(Registrant)

By /S/ KARL A. ROESSNER

Karl A. Roessner
Chief Executive Officer
(Principal Executive Officer)

By /S/ MICHAEL A. PIZZI

Michael A. Pizzi
Chief Financial Officer
(Principal Financial Officer)

By /S/ BRENT B. SIMONICH

Brent B. Simonich
Corporate Controller
(Principal Accounting Officer)

AMENDED AND RESTATED BYLAWS
OF
E*TRADE FINANCIAL CORPORATION
(a Delaware corporation)

as of August 25, 2016

ARTICLE 1
STOCKHOLDERS

Section 1.01. Time and Place of Meetings. All meetings of stockholders shall be held at such place within or outside the State of Delaware and at such time, as may be designated from time to time by the Board of Directors or the Chief Executive Officer or an officer authorized by the Board of Directors to make such designation.

Section 1.02. Annual Meeting. The annual meeting of stockholders for the election of directors and for the transaction of such other business as may properly be brought before the meeting shall be held each year on such date and at such time as the Board of Directors or an officer authorized by the Board of Directors determines. If this date shall fall upon a legal holiday at the place of the meeting, then such meeting shall be held on the next succeeding business day at the same hour. If no annual meeting is held in accordance with the foregoing provisions, the Board of Directors shall cause the meeting to be held as soon thereafter as convenient.

Section 1.03. Special Meetings. Special meetings of stockholders may be called only in accordance with Article SIXTH of the Certificate of Incorporation as it may be amended from time to time (the "**Certificate of Incorporation**"). Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 1.04. Notice of Meetings and Adjourned Meetings; Waivers of Notice.

(a) Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, if any, date, and hour of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Such notice shall be given not less than 10 nor more than 60 days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting as of the record date for determining the stockholders entitled to notice of the meeting, except as otherwise provided herein or required by the Delaware General Corporation Law **("Delaware Law")**.

(b) When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken; provided, however, that if the adjournment is for more than 30 days, notice of the place, if any, date, and time of the adjourned meeting and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting, shall be given to each stockholder in conformity herewith. If after the adjournment a new record date for stockholders entitled to vote is fixed for the adjourned meeting, the Board of Directors shall fix a new record date for notice of such adjourned meeting, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors and, except as otherwise required by law, shall not be more than 60 nor less than 10 days before the date of such adjourned meeting, and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned meeting. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting. The officer presiding at any meeting shall have the power to adjourn the meeting to another place, if any, date and time.

(c) A written waiver of any such notice signed by the person entitled thereto, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 1.05. Quorum. Unless or except to the extent that the presence of a larger number may be required by law, the rules of any stock exchange upon which the corporation's securities are listed, the Certificate of Incorporation or these Bylaws, the holders of a majority of the voting power of all of the shares of the capital stock of the corporation issued and outstanding and entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum for all purposes. If a quorum should fail to attend any meeting, the majority of the voting power present, though less than a quorum, or the officer entitled to preside at or act as Secretary of the meeting may adjourn the meeting to another place.

Section 1.06. Voting and Proxies. Each stockholder shall have one vote for each share of stock entitled to vote held of record by such stockholder and a proportionate vote for each fractional share so held, unless otherwise required in the Certificate of Incorporation or Delaware Law. Each stockholder of record entitled to vote at a meeting of stockholders may vote in person or may authorize another person or persons to vote or act for him by written proxy executed by the stockholder or his authorized agent and delivered to the Secretary of the corporation. No such proxy shall be voted or acted upon after three years from the date of its execution, unless the proxy expressly provides for a longer period.

Section 1.07. Action At Meeting; Majority Voting; Director Resignation Policy; Contested Elections; Treasury Stock.

(a) In all matters other than the election of directors, when a quorum is present at any meeting, the affirmative vote of the majority of the voting power present in person or represented by proxy and entitled to vote on the subject matter (or if there are two or more classes of stock entitled to vote as separate classes, then in the case of each such class, the affirmative vote of the majority of the voting power of that class present in person or represented by proxy and entitled to vote on the subject matter) shall decide any matter to be voted upon by the stockholders at such meeting, except when a different vote is required by express provision of any stock exchange upon which the corporation's securities are listed, Delaware Law, the Certificate of Incorporation or these Bylaws.

(b) Subject to the rights of the holders of any series of Preferred Stock, or any other series or class of stock as set forth in the Certificate of Incorporation, to elect directors under specified circumstances and except as otherwise provided in paragraph (d) of this Section 1.07, each director shall be elected by the majority of the votes cast with respect to the director's election at any meeting for the election of directors at which a quorum is present. For purposes of paragraphs (b) and (c) of this Section 1.07, a majority of votes cast means that the number of votes "for" a director's election must exceed 50% of the votes cast with respect to that director's election. Any vote "against" a director's election or "withheld" with respect to a director's election will count as a vote cast; however, all "abstentions" and "broker non-votes" will be excluded from the calculation of votes cast with respect to that director's election.

(c) The Governance Committee of the Board of Directors shall establish procedures under which any director who is not elected by the majority of the votes cast with respect to the director's election in an election governed by paragraph (b) of this Section 1.07 shall offer to tender his or her resignation to the Board of Directors.

(d) If, on the last day by which stockholders may submit notice to nominate a person for election as a director pursuant to Section 1.08(b) of this Article 1, the number of nominees for any election of directors exceeds the number of directors to be elected, each director shall be elected by the plurality of the votes cast with respect to the director's election.

Section 1.08. Advance Notice of Stockholder Nominees and Stockholder Business.

(a) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be: (A) specified in the proxy materials for the meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (B) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (C) otherwise properly brought before the meeting by a stockholder of record of the corporation (a "Record Stockholder") at the time of the giving of the notice required in the following paragraph, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this Section 1.08(a). For the avoidance of doubt, the foregoing clause (C) shall be the exclusive means for a stockholder to propose business (other than business included in the corporation's proxy materials pursuant to Rule 14a-8 under the

Securities Exchange Act of 1934, as amended (such act, and the rules and regulations promulgated thereunder, the "**1934 Act**")) at an annual meeting of stockholders.

For business to be properly brought before an annual meeting by a Record Stockholder pursuant to this Section 1.08(a), (a) the Record Stockholder must have given timely notice thereof in writing to the Secretary of the corporation, (b) any such business must be a proper matter for stockholder action under Delaware law, and (c) the Record Stockholder and the beneficial owner, if any, on whose behalf any such proposal or nomination is made, must have acted in accordance with the representations set forth in the Solicitation Statement required by this Section 1.08(a). To be timely, a Record Stockholder's notice must be received by the Secretary at the principal executive offices of the corporation not later than the close of business one hundred and twenty (120) days nor earlier than the close of business one hundred and fifty (150) days prior to the one year anniversary of the first mailing of the notice relating to the preceding year's annual meeting; provided, however, that, subject to the last sentence of this paragraph, in the event that no annual meeting was held in the previous year or the meeting is convened more than thirty (30) days before or after the one year anniversary of the previous year's annual meeting, notice by the stockholder to be timely must be so received not earlier than the close of business one hundred and fifty (150) days prior to the annual meeting and not later than the close of business one hundred and twenty (120) days prior to the annual meeting or, in the event public announcement of the date of such annual meeting is first made by the corporation fewer than one hundred and thirty (130) days prior to the date of the annual meeting, the close of business on the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the corporation. In no event shall an adjournment, or postponement of an annual meeting for which notice has been given, commence a new time period for the giving of a Record Stockholder's notice.

Such notice shall set forth as to each matter the Record Stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the corporation, the language of the proposed amendment, (ii) the name and address, as they appear on the corporation's books, of the stockholder and any beneficial owner, if any, on whose behalf the proposal is made proposing such business, (iii) as to the Record Stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made (each, a "party"): (A) the class, series and number of shares of the corporation which are owned beneficially and of record by each such party; (B) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the corporation or with a value derived in whole or in part from the value of any class or series of shares of the corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the corporation or otherwise (a "Derivative Instrument") directly or indirectly owned beneficially by each such party, and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the corporation, (C) any proxy, contract, arrangement, understanding, or relationship pursuant to which either party has a right to vote, directly or indirectly, any shares of any security of the corporation, (D) any short interest in any security of the corporation held by each such party (for purposes of these Bylaws, a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (E) any rights to dividends on the shares of the corporation owned beneficially directly or indirectly by each such party that are separated or separable from the underlying shares of the corporation, (F) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which either party is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (G) any performance-related fees (other than an asset-based fee) that each such party is directly or indirectly entitled to based on any increase or decrease in the value of shares of the corporation of Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of each such party's immediate family sharing the same household (which information set forth in this paragraph shall be supplemented by such stockholder or such beneficial owner, as the case may be, not later than 10 days after the record date for determining the stockholders entitled to vote at the meeting; provided, that if such date is after the date of the meeting, not later than the day prior to the meeting); (iv) any material interest of the stockholder and any beneficial owner on whose behalf the proposal is made in such business, (v) a representation that the stockholder is a holder of record or stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business, (vi) a representation that the stockholder or the beneficial owner, if any, intends or is part of a group which intends to deliver a proxy statement or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to approve or adopt the proposal or otherwise solicit proxies from stockholders in support of such proposal (the "Solicitation Statement"), and (vii) any other information that is required to be provided by the stockholder pursuant to the 1934 Act, in his or her capacity as a proponent to a stockholder proposal. Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this Section 1.08(a). The chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 1.08(a), and, if he or she should so determine, such chairman shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

(b) Only persons who are nominated in accordance with the procedures set forth in this Section 1.08(b) shall be eligible for election as directors. To be properly brought before an annual meeting, nominations must be: (A) specified in the proxy materials for the meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (B) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (C) otherwise properly brought before the meeting by a Record Stockholder at the time of giving notice who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this Section 1.08(b).

For nominations to be properly brought before an annual meeting by a Record Stockholder pursuant to clause (C) of the foregoing paragraph, (a) the Record Stockholder must have given timely notice thereof in writing to the Secretary of the corporation, and (b) the Record Stockholder and the beneficial owner, if any, on whose behalf such nomination is made, must have acted in accordance with the representations set forth in the Nomination Solicitation Statement required by this Section 1.08(b). To be timely, a Record Stockholder's notice shall be received by the Secretary at the principal executive offices of the corporation within the time frames set forth in this Section 1.08(a) with respect to stockholder business proposals. Notwithstanding anything in the preceding sentence to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there has been no public announcement naming all of the nominees for director or indicating the increase in the size of the Board of Directors made by the corporation at least ten (10) days before the last day a Record Stockholder may deliver a notice of nomination in accordance with the preceding sentence, a Record Stockholder's notice required by this Section 1.08(b) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the Secretary at the principal executive offices of the corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the corporation. In no event shall an adjournment, or postponement of an annual meeting for which notice has been given, commence a new time period for the giving of a Record Stockholder's notice.

Such Record Stockholder's notice shall set forth: (1) as to each person whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class, series and number of shares of the corporation which are beneficially owned by such person, (D) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, and (E) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including without limitation such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected), and (2) as to such Record Stockholder or beneficial owner, if any, on whose behalf the nomination is being made, the information required to be provided pursuant to clauses (ii) and (iii) of the second paragraph of Section 1.08(a), and (3) a statement whether or not the Record Stockholder or beneficial owner, if any, will deliver a proxy statement and form of proxy to holders of at least the percentage of voting power of all of the shares of capital stock of the corporation reasonably believed by the Record Stockholder or beneficial holder, as the case may be, to be sufficient to elect the nominee or nominees proposed to be nominated by the Record Stockholder (such statement, a "Nomination Solicitation Statement"). At the request of the Board of Directors, any person nominated by a stockholder for election as a director shall furnish to the Secretary of the corporation that information required to be set forth in the stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this Section 1.08(b). The chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he or she should so determine, such chairman shall so declare at the meeting, and the defective nomination shall be disregarded. Any nominee also must submit a statement that, if elected, the director intends to tender, promptly following such person's election or reelection, an irrevocable resignation effective upon such person's failure to receive the required vote for reelection at the next meeting at which such person would face reelection and upon acceptance of such resignation by the Board of Directors, in accordance with the policies and procedures adopted by the Governance Committee of the Board of Directors for such purpose pursuant to Section 1.07(c) of this Article 1.

