

**EXTRADE<sup>®</sup>**  
2008 ANNUAL REPORT

Fellow Shareholders,

Last year, I began my first shareholder letter with a famous quote from *A Tale of Two Cities*, "It was the best of times; it was the worst of times." The "best of times" referred to our customer franchise and its potential. The "worst of times" referred to our balance sheet and the large mortgage-related credit losses we had taken, as well as those we expected to take in the future.

One year later, much more has happened in the world of finance than we ever could have imagined. The mortgage crisis has burgeoned into a full-blown global investor crisis of confidence, greater than any we have seen in our lifetimes. The real economy — of jobs and production, of goods and services — is now fully in recession in the U.S. and across the globe, with most experts estimating that it will be long and severe.

As much as things have changed, they have also stayed the same. The "best of times/worst of times" is *still* an accurate description of how I see the challenges facing E\*TRADE after one year leading the organization.

### **The Customer Franchise: Back-to-Basics for Growth**

E\*TRADE's customer franchise is our core strength. It has been built up over many years by marrying great technology and innovation with a strong commitment to enhancing the customer experience. However, soon after arriving, I found that, like many successful companies, E\*TRADE had lost critical focus on the underlying reasons for that success: where it really serves customers best, where it is most competitive and therefore where it creates real value for shareholders.

Taking a back-to-basics approach, our 2008 theme was to eliminate distractions and focus on our core customer franchise by executing the basics really, really well. This meant focusing on generating new brokerage accounts. This meant focusing on customer service. This meant focusing on innovation in brokerage and investment products and services. Perhaps most importantly, it meant shedding peripheral businesses and activities that were not improving the bottom line in any meaningful way, in favor of concentrating our product development and marketing dollars where E\*TRADE truly has strong growth potential.

We found that combining this back-to-basics mindset with our long-term dedication to innovation was precisely the right formula. Despite the toughest market in decades, we began to grow again in 2008. Initially, the growth was attributable to a rebound from the troubles of late 2007. As the year progressed, however, we began experiencing strong, organic growth across the franchise. For example, in 2008 we added 246,000 net new accounts, bringing our total retail accounts to a record 4.5 million, and realized \$5.4 billion in customer net asset inflows. With a renewed focus on the investing customer, we also delivered our best brokerage account growth in more than five years, adding 144,000 net new brokerage accounts in 2008. Reflecting the highly volatile markets, we realized a record 188,000 daily average revenue trades in the year.

We are focused more than ever on making the customer brokerage and investing experience even better — with a strong product development pipeline and a dedication to improving service quality and ensuring great execution for our customers. Therefore, I feel extremely positive and optimistic about the future of our core business and believe E\*TRADE has significant growth potential for years to come. In fact, this market environment has included a true silver lining for us due to a shift in customer attitudes about investing and

## **The Customer Franchise: Back-to-Basics for Growth (continued)**

brokerage relationships. Living through these market conditions has made investors more aware of value than ever, with a significant portion of our growth coming from new customers who left big traditional firms that charge hefty fees for what, in retrospect, has amounted to “follow the market” guidance. On this front, I believe our growth shows we have been, and continue to be, on the right side of history.

In addition, we are applying our back-to-basics philosophy throughout the Company. We continue to focus on productivity to realize significant cost savings. We have streamlined our organizational structure to eliminate overlaps, inefficiencies and outdated functions in order to reduce overhead and enable the most effective execution.

While an attitude of austerity toward expenses rightly prevails throughout our organization, we are at the same time reinvesting a strong share of the resulting savings back into our core business. Last year’s introduction of E\*TRADE Mobile Pro is a great example of our continued dedication to customer-centric innovation.

## **The Balance Sheet: Capital Generation Is King**

In addition to restoring focus to our customer franchise, E\*TRADE also made significant progress in addressing the balance sheet issues caused by the mortgage crisis. In particular, the Company announced a Turnaround Plan in early 2008, which included, at its core, the need to generate capital to offset expected loan losses. To keep the Company financially healthy, our balance sheet objectives for 2008 were crystal clear: do everything possible to minimize expected loan losses and generate capital to offset those losses.

Loan losses were sizeable: our 2008 loan loss provision was \$1.6 billion, and charge-offs were \$1 billion. Given how severe the market and economic downturn has been — with the word “unprecedented” most commonly and accurately used to describe it — these losses were, not surprisingly, above the range we had expected; but the Company was aggressive and early in mitigating them. We executed loan put-backs — in which the loan originator, due to improper documentation or other defect, buys the loan back from us at par — resulting in an aggregate amount of \$106 million. We also substantially reduced undrawn home equity lines, as allowed by federal regulations, to ensure non-creditworthy borrowers could not continue to draw down their lines, thereby eliminating \$3.8 billion in potential credit risk during the year.

Despite these actions, and due to the nature of credit losses, our overall ability to substantially reduce the loss potential of the portfolio was limited. Therefore, we focused the bulk of our balance sheet efforts on generating capital to absorb the losses, while maintaining the Company’s financial health. In this, I am pleased to report, we were very successful.

