

**EXTRADE<sup>®</sup>**  
**CORPORATE REPORT 2009**

# **E\*TRADE<sup>®</sup>**

## **CORPORATE REPORT 2009**

### **To Our Shareholders:**

By any measure, 2009 was a watershed year for E\*TRADE. Entering the year, we faced very serious challenges. While the core franchise – our online brokerage business – was healthy, we were burdened by unsettled markets, a weakening global economy, and our own asset quality issues. Throughout the year, though, we executed on a number of key initiatives and exited 2009 with a thriving brokerage business supported by an improving balance sheet and a strengthened capital structure. And while uncertainty persists in the global economy, we have renewed optimism about our future.

### **2009 Progress**

We reported healthy growth in our core brokerage business, including record DART levels, 114,000 net new brokerage accounts, \$7.2 billion in net new brokerage assets, and meaningful improvement in our brokerage customer attrition rate compared with 2008. E\*TRADE Securities introduced several new customer enhancements, including an Investor Resource Center to simplify access to our comprehensive offering; an IRA converter tool to support customers as they work through the new rules governing Roth conversions; an expanded fixed income offering to broaden our product base and attract a wider group of investors; and E\*TRADE Mobile Pro for iPhone™, where we are seeing adoption across all consumer segments as investors increase their reliance on mobile technology. We also delivered expanded educational opportunities, doubling our 2008 offering, and interacted nearly 400,000 times with customers and prospects via Web-based and in-person educational events.

Our focus on providing a superior customer experience – through an expanding products and services offering and a competitive fee structure – was rewarded during a very challenging year, as we gained market share from traditional brokers while competing effectively with online brokers. We were also proud to be named the #1 Online Broker by *SmartMoney* for the third consecutive year.

In late 2009, we shared plans for restructuring our international operations, which includes divesting unprofitable local trading accounts while continuing to provide customers outside of the U.S. with the ability to trade in U.S. securities. We expect this restructuring will lead to improved margins and that it will be largely completed in the first half of 2010. Our U.S.-based customers will continue to benefit from our global trading platform with access to six foreign markets and more than 4,000 foreign equities from 24 countries.

We were also pleased with the progress we made throughout 2009 in our loan portfolio. We exited the year with a loan balance of \$20.2 billion, down approximately 20 percent compared with the balance at the end of 2008. We ceased originating and purchasing loans in 2007 and the portfolio is now in run-off mode, currently declining by approximately \$1 billion per quarter.

Finally, our recapitalization completed in August 2009 provided us with a strengthened capital structure and the flexibility to focus on, and invest in, our core brokerage business. We raised \$733 million of net cash equity, investing the majority of the proceeds in E\*TRADE Bank. This materially strengthened the Bank's financial position, and we ended the year with approximately \$900 million of excess risk-based capital. We also exchanged \$1.7 billion of interest-bearing corporate debt for non-interest bearing convertible debt, reducing our annual interest payment by more than half and deferring any material debt maturities until 2013.

## 2010 and Beyond: Positioned for Profitable Growth

As we look to the future, we remain focused on delivering the very best customer experience – for both active traders and long-term investors. And while we expect ongoing competitive challenges and uncertain markets, we will emphasize four key objectives to drive the future success of our brokerage business. Specifically, we will focus on:

- Growing our core active trader franchise through continued development and delivery of the leading-edge products and tools that make E\*TRADE a preferred service provider to this important customer segment;
- Expanding relationships with long-term investors by broadening our product offering, continuing to improve customer service, and marketing the advantages of our platform for portfolio management, including retirement accounts;
- Emphasizing the quality of both new and existing customer accounts, focusing not only on the number of accounts, but also the assets, revenue, and products per customer account; and
- Reducing annual brokerage account attrition – to our goal of 10 percent.