(c) Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected (a) by or at the discretion of the Board of Directors or (b) by any stockholder of record at the time of giving of notice provided for in this paragraph, who shall be entitled to vote at the meeting and who delivers a written notice to the Secretary setting forth the information set forth in Section 1.08(b) of this Article 1. Nominations by stockholders of persons for election to the Board of Directors may be made at such a special meeting of stockholders only if such stockholder of record's notice required by the preceding sentence shall be received by the Secretary at the principal executive offices of the corporation not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting. In no event shall an adjournment, or postponement or a special meeting for which notice has been given, commence a new time period for the giving of a stockholder of record's notice. A person shall not be eligible for election or reelection as a director at a special meeting unless the person is nominated (i) by or at the direction of the Board of Directors or (ii) by a stockholder of record in accordance with the notice procedures set forth in this Article 1.

ARTICLE 2
DIRECTORS

Section 2.01. General Powers. The business and affairs of the corporation shall be managed by or under the direction of a Board of Directors, who may exercise all of the powers of the corporation except as otherwise required by Delaware Law, the Certificate of Incorporation or these Bylaws.

Section 2.02. Number; Election; Tenure and Qualification. Subject to amendment in accordance with Article FIFTH of the Certificate of Incorporation, the number of directors which shall constitute the whole Board of Directors shall be fixed from time to time by resolution of the Board of Directors but shall not be less than six or more than twelve, subject to the rights of the holders of any series of Preferred Stock, or any other series or class of stock as set forth in the Certificate of Incorporation, to elect additional Directors under specified circumstances. Except as otherwise provided in the Certificate of Incorporation, each Director elected shall hold office until the next annual meeting of stockholders and their successors shall be elected in accordance with Article SEVENTH of the Certificate of Incorporation. Directors need not be stockholders of the corporation.

Section 2.03. Vacancies. Unless and until filled by the stockholders, any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement of the Board of Directors, may be filled by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Any director elected by the Board of Directors in accordance with the preceding sentence shall hold office for a term expiring at the next annual meeting of stockholders and until such director's successor shall have been elected and qualified, or until such director's earlier death, resignation or removal.

Section 2.04. Resignation. Any director may resign upon notice in writing or by electronic transmission to the Board of Directors, the Chief Executive Officer or the Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event or events.

Section 2.05. Removal. Any director or the entire Board of Directors may be removed only as permitted by Delaware Law and Article SEVENTH of the Certificate of Incorporation.

Section 2.06. Regular Meetings. Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the Board of Directors and publicized among all directors. A notice of each regular meeting shall not be required. A regular meeting of the Board of Directors may be held without notice immediately after and at the same place as the annual meeting of stockholders.

Section 2.07. Special Meetings. Special meetings of the Board of Directors may be held at any time and place, within or without the State of Delaware, designated by the Chairman of the Board, two or more directors, the Chief Executive Officer, the Secretary or Assistant Secretary on the written request of two directors.

Section 2.08. *Notice of Special Meetings*. Notice of any special meeting of directors shall be given to each director by the Secretary, Assistant Secretary or one of the directors calling the meeting. Notice shall be given to each director in person, by telephone, by facsimile transmission, by electronic mail or by telegram sent to his or her facsimile number, electronic mail address, or business or home address, as applicable at least 12 hours in advance of the meeting, or by written notice mailed to his or her business or home address at least 72 hours in advance of the meeting. A notice or waiver of notice of a meeting of the Board of Directors need not specify the purposes of the meeting.

Section 2.09. Meetings by Telephone Conference Calls. Directors or any members of any committee designated by the directors may participate in a meeting of the Board of Directors or such committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation by such means shall constitute presence in person at such meeting.

Section 2.10. Quorum. Except as otherwise required by the Certificate of Incorporation, a majority of the total number of directors then authorized shall constitute a quorum at all meetings of the Board of Directors. To the fullest extent permitted by law, in the absence of a quorum at any such meeting, a majority of the directors present may adjourn the meeting from time to time without further notice other than announcement at the meeting, until a quorum shall be present.

Section 2.11. Action at Meeting. At any meeting of the Board of Directors at which a quorum is present, the affirmative vote of a majority of those present shall be sufficient to take any action, unless a different vote is required by Delaware Law, the Certificate of Incorporation or these Bylaws.

Section 2.12. Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee of the Board of Directors may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent to the action in writing, or by electronic transmission, and the written consents are filed with the minutes of proceedings of the Board of Directors or committee.

Section 2.13. Committees. The Board of Directors may, by resolution passed by the affirmative vote of a majority of the whole Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members of the committee present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors and subject to Delaware Law, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation and may authorize the seal of the corporation to be affixed to all papers which may require it. Each such committee shall keep minutes and make such reports as the Board of Directors may from time to time request. Except as the Board of Directors may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the directors or in such rules, its business shall be conducted as nearly as possible in the same manner as is provided in these Bylaws for the Board of Directors.

Section 2.14. Compensation for Directors. Directors may be paid such compensation for their services and such reimbursement for expenses of attendance at meetings as the Board of Directors may from time to time determine.

ARTICLE 3
OFFICERS

Section 3.01. Enumeration. The officers of the corporation shall consist of a Chairman of the Board, a Chief Executive Officer, a Chief Financial Officer, a Secretary, and such other officers with such other titles as the Board of Directors shall determine, including, one or more Executive Vice Presidents and Assistant Secretaries. The Board of Directors may appoint such other officers as it may deem appropriate.

Section 3.02. Election. The Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer and the Secretary shall be elected by the Board of Directors. Other officers may be appointed by the Board of Directors.

Section 3.03. Qualification. The Chief Executive Officer need not be a director. No officer needs to be a stockholder. Any two or more offices may be held by the same person, except that no one person shall hold the offices and perform the duties of Chief Executive Officer and Secretary.

Section 3.04. Tenure. Except as otherwise provided by law, by the Certificate of Incorporation or by these Bylaws, each officer shall hold office until his successor is elected and qualified, unless a different term is specified in the vote choosing or appointing him, or until his earlier death, resignation or removal.

Section 3.05. Resignation and Removal. Any officer may resign by delivering his written resignation to the corporation at its principal office or to the Chief Executive Officer or the Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

The Board of Directors, or a committee duly authorized to do so, may remove any officer with or without cause. Except as the Board of Directors may otherwise determine, no officer who resigns or is removed shall have any right to any compensation as an officer for any period following his resignation or removal, or any right to damages on account of such removal, whether his compensation be by the month or by the year or otherwise, unless such compensation is expressly provided in a duly authorized written agreement with the corporation.

Section 3.06. Vacancies. The Board of Directors may fill any vacancy occurring in any office for any reason in such manner as the Board of Directors shall determine. Each such successor shall hold office for the unexpired term of his predecessor and until his successor is elected and qualified, or until his earlier death, resignation or removal.

Section 3.07. Powers and Duties. The Secretary shall have the duty, among other things, to record the proceedings of the meetings of stockholders and directors in a book kept for that purpose. The officers of the corporation shall have such powers and perform such duties incident to each of their respective offices and such other duties as may from time to time be conferred upon or assigned to them by the Board of Directors.

Section 3.08. Salaries. Officers of the corporation shall be entitled to such salaries, compensation or reimbursement as shall be fixed or allowed from time to time by the Board of Directors.

ARTICLE 4
CAPITAL STOCK

Section 4.01. Certificates of Stock. Every holder of stock of the corporation represented by certificates shall be entitled to have a certificate in such form as may be prescribed by Delaware Law and by the Board of Directors, certifying the number and class of shares owned by him in the corporation. Each such certificate shall be signed by, or in the name of the corporation by, the Chairman of the Board of Directors or the President, and by the Treasurer or Assistant Treasurer or the Secretary or an Assistant Secretary of the corporation. Any or all of the signatures on the certificate may be a facsimile.

Each certificate for shares of stock which are subject to any restriction on transfer pursuant to the Certificate of Incorporation, the Bylaws, applicable securities laws or any agreement among any number of stockholders or among such holders and the corporation shall have conspicuously noted on the face or back of the certificate.

Section 4.02. Transfers. Subject to the restrictions, if any, stated or noted on the stock certificates, shares of stock may be transferred on the books of the corporation by the surrender to the corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, and with such proof of authority or the authenticity of signature as the corporation or its transfer agent may reasonably require. Except as may be otherwise required by Delaware Law, by the Certificate of Incorporation or by these Bylaws, the corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect to such stock, regardless of any transfer, pledge or other disposition of such stock until the shares have been transferred on the books of the corporation in accordance with the requirements of these Bylaws.

Section 4.03. Lost, Stolen or Destroyed Certificates. The corporation may issue a new certificate of stock in place of any previously issued certificate alleged to have been lost, stolen, or destroyed, upon such terms and conditions as the Board of Directors may prescribe, including the presentation of reasonable evidence of such loss, theft or destruction and the giving of such indemnity as the Board of Directors may require for the protection of the corporation or any transfer agent or registrar.

Section 4.04. Record Date. In order that the corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the Board of Directors may, except as otherwise required by law, fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. If the Board of Directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the Board of Directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance with the foregoing provisions of this Section at the adjourned meeting.

In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

ARTICLE 5
INDEMNIFICATION

Section 5.01. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or an officer of the corporation or is or was serving at the request of the corporation as a director, officer or trustee of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer or trustee or in any other capacity while serving as a director, officer or trustee, shall be indemnified and held harmless by the corporation to the fullest extent permitted by Delaware law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than such law permitted the corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith. Notwithstanding any other provision of this Article 5, (1) except as provided in Section 5.03 with respect to proceedings to enforce rights to indemnification and advancement, the corporation shall indemnify, and advance expenses pursuant to Section 5.02 to, any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the corporation; and (2) the corporation's obligations under this Article shall be offset to the extent of any other source of indemnification or any otherwise applicable insurance coverage under a policy maintained by the corporation or any other person.

Section 5.02. *Right to Advancement of Expenses.* In addition to the right to indemnification conferred in 5.01, an indemnitee shall also have the right to be paid by the corporation the expenses (including attorney's fees) incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that, if the Delaware Law requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Section 5.02 or otherwise.

Section 5.03. *Right of Indemnitee to Bring Suit.* If a claim under Section 5.01 or 5.02 is not paid in full by the corporation within 60 days after a written claim has been received by the corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be 20 days, the indemnitee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. To the fullest extent permitted by law, if successful in whole or in part in any such suit, or in a suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the Delaware Law. Neither the failure of the corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the Delaware Law, nor an actual determination by the corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article 5 or otherwise shall be on the corporation.

Section 5.04. Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Article 5 shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the corporation's Certificate of Incorporation, Bylaws, agreement, vote of stockholders or directors or otherwise.

Section 5.05. *Insurance.* The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware Law.

Section 5.06. *Indemnification of Employees and Agents of the Corporation.* The corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the corporation to the fullest extent of the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the corporation.

Section 5.07. *Nature of Rights.* The rights conferred upon indemnitees in this Article 5 shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director, officer or trustee and shall inure to the benefit of the indemnitee's heirs, executors and administrators. Any amendment, alteration or repeal of this Article 5 that adversely affects any right of an indemnitee or its successors shall be prospective only and shall not limit, eliminate, or impair any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment or repeal.

ARTICLE 6
GENERAL PROVISIONS

Section 6.01. Fiscal Year. Except as from time to time otherwise designated by the Board of Directors, the fiscal year of the corporation shall end on December 31.

