

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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

Commission File Number 1-11921

E*TRADE Financial Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

94-2844166

(I.R.S. Employer
Identification Number)

11 Times Square, 32nd Floor, New York, New York 10036

(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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Emerging growth company ☐

Accelerated filer

☐

Smaller reporting company

☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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, 2017, there were 269,659,766 shares of common stock outstanding.

E*TRADE FINANCIAL CORPORATION
FORM 10-Q QUARTERLY REPORT
For the Quarter Ended September 30, 2017
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Unless otherwise indicated, references to "the Company," "we," "us," "our," "E*TRADE" and "E*TRADE Financial" 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 statements regarding the Company's proposed transaction with Trust Company of America (TCA) and its benefits and timing, our business strategy, objectives and vision; our plans and ability to deliver new products and solutions; our ability to improve client acquisition and deepen relationships with existing clients; our ability to effectively monetize brokerage relationships by investing in agency mortgage-backed securities; our capital plan initiatives, the expected balance sheet size, any balance sheet growth and the incremental regulatory and reporting requirements that our balance sheet size and growth may require; our plans to run off our legacy mortgage and consumer loan portfolio; repurchases of our common stock, payment of dividends on our preferred stock; our ability to maintain required regulatory capital ratios; our plans for the payment of dividends from our subsidiaries to our parent company; proposed issuance of preferred stock and the expected financing of the proposed transaction; our target liquidity positions; our ability to identify and manage risks appropriately; and any other 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, the closing of the proposed transaction with TCA may not occur or may be delayed, regulatory risks associated with the transaction, unanticipated restructuring costs which may be incurred or undisclosed liabilities assumed, attempts to retain key TCA personnel may not succeed, expected synergies and other financial benefits may not be realized or integration plans may not be implemented as anticipated; changes in business, economic or political condition; performance, volume and volatility in the equity and capital markets; fluctuations in interest rates; customer demand for financial products and services; increased competition; cyber security threats, potential system disruptions and other security breaches; our ability to participate in consolidation opportunities in our industry; our ability to service our corporate debt; changes in government regulation or actions by our regulators; our ability to move capital to our parent company from our subsidiaries; adverse developments in litigation or regulatory matters; the timing and duration of, and the amount of shares repurchased and amount of cash expended in connection with, the share repurchase program; the availability, timing and size of any preferred stock issuance; and other factors 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, 2016, 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, 2016.

OVERVIEW

Company Overview

E*TRADE is a financial services company that provides online brokerage and related products and services primarily to individual retail investors. Our mission is to enhance the financial independence of traders and investors through a powerful digital offering and professional guidance. Our vision is to be the #1 digital broker and advisor to traders and investors, known for ease of use and the completeness of our offering.

Strategy

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

Accelerate Growth of Core Brokerage Business

- ***Enhance overall 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 drive customer acquisition 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.

- ***Put capital to work for shareholders***

We have put significant capital to work through balance sheet growth, share repurchases and acquisition activity. We are focused on generating and effectively deploying capital for the benefit of our shareholders.

Financial Performance

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 investment securities and margin receivables, 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 mortgage and consumer 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 2017

Announced Trust Company of America acquisition

On October 19, 2017, we announced an agreement to acquire Trust Company of America, Inc. (TCA), a leading provider of technology solutions and custody services to the registered investment adviser market, for \$275 million in cash. We anticipate funding the transaction through the issuance of non-cumulative perpetual preferred stock. The acquisition is expected to close in the second quarter of 2018, subject to customary closing conditions and regulatory approvals.

Completed OptionsHouse integration

In August 2017, we completed the integration of Aperture, LLC (dba OptionsHouse), which was acquired by the Company in 2016. Completion of the integration included the rollout of OptionsHouse features and functionality through E*TRADE.com and the transfer of retail brokerage accounts and customer-related balances of OptionsHouse to E*TRADE Securities LLC (E*TRADE Securities). Futures accounts and balances of E*TRADE Securities were transferred to E*TRADE Futures LLC (formerly known as Aperture, LLC).

Issued \$1 billion of senior notes and redeemed higher cost corporate debt

We issued \$600 million of 2.95% Senior Notes and \$400 million of 3.80% Senior Notes and used the net proceeds, along with existing corporate cash, to redeem our outstanding \$540 million of 5.375% Senior Notes and \$460 million of 4.625% Senior Notes, resulting in a \$58 million loss on early extinguishment of debt. This transaction reduces our annual corporate debt service costs from \$50 million to \$33 million.

Repurchased 4.6 million shares of our common stock

We continue to execute on our stock repurchase plan, under which the Board of Directors has authorized a \$1 billion repurchase of shares of our common stock. During the three months ended September 30, 2017, the Company repurchased 4.6 million shares of common stock at an average price of \$40.64 for a total of \$187 million. As of September 30, 2017, \$813 million remained available for additional repurchases. As of October 31, 2017, we have subsequently repurchased an additional 1.0 million shares of common stock at an average price of \$43.53.

Key Performance Metrics

Management monitors a number of customer activity and company metrics to evaluate the Company's performance. The most significant of these are displayed below along with the percentage variance for the three months ended September 30, 2017 from the same period in 2016, where applicable, and includes OptionsHouse from the September 12, 2016 acquisition date.

Customer Activity Metrics:



Brokerage Account Attrition Rate

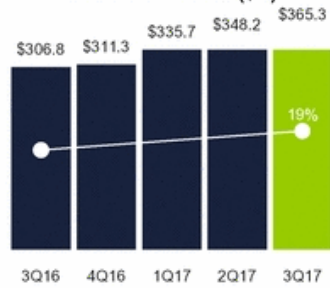


Net New Brokerage Accounts (in thousands)



OptionsHouse Acquisition Prior Period Current Period

Customer Assets (\$B)



Net New Brokerage Assets (\$B)



OptionsHouse Acquisition Prior Period Current Period

Brokerage Related Cash (\$B)



Daily Average Revenue Trades (DARTs) is the predominant driver of commissions revenue from our customers. DARTs were 205,763 and 207,065 for the three and nine months ended September 30, 2017, respectively, compared to 151,905 and 156,368 for the same periods in 2016.

Derivative DARTs percentage is the mix of options and futures as a component of total DARTs and is a key driver of commissions revenue. Derivative DARTs represented 32% and 31% of total DARTs for the three and nine months ended September 30, 2017, respectively, compared to 26% and 25% for the same periods in 2016.

Average commission per trade is an indicator of changes in our customer mix, product mix and/or product pricing. Average commission per trade was \$7.76 and \$8.54 for the three and nine months ended September 30, 2017, respectively, compared to \$10.97 and \$10.81 for the same periods in 2016. Average commission per trade for the three and nine months ended September 30, 2017 was impacted by our reduced commission rates for equity and options trades effective March 13, 2017, which were as follows:

- Stock, options and exchange-traded fund (ETF) trade commissions reduced to \$6.95 from \$9.99
- For active traders, commissions reduced to \$4.95 from \$7.99 and options charges reduced to \$0.50 per contract from \$0.75; trades required for active trader tier reduced to 30 per quarter from 150

Customer margin balances represents credit extended to customers to finance their purchases of securities by borrowing against securities they own and is a key driver of net interest income. Customer margin balances were \$8.5 billion and \$6.8 billion at September 30, 2017 and 2016, respectively. Customer margin for periods prior to September 30, 2017, includes OptionsHouse balances which were held by a third party clearing firm. In connection with the integration of OptionsHouse, \$0.4 billion of customer margin held by the third party clearing firm was transferred to our balance sheet and is reflected as margin receivables at September 30, 2017.

Managed products represents customer assets in our Managed Investment Portfolio, Unified Managed Account, Adaptive Portfolio, and Fixed Income Separately Managed Account products. Managed products are a driver of fees and service charges revenue. Managed products were \$4.9 billion and \$3.7 billion at September 30, 2017 and 2016, respectively.

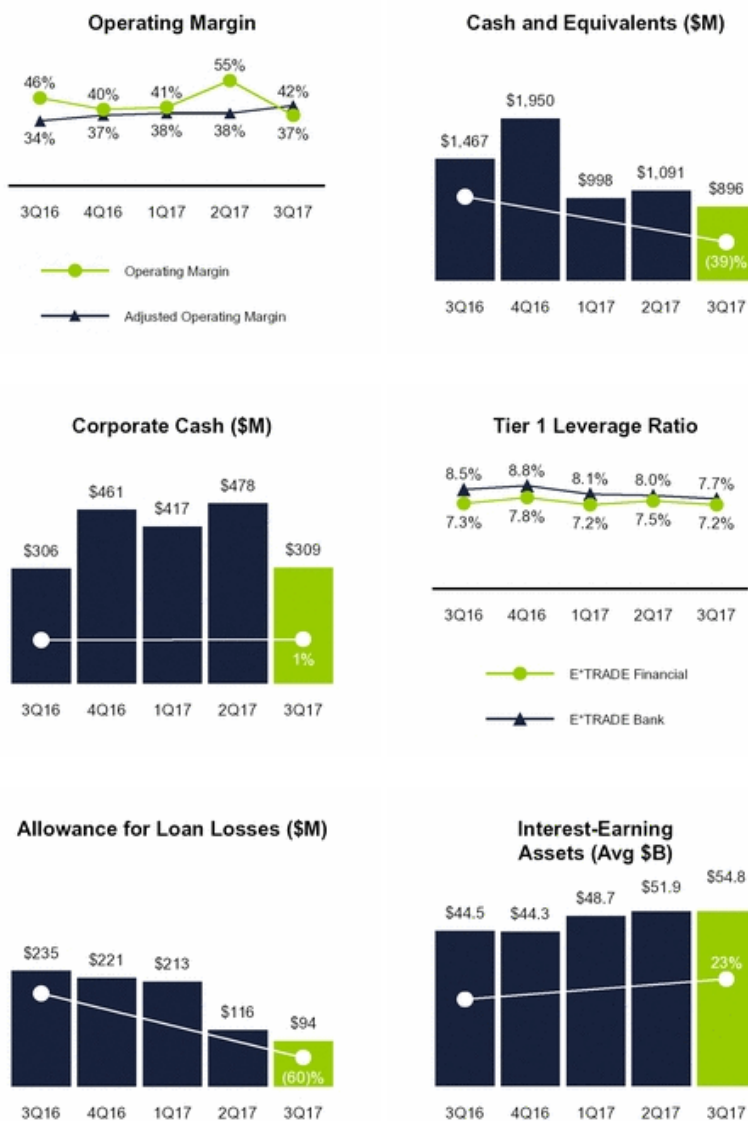
End of period brokerage accounts, net new brokerage accounts and **brokerage account attrition rate** are indicators of our ability to attract and retain brokerage customers. End of period brokerage accounts were 3.6 million and 3.4 million at September 30, 2017 and 2016, respectively. Net new brokerage accounts were 26,225 and 125,711 for the three and nine months ended September 30, 2017, respectively, and 161,885 and 225,434 for the same periods in 2016. Our annualized brokerage account attrition rate was 8.9% and 9.1% for the three and nine months ended September 30, 2017, respectively, compared to 8.0% and 8.1% for the same periods in 2016. During the three and nine months ended September 30, 2017, our annualized net new brokerage account growth rate was 2.9% and 4.8% respectively, compared to 1.7% and 3.2% for the same periods in 2016. End of period brokerage accounts and net new brokerage accounts for the three months ended September 30, 2016 include 147,761 accounts from the OptionsHouse acquisition.

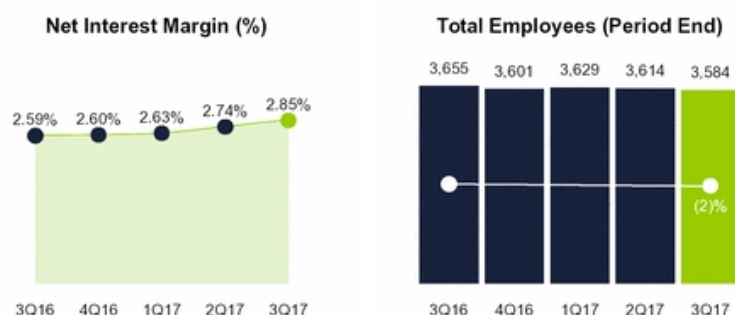
Customer assets is an indicator of the value of our relationship with the customer. An increase generally indicates that the use of our products and services by existing and new customers is expanding. Changes in this metric are also driven by changes in the valuations of our customers' underlying securities. Customer assets were \$365.3 billion and \$306.8 billion at September 30, 2017 and 2016, respectively.

Net new brokerage assets is total inflows to new and existing brokerage accounts less total outflows from closed and existing brokerage accounts. The net new brokerage assets metric is a general indicator of the use of our products and services by new and existing brokerage customers. Net new brokerage assets were \$2.2 billion and \$9.0 billion for the three and nine months ended September 30, 2017, respectively, compared to \$5.4 billion and \$9.9 billion for the same periods in 2016. During the three and nine months ended September 30, 2017, our annualized net new brokerage asset growth rate was 2.9% and 4.4%, respectively, compared to 2.7% and 3.4% for the same periods in 2016. Net new brokerage assets for the three months ended September 30, 2016 includes \$3.7 billion from the OptionsHouse acquisition.

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. Brokerage related cash was \$52.3 billion and \$48.3 billion at September 30, 2017 and 2016, respectively.

Company Metrics:





Operating margin is the percentage of net revenue that results in income before income taxes and is an indicator of the Company's profitability. Operating margin was 37% and 44% for the three and nine months ended September 30, 2017, respectively, compared to 46% and 44% for the same periods in 2016.

Adjusted operating margin is a non-GAAP measure that provides useful information about our ongoing operating performance by excluding the provision (benefit) for loan losses and losses on early extinguishment of debt, which are not viewed as key factors governing our investment in the business and are excluded by management when evaluating operating margin performance. Adjusted operating margin was 42% and 39% for the three and nine months ended September 30, 2017, respectively, compared to 34% and 35% for the same periods in 2016. See *Earnings Overview* for a reconciliation of this non-GAAP measure to the most directly comparable GAAP measure.

Corporate cash, a non-GAAP measure, is a component of **cash and equivalents** and represents the primary source of capital above and beyond the capital deployed in our regulated subsidiaries. Corporate cash was \$309 million and \$306 million at September 30, 2017 and 2016, respectively, while cash and equivalents was \$896 million and \$1.5 billion for the same periods. See *Liquidity and Capital Resources* for a reconciliation of corporate cash to cash and equivalents.

Tier 1 leverage ratio is an indicator 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. E*TRADE Financial's Tier 1 leverage ratio was 7.2% and 7.3% at September 30, 2017 and 2016, respectively. E*TRADE Bank's Tier 1 leverage ratio was 7.7% and 8.5% at September 30, 2017 and 2016, respectively. See *Liquidity and Capital Resources* for additional information, including the calculation of regulatory capital ratios.

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). Allowance for loan losses was \$94 million and \$235 million at September 30, 2017 and 2016, respectively.

Interest-earning assets, along with net interest margin, is an indicator of our ability to generate net interest income. Average interest-earning assets were \$54.8 billion and \$51.8 billion for the three and nine months ended September 30, 2017, respectively, compared to \$44.5 billion and \$42.9 billion for the same periods in 2016.

Net interest margin is a measure of the net yield on our average interest-earning assets. Net interest margin is calculated for a given period by dividing the annualized sum of net interest income by average interest-earning assets. Net interest margin was 2.85% and 2.74% for the three and nine months ended September 30, 2017, respectively, compared to 2.59% and 2.67% for the same periods in 2016.

Total employees were 3,584 and 3,655 at September 30, 2017 and 2016, respectively.

Regulatory Developments

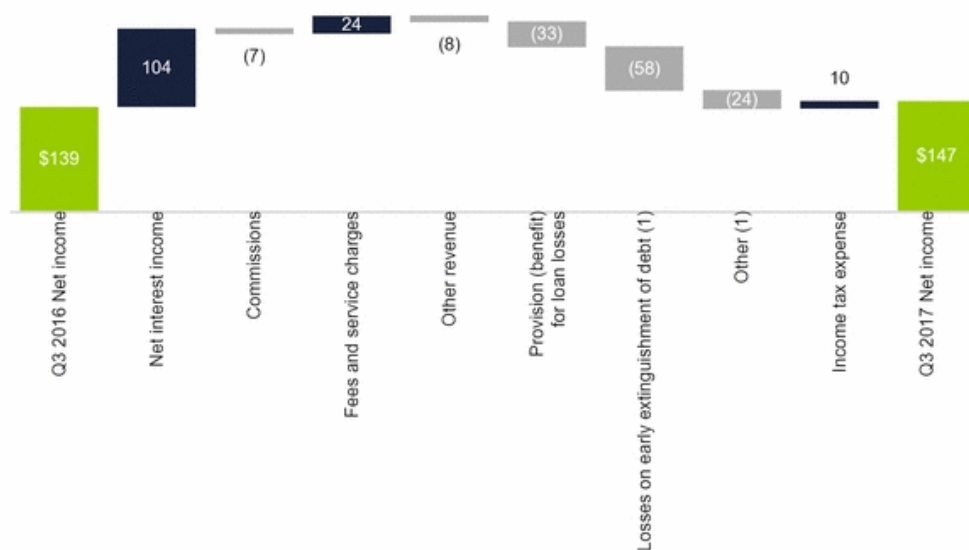
In April 2016, the U.S. Department of Labor published its final fiduciary regulations under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986. Certain aspects of these regulations began to take effect in June 2017. These regulations generally subject particular persons, such as broker-dealers and other financial advisers providing investment advice to individual retirement accounts and other qualified retirement plans and accounts, to fiduciary duties and additional regulatory restrictions for a wider range of customer interactions. The remaining aspects of these regulations are currently scheduled to take effect on January 1, 2018. During this transition period, the Department of Labor indicated in Field Assistance Bulletin 2017-02 issued in May 2017, that it will not take enforcement actions against impacted parties that are in reasonable compliance with the regulations. The Company is in the process of implementing the remaining applicable components for compliance.

The Company has historically not been subject to certain regulatory requirements that apply to banking organizations with \$50 billion or more in total consolidated assets as defined by each applicable regulation. Total consolidated assets of \$50 billion, which is measured in accordance with each applicable regulation, but generally on the basis of the average of the four most recent quarters, is a meaningful regulatory threshold as U.S. banking organizations become subject to a number of additional and, in some cases, more stringent regulatory requirements once they reach that size. The Company surpassed \$50 billion in total consolidated assets on a four quarter average in the first quarter of 2017.

The Company expects these regulatory requirements, not all of which have been finalized, to start becoming applicable to it in 2018. The Company has begun implementing policies, procedures, systems and governance structures that are designed to comply with the requirements. Additionally, while savings and loan holding companies are currently excluded from the scope of certain regulations that apply to bank holding companies, the Company expects it will ultimately be subject to these requirements. For additional information see *Part I. Item 1. Business* of our Annual Report on Form 10-K for the year ended December 31, 2016.

EARNINGS OVERVIEW

We generated net income of \$147 million and \$485 million on total net revenue of \$599 million and \$1.7 billion for the three and nine months ended September 30, 2017, respectively. The following chart provides a reconciliation of net income for the three months ended September 30, 2016 to net income for the three months ended September 30, 2017 (dollars in millions):



(1) Total non-interest expense increased \$82 million for the periods presented which includes \$58 million of losses on early extinguishment of debt.

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The significant components of the consolidated statement of income are as follows (dollars in millions except per share amounts):

	Three Months Ended September 30,		Variance 2017 vs. 2016		Nine Months Ended September 30,		Variance 2017 vs. 2016	
	2017	2016	Amount	%	2017	2016	Amount	%
Net interest income	\$ 391	\$ 287	\$ 104	36 %	\$ 1,066	\$ 860	\$ 206	24%
Total non-interest income	208	199	9	5 %	663	572	91	16%
Total net revenue	599	486	113	23 %	1,729	1,432	297	21%
Provision (benefit) for loan losses	(29)	(62)	33	(53)%	(142)	(131)	(11)	8%
Total non-interest expense	405	323	82	25 %	1,106	930	176	19%
Income before income tax expense	223	225	(2)	(1)%	765	633	132	21%
Income tax expense	76	86	(10)	(12)%	280	208	72	35%
Net income	\$ 147	\$ 139	\$ 8	6 %	\$ 485	\$ 425	\$ 60	14%
Preferred stock dividends	12	—	12	100 %	25	—	25	100%
Net income available to common shareholders	\$ 135	\$ 139	\$ (4)	(3)%	\$ 460	\$ 425	\$ 35	8%
Diluted earnings per common share	\$ 0.49	\$ 0.51	\$ (0.02)	(4)%	\$ 1.67	\$ 1.52	\$ 0.15	10%

Net income increased 6% to \$147 million and 14% to \$485 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. Net income available to common shareholders was \$135 million and \$460 million for the three and nine months ended September 30, 2017, respectively, which reflects payments of \$12 million and \$25 million in preferred stock dividends, respectively, compared to net income available to common shareholders of \$139 million and \$425 million during the same periods in 2016. The increase in net income for both periods in 2017 was driven by higher interest income due to a larger balance sheet and higher interest rates, as well as higher fees and service charges revenue. We recognized a benefit for loan losses of \$29 million and \$142 million for the three and nine months ended September 30, 2017, respectively, compared to \$62 million and \$131 million for the same periods in 2016. Net income for the three and nine months ended September 30, 2017 also included \$11 million and \$27 million, respectively, of pre-tax costs primarily incurred in connection with the OptionsHouse integration and preparation for the incremental regulatory and reporting requirements that our balance sheet growth requires, as well as pre-tax losses on early extinguishment of debt of \$58 million. Non-interest expense for the three and nine months ended September 30, 2017 also included higher advertising and market development expenses driven by our new advertising campaign, as well as increased communications expense. These expenses were partially offset by lower restructuring and acquisition-related activities and an income tax benefit related to the revaluation of certain net state deferred tax assets. Net income for the nine months ended September 30, 2016 included an income tax benefit related to the release of a valuation allowance against certain state deferred tax assets.

