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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, 2018

Commission File Number 1-11921

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

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

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 ☒		Accelerated filer	☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)		Smaller reporting company	☐
Emerging growth 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 30, 2018, there were 254,239,061 shares of common stock outstanding.

E*TRADE FINANCIAL CORPORATION
FORM 10-Q QUARTERLY REPORT
For the Quarter Ended September 30, 2018
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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.

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 our proposed transaction with Capital One Financial Corporation (Capital One) and its benefits and timing,
- our capital plan initiatives,
- the timing and payment of dividends on our capital stock, including our common and preferred stock,
- the payment of dividends from our subsidiaries to our parent company,
- the management of our legacy mortgage and consumer loan portfolio,
- our ability to utilize deferred tax assets, the expected implementation and applicability of government regulation and our ability to comply with these regulations,
- our ability to maintain required regulatory capital ratios,
- continued repurchases of our common stock,
- our ability to meet upcoming debt obligations,
- the integration and related restructuring costs of past and any future acquisitions,
- the expected outcome of existing or new litigation,
- our ability to execute our business plans and manage risk,
- future sources of revenue, expense and liquidity, 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 Capital One may not occur or may be delayed and that the actual aggregate consideration paid in connection with the proposed transaction is still subject to final determination,
- changes in business, economic or political conditions,
- performance, volume and volatility in the equity and capital markets,
- changes in interest rates or interest rate volatility,
- customer demand for financial products and services,
- our ability to continue to compete effectively and respond to aggressive price competition within our industry,
- cyber security threats, potential system disruptions and other security breaches or incidents,
- our ability to participate in consolidation opportunities in our industry, to complete consolidation transactions and to realize synergies or implement integration plans,
- our ability to service our corporate debt and, if necessary, to raise additional capital,
- changes in government regulation or actions by our regulators, including those that may result from the implementation and enforcement of regulatory reform legislation,

- our ability to move capital to our parent company from our subsidiaries,
- adverse developments in litigation,
- our ability to manage our balance sheet growth,
- the timing, duration and costs associated with our stock repurchase program,
- our ability to manage credit risk with customers and counterparties, and
- the impact of federal tax reform, including as a result of future regulations and guidance.

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. Investors should also consider the risks and uncertainties described elsewhere in this report, including under *Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Part II. Item 1A. Risk Factors* of this Quarterly Report and *Part I. Item 1A. Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission (SEC), which are incorporated herein by reference. The forward-looking statements contained in this report reflect our expectations only as of the date of this report. Investors should not place undue reliance on forward-looking statements, as we do not undertake to update or revise forward-looking statements, except as required by law.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

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, 2017.

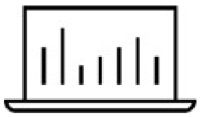
OVERVIEW

Company Overview

E*TRADE is a financial services company that provides brokerage and related products and services primarily to individual retail investors. Founded on the principle of innovation, we aim to enhance the financial independence of traders and investors through a powerful digital experience that includes tools and educational materials, supported by professional guidance, to help individual investors and traders meet both near- and long-term investing goals. We provide these services to customers through our digital platforms and network of industry-licensed customer service representatives and financial consultants, over the phone, by email and online via two national financial centers and in-person at 30 regional financial centers across the United States. We operate directly and through several subsidiaries, many of which are overseen by governmental and self-regulatory organizations. Our most important subsidiaries are described below:

- E*TRADE Securities LLC (E*TRADE Securities) is a registered broker-dealer that clears and settles customer securities transactions.
- E*TRADE Bank is a federally chartered savings bank that provides Federal Deposit Insurance Corporation (FDIC) insurance on qualifying amounts of customer deposits and provides other banking and cash management capabilities.
- E*TRADE Savings Bank, a subsidiary of E*TRADE Bank, is a federally chartered savings bank that provides FDIC insurance on qualifying amounts of customer deposits and custody solutions for registered investment advisors (RIAs).
- E*TRADE Financial Corporate Services is a provider of software and services for managing equity compensation plans to our corporate clients.
- E*TRADE Futures LLC (E*TRADE Futures) is a registered non-clearing Futures Commission Merchant (FCM) that provides clearing and settlement services for customer futures transactions.
- E*TRADE Capital Management, LLC (E*TRADE Capital Management) is an RIA that provides investment advisory services for our customers.

Delivering a powerful digital offering for our customers is a core pillar of our business strategy and we believe our focus on being a digital leader in the financial services industry is a competitive advantage. Our hybrid delivery model is available through the following award-winning digital platforms:



Web

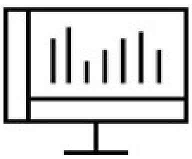
Our leading-edge sites for customers and our primary channel to interact with prospects

- Access to a broad range of trading solutions
- Actionable ideas and information
- Research and education for decision making

Mobile

Powerful trading applications for smartphones, tablets and watches

- Award-winning mobile apps
- Platforms to manage accounts on the move
- Stock and portfolio alerts



Active Trading Platforms

Powerful software and web-based trading solutions

- Sophisticated trading tools
- Idea generation and analysis
- Advanced portfolio and market tracking

Strategy

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

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 continue growing our customer base while deepening engagement with our existing customers.

- ***Capitalize on value of corporate services channel***

  Our corporate services channel is a strategically important driver of brokerage account and asset growth. 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.

Generate Robust Earnings Growth and Healthy Returns on Capital

- ***Utilize balance sheet to enhance returns***

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

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

  As we continue to deliver on our capital plan initiatives, we are focused on generating and effectively deploying and returning excess capital, including through our share repurchase program and common stock dividends, for the benefit of our shareholders.

Products and Services

We offer a broad range of products and services to our customers. Our core brokerage business is organized into four product areas: Trading, Investing, Corporate Services, and Advisor Services. Additionally, we offer banking and cash management capabilities, including deposit accounts insured by the FDIC, which are fully integrated into customer brokerage accounts. Among other features, customers have access to debit cards with ATM fee refunds, online and mobile bill pay, mobile check deposits, and E*TRADE Line of Credit, a program which allows customers to borrow against the market value of securities pledged as collateral.

Trading

The Company delivers automated trade order placement and execution services, offering our customers a full range of investment vehicles, including US equities, exchange-traded funds (ETFs), options, bonds, futures, American depositary receipts and non-proprietary mutual funds. Margin accounts are also available to qualifying customers, enabling them to borrow against their securities. We help customers plan and execute margin trades through robust margin solutions, including calculators and requirement lookup and analysis tools. The Company also offers a fully paid lending program, which allows our customers to be compensated for allowing us to lend certain securities in their account.

The Company markets trading products and services to self-directed investors and active traders. Products and services are delivered through web, desktop and mobile digital channels. Trading and investing tools are supported by guidance, including fixed income, options and futures specialists available on-call for customers. Other tools and resources include independent research and analytics, live and on-demand education, market commentary, and strategies, trading ideas and screeners for major asset classes.

Investing

The Company endeavors to help investors build wealth and address their long-term investing needs. Products and services include individual retirement accounts (IRAs), including Roth IRAs, and a suite of managed products and asset allocation models. These include our Core Portfolios, Blend Portfolios, Dedicated Portfolios, and Fixed Income Portfolios. Investors are provided a full suite of digital tools across the Company's web and mobile channels to address their investing needs. These include planning and allocation tools, education and editorial content.

The Company also offers guidance through a team of licensed financial consultants and Chartered Retirement Planning Counselors℠ at our 30 regional financial centers across the country. Guidance is also accessible through our two national financial centers by phone, email and online channels. Customers can receive complimentary portfolio reviews and personalized investment recommendations.

Corporate Services

The Company provides stock plan administration services for both public and private companies. Through our industry-leading platform, Equity Edge Online™, the Company offers management of employee stock option plans, employee stock purchase plans and restricted stock plans with fully-automated stock plan administration. Accounting, reporting and scenario modeling tools are also available. The integrated stock plan solutions include multi-currency settlement and delivery, disbursement in various currencies and streamlined tax calculation. Additionally, corporate clients are offered 10b5-1 plan design and implementation and SEC filing assistance. The Company's digital platforms allow participants in corporate client stock plans to view and manage their holdings. Participants have access to education tools, restricted stock sales support and dedicated stock plan service representatives. Our Corporate Services channel is an important driver of brokerage account and asset growth, serving as an introductory channel to the Company, with over 1.7 million individual stock plan accounts. We serve approximately 20% of S&P 500 companies, including nearly 40% of technology companies and nearly 50% of healthcare companies within the index. In total, we serve over 50% of all publicly traded U.S. technology companies. As of September 30, 2018, approximately 35% of customer cash is related to the Corporate Services channel.

Advisor Services

With the acquisition of TCA, which was completed on April 9, 2018, the Company has expanded its ability to provide technology solutions and custody services to independent RIAs. Liberty, our proprietary technology platform, includes sophisticated modeling, rebalancing, reporting and practice management capabilities that are fully customizable for the RIA. We expect our Advisor Services channel to provide access to a growing segment of our industry and help bolster the Company's ability to attract and retain customers in need of specialized and sophisticated customer service engagement. As of September 30, 2018, the Advisor Services channel had approximately $12 billion in commitments for future assets under custody from RIAs, representing a significant increase from the $17 billion in assets under custody when the Company announced the planned acquisition of TCA in October 2017.

For additional information about our business see *Part I. Item 1. Business* in the Annual Report on Form 10-K for the year ended December 31, 2017.

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, margin receivables, and our legacy loan portfolio, less interest incurred on interest-bearing liabilities, including deposits, customer payables, corporate debt and other borrowings.
- Commissions revenue is generated by customer trades and is largely impacted by trade volume, trade type, 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, advisor management and custody fees, and mutual fund service 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 2018

Declared quarterly dividend on common stock

In October 2018, our Board of Directors declared a quarterly cash dividend of $0.14 per share on our outstanding shares of common stock. The dividend is payable on November 15, 2018, to shareholders of record as of the close of business on October 30, 2018.

Completed prior $1 billion share repurchase program and approved new $1 billion program

During the third quarter of 2018, we completed our prior $1 billion share repurchase program with the repurchase of 5.3 million shares of common stock at an average price of $58.74 per share, or $310 million in the aggregate during the quarter. As of September 30, 2018, we have repurchased 19.5 million shares of common stock at an average price of $51.38 per share since we began repurchasing shares under this authorization in the third quarter of 2017. In October 2018, our Board of Directors authorized a new $1 billion share repurchase program. The timing and exact amount of any common stock repurchases will depend on various factors, including market conditions and our capital position. We have the ability to complete up to half of the authorization during the fourth quarter of 2018 and intend to complete the remainder by the end of 2019. As of October 30, 2018, we have subsequently repurchased an additional 2.5 million shares of common stock at an average price of $47.77 per share.

Redeemed our Trust Preferred Securities (TRUPs)

During the third quarter of 2018, the Company redeemed all $413 million of its outstanding TRUPs. In connection with the redemption, we recognized a loss on early extinguishment of debt of $4 million, consisting of the difference between the carrying value of the TRUPs redeemed, including unamortized debt issuance costs, and the total cash amount paid, including related fees and expenses. Net proceeds from the June 2018 issuance of the 4.50% Senior Notes due 2028 (Senior Notes) were used to redeem the TRUPs. For additional information about the debt issuance, see *Note 11—Corporate Debt*.

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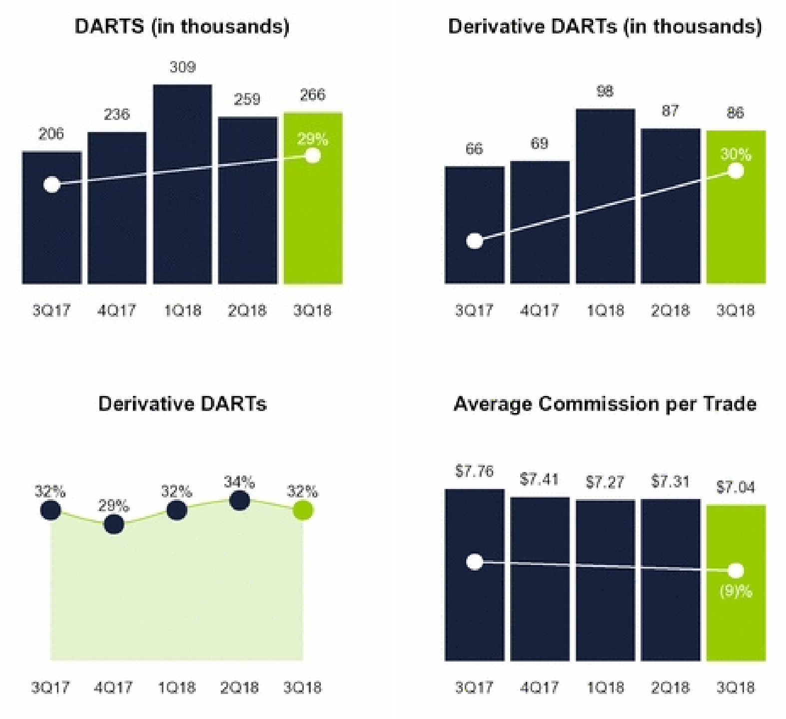
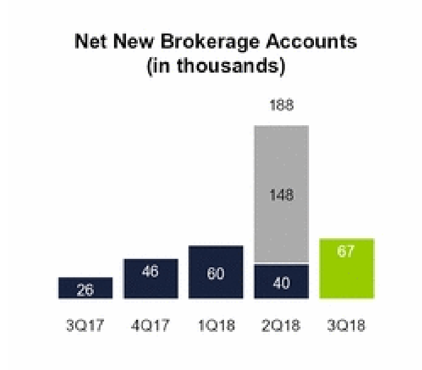
Key Performance Metrics

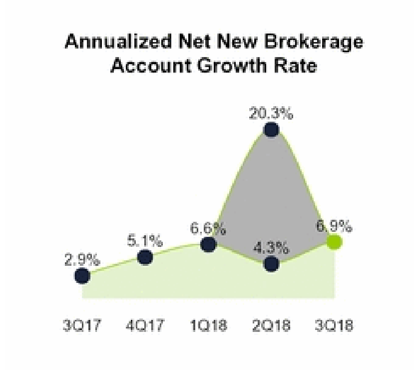
Management monitors customer activity and corporate metrics to evaluate the Company's performance. The most significant of these are displayed below along with the percentage variance for the three months ended September 30, 2018 from the same period in 2017. These metrics include the impact of the TCA acquisition from the April 9, 2018 acquisition date, as applicable.

Customer Activity Metrics:

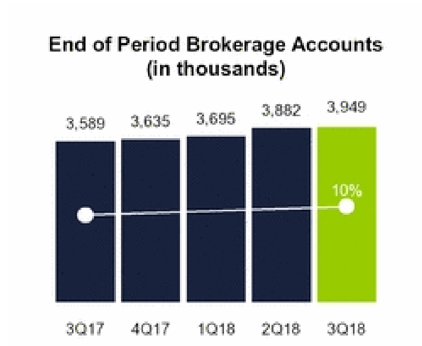


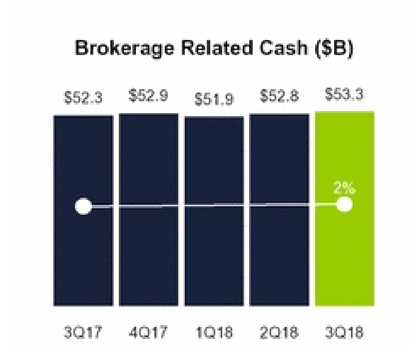


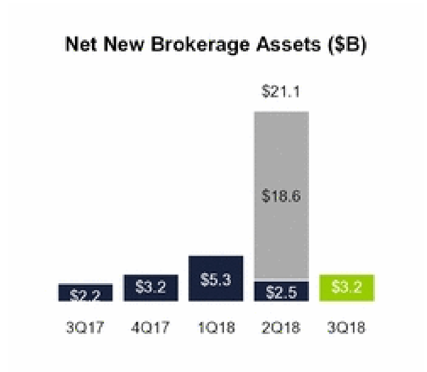
■ TCA Acquisition

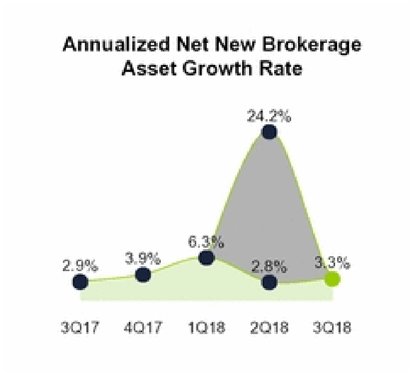


■ TCA Acquisition









■ TCA Acquisition ■ TCA Acquisition

Daily Average Revenue Trades (DARTs) is the predominant driver of commissions revenue from our customers. DARTs were 266,290 and 277,796 for the three and nine months ended September 30, 2018, respectively, compared to 205,763 and 207,065 for the same periods in 2017.

Derivative DARTs, a key driver of commissions revenue, is the daily average number of options and futures trades, and ***Derivative DARTs percentage*** is the mix of options and futures as a component of total DARTs. Derivative DARTs were 85,977 and 90,075 for the three and nine months ended September 30, 2018, respectively, compared to 66,122 and 63,869 for the same periods in 2017. Derivative DARTs represented 32% of total DARTs for both the three and nine months ended September 30, 2018, compared to 32% and 31% for the same periods in 2017.

Average commission per trade is an indicator of changes in our customer mix, product mix and/or product pricing. Average commission per trade was $7.04 and $7.21 for the three and nine months ended September 30, 2018, respectively, compared to $7.76 and $8.54 for the same periods in 2017. Average commission per trade for the nine months ended September 30, 2018 was impacted by trade mix and the continued migration of customers to lower active trader commission pricing resulting from our reduced commission rates for equity and options trades effective March 13, 2017, which were as follows:

- Stock, options and 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.

End of period brokerage accounts and ***net new brokerage accounts*** are indicators of our ability to attract and retain brokerage customers. End of period brokerage accounts were 3.9 million and 3.6 million at September 30, 2018 and 2017, respectively. Net new brokerage accounts were 67,163 and 314,490 for the three and nine months ended September 30, 2018, respectively, compared to 26,225 and 125,711 for the same periods in 2017. Our annualized net new brokerage account growth rate was 6.9% and 11.5% for the three and nine months ended September 30, 2018, respectively, compared to 2.9% and 4.8% for the same periods in 2017. Excluding the 145,891 accounts acquired on April 9, 2018 as part of the TCA acquisition, the adjusted annualized net new brokerage account growth rate was 6.2% for the nine months ended September 30, 2018.

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 $11.2 billion and $8.5 billion at September 30, 2018 and 2017, respectively.

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 new and existing customers is expanding. Changes in this metric are also driven by changes in the valuations of our customers' underlying securities. Customer assets were $472.8 billion and $365.3 billion at September 30, 2018 and 2017, respectively.

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 $53.3 billion and $52.3 billion at September 30, 2018 and 2017, 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 $3.2 billion and $29.6 billion for the three and nine months ended September 30, 2018, respectively, compared to $2.2 billion and $9.0 billion for the same periods in 2017. During the three and nine months ended September 30, 2018, our annualized net new brokerage asset growth rate was 3.3% and 11.6%, respectively, compared to 2.9% and 4.4% for the same periods in 2017. Excluding the $18.4 billion of assets acquired on April 9, 2018 as part of the TCA acquisition, the adjusted annualized net new brokerage asset growth rate was 4.4% for the nine months ended September 30, 2018.

Managed products represents customer assets in our Managed Portfolios which are a driver of fees and service charges revenue. Managed products were $6.2 billion and $4.9 billion at September 30, 2018 and 2017, respectively.

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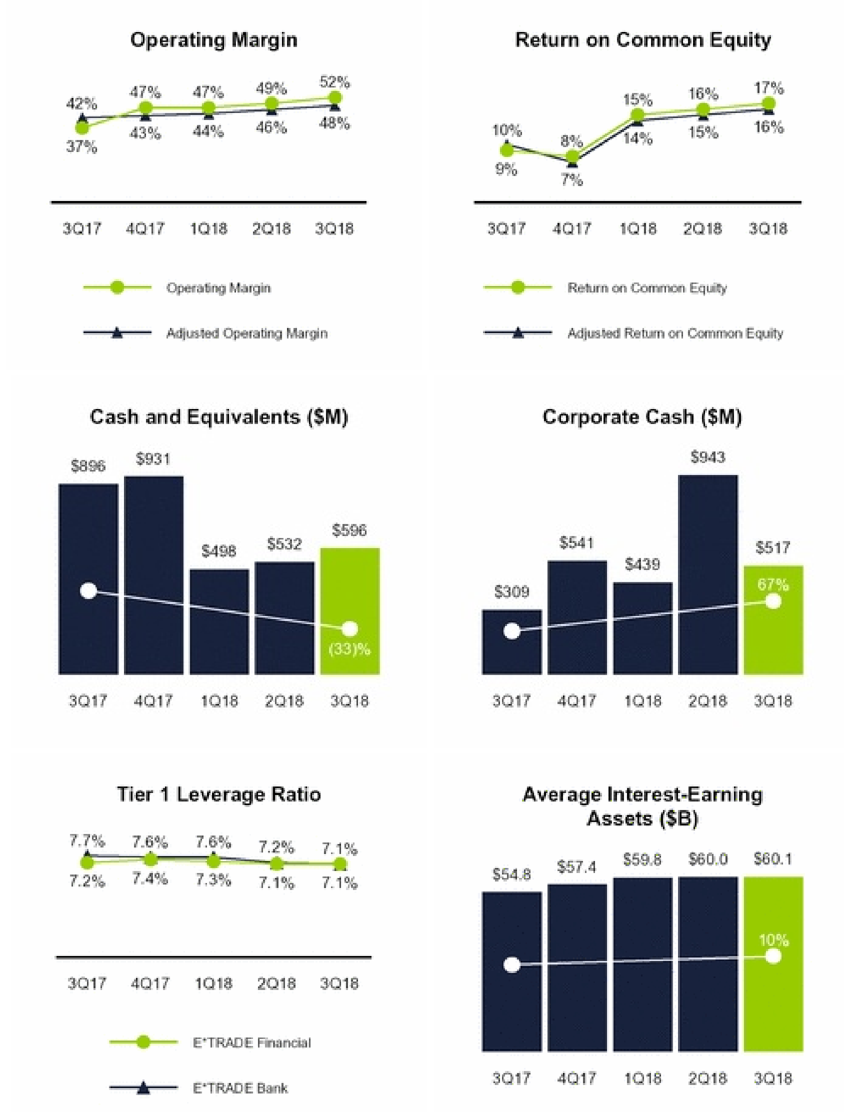
Corporate Metrics:



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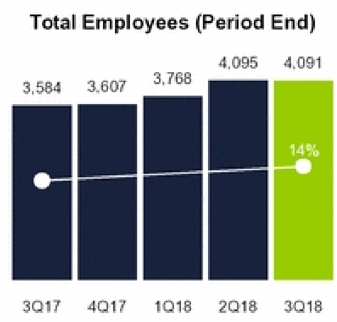


Operating margin is the percentage of net revenue that results in income before income taxes and is an indicator of the Company's profitability. Operating margin was 52% and 49% for the three and nine months ended September 30, 2018, respectively, compared to 37% and 44% for the same periods in 2017.

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 48% and 46% for the three and nine months ended September 30, 2018, respectively, compared to 42% and 39% for the same periods in 2017. See *MD&A—Earnings Overview* for a reconciliation of adjusted operating margin to operating margin.

Return on common equity is calculated by dividing annualized net income available to common shareholders by average common shareholders' equity, which excludes preferred stock. Return on common equity was 17% and 16% for the three and nine months ended September 30, 2018, respectively, compared to 9% and 10% for the same periods in 2017.

Adjusted return on common equity is a non-GAAP measure calculated by dividing annualized adjusted net income available to common shareholders, a non-GAAP measure which excludes 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 return on common equity performance, by average common shareholders' equity, which excludes preferred stock. Adjusted return on common equity was 16% and 15% for the three and nine months ended September 30, 2018, respectively, compared to 10% and 9% for the same periods in 2017. See *MD&A—Earnings Overview* for a reconciliation of adjusted net income available to common shareholders to net income and adjusted return on common equity to return on common equity.

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. Cash and equivalents was $596 million and $896 million at September 30, 2018 and 2017, respectively, while corporate cash was $517 million and $309 million for the same periods. See *MD&A—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 7.1% and 7.2% at September 30, 2018 and 2017, respectively. E*TRADE Bank's Tier 1 leverage ratio was 7.1% and 7.7% at September 30, 2018 and 2017, respectively. See *MD&A—Liquidity and Capital Resources* for additional information, including the calculation of regulatory capital ratios.

Interest-earning assets, along with net interest margin, are an indicator of our ability to generate net interest income. Average interest-earning assets were $60.1 billion and $60.0 billion for the three and nine months ended September 30, 2018, respectively, compared to $54.8 billion and $51.8 billion for the same periods in 2017.

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 3.10% and 3.03% for the three and nine months ended September 30, 2018, respectively, compared to 2.85% and 2.74% for the same periods in 2017.

Total employees were 4,091 and 3,584 at September 30, 2018 and 2017, respectively.