Section 6.02. Corporate Seal. The corporate seal shall be in such form as shall be approved by the Board of Directors.

Section 6.03. Execution of Instruments. The Chief Executive Officer, the Chief Financial Officer, any Executive Vice President or the Secretary, shall have power to execute and deliver on behalf and in the name of the corporation any instrument requiring the signature of an officer of the corporation, except as otherwise provided in these Bylaws, or where the execution and delivery of such an instrument shall be expressly delegated by the Board of Directors to some other officer or agent of the corporation.

Section 6.04. Voting of Securities. Except as the directors may otherwise designate, the Chief Executive Officer, the Chief Financial Officer, any Executive Vice President, the Secretary may waive notice of, and act as, or appoint any person or persons to act as, proxy or attorney-in-fact for this corporation (with or without power of substitution) at, any meeting of stockholders or shareholders of any other corporation or organization (except this corporation), the securities of which may be held by this corporation.

Section 6.05. *Forum Selection.* Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (the "Court of Chancery") shall be the sole and exclusive forum for any stockholder (including a beneficial owner) to bring (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim against the Corporation, its directors, officers or employees arising pursuant to any provision of the General Corporation Law of the State of Delaware or the Corporation's Certificate of Incorporation or bylaws, or (iv) any action asserting a claim against the Corporation, its directors, officers or employees governed by the internal affairs doctrine, except as to each of (i) through (iv) above, for any claim as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of the Court of Chancery (and the indispensable party does not consent to the personal jurisdiction of the Court of Chancery within ten days following such determination), which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery, or for which the Court of Chancery does not have subject matter jurisdiction. If any provision or provisions of this Section 6.05 shall be held to be invalid, illegal or unenforceable as applied to any person or entity or circumstance for any reason whatsoever, then, to the fullest extent permitted by law, the validity, legality and enforceability of such provisions in any other circumstance and of the remaining provisions of this Section 6.05 (including, without limitation, each portion of any sentence of this Section 6.05 containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) and the application of such provision to other persons or entities and circumstances shall not in any way be affected or impaired thereby.

ARTICLE 7
AMENDMENTS

Section 7.01. By the Board of Directors. Subject to the provisions of the Certificate of Incorporation, these Bylaws may be altered, amended or repealed or new Bylaws may be adopted by the affirmative vote of a majority of the directors present at any regular or special meeting of the Board of Directors at which a quorum is present; provided, however, that any Bylaw amendment adopted by the Board of Directors increasing or reducing the authorized number of Directors shall require the affirmative vote of two-thirds of the total number of directors which the corporation would have if there were no vacancies.

Section 7.02. By the Stockholders. Subject to the provisions of the Certificate of Incorporation, new Bylaws may be adopted or the Bylaws may be amended or repealed by the affirmative vote of the holders of at least 66-2/3rds percent of the combined voting power of all shares of the corporation entitled to vote generally in the election of directors, voting together as a single class.

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is made and entered into by and between E*TRADE Financial Corporation (the "Company") and Rodger A. Lawson ("Executive") as of September 12, 2016 (the "Effective Date").

1. Position and Duties:

(a) Appointment; Efforts: As of the Effective Date, Executive will become Executive Chairman of the Company. Executive agrees to devote all necessary time, energy and skill to Executive's duties at the Company.

(b) Duties and Responsibilities: Executive will have such duties, responsibilities and authorities as are determined by the Board of Directors of the Company (the "Board") and consistent with the Company's Corporate Governance Guidelines and corporate governance structure as in effect from time-to-time.

(c) Indemnification: The Company shall provide Executive with the same indemnification and D&O insurance protection provided from time to time to its officers and directors generally. Notwithstanding anything to the contrary in this Agreement, the rights of Executive to indemnification and the D&O insurance coverage with respect to all matters, events or transactions occurring or effected during the Executive's period of employment with the Company shall survive the termination of Executive's employment.

2. Term of Agreement: This Agreement shall remain in effect through December 31, 2018 (the "Term"), unless Executive's employment is terminated earlier by either party, subject to payments under Section 5 hereof to the extent applicable; provided that in the event of a Change in Control during the Term of this Agreement, the Term shall automatically be extended to the second anniversary of the date of such Change in Control. Executive's employment with the Company shall be "at-will". Unless Executive terminates Executive's employment prior to the end of the Term pursuant to the terms of this Agreement, Executive's continued employment following the end of the Term shall continue to be on an at-will basis and on such terms and conditions as the parties may agree.

3. Compensation: During the Term, Executive shall be compensated by the Company for Executive's services as follows:

(a) Base Salary: Executive shall be paid an annualized base salary of $850,000 per year, subject to applicable withholding, in accordance with the Company's normal payroll procedures. Executive's base salary may be adjusted from time to time in the discretion of the Board, subject to the provisions of Section 5 (incorporating the definitions set forth in Section 7) (this is referred to as the "Base Salary").

(b) Performance Bonus: Executive shall have the opportunity to earn an annual performance bonus. The performance bonus shall be earned upon the Executive and the Company meeting pre-established performance targets. Executive's cash bonus target amount is $1,650,000; provided that for 2016, the target amount shall be $500,000. The annual cash bonus, if earned, will be paid at the same time and in the same manner as payments to similarly situated executives of the Company and, except as expressly provided otherwise in this Agreement or in the applicable bonus plan document, shall not be earned unless Executive remains employed with the Company on the date of payment. Executive's cash bonus target amount may be adjusted from time to time in the discretion of the Board, subject to the provisions of Section 5 (incorporating the definitions set forth in Section 7).

(c) Benefits: Executive shall have the right, on the same basis as other senior executives of the Company, to participate in and to receive benefits under any of the Company's employee benefit plans, as such plans may be modified from time to time.

4. Equity Compensation.

(a) Generally. Executive will be eligible to receive equity compensation awards from time to time if the Board or its designee, in its sole discretion, determines that such an award(s) is appropriate.

(b) Annual Equity Grant. Executive's target equity bonus for performance during each calendar year of the Term, commencing with 2017, is $2,500,000, of which $1,500,000 shall be in the form of Performance Stock Units ("PSUs") and the remaining $1,000,000 shall be in the form of Restricted Stock Units ("RSUs"), in each case subject to the Company's 2015 Omnibus Incentive Plan, as amended from time to time, or any successor thereto (the "Equity Plan"), and the then current form of RSU and PSU agreement. Executive's target equity bonus amount may be adjusted from time to time in the discretion of the Board, subject to the provisions of Section 5 (incorporating the definitions set forth in Section 7).

(c) One-Time Grant. On or as soon as practicable following the Effective Date, Executive shall receive a one-time grant of PSUs with a grant date value of $455,000 and a one-time grant of RSUs with a grant date value of $300,000, in each case subject to the terms and conditions of the Equity Plan and an RSU agreement and PSU agreement to be provided to Executive by the Company.

5. Effect of Termination of Employment During the Term:

(a) Involuntary Termination outside a Change in Control Period: If Executive's employment with the Company is terminated as a result of an Involuntary Termination outside of a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, Executive shall receive the following benefits, in addition to any compensation and benefits earned and unpaid under Section 3 through the date of Executive's termination of employment:

(i) a lump sum cash severance payment equal to Executive's annual Base Salary payable from the date of such termination of employment through December 31, 2018, which payment shall be paid within 30 days following the effectiveness of the Release, but in no event later than March 15 of the year following the year in which such termination of employment occurs

(ii) payment of the annual cash performance bonus that would have been paid to Executive had he remained employed through the date of payment in accordance with Section 3(b) in respect of (A) the year in which the termination occurs and, (B) if applicable, each subsequent year through and including the 2018 calendar year, in each case based on the Company's actual performance for the year to which such annual cash performance bonus relates and payable no later than March 15 of the year following the year to which such annual cash performance bonus relates;

(iii) reimbursement for the cost of medical coverage at a level equivalent to that provided by the Company immediately prior to termination of employment, through the earlier of: (A) December 31, 2018, or (B) the date that Executive becomes eligible for medical coverage from a subsequent employer; provided that (x) it shall be the obligation of Executive to inform the Company that Executive has become eligible for such medical coverage and (y) such reimbursement shall be made by the Company subsidizing or reimbursing COBRA premiums or, if Executive is no longer eligible for COBRA continuation coverage, by a lump sum payment based on the monthly premiums immediately prior to the expiration of COBRA coverage;

(iv) any options, restricted stock awards, restricted stock units and other equity awards at any particular time that are subject to vesting based solely on the Executive's continued employment ("Time-Based Equity Grants") and that are unvested on the date of termination of employment (collectively, the "Post-Termination Awards") shall not terminate, but will remain eligible to become vested (and, with respect to restricted stock units ("RSUs"), converted into shares) on their normal vesting dates as if Executive's employment had not terminated (the "Scheduled Vesting Date"); provided that all of the Post-Termination Awards will be canceled immediately if any of the following events (the "Post-Termination Events") occur at any time before the applicable Scheduled Vesting Date:

- Executive acts in any manner that the Compensation Committee of the Board determines is contrary or materially harmful to the interests of the Company or any of its subsidiaries;
- Executive encourages or solicits any employee, consultant, or contractor of the Company or its affiliates to leave or diminish their relationship with the Company for any reason or to accept employment, consultancy or a contracting relationship with any other company
- Executive, directly or indirectly, encourages or solicits or attempts to encourage or solicit any customers, clients, partners or affiliates of the Company to terminate or diminish their relationship with the Company;
- Executive disparages the Company or its officers, directors, employees, products or services;
- Executive misuses or discloses the Company's confidential or Proprietary Information, breaches any proprietary information, confidentiality agreement or any other agreement between Executive and the Company (or any of its affiliates), or breaches the Release;
- Executive fails or refuses to reasonably cooperate with or assist the Company in a timely manner in connection with any investigation, regulatory matter, lawsuit or arbitration in which the Company is a subject, target or party and as to which Executive may have pertinent information; or
- the Company determines that Executive's employment could have been terminated for Cause (regardless of any "cure" periods) or that Executive's actions or omissions during employment caused a restatement of the Company's financial statements or constituted a violation of the Company's policies and standards

Notwithstanding the foregoing, (i) the Post-Termination Awards shall become fully vested and, if applicable, settled upon the death of Executive or upon a Change in Control that constitutes a "a change in ownership", a "change in effective control", or a "change in the ownership of a substantial portion of the assets" of the Company under Section 409A and the Section 409A Regulations (a "409A Change in Control"), so long as such death or 409A Change in Control occurs following the applicable termination date and prior to the earlier of the final Scheduled Vesting Date or the occurrence of a Post-Termination Event, and (ii) to the extent required to avoid acceleration taxation or tax penalties under Section 409A, the settlement of the tranche of RSUs that would first vest following the termination date if the Executive remained in employment shall occur on the latest of (1) the applicable Scheduled Vesting Date, (2) the date the Release becomes effective and (3) the 60th day following the date of termination, if the 60 day period referenced in this Section 5(a) in respect of the Release begins in one calendar year and ends in another.