Net Revenue

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

	Three Months Ended September 30,		Variance 2017 vs. 2016		Nine Months Ended September 30,		Variance 2017 vs. 2016	
	2017	2016	Amount	%	2017	2016	Amount	%
Net interest income	\$ 391	\$ 287	\$ 104	36 %	\$ 1,066	\$ 860	\$ 206	24 %
Commissions	100	107	(7)	(7)%	332	320	12	4 %
Fees and service charges	92	68	24	35 %	276	188	88	47 %
Gains on securities and other, net	6	14	(8)	(57)%	23	34	(11)	(32)%
Other revenue	10	10	—	— %	32	30	2	7 %
Total non-interest income	208	199	9	5 %	663	572	91	16 %
Total net revenue	\$ 599	\$ 486	\$ 113	23 %	\$ 1,729	\$ 1,432	\$ 297	21 %

Net Interest Income

Net interest income increased 36% to \$391 million and 24% to \$1.1 billion for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. Net interest income is earned primarily through investment securities, margin receivables and our legacy mortgage and consumer loan portfolio, offset by funding costs.

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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,					
	2017			2016		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
Cash and equivalents	\$ 905	\$ 2	1.06%	\$ 1,989	\$ 2	0.42%
Cash required to be segregated under federal or other regulations	759	3	1.26%	1,885	2	0.33%
Available-for-sale securities	19,064	102	2.13%	13,301	66	1.99%
Held-to-maturity securities	22,162	153	2.77%	15,937	109	2.73%
Margin receivables	8,096	87	4.26%	6,479	60	3.68%
Loans ⁽¹⁾	3,024	37	4.95%	4,202	46	4.44%
Broker-related receivables and other	829	1	0.45%	696	—	0.13%
Subtotal interest-earning assets	54,839	385	2.80%	44,489	285	2.56%
Other interest revenue ⁽²⁾	—	28		—	24	
Total interest-earning assets	54,839	413	3.01%	44,489	309	2.77%
Total non-interest-earning assets ⁽³⁾	4,952			4,793		
Total assets	\$ 59,791			\$ 49,282		
Deposits	\$ 40,758	\$ 1	0.01%	\$ 32,285	\$ 1	0.01%
Customer payables	8,463	1	0.06%	7,592	2	0.06%
Broker-related payables and other	1,301	—	0.00%	1,258	—	0.00%
Other borrowings	831	6	2.91%	409	4	4.15%
Corporate debt	1,002	12	4.64%	993	13	5.40%
Subtotal interest-bearing liabilities	52,355	20	0.15%	42,537	20	0.19%
Other interest expense ⁽⁴⁾	—	2		—	2	
Total interest-bearing liabilities	52,355	22	0.17%	42,537	22	0.20%
Total non-interest-bearing liabilities	820			719		
Total liabilities	53,175			43,256		
Total shareholders' equity	6,616			6,026		
Total liabilities and shareholders' equity	\$ 59,791			\$ 49,282		
Excess interest earning assets over interest bearing liabilities/net interest income/net interest margin	\$ 2,484	\$ 391	2.85%	\$ 1,952	\$ 287	2.59%

(1) 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.

(2) Represents interest income on securities loaned.

(3) Non-interest earning assets consist of property and equipment, net, goodwill, other intangibles, net and other assets that do not generate interest income.

(4) Represents interest expense on securities borrowed.

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Nine Months Ended September 30,

	2017			2016		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
Cash and equivalents	\$ 1,045	\$ 6	0.83%	\$ 1,730	\$ 5	0.40%
Cash required to be segregated under federal or other regulations	1,263	9	0.90%	1,540	4	0.33%
Available-for-sale securities	17,958	282	2.09%	13,149	198	2.01%
Held-to-maturity securities	19,823	410	2.76%	14,993	319	2.84%
Margin receivables	7,383	228	4.12%	6,553	185	3.77%
Loans ⁽¹⁾	3,319	121	4.86%	4,505	146	4.33%
Broker-related receivables and other	1,029	2	0.24%	470	1	0.21%
Subtotal interest-earning assets	51,820	1,058	2.72%	42,940	858	2.67%
Other interest revenue ⁽²⁾	—	74		—	65	
Total interest-earning assets	51,820	1,132	2.91%	42,940	923	2.87%
Total non-interest-earning assets ⁽³⁾	5,051			4,882		
Total assets	<u>\$ 56,871</u>			<u>\$ 47,822</u>		
Deposits	\$ 37,862	\$ 3	0.01%	\$ 31,243	\$ 3	0.01%
Customer payables	8,611	4	0.06%	6,988	4	0.07%
Broker-related payables and other	1,233	—	0.00%	1,351	—	0.00%
Other borrowings	667	16	3.23%	418	13	4.23%
Corporate debt	996	39	5.14%	994	40	5.40%
Subtotal interest-bearing liabilities	49,369	62	0.17%	40,994	60	0.19%
Other interest expense ⁽⁴⁾	—	4		—	3	
Total interest-bearing liabilities	49,369	66	0.18%	40,994	63	0.20%
Total non-interest-bearing liabilities	1,033			1,010		
Total liabilities	50,402			42,004		
Total shareholders' equity	6,469			5,818		
Total liabilities and shareholders' equity	<u>\$ 56,871</u>			<u>\$ 47,822</u>		
Excess interest earning assets over interest bearing liabilities/net interest income/net interest margin	<u>\$ 2,451</u>	<u>\$ 1,066</u>	2.74%	<u>\$ 1,946</u>	<u>\$ 860</u>	2.67%

(1) 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.

(2) Represents interest income on securities loaned.

(3) Non-interest earning assets consist of property and equipment, net, goodwill, other intangibles, net and other assets that do not generate interest income.

(4) Represents interest expense on securities borrowed.

Average interest-earning assets increased 23% to \$54.8 billion and 21% to \$51.8 billion for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. 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 23% to \$52.4 billion and 20% to \$49.4 billion for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. The increase was primarily due to higher deposits as a result of transferring customer cash held by third parties to our balance sheet. For additional information on our balance sheet growth and customer cash held by third parties, see *Balance Sheet Overview*.

Net interest margin increased 26 basis points to 2.85% and 7 basis points to 2.74% for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. 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 increase during the three and nine months ended September 30, 2017, compared to the same period in 2016, is due to higher interest rates earned on increased margin receivable balances.

and higher securities lending activities, partially offset by the continued run-off of our higher yielding legacy mortgage and consumer loan portfolio.

Commissions

Commissions revenue decreased 7% to \$100 million and increased 4% to \$332 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. The main factors that affect commissions revenue are DARTs, average commission per trade and the number of trading days.

DARTs volume increased 35% to 205,763 and 32% to 207,065 for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016, mainly driven by the inclusion of OptionsHouse accounts and the strength of the equity markets. Derivative DARTs represented 32% and 31% of trading volume for the three and nine months ended September 30, 2017, respectively, compared to 26% and 25% of trading volume for the same periods in 2016.

Average commission per trade decreased 29% to \$7.76 and 21% to \$8.54 for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. Average commission per trade is impacted by customer mix and differing commission rates on various trade types (e.g. equities, derivatives, stock plan and mutual funds). Average commission per trade for the three and nine months ended September 30, 2017 was impacted by reduced commission rates implemented in March 2017 as well as the lower price structure for customer accounts associated with the OptionsHouse acquisition. We have also experienced increased trading activity from certain customers, qualifying them for lower commission rates due to our new active trader pricing. This increased engagement is a key driver behind the decrease in average commission per trade.

Fees and Service Charges

The components of fees and service charges and the resulting variances are as follows (dollars in millions):

	Three Months Ended September 30,		Variance 2017 vs. 2016		Nine Months Ended September 30,		Variance 2017 vs. 2016	
	2017	2016	Amount	%	2017	2016	Amount	%
Order flow revenue	\$ 33	\$ 24	\$ 9	38%	\$ 98	\$ 68	\$ 30	44%
Money market funds and sweep deposits revenue ⁽¹⁾	23	13	10	77%	71	31	40	129%
Mutual fund service fees	10	9	1	11%	29	27	2	7%
Advisor management fees	9	8	1	13%	26	21	5	24%
Foreign exchange revenue	6	6	—	—%	20	15	5	33%
Reorganization fees	5	4	1	25%	13	11	2	18%
Other fees and service charges	6	4	2	50%	19	15	4	27%
Total fees and service charges	<u>\$ 92</u>	<u>\$ 68</u>	<u>\$ 24</u>	<u>35%</u>	<u>\$ 276</u>	<u>\$ 188</u>	<u>\$ 88</u>	<u>47%</u>

(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.

Fees and service charges increased 35% to \$92 million and 47% to \$276 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. The increase in fees and service charges was largely driven by an increase in revenue earned on customer cash held by third parties, which was impacted by a higher interest rate environment, partially offset by lower average balances. The gross yield on customer cash held by third parties for the three and nine months ended September 30, 2017 of approximately 120 and 85 basis points compares to approximately 45 and 40 basis

points for the same periods in 2016. In addition, fees and service charges benefited from increased order flow revenue resulting primarily from higher options trading activity and improved rates.

Gains on Securities and Other, Net

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

	Three Months Ended September 30,		Variance 2017 vs. 2016		Nine Months Ended September 30,		Variance 2017 vs. 2016	
	2017	2016	Amount	%	2017	2016	Amount	%
Gains on available-for-sale securities	\$ 7	\$ 17	\$ (10)	(59)%	\$ 25	\$ 46	\$ (21)	(46)%
Hedge ineffectiveness	(2)	(4)	2	(50)%	(5)	(8)	3	(38)%
Equity method investment income (loss) and other	1	1	—	— %	3	(4)	7	(175)%
Gains on securities and other, net	\$ 6	\$ 14	\$ (8)	(57)%	\$ 23	\$ 34	\$ (11)	(32)%

Provision (Benefit) for Loan Losses

We recognized a benefit for loan losses of \$29 million and \$142 million for the three and nine months ended September 30, 2017, respectively, compared to a benefit of \$62 million and \$131 million for the same periods in 2016. The timing and magnitude of the provision (benefit) for loan losses is affected by many factors that could result in variability. These benefits reflected better than expected performance of our portfolio as well as recoveries in excess of prior estimates, including recoveries of previous charge-offs. The benefit for loan losses for the nine months ended September 30, 2017 also reflected approximately \$70 million of benefit recognized in the second quarter of 2017 resulting from refined default assumptions based on the sustained outperformance of converted mortgage loans that had been amortizing for 12 months or longer. For additional information on management's estimate of the allowance for loan losses, see *Concentrations of Credit Risk* and *Summary of Critical Accounting Policies and Estimates*.

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		Nine Months Ended September 30,		Variance	
			2017 vs. 2016				2017 vs. 2016	
	2017	2016	Amount	%	2017	2016	Amount	%
Compensation and benefits	\$ 139	\$ 123	\$ 16	13 %	\$ 408	\$ 374	\$ 34	9 %
Advertising and market development	38	27	11	41 %	123	100	23	23 %
Clearing and servicing	29	26	3	12 %	94	75	19	25 %
Professional services	25	26	(1)	(4)%	71	70	1	1 %
Occupancy and equipment	28	24	4	17 %	84	71	13	18 %
Communications	29	22	7	32 %	90	65	25	38 %
Depreciation and amortization	20	20	—	— %	60	60	—	— %
FDIC insurance premiums	8	6	2	33 %	24	18	6	33 %
Amortization of other intangibles	9	5	4	80 %	27	15	12	80 %
Restructuring and acquisition-related activities	4	25	(21)	(84)%	12	28	(16)	(57)%
Losses on early extinguishment of debt	58	—	58	100 %	58	—	58	100 %
Other non-interest expenses	18	19	(1)	(5)%	55	54	1	2 %
Total non-interest expense	<u>\$ 405</u>	<u>\$ 323</u>	<u>\$ 82</u>	25 %	<u>\$ 1,106</u>	<u>\$ 930</u>	<u>\$ 176</u>	19 %

Compensation and Benefits

Compensation and benefits expense increased 13% to \$139 million and 9% to \$408 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. The increase was primarily driven by increased incentive compensation during the three and nine months ended September 30, 2017.

Advertising and Market Development

Advertising and market development expense increased 41% to \$38 million and 23% to \$123 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. The increase was primarily due to higher spending as we launched our new advertising campaign during the three months ended June 30, 2017.

Clearing and Servicing

Clearing and servicing expense increased 12% to \$29 million and 25% to \$94 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. The increase was primarily related to higher trading volume compared to the same periods in 2016.

Communications

Communications expense increased 32% to \$29 million and 38% to \$90 million for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. The increase was primarily driven by increased market data fees resulting from higher trading activity. Additionally, during the three months ended June 30, 2017, we updated our accrual estimate for professional users of real time market data and recognized \$9 million related to previous usage.

Restructuring and Acquisition-Related Activities

Restructuring and acquisition-related activities were \$4 million and \$12 million for the three and nine months ended September 30, 2017, respectively, compared to \$25 million and \$28 million the same periods in 2016. 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 related to the realignment of our core brokerage business and \$7 million of acquisition related expense from the OptionsHouse acquisition.

Losses on Early Extinguishment of Debt

Losses on early extinguishment of debt were \$58 million for both the three and nine months ended September 30, 2017. During the third quarter of 2017, we issued \$600 million of 2.95% Senior Notes and \$400 million of 3.80% Senior Notes and used the net proceeds, along with existing corporate cash, to redeem our outstanding \$540 million of 5.375% Senior Notes and \$460 million of 4.625% Senior Notes, which resulted in a \$58 million loss on early extinguishment of debt.

Operating Margin

Operating margin was 37% and 44% for the three and nine months ended September 30, 2017, respectively, compared to 46% and 44% for the same periods in 2016. Adjusted operating margin, a non-GAAP measure, was 42% and 39% the three and nine months ended September 30, 2017, respectively, compared to 34% and 35% for the same periods in 2016.

Adjusted operating margin is a non-GAAP measure calculated by dividing adjusted income before income tax expense by total net revenue. Adjusted income before income tax expense excludes the provision (benefit) for loan losses and losses on early extinguishment of debt. 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,			
	2017		2016		2017		2016	
	Amount	Operating Margin %	Amount	Operating Margin %	Amount	Operating Margin %	Amount	Operating Margin %
Income before income tax expense / operating margin	\$ 223	37%	\$ 225	46%	\$ 765	44%	\$ 633	44%
Add back impact of pre-tax items:								
Provision (benefit) for loan losses	(29)		(62)		(142)		(131)	
Losses on early extinguishment of debt	58		—		58		—	
Subtotal	29		(62)		(84)		(131)	
Adjusted income before income tax expense / adjusted operating margin	\$ 252	42%	\$ 163	34%	\$ 681	39%	\$ 502	35%

Income Tax Expense

Income tax expense was \$76 million and \$280 million for the three and nine months ended September 30, 2017, respectively, compared to \$86 million and \$208 million for the same periods in 2016. The effective tax rates were 34% and 37% for the three and nine months ended September 30, 2017, respectively, compared to 38% and 33% for the same periods in 2016.

The effective tax rates of 34% and 37% for the three and nine months ended September 30, 2017, respectively, include tax benefits related to the revaluation of certain net state deferred tax assets and to the adoption of amended accounting guidance for employee share-based compensation. See Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies for additional information on the adoption of the amended accounting guidance. The effective tax rate of 33% for the nine months ended September 30, 2016 was impacted by a tax benefit related to the release of valuation allowances against certain state deferred tax assets.

BALANCE SHEET OVERVIEW

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

	September 30, 2017	December 31, 2016	Variance 2017 vs. 2016	
			Amount	%
Assets:				
Cash and equivalents	\$ 896	\$ 1,950	\$ (1,054)	(54)%
Segregated cash	696	1,460	(764)	(52)%
Securities ⁽¹⁾	42,093	29,643	12,450	42 %
Margin receivables	8,535	6,731	1,804	27 %
Loans receivable, net	2,838	3,551	(713)	(20)%
Receivables from brokers, dealers and clearing organizations ⁽²⁾	1,108	1,056	52	5 %
Goodwill and other intangibles, net	2,664	2,690	(26)	(1)%
Deferred tax assets, net	416	756	(340)	(45)%
Other ⁽³⁾	1,129	1,162	(33)	(3)%
Total assets	\$ 60,375	\$ 48,999	\$ 11,376	23 %
Liabilities and shareholders' equity:				
Deposits	\$ 41,543	\$ 31,682	\$ 9,861	31 %
Customer payables	8,716	8,159	557	7 %
Payables to brokers, dealers and clearing organizations ⁽⁴⁾	1,392	983	409	42 %
Other borrowings	609	409	200	49 %
Corporate debt	991	994	(3)	— %
Other liabilities	476	500	(24)	(5)%
Total liabilities	53,727	42,727	11,000	26 %
Shareholders' equity	6,648	6,272	376	6 %
Total liabilities and shareholders' equity	\$ 60,375	\$ 48,999	\$ 11,376	23 %

(1) Includes balance sheet line items available-for-sale and held-to-maturity securities.

(2) Includes deposits paid for securities borrowed of \$484 million and \$774 million as of September 30, 2017 and December 31, 2016, respectively.

(3) Includes balance sheet line items property and equipment, net and other assets.

(4) Includes deposits received for securities loaned of \$1.3 billion and \$926 million as of September 30, 2017 and December 31, 2016, respectively.

Cash and Equivalents

Cash and equivalents decreased 54% to \$896 million during the nine months ended September 30, 2017 and includes corporate cash of \$309 million as of September 30, 2017. Cash and equivalents will fluctuate based on a variety of factors, including, among other drivers, liquidity needs at the parent, customer activity at our regulated subsidiaries, and the timing of investments at E*TRADE Bank. For additional information on our use of cash and equivalents, including corporate cash, see *Liquidity and Capital Resources*.

Segregated Cash

Cash required to be segregated under federal or other regulations decreased 52% to \$696 million during the nine months ended September 30, 2017. The level of segregated cash is driven largely by customer payables and securities lending balances we hold as liabilities compared with 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. At

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September 30, 2017 and December 31, 2016, \$800 million and \$500 million, respectively, of reverse repurchase agreements between E*TRADE Securities and E*TRADE Bank, representing investments that were segregated under federal or other regulations by E*TRADE Securities, were eliminated in consolidation.

Securities

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

	September 30, 2017	December 31, 2016	Variance 2017 vs. 2016	
			Amount	%
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities	\$ 17,663	\$ 12,634	\$ 5,029	40%
Other debt securities	1,503	1,251	252	20%
Total debt securities	19,166	13,885	5,281	38%
Publicly traded equity securities ⁽¹⁾	7	7	—	—%
Total available-for-sale securities	\$ 19,173	\$ 13,892	\$ 5,281	38%
Held-to-maturity securities:				
Agency mortgage-backed securities	\$ 19,850	\$ 12,868	\$ 6,982	54%
Other debt securities	3,070	2,883	187	6%
Total held-to-maturity securities	\$ 22,920	\$ 15,751	\$ 7,169	46%
Total investments in securities	\$ 42,093	\$ 29,643	\$ 12,450	42%

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

Securities represented 70% and 60% of total assets at September 30, 2017 and December 31, 2016, 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, 2017 was primarily due to net purchases as a result of our efforts to grow the balance sheet by transferring customer cash held by third parties to our balance sheet.

Margin Receivables

Margin receivables increased 27% to \$8.5 billion during the nine months ended September 30, 2017. The increase in margin receivables was primarily driven by improved market sentiment increasing demand for additional margin lending. During the three months ended September 30, 2017, we also transferred \$0.4 billion of customer margin balances held by a third party clearing firm to E*TRADE Securities in connection with the integration of OptionsHouse.

Loans Receivable, Net

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

	September 30, 2017	December 31, 2016	Variance 2017 vs. 2016	
			Amount	%
One- to four-family	\$ 1,531	\$ 1,950	\$ (419)	(21)%
Home equity	1,197	1,556	(359)	(23)%
Consumer and other	192	250	(58)	(23)%
Total loans receivable	2,920	3,756	(836)	(22)%
Unamortized premiums, net	12	16	(4)	(25)%
Allowance for loan losses	(94)	(221)	127	(57)%
Total loans receivable, net	\$ 2,838	\$ 3,551	\$ (713)	(20)%

Loans receivable, net decreased 20% to \$2.8 billion during the nine months ended September 30, 2017. During the three months ended June 30, 2017 the Company sold certain loans with a carrying value of \$41 million for proceeds that approximated book value. We expect the remaining legacy mortgage and consumer loan portfolio to continue its run-off for the foreseeable future. As our portfolio has seasoned and substantially all interest-only loans have converted to amortizing, we continue to assess underlying performance, the economic environment, and the value of the 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* and *Summary of Critical Accounting Policies and Estimates*.