We'll do this by continuing to deliver unbiased, best-of-breed products, innovative tools, competitive and transparent pricing, and information and support that helps our customers meet their near- and long-term investing goals. We will also offer complementary banking products to ensure our brokerage customers have access to convenient and relevant banking services. So whether a customer wants to access self-service research to identify investments or seek professional advice via the recently launched Managed Investment Portfolio product; chat online with an E\*TRADE Customer Service associate or meet face-to-face with a Chartered Retirement Planning Counselor; or use Power E\*TRADE Pro's analytics to select options via a mobile device or select from more than 8,000 non-proprietary mutual funds to invest for a child's education, E\*TRADE's complete offering provides a compelling solution for a wide-range of investors. As a matter of fact, Barron's agrees: its recently released 2010 Online Brokers Survey awarded E\*TRADE four out of five stars, described us as a "one-stop shopping destination," highlighted our mobile-trading technology, and listed us among the best firms for both long-term and international investing.

With our loan performance trends stabilizing and our financial position strengthened, we are optimistic about our ability to achieve sustainable, profitable growth. We will continue to manage our exposure to risk – as well as our expenses – to build on our 2009 progress and create the earnings and capital that allow us to invest for the future. And while in some ways it continues to be back to basics, it is really much more, as we continually enhance and evolve the E\*TRADE customer experience.

I joined the E\*TRADE Board of Directors in February 2008 and was pleased to expand my role at the end of 2009 upon Don Layton's retirement. Don led E\*TRADE through some very difficult times, leaving the organization well positioned for growth, and we are grateful for his dedication and leadership. Our Board of Directors conducted a thorough search for the best person to lead E\*TRADE's next phase of growth, and on April 1, 2010 we were delighted to welcome Steven Freiberg as our Chief Executive Officer and a Director. Steve joins us after a distinguished 30-year career at Citigroup and brings extensive experience in consumer financial services. As I continue in the role of Chairman, I look forward to working with Steve, and I am confident that customers, employees, and shareholders will benefit from the leadership that he brings to the organization. E\*TRADE's 3,100 dedicated employees were also instrumental in our progress and success in 2009. We thank them for their commitment, and, on behalf of our management team and employees, we thank our customers and shareholders for their confidence in E\*TRADE.

Sincerely,



Robert Druskin  
Chairman of the Board

## COMPANY PROFILE

### About E\*TRADE Financial Corporation

E\*TRADE Financial Corporation is a financial services company offering a full suite of easy-to-use online brokerage, investing, and banking solutions, delivered at a competitive price. We empower consumers – ranging from active traders to long-term investors – to take control of their financial futures by providing the products, tools, and services they need to meet their near- and long-term investing goals.

We provide services to customers 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 28 E\*TRADE Branches.

Our core business is our trading and investing customer franchise. Our strategy is to profitably grow this business by focusing on two primary groups of customers: traders and long-term investors. Our customer offering includes:

### Trading Products and Services

- Automated order placement and execution of U.S. equities, futures, options, exchange-traded funds, and bond orders;
- Access to E\*TRADE Mobile Pro, which allows customers to trade stocks and transfer funds between accounts via a BlackBerry® or Apple iPhone™ and iPod® Touch, as well as the ability to monitor real-time investment, market, and account information;
- Use of Power E\*TRADE Pro, our newly redesigned desktop trading software for active traders;
- Two-second execution guarantee on Standard & Poor's 500 stocks and exchange-traded funds;
- Margin accounts allowing customers to borrow against their securities;
- Access to international equities in Canada, France, Germany, Hong Kong, Japan, and the United Kingdom, and foreign currencies, including the Canadian dollar, Euro, Hong Kong dollar, Yen, and Sterling; and
- FDIC-insured sweep deposit accounts that automatically transfer funds to and from customer brokerage accounts.

Our trading and investing segment also includes market-making activities which match buyers and sellers of securities from our retail brokerage business and unrelated third parties.