(b) Involuntary Termination during a Change in Control Period: If Executive's employment with the Company is terminated as a result of an Involuntary Termination during a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, Executive shall receive the following benefits, in addition to any compensation and benefits earned and unpaid under Section 3 through the date of Executive's termination of employment:

(i) a lump sum cash severance payment equal to two times the sum of (x) Executive's annual Base Salary and (y) Executive's annual cash performance bonus at the target payment level, which payment shall be paid within 30 days following the effectiveness of the Release, but in no event later than March 15 of the year following the year in which such termination of employment occurs;

(ii) a lump sum cash payment equal to the product of (x) the annual cash performance bonus that would have been paid to Executive had he remained employed through the date of payment in accordance with Section 3(b), based on the Company's actual performance for the year in which such termination occurs, and (y) a fraction, the numerator of which is the number of days elapsed in the calendar year in which such termination occurs and the denominator of which is 365, which payment shall be paid no later than March 15 of the year following the year in which such termination of employment occurs;

(iii) each Time-Based Equity Grant shall become fully vested (and, with respect to RSUs, converted into shares) in full as of the date on which the Release becomes effective; provided that, to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, (x) if such termination occurs during a Change in Control Period but prior to a 409A Change in Control, then to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, any RSUs will be settled on the same dates on which such settlement would have occurred if the Executive remained employed and (y) if the 60 day period referenced in this Section 5(b) in respect of the Release begins in one calendar year and ends in another, then the RSUs will be settled in the second calendar year;

(iv) reimbursement for the cost of medical coverage at a level equivalent to that provided by the Company immediately prior to termination of employment, through the earlier of: (A) 24 months following Executive's termination of employment, or (B) the date that Executive becomes eligible for medical coverage from a subsequent employer; provided that (x) it shall be the obligation of Executive to inform the Company that Executive has become eligible for such medical coverage and (y) such reimbursement shall be made by the Company subsidizing or reimbursing COBRA premiums or, if Executive is no longer eligible for COBRA continuation coverage, by a lump sum payment based on the monthly premiums immediately prior to the expiration of COBRA coverage.

(c) Death or Permanent Disability.

(i) In the event of Executive's death or termination as a result of Permanent Disability, all Time-Based Equity Grants held by Executive, to the extent then outstanding, shall become fully vested (and, with respect to RSUs, converted into shares) as of the date of such termination.

(ii) In the event the Executive's employment terminates as a result of Executive's death or Permanent Disability, Executive (or Executive's estate, as applicable) shall be entitled to a pro rata share of the Executive's cash or other performance bonus to the date of death or Permanent Disability, based on target performance.

(d) Retirement and Retirement Eligibility.

(i) Retirement outside a Change in Control Period: If Executive's employment with the Company is terminated as a result of Executive's Retirement outside of a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, any Post-Termination Awards shall not terminate, but will remain eligible to become vested (and, with respect to RSUs, converted into shares) on the applicable Scheduled Vesting Dates; provided that (1) to the extent required to avoid acceleration taxation or tax penalties under Section 409A, the settlement of the tranche of RSUs that would first vest following the termination date if the Executive remained in employment shall occur on the latest of (x) the applicable Scheduled Vesting Date, (y) the date the Release becomes effective and (z) the 60th day following the date of termination, if the 60 day period referenced in this Section 5(a) in respect of the Release begins in one calendar year and ends in another, (2) all of the Post-Termination Awards will be canceled immediately if any of the Post-Termination Events occur at any time before the applicable Scheduled Vesting Date and (3) notwithstanding anything set forth in this paragraph to the contrary, the Post-Termination Awards shall become fully vested and settled upon the death of the Participant or upon a 409A Change in Control.

(ii) Retirement-Eligibility during a Change in Control Period: If Executive is or becomes Retirement-Eligible during a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date thereof, each Time-Based Equity Grant shall become fully vested (and, with respect to RSUs, converted into shares) in full as of the date on which the Release becomes effective; provided that, to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, (x) if such Retirement-Eligibility occurs during a Change in Control Period but prior to a 409A Change in Control, then to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, any RSUs will be settled on the same dates on which such settlement would have occurred if the Executive remained employed and (y) if the 60 day period referenced in this Section in respect of the Release begins in one calendar year and ends in another, then the RSUs will be settled in the second calendar year.

(e) Other Termination: In the event of a termination of Executive's employment not specified under Section 5(a), Section 5(b), Section 5(c) or Section 5(d) above, including, without limitation, a termination for Cause, Executive shall not be entitled to any compensation or benefits from the Company, other than those earned and unpaid under Section 3 through the date of Executive's termination and, in the case of each stock option, restricted stock award or other Company stock-based award granted to Executive, the extent to which such awards are vested through the date of Executive's termination or as otherwise provided in the applicable award agreement.

6. Certain Tax Considerations:

(a) Section 409A:

(i) The payments under Section 5 are intended to qualify for the short-term deferral exception to Section 409A of the Code ("Section 409A") described in the regulations promulgated under Section 409A (the "Section 409A Regulations") to the maximum extent possible, and to the extent they do not so qualify, they are intended to qualify for the involuntary separation pay plan exception to Section 409A described in the Section 409A Regulations to the maximum extent possible. To the extent Section 409A is applicable to this Agreement, this Agreement is intended to comply with Section 409A, and shall be interpreted and construed and shall be performed by the parties consistent with such intent, and the Company shall have no right, without Executive's consent, to accelerate any payment or the provision of any benefits under this Agreement if such payment or provision of such benefits would, as a result, be subject to tax under Section 409A. To the extent any payment hereunder is determined to be deferred compensation subject to Section 409A and the timing of such payment is conditioned on the Release becoming effective, then to the extent required to avoid penalty under Section 409A, any such payment hereunder that could be paid in either of two taxable years shall be made in the second taxable year.

(ii) Without limiting the generality of the foregoing, if Executive is a "specified employee" within the meaning of Section 409A, as determined under the Company's established methodology for determining specified employees, on the date of termination of employment, then to the extent required in order to comply with Section 409A, amounts that would otherwise be payable under this Agreement during the six-month period immediately following such termination date shall instead be paid (together with interest at the then current six-month LIBOR rate) on the first business day after the first to occur of (i) the date that is six months following Executive's termination of employment and (ii) the date of Executive's death.

(iii) Except as expressly provided otherwise herein, no reimbursement payable to Executive pursuant to any provisions of this Agreement or pursuant to any plan or arrangement of the Company covered by this Agreement shall be paid later than the last day of the calendar year following the calendar year in which the related expense was incurred, and no such reimbursement during any calendar year shall affect the amounts eligible for reimbursement in any other calendar year, except, in each case, to the extent that the right to reimbursement does not provide for a "deferral of compensation" within the meaning of Section 409A of the Code.

(iv) For purposes of this Agreement, the terms "terminate," "terminated" and "termination" mean a termination of Executive's employment that constitutes a "separation from service" within the meaning of the default rules of Section 409A of the Code; provided, however, that, in the event of the Executive's Permanent Disability, "separation from service" means the date that is six months after the first day of disability.

(b) 280G Limitation:

(i) If the payments and benefits provided to Executive under this Agreement, either alone or together with other payments and benefits provided to Executive from the Company (including, without limitation, any accelerated vesting thereof) (the "Total Payments"), would constitute a "parachute payment" (as defined in

Section 280G of the Code) and be subject to the excise tax (the "Excise Tax") imposed under Section 4999 of the Code, the Total Payments shall be reduced if and to the extent that a reduction in the Total Payments would result in Executive retaining a larger amount than if Executive received all of the Total Payments, in each case measured on an after-tax basis (taking into account federal, state and local income taxes and, if applicable, the Excise Tax). The determination of any reduction in the Total Payments shall be made at the Company's cost by the Company's independent public accountants or another firm designated by the Company and reasonably approved by Executive, and may be determined using reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company shall pay Executive's costs incurred for tax, accounting and other professional advice in the event of a challenge of any such reasonable, good faith interpretations by the Internal Revenue Service.

(ii) In the case of a reduction in the Total Payments pursuant to Section 6(b) (i), the Total Payments will be reduced in the following order: (a) payments that are payable in cash that are valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a) will be reduced (if necessary, to zero), with amounts that are payable last reduced first; (b) payments and benefits due in respect of any equity valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a), with the highest values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24) will next be reduced; (c) payments that are payable in cash that are valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24, with amounts that are payable last reduced first, will next be reduced; (d) payments and benefits due in respect of any equity valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24, with the highest values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24) will next be reduced; and (e) all other non-cash benefits not otherwise described in clauses (b) or (d) will be next reduced pro-rata.

7. Certain Definitions: For the purposes of this Agreement, the following capitalized terms shall have the meanings set forth below. For the avoidance of doubt, to the extent any of the following defined terms conflict with any corresponding defined term in any other agreement applicable to Executive, the following defined terms shall prevail:

(a) "Cause" shall mean any of the following:

(i) Executive's theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit, or falsification of any material employment or Company records;

(ii) Executive's conviction (including any plea of guilty or nolo contendere) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs Executive's ability to perform Executive's duties with the Company;

(iii) Executive's intentional and repeated failure to perform stated duties after notice from the Company of, and a reasonable opportunity to cure, such failure;

(iv) Executive's improper disclosure of the Company's confidential or Proprietary Information;

(v) any material breach by Executive of the Company's Code of Professional Conduct, which breach shall be deemed "material" if it results from an intentional act by Executive and has a material detrimental effect on the Company's reputation or business; or

(vi) any material breach by Executive of this Agreement or of any agreement regarding proprietary information and inventions, which breach, if curable, is not cured within thirty (30) days following written notice of such breach from the Company.

In the event that the Company terminates Executive's employment for Cause, the Company shall provide written notice to Executive of that fact prior to, or concurrently with, the termination of employment. Failure to provide written notice that the Company contends that the termination is for Cause shall constitute a waiver of any contention that the termination was for Cause, and the termination shall be irrebuttably presumed to be an involuntary termination without Cause. However, if, within thirty (30) days following the termination, the Company first discovers facts that would have established "Cause" for termination, and those facts were not known by the Company at the time of the termination, then the Company shall provide Executive with written notice, including the facts establishing that the purported "Cause" was not known at the time of the termination, and the Company will pay no severance.

(b) "<u>Change in Control</u>" shall have the meaning set forth in the Equity Plan.

(c) "<u>Change in Control Period</u>" shall mean the period commencing on the earlier of: (i) 60 days prior to the date of consummation of the Change in Control; (ii) the date of the first public announcement of a definitive agreement that would result in a Change in Control (even though still subject to approval by the Company's stockholders and other conditions and contingencies); or (iii) the date of the public announcement of a tender offer that is not approved by the Incumbent Directors and ending on the two year anniversary date of the consummation of the Change in Control.

(d) "Change in Control Period Good Reason" shall mean any of the following conditions:

(i) a material decrease in Executive's Base Salary other than as part of any across-the-board reduction applying to all senior executives of an acquiror;

(ii) a material, adverse change in Executive's title, authority, responsibilities or duties, as measured against Executive's title, authority, responsibilities or duties immediately prior to such change;

(iii) any material breach by the Company of any provision of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach from Executive;

(iv) any failure of the Company to obtain the assumption (by operation of law or by contract) of this Agreement by any successor or assign of the Company; or

(v) any purported termination of Executive's employment for "material breach of contract" which is purportedly effected without providing the "cure" period, if applicable, described in Section 7(a)(vi), above; provided that Executive shall have provided written notice to the Company of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition.

(e) "Code" means the Internal Revenue Code of 1986, as amended.

(f) "Incumbent Directors" shall mean members of the Board who either (i) are members of the Board as of the date hereof, or (ii) are elected, or nominated for election, to the Board with the affirmative vote of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of members of the Board).

(g) "Involuntary Termination" shall mean the occurrence of one of the following:

(i) termination by the Company of Executive's employment with the Company for any reason other than Cause at any time;

(ii) Executive's resignation from employment for Non Change in Control Period Good Reason within six months following the occurrence of the event constituting Non Change in Control Period Good Reason; or

(iii) during a Change in Control Period, Executive's resignation from employment for Change in Control Period Good Reason within six months following the occurrence of the event constituting Change in Control Period Good Reason.

(h) "Non Change in Control Period Good Reason" shall mean any of the following conditions first occurring outside of a Change in Control Period and occurring without Executive's written consent:

(i) a decrease in Executive's Base Salary of greater than 20% during the Term, in the aggregate;

(ii) a material, adverse change in Executive's title, authority, responsibilities or duties, as measured against Executive's title, authority, responsibilities or duties immediately prior to such change; provided that for purposes of this subsection, a material, adverse change shall not occur merely by a change in reporting relationship; or

(iii) any material breach by the Company of any provision of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach from Executive; provided that Executive shall have provided written notice to the Company of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition.