In the third quarter of 2017 we introduced a securities-based lending product, where customers can borrow up to 50% of the market value of securities pledged as collateral. Activity for these loans is reflected as consumer and other within loans receivable, net and related disclosures.

Deposits

Deposits are summarized as follows (dollars in millions):

	September 30, 2017	December 31, 2016	Variance 2017 vs. 2016	
			Amount	%
Sweep deposits	\$ 36,507	\$ 26,362	\$ 10,145	38 %
Savings deposits	3,011	3,185	(174)	(5)%
Other deposits	2,025	2,135	(110)	(5)%
Total deposits	\$ 41,543	\$ 31,682	\$ 9,861	31 %

Deposits represented 77% and 74% of total liabilities at September 30, 2017 and December 31, 2016, respectively. At September 30, 2017, approximately 92% of our customer deposits were covered by FDIC insurance. Deposits increased \$9.9 billion during the nine months ended September 30, 2017 primarily as a result of transferring customer cash held by third parties to our balance sheet.

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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, 2017	December 31, 2016	Variance 2017 vs. 2016	
			Amount	%
Sweep deposits ⁽¹⁾	\$ 36,507	\$ 26,362	\$ 10,145	38 %
Customer payables	8,716	8,159	557	7 %
Subtotal	45,223	34,521	10,702	31 %
Customer cash held by third parties ⁽²⁾	7,076	16,848	(9,772)	(58)%
Total brokerage related cash	<u>\$ 52,299</u>	<u>\$ 51,369</u>	<u>\$ 930</u>	<u>2 %</u>

(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 maintained at unaffiliated financial institutions outside E*TRADE Financial and includes money market funds and sweep deposit accounts. Prior to September 30, 2017, customer cash held by third parties also included OptionsHouse customer cash held by a third party clearing firm. These balances were transferred to E*TRADE Securities during the three months ended September 30, 2017, in connection with the integration of OptionsHouse. Customer cash held by third parties is not reflected on our consolidated balance sheet and is 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, 2017, approximately 99% of sweep deposits were in the ESDA program.

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, 2017	December 31, 2016	Variance 2017 vs. 2016	
			Amount	%
Sweep deposits held by unaffiliated financial institutions	\$ 6,360	\$ 14,943	\$ (8,583)	(57)%
Customer cash held by third party clearing firm ⁽¹⁾	—	1,634	(1,634)	(100)%
Municipal funds and other	716	271	445	164 %
Customer cash held by third parties	<u>\$ 7,076</u>	<u>\$ 16,848</u>	<u>\$ (9,772)</u>	<u>(58)%</u>

(1) Represents OptionsHouse customer cash held by a third party clearing firm that was transferred to E*TRADE Securities during the three months ended September 30, 2017 in connection with the integration of OptionsHouse.

As of September 30, 2017, approximately \$3.4 billion of customer cash held by third parties was available for balance sheet growth. The timing of our balance sheet growth will be impacted by a variety of factors, including the capital requirements applicable to both the Company and E*TRADE Bank.

Other Borrowings

Other borrowings are summarized as follows (dollars in millions):

	September 30, 2017	December 31, 2016	Variance 2017 vs. 2016	
			Amount	%
FHLB advances	\$ 200	\$ —	\$ 200	100%
Trust preferred securities	409	409	—	—%
Total other borrowings	<u>\$ 609</u>	<u>\$ 409</u>	<u>\$ 200</u>	<u>49%</u>

Other borrowings increased 49% to \$609 million during the nine months ended September 30, 2017 as we utilized Federal Home Loan Bank (FHLB) advances for short-term liquidity and funding requirements. See *Liquidity and Capital Resources* for additional information on liquidity and funding sources at E*TRADE Bank.

LIQUIDITY AND CAPITAL RESOURCES

We have established liquidity and capital policies to support the successful execution of our business strategy, while maintaining ongoing and sufficient liquidity through the business cycle. We believe liquidity is of critical importance to the Company and especially important for 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.

Liquidity

Our corporate liquidity needs are primarily driven by capital needs at E*TRADE Bank and E*TRADE Securities 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. Potential loans by E*TRADE Bank to the parent company and its other non-bank subsidiaries are subject to various quantitative, arm's length, collateralization, capital and other requirements.

Parent Company Liquidity

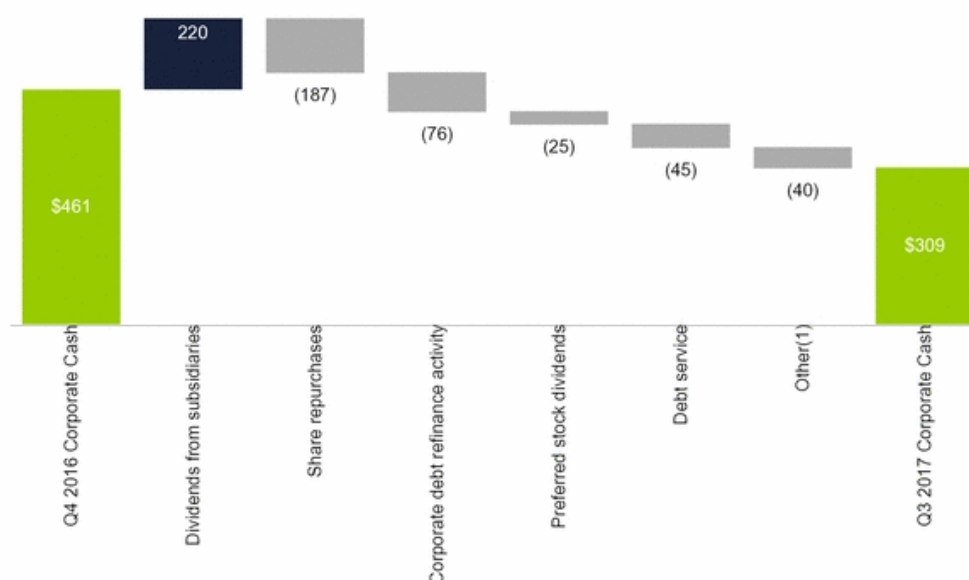
The parent company's primary source of liquidity is corporate cash. Corporate cash, a non-GAAP measure, is a component of cash and equivalents; see the consolidated statement of cash flows within *Item 1. Condensed Consolidated Financial Statements (Unaudited)* for information on cash and equivalents activity. We define corporate cash as cash held at the parent company and subsidiaries, excluding bank, broker-dealer, and futures commission merchant (FCM) subsidiaries that require regulatory approval or notification prior to the payment of certain dividends to the parent company.

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:

- Dividends from subsidiaries
- Non-cumulative preferred stock dividends
- Share repurchases
- Debt service costs
- Acquisitions and investments
- Tax payments and the reimbursement from the parent company's subsidiaries for the use of its deferred tax assets
- Other overhead and expense reimbursements through cost sharing arrangements

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The following chart provides a roll forward of corporate cash at December 31, 2016 to corporate cash at September 30, 2017 (dollars in millions):



(1) Other activity includes contributions to subsidiaries and parent company overhead, offset by reimbursements from subsidiaries for use of the parent's deferred tax assets and related proceeds under overhead cost sharing arrangements.

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

	September 30, 2017	December 31, 2016	September 30, 2016
Consolidated cash and equivalents	\$ 896	\$ 1,950	\$ 1,467
Less: Cash at regulated subsidiaries ⁽¹⁾	(587)	(1,489)	(1,161)
Corporate cash	<u>\$ 309</u>	<u>\$ 461</u>	<u>\$ 306</u>

(1) Reported net of corporate cash on deposit at E*TRADE Bank that is eliminated in consolidation.

Corporate cash decreased \$152 million to \$309 million during the nine months ended September 30, 2017. Corporate cash included dividends of \$220 million from E*TRADE Securities to the parent company during the nine months ended September 30, 2017. Corporate cash also included the impact of share repurchases, corporate debt refinance activity, preferred stock dividends, debt service, overhead cost sharing arrangements between the parent and our operating subsidiaries, and the impact of annual incentive compensation payments in the nine months ended September 30, 2017.

During the three and nine months ended September 30, 2017, we used \$76 million of corporate cash along with the net proceeds from the issuance of \$1 billion of senior notes, to redeem our higher cost corporate debt, and to pay the associated redemption premiums, accrued and unpaid interest and related fees and expenses. This transaction decreased our annual corporate debt service costs from \$50 million to \$33 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 under this methodology is approximately \$66 million; however, we are currently targeting \$200 million in corporate cash for future periods. Our nearest maturity of interest-bearing corporate debt is August 2022.

On June 23, 2017, we entered into an unsecured committed revolving credit facility with certain lenders, which replaced our previous secured committed revolving credit facility entered into in November 2014 and increased our total borrowing capacity under the facility to \$300 million. The Company has the ability to borrow against the credit facility for working capital and general corporate purposes. The unsecured committed revolving credit facility will mature on June 23, 2020. At September 30, 2017, there was no outstanding balance under this revolving credit facility.

On October 19, 2017, we announced an agreement to acquire TCA for \$275 million in cash. We anticipate funding the transaction through the issuance of non-cumulative perpetual preferred stock. Based on this structure, we do not expect the acquisition to impact our ability to maintain a 6.5% Tier 1 leverage ratio.

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, 2017 increased \$10.1 billion compared to December 31, 2016. 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 of Richmond's discount window to meet short-term liquidity requirements, although it is not viewed as a primary source of funding. At September 30, 2017, E*TRADE Bank had approximately \$5.1 billion and \$0.9 billion in additional collateralized borrowing capacity with the FHLB and the Federal Reserve Bank of Richmond, respectively.

E*TRADE Securities Liquidity

E*TRADE Securities relies on customer payables, securities lending, and internal and external lines of credit to provide liquidity and to fund margin lending. At September 30, 2017, E*TRADE Securities' external liquidity lines totaled approximately \$1.1 billion and included the following:

- A 364-day, \$450 million senior unsecured committed revolving credit facility with a syndicate of banks, with a maturity date of June 2018 and a commitment fee of 0.35% on unused balances
- Secured committed lines of credit with two unaffiliated banks, aggregating to \$175 million, with a maturity date of June 2018 and a commitment fee of 0.15% on unused balances
- Unsecured uncommitted lines of credit with two unaffiliated banks, aggregating to \$75 million, of which \$50 million matures in June 2018 and the remaining line has no maturity date
- 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 Securities' minimum consolidated tangible net worth and regulatory net capital ratio. There were

no outstanding balances for any of these lines at September 30, 2017. E*TRADE Securities also maintains lines of credit with the parent company and E*TRADE Bank.

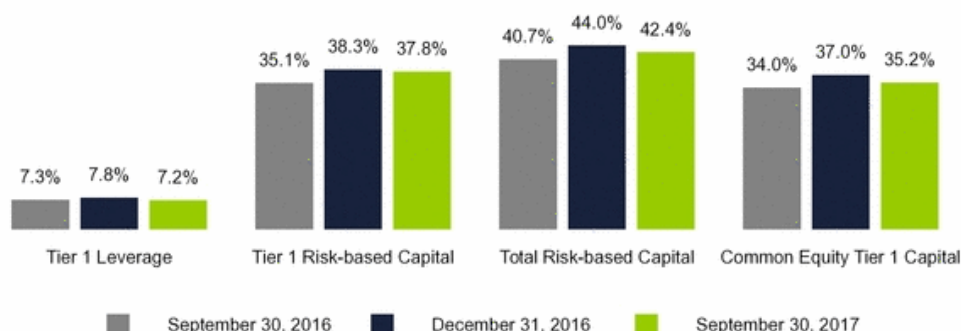
Liquidity Coverage Ratio

As a result of the Company's balance sheet growth, we will be subject to the modified liquidity coverage ratio (LCR) requirement beginning April 1, 2018. The purpose of the LCR is to require banking organizations to hold minimum amounts of high-quality liquid assets (HQLA) based on a percentage of their net cash outflows over a 30-day period. Bank and savings and loan holding companies with total consolidated assets of \$50 billion or more, based on the average of the four most recent quarters, are subject to a modified LCR requiring them to hold HQLA in an amount equal to at least 70% of their projected net cash outflows over a 30-day period. The Company believes the LCR is an important measure of liquidity and has been managing against it in preparation for the applicability of these requirements. In addition, beginning October 1, 2018, we will be required to disclose certain quantitative and qualitative information related to our LCR calculation after each calendar quarter.

Capital Resources

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 regulatory capital requirements. Some of these requirements are still subject to phase-in periods, including certain deductions from and adjustments to regulatory capital. These requirements are currently scheduled to be fully implemented in 2018, though proposed rulemaking may impact the phase-in periods or certain deductions. For additional information on bank regulatory requirements and phase-in periods, see *Overview—Regulatory Developments* as well as *Part I. Item 1. Business—Regulation* in our Annual Report on Form 10-K for the year ended December 31, 2016. At September 30, 2017, our regulatory capital ratios for E*TRADE Financial were well above the minimum ratios required to be "well capitalized." E*TRADE Financial's current Tier 1 Leverage ratio threshold of 6.5% was reduced from 7.0% in July 2017. E*TRADE Financial's capital ratios are as follows:



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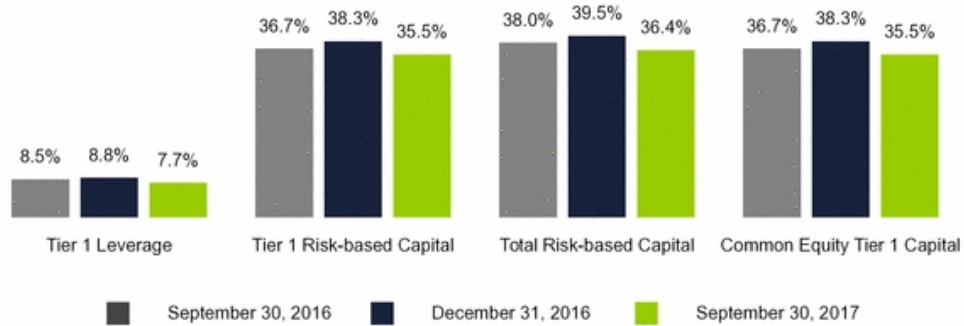
E*TRADE Financial's capital ratios are calculated as follows (dollars in millions):

	September 30, 2017	December 31, 2016	September 30, 2016
E*TRADE Financial shareholders' equity	\$ 6,648	\$ 6,272	\$ 6,316
Deduct:			
Preferred stock	(394)	(394)	(394)
E*TRADE Financial Common Equity Tier 1 capital before regulatory adjustments	\$ 6,254	\$ 5,878	\$ 5,922
Add:			
(Gains) losses in other comprehensive income on available-for-sale debt securities, net of tax	50	139	(37)
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(2,014)	(2,029)	(2,043)
Disallowed deferred tax assets	(472)	(505)	(556)
E*TRADE Financial Common Equity Tier 1 capital	3,818	3,483	3,286
Add:			
Preferred stock	394	394	394
Deduct:			
Disallowed deferred tax assets	(112)	(267)	(284)
E*TRADE Financial Tier 1 capital	\$ 4,100	\$ 3,610	\$ 3,396
Add:			
Allowable allowance for loan losses	94	124	128
Non-qualifying capital instruments subject to phase-out (trust preferred securities)	414	414	414
E*TRADE Financial total capital	\$ 4,608	\$ 4,148	\$ 3,938
E*TRADE Financial average assets for leverage capital purposes	\$ 59,835	\$ 49,113	\$ 49,240
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(2,014)	(2,029)	(2,043)
Disallowed deferred tax assets	(584)	(772)	(840)
E*TRADE Financial adjusted average assets for leverage capital purposes	\$ 57,237	\$ 46,312	\$ 46,357
E*TRADE Financial total risk-weighted assets ⁽¹⁾	\$ 10,855	\$ 9,422	\$ 9,678
E*TRADE Financial Tier 1 leverage ratio ⁽²⁾ (Tier 1 capital / Adjusted average assets for leverage capital purposes)	7.2%	7.8%	7.3%
E*TRADE Financial Common Equity Tier 1 capital / Total risk-weighted assets	35.2%	37.0%	34.0%
E*TRADE Financial Tier 1 capital / Total risk-weighted assets	37.8%	38.3%	35.1%
E*TRADE Financial total capital / Total risk-weighted assets	42.4%	44.0%	40.7%

(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.

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At September 30, 2017, our regulatory capital ratios for E*TRADE Bank were well above the minimum ratios required to be "well capitalized." E*TRADE Bank's current Tier 1 Leverage ratio threshold is 7.5%. We plan to use excess capital at E*TRADE Bank to grow the balance sheet. Accordingly, at current capital thresholds, we do not expect to distribute dividends from E*TRADE Bank to the parent while we fund that growth. E*TRADE Bank's capital ratios are as follows:



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E*TRADE Bank's capital ratios are calculated as follows (dollars in millions):

	September 30, 2017	December 31, 2016	September 30, 2016
E*TRADE Bank shareholder's equity	\$ 3,608	\$ 3,153	\$ 3,278
Add:			
(Gains) losses in other comprehensive income on available-for-sale debt securities, net of tax	50	139	(37)
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(38)	(38)	(38)
Disallowed deferred tax assets	(56)	(122)	(134)
E*TRADE Bank Common Equity Tier 1 capital / Tier 1 capital	3,564	3,132	3,069
Add:			
Allowable allowance for loan losses	94	105	107
E*TRADE Bank total capital	\$ 3,658	\$ 3,237	\$ 3,176
E*TRADE Bank average assets for leverage capital purposes	\$ 46,562	\$ 35,885	\$ 36,300
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(38)	(38)	(38)
Disallowed deferred tax assets	(56)	(122)	(134)
E*TRADE Bank adjusted average assets for leverage capital purposes	\$ 46,468	\$ 35,725	\$ 36,128
E*TRADE Bank total risk-weighted assets ⁽¹⁾	\$ 10,044	\$ 8,187	\$ 8,368
E*TRADE Bank Tier 1 leverage ratio (Tier 1 capital / Adjusted average assets for leverage capital purposes)	7.7%	8.8%	8.5%
E*TRADE Bank Common Equity Tier 1 capital / Total risk-weighted assets	35.5%	38.3%	36.7%
E*TRADE Bank Tier 1 capital / Total risk-weighted assets	35.5%	38.3%	36.7%
E*TRADE Bank total capital / Total risk-weighted assets	36.4%	39.5%	38.0%

(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 and FCM Capital Requirements

Our broker-dealer and FCM subsidiaries are subject to capital requirements determined by their respective regulators. At September 30, 2017, these subsidiaries met their minimum net capital requirements. We continue to assess our ability to distribute excess net capital to the parent while maintaining adequate capital at the broker-dealer and FCM subsidiaries. E*TRADE Securities paid dividends of \$220 million to the parent company during the nine months ended September 30, 2017. For additional information on our broker-dealer and FCM capital requirements, see *Note 13—Regulatory Requirements*.

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 *Note 14—Commitments, Contingencies and Other Regulatory Matters*.

RISK MANAGEMENT

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 is designed to comply with applicable requirements and requires regular reporting on metrics and significant risks and exposures to senior management and the Board of Directors.

We face the following key types of risks: credit, interest rate, liquidity, market, operational, information security, strategic, reputational, legal, as well as regulatory and compliance. 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 described in further detail within *Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K for the year ended December 31, 2016.

In August 2017, the RAS was updated and approved by the Board to include Data Management Risk—the risk of impairment to or loss of data assets through ineffective governance over the creation, usage, quality, inventory, storage, security and disposal of data assets.

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, 2016.

CONCENTRATIONS OF CREDIT RISK

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its credit obligations. Our loan portfolio represents our most significant credit risk exposure. See *Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K for the year ended December 31, 2016 for additional information on our management of credit risk.

One- to Four-Family Interest-Only Loans

One- to four-family loans include loans with a five to ten year interest-only period, followed by an amortizing period ranging from 20 to 25 years. At September 30, 2017, over 99% of the loans were amortizing and the portfolio will be fully converted in 2018.

Home Equity Loans

The home equity loan portfolio consists of home equity installment loans (HEILs) and home equity lines of credit (HELOCs) and is primarily second lien loans on residential real estate properties that have a higher level of credit risk than first lien mortgage loans. HEILs 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 had an interest only draw period at origination and converted to amortizing loans at the end of the draw period, which typically ranged from five to ten years. At September 30, 2017, 1% of the HELOC portfolio had not converted from the interest-only draw period and will be fully converted in 2019.

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 comparative data for nonperforming loans and assets at September 30, 2017 and December 31, 2016 (dollars in millions):

	September 30, 2017	December 31, 2016
One- to four-family	\$ 196	\$ 215
Home equity	109	136
Consumer and other	—	1
Total nonperforming loans receivable	305	352
Real estate owned and other repossessed assets, net	28	36
Total nonperforming assets, net	\$ 333	\$ 388

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, 2017 and December 31, 2016 (dollars in millions):

	One- to Four-Family		Home Equity		Consumer and other		Total	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
General reserve:								
Quantitative component	\$ 12	\$ 34	\$ 33	\$ 118	\$ 3	\$ 5	\$ 48	\$ 157
Qualitative component	3	4	6	2	1	—	10	6
Specific valuation allowance	6	7	30	51	—	—	36	58
Total allowance for loan losses	\$ 21	\$ 45	\$ 69	\$ 171	\$ 4	\$ 5	\$ 94	\$ 221
Allowance as a % of loans receivable ⁽¹⁾	1.4%	2.3%	5.8%	11.0%	2.0%	1.9%	3.2%	5.8%

(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 \$0.7 billion during the nine months ended September 30, 2017. The allowance for loan losses was \$94 million, or 3.2% of total loans receivable, as of September 30, 2017 compared to \$221 million, or 5.8% of total loans receivable, as of December 31, 2016. The benefit for loan losses of \$142 million for the nine months ended September 30, 2017 reflected approximately \$70 million of benefit recognized in the second quarter of 2017 resulting from refined default assumptions based on the sustained outperformance of converted mortgage loans that had been amortizing for 12 months or longer.