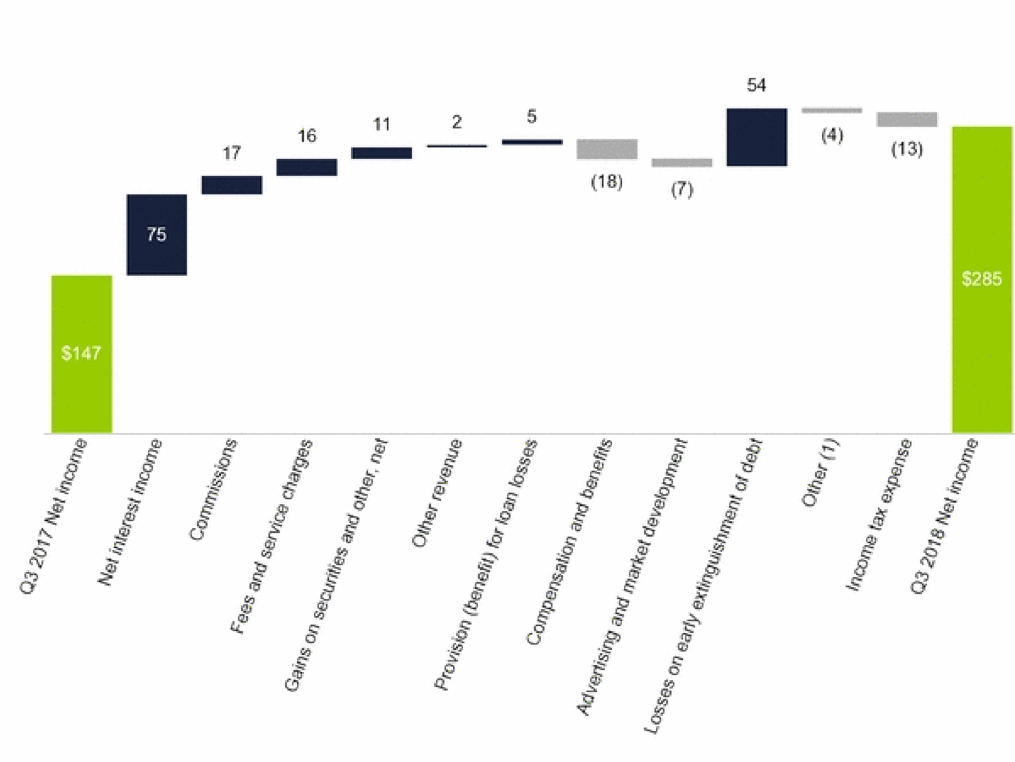
Regulatory Developments

In April 2016, the US Department of Labor (DOL) published its final Conflicts of Interest Rule—Retirement Investment Advice regulations under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 (Fiduciary Rule). The Fiduciary Rule generally subjects particular persons, such as broker-dealers and other financial advisors 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. On March 5, 2018, the Fifth Circuit Court of Appeals issued a decision vacating the Fiduciary Rule in its entirety, and on June 21, 2018, following expiration of the appeals period for the decision and resolution of certain motions for appeal and intervention, issued a mandate making the decision effective.

In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (EGRRCPA) was passed. The EGRRCPA amended provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) as well as other statutes administered by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the FDIC (collectively, the “federal banking agencies”). In July 2018, the federal banking agencies issued a joint release clarifying that as a result of the passage of EGRRCPA, certain requirements, including company-run stress testing requirements under the Dodd-Frank Act, would no longer be required for savings and loan holding companies and banks with less than $100 billion in total consolidated assets, such as the Company and E*TRADE Bank. In addition the Federal Reserve Board issued a separate statement clarifying that, pursuant to EGRRCPA, it will not take action to enforce certain regulatory and reporting requirements, including the modified liquidity coverage ratio (LCR) for firms, like the Company, with less than $100 billion in total consolidated assets. *See MD&A—Liquidity and Capital Resources* for further information.

EARNINGS OVERVIEW

We generated net income of $285 million and $782 million on total net revenue of $720 million and $2.1 billion for the three and nine months ended September 30, 2018, respectively. The following chart presents a reconciliation of net income for the three months ended September 30, 2017 to net income for the three months ended September 30, 2018 (dollars in millions):



(1) Includes clearing and servicing, professional services, occupancy and equipment, communications, depreciation and amortization, FDIC insurance premiums, amortization of other intangibles, restructuring and acquisition-related activities and other non-interest expenses.

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

	Three Months Ended September 30,		Variance 2018 vs. 2017		Nine Months Ended September 30,		Variance 2018 vs. 2017	
	2018	2017	Amount	%	2018	2017	Amount	%
Net interest income	$ 466	$ 391	$ 75	19 %	$ 1,364	$ 1,066	$ 298	28 %
Total non-interest income	254	208	46	22 %	774	663	111	17 %
Total net revenue	720	599	121	20 %	2,138	1,729	409	24 %
Provision (benefit) for loan losses	(34)	(29)	(5)	17 %	(74)	(142)	68	(48)%
Total non-interest expense	380	405	(25)	(6)%	1,159	1,106	53	5 %
Income before income tax expense	374	223	151	68 %	1,053	765	288	38 %
Income tax expense	89	76	13	17 %	271	280	(9)	(3)%
Net income	$ 285	$ 147	$ 138	94 %	$ 782	$ 485	$ 297	61 %
Preferred stock dividends	24	12	12	100 %	36	25	11	44 %
Net income available to common shareholders	$ 261	$ 135	$ 126	93 %	$ 746	$ 460	$ 286	62 %
Diluted earnings per common share	$ 1.00	$ 0.49	$ 0.51	104 %	$ 2.82	$ 1.67	$ 1.15	69 %

Net income increased 94% to $285 million and 61% to $782 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Net income available to common shareholders was $261 million and $746 million for the three and nine months ended September 30, 2018, respectively, which reflects payments of $24 million and $36 million in preferred stock dividends, respectively. This compares to $135 million and $460 million for the three and nine months ended September 30, 2017 which reflects payments of $12 million and $25 million in preferred stock dividends, respectively.

The increase in net income for both periods was driven by higher interest income due to a larger average balance sheet and an improvement in net interest margin, as well as higher commissions, fees and service charges and net gains on securities and other. Lower losses on early extinguishment of debt also contributed to increase net income for both periods. During the nine months ended September 30, 2018, these increases were partially offset by a lower benefit for loan losses and higher non-interest expense due primarily to increased compensation and benefits and advertising and market development expenses.

Net Revenue

The following table presents the significant components of net revenue (dollars in millions):

	Three Months Ended September 30,		Variance 2018 vs. 2017		Nine Months Ended September 30,		Variance 2018 vs. 2017	
	2018	2017	Amount	%	2018	2017	Amount	%
Net interest income	$ 466	$ 391	$ 75	19%	$ 1,364	$ 1,066	$ 298	28%
Commissions	117	100	17	17%	375	332	43	13%
Fees and service charges	108	92	16	17%	323	276	47	17%
Gains on securities and other, net	17	6	11	183%	42	23	19	83%
Other revenue	12	10	2	20%	34	32	2	6%
Total non-interest income	254	208	46	22%	774	663	111	17%
Total net revenue	$ 720	$ 599	$ 121	20%	$ 2,138	$ 1,729	$ 409	24%

Net Interest Income

Net interest income increased 19% to $466 million and 28% to $1.4 billion for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Net interest income is earned primarily through investment securities, margin receivables and our legacy mortgage and consumer loan portfolio, offset by funding costs.

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 (dollars in millions):

	Three Months Ended September 30,					
	2018			2017		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
Cash and equivalents	$ 471	$ 2	1.84%	$ 905	$ 2	1.06%
Cash required to be segregated under federal or other regulations	836	4	2.15%	759	3	1.26%
Investment securities(1)	44,773	315	2.82%	41,226	255	2.47%
Margin receivables	10,902	130	4.74%	8,096	87	4.26%
Loans(2)	2,332	32	5.38%	3,024	37	4.95%
Broker-related receivables and other	798	4	2.02%	829	1	0.45%
Subtotal interest-earning assets	60,112	487	3.24%	54,839	385	2.80%
Other interest revenue(3)	—	27		—	28	
Total interest-earning assets	60,112	514	3.41%	54,839	413	3.01%
Total non-interest-earning assets	4,291			4,952		
Total assets	$ 64,403			$ 59,791		
Deposits	$ 42,456	$ 16	0.15%	$ 40,758	$ 1	0.01%
Customer payables	10,352	8	0.30%	8,463	1	0.06%
Broker-related payables and other	1,880	3	0.53%	1,301	—	0.00%
Other borrowings	752	6	2.95%	831	6	2.91%
Corporate debt	1,408	13	3.90%	1,002	12	4.64%
Subtotal interest-bearing liabilities	56,848	46	0.32%	52,355	20	0.15%
Other interest expense(4)	—	2		—	2	
Total interest-bearing liabilities	56,848	48	0.33%	52,355	22	0.17%
Total non-interest-bearing liabilities	859			820		
Total liabilities	57,707			53,175		
Total shareholders' equity	6,696			6,616		
Total liabilities and shareholders' equity	$ 64,403			$ 59,791		
Excess interest earning assets over interest bearing liabilities/net interest income/net interest margin	$ 3,264	$ 466	3.10%	$ 2,484	$ 391	2.85%

(1) For the three months ended September 30, 2018, includes a $5 million net loss related to fair value hedging adjustments, previously referred to as hedge ineffectiveness. Amounts prior to 2018 have not been reclassified to conform to current period presentation and continue to be reflected within the gains on securities and other, net line item. See *Note 8—Derivative Instruments and Hedging Activities* for additional information.

(2) Nonaccrual loans are included in the average loan balances. Interest payments received on nonaccrual loans are recognized on a cash basis in interest income until it is doubtful that full payment will be collected, at which point payments are applied to principal.

(3) Represents interest income on securities loaned.

(4) Represents interest expense on securities borrowed.

	Nine Months Ended September 30,					
	2018			2017		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
Cash and equivalents	$ 601	$ 7	1.60%	$ 1,045	$ 6	0.83%
Cash required to be segregated under federal or other regulations	795	11	1.91%	1,263	9	0.90%
Investment securities(1)	44,979	908	2.69%	37,781	692	2.44%
Margin receivables	10,225	351	4.59%	7,383	228	4.12%
Loans(2)	2,475	98	5.25%	3,319	121	4.86%
Broker-related receivables and other	898	12	1.76%	1,029	2	0.24%
Subtotal interest-earning assets	59,973	1,387	3.09%	51,820	1,058	2.72%
Other interest revenue(3)	—	84		—	74	
Total interest-earning assets	59,973	1,471	3.27%	51,820	1,132	2.91%
Total non-interest-earning assets	4,479			5,051		
Total assets	$ 64,452			$ 56,871		
Deposits	$ 42,877	$ 26	0.08%	$ 37,862	$ 3	0.01%
Customer payables	9,817	13	0.18%	8,611	4	0.06%
Broker-related payables and other	1,885	7	0.49%	1,233	—	0.00%
Other borrowings	837	21	3.28%	667	16	3.23%
Corporate debt	1,149	32	3.75%	996	39	5.14%
Subtotal interest-bearing liabilities	56,565	99	0.23%	49,369	62	0.17%
Other interest expense(4)	—	8		—	4	
Total interest-bearing liabilities	56,565	107	0.25%	49,369	66	0.18%
Total non-interest-bearing liabilities	939			1,033		
Total liabilities	57,504			50,402		
Total shareholders' equity	6,948			6,469		
Total liabilities and shareholders' equity	$ 64,452			$ 56,871		
Excess interest earning assets over interest bearing liabilities/net interest income/net interest margin	$ 3,408	$ 1,364	3.03%	$ 2,451	$ 1,066	2.74%

(1) For the nine months ended September 30, 2018, includes a $13 million net loss related to fair value hedging adjustments, previously referred to as hedge ineffectiveness. Amounts prior to 2018 have not been reclassified to conform to current period presentation and continue to be reflected within the gains on securities and other, net line item. See *Note 8—Derivative Instruments and Hedging Activities* for additional information.

(2) Nonaccrual loans are included in the average loan balances. Interest payments received on nonaccrual loans are recognized on a cash basis in interest income until it is doubtful that full payment will be collected, at which point payments are applied to principal.

(3) Represents interest income on securities loaned.

(4) Represents interest expense on securities borrowed.

Average interest-earning assets increased 10% to $60.1 billion and 16% to $60.0 billion for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. 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 9% to $56.8 billion and 15% to $56.6 billion for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The increase during the nine months ended September 30, 2018, was primarily due to higher deposits as a result of transferring customer cash held by third parties to our balance sheet throughout 2017 and early 2018, partially offset by customer net buying of $12.0 billion during the nine months ended September 30, 2018, compared to $6.9 billion during the same period in 2017.

Net interest margin increased 25 basis points to 3.10% and 29 basis points to 3.03% for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Net interest margin is driven by the mix of average asset and liability balances and the interest rates earned or paid on those balances. The increase during the three and nine months ended September 30, 2018, compared to 2017 is due to higher interest rates earned on higher margin receivables and investment securities balances, partially offset by the continued run-off of our higher yielding legacy mortgage and consumer loan portfolio. Additionally, funding costs increased primarily due to increased rates paid on deposits and customer payables during the three and nine months ended September 30, 2018. These increases were partially offset by lower corporate debt service costs during the nine months ended September 30, 2018.

Commissions

Commissions revenue increased 17% to $117 million and 13% to $375 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The primary factors that affect commissions revenue are DARTs, average commission per trade and the number of trading days.

DARTs volume increased 29% to 266,290 and 34% to 277,796 for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The increase during the three and nine months ended September 30, 2018 was mainly driven by continued improved market sentiment along with the higher volatility of the equity markets. Derivative DARTs volume increased 30% to 85,977 and 41% to 90,075 for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017.

Average commission per trade decreased 9% to $7.04 and 16% to $7.21 for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Average commission per trade is impacted by trade mix and differing commission rates on various trade types (e.g. equities, derivatives, stock plan and mutual funds). Average commission per trade for the nine months ended September 30, 2018 was also impacted by reduced commission rates implemented in March 2017 as well as the continued migration of customers to lower active trader commission pricing.

Fees and Service Charges

The following table presents the significant components of fees and service charges (dollars in millions):

	Three Months Ended September 30,		Variance 2018 vs. 2017		Nine Months Ended September 30,		Variance 2018 vs. 2017	
	2018	2017	Amount	%	2018	2017	Amount	%
Order flow revenue	$ 40	$ 33	$ 7	21 %	$ 130	$ 98	$ 32	33 %
Money market funds and sweep deposits revenue(1)	18	23	(5)	(22)%	53	71	(18)	(25)%
Advisor management and custody fees	19	9	10	111 %	46	26	20	77 %
Mutual fund service fees	13	10	3	30 %	36	29	7	24 %
Foreign exchange revenue	7	6	1	17 %	21	20	1	5 %
Reorganization fees	3	5	(2)	(40)%	10	13	(3)	(23)%
Other fees and service charges	8	6	2	33 %	27	19	8	42 %
Total fees and service charges	$ 108	$ 92	$ 16	17 %	$ 323	$ 276	$ 47	17 %

(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 17% for both the three and nine months ended September 30, 2018, to $108 million and $323 million, respectively, compared to the same periods in 2017. These increases were primarily driven by increased order flow revenue due to higher trade volume and improved rates as well as increased advisor management and custody fees as a result of the acquisition of TCA and higher balances held in our managed products. This increase was partially offset by decreased money market funds and sweep deposits revenue driven by lower customer cash balances held by third parties as a result of transferring cash onto our balance sheet. The impact of the lower balances was partially offset by a higher yield of approximately 145 and 140 basis points for the three and nine months ended September 30, 2018, respectively, compared to approximately 120 and 85 basis points for the same periods in 2017.

Gains on Securities and Other, Net

The following table presents the significant components of gains on securities and other, net (dollars in millions):

	Three Months Ended September 30,		Variance 2018 vs. 2017		Nine Months Ended September 30,		Variance 2018 vs. 2017	
	2018	2017	Amount	%	2018	2017	Amount	%
Gains on available-for-sale securities, net(1)	11	7	4	57%	33	25	8	32%
Equity method investment income (loss) and other(2)(3)	6	(1)	7	*	9	(2)	11	*
Gains on securities and other, net	$ 17	$ 6	$ 11	183%	$ 42	$ 23	$ 19	83%

* Percentage not meaningful.

(1) In August 2018, the Company sold available-for-sale securities and reinvested the sale proceeds in agency-backed securities at current market rates. See *Note 6—Available-for-Sale and Held-to-Maturity Securities* for additional information.

(2) Includes a $5 million gain on the sale of our Chicago Stock Exchange investment for the three and nine months ended September 30, 2018.

(3) Includes a loss of $2 million and $5 million on hedge ineffectiveness for the three and nine months ended September 30, 2017. Beginning January 1, 2018, fair value hedging adjustments are recognized within net interest income. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

Provision (Benefit) for Loan Losses

We recognized a benefit for loan losses of $34 million and $74 million for the three and nine months ended September 30, 2018, respectively, compared to a benefit of $29 million and $142 million for the same periods in 2017. 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 expectations, including sales of charged-off loans and recoveries of previous charge-offs that were not included in our loss estimates. For additional information on management's estimate of the allowance for loan losses, see *Note 7—Loans Receivable, Net*.

Non-Interest Expense

The following table presents the significant components of non-interest expense (dollars in millions):

	Three Months Ended September 30,		Variance 2018 vs. 2017		Nine Months Ended September 30,		Variance 2018 vs. 2017	
	2018	2017	Amount	%	2018	2017	Amount	%
Compensation and benefits	$ 157	$ 139	$ 18	13 %	$ 469	$ 408	$ 61	15 %
Advertising and market development	45	38	7	18 %	152	123	29	24 %
Clearing and servicing	28	29	(1)	(3)%	94	94	—	— %
Professional services	23	25	(2)	(8)%	70	71	(1)	(1)%
Occupancy and equipment	29	28	1	4 %	89	84	5	6 %
Communications	30	29	1	3 %	89	90	(1)	(1)%
Depreciation and amortization	25	20	5	25 %	70	60	10	17 %
FDIC insurance premiums	8	8	—	— %	26	24	2	8 %
Amortization of other intangibles	12	9	3	33 %	34	27	7	26 %
Restructuring and acquisition-related activities	4	4	—	— %	6	12	(6)	(50)%
Losses on early extinguishment of debt	4	58	(54)	(93)%	4	58	(54)	(93)%
Other non-interest expenses	15	18	(3)	(17)%	56	55	1	2 %
Total non-interest expense	$ 380	$ 405	$ (25)	(6)%	$ 1,159	$ 1,106	$ 53	5 %

Compensation and Benefits

Compensation and benefits expense increased 13% to $157 million and 15% to $469 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. The expense increase was primarily driven by a 14% increase in headcount since September 30, 2017 as a result of the TCA acquisition and growth in our business.

Advertising and Market Development

Advertising and market development expense increased 18% to $45 million and 24% to $152 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. This planned increase was primarily due to higher media and brand production spend resulting from our increased focus on accelerating the growth of our business by increasing engagement across new and existing customers.

Restructuring and Acquisition-Related Activities

Restructuring and acquisition-related activities expenses remained flat at $4 million and decreased 50% to $6 million for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017. Restructuring and acquisition-related activities during the three and nine months ended September 30, 2018 reflected $4 million and $6 million, respectively, of expenses in connection with the restructuring of our regulatory and enterprise risk management functions due to bank regulatory reform and the closing of the TCA acquisition. The restructuring costs for the three and nine months ended September 30, 2017 primarily related to the integration of OptionsHouse.

Losses on Early Extinguishment of Debt

Losses on early extinguishment of debt were $4 million for both the three and nine months ended September 30, 2018 and $58 million for both the three and nine months ended September 30, 2017.

- During the third quarter of 2018, we used the net proceeds from the June 2018 issuance of Senior Notes to redeem all $413 million of our outstanding TRUPs. In connection with the redemption, we recognized a loss on early extinguishment of debt of $4 million.
- During the third quarter of 2017, we issued $600 million of 2.95% Senior Notes due 2022 and $400 million of 3.80% Senior Notes due 2027. We 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 52% and 49% for the three and nine months ended September 30, 2018, respectively, compared to 37% and 44% for the same periods in 2017. Adjusted operating margin, a non-GAAP measure, was 48% and 46% for the three and nine months ended September 30, 2018, respectively, compared to 42% and 39% for the same periods in 2017.

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, a non-GAAP measure, excludes provision (benefit) for loan losses and losses on early extinguishment of debt. The following table presents 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,			
	2018		2017		2018		2017	
	Amount	Operating Margin %	Amount	Operating Margin %	Amount	Operating Margin %	Amount	Operating Margin %
Income before income tax expense / operating margin	$ 374	52%	$ 223	37%	$ 1,053	49%	$ 765	44%
Add back impact of pre-tax items:								
Provision (benefit) for loan losses	(34)		(29)		(74)		(142)	
Losses on early extinguishment of debt	4		58		4		58	
Subtotal	(30)		29		(70)		(84)	
Adjusted income before income tax expense / adjusted operating margin	$ 344	48%	$ 252	42%	$ 983	46%	$ 681	39%

Return on Common Equity

Return on common equity was 17% and 16% for the three and nine months ended September 30, 2018, respectively, compared to 9% and 10% for the same periods in 2017. Adjusted return on common equity, a non-GAAP measure, was 16% and 15% for the three and nine months ended September 30, 2018, respectively, compared to 10% and 9% for the same periods in 2017.

Adjusted return on common equity, a non-GAAP measure, is calculated by dividing annualized adjusted net income available to common shareholders by average common shareholders' equity, which excludes preferred stock. Adjusted net income available to common shareholders, a non-GAAP measure, excludes the after-tax impact of provision (benefit) for loan losses and losses on early extinguishment of debt. The following table provides a reconciliation of GAAP net income available to common shareholders and return on common equity percentage to non-GAAP adjusted net income available to common shareholders and adjusted return on common equity percentage (dollars in millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Amount	Return on Common Equity %	Amount	Return on Common Equity %	Amount	Return on Common Equity %	Amount	Return on Common Equity %
Net income available to common shareholders and return on common equity	$ 261	17%	$ 135	9%	$ 746	16%	$ 460	10%
Add back impact of the following items:								
Provision (benefit) for loan losses	(34)		(29)		(74)		(142)	
Losses on early extinguishment of debt	4		58		4		58	
Subtotal	(30)		29		(70)		(84)	
Income tax impact	8		(12)		18		32	
Net of tax	(22)		17		(52)		(52)	
Adjusted net income available to common shareholders and return on common equity	$ 239	16%	$ 152	10%	$ 694	15%	$ 408	9%

Income Tax Expense

Income tax expense was $89 million and $271 million for the three and nine months ended September 30, 2018, respectively, compared to $76 million and $280 million for the same periods in 2017. The effective tax rate was 24% and 26% for the three and nine months ended September 30, 2018, respectively, compared to 34% and 37% for the same periods in 2017.

- The lower effective tax rate for both the three and nine months ended September 30, 2018 includes the impact of federal tax reform, which resulted in a lower federal tax rate beginning January 1, 2018, and an $8 million income tax benefit related to the revaluation of certain net state deferred tax assets.
- The effective tax rates for the three and nine months ended September 30, 2017 also included tax benefits related to the revaluation of certain net state deferred tax assets and the adoption of accounting guidance for employee share-based compensation.

BALANCE SHEET OVERVIEW

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

	September 30, 2018	December 31, 2017	Variance 2018 vs. 2017 Amount	Variance 2018 vs. 2017 %
Assets:				
Cash and equivalents	$ 596	$ 931	$ (335)	(36)%
Segregated cash	856	872	(16)	(2)%
Investment securities(1)	44,890	44,518	372	1 %
Margin receivables	11,184	9,071	2,113	23 %
Loans receivable, net	2,251	2,654	(403)	(15)%
Receivables from brokers, dealers and clearing organizations	786	1,178	(392)	(33)%
Goodwill and other intangibles, net	2,876	2,654	222	8 %
Other(2)	1,267	1,487	(220)	(15)%
Total assets	$ 64,706	$ 63,365	$ 1,341	2 %
Liabilities and shareholders' equity:				
Deposits	$ 43,074	$ 42,742	$ 332	1 %
Customer payables	10,534	9,449	1,085	11 %
Payables to brokers, dealers and clearing organizations	1,845	1,542	303	20 %
Other borrowings	550	910	(360)	(40)%
Corporate debt	1,408	991	417	42 %
Other liabilities	529	800	(271)	(34)%
Total liabilities	57,940	56,434	1,506	3 %
Shareholders' equity	6,766	6,931	(165)	(2)%
Total liabilities and shareholders' equity	$ 64,706	$ 63,365	$ 1,341	2 %

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

(2) Includes balance sheet line items property and equipment, net and other assets. Other assets includes deferred tax assets, net due to a presentation change beginning January 1, 2018. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

Cash and Equivalents

Cash and equivalents decreased 36% to $596 million during the nine months ended September 30, 2018. 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, see *MD&A—Liquidity and Capital Resources* and the consolidated statement of cash flows.

Segregated Cash

Cash required to be segregated under federal or other regulations decreased 2% to $856 million during the nine months ended September 30, 2018. 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 both September 30, 2018 and December 31, 2017, $800 million of reverse repurchase agreements between E*TRADE Securities and E*TRADE Bank, representing investments that were also segregated under federal or other regulations by E*TRADE Securities, were eliminated in consolidation.