(i) "Permanent Disability" shall mean Executive's permanent and total disability within the meaning of Section 22(e)(3) of the Code.

(j) "Proprietary Information" is information that was developed, created, or discovered by or on behalf of the Company, or which became or will become known by, or was or is conveyed to the Company, which has commercial value in the Company's business. "Proprietary Information" includes, but is not limited to, software programs and subroutines, source and object code, algorithms, trade secrets, designs, technology, know-how, processes, data, ideas, techniques, inventions (whether patentable or not), works of authorship, formulas, business and product development plans, vendor lists, customer lists, terms of compensation and performance levels of Company employees, and other information concerning the Company's actual or anticipated business, research or development, or which is received in confidence by or for the Company from another person or entity.

(k) "Release" shall mean a general release of claims substantially in the form attached as Exhibit A hereto.

(l) "Retirement" means termination of the Executive's employment at or following the Executive becoming Retirement-Eligible.

(m) "Retirement-Eligible" means the Executive is at least age 60 and has at least 5 years of service with the Company and its affiliates as an employee on or after the Effective Date.

8. Insider Trading Policy: Executive agrees to abide by the terms and conditions of the Company's Insider Trading Policy, as it may be amended from time to time.

9. Dispute Resolution: In the event of any dispute or claim relating to or arising out of this Agreement (including, but not limited to, any claims of breach of contract, wrongful termination or age, sex, race or other discrimination), Executive and the Company agree that all such disputes shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in New York, New York in accordance with its National Employment Dispute Resolution rules. Executive acknowledges that by accepting this arbitration provision Executive is waiving any right to a jury trial in the event of such dispute. In connection with any such arbitration, the Company shall bear all costs not otherwise borne by a plaintiff in a court proceeding.

10. Attorneys' Fees: The prevailing party shall be entitled to recover from the losing party its attorneys' fees and costs incurred in any action brought to enforce any right arising out of this Agreement. The Company shall pay Executive's reasonable legal fees in connection with the review and negotiation of this Agreement and any ancillary services related thereto.

11. General.

(a) Successors and Assigns: The provisions of this Agreement shall inure to the benefit of and be binding upon the Company, Executive and each and all of their respective heirs, legal representatives, successors and assigns. The duties, responsibilities and obligations of Executive under this Agreement shall be personal and not assignable or delegable by Executive in any manner whatsoever to any person, corporation, partnership, firm, company, joint venture or other entity. Executive may not assign, transfer, convey, mortgage, pledge or in any other manner encumber the compensation or other benefits to be received by Executive or any rights which Executive may have pursuant to the terms and provisions of this Agreement, except to the extent permitted by the applicable plan for financial or estate planning purposes.

(b) Amendments; Waiver: No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company. No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Notices: Any notices to be given pursuant to this Agreement by either party to the other party may be effected by personal delivery or by overnight delivery with receipt requested.

Mailed notices shall be addressed to the parties at the addresses stated below, but each party may change its or Executive's address by written notice to the other in accordance with this Paragraph:

Mailed notices to Executive shall be addressed to the last known address provided by Executive to the Company,

Mailed notices to the Company shall be addressed as follows:

E*TRADE Financial Corporation
671 North Glebe Road

12th Floor

Arlington, VA 22203

Attention: General Counsel

(d) Entire Agreement: This Agreement constitutes the entire employment agreement between Executive and the Company regarding the terms and conditions of Executive's employment and any amounts due on termination of such employment, with the exception of:

(i) the Agreement Regarding Employment and Proprietary Information and Inventions between the Company and Executive, (ii) any stock option, restricted stock, restricted stock unit award or other Company stock-based award agreements between Executive and the Company to the extent not modified by this Agreement, (iii) any indemnification agreement referenced in Section 1 and (iv) the Company's employee benefit plans referenced in Section 3(c). This Agreement (including the documents described in (i) through (iv) herein) supersedes all prior negotiations, representations or agreements between Executive and the Company, whether written or oral, concerning Executive's employment by or service to the Company.

(e) Withholding Taxes: All payments made under this Agreement shall be subject to reduction to reflect taxes required to be withheld by law.

(f) Counterparts: This Agreement may be executed by the Company and Executive in counterparts, each of which shall be deemed an original and which together shall constitute one instrument.

(g) Headings: Each and all of the headings contained in this Agreement are for reference purposes only and shall not in any manner whatsoever affect the construction or interpretation of this Agreement or be deemed a part of this Agreement for any purpose whatsoever.

(h) Savings Provision: To the extent that any provision of this Agreement or any paragraph, term, provision, sentence, phrase, clause or word of this Agreement shall be found to be illegal or unenforceable for any reason, such paragraph, term, provision, sentence, phrase, clause or word shall be modified or deleted in such a manner as to make this Agreement, as so modified, legal and enforceable under applicable laws. The remainder of this Agreement shall continue in full force and effect.

(i) Construction: The language of this Agreement and of each and every paragraph, term and provision of this Agreement shall, in all cases, for any and all purposes, and in any and all circumstances whatsoever be construed as a whole, according to its fair meaning, not strictly for or against Executive or the Company, and with no regard whatsoever to the identity or status of any person or persons who drafted all or any portion of this Agreement.

(j) Further Assurances: From time to time, at the Company's request and without further consideration, Executive shall execute and deliver such additional documents and take all such further action as reasonably requested by the Company to be necessary or desirable to make effective, in the most expeditious manner possible, the terms of this Agreement and to provide adequate assurance of Executive's due performance hereunder.

(k) Governing Law: Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of New York.

[Signature Page Follows]

(l)

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year written below.

Dated: September 12, 2016 E*TRADE Financial Corporation

/s/ Kevin T. Kabat

By: Kevin T. Kabat, Lead Director

Dated: September 12, 2016 /s/ Rodger A. Lawson

Rodger A. Lawson

Exhibit A

This Release (this "**Release Agreement**") is between Rodger A. Lawson ("**Executive**") and E*TRADE Financial Corporation (the "**Company**") (the "**Parties**").

1. *Release*:

   a. In exchange for the benefits described in Section __ of the Employment Agreement by and between the Company and Executive, dated September 12, 2016 (the "**Employment Agreement**"), Executive, on behalf of himself and his heirs, executors, administrators and assigns, releases and absolutely discharges the Company (including its subsidiaries and other affiliated entities, and each of their respective shareholders, directors, employees, agents, attorneys, and each of their legal successors and assigns) (the "**Company Parties**") from any and all claims, actions and causes of action, whether now known or unknown, which Executive now has, or at any other time had, or shall or may have, against the Company Parties arising out of or relating to any matter, cause, fact, thing, act or omission whatsoever occurring or existing at any time to and including the date of execution of this Release Agreement by Executive, including, but not limited to, claims relating to the Employment Agreement or any other offer letter or written or oral, express or implied, agreement or understanding between Executive and the Company and/or any awards, policies, plans, programs or practices of the Company that may apply to Executive or in which Executive may participate, including, but not limited to, any rights under bonus plans or programs of the Company and/or any other short-term or long-term equity-based or cash-based incentive plans or programs of the Company, the parties' employment relationship, the termination of that relationship, the Executive's purchase or right to purchase shares of the Company's stock, and any claims of breach of contract, infliction of emotional distress, fraud, defamation, personal injury, wrongful discharge or age, sex, race, national origin, industrial injury, physical or mental disability, medical condition, sexual orientation or other discrimination, harassment or retaliation, claims under the federal Americans with Disabilities Act, Title VII of the federal Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act ("**ADEA**"), 42 U.S.C. Section 1981, the federal Fair Labor Standards Act, the federal Employee Retirement Income Security Act, the federal Worker Adjustment and Retraining Notification Act, the federal Family and Medical Leave Act, the National Labor Relations Act, the Civil Rights Act of 1991, the Equal Pay Act, the Immigration and Reform Control Act, the Uniform Services Employment and Re-Employment Act, the Rehabilitation Act of 1973, any "whistleblower" or retaliation claims (to the extent permitted by applicable law); Executive Order 11246 or any other federal, state or local law, all as they have been or may be amended, and all claims for attorneys' fees and/or costs, to the full extent that such claims may be released (the "**Release**").

b. The Release does not apply to claims which cannot be released as a matter of law or indemnification of Executive provided by the Company's bylaws, charter, other corporate or organizational documents or other agreement concerning indemnification (including the Company's insurance policies). The rights of Executive to indemnification and D&O insurance coverage with respect to all matters, events or transactions occurring or effected during Executive's period of employment with the Company shall survive the termination of Executive's employment. Executive acknowledges and agrees that, but for providing this waiver and release, Executive would not be receiving the economic benefits being provided under the terms of the Employment Agreement.

c. Executive understands that Executive is releasing claims that Executive may not know about and that it is Executive's knowing and voluntary intent even though Executive recognizes that someday Executive may regret having signed this Release. Nevertheless, Executive is assuming that risk and agrees that this Release shall remain effective in all respects in any such case. Executive expressly waives all rights Executive might have under any law that is intended to protect Executive from waiving unknown claims.

d. Executive represents that Executive has no complaints, charges or lawsuits currently pending against any of the Company Parties arising out of or relating to Executive's employment. Executive further covenants and agrees that neither Executive nor Executive's heirs, executors, administrators, successors or assigns will be entitled to any personal recovery in any proceeding of any nature whatsoever against any of the Company Parties arising out of any of the matters released in Section 1(a).

2. *Older Workers Benefit Protection Act*: In accordance with the Older Workers Benefit Protection Act, Executive understands and acknowledges that Executive has been advised of Executive's opportunity to consult an attorney before

executing this Release. Executive further understands and acknowledges that Executive has up to 21 days following the date of Executive's termination of employment to execute this Release by dating and signing a copy of this Release and returning it to the Company, although it may be executed at any time within such period. Executive further understands that, once having executed this Release, Executive will have seven (7) days within which to revoke Executive's consent, by sending written notice of revocation of the Release to the [TITLE] of the Company at [FAX] or [E-MAIL ADDRESS], which must be received by the Company within such seven (7) day period. If Executive revokes this Release during the seven-day period, Executive will not be eligible for and will be required to return all consideration received under Section __ of the Employment Agreement.

EXECUTIVE UNDERSTANDS THAT EXECUTIVE IS ENTITLED TO CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS RELEASE AND THAT EXECUTIVE IS GIVING UP ANY LEGAL CLAIMS EXECUTIVE HAS AGAINST THE PARTIES RELEASED ABOVE BY SIGNING THIS RELEASE. EXECUTIVE HAS CAREFULLY READ AND FULLY UNDERSTANDS ALL OF THE PROVISIONS OF THIS RELEASE. EXECUTIVE IS SIGNING THIS AGREEMENT KNOWINGLY, WILLINGLY AND VOLUNTARILY IN EXCHANGE FOR THE BENEFITS DESCRIBED IN SECTION __ OF THE EMPLOYMENT AGREEMENT.

Executive:

________________________________ Date: ____________

Rodger A. Lawson

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is made and entered into by and between E*TRADE Financial Corporation (the "Company") and Karl A. Roessner ("Executive") as of September 12, 2016 (the "Effective Date").

1. Position and Duties:

(a) Appointment; Efforts: As of the Effective Date, Executive will become the Chief Executive Officer of the Company. Executive will devote all necessary time, energy and skill to Executive's duties at the Company.

(b) Duties and Responsibilities: Executive will have such duties, responsibilities and authorities as are determined by the Board of Directors of the Company (the "Board") and Executive Chairman of the Company, if applicable, and consistent with the Company's Corporate Governance Guidelines and corporate governance structure as in effect from time-to-time.