Net recoveries for the nine months ended September 30, 2017 were \$15 million compared to \$13 million in the same period in 2016. The timing and magnitude of charge-offs and recoveries are affected by many factors and we anticipate variability from quarter to quarter.

For additional information on the loans portfolio and management's estimate of the allowance for loan losses, see *Note 6—Loans Receivable, Net* and *Summary of Critical Accounting Policies and Estimates*.

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, 2017. The amortized cost of these securities accounted for over 99% of our total securities portfolio at September 30, 2017. 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, 2017, all municipal bonds in our securities portfolio were rated investment grade (defined as a rating equivalent to a Moody's rating of "Baa3" or higher, or an 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, 2016, 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; valuation and impairment of goodwill and acquired intangible assets; and estimates of effective tax rates, deferred taxes and valuation allowance. Changes in these estimates or assumptions could materially impact our financial condition and results of operations, and actual results could differ from our estimates. With respect to the allowance for loan losses, we refined our default assumptions during the second quarter of 2017 based on the sustained outperformance of loans that reached the end of their interest-only period. Our remaining critical accounting 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, 2016.

Allowance for Loan Losses

Description

The allowance for loan losses is management's estimate of probable losses inherent in the loan portfolio as of the balance sheet date. In determining the adequacy of the allowance, we perform ongoing evaluations of the loan portfolio and loss forecasting assumptions. As of September 30, 2017, the allowance for loan losses was \$94 million on \$2.9 billion of total gross loans receivable designated as held-for-investment.

Judgments

Determining the adequacy of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in future periods. For loans that are not TDRs, we establish a general allowance and evaluate the adequacy of the allowance for loan losses by loan portfolio segment: one- to four-family, home equity and consumer. For modified loans accounted for as TDRs that are valued using the discounted cash flow model, we establish a specific allowance by forecasting losses, including economic concessions to borrowers, over the estimated remaining life of these loans.

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The estimate of the allowance for loan losses continues to be based on a variety of quantitative and qualitative factors, including:

- The composition and quality of the portfolio
- Delinquency levels and trends
- Current and historical charge-off and loss experience
- Our historical loss mitigation experience
- The condition of the real estate market and geographic concentrations within the loan portfolio
- The interest rate climate
- The overall availability of housing credit
- General economic conditions, including the impact of weather-related events

Total loans receivable designated as held-for-investment decreased \$0.7 billion during the nine months ended September 30, 2017. The allowance for loan losses was \$94 million, or 3.2% of total loans receivable, as of September 30, 2017 compared to \$221 million, or 5.8% of total loans receivable, as of December 31, 2016. The benefit for loan losses was \$29 million and \$142 million for the three and nine months ended September 30, 2017, respectively.

The allowance for loan losses is typically equal to management's forecast of loan losses in the 18 months following 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 quantitative allowance methodology also includes the identification of higher risk mortgage loans and the period of loan losses captured within the general allowance includes the total probable loss over the remaining life of these loans. As mortgage loan conversions from interest-only to amortizing have continued, 99% of HELOCs and over 99% of one- to four-family mortgages had converted at September 30, 2017.

During the second quarter of 2017, management refined the default assumptions in the quantitative allowance methodology based on the sustained outperformance of converted mortgage loans that had been amortizing for 12 months or longer. At the time of this refinement, more than 50% of these converted loans had been amortizing 12 months or longer. This actual performance data was better than our prior performance assumptions, and combined with the substantial performance history, the uncertainty with respect to the population of converting loans had significantly decreased as of June 30, 2017. This refinement resulted in approximately \$70 million of benefit for loan losses during the second quarter of 2017. In order to refine our default assumptions around the remaining population that had not yet started amortizing or that had not reached 12 months post conversion, we evaluated whether the credit quality and performance of these loans was consistent with the seasoned amortizing portfolio. We determined that FICO scores, LTV/CLTVs and delinquency rates were comparable to the seasoned portfolio, and therefore applied the refined default assumptions to this remaining population.

The general allowance for loan losses also included 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. We utilize a qualitative factor framework whereby, on a quarterly basis, management assesses the risk associated with three primary sets of factors: external factors, internal factors, and portfolio specific factors. The uncertainty related to these factors may expand over time, temporarily increasing the qualitative component in advance of the more precise identification of these probable losses being captured within the quantitative component of the general allowance. The total qualitative component was \$10 million and \$6 million as of September 30, 2017 and December 31, 2016, respectively.

Effects if Actual Results Differ

It is difficult to estimate how potential changes in the quantitative and qualitative factors, including the impact of loans converting from interest only to amortizing, might impact the allowance for loan losses. Our underlying assumptions and judgments could prove to be inaccurate, which could materially impact our regulatory capital position and results of operations in future periods.

During the normal course of conducting examinations, our banking regulators, the OCC and Federal Reserve, continue to review our business and practices. This process is dynamic and ongoing and we cannot be certain that additional changes or actions will not result from their continuing review.

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, 2016.

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 to help manage exposures 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, 2017, 93% of our total assets were interest-earning assets and we had no securities classified as trading.

At September 30, 2017, approximately 67% 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 Company 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, both of which 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 7—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 Company 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. The change in 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, which considers prepayment estimates, in the Company's residential loan and mortgage-backed securities portfolios.

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, 2017 and December 31, 2016 is as follows (dollars in millions):

Instantaneous Parallel Change in Interest Rates (basis points) ⁽¹⁾	Economic Value of Equity				Earnings-at-Risk			
	September 30, 2017		December 31, 2016		September 30, 2017		December 31, 2016	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
+200	\$ (205)	(2.6)%	\$ (129)	(2.1)%	\$ 207	13.4 %	\$ 169	13.9 %
+100	\$ 95	1.2 %	\$ 59	0.9 %	\$ 142	9.2 %	\$ 109	9.0 %
-50	\$ (203)	(2.6)%	\$ (106)	(1.7)%	\$ (96)	(6.2)%	\$ (73)	(6.0)%

(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

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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 notified of the exception and the planned resolution. At September 30, 2017, the EVE and EAR percentage changes were within our Board limits.

KEY 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, the Export-Import Bank and the Federal Home Loan Bank.

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.

Basel III—Global regulatory standards for bank capital adequacy and liquidity as issued by the international Basel Committee on Banking Supervision.

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.

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 ratio.

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

Consolidated financial statements—Refers to the consolidated financial statements prepared in accordance with GAAP as included in the Company's annual report on Form 10-K, and the condensed consolidated financial statements included in the Company's interim reports on Form 10-Q.

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, sweep and other deposits, customer cash held by third parties, customer payables and vested unexercised stock plan holdings.

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 which includes one or more underlying securities, notional amounts, or payment provisions. The contract generally requires no initial net investment and is settled on a net basis.

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

Earnings at Risk (EAR)—The sensitivity of GAAP net interest income 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 sensitivity of the value of existing assets and liabilities, including derivatives and forward commitments, to changes in interest rates. It is a long-term measurement of interest rate risk and requires assumptions that include prepayment rates on the loan portfolio and mortgage-backed securities and the repricing of deposits.

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—Federal Reserve System, including the Federal Reserve Board of Governors and the twelve regional Federal Reserve Banks.

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).

HEIL—Home equity installment loan.

HELOC—Home equity lines of credit.

HQLA—High-quality liquid assets.

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

Interest-earning assets—Assets such as available-for-sale securities, held-to-maturity securities, margin receivables, loans, 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 amounts.

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LCR—Liquidity coverage ratio. The purpose of LCR is to require banking organizations to hold minimum amounts of HQLA based on a percentage of their net cash outflows over a 30-day period.

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 ratio.

NASDAQ—National Association of Securities Dealers Automated Quotations.

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-earning assets. Net interest margin is calculated for a given period by dividing the annualized sum of net interest income by average interest-earning 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.

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.

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—Represents cash proceeds received on a loan that had been previously charged off.

Repurchase agreement—An agreement giving the transferor of an asset the right or obligation to repurchase the same or similar securities at a specified price on a given date from the transferee. These agreements are generally collateralized by mortgage-backed or investment-grade securities. From the transferee's perspective the arrangement is referred to as a reverse repurchase agreement.

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

S&P—Standard & Poor's.

SEC—U.S. Securities and Exchange Commission.

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

TCA—Trust Company of America, Inc.

Tier 1 capital—Adjusted equity capital used in the calculation of capital adequacy ratios. Tier 1 capital equals: Common Equity Tier 1 capital plus qualifying preferred stock and related surplus, subject to certain 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 repurchase agreements and FHLB advances.

PART I - FINANCIAL INFORMATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue:				
Interest income	\$ 413	\$ 309	\$ 1,132	\$ 923
Interest expense	(22)	(22)	(66)	(63)
Net interest income	391	287	1,066	860
Commissions	100	107	332	320
Fees and service charges	92	68	276	188
Gains on securities and other, net	6	14	23	34
Other revenue	10	10	32	30
Total non-interest income	208	199	663	572
Total net revenue	599	486	1,729	1,432
Provision (benefit) for loan losses	(29)	(62)	(142)	(131)
Non-interest expense:				
Compensation and benefits	139	123	408	374
Advertising and market development	38	27	123	100
Clearing and servicing	29	26	94	75
Professional services	25	26	71	70
Occupancy and equipment	28	24	84	71
Communications	29	22	90	65
Depreciation and amortization	20	20	60	60
FDIC insurance premiums	8	6	24	18
Amortization of other intangibles	9	5	27	15
Restructuring and acquisition-related activities	4	25	12	28
Losses on early extinguishment of debt	58	—	58	—
Other non-interest expenses	18	19	55	54
Total non-interest expense	405	323	1,106	930
Income before income tax expense	223	225	765	633
Income tax expense	76	86	280	208
Net income	\$ 147	\$ 139	\$ 485	\$ 425
Preferred stock dividends	12	—	25	—
Net income available to common shareholders	\$ 135	\$ 139	\$ 460	\$ 425
Basic earnings per common share	\$ 0.49	\$ 0.51	\$ 1.67	\$ 1.53
Diluted earnings per common share	\$ 0.49	\$ 0.51	\$ 1.67	\$ 1.52
Shares used in computation of per common share data:				
Basic (in thousands)	273,441	274,362	274,565	278,864
Diluted (in thousands)	274,594	275,472	275,703	280,136

See accompanying notes to the condensed consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 147	\$ 139	\$ 485	\$ 425
Other comprehensive income, net of tax				
Available-for-sale securities:				
Unrealized gains, net	16	3	104	166
Reclassification into earnings, net	(4)	(10)	(15)	(28)
Net change from available-for-sale securities	12	(7)	89	138
Reclassification of foreign currency translation gains	—	—	(2)	—
Other comprehensive income	12	(7)	87	138
Comprehensive income	\$ 159	\$ 132	\$ 572	\$ 563

See accompanying notes to the condensed consolidated financial statements

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

	September 30, 2017	December 31, 2016
<u>ASSETS</u>		
Cash and equivalents	\$ 896	\$ 1,950
Cash required to be segregated under federal or other regulations	696	1,460
Available-for-sale securities	19,173	13,892
Held-to-maturity securities (fair value of \$22,963 and \$15,716 at September 30, 2017 and December 31, 2016, respectively)	22,920	15,751
Margin receivables	8,535	6,731
Loans receivable, net (net of allowance for loan losses of \$94 million and \$221 million at September 30, 2017 and December 31, 2016, respectively)	2,838	3,551
Receivables from brokers, dealers and clearing organizations	1,108	1,056
Property and equipment, net	250	239
Goodwill	2,370	2,370
Other intangibles, net	294	320
Deferred tax assets, net	416	756
Other assets	879	923
Total assets	<u>\$ 60,375</u>	<u>\$ 48,999</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Deposits	\$ 41,543	\$ 31,682
Customer payables	8,716	8,159
Payables to brokers, dealers and clearing organizations	1,392	983
Other borrowings	609	409
Corporate debt	991	994
Other liabilities	476	500
Total liabilities	<u>53,727</u>	<u>42,727</u>
Commitments and contingencies (see Note 14)		
Shareholders' equity:		
Preferred stock, \$0.01 par value, \$1,000 liquidation preference, shares authorized: 1,000,000 at September 30, 2017 and December 31, 2016; shares issued and outstanding: 400,000 at both September 30, 2017 and December 31, 2016	394	394
Common stock, \$0.01 par value, shares authorized: 400,000,000 at September 30, 2017 and December 31, 2016; shares issued and outstanding: 270,688,918 and 273,963,415 at September 30, 2017 and December 31, 2016, respectively	3	3
Additional paid-in-capital	6,747	6,921
Accumulated deficit	(446)	(909)
Accumulated other comprehensive loss	(50)	(137)
Total shareholders' equity	<u>6,648</u>	<u>6,272</u>
Total liabilities and shareholders' equity	<u>\$ 60,375</u>	<u>\$ 48,999</u>

See accompanying notes to the condensed consolidated financial statements

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

	Preferred Stock	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Amount	Shares	Amount				
Balance at December 31, 2016	\$ 394	274	\$ 3	\$ 6,921	\$ (909)	\$ (137)	\$ 6,272
Cumulative effect of accounting change	—	—	—	—	3	—	3
Net income	—	—	—	—	485	—	485
Other comprehensive income	—	—	—	—	—	87	87
Conversion of convertible debentures	—	—	—	3	—	—	3
Preferred stock dividends	—	—	—	—	(25)	—	(25)
Repurchases of common stock	—	(5)	—	(187)	—	—	(187)
Issuance of common stock for share-based compensation, net of shares withheld to pay taxes	—	2	—	(22)	—	—	(22)
Share-based compensation	—	—	—	32	—	—	32
Balance at September 30, 2017	<u>\$ 394</u>	<u>271</u>	<u>\$ 3</u>	<u>\$ 6,747</u>	<u>\$ (446)</u>	<u>\$ (50)</u>	<u>\$ 6,648</u>

	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 common stock for share-based compensation, net of shares withheld to pay taxes	—	1	—	(17)	—	—	(17)
Share-based compensation	—	—	—	21	—	—	21
Balance at September 30, 2016	<u>\$ 394</u>	<u>274</u>	<u>\$ 3</u>	<u>\$ 6,916</u>	<u>\$ (1,036)</u>	<u>\$ 39</u>	<u>\$ 6,316</u>

See accompanying notes to the condensed consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 485	\$ 425
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (benefit) for loan losses	(142)	(131)
Depreciation and amortization (including discount amortization and accretion)	192	174
Gains on securities and other, net	(23)	(34)
Losses on early extinguishment of debt	9	—
Share-based compensation	32	21
Deferred tax expense	288	190
Other	(5)	(4)
Net effect of changes in assets and liabilities:		
Decrease (increase) in cash required to be segregated under federal or other regulations	764	(1,101)
Increase in receivables from brokers, dealers and clearing organizations	(63)	(591)
(Increase) decrease in margin receivables	(1,804)	846
(Increase) decrease in other assets	(16)	27
Increase (decrease) in payables to brokers, dealers and clearing organizations	409	(349)
Increase in customer payables	557	1,283
Decrease in other liabilities	(25)	(11)
Net cash provided by operating activities	<u>658</u>	<u>745</u>
Cash flows from investing activities:		
Purchases of available-for-sale securities	(7,520)	(4,490)
Proceeds from sales of available-for-sale securities	1,238	2,494
Proceeds from maturities of and principal payments on available-for-sale securities	1,146	1,111
Purchases of held-to-maturity securities	(9,087)	(4,221)
Proceeds from maturities of and principal payments on held-to-maturity securities	1,881	1,476
Proceeds from sale of loans	40	—
Decrease in loans receivable	793	888
Capital expenditures for property and equipment	(77)	(51)
Proceeds from sale of real estate owned and repossessed assets	25	15
Acquisition of OptionsHouse, net of cash acquired	—	(723)
Net cash flow from derivative contracts	54	(107)
Other	(23)	3
Net cash used in investing activities	<u>(11,530)</u>	<u>(3,605)</u>

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS—(Continued)
(In millions)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from financing activities:		
Increase in deposits	\$ 9,861	\$ 2,252
Preferred stock dividends	(25)	—
Net decrease in securities sold under agreements to repurchase	—	(82)
Advances from FHLB	1,150	—
Payments on advances from FHLB	(950)	—
Proceeds from issuance of senior notes	999	—
Payments on senior notes	(1,000)	—
Proceeds from issuance of preferred stock	—	400
Repurchases of common stock	(187)	(452)
Other	(30)	(24)
Net cash provided by financing activities	<u>9,818</u>	<u>2,094</u>
Decrease in cash and equivalents	(1,054)	(766)
Cash and equivalents, beginning of period	1,950	2,233
Cash and equivalents, end of period	<u>\$ 896</u>	<u>\$ 1,467</u>
Supplemental disclosures:		
Cash paid for interest ⁽¹⁾	\$ 117	\$ 58
Cash paid for income taxes, net of refunds	\$ 6	\$ 6
Non-cash investing and financing activities:		
Transfers of loans held-for-investment to loans held-for-sale	\$ 40	\$ —
Transfers from loans to other real estate owned and repossessed assets	\$ 23	\$ 23
Conversion of convertible debentures to common stock	\$ 3	\$ 5
Transfer of available-for-sale securities to held-to-maturity securities	\$ —	\$ 492

(1) Includes early redemption premium of \$49 million paid in connection with corporate debt refinancing during the nine months ended September 30, 2017

See accompanying notes to the condensed consolidated financial statements

E*TRADE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED 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 condensed consolidated financial statements, also referred to herein as 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. 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 consolidated financial statements do not include any consolidated VIEs for all periods presented.

The Company's consolidated financial statements are prepared in accordance with GAAP. Intercompany accounts and transactions are eliminated in consolidation. These financial statements reflect all adjustments, which are 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, 2016. While certain disclosures included in annual financial statements prepared in accordance with GAAP have been omitted in this quarterly report, the Company believes that the information and disclosures presented herein are adequate and that such disclosures are not misleading.

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; valuation and impairment of goodwill and acquired intangible assets; and estimates of effective tax rates, deferred taxes and valuation allowance.

Adoption of New Accounting Standards

Accounting for Employee Share-Based Payments

In March 2016, the FASB amended the accounting guidance on employee share-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 consolidated statement of income; 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 them as they occur. The Company adopted the amended accounting guidance as of January 1, 2017 and recognized a \$3 million deferred tax asset and cumulative-effect adjustment to equity as of the beginning of the period. In addition, for the nine months ended September 30, 2016 the Company reclassified \$17 million related to shares withheld to pay taxes from cash flows from operating activities to the other line item within cash flows from financing activities. Forfeitures will continue to be estimated consistent with the Company's prior accounting policies. The impact to the Company's financial condition, results of operations and cash flows will vary based on, among other factors, the market price of the Company's common stock. During the nine months ended September 30, 2017 the Company recognized an \$8 million income tax benefit in accordance with the new guidance.

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 Company's accounting for net interest income is not expected to be impacted by the new standard. The FASB issued supplemental amendments to the new standard to clarify certain accounting guidance and provide narrow scope improvements and practical expedients during 2016. The amended guidance will be effective for annual and interim periods beginning on January 1, 2018 and may be applied on either a full retrospective or modified retrospective basis. Based on the Company's analysis to date, this adoption is not expected to have a material impact on the Company's financial condition, results of operations or cash flows as the satisfaction of performance obligations under the new guidance is expected to be materially consistent with the Company's existing revenue recognition policies. Similarly, the amended guidance is not expected to have a material impact on the recognition of costs incurred to obtain new contracts. The Company is in process of completing its evaluation of the new guidance, including considerations relating to financial statement presentation, disclosures and controls. The Company intends to apply the guidance on a modified retrospective basis.

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, 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. The adoption is not expected to have a material impact on the Company's financial condition, results of operations or cash flows as debt securities represent the majority of the Company's investment portfolio.

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 quantitative and qualitative disclosures that provide information about the amounts related to leasing arrangements recorded in the consolidated financial statements. The new guidance will be effective for interim and annual periods beginning on January 1, 2019, 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 in the process of evaluating the new accounting guidance, which includes the assessment of whether certain executory contracts contain embedded leases. The Company has 30 regional branches and 10 corporate locations which are leased. The right of use asset and corresponding lease liability for these leases will be recognized on the Company's balance sheet upon adoption.

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. 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. The Company does not expect the amended accounting guidance to have as significant of an impact as it could have if the Company were originating or purchasing loans. Our evaluation is contemplating the recent performance of the Company's run-off legacy mortgage and consumer loan portfolio and the credit profile of the current investment securities portfolio; however, the impact of the new guidance will depend on the current and expected macroeconomic conditions and the nature and characteristics of financial assets held by us on the date of adoption.

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 consolidated 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, and must be applied using a retrospective transition method to each period presented. Among other changes, the Company expects to begin classifying debt extinguishment costs within cash flows from financing activities.