Investment Securities

The following table presents the significant components of available-for-sale and held-to-maturity securities (dollars in millions):

	September 30, 2018	December 31, 2017	Variance 2018 vs. 2017 Amount	%
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities	$ 21,639	$ 19,195	$ 2,444	13 %
Other debt securities	1,225	1,477	(252)	(17)%
Total debt securities	22,864	20,672	2,192	11 %
Publicly traded equity securities(1)	—	7	(7)	(100)%
Total available-for-sale securities	$ 22,864	$ 20,679	$ 2,185	11 %
Held-to-maturity securities:				
Agency mortgage-backed securities	$ 18,427	$ 20,502	$ (2,075)	(10)%
Other debt securities	3,599	3,337	262	8 %
Total held-to-maturity securities	$ 22,026	$ 23,839	$ (1,813)	(8)%
Total investment securities	$ 44,890	$ 44,518	$ 372	1 %

(1) Consists of investments in a Community Reinvestment Act (CRA) related mutual fund. At September 30, 2018, these equity securities are included in other assets on the consolidated balance sheet as a result of the adoption of amended accounting guidance related to the classification and measurement of financial instruments. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

Securities represented 69% and 70% of total assets at September 30, 2018 and December 31, 2017, 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.

During the three months ended March 31, 2018 securities with a carrying value of $4.7 billion and related unrealized pre-tax gain of $7 million were transferred from held-to-maturity securities to available-for-sale securities as part of a one-time transition election for early adopting the new derivatives and hedge accounting guidance. Securities with a fair value of $1.2 billion were transferred from available-for-sale to held-to-maturity pursuant to an evaluation of our investment strategy and an assessment by management about our intent and ability to hold those particular securities until maturity.

See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies, Note 6—Available-for-Sale and Held-to-Maturity Securities* and *Note 12—Shareholders' Equity* for additional information.

Margin Receivables

Margin receivables increased 23% to $11.2 billion during the nine months ended September 30, 2018. We believe recent market appreciation of customer assets provided additional capacity which, coupled with market sentiment, drove the increase in margin receivables.

Loans Receivable, Net

The following table presents the significant components of loans receivable, net (dollars in millions):

	September 30, 2018	December 31, 2017	Variance 2018 vs. 2017 Amount	%
One- to four-family	$ 1,150	$ 1,432	$ (282)	(20)%
Home equity	890	1,097	(207)	(19)%
Consumer and other[1]	244	188	56	30 %
Total loans receivable	2,284	2,717	(433)	(16)%
Unamortized premiums, net	8	11	(3)	(27)%
Subtotal	2,292	2,728	(436)	(16)%
Less: Allowance for loan losses	41	74	(33)	(45)%
Total loans receivable, net	$ 2,251	$ 2,654	$ (403)	(15)%

(1) In 2017 we introduced E*TRADE Line of Credit, a securities-based lending product, where customers can borrow against the market value of their securities pledged as collateral. The drawn amount and unused credit line amount totaled $113 million and $168 million, respectively, as of September 30, 2018 and $12 million and $35 million, respectively, as of December 31, 2017.

Loans receivable, net decreased 15% to $2.3 billion during the nine months ended September 30, 2018. 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 or our assessment changes, our strategy could change. For additional information on management's estimate of the allowance for loan losses, see *Note 7—Loans Receivable, Net*.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

The following table presents the significant components of receivables from and payables to brokers, dealers and clearing organizations (dollars in millions):

	September 30, 2018	December 31, 2017	Variance 2018 vs. 2017 Amount	Variance 2018 vs. 2017 %
Receivables:				
Securities borrowed	$ 321	$ 740	$ (419)	(57)%
Receivables from clearing organizations	405	376	29	8 %
Other	60	62	(2)	(3)%
Total	$ 786	$ 1,178	$ (392)	(33)%
Payables:				
Securities loaned	$ 1,794	$ 1,373	$ 421	31 %
Payables to clearing organizations	14	123	(109)	(89)%
Other	37	46	(9)	(20)%
Total	$ 1,845	$ 1,542	$ 303	20 %

Securities borrowed decreased 57% to $321 million during the nine months ended September 30, 2018. The decrease was driven by a lower demand for securities to cover customer short positions during the period.

Securities loaned increased 31% to $1.8 billion during the nine months ended September 30, 2018. The increase was driven by funding requirements at E*TRADE Securities, primarily to fund increased margin lending activity. For additional information on E*TRADE Securities liquidity, see *MD&A—Liquidity and Capital Resources*.

Goodwill and Other Intangibles, Net

Goodwill and other intangibles, net increased 8% to $2.9 billion during the nine months ended September 30, 2018. The increase was driven by the addition of goodwill and other intangibles in connection with the TCA acquisition. See *Note 2—Business Acquisition* for additional information.

Deposits

The following table presents the significant components of deposits (dollars in millions):

	September 30, 2018	December 31, 2017	Variance 2018 vs. 2017 Amount	Variance 2018 vs. 2017 %
Sweep deposits	$ 37,998	$ 37,734	$ 264	1 %
Savings deposits	3,145	2,912	233	8 %
Other deposits	1,931	2,096	(165)	(8)%
Total deposits	$ 43,074	$ 42,742	$ 332	1 %

Deposits represented 74% and 76% of total liabilities at September 30, 2018 and December 31, 2017, respectively.

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Brokerage Related Cash

The majority of the deposits balance, specifically sweep deposits, is included in brokerage related cash, which is reported as a customer activity metric. The following table presents the significant components of total brokerage related cash (dollars in millions):

	September 30, 2018	December 31, 2017	Variance 2018 vs. 2017 Amount	Variance 2018 vs. 2017 %
Brokerage customer cash held on balance sheet:				
Sweep deposits	$ 37,998	$ 37,734	$ 264	1 %
Customer payables	10,534	9,449	1,085	11 %
Subtotal	48,532	47,183	1,349	3 %
Customer cash held by third parties(1):				
Sweep deposits	3,007	4,724	(1,717)	(36)%
Money market funds and other	1,761	1,016	745	73 %
Subtotal	4,768	5,740	(972)	(17)%
Total brokerage related cash	$ 53,300	$ 52,923	$ 377	1 %

(1) Customer cash held by third parties is maintained at unaffiliated financial institutions. Customer cash held by third parties is not reflected on our consolidated balance sheet and is not immediately available for liquidity purposes.

We offer the following sweep deposit account programs to our brokerage customers:

- Extended insurance sweep deposit account (ESDA) program
- E*TRADE Cash Account Program offered by E*TRADE Savings Bank for uninvested cash held in eligible custodial accounts as part of the Advisor Services offering launched in connection with the TCA acquisition
- Retirement sweep deposit account (RSDA) program for retirement plan customers launched in the second quarter of 2018

The programs utilize our bank subsidiaries, in combination with additional third party program banks, to allow customers the ability to have aggregate deposits they hold in the programs insured up to $500,000 or $1,250,000 for each category of legal ownership depending on the program. As of September 30, 2018, 99% of sweep deposits were in these programs. Sweep deposits on balance sheet are held at bank subsidiaries and are included in the deposits line item on our consolidated balance sheet.

Other Borrowings

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

	September 30, 2018	December 31, 2017	Variance 2018 vs. 2017 Amount	Variance 2018 vs. 2017 %
FHLB advances	$ 550	$ 500	$ 50	10 %
Trust preferred securities	—	410	(410)	(100)%
Total other borrowings	$ 550	$ 910	$ (360)	(40)%

Other borrowings decreased 40% to $550 million during the nine months ended September 30, 2018, primarily due to the redemption of TRUPs, partially offset by additional utilization of Federal Home Loan Bank (FHLB) advances for short-term liquidity and funding requirements. See *MD&A—Liquidity and Capital Resources* for additional information on liquidity and funding sources and *Note 10—Other Borrowings* for additional information on the redemption of TRUPs.

Corporate Debt

Corporate debt increased 42% to $1.4 billion during the nine months ended September 30, 2018, as we issued Senior Notes in June 2018 and used the net proceeds from the issuance to redeem our TRUPs. See *Note 11—Corporate Debt and Note 15—Commitments, Contingencies and Other Regulatory Matters.*

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 E*TRADE Securities. 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 liquidity needs are primarily driven by capital needs at E*TRADE Bank and E*TRADE Securities as well as by the interest due on our corporate debt and the amount of dividend payments on our preferred stock and common 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 the parent company's other non-bank subsidiaries are subject to various quantitative, arm’s length, collateralization, capital and other requirements. The Company expects to use existing cash during the fourth quarter of 2018 to fund the acquisition of approximately one million retail brokerage accounts from Capital One.

The Company became subject to the modified LCR requirement beginning April 1, 2018 which required the Company to hold at least 70% of its projected net cash outflows over a 30-day period in high-quality liquid assets. In July 2018, the Federal Reserve Board clarified that, pursuant to EGRRCPA, certain regulatory and reporting requirements, including the modified LCR would no longer apply to firms, like the Company, with less than $100 billion in total consolidated assets.

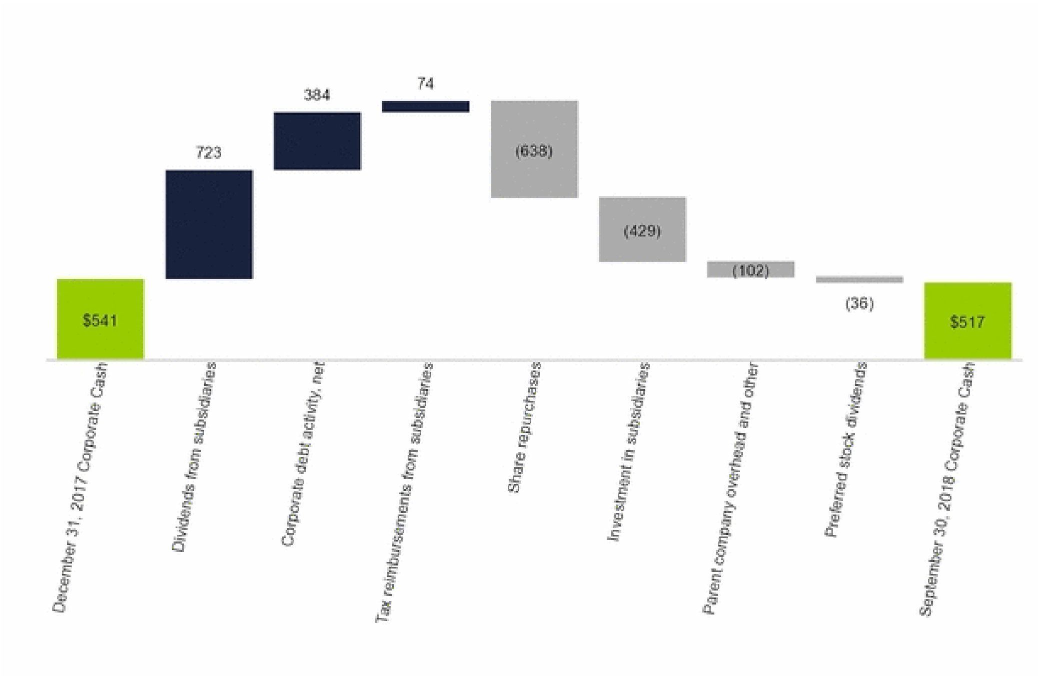
Parent Company Liquidity

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 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 FCM subsidiaries that require regulatory approval or notification prior to the payment of certain dividends to the parent company. Corporate cash includes the parent company's deposits placed with E*TRADE Bank. E*TRADE Bank may use these deposits for investment purposes; however, these investments are not included in consolidated cash and equivalents.

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 and investments in subsidiaries
- Non-cumulative preferred stock dividends
- Common stock dividends
- Share repurchases
- Debt activity, including issuances, paydowns and debt service costs
- Acquisitions and other investments
- Reimbursements from subsidiaries for the use of the parent company's deferred tax assets
- Parent company overhead less reimbursements through cost sharing arrangements with subsidiaries

The following chart provides a roll forward of corporate cash at December 31, 2017 to corporate cash at September 30, 2018 (dollars in millions):



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

	September 30, 2018	December 31, 2017	September 30, 2017
Consolidated cash and equivalents	$ 596	$ 931	$ 896
Less: Cash at regulated subsidiaries	(590)	(659)	(729)
Add: Cash on deposit at E*TRADE Bank(1)	511	269	142
Corporate cash	$ 517	$ 541	$ 309

(1) Corporate cash includes the parent company's deposits placed with E*TRADE Bank. E*TRADE Bank may use these deposits for investment purposes; however, these investments are not included in consolidated cash and equivalents.

Corporate cash decreased $24 million to $517 million during the nine months ended September 30, 2018 primarily due to the following:

- $360 million and $363 million received in net dividends from E*TRADE Securities and E*TRADE Bank, respectively
- $384 million received from corporate debt activity which includes $417 million in net debt issuance proceeds partially offset by $33 million in debt service costs
- $638 million used for share repurchases
- $429 million in investments in subsidiaries which includes the $413 million payment to redeem the TRUPs
- $102 million used primarily for parent company overhead less reimbursements from subsidiaries under cost sharing arrangements

Corporate cash is monitored as part of our liquidity risk management and our current corporate cash target is $300 million. This target covers approximately 18 months of parent company fixed costs, which includes preferred stock dividends, debt service and other overhead costs. The Company maintains $300 million of additional liquidity through an unsecured committed revolving credit facility. The parent has the ability to borrow against the credit facility for working capital and general corporate purposes. At September 30, 2018, there was no outstanding balance under this credit facility. For additional information about our liquidity risk management approach 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, 2017.

*E*TRADE Bank Liquidity*

E*TRADE Bank, including its subsidiary E*TRADE Savings 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. The vast majority of E*TRADE Bank's liquidity is invested in securities backed by the US government or its agencies, representing highly liquid securities with low credit risk.

We may also 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, 2018, E*TRADE Bank had $6.7 billion and $1.0 billion in 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, 2018, E*TRADE Securities' external liquidity lines totaled approximately $1.3 billion and included the following:

- A 364-day, $600 million senior unsecured committed revolving credit facility with a syndicate of banks, with a maturity date in June 2019
- Secured committed lines of credit with two unaffiliated banks, aggregating to $175 million, with maturity dates in June 2019
- Unsecured uncommitted lines of credit with three unaffiliated banks, aggregating to $125 million, of which $50 million matures in June 2019 and the remaining lines have no maturity date

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- 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, 2018. E*TRADE Securities also maintains lines of credit with the parent company and E*TRADE Bank.

Capital Resources

The Company seeks to manage capital levels in support of our business strategy of generating and effectively deploying capital for the benefit of our shareholders, governed by the Company's risk management framework. For additional information on our bank and brokerage capital requirements, see *Note 14—Regulatory Requirements.*

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. There are bank regulatory capital requirements applicable to the Company and E*TRADE Bank, some of which are still subject to phase-in periods, including certain deductions from and adjustments to regulatory capital. Most of these requirements became fully implemented as of January 1, 2018. 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, 2017.

At September 30, 2018, 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 is 6.5%. E*TRADE Financial's capital ratios are as follows:

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The following table presents the calculation of E*TRADE Financial's capital ratios (dollars in millions):

	September 30, 2018	December 31, 2017	September 30, 2017
E*TRADE Financial shareholders' equity	$ 6,766	$ 6,931	$ 6,648
Deduct:			
Preferred stock	(689)	(689)	(394)
E*TRADE Financial Common Equity Tier 1 capital before regulatory adjustments	$ 6,077	$ 6,242	$ 6,254
Add:			
Losses in other comprehensive income on available-for-sale debt securities, net of tax	329	26	50
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(2,450)	(2,191)	(2,014)
Disallowed deferred tax assets	(257)	(304)	(472)
E*TRADE Financial Common Equity Tier 1 capital	3,699	3,773	3,818
Add:			
Preferred stock	689	689	394
Deduct:			
Disallowed deferred tax assets	—	(76)	(112)
E*TRADE Financial Tier 1 capital	$ 4,388	$ 4,386	$ 4,100
Add:			
Allowable allowance for loan losses	41	74	94
Non-qualifying capital instruments subject to phase-out (trust preferred securities)	—	414	414
E*TRADE Financial total capital	$ 4,429	$ 4,874	$ 4,608
E*TRADE Financial average assets for leverage capital purposes	$ 64,676	$ 62,095	$ 59,835
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(2,450)	(2,191)	(2,014)
Disallowed deferred tax assets	(257)	(380)	(584)
E*TRADE Financial adjusted average assets for leverage capital purposes	$ 61,969	$ 59,524	$ 57,237
E*TRADE Financial total risk-weighted assets(1)	$ 10,840	$ 11,115	$ 10,855
E*TRADE Financial Tier 1 leverage ratio (Tier 1 capital / Adjusted average assets for leverage capital purposes)	7.1%	7.4%	7.2%
E*TRADE Financial Common Equity Tier 1 capital / Total risk-weighted assets(1)	34.1%	33.9%	35.2%
E*TRADE Financial Tier 1 capital / Total risk-weighted assets	40.5%	39.5%	37.8%
E*TRADE Financial total capital / Total risk-weighted assets	40.9%	43.8%	42.4%

(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, 2018, 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 was reduced to 7.0% from 7.5% in January 2018. E*TRADE Bank's capital ratios are as follows:

The following table presents the calculation of E*TRADE Bank's capital ratios (dollars in millions):

	September 30, 2018	December 31, 2017	September 30, 2017
E*TRADE Bank shareholder's equity	$ 3,489	$ 3,703	$ 3,608
Add:			
Losses in other comprehensive income on available-for-sale debt securities, net of tax	329	26	50
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(290)	(38)	(38)
Disallowed deferred tax assets	(62)	(71)	(56)
E*TRADE Bank Common Equity Tier 1 capital / Tier 1 capital	3,466	3,620	3,564
Add:			
Allowable allowance for loan losses	41	74	94
E*TRADE Bank total capital	$ 3,507	$ 3,694	$ 3,658
E*TRADE Bank average assets for leverage capital purposes	$ 49,194	$ 47,992	$ 46,562
Deduct:			
Goodwill and other intangible assets, net of deferred tax liabilities	(290)	(38)	(38)
Disallowed deferred tax assets	(62)	(71)	(56)
E*TRADE Bank adjusted average assets for leverage capital purposes	$ 48,842	$ 47,883	$ 46,468
E*TRADE Bank total risk-weighted assets(1)	$ 10,027	$ 10,147	$ 10,044
E*TRADE Bank Tier 1 leverage ratio (Tier 1 capital / Adjusted average assets for leverage capital purposes)	7.1%	7.6%	7.7%
E*TRADE Bank Common Equity Tier 1 capital / Total risk-weighted assets	34.6%	35.7%	35.5%
E*TRADE Bank Tier 1 capital / Total risk-weighted assets	34.6%	35.7%	35.5%
E*TRADE Bank total capital / Total risk-weighted assets	35.0%	36.4%	36.4%

(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, 2018, 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. For additional information on our broker-dealer and FCM capital requirements, see *Note 14—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 15—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, liquidity, market, operational, information technology, data, 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, 2017.

We are also subject to other risks that could affect our business, financial condition, results of operations or cash flows in future periods. For additional information see *Part I. Item 1A. — Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2017.

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 mortgage 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, 2017 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, 2018, nearly 100% of these loans were amortizing.

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, 2018, nearly 100% of the HELOC portfolio had converted from the interest-only draw period.

Securities

We focus primarily on security type and credit rating to monitor credit risk in our securities portfolios. We consider securities backed by the US government or its agencies to have low credit risk as the long-term debt rating of the US government is AA+ by S&P and Aaa by Moody’s at September 30, 2018. The amortized cost of these securities accounted for over 99% of our total securities portfolio at September 30, 2018. We review the remaining debt securities that were not backed by the US government or its agencies according to their credit ratings from S&P and Moody’s where available. At September 30, 2018, 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 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 accounting principles generally accepted in the United States of America (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, 2017, 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. Our 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, 2017.

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. Forward Looking Statements* in this Quarterly Report and *Part I. Item 1A. Risk Factors* in the Annual Report on Form 10-K for the year ended December 31, 2017.

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, 2018, 94% of our total assets were interest-earning assets and we had no securities classified as trading.

At September 30, 2018, 66% 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 or mortgage-backed securities 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 securities lending and 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 8—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 following table presents the sensitivity of EVE and EAR at the consolidated E*TRADE Financial level (dollars in millions):

Instantaneous Parallel Change in Interest Rates (basis points) (1)	Economic Value of Equity				Earnings-at-Risk			
	September 30, 2018		December 31, 2017		September 30, 2018		December 31, 2017	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
+200	$ (309)	(3.6)%	$ (172)	(2.1)%	$ 195	9.8 %	$ 197	11.5 %
+100	$ (88)	(1.0)%	$ (23)	(0.3)%	$ 101	5.1 %	$ 113	6.6 %
+50	$ (19)	(0.2)%	$ 94	1.1 %	$ 52	2.6 %	$ 79	4.7 %
-50	$ (64)	(0.8)%	$ (225)	(2.7)%	$ (61)	(3.1)%	$ (102)	(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 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, 2018, the EVE and EAR percentage changes were within our Board limits.

KEY TERMS

Active customers—Customers that have an account with a balance of $25 or more or a trade in the last six months.

Active trader—Customers that execute 30 or more trades per quarter.

Agency—US 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, Federal Home Loan Bank and the Federal Farm Credit Bank.

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

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

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.

CRA—Community Reinvestment Act.

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 Quarterly 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.

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

DOL—US Department of Labor.

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.

FCM—Futures Commission Merchant.

FDIC—Federal Deposit Insurance Corporation.

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

FHLB—Federal Home Loan Bank.

FICO—Fair Isaac Credit Organization.

Fiduciary Rule—DOL's final Conflicts of Interest Rule- Retirement Investment Advice regulations under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986.

FINRA—Financial Industry Regulatory Authority.

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.

LCR—Liquidity coverage ratio. The purpose of the 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.

Managed Portfolios—Consist of the following professionally managed portfolios: Core Portfolio, Blend Portfolio, Dedicated Portfolio and Fixed Income Portfolio.

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.

NFA—National Futures Association.

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.

Nonperforming assets—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.

RIA—Registered Investment Advisor.

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

RSDA—Retirement sweep deposit account.

S&P—Standard & Poor's.

SEC—US Securities and Exchange Commission.

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.