(c) Indemnification: The Company shall provide Executive with the same indemnification and D&O insurance protection provided from time to time to its officers and directors generally. Notwithstanding anything to the contrary in this Agreement, the rights of Executive to indemnification and the D&O insurance coverage with respect to all matters, events or transactions occurring or effected during the Executive's period of employment with the Company shall survive the termination of Executive's employment.

2. Term of Agreement: This Agreement shall remain in effect through December 31, 2019 (the "Term"), unless Executive's employment is terminated earlier by either party, subject to payments under Section 5 hereof to the extent applicable; provided that in the event of a Change in Control during the Term of this Agreement, the Term shall be extended to the date that is 24 months following such Change in Control. Executive's employment with the Company shall be "at-will". Unless Executive terminates Executive's employment prior to the end of the Term pursuant to the terms of this Agreement, Executive's continued employment following the end of the Term shall continue to be on an at-will basis and on such terms and conditions as the parties may agree.

3. Compensation: During the Term, Executive shall be compensated by the Company for Executive's services as follows:

(a) Base Salary: Executive shall be paid an annualized base salary of $850,000 per year, subject to applicable withholding, in accordance with the Company's normal payroll procedures. Executive's base salary may be adjusted from time to time in the discretion of the Board, subject to the provisions of Section 5 (incorporating the definitions set forth in Section 8) (this is referred to as the "Base Salary").

(b) Performance Bonus: Executive shall have the opportunity to earn an annual performance bonus. The performance bonus shall be earned upon the Executive and the Company meeting pre-established performance targets. Executive's cash bonus target amount is $1,500,000; provided that for 2016, the target amount shall be $950,000. The annual cash bonus, if earned, will be paid at the same time and in the same manner as payments to similarly situated executives of the Company and, except as expressly provided otherwise in this Agreement or in the applicable bonus plan document, shall not be earned unless Executive remains employed with the Company on the date of payment. Executive's cash bonus target amount may be adjusted from time to time in the discretion of the Board, subject to the provisions of Section 5 (incorporating the definitions set forth in Section 8).

(c) Benefits: Executive shall have the right, on the same basis as other senior executives of the Company, to participate in and to receive benefits under any of the Company's employee benefit plans, as such plans may be modified from time to time.

4. Equity Compensation.

(a) Generally: Executive will be eligible to receive equity compensation awards from time to time if the Board or its designee, in its sole discretion, determines that such an award(s) is appropriate.

(b) Annual Equity Grants: Executive's target equity bonus for performance during each calendar year of the Term, commencing with 2017, is $2,000,000, of which $1,200,000 shall be in the form of Performance Stock Units ("PSUs") and the remaining $800,000 shall be in the form of Restricted Stock Units ("RSUs"), in each case subject to the Company's 2015 Omnibus Incentive Plan, as amended from time to time, or any successor thereto (the "Equity Plan"), and the then current form of RSU and PSU agreement. Notwithstanding the foregoing, the Board may in its sole discretion issue additional RSUs to Executive in 2017 to account for the change in Executive's target RSU amount that occurred as of the Effective Date. Executive's target equity bonus amount may be adjusted from time to time in the discretion of the Board, subject to the provisions of Section 5 (incorporating the definitions set forth in Section 8).

(c) One-Time Grant: On or as soon as practicable following the Effective Date, Executive shall receive a one-time grant of RSUs with a grant date value equal to $1,000,000 (the "One-Time Grant"). The One-Time Grant will be subject to the terms and conditions of the Equity Plan and the current form of RSU agreement, provided that the One-Time Grant will vest ratably on each of the first three anniversaries of the Effective Date, generally subject to Executive's continued employment with the Company through the applicable vesting date.

5. Effect of Termination of Employment During the Term:

(a) Involuntary Termination outside a Change in Control Period: If Executive's employment with the Company is terminated as a result of an Involuntary Termination outside of a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, Executive shall receive the following benefits, in addition to any compensation and benefits earned and unpaid under Section 3 through the date of Executive's termination of employment:

(i) a lump sum cash severance payment equal to one times the sum of (x) Executive's annual Base Salary and (y) Executive's annual cash performance bonus at the target payment level, which payment shall be paid within 30 days following the effectiveness of the Release, but in no event later than March 15 of the year following the year in which such termination of employment occurs;

(ii) a lump sum cash payment equal to the product of (x) the annual cash performance bonus that would have been paid to Executive had he remained employed through the date of payment in accordance with Section 3(b), based on the Company's actual performance for the year in which such termination occurs, and (y) a fraction, the numerator of which is the number of days elapsed in the calendar year in which such termination occurs and the denominator of which is 365, which payment shall be paid no later than March 15 of the year following the year in which such termination of employment occurs;

(iii) reimbursement for the cost of medical coverage at a level equivalent to that provided by the Company immediately prior to termination of employment, through the earlier of: (A) 24 months following Executive's termination of employment, or (B) the date that Executive becomes eligible for medical coverage from a subsequent employer; provided that (x) it shall be the obligation of Executive to inform the Company that Executive has become eligible for such medical coverage and (y) such reimbursement shall be made by the Company subsidizing or reimbursing COBRA premiums or, if Executive is no longer eligible for COBRA continuation coverage, by a lump sum payment based on the monthly premiums immediately prior to the expiration of COBRA coverage.

(iv) any options, restricted stock awards, restricted stock units and other equity awards at any particular time that are subject to vesting based solely on the

Executive's continued employment ("Time-Based Equity Grants") and that are unvested on the date of termination of employment (collectively, the "Post-Termination Awards") shall not terminate, but will remain eligible to become vested (and, with respect to restricted stock units ("RSUs"), converted into shares) on their normal vesting dates as if Executive's employment had not terminated (the "Scheduled Vesting Date"); provided that all of the Post-Termination Awards will be canceled immediately if any of the following events (the "Post-Termination Events") occur at any time before the applicable Scheduled Vesting Date:

- Executive acts in any manner that the Compensation Committee of the Board determines is contrary or materially harmful to the interests of the Company or any of its subsidiaries;
- Executive fails to comply with the covenants in Section 6 hereof; provided that such covenants shall be of no further force or effect as of the twelve (12) month anniversary of the termination of Executive's employment;
- Executive encourages or solicits any employee, consultant, or contractor of the Company or its affiliates to leave or diminish their relationship with the Company for any reason or to accept employment, consultancy or a contracting relationship with any other company
- Executive, directly or indirectly, encourages or solicits or attempts to encourage or solicit any customers, clients, partners or affiliates of the Company to terminate or diminish their relationship with the Company;
- Executive disparages the Company or its officers, directors, employees, products or services;
- Executive misuses or discloses the Company's confidential or Proprietary Information, breaches any proprietary information, confidentiality agreement or any other agreement between Executive and the Company (or any of its affiliates), or breaches the Release;
- Executive fails or refuses to reasonably cooperate with or assist the Company in a timely manner in connection with any investigation, regulatory matter, lawsuit or arbitration in which the Company is a subject, target or party and as to which Executive may have pertinent information; or
- the Company determines that Executive's employment could have been terminated for Cause (regardless of any "cure" periods) or that Executive's actions or omissions during employment caused a restatement of the Company's financial statements or constituted a violation of the Company's policies and standards.

Notwithstanding the foregoing, (i) the Post-Termination Awards shall become fully vested and, if applicable, settled upon the death of Executive or upon a Change in Control that constitutes a "a change in ownership", a "change in effective control", or a "change in the ownership of a substantial portion of the assets" of the Company under Section 409A and the Section 409A Regulations (a "409A Change in Control"), so long as such death or 409A Change in Control occurs following the applicable termination date and prior to the earlier of the final Scheduled Vesting Date or the occurrence of a Post-Termination Event, and (ii) to the extent required to avoid acceleration taxation or tax penalties under Section 409A, the settlement of the tranche of RSUs that would first vest following the termination date if the Executive remained in employment shall occur on the latest of (1) the applicable Scheduled Vesting Date, (2) the date the Release becomes effective and (3) the 60th day following the date of termination, if the 60 day period referenced in this Section 5(a) in respect of the Release begins in one calendar year and ends in another.

(b) Involuntary Termination during a Change in Control Period: If Executive's employment with the Company is terminated as a result of an Involuntary Termination during a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, Executive shall receive the following benefits, in addition to any compensation and benefits earned and unpaid under Section 3 through the date of Executive's termination of employment:

(i) a lump sum cash severance payment equal to two times the sum of (x) Executive's annual Base Salary and (y) Executive's annual cash performance bonus at the target payment level, which payment shall be paid within 30 days following the effectiveness of the Release, but in no event later than March 15 of the year following the year in which such termination of employment occurs;

(ii) a lump sum cash payment equal to the product of (x) the annual cash performance bonus that would have been paid to Executive had he remained employed through the date of payment in accordance with Section 3(b), based on the Company's actual performance for the year in which such termination occurs, and (y) a fraction, the numerator of which is the number of days elapsed in the calendar year in which such termination occurs and the denominator of which is 365, which payment shall be paid no later than March 15 of the year following the year in which such termination of employment occurs;

(iii) each Time-Based Equity Grant shall become fully vested (and, with respect to RSUs, converted into shares) in full as of the date on which the Release becomes effective; provided that, to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, (x) if such termination occurs during a Change in Control Period but prior to a 409A Change in Control, then to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, any RSUs will be settled on the same dates on which such settlement would have occurred if the Executive remained employed and (y) if the 60 day period referenced in this Section 5(b) in respect of the Release begins in one calendar year and ends in another, then the RSUs will be settled in the second calendar year;

(iv) reimbursement for the cost of medical coverage at a level equivalent to that provided by the Company immediately prior to termination of employment, through the earlier of: (A) 24 months following Executive's termination of employment, or (B) the date that Executive becomes eligible for medical coverage from a subsequent employer; provided that (x) it shall be the obligation of Executive to inform the Company that Executive has become eligible for such medical coverage and (y) such reimbursement shall be made by the Company subsidizing or reimbursing COBRA premiums or, if Executive is no longer eligible for COBRA continuation coverage, by a lump sum payment based on the monthly premiums immediately prior to the expiration of COBRA coverage.

(c) Death or Permanent Disability.

(i) In the event of Executive's death or termination as a result of Permanent Disability, all Time-Based Equity Grants held by Executive, to the extent then outstanding, shall become fully vested (and, with respect to RSUs, converted into shares) as of the date of such termination.

(ii) In the event the Executive's employment terminates as a result of Executive's death or Permanent Disability, Executive (or Executive's estate, as applicable) shall be entitled to a pro rata share of the Executive's cash or other performance bonus to the date of death or Permanent Disability, based on target performance.

(d) Retirement and Retirement Eligibility.

(i) Retirement outside a Change in Control Period: If Executive's employment with the Company is terminated as a result of Executive's Retirement outside of a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, any Post-Termination Awards shall not terminate, but will remain eligible to become vested (and, with respect to RSUs, converted into shares) on the applicable Scheduled Vesting Dates; provided that (1) to the extent required to avoid acceleration taxation or tax penalties under Section 409A, the settlement of the tranche of RSUs that would first vest following the termination date if the Executive remained in employment shall occur on the latest of (x) the applicable Scheduled Vesting Date, (y) the date the Release becomes effective and (z) the 60th day following the date of termination, if the 60 day period referenced in this Section 5(a) in respect of the Release begins in one calendar year and ends in another, (2) all of the Post-Termination Awards will be canceled immediately if any of the Post-Termination Events occur at any time before the applicable Scheduled Vesting Date and (3) notwithstanding anything set forth in this paragraph to the contrary, the Post-Termination Awards shall become fully vested and settled upon the death of the Participant or upon a 409A Change in Control.