Classification of Restricted Cash

In November 2016, the FASB amended the guidance on the presentation and classification of changes in restricted cash in the consolidated statement of cash flows to eliminate current diversity in practice. The amended guidance requires the consolidated statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. The Company expects to begin presenting segregated cash activity on the consolidated statement of cash flows. The guidance will be effective for interim and annual periods beginning January 1, 2018, and must be applied using a retrospective transition method to each period presented.

Clarifying the Definition of a Business

In January 2017, the FASB issued guidance to clarify the definition of a business in order to assist companies in the evaluation of whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amended guidance also removes the existing evaluation of a market participant's ability to replace missing elements and narrows the definition of output to achieve consistency with other topics. The guidance will be effective for interim and annual periods beginning January 1, 2018, and must be applied prospectively.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued guidance to simplify the test for goodwill impairment by eliminating Step 2 from the goodwill impairment test. The amended guidance requires the Company to perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized at the amount by which the carrying amount exceeds the fair value of the reporting unit; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Income tax effects resulting from any tax deductible goodwill should be considered when measuring the goodwill impairment loss, if applicable. The Company will still have the option to perform a qualitative assessment to conclude whether it is more likely than not that the carrying amount of the Company exceeds its fair value. The guidance will be effective for interim and annual periods beginning January 1, 2020, and must be applied prospectively. Early adoption is permitted.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued guidance to amend the amortization period for certain purchased callable debt securities held at a premium. The amended guidance shortens the amortization period for certain callable debt securities held at a premium by requiring the premium to be amortized to the earliest call date. The guidance does not amend the accounting for securities held at a discount. The guidance will be effective for interim and annual periods beginning January 1, 2019, and must be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Early adoption is permitted. Based on the current composition of the Company's securities portfolio, the new guidance is not expected to have a significant impact on the Company's financial condition or results of operations.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued guidance to update the recognition and presentation of hedging relationships. Among other changes, the new guidance eases hedge documentation requirements and allows additional types of accounting hedges. In addition, the guidance provides a one-time transition election to transfer certain debt securities from held-to-maturity to available-for-sale. The guidance will be effective for interim and annual periods beginning January 1, 2019, and must be applied on a modified retrospective basis through a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the fiscal year of adoption. Early adoption is permitted. The Company is in process of evaluating the new guidance, including adoption timing, which could be as early as January 1, 2018.

NOTE 2—INTEREST INCOME AND INTEREST EXPENSE

The following table shows the components of interest income and interest expense (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income:				
Cash and equivalents	\$ 2	\$ 2	\$ 6	\$ 5
Cash required to be segregated under federal or other regulations	3	2	9	4
Available-for-sale securities	102	66	282	198
Held-to-maturity securities	153	109	410	319
Margin receivables	87	60	228	185
Loans	37	46	121	146
Broker-related receivables and other	1	—	2	1
Subtotal interest income	385	285	1,058	858
Other interest revenue ⁽¹⁾	28	24	74	65
Total interest income	413	309	1,132	923
Interest expense:				
Deposits	(1)	(1)	(3)	(3)
Customer payables	(1)	(2)	(4)	(4)
Other borrowings	(6)	(4)	(16)	(13)
Corporate debt	(12)	(13)	(39)	(40)
Subtotal interest expense	(20)	(20)	(62)	(60)
Other interest expense ⁽²⁾	(2)	(2)	(4)	(3)
Total interest expense	(22)	(22)	(66)	(63)
Net interest income	\$ 391	\$ 287	\$ 1,066	\$ 860

(1) Represents interest income on securities loaned.

(2) Represents interest expense on securities borrowed.

NOTE 3—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 for similar assets and liabilities in an active market, 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 comprised of agency mortgage-backed securities which are guaranteed by U.S. government sponsored enterprises and federal agencies. The fair value of agency mortgage-backed securities was determined using a market approach with quoted market prices, recent transactions and spread data for identical or similar instruments. Agency mortgage-backed securities 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.

All of the Company's municipal bonds were rated investment grade at September 30, 2017. 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 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 valuation data obtained is significantly different from the valuation previously received, the Company reviews additional property valuation data to corroborate or update the valuation. 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. Recoveries of previously charged-off amounts are recognized within the allowance for loan losses when received.

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, 2017 and December 31, 2016:

	Unobservable Inputs		Average	Range
September 30, 2017				
Loans receivable:				
One- to four-family	Appraised value	\$	470,600	\$40,500-\$1,200,000
Home equity	Appraised value	\$	327,800	\$30,000-\$2,200,000
Real estate owned	Appraised value	\$	363,700	\$13,500-\$2,200,000
December 31, 2016				
Loans receivable:				
One- to four-family	Appraised value	\$	408,100	\$50,000-\$1,490,000
Home equity	Appraised value	\$	312,000	\$6,000-\$2,500,000
Real estate owned	Appraised value	\$	342,300	\$21,500-\$1,800,000

Recurring and Nonrecurring Fair Value Measurements

Assets and liabilities measured at fair value at September 30, 2017 and December 31, 2016 are summarized in the following tables (dollars in millions):

	Level 1	Level 2	Level 3	Total Fair Value
September 30, 2017:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities	\$ —	\$ 17,663	\$ —	\$ 17,663
Agency debentures	—	989	—	989
U.S. Treasuries	—	450	—	450
Agency debt securities	—	33	—	33
Municipal bonds	—	31	—	31
Total debt securities	—	19,166	—	19,166
Publicly traded equity securities	7	—	—	7
Total available-for-sale securities	7	19,166	—	19,173
Receivables from brokers, dealers and clearing organizations:				
U.S. Treasuries	200	—	—	200
Other assets:				
Derivative assets ⁽¹⁾	—	92	—	92
Total assets measured at fair value on a recurring basis ⁽²⁾	\$ 207	\$ 19,258	\$ —	\$ 19,465
Liabilities				
Other liabilities:				
Derivative liabilities ⁽¹⁾	\$ —	\$ 37	\$ —	\$ 37
Total liabilities measured at fair value on a recurring basis ⁽²⁾	\$ —	\$ 37	\$ —	\$ 37
Nonrecurring fair value measurements:				
Loans receivable, net:				
One- to four-family	\$ —	\$ —	\$ 19	\$ 19
Home equity	—	—	18	18
Total loans receivable	—	—	37	37
Other assets:				
Real estate owned	—	—	23	23
Total assets measured at fair value on a nonrecurring basis ⁽³⁾	\$ —	\$ —	\$ 60	\$ 60

(1) All derivative assets and liabilities were interest rate contracts at September 30, 2017. Information related to derivative instruments is detailed in *Note 7—Derivative Instruments and Hedging Activities*.

(2) Assets and liabilities measured at fair value on a recurring basis represented 32% and less than 1% of the Company's total assets and total liabilities, respectively, at September 30, 2017.

(3) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at September 30, 2017, and for which a fair value measurement was recorded during the period.

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2016:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities	\$ —	\$ 12,634	\$ —	\$ 12,634
Agency debentures	—	788	—	788
U.S. Treasuries	—	407	—	407
Agency debt securities	—	24	—	24
Municipal bonds	—	32	—	32
Total debt securities	—	13,885	—	13,885
Publicly traded equity securities	7	—	—	7
Total available-for-sale securities	7	13,885	—	13,892
Other assets:				
Derivative assets ⁽¹⁾	—	165	—	165
Total assets measured at fair value on a recurring basis ⁽²⁾	\$ 7	\$ 14,050	\$ —	\$ 14,057
Liabilities				
Other liabilities:				
Derivative liabilities ⁽¹⁾	\$ —	\$ 31	\$ —	\$ 31
Total liabilities measured at fair value on a recurring basis ⁽²⁾	\$ —	\$ 31	\$ —	\$ 31
Nonrecurring fair value measurements:				
Loans receivable, net:				
One- to four-family	\$ —	\$ —	\$ 25	\$ 25
Home equity	—	—	21	21
Total loans receivable	—	—	46	46
Other assets:				
Real estate owned	—	—	35	35
Total assets measured at fair value on a nonrecurring basis ⁽³⁾	\$ —	\$ —	\$ 81	\$ 81

(1) All derivative assets and liabilities were interest rate contracts at December 31, 2016. Information related to derivative instruments is detailed in *Note 7—Derivative Instruments and Hedging Activities*.

(2) Assets and liabilities measured at fair value on a recurring basis represented 29% and less than 1% of the Company's total assets and total liabilities, respectively, at December 31, 2016.

(3) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at December 31, 2016, and for which a fair value measurement was recorded during the period.

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The following table presents gains and losses recognized on assets measured at fair value on a nonrecurring basis during the three and nine months ended September 30, 2017 and 2016 (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
One- to four-family	\$ 1	\$ 1	\$ 3	\$ 3
Home equity	—	2	3	9
Total losses on loans receivable measured at fair value	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 6</u>	<u>\$ 12</u>
Gains on real estate owned measured at fair value	\$ (1)	\$ (1)	\$ (1)	\$ —

Transfers Between Levels 1, 2 and 3

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 levels during the nine months ended September 30, 2017 and 2016.

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, 2017 and December 31, 2016 (dollars in millions):

	September 30, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	\$ 896	\$ 896	\$ —	\$ —	\$ 896
Cash required to be segregated under federal or other regulations	\$ 696	\$ 696	\$ —	\$ —	\$ 696
Held-to-maturity securities:					
Agency mortgage-backed securities	\$ 19,850	\$ —	\$ 19,893	\$ —	\$ 19,893
Agency debentures	400	—	398	—	398
Agency debt securities	2,658	—	2,660	—	2,660
Other	12	—	—	12	12
Total held-to-maturity securities	<u>\$ 22,920</u>	<u>\$ —</u>	<u>\$ 22,951</u>	<u>\$ 12</u>	<u>\$ 22,963</u>
Margin receivables ⁽¹⁾	\$ 8,535	\$ —	\$ 8,535	\$ —	\$ 8,535
Loans receivable, net:					
One- to four-family	\$ 1,520	\$ —	\$ —	\$ 1,576	\$ 1,576
Home equity	1,127	—	—	1,133	1,133
Consumer and other	191	—	—	193	193
Total loans receivable, net ⁽²⁾	<u>\$ 2,838</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,902</u>	<u>\$ 2,902</u>
Receivables from brokers, dealers and clearing organizations ⁽¹⁾	\$ 908	\$ —	\$ 908	\$ —	\$ 908
Liabilities					
Deposits	\$ 41,543	\$ —	\$ 41,543	\$ —	\$ 41,543
Customer payables	\$ 8,716	\$ —	\$ 8,716	\$ —	\$ 8,716
Payables to brokers, dealers and clearing organizations	\$ 1,392	\$ —	\$ 1,392	\$ —	\$ 1,392
Other borrowings:					
FHLB advances	\$ 200	\$ —	\$ 200	\$ —	\$ 200
Trust preferred securities	\$ 409	\$ —	\$ —	\$ 315	\$ 315
Total other borrowings	<u>\$ 609</u>	<u>\$ —</u>	<u>\$ 200</u>	<u>\$ 315</u>	<u>\$ 515</u>
Corporate debt	\$ 991	\$ —	\$ 1,004	\$ —	\$ 1,004

- (1) 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 \$11.9 billion at September 30, 2017. Of this amount, \$3.1 billion had been pledged or sold in connection with securities loaned and deposits with clearing organizations at September 30, 2017.
- (2) The carrying value of loans receivable, net includes the allowance for loan losses of \$94 million and loans that are recorded at fair value on a nonrecurring basis at September 30, 2017.

	December 31, 2016				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	\$ 1,950	\$ 1,950	\$ —	\$ —	\$ 1,950
Cash required to be segregated under federal or other regulations	\$ 1,460	\$ 1,460	\$ —	\$ —	\$ 1,460
Held-to-maturity securities:					
Agency mortgage-backed securities	\$ 12,868	\$ —	\$ 12,839	\$ —	\$ 12,839
Agency debentures	29	—	29	—	29
Agency debt securities	2,854	—	2,848	—	2,848
Total held-to-maturity securities	<u>\$ 15,751</u>	<u>\$ —</u>	<u>\$ 15,716</u>	<u>\$ —</u>	<u>\$ 15,716</u>
Margin receivables ⁽¹⁾	\$ 6,731	\$ —	\$ 6,731	\$ —	\$ 6,731
Loans receivable, net:					
One- to four-family	\$ 1,918	\$ —	\$ —	\$ 1,942	\$ 1,942
Home equity	1,385	—	—	1,311	1,311
Consumer and other	248	—	—	249	249
Total loans receivable, net ⁽²⁾	<u>\$ 3,551</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,502</u>	<u>\$ 3,502</u>
Receivables from brokers, dealers and clearing organizations	\$ 1,056	\$ —	\$ 1,056	\$ —	\$ 1,056
Liabilities					
Deposits	\$ 31,682	\$ —	\$ 31,681	\$ —	\$ 31,681
Customer Payables	\$ 8,159	\$ —	\$ 8,159	\$ —	\$ 8,159
Payables to brokers, dealers and clearing organizations	\$ 983	\$ —	\$ 983	\$ —	\$ 983
Trust preferred securities	\$ 409	\$ —	\$ —	\$ 288	\$ 288
Corporate debt	\$ 994	\$ —	\$ 1,050	\$ —	\$ 1,050

(1) 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 \$9.8 billion at December 31, 2016. Of this amount, \$2.0 billion had been pledged or sold in connection with securities loaned and deposits with clearing organizations at December 31, 2016.

(2) The carrying value of loans receivable, net includes the allowance for loan losses of \$221 million and loans that are recorded at fair value on a nonrecurring basis at December 31, 2016.

The fair value measurement techniques for financial instruments not carried at fair value on the consolidated balance sheet at September 30, 2017 and December 31, 2016 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, agency debentures, agency debt securities, and other debt securities. The fair value of held-to-maturity securities is determined consistently with the pricing of available-for-sale securities described above.

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—For certificates of deposit, fair value is estimated using a discounted cash flow model. For the remainder of deposits, fair value is the amount payable on demand at the reporting date.

FHLB advances—Fair value for FHLB advances 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.

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 ten years. Information related to such commitments and contingent liabilities is included in *Note 14—Commitments, Contingencies and Other Regulatory Matters*.

NOTE 4—OFFSETTING ASSETS AND LIABILITIES

For financial statement purposes, the Company does not offset derivative instruments 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 consolidated financial statements to evaluate the potential effect of rights of set-off between these recognized assets and liabilities at September 30, 2017 and December 31, 2016 (dollars in millions):

	Gross Amounts Not Offset in the Consolidated Balance Sheet					
	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet ⁽¹⁾	Financial Instruments	Collateral Received or Pledged (Including Cash)	Net Amount
September 30, 2017						
Assets:						
Deposits paid for securities borrowed ⁽²⁾	\$ 484	\$ —	\$ 484	\$ (200)	\$ (273)	\$ 11
Total	\$ 484	\$ —	\$ 484	\$ (200)	\$ (273)	\$ 11
Liabilities:						
Deposits received for securities loaned ⁽³⁾	\$ 1,348	\$ —	\$ 1,348	\$ (200)	\$ (1,049)	\$ 99
Derivative liabilities ⁽⁴⁾⁽⁵⁾	7	—	7	—	(7)	—
Total	\$ 1,355	\$ —	\$ 1,355	\$ (200)	\$ (1,056)	\$ 99
December 31, 2016						
Assets:						
Deposits paid for securities borrowed ⁽²⁾	\$ 774	\$ —	\$ 774	\$ (192)	\$ (560)	\$ 22
Total	\$ 774	\$ —	\$ 774	\$ (192)	\$ (560)	\$ 22
Liabilities:						
Deposits received for securities loaned ⁽³⁾	\$ 926	\$ —	\$ 926	\$ (192)	\$ (661)	\$ 73
Derivative liabilities ⁽⁴⁾⁽⁵⁾	6	—	6	—	(6)	—
Total	\$ 932	\$ —	\$ 932	\$ (192)	\$ (667)	\$ 73

(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. Net amount of deposits received for securities loaned and derivative liabilities are reflected in the payables to brokers, dealers and clearing organizations and other liabilities line items in the consolidated balance sheet, respectively.

(2) Included in the gross amounts of deposits paid for securities borrowed was \$257 million and \$307 million at September 30, 2017 and December 31, 2016, 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.

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- (3) Included in the gross amounts of deposits received for securities loaned was \$801 million and \$546 million at September 30, 2017 and December 31, 2016, 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.
- (4) Excludes net accrued interest payable of \$1 million at September 30, 2017 and \$2 million at December 31, 2016, respectively.
- (5) Collateral pledged included held-to-maturity securities at amortized cost at both September 30, 2017 and December 31, 2016.

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. Securities borrowing transactions require the Company to deposit cash with the lender whereas securities lending transactions result in the Company receiving collateral in the form of cash, with both requiring cash in an amount generally in excess of the market value of the securities. These 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.

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, 2017 and December 31, 2016, the Company had \$92 million and \$165 million, respectively, of cleared derivative contract assets. At September 30, 2017 and December 31, 2016, the Company had \$30 million and \$25 million, respectively, of cleared derivative contract liabilities.

In January 2017, a clearing organization through which the Company executes certain of its derivative contracts amended its rulebook to legally characterize variation margin payments as settlements of the derivatives' exposure rather than collateral against the exposure. For these contracts, amounts exchanged with counterparties are reflected as a reduction of the related derivative assets or liabilities, including accrued interest, on the consolidated balance sheet. At September 30, 2017, the Company had derivative assets and liabilities of \$10 million and \$20 million, respectively, excluding accrued interest, that were settled by variation margin payments and are therefore excluded from the table above.

NOTE 5—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, 2017 and December 31, 2016 are shown in the following tables (dollars in millions):

	Amortized Cost	Gross Unrealized / Unrecognized Gains	Gross Unrealized / Unrecognized Losses	Fair Value
September 30, 2017:				
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities	\$ 17,809	\$ 59	\$ (205)	\$ 17,663
Agency debentures	969	34	(14)	989
U.S. Treasuries	452	6	(8)	450
Agency debt securities	34	—	(1)	33
Municipal bonds	31	—	—	31
Total debt securities	19,295	99	(228)	19,166
Publicly traded equity securities ⁽¹⁾	7	—	—	7
Total available-for-sale securities	<u>\$ 19,302</u>	<u>\$ 99</u>	<u>\$ (228)</u>	<u>\$ 19,173</u>
Held-to-maturity securities:				
Agency mortgage-backed securities	\$ 19,850	\$ 155	\$ (112)	\$ 19,893
Agency debentures	400	—	(2)	398
Agency debt securities	2,658	24	(22)	2,660
Other	12	—	—	12
Total held-to-maturity securities	<u>\$ 22,920</u>	<u>\$ 179</u>	<u>\$ (136)</u>	<u>\$ 22,963</u>
December 31, 2016:				
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities	\$ 12,946	\$ 24	\$ (336)	\$ 12,634
Agency debentures	791	18	(21)	788
U.S. Treasuries	452	—	(45)	407
Agency debt securities	25	—	(1)	24
Municipal bonds	32	—	—	32
Total debt securities	14,246	42	(403)	13,885
Publicly traded equity securities ⁽¹⁾	7	—	—	7
Total available-for-sale securities	<u>\$ 14,253</u>	<u>\$ 42</u>	<u>\$ (403)</u>	<u>\$ 13,892</u>
Held-to-maturity securities:				
Agency mortgage-backed securities	\$ 12,868	\$ 123	\$ (152)	\$ 12,839
Agency debentures	29	—	—	29
Agency debt securities	2,854	26	(32)	2,848
Total held-to-maturity securities	<u>\$ 15,751</u>	<u>\$ 149</u>	<u>\$ (184)</u>	<u>\$ 15,716</u>

(1) 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, 2017 are shown in the following table (dollars in millions):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Available-for-sale debt securities:		
Due within one year	\$ 4	\$ 4
Due within one to five years	121	118
Due within five to ten years	7,473	7,418
Due after ten years	11,697	11,626
Total available-for-sale debt securities	<u>\$ 19,295</u>	<u>\$ 19,166</u>
Held-to-maturity debt securities:		
Due within one year	\$ 214	\$ 214
Due within one to five years	1,880	1,913
Due within five to ten years	5,418	5,432
Due after ten years	15,408	15,404
Total held-to-maturity debt securities	<u>\$ 22,920</u>	<u>\$ 22,963</u>

At September 30, 2017 and December 31, 2016, the Company pledged \$4.3 billion and \$0.5 billion, respectively, of held-to-maturity debt securities, and \$0.5 million and \$6 million of available-for-sale securities, respectively, for the same periods, as collateral for FHLB advances, 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, 2017 and December 31, 2016 (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, 2017:						
Available-for-sale securities:						
Debt securities:						
Agency mortgage-backed securities	\$ 7,282	\$ (117)	\$ 3,312	\$ (88)	\$ 10,594	\$ (205)
Agency debentures	161	(3)	121	(11)	282	(14)
U.S. Treasuries	289	(8)	—	—	289	(8)
Agency debt securities	33	(1)	—	—	33	(1)
Municipal bonds	12	—	—	—	12	—
Total temporarily impaired available-for-sale securities	<u>\$ 7,777</u>	<u>\$ (129)</u>	<u>\$ 3,433</u>	<u>\$ (99)</u>	<u>\$ 11,210</u>	<u>\$ (228)</u>
Held-to-maturity securities:						
Agency mortgage-backed securities	\$ 8,309	\$ (78)	\$ 1,443	\$ (34)	\$ 9,752	\$ (112)
Agency debentures	302	(2)	—	—	302	(2)
Agency debt securities	1,435	(20)	65	(2)	1,500	(22)
Total temporarily impaired held-to-maturity securities	<u>\$ 10,046</u>	<u>\$ (100)</u>	<u>\$ 1,508</u>	<u>\$ (36)</u>	<u>\$ 11,554</u>	<u>\$ (136)</u>
December 31, 2016:						
Available-for-sale securities:						
Debt securities:						
Agency mortgage-backed securities	\$ 9,281	\$ (279)	\$ 1,620	\$ (57)	\$ 10,901	\$ (336)
Agency debentures	454	(21)	—	—	454	(21)
U.S. Treasuries	407	(45)	—	—	407	(45)
Agency debt securities	24	(1)	—	—	24	(1)
Municipal bonds	13	—	—	—	13	—
Publicly traded equity securities	7	—	—	—	7	—
Total temporarily impaired available-for-sale securities	<u>\$ 10,186</u>	<u>\$ (346)</u>	<u>\$ 1,620</u>	<u>\$ (57)</u>	<u>\$ 11,806</u>	<u>\$ (403)</u>
Held-to-maturity securities:						
Agency mortgage-backed securities	\$ 5,929	\$ (123)	\$ 1,272	\$ (29)	\$ 7,201	\$ (152)
Agency debentures	18	—	—	—	18	—
Agency debt securities	1,739	(32)	18	—	1,757	(32)
Total temporarily impaired held-to-maturity securities	<u>\$ 7,686</u>	<u>\$ (155)</u>	<u>\$ 1,290</u>	<u>\$ (29)</u>	<u>\$ 8,976</u>	<u>\$ (184)</u>

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, 2017 represents a credit loss. The

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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, 2017.