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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E*TRADE FINANCIAL CORPORATION
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,	
	2018	**2017**	**2018**	**2017**
Revenue:				
Interest income	$ 514	$ 413	$ 1,471	$ 1,132
Interest expense	(48)	(22)	(107)	(66)
Net interest income	466	391	1,364	1,066
Commissions	117	100	375	332
Fees and service charges	108	92	323	276
Gains on securities and other, net	17	6	42	23
Other revenue	12	10	34	32
Total non-interest income	254	208	774	663
Total net revenue	720	599	2,138	1,729
Provision (benefit) for loan losses	(34)	(29)	(74)	(142)
Non-interest expense:				
Compensation and benefits	157	139	469	408
Advertising and market development	45	38	152	123
Clearing and servicing	28	29	94	94
Professional services	23	25	70	71
Occupancy and equipment	29	28	89	84
Communications	30	29	89	90
Depreciation and amortization	25	20	70	60
FDIC insurance premiums	8	8	26	24
Amortization of other intangibles	12	9	34	27
Restructuring and acquisition-related activities	4	4	6	12
Losses on early extinguishment of debt	4	58	4	58
Other non-interest expenses	15	18	56	55
Total non-interest expense	380	405	1,159	1,106
Income before income tax expense	374	223	1,053	765
Income tax expense	89	76	271	280
Net income	$ 285	$ 147	$ 782	$ 485
Preferred stock dividends	24	12	36	25
Net income available to common shareholders	$ 261	$ 135	$ 746	$ 460
Basic earnings per common share	$ 1.01	$ 0.49	$ 2.84	$ 1.67
Diluted earnings per common share	$ 1.00	$ 0.49	$ 2.82	$ 1.67
Shares used in computation of per common share data:				
Basic (in thousands)	259,498	273,441	263,292	274,565
Diluted (in thousands)	260,661	274,594	264,433	275,703

See accompanying notes to the condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$ 285	$ 147	$ 782	$ 485
Other comprehensive income, net of tax				
Available-for-sale securities:				
Unrealized gains (losses), net	(86)	16	(265)	104
Reclassification into earnings, net	(8)	(4)	(23)	(15)
Transfer of held-to-maturity securities to available-for-sale securities[1]	—	—	6	—
Net change from available-for-sale securities	(94)	12	(282)	89
Reclassification of foreign currency translation gains	—	—	—	(2)
Other comprehensive income (loss)	(94)	12	(282)	87
Comprehensive income	$ 191	$ 159	$ 500	$ 572

(1) During the three months ended March 31, 2018, securities with a carrying value of $4.7 billion and related unrealized pre-tax gain of $7 million, or $6 million net of tax, were transferred from held-to-maturity securities to available-for-sale securities as part of a one-time transition election for early adopting the new derivatives and hedge accounting guidance. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

See accompanying notes to the condensed consolidated financial statements

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

	September 30, 2018	December 31, 2017
ASSETS		
Cash and equivalents	$ 596	$ 931
Cash required to be segregated under federal or other regulations	856	872
Available-for-sale securities	22,864	20,679
Held-to-maturity securities (fair value of $21,321 and $23,719 at September 30, 2018 and December 31, 2017, respectively)	22,026	23,839
Margin receivables	11,184	9,071
Loans receivable, net (net of allowance for loan losses of $41 and $74 at September 30, 2018 and December 31, 2017, respectively)	2,251	2,654
Receivables from brokers, dealers and clearing organizations	786	1,178
Property and equipment, net	261	253
Goodwill	2,485	2,370
Other intangibles, net	391	284
Other assets	1,006	1,234
Total assets	$ 64,706	$ 63,365
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 43,074	$ 42,742
Customer payables	10,534	9,449
Payables to brokers, dealers and clearing organizations	1,845	1,542
Other borrowings	550	910
Corporate debt	1,408	991
Other liabilities	529	800
Total liabilities	57,940	56,434
Commitments and contingencies (see Note 15)		
Shareholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, 403,000 shares issued and outstanding at both September 30, 2018 and December 31, 2017; aggregate liquidation preference of $700 at both September 30, 2018 and December 31, 2017	689	689
Common stock, $0.01 par value, 400,000,000 shares authorized, 256,765,011 and 266,827,881 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	3	3
Additional paid-in-capital	5,953	6,582
Retained earnings (accumulated deficit)	450	(317)
Accumulated other comprehensive loss	(329)	(26)
Total shareholders' equity	6,766	6,931
Total liabilities and shareholders' equity	$ 64,706	$ 63,365

See accompanying notes to the condensed consolidated financial statements

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

	Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Amount	Shares	Amount				
Balance at December 31, 2017	$ 689	267	$ 3	$ 6,582	$ (317)	$ (26)	$ 6,931
Cumulative effect of hedge accounting adoption	—	—	—	—	7	(7)	—
Reclassification of tax effects due to federal tax reform	—	—	—	—	14	(14)	—
Net income	—	—	—	—	782	—	782
Other comprehensive loss	—	—	—	—	—	(282)	(282)
Preferred stock dividends	—	—	—	—	(36)	—	(36)
Repurchases of common stock	—	(11)	—	(638)	—	—	(638)
Share-based compensation	—	—	—	35	—	—	35
Other common stock activity	—	1	—	(26)	—	—	(26)
Balance at September 30, 2018	$ 689	257	$ 3	$ 5,953	$ 450	$ (329)	$ 6,766

	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
Preferred stock dividends	—	—	—	—	(25)	—	(25)
Repurchases of common stock	—	(5)	—	(187)	—	—	(187)
Share-based compensation	—	—	—	32	—	—	32
Other common stock activity	—	2	—	(19)	—	—	(19)
Balance at September 30, 2017	$ 394	271	$ 3	$ 6,747	$ (446)	$ (50)	$ 6,648

See accompanying notes to the condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2018	**2017**
Cash flows from operating activities:		
Net income	$ 782	$ 485
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (benefit) for loan losses	(74)	(142)
Depreciation and amortization (including discount amortization and accretion)	192	192
Gains on securities and other, net	(42)	(23)
Losses on early extinguishment of debt	4	58
Share-based compensation	35	32
Deferred tax expense	253	288
Other	10	(5)
Net effect of changes in assets and liabilities:		
Decrease (increase) in receivables from brokers, dealers and clearing organizations	392	(63)
Increase in margin receivables	(2,113)	(1,804)
Decrease (increase) in other assets	349	(16)
Increase in payables to brokers, dealers and clearing organizations	303	409
Increase in customer payables	1,085	557
Increase (decrease) in other liabilities	47	(25)
Net cash provided by (used in) operating activities	1,223	(57)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(6,966)	(7,520)
Proceeds from sales of available-for-sale securities	6,293	1,238
Proceeds from maturities of and principal payments on available-for-sale securities	1,555	1,146
Purchases of held-to-maturity securities	(3,684)	(9,087)
Proceeds from maturities of and principal payments on held-to-maturity securities	1,781	1,881
Proceeds from sales of loans	30	40
Decrease in loans receivable	451	793
Capital expenditures for property and equipment	(78)	(77)
Proceeds from sale of real estate owned and repossessed assets	19	25
Acquisition of TCA, net of cash acquired	(36)	—
Net cash flow from derivative contracts	200	54
Other	(32)	(23)
Net cash used in investing activities	(467)	(11,530)

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

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from financing activities:		
(Decrease) increase in deposits	$ (458)	$ 9,861
Preferred stock dividends	(36)	(25)
Net increase in advances from FHLB	50	200
Proceeds from issuance of senior notes	420	999
Payments on senior notes	—	(1,049)
Payments on trust preferred securities	(413)	—
Repurchases of common stock	(638)	(187)
Other	(32)	(30)
Net cash (used in) provided by financing activities	(1,107)	9,769
Decrease in cash, cash equivalents and segregated cash	(351)	(1,818)
Cash, cash equivalents and segregated cash, beginning of period	1,803	3,410
Cash, cash equivalents and segregated cash, end of period	$ 1,452	$ 1,592
Cash and equivalents, end of period	$ 596	$ 896
Segregated cash, end of period	856	696
Cash, cash equivalents and segregated cash, end of period	$ 1,452	$ 1,592
Supplemental disclosures:		
Cash paid for interest	$ 106	$ 117
Cash paid for income taxes, net of refunds	$ 9	$ 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	$ 13	$ 23
Conversion of convertible debentures to common stock	$ —	$ 3
Transfer of available-for-sale securities to held-to-maturity securities	$ 1,161	$ —
Transfer of held-to-maturity securities to available-for-sale securities	$ 4,672	$ —

See accompanying notes to the condensed consolidated financial statements

E*TRADE FINANCIAL CORPORATION
NOTES TO THE 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, or, to the extent that a readily determinable fair value is available, at fair value through net income. 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 consolidated 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.

Beginning January 1, 2018, the Company updated the presentation of the consolidated financial statements as follows:

- On the consolidated statement of income, fair value hedging adjustments, previously referred to as hedge ineffectiveness, are included within net interest income as a result of the adoption of new accounting guidance. Prior period amounts have not been reclassified to current period presentation and continue to be reflected within gains on securities and other, net. Fair value hedging adjustments were as follows:
    - Expenses of $5 million and $13 million for the three and nine months ended September 30, 2018.
    - Expenses of $2 million and $5 million for the same periods in 2017.
- On the consolidated balance sheet, deferred tax assets, net has been reclassified to other assets. The prior period has been reclassified to conform to the current period presentation. Deferred tax assets, net were $94 million and $251 million at September 30, 2018 and December 31, 2017, respectively.

- On the consolidated balance sheet, publicly traded equity securities are presented within other assets as a result of the adoption of amended accounting guidance. The prior period has not been reclassified as the amended accounting guidance was adopted on a modified retrospective basis. Accordingly, publicly traded equity securities for the prior period are presented within available-for-sale securities.

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 including the allowance for loan losses, valuation and impairment of goodwill and acquired intangible assets and estimates of effective tax rates, deferred taxes and valuation allowance. Management also makes estimates in recognizing other liabilities, including accrued operating expenses and contingent liabilities. These liabilities are impacted by estimates for litigation and regulatory matters as well as estimates related to general operating expenses, such as incentive compensation and market data usage within communications expense. Management estimates reflect the probable liability at the balance sheet date as determined as part of the Company's ongoing evaluations based on available information.

Adoption of New Accounting Standards

Revenue from Contracts with Customers

In May 2014, the FASB amended the guidance on revenue from 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 was not impacted by the new standard. The FASB issued supplemental amendments to the new standard to clarify certain guidance and to provide narrow scope improvements and practical expedients during 2016. The amended guidance became effective on January 1, 2018 and the Company adopted the guidance on a modified retrospective basis. This adoption did not 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 materially consistent with the Company's previous revenue recognition policies. Similarly, the amended guidance did not have a material impact on the recognition of costs incurred to obtain new contracts. For additional information on the Company's adoption of the amended guidance, see *Note 3—Net Revenue.*

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. The amended guidance became effective on January 1, 2018, and was applied on a modified retrospective basis. The adoption did not 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. Beginning January 1, 2018, publicly traded equity securities are presented within other assets on the consolidated balance sheet.

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 diversity in practice. The new guidance became effective on January 1, 2018, and the retrospective transition method has been applied to each period presented. Among other changes, the Company now classifies debt extinguishment costs within cash flows from financing activities. The Company reclassified $49 million of debt extinguishment costs incurred during the three and nine months ended September 30, 2017 to cash flows from financing activities as a result of this adoption.

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 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 new guidance became effective on January 1, 2018 and has been applied using a retrospective transition method to each period presented. The Company concluded that cash required to be segregated under federal or other regulations is considered restricted cash and the segregated cash activity is now presented on the consolidated statement of cash flows.

Clarifying the Definition of a Business

In January 2017, the FASB amended the 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 guidance, which became effective on January 1, 2018, did not change the Company's accounting conclusions for the TCA acquisition and is not expected to impact the Company's accounting conclusions for the acquisition of brokerage accounts from Capital One.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB amended the guidance on the amortization period for certain callable debt securities held at a premium. The amended guidance shortens the amortization period for these securities 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 Company early adopted this guidance beginning January 1, 2018; however, a cumulative-effect adjustment to retained earnings was not required upon adoption as the Company did not hold any callable debt securities at a premium as of January 1, 2018.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB amended the 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 hedge accounting strategies. The Company early adopted this guidance beginning January 1, 2018. The Company applied the guidance on a modified retrospective basis, which resulted in a $7 million cumulative-effect adjustment to increase retained earnings and to decrease accumulated other comprehensive income. In addition, the guidance provided a one-time transition election to transfer certain debt securities from held-to-maturity to available-for-sale. The Company transferred agency mortgage-backed and agency debt securities with a fair value of $4.7 billion, and recognized a net pre-tax gain of $7 million within other comprehensive income. For additional information on the Company's adoption of the amended guidance, see *Note 8—Derivative Instruments and Hedging Activities*.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB amended the guidance to address certain income tax effects in accumulated other comprehensive income resulting from the federal tax reform enacted in 2017. The amended guidance provides an option to reclassify tax effects within accumulated other comprehensive income to retained earnings in the period in which the effect of the tax reform is recorded. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods. Early adoption is permitted. The Company adopted the amended guidance in the first quarter of 2018 and used the portfolio approach to record a $14 million increase to retained earnings and a corresponding decrease to accumulated other comprehensive income. The amount of the reclassification related only to the change in the federal corporate tax rate.

Changes to Disclosure Requirements for Fair Value Measurements

In August 2018, the FASB amended the guidance on the disclosure requirements for fair value measurements as part of its disclosure effectiveness project. The amended guidance eliminates several disclosure requirements including the policies related to valuation processes for Level 3 fair value measurements, the timing of transfers between levels of the fair value hierarchy and the amount of and reasons for transfers between Level 1 and Level 2. The amended guidance adds an explicit disclosure requirement to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods. Early adoption is permitted. The Company early adopted this guidance as of September 30, 2018 on a retrospective basis.

New Accounting Standards Not Yet Adopted

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. 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 expects to recognize right of use assets related to its property leases within the range of $210 million to $250 million based on incremental borrowing rates as of September 30, 2018, which includes leases in effect through the filing of these condensed consolidated financial statements and lease terms we expect to be in effect as of the implementation date. The Company does not expect a material impact to the Company’s income statement; however, the impact of the Company’s adoption of the amended lease accounting guidance will depend on subsequent changes to the Company's lease portfolio, the incremental borrowing rates and the identification of embedded leases as of the adoption date.

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, including loans and debt securities, 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 result in credit losses on impaired available-for-sale debt securities being recorded through an allowance for credit losses. 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's evaluation contemplates the recent performance of the 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 the Company on the date of adoption.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB amended the 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.

Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract

In August 2018, the FASB amended the guidance on accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The amended guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance will be effective for interim and annual periods beginning on January 1, 2020, and should be applied either retrospectively or prospectively. The Company is currently evaluating the impact of the new accounting guidance on the Company's financial condition, results of operations and cash flows.

Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

In October 2018, the FASB amended the guidance on hedge accounting. The amended guidance adds the OIS rate based on the SOFR to the list of permitted benchmark interest rates for hedge accounting purposes. The guidance is effective for the Company for interim and annual periods beginning January 1, 2019. Early adoption is permitted. The guidance will be adopted on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. The Company is currently evaluating the impact of the new accounting guidance on the Company's financial condition, results of operations and cash flows.

NOTE 2—BUSINESS ACQUISITION

TCA Acquisition

On April 9, 2018, the Company completed its acquisition of TCA for $275 million in cash. TCA is a leading provider of technology solutions and custody services to the RIA market. The acquisition is expected to benefit the Company as the RIA portion of our industry is growing and the Company expects to leverage the E*TRADE brand to accelerate growth. The Company also expects this acquisition to help bolster the Company's ability to retain customers in need of specialized customer service engagement.

The results of TCA's operations have been included in the Company's consolidated statement of income for the three and nine months ended September 30, 2018 from the date of acquisition. While we do not maintain discrete financial information for TCA, we estimate TCA's net revenue from April 9, 2018 through September 30, 2018 was approximately $40 million. Supplementary pro forma financial information related to the acquisition is not included because the impact to the Company's consolidated statement of income is not material.

The following table summarizes the allocation of the purchase price to the net assets of TCA as of April 9, 2018 (dollars in millions):

	April 9, 2018
Purchase price	$ 275
Fair value of net assets acquired	160
Goodwill	$ 115

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date (dollars in millions):

	April 9, 2018
Assets	
Cash and equivalents	$ 239
Available-for-sale securities	554
Other intangibles	140
Other(1)	23
Total assets acquired	956
Liabilities	
Deposits	790
Other liabilities	6
Total liabilities assumed	796
Net assets acquired	$ 160

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

The goodwill of $115 million includes the synergies expected to result from combining operations with TCA, coupling its custody platform with the Company's existing product offerings and leveraging customer relationships with RIAs. The goodwill is deductible for tax purposes.

The Company recorded intangible assets of $140 million, which are subject to amortization over their estimated useful lives. The intangible assets are deductible for tax purposes. The fair value of the intangible assets was determined under the income approach. The following table summarizes the fair value and estimated useful lives of the intangible assets (dollars in millions):

	Estimated Fair Value	Estimated Useful Life (In Years)
Customer Relationships	$ 119	22
Technology	20	5
Trade name	1	2
Total intangible assets	$ 140	

NOTE 3—NET REVENUE

The following table presents the significant components of total net revenue (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net interest income	$ 466	$ 391	$ 1,364	$ 1,066
Commissions	117	100	375	332
Fees and service charges	108	92	323	276
Gains on securities and other, net	17	6	42	23
Other revenue	12	10	34	32
Total net revenue	$ 720	$ 599	$ 2,138	$ 1,729

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Interest Income and Interest Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income:				
Cash and equivalents	$ 2	$ 2	$ 7	$ 6
Cash required to be segregated under federal or other regulations	4	3	11	9
Investment securities[1]	315	255	908	692
Margin receivables	130	87	351	228
Loans	32	37	98	121
Broker-related receivables and other	4	1	12	2
Subtotal interest income	487	385	1,387	1,058
Other interest revenue[2]	27	28	84	74
Total interest income	514	413	1,471	1,132
Interest expense:				
Deposits	16	1	26	3
Customer payables	8	1	13	4
Broker-related payables and other	3	—	7	—
Other borrowings	6	6	21	16
Corporate debt	13	12	32	39
Subtotal interest expense	46	20	99	62
Other interest expense[3]	2	2	8	4
Total interest expense	48	22	107	66
Net interest income	$ 466	$ 391	$ 1,364	$ 1,066

(1) For the three and nine months ended September 30, 2018, includes $5 million and $13 million of net fair value hedging adjustments. See *Note 8—Derivative Instruments and Hedging Activities* for additional information.

(2) Represents interest income on securities loaned.

(3) Represents interest expense on securities borrowed.

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Fees and Service Charges

The following table presents the significant components of fees and service charges revenue (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Fees and service charges:				
Order flow revenue	$ 40	$ 33	$ 130	$ 98
Money market funds and sweep deposits revenue	18	23	53	71
Advisor management and custody fees	19	9	46	26
Mutual fund service fees	13	10	36	29
Foreign exchange revenue	7	6	21	20
Reorganization fees	3	5	10	13
Other fees and service charges	8	6	27	19
Total fees and service charges	$ 108	$ 92	$ 323	$ 276

Revenue from Contracts with Customers

On January 1, 2018, the Company adopted the new accounting standard, *Revenue from Contracts with Customers,* and all the related amendments using the modified retrospective method.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in the new revenue recognition standard. The transaction price in a contract is allocated to each distinct performance obligation and is recognized as revenue when, or as, the performance obligation is satisfied.

Commissions Revenue

Commissions are derived from the Company's customers and are impacted by DARTs, average commission per trade and the number of trading days. Commission rates differ by trade type (e.g., equities, derivatives, stock plan and mutual funds) and are also impacted by lower pricing for customers that qualify for active trader pricing. For certain trade types, such as options contracts, the total commission earned varies based on contract volume. Commissions from securities transactions are recognized on a trade-date basis.

Order Flow Revenue

Order flow revenue is generated from market centers that accept trade orders from customer securities transactions. Order flow revenue is recognized on a trade-date basis when the Company has satisfied its performance obligation to the market center.

Money Market Funds and Sweep Deposits Revenue

Money market funds and sweep deposits revenue is driven by fees earned from off-balance sheet customer cash. This revenue is typically based on the average daily balance and the federal funds rate or LIBOR plus a negotiated spread.

Advisor Management and Custody Fees

Advisor management and custody fees are generally earned based on a percentage of customer assets under management or the balance of assets under custody and are recognized over time as the services are provided.

Mutual Fund Service Fees

Mutual fund service fees are asset-based fees that are driven by the amount of customer assets invested in each fund. Revenue is recognized over time as the performance obligation to provide shareholder services is satisfied.

Other

Other fees and service charges are recognized when or as the performance obligations are satisfied. Fees from software and services for managing equity compensation plans are recognized as the performance obligations are satisfied and are presented within other revenue on the consolidated statement of income.

NOTE 4—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 US 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 US Treasuries is based on the original maturity dates of the securities and whether the securities are the most recent issuances of a given maturity. US Treasuries with original maturities less than one year are classified as Level 1. US Treasuries with original maturities greater 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, 2018. 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 swaps 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 and 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.

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, automated valuation models or updated values using home price indices.

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 loans, 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:

	Unobservable Inputs	Average	Range
September 30, 2018			
Loans receivable:			
One- to four-family	Appraised value	$ 621,000	$195,000 - $2,000,000
Home equity	Appraised value	$ 371,000	$65,000 - $950,000
Real estate owned	Appraised value	$ 315,000	$45,000 - $1,149,000
December 31, 2017			
Loans receivable:			
One- to four-family	Appraised value	$ 520,700	$60,000 - $1,200,000
Home equity	Appraised value	$ 317,300	$38,000 - $2,066,000
Real estate owned	Appraised value	$ 355,200	$4,500 - $2,000,000

Recurring and Nonrecurring Fair Value Measurements

The following tables presents the significant components of assets and liabilities measured at fair value (dollars in millions):

	Level 1	Level 2	Level 3	Total Fair Value
September 30, 2018:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Agency mortgage-backed securities	$ —	$ 21,639	$ —	$ 21,639
Agency debentures	—	1,069	—	1,069
Agency debt securities	—	142	—	142
Municipal bonds	—	12	—	12
Other	—	2	—	2
Total available-for-sale securities	—	22,864	—	22,864
Other assets:				
Derivative assets(1)	—	11	—	11
Publicly traded equity securities(2)	7	—	—	7
Total assets measured at fair value on a recurring basis(3)	$ 7	$ 22,875	$ —	$ 22,882
Nonrecurring fair value measurements:				
Loans receivable, net:				
One- to four-family	$ —	$ —	$ 16	$ 16
Home equity	—	—	5	5
Total loans receivable	—	—	21	21
Other assets:				
Real estate owned	—	—	11	11
Total assets measured at fair value on a nonrecurring basis(4)	$ —	$ —	$ 32	$ 32

(1) All derivative assets were interest rate contracts at September 30, 2018. Information related to derivative instruments is detailed in *Note 8—Derivative Instruments and Hedging Activities*.

(2) Consists of investments in a mutual fund related to the CRA. At September 30, 2018, these equity securities are included in other assets on the consolidated balance sheet as a result of the adoption of amended accounting guidance. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

(3) Assets measured at fair value on a recurring basis represented 35% of the Company's total assets at September 30, 2018.

(4) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at September 30, 2018, and for which a fair value measurement was recorded during the period.

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	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2017:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities	$ —	$ 19,195	$ —	$ 19,195
Agency debentures	—	966	—	966
US Treasuries	—	458	—	458
Agency debt securities	—	33	—	33
Municipal bonds	—	20	—	20
Total debt securities	—	20,672	—	20,672
Publicly traded equity securities	7	—	—	7
Total available-for-sale securities	7	20,672	—	20,679
Receivables from brokers, dealers and clearing organizations:				
US Treasuries	300	—	—	300
Other assets:				
Derivative assets(1)	—	131	—	131
Total assets measured at fair value on a recurring basis(2)	$ 307	$ 20,803	$ —	$ 21,110
Liabilities				
Other liabilities:				
Derivative liabilities(1)	$ —	$ 14	$ —	$ 14
Total liabilities measured at fair value on a recurring basis(2)	$ —	$ 14	$ —	$ 14
Nonrecurring fair value measurements:				
Loans receivable, net:				
One- to four-family	$ —	$ —	$ 22	$ 22
Home equity	—	—	13	13
Total loans receivable	—	—	35	35
Other assets:				
Loans held-for-sale	—	17	—	17
Real estate owned	—	—	26	26
Total assets measured at fair value on a nonrecurring basis(3)	$ —	$ 17	$ 61	$ 78

(1) All derivative assets and liabilities were interest rate contracts at December 31, 2017. Information related to derivative instruments is detailed in *Note 8—Derivative Instruments and Hedging Activities*.

(2) Assets and liabilities measured at fair value on a recurring basis represented 33% and less than 1% of the Company's total assets and total liabilities, respectively, at December 31, 2017.

(3) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at December 31, 2017, 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 (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
One- to four-family	$ —	$ 1	$ 2	$ 3
Home equity	—	—	—	3
Total losses on loans receivable measured at fair value	$ —	$ 1	$ 2	$ 6
Gains on real estate owned measured at fair value	$ —	$ (1)	$ (1)	$ (1)

Recurring Fair Value Measurements Categorized within Level 3

As of September 30, 2018 and December 31, 2017, no assets or liabilities measured at fair value on a recurring basis were categorized within Level 3 of the fair value hierarchy. The Company had no transfers between levels during the nine months ended September 30, 2018 and 2017.

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Fair Value of Financial Instruments Not Carried at Fair Value

The following table presents 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 (dollars in millions):

	September 30, 2018				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	$ 596	$ 596	$ —	$ —	$ 596
Cash required to be segregated under federal or other regulations	$ 856	$ 856	$ —	$ —	$ 856
Held-to-maturity securities:					
Agency mortgage-backed securities	$ 18,427	$ —	$ 17,836	$ —	$ 17,836
Agency debentures	1,564	—	1,532	—	1,532
Agency debt securities	2,035	—	1,953	—	1,953
Total held-to-maturity securities	$ 22,026	$ —	$ 21,321	$ —	$ 21,321
Margin receivables[(1)]	$ 11,184	$ —	$ 11,184	$ —	$ 11,184
Loans receivable, net:					
One- to four-family	$ 1,145	$ —	$ —	$ 1,170	$ 1,170
Home equity	863	—	—	879	879
Consumer and other	243	—	—	240	240
Total loans receivable, net[(2)]	$ 2,251	$ —	$ —	$ 2,289	$ 2,289
Receivables from brokers, dealers and clearing organizations[(1)]	$ 786	$ —	$ 786	$ —	$ 786
Other assets[(1)(3)]	$ 42	$ —	$ 42	$ —	$ 42
Liabilities					
Deposits	$ 43,074	$ —	$ 43,073	$ —	$ 43,073
Customer payables	$ 10,534	$ —	$ 10,534	$ —	$ 10,534
Payables to brokers, dealers and clearing organizations	$ 1,845	$ —	$ 1,845	$ —	$ 1,845
Other borrowings	$ 550	$ —	$ 550	$ —	$ 550
Corporate debt	$ 1,408	$ —	$ 1,379	$ —	$ 1,379

(1) The fair value of securities that the Company received as collateral in connection with margin receivables and securities borrowing activities, including the fully paid lending program, where the Company is permitted to sell or re-pledge the securities, was $15.3 billion at September 30, 2018. Of this amount, $3.8 billion had been pledged or sold in connection with securities loaned and deposits with clearing organizations at September 30, 2018.

(2) The carrying value of loans receivable, net includes the allowance for loan losses of $41 million and loans that are recorded at fair value on a nonrecurring basis at September 30, 2018.

(3) The $42 million in other assets at September 30, 2018 represents securities borrowing from customers under the fully paid lending program.