(ii) Retirement-Eligibility during a Change in Control Period: If Executive is or becomes Retirement-Eligible during a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date thereof, each Time-Based Equity Grant shall become fully vested (and, with respect to RSUs, converted into shares) in full as of the date on which the Release becomes effective; provided that, to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, (x) if such Retirement-Eligibility occurs during a Change in Control Period but prior to a 409A Change in Control, then to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, any RSUs will be settled on the same dates on which such settlement would have occurred if the Executive remained employed and (y) if the 60 day period referenced in this Section in respect of the Release begins in one calendar year and ends in another, then the RSUs will be settled in the second calendar year.

(e) Other Termination: In the event of a termination of Executive's employment not specified under Section 5(a), Section 5(b), Section 5(c) or Section 5(d) above, including, without limitation, a termination for Cause, Executive shall not be entitled to any compensation or benefits from the Company, other than those earned and unpaid under Section 3 through the date of Executive's termination and, in the case of each stock option, restricted stock award or other Company stock-based award granted to Executive, the extent to which such awards are vested through the date of Executive's termination or as otherwise provided in the applicable award agreement.

6. Agreement Not to Compete:

(a) During Executive's employment with the Company and for twelve (12) months thereafter, Executive shall not hold any position, or engage in any activities as an employee, agent, contractor, or otherwise, with:

(i) Charles Schwab Corporation, Fidelity Investments, Merrill Edge, Scottrade, Inc., or TD Ameritrade Holding Corporation ("Competitors"), or

(ii) any of Competitors' affiliates, subsidiaries, successors or assigns other than Merrill Edge's parent corporation;

provided that the Company shall have the right to revise the list of Competitors on one occasion during the Term upon written notice to Executive, but in no event shall such revision take place after Executive has given the Company notice that Executive's employment with the Company will terminate, and only so long as the list of Competitors is comprised of no more than five (5) entities.

(b) Executive acknowledges that the restrictions contained in this Section 6, in view of the nature of the business in which the Company is engaged, are reasonable and necessary in order to protect the legitimate interests of the Company, and that any violation thereof would result in irreparable injuries to the Company, and the Executive therefore acknowledges that, in the event of Executive's violation of any of these restrictions, the Company shall be entitled to obtain from any court of competent jurisdiction preliminary and permanent injunctive relief (without the posting of any bond) as well as damages and an equitable accounting of all earnings, profits and other benefits arising from such a violation, which rights shall be cumulative and in addition to any other rights or remedies to which the Company may be entitled.

(c) The invalidity or unenforceability of any provision or provisions of this Section 6 shall not affect the validity or enforceability of any other provision or provisions of this Section 6, which shall remain in full force and effect. If any provision of this Section 6 is held to be invalid, void or unenforceable in any jurisdiction, any court or arbitrator so holding shall substitute a valid, enforceable provision that preserves, to the maximum lawful extent, the terms and intent of this Agreement.

7. Certain Tax Considerations:

(a) Section 409A:

(i) The payments under Section 5 are intended to qualify for the short-term deferral exception to Section 409A of the Code ("Section 409A") described in the regulations promulgated under Section 409A (the "Section 409A Regulations") to the maximum extent possible, and to the extent they do not so qualify, they are intended to qualify for the involuntary separation pay plan exception to Section 409A described in the Section 409A Regulations to the maximum extent possible. To the extent Section 409A is applicable to this Agreement, this Agreement is intended to comply with Section

409A, and shall be interpreted and construed and shall be performed by the parties consistent with such intent, and the Company shall have no right, without Executive's consent, to accelerate any payment or the provision of any benefits under this Agreement if such payment or provision of such benefits would, as a result, be subject to tax under Section 409A. To the extent any payment hereunder is determined to be deferred compensation subject to Section 409A and the timing of such payment is conditioned on the Release becoming effective, then to the extent required to avoid penalty under Section 409A, any such payment hereunder that could be paid in either of two taxable years shall be made in the second taxable year.

(ii) Without limiting the generality of the foregoing, if Executive is a "specified employee" within the meaning of Section 409A, as determined under the Company's established methodology for determining specified employees, on the date of termination of employment, then to the extent required in order to comply with Section 409A, amounts that would otherwise be payable under this Agreement during the six-month period immediately following such termination date shall instead be paid (together with interest at the then current six-month LIBOR rate) on the first business day after the first to occur of (i) the date that is six months following Executive's termination of employment and (ii) the date of Executive's death.

(iii) Except as expressly provided otherwise herein, no reimbursement payable to Executive pursuant to any provisions of this Agreement or pursuant to any plan or arrangement of the Company covered by this Agreement shall be paid later than the last day of the calendar year following the calendar year in which the related expense was incurred, and no such reimbursement during any calendar year shall affect the amounts eligible for reimbursement in any other calendar year, except, in each case, to the extent that the right to reimbursement does not provide for a "deferral of compensation" within the meaning of Section 409A of the Code.

(iv) For purposes of this Agreement, the terms "terminate," "terminated" and "termination" mean a termination of Executive's employment that constitutes a "separation from service" within the meaning of the default rules of Section 409A of the Code; provided, however, that, in the event of the Executive's Permanent Disability, "separation from service" means the date that is six months after the first day of disability.

(b) 280G Limitation:

(i) If the payments and benefits provided to Executive under this Agreement, either alone or together with other payments and benefits provided to

Executive from the Company (including, without limitation, any accelerated vesting thereof) (the "Total Payments"), would constitute a "parachute payment" (as defined in Section 280G of the Code) and be subject to the excise tax (the "Excise Tax") imposed under Section 4999 of the Code, the Total Payments shall be reduced if and to the extent that a reduction in the Total Payments would result in Executive retaining a larger amount than if Executive received all of the Total Payments, in each case measured on an after-tax basis (taking into account federal, state and local income taxes and, if applicable, the Excise Tax). The determination of any reduction in the Total Payments shall be made at the Company's cost by the Company's independent public accountants or another firm designated by the Company and reasonably approved by Executive, and may be determined using reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company shall pay Executive's costs incurred for tax, accounting and other professional advice in the event of a challenge of any such reasonable, good faith interpretations by the Internal Revenue Service.

(ii) In the case of a reduction in the Total Payments pursuant to Section 7(b)(i), the Total Payments will be reduced in the following order: (a) payments that are payable in cash that are valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a) will be reduced (if necessary, to zero), with amounts that are payable last reduced first; (b) payments and benefits due in respect of any equity valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a), with the highest values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24) will next be reduced; (c) payments that are payable in cash that are valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24, with amounts that are payable last reduced first, will next be reduced; (d) payments and benefits due in respect of any equity valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24, with the highest values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24) will next be reduced; and (e) all other non-cash benefits not otherwise described in clauses (b) or (d) will be next reduced pro-rata.

8. Certain Definitions: For the purposes of this Agreement, the following capitalized terms shall have the meanings set forth below. For the avoidance of doubt, to the extent any of the following defined terms conflict with any corresponding defined term in any other agreement applicable to Executive, the following defined terms shall prevail.

(a) "Cause" shall mean any of the following:

(i) Executive's theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit, or falsification of any material employment or Company records;

(ii) Executive's conviction (including any plea of guilty or nolo contendere) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs Executive's ability to perform Executive's duties with the Company;

(iii) Executive's intentional and repeated failure to perform stated duties after notice from the Company of, and a reasonable opportunity to cure, such failure;

(iv) Executive's improper disclosure of the Company's confidential or Proprietary Information;

(v) any material breach by Executive of the Company's Code of Professional Conduct, which breach shall be deemed "material" if it results from an intentional act by Executive and has a material detrimental effect on the Company's reputation or business; or

(vi) any material breach by Executive of this Agreement or of any agreement regarding proprietary information and inventions, which breach, if curable, is not cured within thirty (30) days following written notice of such breach from the Company.

In the event that the Company terminates Executive's employment for Cause, the Company shall provide written notice to Executive of that fact prior to, or concurrently with, the termination of employment. Failure to provide written notice that the Company contends that the termination is for Cause shall constitute a waiver of any contention that the termination was for Cause, and the termination shall be irrebuttably presumed to be an involuntary termination without Cause. However, if, within thirty (30) days following the termination, the Company first discovers facts that would have established "Cause" for termination, and those facts were not known by the Company at the time of the termination, then the Company shall provide Executive with written notice, including the facts establishing that the purported "Cause" was not known at the time of the termination, and the Company will pay no severance.

(b) "Change in Control" shall have the meaning set forth in the Equity Plan.

(c) "Change in Control Period" shall mean the period commencing on the earlier of: (i) 60 days prior to the date of consummation of the Change in Control; (ii) the date of the first public announcement of a definitive agreement that would result in a Change in Control (even though still subject to approval by the Company's stockholders and other conditions and contingencies); or (iii) the date of the public announcement of a tender offer that is not approved by the Incumbent Directors and ending on the two year anniversary date of the consummation of the Change in Control.

(d) "Change in Control Period Good Reason" shall mean any of the following conditions:

(i) a material decrease in Executive's Base Salary other than as part of any across-the-board reduction applying to all senior executives of an acquiror;

(ii) a material, adverse change in Executive's title, authority, responsibilities or duties, as measured against Executive's title, authority, responsibilities or duties immediately prior to such change; provided that for purposes of this subsection (ii), in addition to any other material, adverse change in title, authority, responsibilities or duties, if Executive is required to report to any person (including the Executive Chairman) other than the Board at any time during the Change in Control Period, a material diminution in the authority, duties, or responsibilities of such person shall constitute an event of "Change in Control Period Good Reason";

(iii) any material breach by the Company of any provision of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach from Executive, or Non-Renewal;

(iv) any failure of the Company to obtain the assumption (by operation of law or by contract) of this Agreement by any successor or assign of the Company; or

(v) any purported termination of Executive's employment for "material breach of contract" which is purportedly effected without providing the "cure" period, if applicable, described in Section 8(a)(vi), above;

provided that Executive shall have provided written notice to the Company of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition.

(e) "Code" means the Internal Revenue Code of 1986, as amended.

(f) "Incumbent Directors" shall mean members of the Board who either (i) are members of the Board as of the date hereof, or (ii) are elected, or nominated for election, to the Board with the affirmative vote of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of members of the Board).

(g) "Involuntary Termination" shall mean the occurrence of one of the following:

(i) termination by the Company of Executive's employment with the Company for any reason other than Cause at any time;

(ii) Executive's resignation from employment for Non Change in Control Period Good Reason within six months following the occurrence of the event constituting Non Change in Control Period Good Reason; or

(iii) during a Change in Control Period, Executive's resignation from employment for Change in Control Period Good Reason within six months following the occurrence of the event constituting Change in Control Period Good Reason.

(h) "Non Change in Control Period Good Reason" shall mean any of the following conditions first occurring outside of a Change in Control Period and occurring without Executive's written consent:

(i) a decrease in Executive's Base Salary of greater than 15% during the Term, in the aggregate;

(ii) a material, adverse change in Executive's title, authority, responsibilities or duties, as measured against Executive's title, authority, responsibilities or duties immediately prior to such change; provided that for purposes of this subsection, a material, adverse change shall not occur merely by a change in reporting relationship; or

(iii) any material breach by the Company of any provision of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach from Executive, or Non-Renewal;

provided that Executive shall have provided written notice to the Company of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition.

(i) "Non-Renewal" shall mean at least 90 days' prior to the end of the Term that the Company, other than with Cause has either: (A) delivered Executive in writing notice of its intention not to either extend this Agreement or to enter into a new employment agreement with Executive; or (B) has failed to deliver to Executive a new employment agreement on terms and conditions substantially comparable to or better than those under this Agreement, that the

Company is prepared to execute. For the avoidance of doubt, a decrease in Executive's Base Salary of up to 15% shall be considered substantially comparable with respect to such term.

(j) "Permanent Disability" shall mean Executive's permanent and total disability within the meaning of Section 22(e)(3) of the Code.