There were no impairment losses recognized in earnings on available-for-sale or held-to-maturity securities during the nine months ended September 30, 2017 and 2016, respectively.

Gains on Securities and Other, Net

The following table shows the components of the gains on securities and other, net line item on the consolidated statement of income for the three and nine months ended September 30, 2017 and 2016 (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Gains on available-for-sale securities	\$ 7	\$ 17	\$ 25	\$ 46
Hedge ineffectiveness	(2)	(4)	(5)	(8)
Equity method investment income (loss) and other	1	1	3	(4)
Gains on securities and other, net	<u>\$ 6</u>	<u>\$ 14</u>	<u>\$ 23</u>	<u>\$ 34</u>

NOTE 6—LOANS RECEIVABLE, NET

Loans receivable, net at September 30, 2017 and December 31, 2016 are summarized as follows (dollars in millions):

	September 30, 2017	December 31, 2016
One- to four-family	\$ 1,531	\$ 1,950
Home equity	1,197	1,556
Consumer and other	192	250
Total loans receivable	<u>2,920</u>	<u>3,756</u>
Unamortized premiums, net	12	16
Allowance for loan losses	(94)	(221)
Total loans receivable, net	<u>\$ 2,838</u>	<u>\$ 3,551</u>

During the three months ended June 30, 2017, the Company sold certain loans with a carrying value of \$41 million for proceeds that approximated book value.

At September 30, 2017, the Company pledged \$2.4 billion and \$0.2 billion of loans as collateral to the FHLB and Federal Reserve Bank of Richmond, respectively. At December 31, 2016, the Company pledged \$3.1 billion and \$0.3 billion of loans as collateral to the FHLB and Federal Reserve Bank of Richmond, respectively.

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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, 2017 and December 31, 2016 (dollars in millions):

	Recorded Investment		Allowance for Loan Losses	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Collectively evaluated for impairment:				
One- to four-family	\$ 1,327	\$ 1,717	\$ 15	\$ 38
Home equity	1,023	1,361	39	120
Consumer and other	194	253	4	5
Total collectively evaluated for impairment	2,544	3,331	58	163
Individually evaluated for impairment:				
One- to four-family	214	246	6	7
Home equity	174	195	30	51
Total individually evaluated for impairment	388	441	36	58
Total	\$ 2,932	\$ 3,772	\$ 94	\$ 221

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, 2017 and December 31, 2016 (dollars in millions):

Current LTV/CLTV ⁽¹⁾	One- to Four-Family		Home Equity	
	September 30,	December 31,	September 30,	December 31,
	2017	2016	2017	2016
<=80%	\$ 1,076	\$ 1,308	\$ 564	\$ 686
80%-100%	292	413	319	414
100%-120%	102	143	201	274
>120%	61	86	113	182
Total mortgage loans receivable	<u>\$ 1,531</u>	<u>\$ 1,950</u>	<u>\$ 1,197</u>	<u>\$ 1,556</u>
Average estimated current LTV/CLTV ⁽²⁾	71%	73%	85%	87%
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 value estimates are updated on a quarterly basis.
- (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	One- to Four-Family		Home Equity	
	September 30,	December 31,	September 30,	December 31,
	2017	2016	2017	2016
>=720	\$ 862	\$ 1,121	\$ 603	\$ 778
719 - 700	140	179	114	156
699 - 680	111	153	100	141
679 - 660	93	121	89	117
659 - 620	128	154	115	149
<620	197	222	176	215
Total mortgage loans receivable	<u>\$ 1,531</u>	<u>\$ 1,950</u>	<u>\$ 1,197</u>	<u>\$ 1,556</u>

Concentrations of Credit Risk

One- to four-family loans include loans with an interest-only period, followed by an amortizing period. At September 30, 2017, over 99% of the loans were amortizing and this portfolio will be fully converted in 2018. The home equity loan portfolio consists of HEILs and HELOCs. HEILs are primarily fully amortizing loans that do not offer the option of an interest-only payment. The majority of HELOCs had an interest only draw period at origination and converted to amortizing loans at the end of the draw period. At September 30, 2017, 1% of the HELOC portfolio had not converted from the interest-only draw period and will be fully converted in 2019.

The average age of our mortgage and consumer loans receivable was 11.6 and 10.8 years at September 30, 2017 and December 31, 2016, respectively. Approximately 34% and 36% of the Company's mortgage loans receivable were concentrated in California at September 30, 2017 and December 31, 2016, respectively. No other state had concentrations of mortgage loans that represented 10% or more of the Company's mortgage loans receivable at September 30, 2017 and December 31, 2016.

Delinquent Loans

The following table shows total loans receivable by delinquency category at September 30, 2017 and December 31, 2016 (dollars in millions):

	Current	30-89 Days Delinquent	90-179 Days Delinquent	180+ Days Delinquent	Total
September 30, 2017					
One- to four-family	\$ 1,363	\$ 56	\$ 27	\$ 85	\$ 1,531
Home equity	1,101	42	19	35	1,197
Consumer and other	188	4	—	—	192
Total loans receivable	<u>\$ 2,652</u>	<u>\$ 102</u>	<u>\$ 46</u>	<u>\$ 120</u>	<u>\$ 2,920</u>
December 31, 2016					
One- to four-family	\$ 1,774	\$ 67	\$ 23	\$ 86	\$ 1,950
Home equity	1,442	43	18	53	1,556
Consumer and other	245	4	1	—	250
Total loans receivable	<u>\$ 3,461</u>	<u>\$ 114</u>	<u>\$ 42</u>	<u>\$ 139</u>	<u>\$ 3,756</u>

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.

Nonperforming Loans

The following table shows the comparative data for nonperforming loans at September 30, 2017 and December 31, 2016 (dollars in millions):

	September 30, 2017	December 31, 2016
One- to four-family	\$ 196	\$ 215
Home equity	109	136
Consumer and other	—	1
Total nonperforming loans receivable	<u>\$ 305</u>	<u>\$ 352</u>

At September 30, 2017 and December 31, 2016, the Company held \$27 million and \$35 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 held \$105 million and \$112 million of loans for which formal foreclosure proceedings were in process at September 30, 2017 and December 31, 2016, 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, 2017 and 2016 (dollars in millions):

Three Months Ended September 30, 2017				
	One- to Four-Family	Home Equity	Consumer and other	Total
Allowance for loan losses, beginning of period	\$ 29	\$ 82	\$ 5	\$ 116
Provision (benefit) for loan losses	(12)	(17)	—	(29)
Charge-offs	—	(1)	(1)	(2)
Recoveries	4	5	—	9
Net (charge-offs) recoveries	4	4	(1)	7
Allowance for loan losses, end of period	\$ 21	\$ 69	\$ 4	\$ 94

Three Months Ended September 30, 2016				
	One- to Four-Family	Home Equity	Consumer and other	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

Nine Months Ended September 30, 2017				
	One- to Four-Family	Home Equity	Consumer and other	Total
Allowance for loan losses, beginning of period	\$ 45	\$ 171	\$ 5	\$ 221
Provision (benefit) for loan losses	(30)	(113)	1	(142)
Charge-offs	—	(6)	(4)	(10)
Recoveries	6	17	2	25
Net (charge-offs) recoveries	6	11	(2)	15
Allowance for loan losses, end of period	\$ 21	\$ 69	\$ 4	\$ 94

Nine Months Ended September 30, 2016				
	One- to Four-Family	Home Equity	Consumer and other	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

The benefit for loan losses of \$142 million for the nine months ended September 30, 2017 reflected approximately \$70 million of benefit recognized in the second quarter of 2017 resulting from the Company's refinement of default assumptions in the quantitative allowance methodology based on the sustained outperformance of converted mortgage loans that had been amortizing for 12 months or longer. In order to refine the default assumptions around the remaining population that had not yet started amortizing or that

had not reached 12 months post conversion, the Company evaluated whether the credit quality and performance of these loans was consistent with the seasoned amortizing portfolio. The Company determined that FICO scores, LTV/CLTVs and delinquency rates were comparable to the seasoned portfolio, and therefore applied the refined default assumptions to this remaining population. The current period benefit also reflected recoveries in excess of prior estimates, including recoveries of previous charge-offs.

Impaired Loans—Troubled Debt Restructurings

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, 2017 and December 31, 2016 (dollars in millions):

		Nonaccrual TDRs				Total Recorded Investment in TDRs ⁽³⁾⁽⁴⁾
	Accrual TDRs ⁽¹⁾	Current ⁽²⁾	30-89 Days Delinquent	90-179 Days Delinquent	180+ Days Delinquent	
<u>September 30, 2017</u>						
One- to four-family	\$ 88	\$ 69	\$ 15	\$ 9	\$ 33	\$ 214
Home equity	108	36	10	5	15	174
Total	<u>\$ 196</u>	<u>\$ 105</u>	<u>\$ 25</u>	<u>\$ 14</u>	<u>\$ 48</u>	<u>\$ 388</u>
<u>December 31, 2016</u>						
One- to four-family	\$ 97	\$ 90	\$ 16	\$ 8	\$ 35	\$ 246
Home equity	119	41	10	4	21	195
Total	<u>\$ 216</u>	<u>\$ 131</u>	<u>\$ 26</u>	<u>\$ 12</u>	<u>\$ 56</u>	<u>\$ 441</u>

(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 \$212 million and \$243 million at September 30, 2017 and December 31, 2016, respectively. For home equity loans, the recorded investment in TDRs represents the unpaid principal balance.

(4) Total recorded investment in TDRs at September 30, 2017 consisted of \$289 million of loans modified as TDRs and \$99 million of loans that have been charged off due to bankruptcy notification. Total recorded investment in TDRs at December 31, 2016 consisted of \$316 million of loans modified as TDRs and \$125 million of loans that have been charged off due to bankruptcy notification.

The recorded investment in loans modified as TDRs includes the charge-offs related to certain loans that were written down to 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.

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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, 2017 and 2016 (dollars in millions):

	Average Recorded Investment		Interest Income Recognized	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2017	2016	2017	2016
One- to four-family	\$ 219	\$ 264	\$ 2	\$ 2
Home equity	176	205	4	5
Total	\$ 395	\$ 469	\$ 6	\$ 7

	Average Recorded Investment		Interest Income Recognized	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
One- to four-family	\$ 230	\$ 275	\$ 7	\$ 7
Home equity	185	205	12	13
Total	\$ 415	\$ 480	\$ 19	\$ 20

The following table shows detailed information related to the Company's TDRs and specific valuation allowances at September 30, 2017 and December 31, 2016 (dollars in millions):

	September 30, 2017			December 31, 2016		
	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	\$ 53	\$ 6	\$ 47	\$ 61	\$ 7	\$ 54
Home equity	\$ 88	\$ 30	\$ 58	\$ 111	\$ 51	\$ 60
Without a recorded allowance: ⁽¹⁾						
One- to four-family	\$ 161	\$ —	\$ 161	\$ 185	\$ —	\$ 185
Home equity	\$ 86	\$ —	\$ 86	\$ 84	\$ —	\$ 84
Total:						
One- to four-family	\$ 214	\$ 6	\$ 208	\$ 246	\$ 7	\$ 239
Home equity	\$ 174	\$ 30	\$ 144	\$ 195	\$ 51	\$ 144

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

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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, 2017 and 2016 (dollars in millions):

Three Months Ended September 30, 2017					
Interest Rate Reduction					
	Number of Loans	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other ⁽¹⁾	Total
One- to four-family	7	\$ 3	\$ —	\$ —	\$ 3
Home equity	46	4	—	—	4
Total	53	\$ 7	\$ —	\$ —	\$ 7

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

Nine Months Ended September 30, 2017					
Interest Rate Reduction					
	Number of Loans	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other ⁽¹⁾	Total
One- to four-family	19	\$ 6	\$ —	\$ 1	\$ 7
Home equity	260	9	1	9	19
Total	279	\$ 15	\$ 1	\$ 10	\$ 26

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

(1) Amounts represent loans whose terms were modified in a manner that did not result in an interest rate reduction, including re-aged loans, extensions, and loans with capitalized interest.

NOTE 7—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company enters into derivative transactions primarily to protect against interest rate risk on the value of certain assets. 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, 2017 and December 31, 2016 (dollars in millions):

		Fair Value ⁽¹⁾		
	Notional	Asset ⁽²⁾	Liability ⁽³⁾	Net ⁽⁴⁾
<u>September 30, 2017</u>				
Interest rate contracts:				
Fair value hedges	\$ 7,092	\$ 92	\$ (37)	\$ 55
Total derivatives designated as hedging instruments ⁽⁵⁾	<u>\$ 7,092</u>	<u>\$ 92</u>	<u>\$ (37)</u>	<u>\$ 55</u>
<u>December 31, 2016</u>				
Interest rate contracts:				
Fair value hedges	\$ 3,862	\$ 165	\$ (31)	\$ 134
Total derivatives designated as hedging instruments ⁽⁵⁾	<u>\$ 3,862</u>	<u>\$ 165</u>	<u>\$ (31)</u>	<u>\$ 134</u>

(1) At September 30, 2017, excludes derivative assets and liabilities of \$10 million and \$20 million, respectively, that were executed through a central clearing organization and were settled by variation margin payments. See *Note 4—Offsetting Assets and Liabilities* for additional information.

(2) Reflected in the other assets line item on the consolidated balance sheet.

(3) Reflected in the other liabilities line item on the consolidated balance sheet.

(4) Represents net fair value of derivative instruments for disclosure purposes only.

(5) All derivatives were designated as hedging instruments at September 30, 2017 and December 31, 2016.

Fair Value Hedges

Fair value hedges are used to offset exposure to changes in value of certain fixed-rate assets. Fair value hedges are accounted for by recording the fair value of the derivative instrument and the fair value of the asset being hedged on the consolidated balance sheet. Changes in the fair value of both the derivative instruments and the underlying assets are recognized in the gains on securities and other, net line item in the consolidated statement of income. 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 on securities and other, net line item in the consolidated statement of income.

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 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 on securities and other, net line item in the consolidated statement of income.

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 for the three and nine months ended September 30, 2017 and 2016 (dollars in millions):

Three Months Ended September 30,						
2017			2016			
	Hedging Instrument	Hedged Item	Hedge Ineffectiveness ⁽¹⁾	Hedging Instrument	Hedged Item	Hedge Ineffectiveness ⁽¹⁾
Agency debentures	\$ (1)	\$ 1	\$ —	\$ 1	\$ (3)	\$ (2)
Agency mortgage-backed securities	4	(6)	(2)	14	(16)	(2)
Total gains (losses) included in earnings	\$ 3	\$ (5)	\$ (2)	\$ 15	\$ (19)	\$ (4)

Nine Months Ended September 30,						
2017			2016			
	Hedging Instrument	Hedged Item	Hedge Ineffectiveness ⁽¹⁾	Hedging Instrument	Hedged Item	Hedge Ineffectiveness ⁽¹⁾
Agency debentures	\$ (7)	\$ 7	\$ —	\$ (89)	\$ 85	\$ (4)
Agency mortgage-backed securities	(29)	24	(5)	(100)	96	(4)
Total gains (losses) included in earnings	\$ (36)	\$ 31	\$ (5)	\$ (189)	\$ 181	\$ (8)

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

NOTE 8—DEPOSITS

Deposits are summarized as follows (dollars in millions):

	Amount		Weighted-Average Rate	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Sweep deposits	\$ 36,507	\$ 26,362	0.01%	0.01%
Savings deposits	3,011	3,185	0.01%	0.01%
Other deposits ⁽¹⁾⁽²⁾	2,025	2,135	0.03%	0.03%
Total deposits	\$ 41,543	\$ 31,682	0.01%	0.01%

(1) Includes checking deposits, money market and time deposits.

(2) As of September 30, 2017 and December 31, 2016, the Company had \$202 million and \$177 million in non-interest bearing deposits, respectively.

NOTE 9—OTHER BORROWINGS

Other borrowings at September 30, 2017 and December 31, 2016 are summarized as follows (dollars in millions):

	September 30, 2017	December 31, 2016
FHLB advances	\$ 200	\$ —
Trust preferred securities ⁽¹⁾	409	409
Total other borrowings	<u>\$ 609</u>	<u>\$ 409</u>

(1) Trust preferred securities begin maturing in 2031.

External Lines of Credit maintained at E*TRADE Securities

E*TRADE Securities' external liquidity lines total approximately \$1.1 billion as of September 30, 2017 and include the following:

- A 364-day, \$450 million senior unsecured committed revolving credit facility with a syndicate of banks, with a maturity date of June 2018
- Secured committed lines of credit with two unaffiliated banks, aggregating to \$175 million, with a maturity date of June 2018
- Unsecured uncommitted lines of credit with two unaffiliated banks aggregating to \$75 million, of which \$50 million has a maturity date of June 2018 and the remaining line has no maturity date
- Secured uncommitted lines of credit with several unaffiliated banks aggregating to \$375 million with no maturity date

The revolving credit facility contains maintenance covenants related to E*TRADE Securities' minimum consolidated tangible net worth and regulatory net capital ratio. There were no outstanding balances for these lines at September 30, 2017.

NOTE 10—CORPORATE DEBT

Corporate debt at September 30, 2017 and December 31, 2016 is outlined in the following table (dollars in millions):

	Face Value	Discount	Net
September 30, 2017			
Interest-bearing notes:			
2.95% Notes, due 2022	\$ 600	\$ (5)	\$ 595
3.80% Notes, due 2027	400	(4)	396
Total corporate debt	<u>\$ 1,000</u>	<u>\$ (9)</u>	<u>\$ 991</u>
December 31, 2016			
Interest-bearing notes:			
5.375% Notes, due 2022	\$ 540	\$ (5)	\$ 535
4.625% Notes, due 2023	460	(4)	456
Total interest-bearing notes	1,000	(9)	991
Non-interest-bearing debt:			
0% Convertible debentures, due 2019	3	—	3
Total corporate debt	<u>\$ 1,003</u>	<u>\$ (9)</u>	<u>\$ 994</u>

Issuance of Corporate Debt

During the three months ended September 30, 2017, the Company issued \$1 billion in aggregate principal amount of Senior Notes in two tranches. The first tranche of \$600 million aggregate principal amount of Senior Notes due 2022 bears interest at an annual rate of 2.95% and will mature on August 24, 2022. The second tranche of \$400 million aggregate principal amount of Senior Notes due 2027 bears interest at an annual rate of 3.80% and will mature on August 24, 2027 (together with the first tranche, the "Notes"). The Notes will be our general unsecured senior obligations and rank equally with our other unsecured senior indebtedness. The Notes will effectively rank junior to our secured indebtedness, if any, to the extent of the collateral securing such indebtedness and all liabilities of our subsidiaries. The Notes will not be guaranteed by our subsidiaries.

The net proceeds from the sale of the Notes were used, along with existing corporate cash, to redeem all \$540 million aggregate principal amount of our outstanding 5.375% Senior Notes due 2022 and all \$460 million aggregate principal amount of our outstanding 4.625% Senior Notes due 2023, including associated redemption premiums, accrued interest, and related fees and expenses. In connection with the redemption, we recognized a loss on early extinguishment of debt of approximately \$58 million, consisting of the difference between the carrying value of the debt redeemed and total cash amount paid (including related fees and expenses), together with the unamortized debt issuance costs.

Conversions of Convertible Debentures

During the nine months ended September 30, 2017, \$3 million of the Company's convertible debentures were converted into 0.3 million shares of common stock.

Credit Facility

On June 23, 2017, we entered into an unsecured committed revolving credit facility with certain lenders, which replaced our previous secured committed revolving credit facility entered into in November 2014 and increased our total borrowing capacity under the facility to \$300 million. The Company has the ability to borrow against the credit facility for working capital and general corporate purposes. The unsecured

committed revolving credit facility will mature on June 23, 2020. At September 30, 2017, there was no outstanding balance under this revolving credit facility.