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	December 31, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	$ 931	$ 931	$ —	$ —	$ 931
Cash required to be segregated under federal or other regulations	$ 872	$ 872	$ —	$ —	$ 872
Held-to-maturity securities:					
Agency mortgage-backed securities	$ 20,502	$ —	$ 20,404	$ —	$ 20,404
Agency debentures	710	—	708	—	708
Agency debt securities	2,615	—	2,595	—	2,595
Other	12	—	—	12	12
Total held-to-maturity securities	$ 23,839	$ —	$ 23,707	$ 12	$ 23,719
Margin receivables(1)	$ 9,071	$ —	$ 9,071	$ —	$ 9,071
Loans receivable, net:					
One- to four-family	$ 1,417	$ —	$ —	$ 1,463	$ 1,463
Home equity	1,051	—	—	1,055	1,055
Consumer and other	186	—	—	187	187
Total loans receivable, net(2)	$ 2,654	$ —	$ —	$ 2,705	$ 2,705
Receivables from brokers, dealers and clearing organizations(1)	$ 878	$ —	$ 878	$ —	$ 878
Other assets(1)(3)	$ 18	$ —	$ 18	$ —	$ 18
Liabilities					
Deposits	$ 42,742	$ —	$ 42,741	$ —	$ 42,741
Customer Payables	$ 9,449	$ —	$ 9,449	$ —	$ 9,449
Payables to brokers, dealers and clearing organizations	$ 1,542	$ —	$ 1,542	$ —	$ 1,542
Other borrowings:					
FHLB advances	$ 500	$ —	$ 500	$ —	$ 500
Trust preferred securities	$ 410	$ —	$ —	$ 379	$ 379
Total other borrowings	$ 910	$ —	$ 500	$ 379	$ 879
Corporate debt	$ 991	$ —	$ 992	$ —	$ 992

(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 $12.8 billion at December 31, 2017. Of this amount, $3.2 billion had been pledged or sold in connection with securities loaned and deposits with clearing organizations at December 31, 2017.

(2) The carrying value of loans receivable, net includes the allowance for loan losses of $74 million and loans that are recorded at fair value on a nonrecurring basis at December 31, 2017.

(3) The $18 million in other assets at December 31, 2017 represents securities borrowing from customers under the fully paid lending program.

The fair value measurement techniques for financial instruments not carried at fair value on the consolidated balance sheet 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, other assets, 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—Fair value of held-to-maturity securities is determined in a manner consistent 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. Fair value for E*TRADE Line of Credit receivables, included in Consumer and other, is estimated to be carrying value consistent with the Company's valuation of margin receivables.

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

Deposits—Fair value of certificates of deposit 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—Fair value was estimated by discounting future cash flows at the yield implied by dealer pricing quotes. See *Note 10—Other Borrowings, Note 11—Corporate Debt* and *Note 15—Commitments, Contingencies and Other Regulatory Matters*.

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. Information related to such commitments and contingent liabilities is included in *Note 15—Commitments, Contingencies and Other Regulatory Matters.*

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NOTE 5—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 the Company's derivative instruments, securities borrowing and securities lending transactions which are transacted under master agreements 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 (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, 2018						
Assets:						
Deposits paid for securities borrowed (2)	$ 363	$ —	$ 363	$ (109)	$ (239)	$ 15
Derivative assets (3)	11	—	11	—	(5)	6
Total	$ 374	$ —	$ 374	$ (109)	$ (244)	$ 21
Liabilities:						
Deposits received for securities loaned (4)	$ 1,794	$ —	$ 1,794	$ (109)	$ (1,521)	$ 164
Total	$ 1,794	$ —	$ 1,794	$ (109)	$ (1,521)	$ 164
December 31, 2017						
Assets:						
Deposits paid for securities borrowed (2)	$ 759	$ —	$ 759	$ (251)	$ (483)	$ 25
Total	$ 759	$ —	$ 759	$ (251)	$ (483)	$ 25
Liabilities:						
Deposits received for securities loaned (4)	$ 1,373	$ —	$ 1,373	$ (251)	$ (1,004)	$ 118
Derivative liabilities (5)(6)	5	—	5	—	(5)	—
Total	$ 1,378	$ —	$ 1,378	$ (251)	$ (1,009)	$ 118

(1) The vast majority of the net amount of deposits paid for securities borrowed are reflected in the receivables from brokers, dealers and clearing organizations line item while the deposits paid for securities borrowed under the fully paid lending program are reflected in other assets. Derivative assets are reflected in the other assets line item in the consolidated balance sheet. Deposits received for securities loaned are reflected in the payables to brokers, dealers and clearing organizations line item in the consolidated balance sheet. Derivative liabilities are reflected in the other liabilities line item in the consolidated balance sheet.

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(2) Included in the gross amounts of deposits paid for securities borrowed was $227 million and $347 million at September 30, 2018 and December 31, 2017, 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.

(3) Collateral received included cash at September 30, 2018.

(4) Included in the gross amounts of deposits received for securities loaned was $1.2 billion and $821 million at September 30, 2018 and December 31, 2017, respectively, transacted through a program with a clearing organization, which guarantees the return of securities to the Company. For presentation purposes, these amounts presented are based on the counterparties under the Company’s master securities loan agreements.

(5) Excludes net accrued interest payable of $2 million at December 31, 2017.

(6) Collateral pledged included held-to-maturity securities at amortized cost at December 31, 2017.

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 collateral. 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). 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 preceding table as the contracts may not qualify as master netting agreements. See *Note 8—Derivative Instruments and Hedging Activities* for additional information.

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NOTE 6—AVAILABLE-FOR-SALE AND HELD-TO-MATURITY SECURITIES

The following table presents the amortized cost and fair value of available-for-sale and held-to-maturity securities (dollars in millions):

	Amortized Cost	Gross Unrealized / Unrecognized Gains	Gross Unrealized / Unrecognized Losses	Fair Value
September 30, 2018:				
Available-for-sale securities:(1)				
Agency mortgage-backed securities	$ 22,137	$ 42	$ (540)	$ 21,639
Agency debentures	1,072	11	(14)	1,069
Agency debt securities	146	—	(4)	142
Municipal bonds	13	—	(1)	12
Other	2	—	—	2
Total available-for-sale securities	$ 23,370	$ 53	$ (559)	$ 22,864
Held-to-maturity securities:(1)				
Agency mortgage-backed securities	$ 18,427	$ 7	$ (598)	$ 17,836
Agency debentures	1,564	—	(32)	1,532
Agency debt securities	2,035	1	(83)	1,953
Total held-to-maturity securities	$ 22,026	$ 8	$ (713)	$ 21,321
December 31, 2017:				
Available-for-sale securities:				
Debt securities:				
Agency mortgage-backed securities	$ 19,395	$ 47	$ (247)	$ 19,195
Agency debentures	939	39	(12)	966
US Treasuries	452	10	(4)	458
Agency debt securities	34	—	(1)	33
Municipal bonds	20	—	—	20
Total debt securities	20,840	96	(264)	20,672
Publicly traded equity securities(2)	7	—	—	7
Total available-for-sale securities	$ 20,847	$ 96	$ (264)	$ 20,679
Held-to-maturity securities:				
Agency mortgage-backed securities	$ 20,502	$ 95	$ (193)	$ 20,404
Agency debentures	710	—	(2)	708
Agency debt securities	2,615	15	(35)	2,595
Other	12	—	—	12
Total held-to-maturity securities	$ 23,839	$ 110	$ (230)	$ 23,719

(1) Securities with a carrying value of $4.7 billion and related unrealized pre-tax gain of $7 million were transferred from held-to-maturity securities to available-for-sale securities during the three months ended March 31, 2018, as part of a one-time transition election for early adopting the new derivatives and hedge accounting guidance. Securities with a fair value of $1.2 billion were transferred from available-for-sale securities to held-to-maturity securities during the three months ended March 31, 2018 pursuant to an evaluation of our investment strategy and an assessment by management about our intent and ability to

hold those particular securities until maturity. See *Note 12—Shareholders' Equity* for information on the impact to accumulated other comprehensive income.

(2) Consists of investments in a mutual fund related to the CRA. At September 30, 2018, these equity securities are included in other assets on the consolidated balance sheet as a result of the adoption of amended accounting guidance related to the classification and measurement of financial instruments. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

Contractual Maturities

The following table presents the contractual maturities of all available-for-sale and held-to-maturity debt securities (dollars in millions):

	September 30, 2018	
	Amortized Cost	**Fair Value**
Available-for-sale debt securities:		
Due within one year	$ 5	$ 5
Due within one to five years	905	881
Due within five to ten years	9,278	9,106
Due after ten years	13,182	12,872
Total available-for-sale debt securities	$ 23,370	$ 22,864
Held-to-maturity debt securities:		
Due within one year	$ 105	$ 104
Due within one to five years	1,635	1,598
Due within five to ten years	5,242	5,055
Due after ten years	15,044	14,564
Total held-to-maturity debt securities	$ 22,026	$ 21,321

At September 30, 2018 and December 31, 2017, the Company had pledged $6.5 billion and $5.5 billion, respectively, of held-to-maturity debt securities, and $222 million and $352 million, respectively, of available-for-sale securities, as collateral for FHLB advances, derivatives and other purposes.

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Investments with Unrealized or Unrecognized Losses

The following table presents the fair value and unrealized or unrecognized losses on available-for-sale and held-to-maturity securities, and the length of time that individual securities have been in a continuous unrealized or unrecognized loss position (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, 2018:						
Available-for-sale securities:						
Agency mortgage-backed securities	$ 10,753	$ (185)	$ 6,581	$ (355)	$ 17,334	$ (540)
Agency debentures	418	(5)	113	(9)	531	(14)
Agency debt securities	113	(2)	29	(2)	142	(4)
Municipal bonds	3	—	9	(1)	12	(1)
Other	2	—	—	—	2	—
Total temporarily impaired available-for-sale securities	$ 11,289	$ (192)	$ 6,732	$ (367)	$ 18,021	$ (559)
Held-to-maturity securities:						
Agency mortgage-backed securities	$ 10,041	$ (253)	$ 6,960	$ (345)	$ 17,001	$ (598)
Agency debentures	1,180	(17)	353	(15)	1,533	(32)
Agency debt securities	574	(15)	1,273	(68)	1,847	(83)
Total temporarily impaired held-to-maturity securities	$ 11,795	$ (285)	$ 8,586	$ (428)	$ 20,381	$ (713)
December 31, 2017:						
Available-for-sale securities:						
Debt securities:						
Agency mortgage-backed securities	$ 4,638	$ (23)	$ 8,027	$ (224)	$ 12,665	$ (247)
Agency debentures	—	—	283	(12)	283	(12)
US Treasuries	—	—	147	(4)	147	(4)
Agency debt securities	9	—	24	(1)	33	(1)
Municipal bonds	—	—	11	—	11	—
Publicly traded equity securities	7	—	—	—	7	—
Total temporarily impaired available-for-sale securities	$ 4,654	$ (23)	$ 8,492	$ (241)	$ 13,146	$ (264)
Held-to-maturity securities:						
Agency mortgage-backed securities	$ 9,982	$ (78)	$ 4,906	$ (115)	$ 14,888	$ (193)
Agency debentures	597	(2)	9	—	606	(2)
Agency debt securities	373	(3)	1,345	(32)	1,718	(35)
Total temporarily impaired held-to-maturity securities	$ 10,952	$ (83)	$ 6,260	$ (147)	$ 17,212	$ (230)

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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, 2018 represents a credit loss. The Company does not intend to sell the debt securities in an unrealized or unrecognized loss position as of the balance sheet date and it is not more likely than not that the Company will be required to sell the debt securities before the anticipated recovery of its remaining amortized cost of the debt securities in an unrealized or unrecognized loss position at September 30, 2018.

There were no impairment losses recognized in earnings on available-for-sale or held-to-maturity securities during the nine months ended September 30, 2018 and 2017.

Gains on Securities and Other, Net

The following table presents the components of gains on securities and other, net (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gains on available-for-sale securities[(1)]	$ 65	$ 7	$ 87	$ 25
Losses on available-for-sale securities[(1)]	(54)	—	(54)	—
Subtotal	11	7	33	25
Equity method investment income (loss) and other[(2)(3)]	6	(1)	9	(2)
Gains on securities and other, net	$ 17	$ 6	$ 42	$ 23

(1) In August 2018, the Company sold available-for-sale securities and reinvested the sale proceeds in agency-backed securities at current market rates. A subset of these securities had been purchased in lower interest rate environments and were in unrealized loss positions at the time of sale. As both the change in intent related to these securities and the sale of these securities occurred within the same reporting period, the Company presented the losses on the sale of these securities within the gains on securities and other, net line item.

(2) Includes a $5 million gain on the sale of our Chicago Stock Exchange investment for the three and nine months ended September 30, 2018.

(3) Includes a loss of $2 million and $5 million on hedge ineffectiveness for the three and nine months ended September 30, 2017. Beginning January 1, 2018 fair value hedging adjustments are recognized within net interest income. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

NOTE 7—LOANS RECEIVABLE, NET

The following table presents loans receivable disaggregated by delinquency status (dollars in millions):

	Current	Days Past Due 30-89	Days Past Due 90-179	Days Past Due 180+	Total	Unamortized premiums, net	Allowance for loans losses	Loans Receivable, Net
September 30, 2018								
One- to four-family	$ 1,034	$ 45	$ 13	$ 58	$ 1,150	$ 7	$ (12)	$ 1,145
Home equity	821	29	14	26	890	—	(27)	863
Consumer and other(1)	242	2	—	—	244	1	(2)	243
Total loans receivable	$ 2,097	$ 76	$ 27	$ 84	$ 2,284	$ 8	$ (41)	$ 2,251
December 31, 2017								
One- to four-family	$ 1,269	$ 59	$ 22	$ 82	$ 1,432	$ 9	$ (24)	$ 1,417
Home equity	1,014	36	15	32	1,097	—	(46)	1,051
Consumer and other(1)	185	3	—	—	188	2	(4)	186
Total loans receivable	$ 2,468	$ 98	$ 37	$ 114	$ 2,717	$ 11	$ (74)	$ 2,654

(1) In 2017 we introduced E*TRADE Line of Credit, a securities-based lending product, where customers can borrow against the market value of their securities pledged as collateral. The drawn amount and unused credit line amount totaled $113 million and $168 million, respectively, as of September 30, 2018 and $12 million and $35 million, respectively, as of December 31, 2017.

At December 31, 2017, the Company had loans with a carrying value of $17 million classified as held for sale. These loans were presented within other assets as of December 31, 2017 and were sold during the three months ended March 31, 2018.

At September 30, 2018, the Company pledged $1.8 billion and $0.1 billion of loans as collateral to the FHLB and Federal Reserve Bank of Richmond, respectively. At December 31, 2017, the Company pledged $2.2 billion and $0.2 billion of loans as collateral to the FHLB and Federal Reserve Bank of Richmond, respectively.

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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. The following tables present the distribution of the Company's mortgage loan portfolios by credit quality indicator (dollars in millions):

	One- to Four-Family		Home Equity	
Current LTV/CLTV[1]	**September 30, 2018**	**December 31, 2017**	**September 30, 2018**	**December 31, 2017**
<=80%	$ 877	$ 1,031	$ 475	$ 531
80%-100%	181	256	230	291
100%-120%	53	91	121	176
>120%	39	54	64	99
Total mortgage loans receivable	$ 1,150	$ 1,432	$ 890	$ 1,097
Average estimated current LTV/CLTV [2]	66%	70%	80%	84%
Average LTV/CLTV at loan origination [3]	71%	71%	82%	81%

(1) Current CLTV calculations for home equity loans are based on the maximum available line for HELOCs and outstanding principal balance for HEILs. 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, HEILs and the maximum available line for HELOCs.

	One- to Four-Family		Home Equity	
Current FICO	**September 30, 2018**	**December 31, 2017**	**September 30, 2018**	**December 31, 2017**
>=720	$ 660	$ 805	$ 463	$ 548
719 - 700	105	138	84	106
699 - 680	77	105	77	93
679 - 660	72	78	60	79
659 - 620	90	122	88	103
<620	146	184	118	168
Total mortgage loans receivable	$ 1,150	$ 1,432	$ 890	$ 1,097

One- to four-family loans include loans with an interest-only period, followed by an amortizing period. At September 30, 2018, nearly 100% of these loans were amortizing. 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, 2018, nearly 100% of the HELOC portfolio had converted from the interest-only draw period.

The weighted average age of our mortgage and consumer loans receivable was 12.6 and 11.8 years at September 30, 2018 and December 31, 2017, respectively. Approximately 33% and 34% of the Company's mortgage loans receivable were concentrated in California at September 30, 2018 and December 31, 2017, respectively. Approximately 10% and 9% of the Company's mortgage loans receivable were concentrated in New York at September 30, 2018 and December 31, 2017, respectively. No other state had concentrations of mortgage loans that represented 10% or more of the Company's mortgage loans receivable at September 30, 2018 and December 31, 2017.

At September 30, 2018, 27% and 19% of the Company's past-due mortgage loans were concentrated in California and New York, respectively. No other state had concentrations of past-due mortgage loans that represented 10% or more of the Company's past-due mortgage loans. At September 30, 2018, 43% and 10% of the Company's impaired mortgage loans were concentrated in California and New York, respectively. No other state had concentrations of impaired mortgage loans that represented 10% or more of the Company's impaired mortgage loans.

Nonperforming Loans

The Company classifies loans as nonperforming when they are no longer accruing interest. The following table presents nonperforming loans by loan portfolio (dollars in millions):

	September 30, 2018	December 31, 2017
One- to four-family	$ 153	$ 192
Home equity	77	98
Total nonperforming loans receivable	$ 230	$ 290

At September 30, 2018 and December 31, 2017, the Company held $17 million and $26 million, respectively, of real estate owned that was acquired through foreclosure or through a deed in lieu of foreclosure or similar legal agreement. The Company held $60 million and $101 million of loans for which formal foreclosure proceedings were in process at September 30, 2018 and December 31, 2017, respectively.

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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 (dollars in millions):

	One- to Four-Family		Home Equity		Consumer and other		Total	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
General reserve:								
Quantitative component	$ 7	$ 15	$ 6	$ 14	$ 2	$ 4	$ 15	$ 33
Qualitative component	1	3	—	3	—	—	1	6
Specific valuation allowance	4	6	21	29	—	—	25	35
Total allowance for loan losses	$ 12	$ 24	$ 27	$ 46	$ 2	$ 4	$ 41	$ 74
Allowance as a % of loans receivable(1)	1.1%	1.6%	3.0%	4.2%	0.9%	2.1%	1.8%	2.7%

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

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The following table presents a roll forward by loan portfolio of the allowance for loan losses (dollars in millions):

	Three Months Ended September 30, 2018			
	One- to Four-Family	Home Equity	Consumer and other	Total
Allowance for loan losses, beginning of period	$ 16	$ 36	$ 2	$ 54
Provision (benefit) for loan losses	(6)	(28)	—	(34)
Charge-offs	—	—	(1)	(1)
Recoveries(1)	2	19	1	22
Net (charge-offs) recoveries	2	19	—	21
Allowance for loan losses, end of period	$ 12	$ 27	$ 2	$ 41

	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

	Nine Months Ended September 30, 2018			
	One- to Four-Family	Home Equity	Consumer and other	Total
Allowance for loan losses, beginning of period	$ 24	$ 46	$ 4	$ 74
Provision (benefit) for loan losses	(17)	(56)	(1)	(74)
Charge-offs	(1)	—	(3)	(4)
Recoveries(2)	6	37	2	45
Net (charge-offs) recoveries	5	37	(1)	41
Allowance for loan losses, end of period	$ 12	$ 27	$ 2	$ 41

	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

(1) Includes $10 million of recoveries recognized during the three months ended September 30, 2018 related to the sale of previously charged-off home equity loans.
(2) Total includes $15 million of recoveries recognized during the nine months ended September 30, 2018 related to the sale of previously charged-off home equity loans.

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Total loans receivable designated as held-for-investment decreased $0.4 billion during the nine months ended September 30, 2018. The allowance for loan losses was $41 million, or 1.8% of total loans receivable, as of September 30, 2018 compared to $74 million, or 2.7% of total loans receivable, as of December 31, 2017. Net recoveries for the nine months ended September 30, 2018 were $41 million compared to $15 million in the same period in 2017.

The benefit for loan losses was $74 million for the nine months ended September 30, 2018. 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 expectations, including sales of charged-off loans and recoveries of previous charge-offs that were not included in our loss estimates.

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 portfolio (dollars in millions):

	Recorded Investment		Allowance for Loan Losses	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Collectively evaluated for impairment:				
One- to four-family	$ 963	$ 1,228	$ 8	$ 18
Home equity	746	932	6	17
Consumer and other	245	190	2	4
Total collectively evaluated for impairment	1,954	2,350	16	39
Individually evaluated for impairment:				
One- to four-family	194	213	4	6
Home equity	144	165	21	29
Total individually evaluated for impairment	338	378	25	35
Total	$ 2,292	$ 2,728	$ 41	$ 74

Impaired Loans—Troubled Debt Restructurings

Delinquency status is the primary measure the Company uses to evaluate the performance of loans modified as TDRs. The Company classifies loans as nonperforming when they are no longer accruing interest. 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.

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The following table presents a summary of the Company's recorded investment in TDRs that were on accrual and nonaccrual status, further disaggregated by delinquency status (dollars in millions):

		Nonaccrual TDRs				
	Accrual TDRs(1)	Current(2)	30-89 Days Delinquent	90-179 Days Delinquent	180+ Days Delinquent	Total Recorded Investment in TDRs (3)(4)
September 30, 2018						
One- to four-family	$ 85	$ 70	$ 12	$ 4	$ 23	$ 194
Home equity	93	23	10	6	12	144
Total	$ 178	$ 93	$ 22	$ 10	$ 35	$ 338
December 31, 2017						
One- to four-family	$ 83	$ 74	$ 13	$ 5	$ 38	$ 213
Home equity	104	34	10	4	13	165
Total	$ 187	$ 108	$ 23	$ 9	$ 51	$ 378

(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) Total recorded investment in TDRs includes premium (discount), as applicable, and is net of charge-offs, which were $58 million and $127 million for one-to four-family and home equity loans, respectively, as of September 30, 2018 and $67 million and $144 million, respectively, as of December 31, 2017.

(4) Total recorded investment in TDRs at September 30, 2018 consisted of $261 million of loans modified as TDRs and $77 million of loans that have been charged off due to bankruptcy notification. Total recorded investment in TDRs at December 31, 2017 consisted of $285 million of loans modified as TDRs and $93 million of loans that have been charged off due to bankruptcy notification.

The following tables present the average recorded investment and interest income recognized both on a cash and accrual basis for the Company's TDRs (dollars in millions):

	Average Recorded Investment		Interest Income Recognized	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
One- to four-family	$ 198	$ 219	$ 2	$ 2
Home equity	148	176	4	4
Total	$ 346	$ 395	$ 6	$ 6

	Average Recorded Investment		Interest Income Recognized	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
One- to four-family	$ 205	$ 230	$ 6	$ 7
Home equity	156	185	10	12
Total	$ 361	$ 415	$ 16	$ 19

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The following table presents detailed information related to the Company's TDRs and specific valuation allowances (dollars in millions):

	September 30, 2018			December 31, 2017		
	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	$ 52	$ 4	$ 48	$ 54	$ 6	$ 48
Home equity	$ 64	$ 21	$ 43	$ 83	$ 29	$ 54
Without a recorded allowance:(1)						
One- to four-family	$ 142	$ —	$ 142	$ 159	$ —	$ 159
Home equity	$ 80	$ —	$ 80	$ 82	$ —	$ 82
Total:						
One- to four-family	$ 194	$ 4	$ 190	$ 213	$ 6	$ 207
Home equity	$ 144	$ 21	$ 123	$ 165	$ 29	$ 136

(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 present the number of loans and post-modification balances immediately after being modified by major class (dollars in millions):

	Three Months Ended				
		Interest Rate Reduction			
	Number of Loans	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other(1)	Total
September 30, 2018					
One- to four-family	11	$ 2	$ —	$ 2	$ 4
Home equity	15	—	—	1	1
Total	26	$ 2	$ —	$ 3	$ 5
September 30, 2017					
One- to four-family	7	$ 3	$ —	$ —	$ 3
Home equity	46	4	—	—	4
Total	53	$ 7	$ —	$ —	$ 7

	Nine Months Ended				
		Interest Rate Reduction			
	Number of Loans	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other(1)	Total
September 30, 2018					
One- to four-family	46	$ 14	$ —	$ 6	$ 20
Home equity	75	4	1	1	6
Total	121	$ 18	$ 1	$ 7	$ 26
September 30, 2017					
One- to four-family	19	$ 6	$ —	$ 1	$ 7
Home equity	260	9	1	9	19
Total	279	$ 15	$ 1	$ 10	$ 26

(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 8—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 Company utilizes fair value hedges to offset exposure to changes in value of certain fixed-rate assets. All of the Company's derivative instruments were designated in fair value hedging relationships at September 30, 2018 and December 31, 2017. For each fair value hedge, both the gain or loss on the derivative, including interest accruals, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. 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 item is amortized to net interest income using the effective interest method over the expected remaining life of the hedged item.

Beginning January 1, 2018, the net earnings impact of a fair value hedge that is not perfectly effective is recognized in the interest income line item in the consolidated statement of income. Prior to January 1, 2018, the net earnings impact due to changes in fair value of the derivative and the hedged item, which was previously referred to as ineffectiveness, is reflected in the gains on securities and other, net line item in the consolidated statement of income. The earnings impact of interest accruals on the derivative is reflected in the interest income line item in the consolidated statement of income.

In January 2017, one of the two central clearing organizations through which the Company executes certain of its derivative contracts amended its rulebooks to legally characterize variation margin payments as settlements of the derivatives' exposure rather than collateral against the exposure. By January 2018, both central clearing organizations had adopted similar rulebook amendments. As a result, for centrally cleared derivatives 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. The Company therefore had no centrally cleared derivative contract assets or liabilities reflected on the consolidated balance sheet as a result of the rulebook changes as of September 30, 2018. At December 31, 2017, the Company had $131 million and $9 million of centrally cleared derivative contract assets and liabilities, respectively, reflected on the consolidated balance sheet.