Specifically, we generated capital from three main sources:

- **Asset Sales.** We sold non-core assets — with deals executed in the first half of the year — that generated \$754 million in cash proceeds. This was well above the level we originally targeted as an adequate outcome. Simply put, through aggressive and early selling, we obtained good prices. By late 2008, values were much lower and deals were near-impossible to secure given the deepening financial crisis.

## The Balance Sheet: Capital Generation Is King (continued)

- Earnings. In our capital structure, E\*TRADE Bank is the first line of defense in absorbing loan losses, because it owns the loans. In 2008, E\*TRADE Bank generated \$740 million of pre-tax earnings prior to credit costs, offsetting almost half of the loan loss provision for the year.
- Asset Reduction. In 2008, we shrank total loans by more than \$5 billion from a year ago, to \$26 billion, largely via loan repayments and prepayments, as we stopped purchasing mortgage loans in mid-2007 and put our portfolio into a 100 percent liquidating mode. This freed up regulatory capital to absorb credit losses, if needed.

Through these deliberate and diligent efforts, we were able to generate sufficient capital to roughly offset credit losses during 2008, and thus preserve the three specific capital measures we use as the primary indicators of our financial health.

Capital and Liquidity Metrics (\$ in millions)

12/31/07	12/31/08	
\$631M	\$579M	E*TRADE Bank excess tier 1 capital*
\$435M	\$715M	E*TRADE Bank excess risk-based capital*
\$312M	\$435M	Corporate Cash

\*Excess to the regulatory well-capitalized threshold

In the current environment, never has the old phrase "capital is king" been truer. We recognized this early and acted upon it swiftly. As a result, we enjoyed strong customer confidence because our key capital measures stayed healthy throughout the year.

## Looking Forward

As I write this, 2009 is already well underway. Unfortunately, the economic and market crises persist and may even be worsening. Financial firms continue to operate under great stress. Giants of the financial world have disappeared through failure or distressed sale. The government has introduced a variety of programs in an attempt to improve the market and credit constraints.

Given the economic and market backdrop expected in 2009, the management team at E\*TRADE will be working on behalf of its shareholders and customers with an unwavering focus on the same priorities we had in 2008: produce growth and profits by focusing on and investing in our core franchise, build capital to offset loan losses, and manage the company for a tough economic environment. In addition, we remain steadfast in our commitment to maintaining a strong balance sheet and continue to examine all options to ensure E\*TRADE's continued financial health.



Donald H. Layton

Chairman and Chief Executive Officer

E\*TRADE FINANCIAL Corporation

## COMPANY PROFILE

### **E\*TRADE FINANCIAL Corporation (NASDAQ: ETFC)**

E\*TRADE FINANCIAL Corporation is a financial services company that provides online brokerage, investing and related banking products and services. We provide these products and services through our website at [www.etrade.com](http://www.etrade.com) and through our network of customer service representatives, relationship managers and investment advisors over the phone and in person at our 29 E\*TRADE FINANCIAL Centers.

Our core customers are retail investors who want to take control of their finances and are comfortable managing their assets through online and technology-intensive channels. They choose E\*TRADE for our full suite of low-cost, innovative and easy-to-use brokerage, investing and related banking products and services — including access to powerful tools, screeners and independent research. We have more than 4.5 million customer accounts worldwide.

Headquartered in New York, New York, E\*TRADE has approximately 3,200 employees. The Company was founded in 1982, began offering online brokerage services in 1992 and went public in 1996.

### **Products and Services**

E\*TRADE's full suite of brokerage, investing and related banking products and services, includes:

- Automated order placement and execution of U.S. equities, futures, options, exchange-traded funds and bond orders;
- Two-second execution guarantee on all Standard & Poor's ("S&P") 500 stocks and exchange-traded funds;
- Margin accounts allowing customers to borrow against their securities;
- Access to more than 7,000 non-proprietary mutual funds;
- Quick and easy real-time access to customer accounts and market information via E\*TRADE Mobile Pro for smartphones;
- Educational services through the internet, phone or in person and flexible advisory services;
- No-fee and no-minimum individual retirement accounts (IRAs);
- FDIC-insured sweep deposit accounts that automatically transfer funds from customer brokerage accounts;
- Interest-earning checking, money market, savings and CD products with FDIC insurance;
- Access to deposit account balances and transactions, through the internet, phone or in person; and
- Access to international equities in Canada, France, Germany, Hong Kong, Japan and the United Kingdom, as well as foreign currencies including the Canadian dollar, Euro, Hong Kong dollar, Yen and Sterling.

Additionally, we provide stock plan administration services to more than 2,000 companies and market-making activities that match buyers and sellers of securities.

We plan to grow our retail business by continuing to offer innovative online brokerage, investing and related banking products and services, including investor-focused asset gathering products and services. A key area of growth is attracting mass affluent investors with \$50,000 - \$500,000 in investable assets at traditional and expensive brokerages who have become increasingly receptive to E\*TRADE's integrated, low-cost, easy-to-use capabilities.