(k) "Proprietary Information" is information that was developed, created, or discovered by or on behalf of the Company, or which became or will become known by, or was or is conveyed to the Company, which has commercial value in the Company's business. "Proprietary Information" includes, but is not limited to, software programs and subroutines, source and object code, algorithms, trade secrets, designs, technology, know-how, processes, data, ideas, techniques, inventions (whether patentable or not), works of authorship, formulas, business and product development plans, vendor lists, customer lists, terms of compensation and performance levels of Company employees, and other information concerning the Company's actual or anticipated business, research or development, or which is received in confidence by or for the Company from another person or entity.

(l) "Release" shall mean a general release of claims substantially in the form attached as Exhibit A hereto.

(m) "Retirement" means termination of the Executive's employment at or following the Executive becoming Retirement-Eligible.

(n) "Retirement-Eligible" means the Executive is at least age 60 and has at least 5 years of service with the Company and its affiliates.

9. Insider Trading Policy: Executive agrees to abide by the terms and conditions of the Company's Insider Trading Policy, as it may be amended from time to time.

10. Dispute Resolution: In the event of any dispute or claim relating to or arising out of this Agreement (including, but not limited to, any claims of breach of contract, wrongful termination or age, sex, race or other discrimination), Executive and the Company agree that all such disputes shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in New York, New York in accordance with its National Employment Dispute Resolution rules. Executive acknowledges that by accepting this arbitration provision Executive is waiving any right to a jury trial in the event of such dispute. In connection with any such arbitration, the Company shall bear all costs not otherwise borne by a plaintiff in a court proceeding.

11. Attorneys' Fees: The prevailing party shall be entitled to recover from the losing party its attorneys' fees and costs incurred in any action brought to enforce any right arising out

of this Agreement. The Company shall pay Executive's reasonable legal fees in connection with the review and negotiation of this Agreement and any ancillary services related thereto.

12. General.

(a) Successors and Assigns: The provisions of this Agreement shall inure to the benefit of and be binding upon the Company, Executive and each and all of their respective heirs, legal representatives, successors and assigns. The duties, responsibilities and obligations of Executive under this Agreement shall be personal and not assignable or delegable by Executive in any manner whatsoever to any person, corporation, partnership, firm, company, joint venture or other entity. Executive may not assign, transfer, convey, mortgage, pledge or in any other manner encumber the compensation or other benefits to be received by Executive or any rights which Executive may have pursuant to the terms and provisions of this Agreement, except to the extent permitted by the applicable plan for financial or estate planning purposes.

(b) Amendments; Waiver: No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company. No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Notices: Any notices to be given pursuant to this Agreement by either party to the other party may be effected by personal delivery or by overnight delivery with receipt requested. Mailed notices shall be addressed to the parties at the addresses stated below, but each party may change its or Executive's address by written notice to the other in accordance with this Paragraph:

Mailed notices to Executive shall be addressed to the last known address provided by Executive to the Company,

Mailed notices to the Company shall be addressed as follows:

E*TRADE Financial Corporation
671 North Glebe Road

12th Floor

Arlington, VA 22203

Attention: General Counsel

(d) Entire Agreement: This Agreement constitutes the entire employment agreement between Executive and the Company regarding the terms and conditions of Executive's employment and any amounts due on termination of such employment, with the exception of (i) the Agreement Regarding Employment and Proprietary Information and Inventions between the Company and Executive, (ii) any stock option, restricted stock, restricted stock unit award or other Company stock-based award agreements between Executive and the Company to the extent not modified by this Agreement, (iii) any indemnification agreement referenced in Section 1 and (iv) the Company's employee benefit plans referenced in Section 3 (c). This Agreement (including the documents described in (i) through (iv) herein) supersedes all prior negotiations, representations or agreements between Executive and the Company, whether written or oral, concerning Executive's employment by or service to the Company, including without limitation, the Employment Agreement by and between the Company and Executive, dated as of January 1, 2016, which is of no further force or effect as of the Effective Date.

(e) Withholding Taxes: All payments made under this Agreement shall be subject to reduction to reflect taxes required to be withheld by law.

(f) Counterparts: This Agreement may be executed by the Company and Executive in counterparts, each of which shall be deemed an original and which together shall constitute one instrument.

(g) Headings: Each and all of the headings contained in this Agreement are for reference purposes only and shall not in any manner whatsoever affect the construction or interpretation of this Agreement or be deemed a part of this Agreement for any purpose whatsoever.

(h) Savings Provision: To the extent that any provision of this Agreement or any paragraph, term, provision, sentence, phrase, clause or word of this Agreement shall be found to be illegal or unenforceable for any reason, such paragraph, term, provision, sentence, phrase, clause or word shall be modified or deleted in such a manner as to make this Agreement, as so modified, legal and enforceable under applicable laws. The remainder of this Agreement shall continue in full force and effect.

(i) Construction: The language of this Agreement and of each and every paragraph, term and provision of this Agreement shall, in all cases, for any and all purposes, and in any and all circumstances whatsoever be construed as a whole, according to its fair meaning, not strictly for or against Executive or the Company, and with no regard whatsoever to the identity or status of any person or persons who drafted all or any portion of this Agreement.

(j) Further Assurances: From time to time, at the Company's request and without further consideration, Executive shall execute and deliver such additional documents and take all such further action as reasonably requested by the Company to be necessary or desirable to make effective, in the most expeditious manner possible, the terms of this Agreement and to provide adequate assurance of Executive's due performance hereunder.

(k) Governing Law: Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the State of New York.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year written below.

Dated: September 12, 2016 E*TRADE Financial Corporation

/s/ Rodger A. Lawson

By: Rodger A. Lawson

Dated: September 12, 2016 /s/ Karl A. Roessner

Karl A. Roessner

Exhibit A

This Release (this "**Release Agreement**") is between Karl A. Roessner ("**Executive**") and E*TRADE Financial Corporation (the "**Company**") (the "**Parties**").

1. *Release*:

   a. In exchange for the benefits described in Section __ of the Employment Agreement by and between the Company and Executive, dated September 12, 2016 (the "**Employment Agreement**"), Executive, on behalf of himself and his heirs, executors, administrators and assigns, releases and absolutely discharges the Company (including its subsidiaries and other affiliated entities, and each of their respective shareholders, directors, employees, agents, attorneys, and each of their legal successors and assigns) (the "**Company Parties**") from any and all claims, actions and causes of action, whether now known or unknown, which Executive now has, or at any other time had, or shall or may have, against the Company Parties arising out of or relating to any matter, cause, fact, thing, act or omission whatsoever occurring or existing at any time to and including the date of execution of this Release Agreement by Executive, including, but not limited to, claims relating to the Employment Agreement or any other offer letter or written or oral, express or implied, agreement or understanding between Executive and the Company and/or any awards, policies, plans, programs or practices of the Company that may apply to Executive or in which Executive may participate, including, but not limited to, any rights under bonus plans or programs of the Company and/or any other short-term or long-term equity-based or cash-based incentive plans or programs of the Company, the parties' employment relationship, the termination of that relationship, the Executive's purchase or right to purchase shares of the Company's stock, and any claims of breach of contract, infliction of emotional distress, fraud, defamation, personal injury, wrongful discharge or age, sex, race, national origin, industrial injury, physical or mental disability, medical condition, sexual orientation or other discrimination, harassment or retaliation, claims under the federal Americans with Disabilities Act, Title VII of the federal Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act ("**ADEA**"), 42 U.S.C. Section 1981, the federal Fair Labor Standards Act, the federal Employee Retirement Income Security Act, the federal Worker Adjustment and Retraining Notification Act, the federal Family and Medical Leave Act, the National Labor Relations Act, the Civil Rights Act of 1991, the Equal Pay Act, the Immigration and Reform Control Act, the Uniform Services Employment and Re-Employment Act, the Rehabilitation Act of 1973, any "whistleblower" or retaliation claims (to the extent permitted by applicable law); Executive Order 11246 or any other federal, state or local law, all as they have been or may be amended, and all claims for attorneys' fees and/or costs, to the full extent that such claims may be released (the "**Release**").

b. The Release does not apply to claims which cannot be released as a matter of law or indemnification of Executive provided by the Company's bylaws, charter, other corporate or organizational documents or other agreement concerning indemnification (including the Company's insurance policies). The rights of Executive to indemnification and D&O insurance coverage with respect to all matters, events or transactions occurring or effected during Executive's period of employment with the Company shall survive the termination of Executive's employment. Executive acknowledges and agrees that, but for providing this waiver and release, Executive would not be receiving the economic benefits being provided under the terms of the Employment Agreement.

c. Executive understands that Executive is releasing claims that Executive may not know about and that it is Executive's knowing and voluntary intent even though Executive recognizes that someday Executive may regret having signed this Release. Nevertheless, Executive is assuming that risk and agrees that this Release shall remain effective in all respects in any such case. Executive expressly waives all rights Executive might have under any law that is intended to protect Executive from waiving unknown claims.

d. Executive represents that Executive has no complaints, charges or lawsuits currently pending against any of the Company Parties arising out of or relating to Executive's employment. Executive further covenants and agrees that neither Executive nor Executive's heirs, executors, administrators, successors or assigns will be entitled to any personal recovery in any proceeding of any nature whatsoever against any of the Company Parties arising out of any of the matters released in Section 1(a).

2. *Older Workers Benefit Protection Act*: In accordance with the Older Workers Benefit Protection Act, Executive understands and acknowledges that Executive has been advised of Executive's opportunity to consult an attorney before

executing this Release. Executive further understands and acknowledges that Executive has up to 21 days following the date of Executive's termination of employment to execute this Release by dating and signing a copy of this Release and returning it to the Company, although it may be executed at any time within such period. Executive further understands that, once having executed this Release, Executive will have seven (7) days within which to revoke Executive's consent, by sending written notice of revocation of the Release to the [TITLE] of the Company at [FAX] or [E-MAIL ADDRESS], which must be received by the Company within such seven (7) day period. If Executive revokes this Release during the seven-day period, Executive will not be eligible for and will be required to return all consideration received under Section __ of the Employment Agreement.

EXECUTIVE UNDERSTANDS THAT EXECUTIVE IS ENTITLED TO CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS RELEASE AND THAT EXECUTIVE IS GIVING UP ANY LEGAL CLAIMS EXECUTIVE HAS AGAINST THE PARTIES RELEASED ABOVE BY SIGNING THIS RELEASE. EXECUTIVE HAS CAREFULLY READ AND FULLY UNDERSTANDS ALL OF THE PROVISIONS OF THIS RELEASE. EXECUTIVE IS SIGNING THIS AGREEMENT KNOWINGLY, WILLINGLY AND VOLUNTARILY IN EXCHANGE FOR THE BENEFITS DESCRIBED IN SECTION___OF THE EMPLOYMENT AGREEMENT.

Executive:

________________________________ Date: _____________

Karl A. Roessner

Exhibit 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

I, Karl A. Roessner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of E*TRADE Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 3, 2016

E*TRADE Financial Corporation
(Registrant)

By /S/ KARL A. ROESSNER

Karl A. Roessner
Chief Executive Officer
(Principal Executive Officer)

Exhibit 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

I, Michael A. Pizzi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of E*TRADE Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 3, 2016

E*TRADE Financial Corporation
(Registrant)

By /S/ MICHAEL A. PIZZI

Michael A. Pizzi
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is being submitted in connection with this Quarterly Report on Form 10-Q of E*TRADE Financial Corporation (the "Quarterly Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Karl A. Roessner, the Chief Executive Officer and Michael A. Pizzi, the Chief Financial Officer of E*TRADE Financial Corporation, each certifies that, to the best of their knowledge:

1. the Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of E*TRADE Financial Corporation.

Dated: November 3, 2016

/S/ KARL A. ROESSNER

Karl A. Roessner
Chief Executive Officer
(Principal Executive Officer)

/S/ MICHAEL A. PIZZI

Michael A. Pizzi
Chief Financial Officer
(Principal Financial Officer)