The consolidated balance sheet and the table below exclude the following as these contracts were executed through a central clearing organization and were settled by variation margin payments:

- Derivative assets of $371 million and $6 million at September 30, 2018 and December 31, 2017, respectively
- Derivative liabilities of $1 million and $18 million at September 30, 2018 and December 31, 2017, respectively

Presentation on the Consolidated Balance Sheet

The following table presents a summary of the fair value of derivatives as reported in the consolidated balance sheet (dollars in millions):

		Fair Value		
	Notional	Asset(1)	Liability(2)	Net(3)
September 30, 2018				
Interest rate contracts:				
Fair value hedges	$ 8,109	$ 11	$ —	$ 11
Total derivatives designated as hedging instruments(4)	$ 8,109	$ 11	$ —	$ 11
December 31, 2017				
Interest rate contracts:				
Fair value hedges	$ 8,609	$ 131	$ (14)	$ 117
Total derivatives designated as hedging instruments(4)	$ 8,609	$ 131	$ (14)	$ 117

(1) Reflected in the other assets line item on the consolidated balance sheet.
(2) Reflected in the other liabilities line item on the consolidated balance sheet.
(3) Represents net fair value of derivative instruments for disclosure purposes only.
(4) All derivatives were designated as hedging instruments at September 30, 2018 and December 31, 2017.

The following table presents the cumulative basis adjustments related to the carrying amount of hedged assets in fair value hedging relationships (dollars in millions):

		Cumulative Amount of Fair Value Hedging Basis Adjustment Included in Carrying Amount of Hedged Assets(2)	
	Carrying Amount of Hedged Assets(1)	Total	Discontinued
September 30, 2018			
Available-for-sale securities(3)	$ 11,487	$ (361)	$ (272)

(1) The carrying amount includes the impact of basis adjustments on active fair value hedges and the impact of basis adjustments from previously discontinued fair value hedges.
(2) Represents the increase (decrease) to the carrying amount of hedged assets. The discontinued portion of the cumulative amount of fair value hedging basis adjustments is amortized into net interest income using the effective interest method over the expected remaining life of the hedged items.
(3) Includes the amortized cost basis of closed portfolios of prepayable securities designated in hedging relationships in which the hedged item is the last layer of principal expected to be remaining throughout the hedge term. As of September 30, 2018, the amortized cost basis of this portfolio was $831 million, the amount of the designated hedged items was $192 million and the cumulative basis adjustments associated with these hedges was $1 million.

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Presentation on the Consolidated Statement of Income

The following table presents the effects of fair value hedge accounting on the consolidated statement of income (dollars in millions):

	Interest Income	
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Total interest income	$ 514	$ 1,471
Effects of fair value hedging on total interest income[(1)(2)]		
Agency debentures:		
Amounts recognized as interest accruals on derivatives	(1)	(4)
Changes in fair value of hedged items	(8)	(74)
Changes in fair value of derivatives	8	74
Net loss on fair value hedging relationships - agency debentures	(1)	(4)
Agency mortgage backed securities:		
Amounts recognized as interest accruals on derivatives	1	(14)
Amortization of basis adjustments from discontinued hedges	7	16
Changes in fair value of hedged items	(88)	(416)
Changes in fair value of derivatives	83	403
Net gain (loss) on fair value hedging relationships - agency mortgage backed securities	3	(11)
Total net gain (loss) on fair value hedging relationships	$ 2	$ (15)

(1) Excludes interest income accruals on hedged items and amounts recognized upon the sale of securities attributable to fair value hedge accounting.

(2) Excludes interest on variation margin related to centrally cleared derivative contracts.

The following table presents the changes in fair value of interest rate derivative contracts designated as fair value hedges and related hedged items as reflected on the consolidated statement of income (dollars in millions):

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

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

	Nine Months Ended September 30, 2017		
	Hedging Instrument	Hedged Item	Hedge Ineffectiveness(1)
Agency debentures	$ (7)	$ 7	$ —
Agency mortgage-backed securities	(29)	24	(5)
Total gains (losses) included in earnings	$ (36)	$ 31	$ (5)

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

NOTE 9—DEPOSITS

The following table presents the significant components of deposits (dollars in millions):

	Amount		Weighted-Average Rate	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Sweep deposits	$ 37,998	$ 37,734	0.15%	0.01%
Savings deposits	3,145	2,912	0.40%	0.01%
Other deposits(1)	1,931	2,096	0.03%	0.03%
Total deposits	$ 43,074	$ 42,742	0.17%	0.01%

(1) Includes checking deposits, money market deposits and certificates of deposit. As of September 30, 2018 and December 31, 2017, the Company had $193 million and $207 million in non-interest bearing deposits, respectively.

NOTE 10—OTHER BORROWINGS

The following table presents the significant components of other borrowings (dollars in millions):

	September 30, 2018	December 31, 2017
FHLB advances	$ 550	$ 500
Trust preferred securities	—	410
Total other borrowings	$ 550	$ 910

During the three months ended September 30, 2018, the Company redeemed $413 million of its outstanding TRUPs. In connection with the redemption, the Company recognized a loss on early extinguishment of debt of $4 million, consisting of the difference between the carrying value of the TRUPs redeemed, including unamortized debt issuance costs, and the total cash amount paid, including related fees and expenses. Net proceeds from the June 2018 issuance of $420 million Senior Notes were used to redeem the TRUPs. See *Note 11—Corporate Debt* and *Note 15—Commitments, Contingencies and Other Regulatory Matters*.

External Lines of Credit maintained at E*TRADE Securities

E*TRADE Securities' external liquidity lines total approximately $1.3 billion as of September 30, 2018 and include the following:

- A 364-day, $600 million senior unsecured committed revolving credit facility with a syndicate of banks, with a maturity date in June 2019
- Secured committed lines of credit with two unaffiliated banks, aggregating to $175 million, with maturity dates in June 2019
- Unsecured uncommitted lines of credit with three unaffiliated banks aggregating to $125 million, of which $50 million has a maturity date of June 2019 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 with which the Company was in compliance at September 30, 2018. There were no outstanding balances for these lines at September 30, 2018.

NOTE 11—CORPORATE DEBT

The following table presents the significant components of corporate debt (dollars in millions):

	Face Value	Discount	Net
September 30, 2018			
Interest-bearing notes:			
2.95% Senior Notes, due 2022	$ 600	$ (4)	$ 596
3.80% Senior Notes, due 2027	400	(4)	396
4.50% Senior Notes, due 2028	420	(4)	416
Total corporate debt	$ 1,420	$ (12)	$ 1,408
December 31, 2017			
Interest-bearing notes:			
2.95% Senior Notes, due 2022	$ 600	$ (5)	$ 595
3.80% Senior Notes, due 2027	400	(4)	396
Total corporate debt	$ 1,000	$ (9)	$ 991

Issuance of Corporate Debt

During the three months ended June 30, 2018, the Company issued $420 million in aggregate principal amount of Senior Notes due 2028. The Senior Notes bear interest at an annual rate of 4.50% and will mature on June 20, 2028. The Senior Notes are our general unsecured senior obligations and rank equally in right of payment with all of our existing and future unsubordinated indebtedness. The Senior Notes effectively rank junior to our secured indebtedness, if any, to the extent of the collateral securing such indebtedness, and are structurally subordinated to all liabilities of our subsidiaries. The Senior Notes are not guaranteed by the subsidiaries.

The Company used the proceeds from the issuance of the Senior Notes for the redemption of the TRUPs issued by ETB Holdings, a subsidiary of E*TRADE Financial. For additional information about TRUPs, see *Note 10—Other Borrowings* and *Note 15—Commitments, Contingencies and Other Regulatory Matters*.

Credit Facility

In 2017, the Company entered into a new $300 million unsecured committed revolving credit facility with certain lenders which will mature on June 23, 2020. The Company has the ability to borrow against the credit facility for working capital and general corporate purposes. The credit facility has terms which include financial maintenance covenants, with which the Company was in compliance at September 30, 2018. At September 30, 2018, there was no outstanding balance under this revolving credit facility.

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NOTE 12—SHAREHOLDERS' EQUITY

Preferred Stock

The following table presents the preferred stock outstanding (in millions except total shares outstanding and per share data):

Description	Issuance Date	Per Annum Dividend Rate	Total Shares Outstanding	Liquidation Preference per Share	Carrying Value at September 30, 2018	Carrying Value at December 31, 2017
Series A						
Fixed-to-Floating Rate Non-Cumulative	8/25/2016	5.875% to, but excluding, 9/15/2026; 3-mo LIBOR + 4.435% thereafter	400,000	$ 1,000	$ 394	$ 394
Series B						
Fixed-to-Floating Rate Non-Cumulative	12/6/2017	5.30% to, but excluding, 3/15/2023; 3-mo LIBOR + 3.16% thereafter	3,000	$ 100,000	295	295
Total			403,000		$ 689	$ 689

The following table presents the cash dividend paid on preferred stock (in millions except per share data):

	Nine Months Ended September 30, 2018					Nine Months Ended September 30, 2017			
Declaration Date	Record Date	Payment Date	Dividend per Share	Dividend Paid	Declaration Date	Record Date	Payment Date	Dividend per Share	Dividend Paid
Series A (1)									
2/8/2018	2/28/2018	3/15/2018	$ 29.38	$ 12	2/2/2017	2/28/2017	3/15/2017	$ 32.64	$ 13
7/26/2018	8/31/2018	9/17/2018	$ 29.38	12	8/2/2017	8/31/2017	9/15/2017	$ 29.38	12
Series B (1)									
7/26/2018	8/31/2018	9/17/2018	$ 4,107.50	12					
Total				$ 36					$ 25

(1) Dividends are non-cumulative and payable semi-annually, if declared.

Common Stock

Dividend on Common Stock

On October 17, 2018, the Company's Board of Directors declared a quarterly cash dividend of $0.14 per share on the Company's outstanding shares of common stock. The dividend is payable on November 15, 2018, to shareholders of record as of the close of business on October 30, 2018.

Employee Stock Purchase Plan

In May 2018, the shareholders of the Company approved the 2018 Employee Stock Purchase Plan (the "2018 Plan"), and reserved 4.0 million shares of common stock for sale to employees at a price no less than 85% of the fair market value per share of the common stock on the purchase date. The Company currently offers six month enrollment periods at the end of which employees can purchase shares of the Company's common stock at a price equal to 95% of the closing market price on the date of purchase. The initial offering period began on September 1, 2018. No share-based compensation expense was recorded in connection with the 2018 Plan as it was deemed non-compensatory. No shares were purchased under the plan during the three or nine months ended September 30, 2018.

Share Repurchases

During the third quarter of 2018, the Company completed its prior $1 billion share repurchase program with the repurchase of 5.3 million shares of common stock at an average price of $58.74 per share, or $310 million. As of September 30, 2018, the Company had repurchased 19.5 million shares of common stock at an average price of $51.38 per share, for a total of $1 billion since the Company began repurchasing shares under this authorization in the third quarter of 2017. The Company accounts for share repurchases retired after repurchase by allocating the excess repurchase price over par to additional paid-in-capital. In October 2018, the Company announced that its Board of Directors has authorized a new $1 billion share repurchase program.

Other Common Stock Activity

Other common stock activity includes shares withheld to pay taxes for share-based compensation, exercises of stock options, and other activity. During the nine months ended September 30, 2017, it also includes $3 million of conversion of the Company's convertible debentures into 0.3 million shares of common stock. There were no conversions of convertible debentures during the nine months ended September 30, 2018.

Accumulated Other Comprehensive Loss

The following tables present after-tax changes in each component of accumulated other comprehensive loss (dollars in millions):

	Total [(1)]
Balance, December 31, 2017	$ (26)
Other comprehensive loss before reclassifications	(128)
Amounts reclassified from accumulated other comprehensive loss	(7)
Transfer of held-to-maturity securities to available-for-sale securities[(2)]	6
Net change	(129)
Cumulative effect of hedge accounting adoption	(7)
Reclassification of tax effects due to federal tax reform	(14)
Balance, March 31, 2018	$ (176)
Other comprehensive loss before reclassifications	(51)
Amounts reclassified from accumulated other comprehensive loss	(8)
Net change	(59)
Balance, June 30, 2018	$ (235)
Other comprehensive loss before reclassifications	(86)
Amounts reclassified from accumulated other comprehensive loss	(8)
Net change	(94)
Balance, September 30, 2018[(3)]	$ (329)

(1) During the nine months ended September 30, 2018, the accumulated other comprehensive loss activity was related to available-for-sale securities.

(2) Securities with a carrying value of $4.7 billion and related unrealized pre-tax gain of $7 million, or $6 million net of tax, were transferred from held-to-maturity securities to available-for-sale securities during the three months ended March 31, 2018, as part of a one-time transition election for early adopting the new derivatives and hedge accounting guidance. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

(3) Includes unamortized unrealized pre-tax losses of $23 million at September 30, 2018 of which $17 million is related to the transfer of available-for-sale securities to held-to-maturity securities during the three months ended March 31, 2018.

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	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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The following table presents other comprehensive income (loss) activity and the related tax effect (dollars in millions):

	Three Months Ended September 30,					
	2018			2017		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Other comprehensive income (loss)						
Available-for-sale securities:						
Unrealized gains (losses), net	$ (112)	$ 26	$ (86)	$ 26	$ (10)	$ 16
Reclassification into earnings, net	(11)	3	(8)	(7)	3	(4)
Net change from available-for-sale securities	(123)	29	(94)	19	(7)	12
Other comprehensive income (loss)	$ (123)	$ 29	$ (94)	$ 19	$ (7)	$ 12

	Nine Months Ended September 30,					
	2018			2017		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Other comprehensive income (loss)						
Available-for-sale securities:						
Unrealized gains (losses), net	$ (353)	$ 88	$ (265)	$ 170	$ (66)	$ 104
Reclassification into earnings, net	(32)	9	(23)	(24)	9	(15)
Transfer of held-to-maturity securities to available-for-sale securities	7	(1)	6	—	—	—
Net change from available-for-sale securities	(378)	96	(282)	146	(57)	89
Reclassification of foreign currency translation gains	—	—	—	(2)	—	(2)
Other comprehensive income (loss)	$ (378)	$ 96	$ (282)	$ 144	$ (57)	$ 87

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The following table presents the consolidated statement of income line items impacted by reclassifications out of accumulated other comprehensive loss (dollars in millions):

Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss: Three Months Ended September 30,		Nine Months Ended September 30,		Affected Line Items in the Consolidated Statement of Income
	2018	2017	2018	2017	
Available-for-sale securities:	$ 12	$ 7	$ 34	$ 24	Gains on securities and other, net
	(1)	—	(2)	—	Interest income
	11	7	32	24	Reclassification into earnings, before tax
	(3)	(3)	(9)	(9)	Income tax expense
	$ 8	$ 4	$ 23	$ 15	Reclassification into earnings, net
Foreign currency translation:	$ —	$ —	$ —	$ 2	Other non-interest expenses
	$ —	$ —	$ —	$ 2	Reclassification into earnings, net

NOTE 13—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,	
	2018	2017	2018	2017
Net income	$ 285	$ 147	$ 782	$ 485
Less: Preferred stock dividends	24	12	36	25
Net income available to common shareholders	$ 261	$ 135	$ 746	$ 460
Share data (in thousands):				
Basic weighted-average shares outstanding	259,498	273,441	263,292	274,565
Effect of weighted-average dilutive securities:				
Restricted stock and options(1)	1,147	1,134	1,125	1,029
Convertible debentures	16	19	16	109
Diluted weighted-average shares outstanding(2)	260,661	274,594	264,433	275,703
Basic earnings per common share	$ 1.01	$ 0.49	$ 2.84	$ 1.67
Diluted earnings per common share(2)	$ 1.00	$ 0.49	$ 2.82	$ 1.67

(1) Includes dilutive restricted stock units and awards, employee stock purchase plan shares and stock options.

(2) The amount of certain restricted stock and options excluded from the calculations of diluted earnings per share due to the anti-dilutive effect was not material for the three and nine months ended September 30, 2018 and 2017.

NOTE 14—REGULATORY REQUIREMENTS

Broker-Dealer and FCM Capital Requirements

The Company's US broker-dealer, E*TRADE Securities, 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. The minimum net capital requirements can be met under either the Aggregate Indebtedness method or the Alternative method. Under the Aggregate Indebtedness method, a broker-dealer is required to maintain net capital equal to or in excess of the greater of 6 2/3% of its aggregate indebtedness, as defined, or a minimum dollar amount. E*TRADE Securities has elected the Alternative method, under which it 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, 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, 2018 and December 31, 2017, all of the Company's broker-dealer and FCM subsidiaries met applicable minimum net capital requirements. The following table presents a summary of the minimum net capital requirements and excess capital for the Company's broker-dealer and FCM subsidiaries (dollars in millions):

	Required Net Capital	Net Capital	Excess Net Capital
September 30, 2018:			
E*TRADE Securities[1]	$ 248	$ 1,443	$ 1,195
E*TRADE Futures	3	26	23
International broker-dealer	—	19	19
Total	$ 251	$ 1,488	$ 1,237
December 31, 2017:			
E*TRADE Securities	$ 211	$ 1,213	$ 1,002
E*TRADE Futures	4	19	15
International broker-dealer	—	19	19
Total	$ 215	$ 1,251	$ 1,036

(1) E*TRADE Securities paid dividends of $360 million to the parent company during the nine months ended September 30, 2018.

Bank Capital Requirements

E*TRADE Financial and its bank subsidiaries, E*TRADE Bank and E*TRADE Savings 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 the financial condition and results of operations of these entities. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, these entities 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

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addition, the Company's bank subsidiaries may not pay dividends to the parent company without the non-objection, or in certain cases the approval, of their regulators, and any loans by the bank subsidiaries to the parent company and its other non-bank subsidiaries are subject to various quantitative, arm's length, collateralization and other requirements. The capital amounts and classifications of these entities 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 these entities 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 their ability to meet future capital requirements. E*TRADE Financial, E*TRADE Bank and E*TRADE Savings Bank were categorized as "well capitalized" under the regulatory framework for prompt corrective action for the periods presented in the following table (dollars in millions):

	September 30, 2018					December 31, 2017				
	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	$ 4,388	7.1%	$ 3,098	5.0%	$ 1,290	$ 4,386	7.4%	$ 2,976	5.0%	$ 1,410
Common equity Tier 1 capital	$ 3,699	34.1%	$ 705	6.5%	$ 2,994	$ 3,773	33.9%	$ 722	6.5%	$ 3,051
Tier 1 risk-based capital	$ 4,388	40.5%	$ 867	8.0%	$ 3,521	$ 4,386	39.5%	$ 889	8.0%	$ 3,497
Total risk-based capital	$ 4,429	40.9%	$ 1,084	10.0%	$ 3,345	$ 4,874	43.8%	$ 1,111	10.0%	$ 3,763
E*TRADE Bank(1)(2)										
Tier 1 leverage	$ 3,466	7.1%	$ 2,442	5.0%	$ 1,024	$ 3,620	7.6%	$ 2,394	5.0%	$ 1,226
Common equity Tier 1 capital	$ 3,466	34.6%	$ 652	6.5%	$ 2,814	$ 3,620	35.7%	$ 660	6.5%	$ 2,960
Tier 1 risk-based capital	$ 3,466	34.6%	$ 802	8.0%	$ 2,664	$ 3,620	35.7%	$ 812	8.0%	$ 2,808
Total risk-based capital	$ 3,507	35.0%	$ 1,003	10.0%	$ 2,504	$ 3,694	36.4%	$ 1,015	10.0%	$ 2,679
E*TRADE Savings Bank(1)										
Tier 1 leverage	$ 1,442	26.0%	$ 277	5.0%	$ 1,165	$ 904	26.6%	$ 170	5.0%	$ 734
Common equity Tier 1 capital	$ 1,442	166.5%	$ 56	6.5%	$ 1,386	$ 904	111.1%	$ 53	6.5%	$ 851
Tier 1 risk-based capital	$ 1,442	166.5%	$ 69	8.0%	$ 1,373	$ 904	111.1%	$ 65	8.0%	$ 839
Total risk-based capital	$ 1,443	166.5%	$ 87	10.0%	$ 1,356	$ 905	111.2%	$ 81	10.0%	$ 824

(1) Basel III includes 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 risk-based capital (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 *Part I. Item 1. Business—Regulation* in our Annual Report on Form 10-K for the year ended December 31, 2017 for additional information.

(2) E*TRADE Bank paid net dividends of $363 million to the parent company during the nine months ended September 30, 2018.

NOTE 15—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 in this 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 Appeals, Sixth District. 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 US 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 US 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 appealed to the Circuit Court of Appeals for the District of Columbia. The decision of the PTAB was affirmed on April 19, 2018. The Company will continue to defend itself vigorously in this matter.

On March 26, 2015, a putative class action was filed in the US 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 April 2, 2017, the District Court dismissed the complaint in *Rayner.* The plaintiffs in *Rayner* appealed and the oral argument was heard by the Second Court of Appeals on December 7, 2017. On July 31, 2018, the Second Court of

Appeals upheld the dismissal of the complaint. The Company will continue to defend itself vigorously in this matter.

On July 23, 2016, a putative class action was filed in the US 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 July 10, 2017 the Court dismissed the *Schwab* claims without prejudice. The plaintiff in *Schwab* filed a third amended complaint on August 9, 2017, which E*TRADE moved to dismiss. On January 22, 2018, the Court dismissed all claims with prejudice. Plaintiffs have appealed to the Second Court of Appeals on October 23, 2018. On October 26, 2018, the Second Court of Appeals upheld the dismissal of the complaint. The Company will continue to defend itself vigorously in this matter.

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 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.

E*TRADE FINANCIAL CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 $77 million in unfunded commitments with respect to these investments at September 30, 2018.

At September 30, 2018, the Company had $17 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, ETB Holdings raised capital through the formation of trusts, which sold TRUPs in the capital markets. The capital securities were required to 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 ETB Holdings. During the 30-year period prior to the redemption of the TRUPs, ETB Holdings guaranteed 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). During the third quarter of 2018, the Company redeemed its outstanding TRUPs. See *Note 10—Other Borrowings* and *Note 11—Corporate Debt* for further details.

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, 2018, 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 *Litigation Matters* in *Note 15—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, 2017, except for the risk factor included below:

Risks Relating to Owning Our Stock

Our future ability to pay cash dividends to holders of our common stock is subject to the discretion of our board of directors and will be limited by our ability to generate sufficient earnings and cash flows.

We recently announced the declaration of a quarterly dividend on shares of our common stock. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend upon a number of factors that the board of directors deems relevant, including future earnings, the success of our business activities, capital requirements, the general financial condition and future prospects of our business and general business conditions. If we are unable to generate sufficient earnings and cash flows from our business, we may not be able to pay dividends on our common stock.

The failure to declare a quarterly dividend in the future could adversely affect the market price of our common stock. Furthermore, the terms of our outstanding preferred stock prohibit us from declaring or paying any dividends on any junior series of our capital stock, including our common stock, or from repurchasing, redeeming or acquiring such junior stock, unless we have declared and paid full dividends on our outstanding preferred stock for the most recently completed dividend period.

In addition, our ability to pay dividends on our common stock is subject to statutory and regulatory limitations, and subject to the ability of our subsidiaries to pay dividends up to the parent company.

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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, 2018 (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 Program(3)	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program(3)
July 1, 2018 - July 31, 2018	1,845,660	$ 60.93	1,845,600	$ 197
August 1, 2018 - August 31, 2018	1,632,863	$ 60.13	1,625,200	$ 100
September 1, 2018 - September 30, 2018	1,926,402	$ 55.16	1,795,385	$ —
Total	5,404,925	$ 58.63	5,266,185	

(1) Includes 138,740 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 Company completed repurchases under this program in September 2018. On October 18, 2018, the Company announced that its Board of Directors authorized a new $1 billion repurchase program.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
*10.1	Form of Employment Agreement between the Company and each of Michael J. Curcio and Michael A. Pizzi.
*10.2	Form of Restricted Stock Unit Award Agreement for 2015 Omnibus Incentive Plan.
*10.3	Form of Executive Restricted Stock Unit Award Agreement for 2015 Omnibus Incentive Plan.
*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

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* 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 1, 2018

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 Operating Officer and
Chief Financial Officer
(Principal Financial Officer)

By /S/ BRENT B. SIMONICH

Brent B. Simonich
Corporate Controller
(Principal Accounting Officer)

Exhibit 10.1

FORM EMPLOYMENT AGREEMENT

This Employment Agreement (this “**Agreement**”) is made and entered into by and between E*TRADE Financial Corporation (the “**Company**”) and [ ] (“**Executive**”) as of [, 20[ ]], (the “**Effective Date**”).

1. *Position and Duties*: As of the Effective Date, Executive will (become/continue in the role as) [ ]. Executive agrees to devote all necessary time, energy and skill to Executive’s duties at the Company.

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

2. *Term of Agreement*: This Agreement shall remain in effect through December 31, 20[ ] (the “**Term**”), unless Executive’s employment is terminated earlier by either party, subject to payments under Section 5 hereof to the extent applicable. The Term of this Agreement shall automatically renew for additional one-year periods (each one-year period following December 31, 20[ ], a “**Successive Term**”) unless either party provides at least ninety days’ prior written notice of termination of the Agreement; *provided* that in the event of a Change in Control during the Term (or any Successive Term) of this Agreement, this Agreement may not be terminated until 24 months following such Change in Control. Executive’s employment with the Company shall be “at-will”. Unless Executive terminates Executive’s employment prior to the end of the Term or any Successive Term pursuant to the terms of this Agreement (for the avoidance of doubt, including to the extent an Involuntary Termination occurs following the Company’s delivery of notice of its non-renewal of this Agreement pursuant to the preceding sentence), Executive’s continued employment following the end of the Term or any Successive Term shall continue to be on an at-will basis and on such terms and conditions as the parties may agree.