## **CORPORATE INFORMATION**

### **E\*TRADE FINANCIAL Executive Leadership**

**Donald H. Layton**

- Chairman and Chief Executive Officer

**Paul Brandow**

- Chief Risk Officer

**Robert V. Burton**

- President of E\*TRADE Bank

**Michael J. Curcio**

- President of E\*TRADE Securities

**Russell S. Elmer**

- General Counsel

**Gregory A. Framke**

- Chief Information and Operations Officer

**Mathias Helleu**

- Executive Vice President, International

**Bruce P. Nolop**

- Chief Financial Officer

**Nicholas A. Utton**

- Chief Marketing Officer

**Karen Wall**

- Chief Human Resources Officer

## **CORPORATE INFORMATION**

### **E\*TRADE FINANCIAL Board of Directors**

**Robert Druskin, former Chief Operating Officer of Citigroup**

- Chair of the Finance and Risk Oversight Committee
- Member of the Compensation Committee

**Ronald D. Fisher, Vice-Chairman of SOFTBANK Holdings, Inc.**

- Chair of the Compensation Committee

**George A. Hayter, Partner at George Hayter Associates**

- Member of the Compensation Committee

**Frederick W. Kanner, Partner at Dewey & LeBoeuf LLP**

- Member of the Finance and Risk Oversight Committee
- Member of the Nominating and Corporate Governance Committee

**Donald H. Layton, Chairman and Chief Executive Officer, E\*TRADE FINANCIAL Corporation**

- Member of the Finance and Risk Oversight Committee

**Michael K. Parks, Managing Director, Leveraged Finance Group of Trust Company of the West**

- Chair of the Audit Committee
- Member of the Compensation Committee
- Member of the Finance and Risk Oversight Committee

**C. Cathleen Raffaelli, Managing Partner of The Hamilton White Group, LLC**

- Independent Lead Director
- Member of the Nominating and Corporate Governance Committee

**Lewis E. Randall, Private Investor**

- Member of the Audit Committee
- Member of the Nominating and Corporate Governance Committee
- Member of the Compensation Committee

**Joseph L. Sclafani, Former Executive Vice President and Controller of JPMorgan Chase & Co.**

- Member of the Finance and Risk Oversight Committee
- Member of the Audit Committee

**Donna L. Weaver, Chairman of MxSecure, Inc.**

- Chair of the Nominating and Corporate Governance Committee
- Member of the Audit Committee

**Stephen H. Willard, Chief Executive Officer of Flamel Technologies S.A.**

- Member of the Audit Committee
- Member of the Nominating and Corporate Governance Committee

## CORPORATE INFORMATION

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Corporate Communications  
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pam.erickson@etrade.com  
617-296-6080

Wholly-Owned Subsidiaries  
For a list of wholly-owned  
subsidiaries, please refer to  
our Form 10-K.

Transfer Agent and Registrar  
American Stock Transfer &  
Trust Company  
59 Maiden Lane  
New York, NY 10038  
1-800-937-5449

Independent Auditors  
Deloitte & Touche LLP  
McLean, VA

Annual Meeting  
Thursday, May 28, 2009 - 10:00 AM (EDT)  
Ritz-Carlton Hotel  
1250 South Hayes Street  
Arlington, Virginia 22202

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## Important Notice

E\*TRADE FINANCIAL, E\*TRADE and the E\*TRADE logo are trademarks or registered trademarks of E\*TRADE FINANCIAL Corporation. The statements contained in this document that are forward-looking are based on current expectations that are subject to a number of uncertainties and risks, and actual results may differ materially. The uncertainties and risks include, but are not limited to, changes in market activity, anticipated increases in the rate of new customer acquisition, the conversion of new visitors to the site to customers, the activity of customers and assets held at the institution, seasonality, macro trends of the economy in general and the residential real estate market, instability in the consumer credit markets and credit trends, rising mortgage interest rates, tighter mortgage lending guidelines across the industry, increased mortgage loan delinquency and default rates, portfolio growth, portfolio seasoning and resolution through collections, sales or charge-offs, the development and enhancement of products and services, competitive pressures (including price competition), system failures, economic and political conditions, including changes to the U.S. Treasury's Troubled Asset Relief Program, changes in consumer behavior and the introduction of competing products having technological and/or other advantages. Further information about these risks and uncertainties can be found in the information included in the annual reports previously filed by E\*TRADE FINANCIAL Corporation with the SEC on Form 10-K (including information under the caption "Risk Factors") and quarterly reports on Form 10-Q. Any forward looking statement included in this document speaks only as of the date of this communication; the Company disclaims any obligation to update any information.

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## Corporate Governance

In compliance with NYSE Rule 303A.12, E\*TRADE FINANCIAL has filed its CEO certification and is in full compliance with NYSE corporate governance rules.