NOTE 11—SHAREHOLDERS' EQUITY

The following tables present after-tax changes in each component of accumulated other comprehensive income (loss) for the nine months ended September 30, 2017 and 2016 (dollars in millions):

	Available-for-Sale Securities	Foreign Currency Translation	Total
Balance, December 31, 2016	\$ (139)	\$ 2	\$ (137)
Other comprehensive income before reclassifications	46	—	46
Amounts reclassified from accumulated other comprehensive loss	(5)	(2)	(7)
Net change	41	(2)	39
Balance, March 31, 2017	\$ (98)	\$ —	\$ (98)
Other comprehensive income before reclassifications	42	—	42
Amounts reclassified from accumulated other comprehensive loss	(6)	—	(6)
Net change	36	—	36
Balance, June 30, 2017	\$ (62)	\$ —	\$ (62)
Other comprehensive income before reclassifications	16	—	16
Amounts reclassified from accumulated other comprehensive loss	(4)	—	(4)
Net change	12	—	12
Balance, September 30, 2017	\$ (50)	\$ —	\$ (50)

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	Available-for-Sale Securities	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

The following table presents other comprehensive income activity and the related tax effect for the three and nine months ended September 30, 2017 and 2016 (dollars in millions):

	Three Months Ended September 30,					
	2017			2016		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Other comprehensive income						
Available-for-sale securities:						
Unrealized gains, net	\$ 26	\$ (10)	\$ 16	\$ 5	\$ (2)	\$ 3
Reclassification into earnings, net	(7)	3	(4)	(17)	7	(10)
Net change from available-for-sale securities	19	(7)	12	(12)	5	(7)
Other comprehensive income	\$ 19	\$ (7)	\$ 12	\$ (12)	\$ 5	\$ (7)

	Nine Months Ended September 30,					
	2017			2016		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Other comprehensive income						
Available-for-sale securities:						
Unrealized gains, net	\$ 170	\$ (66)	\$ 104	\$ 269	\$ (103)	\$ 166
Reclassification into earnings, net	(24)	9	(15)	(46)	18	(28)
Net change from available-for-sale securities	146	(57)	89	223	(85)	138
Reclassification of foreign currency translation gains	(2)	—	(2)	—	—	—
Other comprehensive income	\$ 144	\$ (57)	\$ 87	\$ 223	\$ (85)	\$ 138

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The following table presents the consolidated statement of income line items impacted by reclassifications out of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2017 and 2016 (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
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2017	2016	2017	2016	
Available-for-sale securities:					
	\$ 7	\$ 17	\$ 24	\$ 46	Gains on securities and other, net
	(3)	(7)	(9)	(18)	Income tax expense
	<u>\$ 4</u>	<u>\$ 10</u>	<u>\$ 15</u>	<u>\$ 28</u>	Reclassification into earnings, net
Foreign currency translation:					
	\$ —	\$ —	\$ 2	\$ —	Other non-interest expenses
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ —</u>	Reclassification into earnings, net

Preferred Stock Dividends

On February 2, 2017, the Company's Board of Directors declared a dividend of \$32.64 per share, or \$13 million, to holders of record of the Series A Preferred stock as of February 28, 2017. The dividend was paid on March 15, 2017. On August 2, 2017, the Company's Board of Directors declared a dividend of \$29.38 per share, or \$12 million, to holders of record of the Series A Preferred stock as of August 31, 2017. The dividend was paid on September 15, 2017.

Share Repurchases

On July 20, 2017, the Company announced that its Board of Directors authorized the repurchase of up to \$1 billion of shares of its common stock. As of September 30, 2017, the Company repurchased a total of \$187 million, or 4.6 million shares, of common stock under this program. As of September 30, 2017, \$813 million remained available for additional repurchases. As of October 31, 2017, the Company has subsequently repurchased an additional 1.0 million shares of common stock at an average price of \$43.53. The Company accounts for share repurchases retired after repurchase by allocating the excess repurchase price over par to additional paid-in-capital.

NOTE 12—EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 147	\$ 139	\$ 485	\$ 425
Preferred stock dividends	12	—	25	—
Net income available to common shareholders	<u>\$ 135</u>	<u>\$ 139</u>	<u>\$ 460</u>	<u>\$ 425</u>
Share data (in thousands):				
Basic weighted-average shares outstanding	273,441	274,362	274,565	278,864
Effect of weighted average dilutive securities:				
Restricted stock and options	1,134	792	1,029	861
Convertible debentures	19	318	109	411
Diluted weighted-average shares outstanding	<u>274,594</u>	<u>275,472</u>	<u>275,703</u>	<u>280,136</u>
Basic earnings per common share	<u>\$ 0.49</u>	<u>\$ 0.51</u>	<u>\$ 1.67</u>	<u>\$ 1.53</u>
Diluted earnings per common share	<u>\$ 0.49</u>	<u>\$ 0.51</u>	<u>\$ 1.67</u>	<u>\$ 1.52</u>

NOTE 13—REGULATORY REQUIREMENTS

Broker-Dealer and FCM Capital Requirements

The Company's U.S. broker-dealer subsidiary is subject to the Uniform Net Capital Rule under the Securities Exchange Act of 1934 administered by the SEC and FINRA, which requires the maintenance of minimum net capital. E*TRADE Securities is required to maintain net capital equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions. The Company's international broker-dealer subsidiary is subject to capital requirements determined by its respective regulator.

The Company's FCM subsidiary, E*TRADE Futures, is subject to CFTC net capital requirements, including the maintenance of adjusted net capital equal to or in excess of the greater of (1) \$1,000,000, (2) the FCM's risk-based capital requirement, computed as 8% of the total risk margin requirements for all positions carried in customer and non-customer accounts, or (3) the amount of adjusted net capital required by the NFA.

At September 30, 2017 and December 31, 2016, all of the Company's broker-dealer and FCM subsidiaries met minimum net capital requirements. The table below summarizes the minimum capital requirements and excess capital for the Company's broker-dealer and FCM subsidiaries at September 30, 2017 and December 31, 2016 (dollars in millions):

	Required Net Capital	Net Capital	Excess Net Capital
September 30, 2017:			
E*TRADE Securities ⁽¹⁾⁽²⁾	\$ 199	\$ 1,179	\$ 980
E*TRADE Futures ⁽²⁾	4	18	14
International broker-dealer	—	24	24
Total	<u>\$ 203</u>	<u>\$ 1,221</u>	<u>\$ 1,018</u>
December 31, 2016:			
E*TRADE Securities ⁽¹⁾	\$ 158	\$ 969	\$ 811
OptionsHouse ⁽³⁾	1	22	21
International broker-dealer	—	21	21
Total	<u>\$ 159</u>	<u>\$ 1,012</u>	<u>\$ 853</u>

(1) Elected to use the Alternative method to compute required net capital.

(2) E*TRADE Securities paid dividends of \$220 million to the parent company during the nine months ended September 30, 2017. In August 2017, all brokerage accounts and brokerage customer-related assets and obligations of OptionsHouse were transferred in connection with the integration. Upon completion of this transaction OptionsHouse was renamed E*TRADE Futures and E*TRADE Securities' futures accounts and futures customer-related assets and obligations were transferred to E*TRADE Futures.

(3) Elected to use the Aggregate Indebtedness method to compute net capital; however, as OptionsHouse was an FCM, the prescribed fixed-dollar minimum capital requirement was \$1 million.

Bank Capital Requirements

E*TRADE Financial and E*TRADE Bank are subject to various regulatory capital requirements administered by federal banking agencies. 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 Tier 1 leverage, common equity Tier 1 capital, Tier 1 risk-based capital and total risk-based capital 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, 2017					December 31, 2016				
	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	\$ 4,100	7.2%	\$ 2,862	5.0%	\$ 1,238	\$ 3,610	7.8%	\$ 2,316	5.0%	\$ 1,294
Common equity Tier 1 capital	\$ 3,818	35.2%	\$ 706	6.5%	\$ 3,112	\$ 3,483	37.0%	\$ 612	6.5%	\$ 2,871
Tier 1 risk-based capital	\$ 4,100	37.8%	\$ 868	8.0%	\$ 3,232	\$ 3,610	38.3%	\$ 754	8.0%	\$ 2,856
Total risk-based capital	\$ 4,608	42.4%	\$ 1,085	10.0%	\$ 3,523	\$ 4,148	44.0%	\$ 942	10.0%	\$ 3,206

	September 30, 2017					December 31, 2016				
	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⁾										
Tier 1 leverage	\$ 3,564	7.7%	\$ 2,323	5.0%	\$ 1,241	\$ 3,132	8.8%	\$ 1,786	5.0%	\$ 1,346
Common equity Tier 1 capital	\$ 3,564	35.5%	\$ 653	6.5%	\$ 2,911	\$ 3,132	38.3%	\$ 532	6.5%	\$ 2,600
Tier 1 risk-based capital	\$ 3,564	35.5%	\$ 803	8.0%	\$ 2,761	\$ 3,132	38.3%	\$ 655	8.0%	\$ 2,477
Total risk-based capital	\$ 3,658	36.4%	\$ 1,004	10.0%	\$ 2,654	\$ 3,237	39.5%	\$ 819	10.0%	\$ 2,418

(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 capital (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. See *Overview—Regulatory Developments* for additional information.

NOTE 14—COMMITMENTS, CONTINGENCIES AND OTHER REGULATORY 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 Company monitors these matters for developments that would affect the likelihood of a loss and the accrued amount, if any, and adjusts the amount as appropriate.

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. The trial court subsequently denied Ajaxo's requests for additional damages and relief following which Ajaxo appealed. Although the Company paid Ajaxo the full amount due on the above-described judgment, the case was remanded back to the trial court by the California Court of Appeal, 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. After various appeals the case was again remanded back to the trial court. Following the third trial of the matter, 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. Briefing of this appeal is expected to continue to November 21, 2017. The Company will continue to defend itself vigorously in this matter.

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. The plaintiff contends that the defendants engaged in patent infringement under federal law and 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). After a hearing, the PTAB deemed Droplets' putative '115 patent to be "unpatentable" on June 23, 2016. 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 briefing was completed on July 24, 2017, and oral argument has not yet been scheduled. The Company will continue to defend itself vigorously in this matter.

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. The plaintiffs allege violations of the California Unfair Competition Law, the California Consumer Remedies Act, fraud, misrepresentation, negligent misrepresentation and breach of fiduciary duty and plaintiffs seek unspecified damages. Final judgment was entered in the Company's favor on April 8, 2015, and the plaintiff filed an appeal. The briefing is complete and oral argument was heard on October 24, 2017. 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. The plaintiff seeks unspecified damages, declaratory relief, restitution, disgorgement of payments received by the Company, and attorneys' fees. 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, 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. The plaintiff seeks unspecified damages, declaratory relief, restitution, disgorgement of payments received by the Company, and attorneys' fees. By stipulation both matters are now venued in the Southern District of New York. On April 2, 2017, the District Court dismissed the complaint in *Rayner*. The plaintiffs in *Rayner* appealed. Oral argument on the appeal is scheduled for December 8, 2017. On July 10, the Court dismissed the *Schwab* claims without prejudice. The plaintiff in *Schwab* filed a third amended complaint on August 9, 2017, which E*TRADE has moved to dismiss. 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, FINRA, NASDAQ, CFTC, NFA, FDIC, Federal Reserve Bank of Richmond, OCC, or the Consumer Financial Protection Bureau (CFPB) 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.

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 \$115 million in unfunded commitments with respect to these investments at September 30, 2017.

At September 30, 2017, the Company had approximately \$21 million of certificates of deposit scheduled to mature in less than one year.

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, 2017, management estimated that the maximum potential liability under this arrangement, including the current carrying value of the trusts, was equal to approximately \$416 million or the total face value of these securities plus accrued interest payable, which may be unpaid at the termination of the trust arrangement.

NOTE 15—SUBSEQUENT EVENTS

Trust Company of America acquisition

On October 19, 2017, we announced an agreement to acquire Trust Company of America, Inc., a leading provider of technology solutions and custody services to the independent registered investment adviser market, for \$275 million in cash. The Company anticipates funding the transaction through the issuance of non-cumulative perpetual preferred stock. The acquisition is expected to close in the second quarter of 2018, subject to customary closing conditions and regulatory approvals.

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, 2017, 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 14—Commitments, Contingencies and Other Regulatory Matters to Part I. Item 1. Condensed 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, 2016.

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

Issuer Purchases of Equity Securities

The table below shows the timing and impact of our share repurchase program, if applicable, and the shares withheld from employees to satisfy tax withholding obligations during the three months ended September 30, 2017 (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, 2017 - July 31, 2017	652,118	\$ 41.27	650,000	\$ 973.2
August 1, 2017 - August 31, 2017	2,556,962	\$ 40.60	2,555,800	\$ 869.4
September 1, 2017 - September 30, 2017	1,533,555	\$ 40.54	1,394,050	\$ 813.0
Total	4,742,635	\$ 40.67	4,599,850	

(1) Includes 142,785 shares withheld to satisfy tax withholding obligations associated with restricted shares.

(2) Excludes commission paid, if any.

(3) On July 20, 2017, the Company announced that its Board of Directors authorized the repurchase of up to \$1 billion of shares of its common stock. The timing and exact amount of any common stock repurchases will depend on various factors, including market conditions and the Company's capital position.

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
4.1	Indenture, dated as of August 24, 2017, between E*TRADE Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on August 24, 2017).
4.2	First Supplemental Indenture, dated as of August 24, 2017, between E*TRADE Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on August 24, 2017).
4.3	Second Supplemental Indenture, dated as of August 24, 2017, between E*TRADE Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on August 24, 2017).
4.4	Form of 2.950% Senior Notes due 2022 (included in Exhibit 4.2)
4.5	Form of 3.800% Senior Notes due 2027 (included in Exhibit 4.3)
*10.1	Form of Indemnification Agreement for Directors
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 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 2, 2017

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)

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this “**Agreement**”), dated as of _____ between E*TRADE Financial Corporation, Inc., a Delaware corporation (the “**Company**”), and _____ (“**Indemnitee**”). This Agreement supersedes and replaces all previous agreements between the Company and the Indemnitee covering the subject matter of this Agreement.

WITNESSETH:

WHEREAS, highly competent persons have become more reluctant to serve as directors of publicly-held corporations unless they are provided with adequate protection through insurance and indemnification against risks of claims and actions against them arising out of their service to and activities on behalf of the corporation.

WHEREAS, directors are increasingly being subjected to expensive and time-consuming litigation relating to, among other things, matters that traditionally would have been brought only against the corporation itself.

WHEREAS, the Board of Directors of the Company (the “**Board**”) has determined that, in order to attract and retain qualified individuals, the Company will attempt to maintain on an ongoing basis, at its sole expense, liability insurance to protect persons serving the Company and its subsidiaries from certain liabilities. Nevertheless, the Board recognizes the limitations on the protection provided by liability insurance and the uncertainties as to the scope and level of such coverage that may be available in the future.

WHEREAS, the Company’s directors have certain existing indemnification arrangements pursuant to the Company’s certificate of incorporation and bylaws and may be entitled to indemnification pursuant to the General Corporation Law of the State of Delaware (“**DGCL**”). Nevertheless, the Board recognizes the limitations on the protection provided by such indemnification and the uncertainties as to its availability in any particular situation.

WHEREAS, the Board believes that in light of the limitations and uncertainties about the protection provided by the Company’s liability insurance and existing indemnification arrangements and the impact these uncertainties may have on the Company’s ability to attract and retain qualified individuals to serve as directors, the Company should act to assure such persons that there will be increased certainty of such protection in the future.

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be adequately protected or that actions taken by the Company in the future (including any change in the Company’s certificate of incorporation or bylaws, or in the composition of the Board, or a change in control of the Company) could deprive them of indemnification benefits for decisions made during their tenure of service on the Board.

WHEREAS, Article 5 of the Amended and Restated Bylaws of the Company empower the Company, to the fullest extent permitted by Section 145 of the DGCL, to indemnify directors and officers against any expenses and liabilities incurred by them by reason of their being directors and officers.

WHEREAS, this Agreement is a supplement to and in furtherance of the certificate of incorporation and bylaws of the Company and any resolutions adopted pursuant thereto and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

WHEREAS, Indemnitee is concerned that the protection provided under the Company's liability insurance and existing indemnification arrangements may not be adequate in the present circumstances, and may not be willing to serve or continue to serve as a director of the Company without greater certainty concerning such protection, and the Company desires Indemnitee to serve or to continue to serve in such capacity and is willing to provide such greater certainty.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

ARTICLE 1

CERTAIN DEFINITIONS

(a) As used in this Agreement:

"Corporate Status" means the status of a person who is or was a director, officer, employee or agent of the Company or who is or was serving at the request of the Company as a director, officer, employee or agent of any other Enterprise.

"Enterprise" means any corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other person or enterprise.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

"Expenses" means all costs and expenses (including fees and expenses of counsel) paid or incurred in connection with investigating, defending, being a witness in or otherwise participating in, or preparing to defend, be a witness in or participate in, a Proceeding (or any appeal therefrom). Expenses shall include expenses incurred in connection with any appeal resulting from any Proceeding, including the premium, security for and other costs relating to any cost bond, supersedeas bond or other appeal bond or its equivalent.

"Liabilities" means all judgments, fines (including any excise taxes assessed with respect to any employee benefit plan), penalties and amounts paid in settlement and other liabilities (including all interest, assessments and other charges paid or payable in connection with or in respect of any such amounts) arising out of or in connection with any Proceeding; *provided* that Liabilities shall not include any Expenses.

“**person**” means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization.

“**Proceeding**” includes any threatened, pending or completed action, suit or other proceeding (which shall include an arbitration or other alternate dispute resolution mechanism), whether civil, criminal, administrative or investigative in nature (including any appeal therefrom) and whether instituted by or on behalf of the Company or any other party, in any such case, in which Indemnatee was, is or may be involved as a party or otherwise by reason of any Corporate Status of Indemnatee or by reason of any action taken (or failure to act) by Indemnatee or on Indemnatee’s part while serving in any Corporate Status (in each case, whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification or advancement of expenses can be provided under this Agreement), or any inquiry or investigation that Indemnatee in good faith believes might lead to the institution of any such action, suit or other proceeding; *provided* that Proceeding shall not include an action, suit or other proceeding contemplated by Section 7.07(b).

“**Securities Act**” means the Securities Act of 1933, as amended.

(b) For the purposes of this Agreement:

References to the “Company” shall include, in addition to the surviving or resulting corporation in any merger or consolidation, any constituent corporation (including any constituent of a constituent) absorbed in a merger or consolidation which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that if Indemnatee is or was a director, officer, employee or agent of such constituent corporation or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another Enterprise, then Indemnatee shall stand in the same position under the provisions of this Agreement with respect to the surviving or resulting corporation as Indemnatee would have with respect to such constituent corporation if its separate existence had continued.

References to “director, officer, employee or agent” shall include a trustee, general partner, managing member, fiduciary or board of directors’ committee member.

References to “serving at the request of the Company” shall include any service as a director, officer, employee or agent of the Company or any other Enterprise which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Company”.

ARTICLE 2

SERVICES BY INDEMNITEE

Section 2.01. *Services by Indemnatee.* Indemnatee hereby agrees to serve or continue to serve as a director of the Company, for so long as Indemnatee is duly elected or appointed or until Indemnatee tenders Indemnatee's resignation or is removed.

ARTICLE 3

INDEMNIFICATION AND ADVANCEMENT OF EXPENSES

Section 3.01. *Indemnification.* (a) The Company hereby agrees to and shall indemnify Indemnatee and hold Indemnatee harmless, to the fullest extent permitted by applicable law, from and against any and all Expenses and Liabilities actually and reasonably incurred by Indemnatee or on Indemnatee's behalf.

(a) In addition to any right to payment established pursuant to Section 4.02, to the extent that Indemnatee is a party to (or a participant in) and is successful, on the merits or otherwise, in the defense of any Proceeding or any claim, issue or matter therein by reason of Indemnatee's Corporate Status, the Company shall indemnify Indemnatee against all Expenses actually and reasonably incurred by Indemnatee or on Indemnatee's behalf in connection therewith. If Indemnatee is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in any Proceeding, the Company shall indemnify Indemnatee against all Expenses actually and reasonably incurred by Indemnatee or on Indemnatee's behalf in connection with each successfully resolved claim, issue or matter and any claim, issue or matter related to each such successfully resolved claim, issue or matter. For purposes of this Section 3.01(b) and without limitation, the termination of any Proceeding or any claim, issue or matter in a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such Proceeding, claim, issue or matter.

(b) To the extent that Indemnatee is, by reason of Indemnatee's Corporate Status, a witness in any Proceeding to which Indemnatee is not a party, he shall be indemnified against all Expenses actually and reasonably incurred by Indemnatee or on Indemnatee's behalf in connection therewith.

(c) If Indemnatee is entitled under any provision of the certificate of incorporation or bylaws of the Company or this Agreement to indemnification by the Company for some or a portion of Expenses or Liabilities, but not, however, for the total amount thereof (including by reason of the exclusions referenced in Section 3.03) the Company shall nevertheless indemnify Indemnatee for the portion thereof to which Indemnatee is entitled.