3. *Compensation*: During the Term or any Successive Term, Executive shall be compensated by the Company for Executive’s services as follows:

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

(b) *Performance Bonus*: Executive shall have the opportunity to earn an annual performance bonus. The performance bonus shall be earned upon the Executive and the Company meeting pre-established performance targets. Executive’s current cash bonus target amount is $[ ]. The annual cash bonus, if earned, will be paid at the same time and in the same manner as payments to similarly situated executives of the Company and, except as expressly provided otherwise in this Agreement or in the applicable bonus plan document, shall not be earned unless Executive remains employed with the Company on the date of payment.

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

4. *Equity Compensation*. Executive will be eligible to receive equity compensation awards from time to time if the Company’s Board of Directors or its designee, in its sole discretion, determines that such an award(s) is appropriate.

5. *Effect of Termination of Employment During the Term or any Successive Term*:

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

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

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

(iii) reimbursement for the cost of medical coverage at a level equivalent to that provided by the Company immediately prior to termination of employment, through the earlier of: (A) 12 months following Executive's termination of employment, or (B) the date that Executive becomes eligible for medical coverage from a subsequent employer; *provided* that (x) it shall be the obligation of Executive to inform the Company that Executive has become eligible for such medical coverage and (y) such reimbursement shall be made by the Company subsidizing or reimbursing COBRA premiums or, if Executive is no longer eligible for COBRA continuation coverage, by a lump sum payment based on the monthly premiums immediately prior to the expiration of COBRA coverage;

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

- Executive acts in any manner that the Compensation Committee of the Company Board of Directors determines is contrary or materially harmful to the interests of the Company or any of its subsidiaries;

- Executive fails to comply with the covenants in Section 6 hereof; *provided* that such covenants shall be of no further force or effect as of the twelve (12) month anniversary of the termination of Executive's employment;

- Executive encourages or solicits any employee, consultant, or contractor of the Company or its affiliates to leave or diminish their relationship with the Company for any reason or to accept employment, consultancy or a contracting relationship with any other company

- Executive, directly or indirectly, encourages or solicits or attempts to encourage or solicit any customers, clients, partners or affiliates of the Company to terminate or diminish their relationship with the Company;

- Executive disparages the Company or its officers, directors, employees, products or services;

- Executive misuses or discloses the Company's confidential or Proprietary Information, breaches any proprietary information, confidentiality agreement or any other agreement between Executive and the Company (or any of its affiliates), or breaches the Release;

- Executive fails or refuses to reasonably cooperate with or assist the Company in a timely manner in connection with any investigation, regulatory matter, lawsuit or arbitration in which the Company is a subject, target or party and as to which Executive may have pertinent information; or

- the Company determines that Executive's employment could have been terminated for Cause (regardless of any "cure" periods) or that Executive's actions or omissions during employment caused a restatement of the Company's financial statements or constituted a violation of the Company's policies and standards

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

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

(i) a lump sum cash severance payment equal to two times the sum of (x) Executive's annual Base Salary as in effect immediately prior to such termination, or if higher, as in effect immediately prior to the first occurrence of an event constituting Change in Control Period Good Reason and (y) Executive's annual cash performance bonus at the target payment level in effect for the year in which such termination occurs, or, if higher, in effect for the year preceding the first occurrence of an event constituting Change in Control Period Good Reason, which payment shall be paid within 30 days following the effectiveness of the Release, but in no event later than March 15 of the year following the year in which such termination of employment occurs;

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

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

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

(c) *Death or Permanent Disability*.

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

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

(d) *Retirement and Retirement Eligibility*.

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

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

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

6. *Agreement Not to Compete*:

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

(i) [ ] ("**Competitors**"), or

(ii) any of Competitors' affiliates, subsidiaries, successors or assigns;

provided that the Company shall have the right to revise the list of Competitors on one occasion during the Term or any Successive Term upon written notice to Executive, but in no event shall such revision take place after Executive has given the Company notice that Executive's employment with the Company will terminate, and only so long as the list of Competitors is comprised of no more than four (4) entities.

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

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

7. *Certain Tax Considerations*:

(a) *Section 409A*:

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

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

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

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

(b) *280G Limitation*:

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

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

(iii) In the event that the Executive receives any of the Total Payments prior to a Change in Control, then the calculation of the amount of Total Payments that shall be reduced shall be made as provided in Section 7(b)(ii) however, such reductions will be first offset against any Total Payments not yet made at the time of the Change in Control. If Executive does not have sufficient Total Payments remaining unpaid at the time of the Change in Control which may be reduced as required by Section 7(b)(i), then the Executive agrees to repay to the Company in cash the amount by which his Total Payments should have been reduced under Section 7(b)(i).

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

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

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

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

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

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

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

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

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

(b) "**Change in Control**" shall have the meaning set forth in the Company's 2015 Omnibus Incentive Plan, as in effect from time-to-time, or any successor thereto

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

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

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

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

(iii) the relocation of Executive's principal workplace to a location greater than fifty (50) miles from the prior workplace;

(iv) any material breach by the Company of any provision of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach from Executive, or the Company's delivery of written notice of non-renewal of this Agreement (other than as a result of a termination for Cause) pursuant to Section 2 hereof;

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

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

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

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

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

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

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

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

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

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

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

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

(iii) the relocation of Executive's principal workplace to a location greater than fifty (50) miles from the prior workplace;

(iv) any material breach by the Company of any provision of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach from Executive, or the Company's delivery of written notice of non-renewal of this Agreement (other than as a result of a termination for Cause) pursuant to Section 2 hereof;

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

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

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

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

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

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

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

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

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

12. *General.*

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

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

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

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

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

Mailed notices to the Company shall be addressed as follows:

E*TRADE Financial Corporation
11 Times Square
32^{nd} Floor
New York, NY 10036
Attention: SVP, Head of Human Resources

(d) *Entire Agreement*: This Agreement constitutes the entire employment agreement between Executive and the Company regarding the terms and conditions of Executive's employment and any amounts due on termination of such employment, with the exception of (i) the Agreement Regarding Employment and Proprietary Information and Inventions between the Company and Executive, (ii) any stock option, restricted stock, restricted stock unit award or other Company stock-based award agreements between Executive and the Company to the extent not modified by this Agreement, (iii) any indemnification agreement referenced in Section 1 and (iv) the Company's employee benefit plans referenced in Section 3(c). This Agreement (including the documents described in (i) through (iv) herein) supersedes all prior negotiations, representations or agreements between Executive and the Company, whether written or oral, concerning Executive's employment by or service to the Company.

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

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

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

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

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

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

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

(l) *Permitted Disclosures*: Pursuant to 18 U.S.C. § 1833(b), Executive will not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret of the Company that (a) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to Executive's attorney and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. If Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the trade secret to Executive's attorney and use the trade secret information in the court proceeding, if Executive (I) files any document containing the trade secret under seal, and (II) does not disclose the trade secret, except pursuant to court order. Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by such section. Further, nothing in any agreement Executive has with the Company shall prohibit or restrict Executive from making any disclosure of information or documents to any governmental agency or legislative body, or any self-regulatory organization, in each case, without advance notice to the Company.

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

Dated:

E*TRADE Financial Corporation

____

By:

Dated:

____

Exhibit A

Form of Release

Exhibit 10.2

E*TRADE FINANCIAL CORPORATION
RESTRICTED STOCK UNITS AGREEMENT

E*TRADE Financial Corporation has granted to the Participant named in the *Notice of Grant of Restricted Stock Units* (the "***Grant Notice***") to which this Restricted Stock Units Agreement (the "***Agreement***") is attached an Award consisting of Restricted Stock Units subject to the terms and conditions set forth in the Grant Notice and this Agreement. The Award has been granted pursuant to the E*TRADE Financial Corporation 2015 Omnibus Incentive Plan (as amended from time to time, the "***Plan***"), the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Agreement, the Plan and a prospectus for the Plan (the "***Plan Prospectus***"), (b) accepts the Award subject to all of the terms and conditions of the Grant Notice, this Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Agreement or the Plan.

1. <u>DEFINITIONS AND CONSTRUCTION</u>.

1.1 **Definitions.** Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Grant Notice or the Plan.

(a) "***Disability***" means Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

(b) "***Dividend Equivalent Units***" mean additional Restricted Stock Units credited pursuant to Section 3.3.

(c) "***Retirement***" means termination of Participant's Service at or following Participant becoming Retirement-Eligible.

(d) "***Retirement-Eligible***" means Participant is at least age 60 <u>and</u> has at least 5 years of Service.

(e) "***Settlement Date***" means the date on which a Unit becomes a Vested Unit in accordance with Section 4.

(f) “***Units***” mean the Restricted Stock Units originally granted pursuant to the Award and the Dividend Equivalent Units credited pursuant to the Award, as both shall be adjusted from time to time pursuant to Section 7.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

2. **ADMINISTRATION.**

2.1 **Committee Authority.** All questions of interpretation concerning the Grant Notice and this Agreement shall be determined by the “Committee” (as defined below). All determinations by the Committee shall be final and binding upon all persons having an interest in this Agreement or the Award, including the Participant. Any Officer of a Participating Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

2.2 **Definition of Committee.** For purposes of this Agreement, the “***Committee***” means the Compensation Committee, the Governance Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board; provided that if no committee of the Board has been appointed to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

3. **THE AWARD.**

3.1 **Grant of Restricted Stock Units.** On the Date of Grant, the Participant shall acquire, subject to the provisions of this Agreement, the Number of Restricted Stock Units set forth in the Grant Notice, subject to adjustment as provided in Section 3.3 and Section 7. Each Unit represents a right to receive on a date determined in accordance with the Grant Notice and this Agreement one (1) share of Stock.

3.2 **No Monetary Payment Required.** The Participant is not required to make any monetary payment (other than applicable tax withholding, if any) as a condition to receiving the Units or shares of Stock issued upon settlement of the Units.

3.3 **Dividend Equivalent Units.** On the date that the Company pays a cash dividend to holders of Stock generally, the Participant shall be credited with a number of additional whole Dividend Equivalent Units determined by dividing (a) the product of (i) the dollar amount of the cash dividend paid per share of Stock on such date and (ii) the total number of Restricted Stock Units and Dividend Equivalent Units credited to the Participant pursuant to the Award as of the date on which such dividend was declared, by (b) the Fair Market Value per share of Stock on such date. Any resulting fractional Dividend Equivalent Unit shall be rounded to the nearest whole number. Such additional Dividend Equivalent Units shall be subject to the same terms and conditions and shall be vested or forfeited in the same manner and at the same time as the Restricted Stock Units originally subject to the Award with respect to which they have been credited.

4. **VESTING OF UNITS.**

4.1 **Normal Vesting.** Except as provided in this Section 4, the Units shall vest and become Vested Units as provided in the Grant Notice, subject to the Participant's continued Service through the applicable vesting date.

4.2 **Acceleration of Vesting Upon Involuntary Termination Following a Change in Control.** If the Participant's Service ceases as a result of an Involuntary Termination After Change in Control (as defined below), the Restricted Stock Units shall become Vested Units as provided in the Grant Notice on the date on which the Participant's Service terminated. Unless otherwise defined in a contract of employment or service between the Participant and a Participating Company, for purposes of this Agreement, "***Involuntary Termination After Change in Control***" shall mean either of the following events occurring within twelve (12) months after a Change in Control (which term is defined in the Plan Document): (i) termination by the Participating Company Group of Participant's Service with the Participating Company Group for any reason other than for Cause or (ii) Participant's voluntary resignation following (A) a reduction in Participant's level of compensation (including base salary, fringe benefits and target bonus under any corporate performance based bonus or incentive programs) by more than fifteen percent (15%) or (B) a relocation of Participant's place of employment by more than fifty (50) miles, provided and only if such reduction or relocation is effected without the Participant's express written consent. In the event such term, or the substantive equivalent, is defined in a contract of employment or service, such definition will take precedence over this definition.

4.3 **Death and Disability.** Notwithstanding anything in the Grant Notice, any Units that are outstanding and unvested shall vest and become Vested Units upon Participant's death or termination of Service as a result of Disability, whether occurring prior to, on or following a Change in Control.

4.4 **Retirement Vesting.** Notwithstanding anything in the Grant Notice, the unvested Units shall not terminate upon Participant's Retirement ("***Post Termination Awards***"), but will remain eligible to become vested and, converted into shares on their normal vesting dates as if Participant's employment had not terminated (the "***Scheduled Vesting Date***") if Participant executes a Post Retirement Agreement in a form prescribed by the Company and provided that if any of the following events occur at any time before the applicable Scheduled Vesting Date, all of the Post-Termination Awards will be canceled immediately if:

(a) Participant fails to comply with covenants set forth in **Exhibit A** which shall be incorporated in the Post Retirement Agreement.

(b) The Company determines that Participant's employment could have been terminated for Cause (regardless of any "cure" periods) or that Participant's actions or omissions during employment caused a restatement of the Company's financial statements or constituted a violation of the Company's policies and standards.

The Post-Termination Awards shall become fully vested and, if applicable, settled upon the death of Participant or upon a Change in Control that constitutes a "a change in ownership", a "change in effective control", or a "change in the ownership of a substantial portion of the assets" of the Company under Section 409A and the Section 409A Regulations

4.5 **Federal Excise Tax Under Section 4999 of the Code.** In the event that any acceleration of vesting pursuant to this Agreement and any other payment or benefit received or to be received by the Participant (the "***Total Payments***") would subject the Participant to any excise tax pursuant to Section 4999 of the Code due to the characterization of such acceleration of vesting, payment or benefit as a parachute payment under Section 280G of the Code, the Total Payments shall be reduced in order to avoid such characterization, except as otherwise provided in any agreement between Participant and the Company.

5. **<u>SETTLEMENT OF THE AWARD</u>.**

5.1 **Issuance of Shares of Stock.** Subject to the provisions of Section 5.3 below, the Company shall issue to the Participant, on the Settlement Date with respect to each Unit to be settled on such date, one (1) share of Stock; provided however, that if such Settlement Date is a date on which a sale by the Participant of the Stock to be issued in settlement of such Unit would violate the Insider Trading Policy of the Company, then the Settlement Date with respect to such Unit shall be the earlier of (a) the next day on which such sale would not violate the Insider Trading Policy or (b) the last date on which such issuance may be made without incurring accelerated taxation or tax penalties under Section 409A. For purposes of this Section, "***Insider Trading Policy***" means the written policy of the Company pertaining to the sale, transfer or other disposition of the Company's equity securities by members of the Board, Officers or other employees who may possess material, non-public information regarding the Company, as in effect at the time of a disposition of any shares of Stock. Shares of Stock issued in settlement of Units shall not be subject to any restriction on transfer other than any such restriction as may be required pursuant to Section 5.3.

5.2 **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all shares acquired by the Participant pursuant to the settlement of the Award. Except as provided by the preceding sentence, a certificate for the shares settled under the Award shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

5.3 **Restrictions on Grant of the Award and Issuance of Shares.** The grant of the Award and issuance of shares of Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. No shares of Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

5.4 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the settlement of the Award.

6. **<u>TAX WITHHOLDING AND OTHER TAX ISSUES</u>.**

6.1 **In General.** Regardless of any action the Company and/or the Participating Company employing the Participant (the "***Employer***") take with respect to any or all income tax (including the U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related withholding (the "***Tax-Related Items***"), the Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by the Participant is and remains the Participant's responsibility and that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant or vesting of the Restricted Stock Units, the subsequent sale of any shares of Stock acquired upon vesting and the receipt of any dividends or Dividend Equivalent Units; and (ii) do not commit to structure the terms of the grant or any aspect of the Award to reduce or eliminate Participant's liability for Tax-Related Items.

6.2 **Withholding Methods.** Prior to the relevant taxable event, the Participant shall pay or make arrangements satisfactory to the Company and/or the Employer to satisfy all withholding and payment on account obligations of the Company and/or the Employer. In this regard, if permissible under local law, the Participant authorizes the Company and/or the Employer, at its discretion, to satisfy the obligations with regard to all Tax-Related Items legally payable by the Participant by one or a combination of the following: (a) withholding from the Participant's wages or other cash compensation paid to the Participant by the Company and/or the Employer; (b) withholding from the proceeds of the sale of shares of Stock acquired upon vesting of the Award; (c) arranging for the sale of shares of Stock otherwise deliverable to the Participant (on the Participant's behalf and at the Participant's direction pursuant to this authorization); or (d) withholding otherwise deliverable shares of Stock, provided that the Company only withholds the amount of shares necessary to satisfy the minimum withholding amount or such other amount as may be necessary to avoid adverse accounting treatment. If the Company satisfies the obligation for Tax-Related Items by withholding a number of shares as described herein, the Participant shall be deemed, for tax purposes only, to have been issued the full number of shares of Stock subject to the Vested Units, notwithstanding that a number of the shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Award. Participant understands that in the event he or she becomes

Retirement-Eligible, the Company may be required to make certain payroll tax withholdings at such time (prior to the Settlement Date).

Finally, the Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of the Participant's participation in the Plan that cannot be satisfied by the means previously described. The Participant acknowledges and agrees that the Company may refuse to deliver shares of Stock if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items as described in this Section.

6.3 Section 409A.

(a) The Award is intended to qualify for the short-term deferral exception to Section 409A of the Code ("***Section 409A***") described in the regulations promulgated under Section 409A to the maximum extent possible. To the extent Section 409A is applicable to this Award (and in any event if Participant is Retirement-Eligible), this Award is intended to comply with Section 409A and to be interpreted and construed consistent with such intent.

(b) Without limiting the generality of the foregoing, if the Participant is a "specified employee" within the meaning of Section 409A, as determined under the Company's established methodology for determining specified employees, on the date of Participant's termination of service at a time when this Award pursuant its terms would be vested (including without limitation as a result of Participant's Retirement), then to the extent required in order to avoid accelerated taxation or tax penalties under Section 409A, shares of Stock that would otherwise be issued under this Award (or any other amount due hereunder) at such termination of service shall instead be issued on the first business day after the first to occur of (i) the date that is six months following the Participant's termination of employment and (ii) the date of the Participant's death.

(c) For purposes of this Agreement, the terms "terminate," "terminated" and "termination" mean a termination of the Participant's employment that constitutes a "separation from service" within the meaning of the default rules of Section 409A of the Code.

7. **ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.**

Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number of Units subject to the Award and/or the number and kind of shares to be issued in settlement of the Award, in order to prevent dilution or enlargement of the Participant's rights under the Award. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number. Such adjustments shall be determined by the Committee, and its determination shall be final, binding and conclusive.

8. **RIGHTS AS A STOCKHOLDER, DIRECTOR, EMPLOYEE OR CONSULTANT.**

The Participant shall have no rights as a stockholder with respect to any shares which may be issued in settlement of this Award until the date of the issuance of a certificate for such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 3.3 and Section 7. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant's employment is "at will" and is for no specified term. Nothing in this Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant's Service at any time.

9. **ACKNOWLEDGEMENT OF NATURE OF PLAN AND AWARD.** In accepting the Award, the Participant acknowledges that:

9.1 the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

9.2 the Award is voluntary and occasional and does not create any contractual or other right to receive future grants of Units, or benefits in lieu of Units, even if Units have been granted repeatedly in the past;

9.3 all decisions with respect to future Awards, if any, will be at the sole discretion of the Company;

9.4 the Participant is voluntarily participating in the Plan;

9.5 the Award is an extraordinary item that does not constitute compensation of any kind for Service of any kind rendered to the Company or the Employer, and which is outside the scope of the Participant's employment or service contract, if any;

9.6 the Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, any nonqualified pension or retirement benefits, welfare benefits or similar payments and, except to the extent provided under the written terms of the applicable plan, any qualified pension benefits, and in no event should be considered as compensation for, or relating in any way to, past services for the Company or the Employer;

9.7 in the event that the Participant is not an Employee of the Company or any Participating Company, the Award and the Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company or any Participating Company;

9.8 the future value of the underlying shares of Stock is unknown and cannot be predicted with certainty;

9.9 in consideration of the Award, no claim or entitlement to compensation or damages shall arise from termination of the Award or from any diminution in value of the Award or shares of Stock acquired upon vesting of the Award resulting from termination of the Participant's Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and the Participant irrevocably releases the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing this Agreement, the Participant shall be deemed irrevocably to have waived his or her entitlement to pursue such claim;

9.10 in the event of termination of the Participant's Service (whether or not in breach of local labor laws), the Participant's right to receive an Award and vest in an Award under the Plan, if any, will terminate effective as of the date that the Participant is no longer actively rendering Service and will not be extended by any notice period mandated under local law (*e.g*., active Service will not include a period of "garden leave" or similar period pursuant to local law); the Committee shall have the exclusive discretion to determine when the Participant is no longer actively rendering Service for purposes of the Award;

9.11 the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying shares of Stock; and

9.12 the Participant is hereby advised to consult with the Participant's own personal tax, legal and financial advisors regarding the Participant's participation in the Plan before taking any action related to the Plan.

10. **DATA PRIVACY**.

The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Participant's personal data as described in this Agreement and any other Award grant materials by and among, as applicable, the Employer, the Company and the Participating Company Group for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan.

The Participant understands that the Company and the Employer may hold certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all Awards or any other entitlement to shares of Stock awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").

The Participant understands that Data will be transferred to any third parties assisting the Company with the implementation, administration and management of the Plan, that these recipients may be located in the United States or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that the Participant may request a list with the names and addresses of any potential recipients of the Data by contacting the Participant's local human resources representative. The Participant authorizes the Company and any other

possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage the Participant's participation in the Plan. The Participant understands that the Participant may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Participant's local human resources representative. The Participant understands, however, that refusing or withdrawing consent may affect the Participant's ability to participate in the Plan. For more information on the consequences of the Participant's refusal to consent or withdrawal of consent, the Participant understands that the Participant may contact the Participant's local human resources representative.

11. **LANGUAGE**.

If the Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control, unless otherwise prescribed by local law.

12. **LEGENDS**.

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of Stock issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to this Award in the possession of the Participant in order to carry out the provisions of this Section.

13. **RECOUPMENT OF VESTED AWARDS.**

If the Company determines that the Participant has breached the Company's Proprietary Invention Protection Agreement or any other restrictive covenant to which the Participant is subject with respect to the Company (a "Restrictive Covenant Breach"), then the Company may, in addition to any other remedies that the Company may have at law or in equity, require that the Participant promptly either (i) return to the Company any shares of Stock that the Participant acquired pursuant to this Award or any other equity award previously or subsequently granted to the Participant (an "Applicable Award"), if the Participant still holds such shares of Stock, or (ii) repay to the Company the value of such shares of Stock, as determined by the Company in its sole discretion, if the Participant has previously disposed of such shares of Stock. In addition, in the event of a Restrictive Covenant Breach, the Company may require that the Participant immediately forfeit any shares of Stock underlying any portion of an Applicable Award that had previously vested but for which the shares of Stock had not yet been delivered to the Participant. The Participant hereby agrees to cooperate with the Company with respect to the matters set forth in this Section 13.

14. **<u>MISCELLANEOUS PROVISIONS</u>.**

14.1 **Termination or Amendment.** The Committee may terminate or amend the Plan or this Agreement at any time; provided, however, that no such termination or amendment may adversely affect the Participant's rights under this Agreement without the consent of the Participant unless such termination or amendment is necessary to comply with applicable law or government regulation. No amendment or addition to this Agreement shall be effective unless in writing.

14.2 **Nontransferability of the Award.** Prior the issuance of shares of Stock on the applicable Settlement Date, neither this Award nor any Units subject to this Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

14.3 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

14.4 **Binding Effect.** This Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

14.5 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address shown below that party's signature to the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. In addition, the Participant may deliver electronically the Grant Notice to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read Section 13.5(a) of this Agreement and consents to the electronic delivery of the Plan documents and Grant Notice, as described in Section 13.5(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 13.5(a) or may change the electronic mail address to which such documents are to be delivered (if the Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 13.5(a).

(c) **Consent to Electronic Participation.** If requested by the Company, the Participant hereby consents to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company. The Participant understands, however, that he or she is not required to consent to electronic participation as described in this Section.

14.6 **Integrated Agreement.** The Grant Notice, this Agreement and the Plan, together with any employment, service or other agreement between the Participant and a Participating Company referring to the Award shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersedes any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter other than those as set forth or provided for herein or therein. To the extent contemplated herein or therein, the provisions of the Grant Notice and the Agreement shall survive any settlement of the Award and shall remain in full force and effect.

14.7 **Applicable Law.** The construction, interpretation and performance of this Agreement, and the transactions under it, shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflict of laws and choice of law rules.

14.8 **Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

14.9 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

15. **APPENDIX.**

Notwithstanding any provision herein, the Participant's participation in the Plan shall be subject to any special terms and conditions as set forth in the Appendix for Participant's country of residence, if any. The Appendix constitutes part of this Agreement.