Section 3.02. *Advancement of Expenses.* (a) The Company shall advance any Expenses actually and reasonably incurred by Indemnatee or on Indemnatee's behalf in connection with a Proceeding within 20 days after receipt by the Company of a written request for advancement of expenses, which request may be delivered to the Company at such time and from time to time as Indemnatee deems appropriate in Indemnatee's sole discretion (whether prior to or after final disposition of any such Proceeding). Advances shall be made without regard to Indemnatee's ability to repay such amounts and without regard to Indemnatee's ultimate entitlement to indemnification under this Agreement or otherwise. Any such advances shall be made on an

unsecured basis and be interest free. Advances shall include any and all reasonable Expenses incurred pursuing an action to enforce this Agreement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed. The Indemnitee shall qualify for advances upon the execution and delivery to the Company of this Agreement, which shall constitute an undertaking providing that the Indemnitee undertakes to repay the amounts advanced (without interest) to the extent that it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company. No other form of undertaking shall be required other than the execution of this Agreement.

(a) Indemnitee agrees that Indemnitee shall reimburse the Company for all amounts advanced by the Company pursuant to Section 3.02 if and only to the extent it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company for such Expenses. Notwithstanding the foregoing, if Indemnitee seeks a judicial adjudication or an arbitration pursuant to Section 5.01(a), Indemnitee shall not be required to reimburse the Company pursuant to this Section 3.02(b) until a final determination (as to which all rights of appeal have been exhausted or lapsed) has been made.

Section 3.03. *Exclusions.* Notwithstanding any provision of this Agreement to the contrary (including Section 3.01 and Section 3.02), the Company shall not be obligated under this Agreement to indemnify (or advance expenses) in connection with:

(a) any claim made against Indemnitee (b) for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company pursuant to Section 16(b) of the Exchange Act or similar provisions of state statutory law or common law or (c) for reimbursement to the Company of any bonus or other incentive-based or equity-based compensation or of any profits realized by Indemnitee from the sale of securities of the Company in each case as required under the Exchange Act; or

(d) except for an action, suit or other proceeding contemplated by Section 7.07(b), any action, suit or other proceeding (or part thereof) initiated by Indemnitee (including any such action, suit or other proceeding (or part thereof) initiated by Indemnitee against the Company or its directors, officers, employees, agents or other indemnitees), unless (i) the Board authorized the action, suit or other proceeding (or part thereof) prior to its initiation or (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law.

Section 3.04. *Defense of Claims.* The Company will be entitled to participate in any Proceeding at its own expense. The Company shall not settle any Proceeding (in whole or in part) in any manner (including the entry of any bar order or other order, decree or stipulation, pursuant to 15 U.S.C. § 78u-4 (the Private Securities Litigation Reform Act), or any similar foreign, federal or state law, rule, regulation or order) that (a) imposes any unindemnified or non-advanced Expense, Liability or limitation on Indemnitee without Indemnitee's prior written consent, such consent not to be unreasonably withheld, or (b) has the actual or purported effect of extinguishing, limiting or impairing the Indemnitee's rights under this Agreement.

ARTICLE 4

PROCEDURES FOR DETERMINING ENTITLEMENT TO INDEMNIFICATION

Section 4.01. *Request for Indemnification.* (a) Indemnatee shall notify the Company in writing as soon as reasonably practicable (i) after being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or (ii) if the Company has not been previously notified, after receipt of written notice of any other matter with respect to which Indemnatee intends to seek indemnification or advancement of expenses under Section 3.01 or Section 3.02. The omission by Indemnatee to so notify the Company will not relieve the Company from any liability which it may have to Indemnatee (i) under this Agreement except and only to the extent the Company can establish that such omission to notify resulted in actual material prejudice to the Company or (ii) otherwise than under this Agreement.

(b) Indemnatee may thereafter deliver to the Company a written request for indemnification pursuant to this Agreement at such time and from time to time as Indemnatee deems appropriate in Indemnatee's sole discretion, which request shall also be deemed a request for advancement of expenses under Section 3.02.

Section 4.02. *Determination of Entitlement.* (a) Except as otherwise provided pursuant to Section 3.01(b) and Section 3.01(c), upon the final disposition of the matter that is the subject of the request for indemnification delivered pursuant to Section 4.01(b), a determination shall be made with respect to Indemnatee's entitlement thereto in the specific case. If a Change in Control shall not have occurred, such determination shall be made (i) by a majority vote of the Disinterested Directors or of a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors (in either case, even though less than a quorum of the Board) or (ii) if there are no Disinterested Director or the Disinterested Directors so direct, by Independent Counsel. If a Change in Control shall have occurred, such determination shall be made by Independent Counsel. Any determination made by Independent Counsel pursuant to this Section 4.02(a) shall be in the form of a written opinion to the Board, a copy of which shall be delivered to Indemnatee. Indemnatee shall reasonably cooperate with the person or persons making such determination including providing to such person or persons upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnatee and reasonably necessary to such determination. Any costs or expenses (including fees and expenses of counsel) incurred by Indemnatee in so cooperating with the person or persons making such determination shall be borne by the Company (irrespective of the determination as to Indemnatee's entitlement to indemnification), and the Company hereby indemnifies and agrees to hold Indemnatee harmless therefrom.

As used in this Agreement, the following terms shall have the following meanings:

An "**Affiliate**" means (i) an entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) an entity, other than a Subsidiary Corporation, that is controlled by the Company directly, or indirectly through one or more intermediary entities. For this purpose, the term "control" (including the term "controlled by")

means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the relevant entity, whether through the ownership of voting securities, by contract or otherwise; or shall have such other meaning assigned such term for the purposes of registration on Form S-8 under the Securities Act.

A “**Change in Control**” shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following events:

1. any “person” (as such term is defined in Section 3(a)(9) of the Exchange Act as modified and used in Sections 13(d) and 14(d) thereof), other than (1) the Company or any Subsidiary Corporation, (2) a trustee or other fiduciary holding stock of the Company under an employee benefit plan of a Participating Company, (3) an underwriter temporarily holding securities pursuant to an offering of such securities or (4) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the stock of the Company (a “**Person**”), becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act, a “**Beneficial Owner**”), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total combined voting power of the Company’s then-outstanding voting securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (A) of paragraph (iii) below; or
2. a change in the composition of the Board such that the individuals who are serving as members of the Board as of the date of this Agreement, together with any new member of the Board (other than a member of the Board whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company’s stockholders was approved or recommended by a vote of at least a majority of the members of the Board then still in office who either were members of the Board on the date of this Agreement or whose appointment, election or nomination for election was previously so approved or recommended, cease for any reason to constitute a majority of the number of the members of the Board then serving; or
3. there is consummated a merger or consolidation of the Company or any Subsidiary Corporation with any other corporation or other entity, other than (A) a merger or consolidation immediately following which (x) the voting securities of the Company outstanding immediately prior to such merger or consolidation continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary, at least 50% of the combined voting power of the securities of the Company or such surviving entity

or any parent thereof outstanding immediately after such merger or consolidation and (y) the individuals who comprise the Board immediately prior thereto constitute a majority of the board of directors of the Company, the entity surviving such merger or consolidation or, if the Company or the entity surviving such merger is then a subsidiary, the ultimate parent thereof, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not included in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities; or

4. the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (it being conclusively presumed that any sale or disposition is a sale or disposition by the Company of all or substantially all of its assets if the consummation of the sale or disposition is contingent upon approval by the Company's stockholders unless the Board expressly determines in writing that such approval is required solely by reason of any relationship between the Company and any other Person or an Affiliate of the Company and any other Person), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity (A) at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale or disposition and (B) the majority of whose board of directors immediately following such sale or disposition consists of individuals who comprise the Board immediately prior thereto.

Notwithstanding the foregoing, a "Change in Control" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company, as adjusted from time to time, immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

"**Code**" means the Internal Revenue Code of 1986, as amended, and any applicable regulations and administrative guidelines promulgated thereunder.

"**Disinterested Director**" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification or advancement of expenses is sought by Indemnitee.

"**Independent Counsel**" means a law firm, or a member of a law firm, that is experienced in matters of corporate law and neither currently is, nor in the five years previous to its selection or appointment has been, retained to represent (i) the Company or Indemnitee in any

matter material to either such party (provided that acting as an Independent Counsel under this Agreement or in a similar capacity with respect to any other indemnification arrangements between the Company and its present or former directors shall not be deemed a representation of the Company or Indemnatee) or (ii) any other party to the Proceeding giving rise to a claim for indemnification or advancement of expenses hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnatee in an action to determine Indemnatee’s rights under this Agreement.

“Parent Corporation” means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.

“Participating Company” means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.

“Subsidiary Corporation” means any present or future “subsidiary corporation” of the Company, as defined in Section 424(f) of the Code.

(b) If the determination is to be made by Independent Counsel, such Independent Counsel shall be selected as provided in this Section 4.02(b). If a Change in Control shall not have occurred, the Independent Counsel shall be selected by the Board and be reasonably acceptable to Indemnatee), and the Company shall give written notice to Indemnatee advising Indemnatee of the identity of the Independent Counsel so selected. If a Change in Control shall have occurred, the Independent Counsel shall be selected by Indemnatee and be reasonably acceptable to the Company (unless Indemnatee shall request that such selection be made by the Board, in which event the preceding sentence shall apply), and Indemnatee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. If, within 20 days after receipt by the Company of a request for indemnification pursuant to Section 4.01(b), no Independent Counsel shall have been selected and not objected to, either the Company or Indemnatee may petition a court of competent jurisdiction (or, at Indemnatee’s option pursuant to Section 5.01, an arbitration) for resolution of any objection which shall have been made to the selection of Independent Counsel and/or for the appointment of another person as Independent Counsel, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel. The Company agrees to pay the reasonable fees and expenses of any Independent Counsel appointed pursuant to this Section and to indemnify such person against any and all expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto except for gross negligence or willful misconduct. Upon the due commencement of any judicial proceeding pursuant to Section 5.01(a) of this Agreement, the Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

(c) If it is determined that Indemnatee is entitled to indemnification, payment to Indemnatee shall be made within 10 days after such determination.

Section 4.03. *Presumptions and Burdens of Proof; Effect of Certain Proceedings.* (a) In making any determination as to Indemnatee's entitlement to indemnification hereunder, Indemnatee shall be entitled to a presumption that he is entitled to indemnification under this Agreement if Indemnatee has submitted a request for indemnification in accordance with Section 4.01(b), and the Company shall have the burdens of coming forward with evidence and of persuasion to overcome that presumption.

(b) The termination of any Proceeding or of any claim, issue or matter therein by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that Indemnatee did not meet any particular standard of conduct or have any particular belief or that a determination has been made that indemnification is not permitted pursuant to this Agreement.

(c) For purposes of any determination of good faith, Indemnatee shall be deemed to have acted in good faith if Indemnatee's action is based on the records or books of account of the Company or other Enterprise, as applicable, including financial statements, or on information supplied to Indemnatee by the officers of such entity in the course of their duties, or on the advice of legal counsel for such entity or on information or records given or reports made to such entity by an independent certified public accountant, appraiser, or other expert selected with reasonable care by such entity. The provisions of this Section 4.03(c) shall not be deemed to be exclusive or to limit in any way other circumstances in which Indemnatee may be deemed or found to have met the applicable standard of conduct to be indemnified pursuant to this Agreement.

(d) The knowledge or actions or failure to act of any other director, officer, employee or agent of the Company or other Enterprise, as applicable, shall not be imputed to Indemnatee for purposes of determining Indemnatee's right to indemnification under this Agreement.

(e) If a determination as to Indemnatee's entitlement to indemnification shall not have been made pursuant to this Agreement within 60 days after the final disposition of the matter that is the subject of the request for indemnification, the requisite determination of entitlement to indemnification shall be deemed to have been made in favor of Indemnatee, and Indemnatee shall be entitled to such indemnification, absent a misstatement of a material fact in the information provided by Indemnatee pursuant to Section 4.01(b) and Section 4.02(a) or an omission of a material fact necessary in order to make the information provided not misleading; *provided* that such 60-day period may be extended for a reasonable time, not to exceed an additional 30 days, if the person or persons making the determination in good faith requires such additional time to obtain or evaluate any documentation or information relating thereto.

ARTICLE 5

RIGHTS TO ADJUDICATION OF ADVERSE DETERMINATION, ETC.

Section 5.01. *Adjudication or Arbitration.* (a) Indemnatee shall be entitled to an adjudication (by a court of competent jurisdiction or, at Indemnatee's option, through an arbitration conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association) of any determination pursuant to Section 4.02 that Indemnatee

is not entitled to indemnification under this Agreement. Any such adjudication shall be conducted in all respects as a *de novo* trial or arbitration on the merits, and any prior adverse determination shall not be referred to or introduced into evidence, create a presumption that Indemnitee is not entitled to indemnification or advancement of expenses, be a defense or otherwise adversely affect Indemnitee. In any such judicial proceeding or arbitration, the provisions of Section 4.03 (including the presumption in favor of Indemnitee and the burdens on the Company) shall apply.

(b) Indemnitee shall also be entitled to an adjudication (by a court of competent jurisdiction or, at Indemnitee's option, through an arbitration as described above) of any other disputes under this Agreement.

(c) If a determination shall have been made pursuant to Section 4.02 that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 5.01, absent a misstatement of a material fact in the information provided by Indemnitee pursuant to Section 4.01(b) and Section 4.02(a) or an omission of a material fact necessary in order to make the information provided not misleading.

(d) In connection with any judicial proceeding or arbitration commenced pursuant to this Section 5.01, the Company shall not oppose Indemnitee's right to seek such adjudication, shall be precluded from asserting that the procedures and presumptions of this Agreement are not valid, binding or enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all of the provisions of this Agreement.

ARTICLE 6

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Section 6.01. *D&O Liability Insurance.* (a) To the extent the Company obtains any insurance policies providing liability insurance ("**Liability Insurance**") for directors of the Company in their capacities as directors or in any other capacities where they are acting for or on behalf of the Company, in respect of acts or omissions occurring while serving in any such capacity, Indemnitee shall be covered by such insurance policies as in effect from time to time in accordance with the applicable terms to the maximum extent of the coverage provided under such policies for any other director.

(b) To the extent the Company has any such liability insurance policies, the Company shall, promptly after receiving notice of a Proceeding as to which Indemnitee is a party or a participant (as a witness or otherwise), give notice of such Proceeding to the insurers under such policies in accordance with the procedures set forth in the respective policies and shall thereafter take all necessary or desirable actions to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies. The failure or refusal of any such insurer to pay any such amount shall not affect or impair the obligations of the Company under this Agreement.

(c) Upon request by Indemnitee, the Company shall provide to Indemnitee copies of the Liability Insurance policies as in effect from time to time. The Company shall promptly notify Indemnitee of any material changes in such insurance coverage.

ARTICLE 7

MISCELLANEOUS

Section 7.01. *Nonexclusivity of Rights.* The rights of indemnification and advancement of expenses provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled to under applicable law, the Company's certificate of incorporation or bylaws, any other agreement, any vote of stockholders or resolution of directors or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in Delaware law, whether by statute or judicial decision, permits greater indemnification or advancement of expenses than would be afforded currently under this Agreement, it is the intent of the parties hereto that Indemnitee shall be entitled under this Agreement to the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder or otherwise shall not prevent the concurrent assertion or employment of any other right or remedy.

Section 7.02. *Subrogation, etc.* (a) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all actions necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(b) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder (or for which advancement is provided hereunder) if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy or otherwise.

(c) The Company's obligation to indemnify or advance expenses hereunder to Indemnitee who is or was serving at the request of the Company as a director, officer, employee or agent of any other Enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or advancement of expenses from such Enterprise.

Section 7.03. *Mutual Acknowledgment.* Both the Company and Indemnitee acknowledge that in certain instances, Federal law or applicable public policy may prohibit the Company from indemnifying its directors and officers under this Agreement or otherwise. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to submit the question of

indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnatee.

Section 7.04. *Contribution.* To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnatee for any reason whatsoever, the Company, in lieu of indemnifying Indemnatee, shall contribute to the amount incurred by Indemnatee or on Indemnatee's behalf, whether for Liabilities and/or Expenses in connection with a Proceeding or other expenses relating to an indemnifiable event or transaction under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such action, suit or other proceeding in order to reflect (i) the relative benefits received by the Company and Indemnatee as a result of the event(s) and/or transaction(s) giving rise to such action, suit or other proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnatee in connection with such event(s) and/or transaction(s).

Section 7.05. *Amendment.* This Agreement may not be modified or amended except by a written instrument executed by or on behalf of each of the parties hereto.

Section 7.06. *Waivers.* The observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a writing signed by the party against which such waiver is to be asserted. Unless otherwise expressly provided herein, no delay on the part of any party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party hereto of any right, power or privilege hereunder operate as a waiver of any other right, power or privilege hereunder nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

Section 7.07. *Expenses.* (a) The Company shall pay all costs and expenses (including fees and expenses of counsel) incurred by the Company and Indemnatee in connection with the preparation of this Agreement.

(b) The Company shall indemnify and hold Indemnatee harmless from any and all costs and expenses (including fees and expenses of counsel) actually and reasonably incurred by Indemnatee or on Indemnatee's behalf in seeking (whether through a judicial proceeding or arbitration (including any appeal resulting therefrom) or otherwise) to enforce any rights against the Company for indemnification or advancement of expenses (whether under this Agreement or otherwise) or to recover under any liability insurance policy maintained by any person for the benefit of Indemnatee in connection with the performance of Indemnatee's duties for or on behalf of the Company, in each case, whether or not Indemnatee is successful (in whole or in part) with respect to Indemnatee's claims. The Company shall pay (or reimburse Indemnatee for the payment of) any such costs or expenses within 20 days after receipt by the Company of a written request for the payment of such amounts, which request may be delivered to the Company at such time or from time to time as Indemnatee deems appropriate in Indemnatee's sole discretion (whether prior to or after final disposition of any such matter). Indemnatee shall have no obligation to reimburse any amounts paid by the Company pursuant to this Section 7.07(b).

Section 7.08. *Termination.* This Agreement shall continue until and terminate upon the later of: (a) 10 years after the date that Indemnitee shall have ceased to serve as a director of the Company or (b) 1 year after the final termination of any Proceeding then pending in respect of which the Indemnitee is granted rights of indemnification or advancement of expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 5.01 of this Agreement relating thereto.

Section 7.09. *Entire Agreement.* This Agreement constitutes the entire agreement between the parties hereto with respect to the matters covered herein and supersedes all prior oral or written understandings or agreements with respect to the matters covered herein. This Section 7.09 shall not be construed to limit any other rights Indemnitee may have under the Company's certificate of incorporation or bylaws, applicable law or otherwise.

Section 7.10. *Severability.* If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 7.11. *Notices.* All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (a) if delivered by hand or by courier and receipted for by the party to whom said notice or other communication shall have been directed, (b) if mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed or (c) if sent by facsimile transmission and fax confirmation is received, on the next business day following the date on which such facsimile transmission was sent. Addresses for notice to either party are as shown on the signature page of this Agreement, or such other address as any party shall have given by written notice to the other party as provided above.

Section 7.12. *Binding Effect.* (a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as a director of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving or continuing to serve as a director of the Company.

(b) This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company, heirs, executors, administrators or

other successors. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all or substantially all or a substantial part of the business or assets of the Company, by written agreement in the form and substance reasonably satisfactory to Indemnatee, expressly to assume and agree to perform this Agreement in the manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(c) The indemnification and advancement of expenses provided by this Agreement shall continue as to a person who has ceased to be a director, officer, employee or agent or is deceased and shall inure to the benefit of the heirs, executors, administrators or other successors of the estate of such person.

Section 7.13. *Governing Law.* This Agreement and the legal relations among the parties hereto shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules.

Section 7.14. *Consent To Jurisdiction.* Except with respect to any arbitration commenced by Indemnatee pursuant to Section 5.01, the Company and Indemnatee hereby irrevocably and unconditionally (i) agree that any action, suit or other proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Chancery Court and any court to which an appeal may be taken in such action, suit or other proceeding (the “**Delaware Court**”), and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action, suit or other proceeding arising out of or in connection with this Agreement, (iii) waive any objection to the laying of venue of any such action, suit or other proceeding in the Delaware Court, and (iv) waive, and agree not to plead or to make, any claim that any such action, suit or other proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

Section 7.15. *Headings.* The Article and Section headings in this Agreement are for convenience of reference only, and shall not be deemed to alter or affect the meaning or interpretation of any provisions hereof.

Section 7.16. *Counterparts.* This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

Section 7.17. *Use of Certain Terms.* As used in this Agreement, the words “herein,” “hereof,” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular paragraph, subparagraph, section, subsection, or other subdivision. Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered to be effective as of the date first above written.

**E*TRADE FINANCIAL
CORPORATION**

By: _____

Address:

Facsimile:

With a copy to:

Address:

Facsimile:

[_____]

Print Name:

Address:

Facsimile:

With a copy to:

Address:

Facsimile:

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.

E*TRADE Financial Corporation
(Registrant)

By /S/ KARL A. ROESSNER
Karl A. Roessner
Chief Executive Officer
(Principal Executive Officer)

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.

E*TRADE Financial Corporation
(Registrant)

By /s/ MICHAEL A. PIZZI
Michael A. Pizzi
Chief Financial Officer
(Principal Financial Officer)

**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 2, 2017

/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)