Exhibit A

Covenants to be incorporated in Post Retirement Agreement

1. For twelve (12) months following Participant's Retirement, Participant shall not hold any position, or engage in any activities as an employee, agent, contractor, or otherwise, with: (i) [ ] ("***Competitors***"), or (ii) any of Competitors' affiliates, subsidiaries,
successors or assigns;

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

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

2. Participant shall not encourage or solicit any employee, consultant, or contractor of the Company or its affiliates to leave or diminish their relationship with the Company for any reason or to accept employment, consultancy or a contracting relationship with any other company

3. Participant, shall not directly or indirectly, encourages or solicits or attempts to encourage or solicit any customers, clients, partners or affiliates of the Company to terminate or diminish their relationship with the Company;

4. Participant shall not disparage the Company or its officers, directors, employees, products or services;

5. Participant shall not misuse or discloses Company's confidential or Proprietary Information, breaches any proprietary information, confidentiality agreement or any other agreement between Participant and the Company (or any of its affiliates), or otherwise breaches this Release;

6. Participant fails or refuses to cooperate with or assist the Company in a timely manner in connection with any investigation, regulatory matter, lawsuit or arbitration in which the Company is a subject, target or party and as to which Participant may have pertinent information.

Exhibit 10.3

E*TRADE FINANCIAL CORPORATION
RESTRICTED STOCK UNITS AGREEMENT

E*TRADE Financial Corporation has granted to the Participant named in the *Notice of Grant of Restricted Stock Units* (the "***Grant Notice***") to which this Restricted Stock Units Agreement (the "***Agreement***") is attached an Award consisting of Restricted Stock Units subject to the terms and conditions set forth in the Grant Notice and this Agreement. The Award has been granted pursuant to the E*TRADE Financial Corporation 2015 Omnibus Incentive Plan (as amended from time to time, the "***Plan***"), the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Agreement, the Plan and a prospectus for the Plan (the "***Plan Prospectus***"), (b) accepts the Award subject to all of the terms and conditions of the Grant Notice, this Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Agreement or the Plan.

1. **DEFINITIONS AND CONSTRUCTION.**

1.1 **Definitions.** Unless otherwise defined in this Agreement or in **Exhibit A** hereto, capitalized terms shall have the meanings assigned to such terms in the Grant Notice or the Plan.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

2. **ADMINISTRATION.**

2.1 **Committee Authority.** All questions of interpretation concerning the Grant Notice and this Agreement shall be determined by the "Committee" (as defined below). All determinations by the Committee shall be final and binding upon all persons having an interest in this Agreement or the Award, including the Participant. Any Officer of a Participating Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

2.2 **Definition of Committee.** For purposes of this Agreement, the "***Committee***" means the Compensation Committee, the Governance Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board; provided that if no committee of the Board has been appointed to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

3. **THE AWARD.**

3.1 **Grant of Restricted Stock Units.** On the Date of Grant, the Participant shall acquire, subject to the provisions of this Agreement, the Number of Restricted Stock Units set forth in the Grant Notice, subject to adjustment as provided in Section 3.3 and Section 7. Each Unit represents a right to receive on a date determined in accordance with the Grant Notice and this Agreement one (1) share of Stock.

3.2 **No Monetary Payment Required.** The Participant is not required to make any monetary payment (other than applicable tax withholding, if any) as a condition to receiving the Units or shares of Stock issued upon settlement of the Units.

3.3 **Dividend Equivalent Units.** On the date that the Company pays a cash dividend to holders of Stock generally, the Participant shall be credited with a number of additional whole Dividend Equivalent Units determined by dividing (a) the product of (i) the dollar amount of the cash dividend paid per share of Stock on such date and (ii) the total number of Restricted Stock Units and Dividend Equivalent Units credited to the Participant pursuant to the Award as of the date on which such dividend was declared, by (b) the Fair Market Value per share of Stock on such date. Any resulting fractional Dividend Equivalent Unit shall be rounded to the nearest whole number. Such additional Dividend Equivalent Units shall be subject to the same terms and conditions and shall be vested or forfeited in the same manner and at the same time as the Restricted Stock Units originally subject to the Award with respect to which they have been credited.

4. **VESTING OF UNITS.**

4.1 **Normal Vesting.** Except as provided in this Section 4, the Units shall vest and become Vested Units as provided in the Grant Notice, subject to the Participant's continued Service through the applicable vesting date.

4.2 **Death and Disability.** Notwithstanding anything in the Grant Notice, any Units that are outstanding and unvested shall vest and become Vested Units upon Participant's death or termination of Service as a result of Disability, whether occurring prior to, on or following a Change in Control.

4.3 **Involuntary Termination or Retirement Outside a Change in Control Period.** Notwithstanding anything in the Grant Notice, any Units that are outstanding and unvested upon the Participant's Involuntary Termination or Retirement, in each case occurring outside a Change in Control Period (the "***Post-Termination Units***"), shall not terminate, but will remain eligible to become vested on the applicable dates set forth in the Grant Notice as if the Participant's Service had not terminated; provided that (i) the Participant signs the Release and any revocation period with respect thereto expires without revocation within 60 days following the date of termination, (ii) the settlement of the tranche of Units that would first vest following the termination date if the Participant had remained in Service shall occur on the latest of (1) the applicable vesting date set forth in the Grant Notice, (2) the date the Release becomes effective and (3) the 60^{th} day following the date of termination, if the 60 day period referenced in this Section 4.3 in respect of the Release begins in one calendar year and ends in another and (iii) all of the Post-Termination Awards will be canceled immediately if any of the following events occur at any time before the applicable vesting date set forth in the Grant Notice:

(a) The Participant acts in any manner that the Committee determines is contrary or materially harmful to the interests of the Company or any of its subsidiaries;

(b) During the 12-month period following termination of Service, the Participant fails to comply with any restrictive covenants to which the Participant is subject;

(c) The Participant encourages or solicits any employee, consultant, or contractor of the Company or its affiliates to leave or diminish their relationship with the Company for any reason or to accept employment, consultancy or a contracting relationship with any other company;

(d) The Participant, directly or indirectly, encourages or solicits or attempts to encourage or solicit any customers, clients, partners or affiliates of the Company to terminate or diminish their relationship with the Company;

(e) The Participant disparages the Company or its officers, directors, employees, products or services;

(f) The Participant misuses or discloses the Company's confidential or Proprietary Information, breaches any proprietary information, confidentiality agreement or any other agreement between the Participant and the Company (or any of its affiliates), or breaches any release of claims executed by the Participant in connection with the Participant's termination of Service;

(g) The Participant fails or refuses to cooperate with or assist the Company in a timely manner in connection with any investigation, regulatory matter, lawsuit or arbitration in which the Company is a subject, target or party and as to which the Participant may have pertinent information; or

(h) The Company determines that the Participant's Service could have been terminated for Cause (regardless of any "cure" periods) or that the Participant's actions or omissions during Service caused a restatement of the Company's financial statements or constituted a violation of the Company's policies and standards.

Notwithstanding anything set forth in this Section 4.3 to the contrary, the Post-Termination Awards shall become fully vested and settled upon the death of the Participant or upon a Change in Control that constitutes a "a change in ownership", a "change in effective control", or a "change in the ownership of a substantial portion of the assets" of the Company under Section 409A and the Section 409A Regulations (a "***409A Change in Control***").

4.4 **Certain Events Occurring During a Change in Control Period.** Notwithstanding anything in the Grant Notice, any Units that are outstanding and unvested upon the commencement of a Change in Control Period shall not terminate, but will remain eligible to become vested on the applicable dates set forth in the Grant Notice; provided that if (i) either (1) the Participant's Service terminates as a result of an Involuntary Termination during a Change in Control Period or (2) the Participant is or becomes Retirement-Eligible during a Change in Control Period and (ii) the Participant signs the Release and any revocation period with respect thereto expires without revocation within 60 days following the date of the applicable event, then any Units that are outstanding and unvested as of the date of such applicable event shall become Vested Units and shall be settled in full on the date the Release becomes effective.

Notwithstanding the foregoing, if (a) the applicable event referenced in this Section 4.4 occurs during a Change in Control Period but prior to a 409A Change in Control, then to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, the Units will be settled on the same Vesting Dates on which such settlement would have occurred if the Participant remained in Service and (b) if the 60 day period referenced in this Section 4.4 in respect of the Release begins in one calendar year and ends in another, then the RSUs will be settled in the second calendar year.

4.5 **Termination for Cause.** If the Participant's Service is terminated for Cause, then all of the then-outstanding and unvested Units shall immediately be forfeited and cancelled without the payment of any consideration to the Participant.

4.6 **Termination for Any Other Reason.** If the Participant's Service terminates while any of the Units are unvested for any reason not set forth in this Section 4, then all of the then-outstanding and unvested Units shall be immediately cancelled and forfeited without the payment of any consideration to the Participant unless the Committee determines to provide for the vesting and settlement of all or some of such Units in its sole discretion.

5. **SETTLEMENT OF THE AWARD.**

5.1 **Issuance of Shares of Stock.** Subject to the provisions of Section 5.3 below, the Company shall issue to the Participant, on the Settlement Date with respect to each Unit to be settled on such date, one (1) share of Stock; provided however, that if such Settlement Date is a date on which a sale by the Participant of the Stock to be issued in settlement of such Unit would violate the Insider Trading Policy of the Company, then the Settlement Date with respect to such Unit shall be the earlier of (a) the next day on which such sale would not violate the Insider Trading Policy or (b) the last date on which such issuance may be made without incurring accelerated taxation or tax penalties under Section 409A. For purposes of this Section, "***Insider Trading Policy***" means the written policy of the Company pertaining to the sale, transfer or other disposition of the Company's equity securities by members of the Board, Officers or other employees who may possess material, non-public information regarding the Company, as in effect at the time of a disposition of any shares of Stock. Shares of Stock issued in settlement of Units shall not be subject to any restriction on transfer other than any such restriction as may be required pursuant to Section 5.3.

5.2 **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all shares acquired by the Participant pursuant to the settlement of the Award. Except as provided by the preceding sentence, a certificate for the shares settled under the Award shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

5.3 **Restrictions on Grant of the Award and Issuance of Shares.** The grant of the Award and issuance of shares of Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. No shares of Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

5.4 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the settlement of the Award.

6. **TAX WITHHOLDING AND OTHER TAX ISSUES.**

6.1 **In General.** Regardless of any action the Company and/or the Participating Company employing the Participant (the "***Employer***") take with respect to any or all income tax (including the U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related withholding (the "***Tax-Related Items***"), the Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by the Participant is and remains the Participant's responsibility and that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant or vesting of the Restricted Stock Units, the subsequent sale of any shares of Stock acquired upon vesting and the receipt of any dividends or Dividend Equivalent Units; and (ii) do not commit to structure the terms of the grant or any aspect of the Award to reduce or eliminate Participant's liability for Tax-Related Items.

6.2 **Withholding Methods.** Prior to the relevant taxable event, the Participant shall pay or make arrangements satisfactory to the Company and/or the Employer to satisfy all withholding and payment on account obligations of the Company and/or the Employer. In this regard, if permissible under local law, the Participant authorizes the Company and/or the Employer, at its discretion, to satisfy the obligations with regard to all Tax-Related Items legally payable by the Participant by one or a combination of the following: (a) withholding from the Participant's wages or other cash compensation paid to the Participant by the Company and/or the Employer; (b) withholding from the proceeds of the sale of shares of Stock acquired upon vesting of the Award; (c) arranging for the sale of shares of Stock otherwise deliverable to the Participant (on the Participant's behalf and at the Participant's direction pursuant to this authorization); or (d) withholding otherwise deliverable shares of Stock, provided that the Company only withholds the amount of shares necessary to satisfy the minimum withholding amount or such other amount as may be necessary to avoid adverse accounting treatment. If the Company satisfies the obligation for Tax-Related Items by withholding a number of shares as described herein, the Participant shall be deemed, for tax purposes only, to have been issued the full number of shares of Stock subject to the Vested Units, notwithstanding that a number of the shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Award. Participant understands that in the event he or she becomes Retirement-

Eligible, the Company may be required to make certain payroll tax withholdings at such time (prior to the Settlement Date).

Finally, the Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of the Participant's participation in the Plan that cannot be satisfied by the means previously described. The Participant acknowledges and agrees that the Company may refuse to deliver shares of Stock if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items as described in this Section.

6.3 Section 409A.

(a) The Award is intended to qualify for the short-term deferral exception to Section 409A of the Code ("***Section 409A***") described in the regulations promulgated under Section 409A to the maximum extent possible. To the extent Section 409A is applicable to this Award (and in any event if Participant is Retirement-Eligible), this Award is intended to comply with Section 409A and to be interpreted and construed consistent with such intent.

(b) Without limiting the generality of the foregoing, if the Participant is a "specified employee" within the meaning of Section 409A, as determined under the Company's established methodology for determining specified employees, on the date of Participant's termination of service at a time when this Award pursuant its terms would be vested (including without limitation as a result of Participant's Retirement), then to the extent required in order to avoid accelerated taxation or tax penalties under Section 409A, shares of Stock that would otherwise be issued under this Award (or any other amount due hereunder) at such termination of service shall instead be issued on the first business day after the first to occur of (i) the date that is six months following the Participant's termination of employment and (ii) the date of the Participant's death.

(c) For purposes of this Agreement, the terms "terminate," "terminated" and "termination" mean a termination of the Participant's employment that constitutes a "separation from service" within the meaning of the default rules of Section 409A of the Code.

7. **ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.**

Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than

Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number of Units subject to the Award and/or the number and kind of shares to be issued in settlement of the Award, in order to prevent dilution or enlargement of the Participant's rights under the Award. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number. Such adjustments shall be determined by the Committee, and its determination shall be final, binding and conclusive.

8. **RIGHTS AS A STOCKHOLDER, DIRECTOR, EMPLOYEE OR CONSULTANT.**

The Participant shall have no rights as a stockholder with respect to any shares which may be issued in settlement of this Award until the date of the issuance of a certificate for such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 3.3 and Section 7. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant's employment is "at will" and is for no specified term. Nothing in this Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant's Service at any time.

9. **ACKNOWLEDGEMENT OF NATURE OF PLAN AND AWARD.** In accepting the Award, the Participant acknowledges that:

9.1 the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

9.2 the Award is voluntary and occasional and does not create any contractual or other right to receive future grants of Units, or benefits in lieu of Units, even if Units have been granted repeatedly in the past;

9.3 all decisions with respect to future Awards, if any, will be at the sole discretion of the Company;

9.4 the Participant is voluntarily participating in the Plan;

9.5 the Award is an extraordinary item that does not constitute compensation of any kind for Service of any kind rendered to the Company or the Employer, and which is outside the scope of the Participant's employment or service contract, if any;

9.6 the Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, any nonqualified pension or retirement benefits, welfare benefits or similar payments and, except to the extent provided under the written terms of the applicable plan, any qualified pension benefits, and in no event should be considered as compensation for, or relating in any way to, past services for the Company or the Employer;

9.7 in the event that the Participant is not an Employee of the Company or any Participating Company, the Award and the Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company or any Participating Company;

9.8 the future value of the underlying shares of Stock is unknown and cannot be predicted with certainty;

9.9 in consideration of the Award, no claim or entitlement to compensation or damages shall arise from termination of the Award or from any diminution in value of the Award or shares of Stock acquired upon vesting of the Award resulting from termination of the Participant's Service by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and the Participant irrevocably releases the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing this Agreement, the Participant shall be deemed irrevocably to have waived his or her entitlement to pursue such claim;

9.10 in the event of termination of the Participant's Service (whether or not in breach of local labor laws), the Participant's right to receive an Award and vest in an Award under the Plan, if any, will terminate effective as of the date that the Participant is no longer actively rendering Service and will not be extended by any notice period mandated under local law (*e.g.*, active Service will not include a period of "garden leave" or similar period pursuant to local law); the Committee shall have the exclusive discretion to determine when the Participant is no longer actively rendering Service for purposes of the Award;

9.11 the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying shares of Stock; and

9.12 the Participant is hereby advised to consult with the Participant's own personal tax, legal and financial advisors regarding the Participant's participation in the Plan before taking any action related to the Plan.

10. **DATA PRIVACY.**

The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Participant's personal data as described in this Agreement and any other Award grant materials by and among, as applicable, the Employer, the Company and the Participating Company Group for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan.

The Participant understands that the Company and the Employer may hold certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all Awards or any other entitlement to shares of Stock awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").

The Participant understands that Data will be transferred to any third parties assisting the Company with the implementation, administration and management of the Plan, that these recipients may be located in the United States or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that the Participant may request a list with the names and addresses of any potential recipients of the Data by contacting the Participant's local human resources representative. The Participant authorizes the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage the Participant's participation in the Plan. The Participant understands that the Participant may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Participant's local human resources representative. The Participant understands, however, that refusing or withdrawing consent may affect the Participant's ability to participate in the Plan. For more information on the consequences of the Participant's refusal to consent or withdrawal of

consent, the Participant understands that the Participant may contact the Participant's local human resources representative.

11. **<u>LANGUAGE</u>.**

If the Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control, unless otherwise prescribed by local law.

12. **<u>LEGENDS</u>.**

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of Stock issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to this Award in the possession of the Participant in order to carry out the provisions of this Section.

13. **<u>RECOUPMENT OF VESTED AWARDS.</u>**

If the Company determines that the Participant has breached the Company's Proprietary Invention Protection Agreement or any other restrictive covenant to which the Participant is subject with respect to the Company (a "Restrictive Covenant Breach"), then the Company may, in addition to any other remedies that the Company may have at law or in equity, require that the Participant promptly either (i) return to the Company any shares of Stock that the Participant acquired pursuant to this Award or any other equity award previously or subsequently granted to the Participant (an "Applicable Award"), if the Participant still holds such shares of Stock, or (ii) repay to the Company the value of such shares of Stock, as determined by the Company in its sole discretion, if the Participant has previously disposed of such shares of Stock. In addition, in the event of a Restrictive Covenant Breach, the Company may require that the Participant immediately forfeit any shares of Stock underlying any portion of an Applicable Award that had previously vested but for which the shares of Stock had not yet been delivered to the Participant. The Participant hereby agrees to cooperate with the Company with respect to the matters set forth in this Section 13.

14. **<u>MISCELLANEOUS PROVISIONS</u>.**

14.1 **Termination or Amendment.** The Committee may terminate or amend the Plan or this Agreement at any time; provided, however, that no such termination or amendment may adversely affect the Participant's rights under this Agreement without the consent of the Participant unless such termination or amendment is necessary to comply with applicable law or government regulation. No amendment or addition to this Agreement shall be effective unless in writing.

14.2 **Nontransferability of the Award.** Prior the issuance of shares of Stock on the applicable Settlement Date, neither this Award nor any Units subject to this Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

14.3 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

14.4 **Binding Effect.** This Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

14.5 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address shown below that party's signature to the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. In addition, the Participant may deliver electronically the Grant Notice to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read Section 13.5(a) of this Agreement and consents to the electronic delivery of the Plan documents and Grant Notice, as described in Section 13.5(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 13.5(a) or may change the electronic mail address to which such documents are to be delivered (if the Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 13.5(a).

(c) **Consent to Electronic Participation.** If requested by the Company, the Participant hereby consents to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company. The Participant understands, however, that he or she is not required to consent to electronic participation as described in this Section.

14.6 **Integrated Agreement.** The Grant Notice, this Agreement and the Plan, together with any employment, service or other agreement between the Participant and a Participating Company referring to the Award shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersedes any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter other than those as set forth or provided for herein or therein. To the extent contemplated herein or therein, the provisions of the Grant Notice and the Agreement shall survive any release of the Award and shall remain in full force and effect.

14.7 **Applicable Law.** The construction, interpretation and performance of this Agreement, and the transactions under it, shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflict of laws and choice of law rules.

14.8 **Severability.** The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

14.9 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

15. **APPENDIX.**

Notwithstanding any provision herein, the Participant's participation in the Plan shall be subject to any special terms and conditions as set forth in the Appendix for Participant's country of residence, if any. The Appendix constitutes part of this Agreement.

Exhibit A

Certain Defined Terms

For the purposes of this Agreement, the following capitalized terms shall have the meanings set forth below:

(a) "**Cause**" shall have the meaning set forth in the Participant's Employment Agreement; provided that if the Participant is not subject to an Employment Agreement or if such Employment Agreement does not define "Cause" or a substantially similar term, then Cause shall mean the occurrence of any of the following:

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

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

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

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

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

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

In the event that the Company terminates the Participant's employment for Cause, the Company shall provide written notice to the Participant of that fact prior to, or concurrently with, the termination of employment. Failure to provide written notice that the

Company contends that the termination is for Cause shall constitute a waiver of any contention that the termination was for Cause, and the termination shall be irrebuttably presumed to be an involuntary termination without Cause. However, if, within thirty (30) days following the termination, the Company first discovers facts that would have established "Cause" for termination, and those facts were not known by the Company at the time of the termination, then the Company shall provide the Participant with written notice, including the facts establishing that the purported "Cause" was not known at the time of the termination, and the Company shall not be required to provide any of the benefits under Sections 4.2, 4.3 or 4.4.

(b) "**Change in Control**" shall have the meaning set forth in the Participant's Employment Agreement; provided that if the Participant is not subject to an Employment Agreement or if such Employment Agreement does not define "Change in Control" or a substantially similar term, then Change in Control shall mean any of the following:

(i) (X) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total combined voting power represented by the Company's then outstanding voting securities other than the acquisition of the Company's common stock by a Company-sponsored employee benefit plan or through the issuance of shares sold directly by the Company to a single acquiror; or (Y) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing less than fifty percent (50%) of the total combined voting power represented by the Company's then outstanding voting securities, but in connection with the person's acquisition of securities the person acquires the right to terminate the employment of all or a portion of the Company's management team;

(ii) the Company is party to a merger or consolidation which results in the holders of the voting securities of the Company outstanding immediately prior thereto failing to retain immediately after such merger or consolidation direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the securities entitled to vote generally in the election of directors of the Company or the surviving entity outstanding immediately after such merger or consolidation;

(iii) a change in the composition of the Board occurring within a period of twenty-four (24) consecutive months, as a result of which fewer than a majority of the directors are Incumbent Directors;

(iv) effectiveness of an agreement for the sale, lease or disposition by the Company of all or substantially all of the Company's assets; or

(v) a liquidation or dissolution of the Company.

The Incumbent Directors shall have the right to determine whether multiple sales or exchanges of the voting stock of the Company, which, in the aggregate, would result in a Change of Control, are related, and its determination shall be final, binding and conclusive.

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

(d) "***Change in Control Period Good Reason***" shall have the meaning set forth in the Participant's Employment Agreement; provided that if the Participant is not subject to an Employment Agreement or if such Employment Agreement does not define "Change in Control Period Good Reason" or a substantially similar term, then Change in Control Period Good Reason shall mean any of the following occurring without the Participant's written consent:

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

(ii) a material, adverse change in the Participant's title, authority, responsibilities or duties, as measured against the Participant's title, authority, responsibilities or duties immediately prior to such change; provided that for purposes of this subsection (ii), in addition to any other material, adverse change in title, authority, responsibilities or duties, a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Participant is required to report shall constitute an event of "Change in Control Period Good Reason";

(iii) the relocation of the Participant's principal workplace to a location greater than fifty (50) miles from the prior workplace; or

(iv) any material breach by the Company of any provision of this Agreement or the Participant's Employment Agreement, which breach is not cured within thirty (30) days following written notice of such breach from the Participant;

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

(e) "***Disability***" means the Participant's permanent and total disability within the meaning of Section 22(e)(3) of the Code.

(f) "***Dividend Equivalent Units***" mean additional Restricted Stock Units credited pursuant to Section 3.3.

(g) "***Employment Agreement***" shall mean the employment agreement or similar services agreement between the Participant and the Company, a Participating Company or any of their respective affiliates as in effect from time to time.

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

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

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

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

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

(j) "***Non Change in Control Period Good Reason***" shall have the meaning set forth in the Participant's Employment Agreement; provided that if the Participant is not subject to an Employment Agreement or if such Employment Agreement does not define "Non Change in Control Period Good Reason" or a substantially similar term, then Non Change in Control Period Good Reason shall mean any of the following occurring without the Participant's written consent:

(i) a decrease in the Participant's base salary of greater than 20% in the aggregate;

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

(iii) the relocation of the Participant's principal workplace to a location greater than fifty (50) miles from the prior workplace;

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

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

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

(l) "***Release***" shall mean a general release of all known and unknown claims against the Company and its affiliates and their stockholders, directors, officers, employees, agents, successors and assigns substantially in a form reasonably acceptable to the Company, which has been executed by the Participant and not revoked within the applicable revocation period.

(m) "***Retirement***" means termination of Participant's Service at or following Participant becoming Retirement-Eligible.

(n) "***Retirement-Eligible***" means Participant is at least age 60 <u>and</u> has at least 5 years of Service.

(o) "***Settlement Date***" means, except as otherwise set forth in Section 4, the date on which a Unit becomes a Vested Unit in accordance with Section 4.

(p) "***Units***" mean the Restricted Stock Units originally granted pursuant to the Award and the Dividend Equivalent Units credited pursuant to the Award, as both shall be adjusted from time to time pursuant to Section 7.

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Karl A. Roessner, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: November 1, 2018

E*TRADE Financial Corporation
(Registrant)

By /S/ KARL A. ROESSNER

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

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael A. Pizzi, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: November 1, 2018

E*TRADE Financial Corporation
(Registrant)

By /S/ MICHAEL A. PIZZI

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

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with this Quarterly Report on Form 10-Q of E*TRADE Financial Corporation (the “Quarterly Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Karl A. Roessner, the Chief Executive Officer and Michael A. Pizzi, the Chief Financial Officer of E*TRADE Financial Corporation, each certifies that, to the best of their knowledge:

1. the Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of E*TRADE Financial Corporation.

Dated: November 1, 2018

/S/ KARL A. ROESSNER

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

/S/ MICHAEL A. PIZZI

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