### Long-Term Investing Products and Services

- Use of the Investor Resource Center, which provides an aggregated view of our investing tools, market insights, independent research, education, and other investing resources;
- Flexible advisory services through Online Advisor, our investment advice tool designed to provide investors with actionable investment guidance, including recommended asset allocations ranging from fully self-directed investing to 100 percent discretionary portfolio management from a registered investment advisor;
- Fixed income tools in our Bond Resource Center aimed at helping customers identify, evaluate, and implement fixed income investment strategies;

## COMPANY PROFILE

### **Long-Term Investing Products and Services (continued)**

- Access to Retirement QuickPlan, which is an easy-to-use, four-step retirement planning tool that provides a quick assessment of an individual's or a family's retirement savings and investing plan as well as tips to help get on track with personal retirement goals;
- No fee and no minimum individual retirement accounts;
- Access to more than 1,000 non-proprietary exchange-traded funds and over 8,000 non-proprietary mutual funds;
- Investing and trading educational services via online videos, web seminars, and web tutorials; and
- FDIC insured deposit accounts, including checking, savings, and money market accounts.

In addition, we also offer employee stock option management software and services for corporate customers. This software system facilitates the management of employee option plans, employee stock purchase plans, and restricted stock plans, including necessary accounting and reporting functions.

## CORPORATE INFORMATION

### E\*TRADE Financial Board of Directors

**Robert A. Druskin**  
Chairman of the Board, E\*TRADE Financial Corporation

**Ronald D. Fisher**  
President, SOFTBANK Holdings, Inc.

**Steven J. Freiberg**  
Chief Executive Office, E\*TRADE Financial Corporation

**Kenneth C. Griffin**  
Founder and Chief Executive Officer,  
Citadel Investment Group, L.L.C.

**Frederick W. Kanner**  
Of Counsel, Dewey & LeBoeuf LLP

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

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

**Lewis E. Randall**  
Private Investor

**Joseph L. Sclafani**  
Retired Banking Executive

**Joseph M. Velli**  
Chairman and Chief Executive Officer,  
BNY ConvergEX Group, LLC

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

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

### E\*TRADE Financial Executive Leadership

**Steven J. Freiberg**  
Chief Executive Officer

**Paul Brandow**  
Chief Risk Officer

**Robert V. Burton**  
President of E\*TRADE Bank

**Michael J. Curcio**  
President of E\*TRADE Securities

**Gregory A. Framke**  
Chief Information and Operations Officer

**Bruce P. Nolop**  
Chief Financial Officer

**Karl A. Roessner**  
General Counsel

**Nicholas A. Utton**  
Chief Marketing Officer

**Karen Wall**  
Chief Human Resources Officer

## CORPORATE INFORMATION

### Shareholder Services

**Corporate Headquarters**

135 East 57th Street  
New York, NY 10022  
www.etrade.com

**Shareholder Information**

ir@etrade.com  
646-521-4340

**Investor Relations**

Brett Goodman  
brett.goodman@etrade.com  
646-521-4406

**Corporate Communications**

Susan Hickey  
susan.hickey@etrade.com  
646-521-4675

**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 of Stockholders**

May 13, 2010 - 10:00 a.m. ET  
Ritz-Carlton Hotel  
1250 South Hayes Street  
Arlington, Virginia 22202

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### Important Notices

**Forward-Looking Statements:** The statements contained herein 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. Such statements include those relating to the ability of the Company to achieve future growth and profitability. The uncertainties and risks include, but are not limited to, potential changes in market activity, anticipated changes in the rate of new customer acquisition, macro trends of the economy in general and the residential real estate market, instability in the consumer credit markets and credit trends, increased mortgage loan delinquency and default rates, portfolio growth, portfolio seasoning and resolution through collections, sales or charge-offs and the potential negative regulatory consequences resulting from actions by the Office of Thrift Supervision or other regulators. Further information about these risks and uncertainties can be found in the annual, quarterly and current reports on Form 10-K, Form 10-Q, and Form 8-K previously filed by E\*TRADE Financial Corporation with the Securities and Exchange Commission (the "SEC") (including information in these reports under the caption "Risk Factors"). Any forward-looking statement included herein speaks only as of the date of this communication; the Company disclaims any obligation to update any information.

**Proxy Statement:** In connection with the 2010 Annual Meeting of Stockholders, E\*TRADE Financial Corporation filed a definitive proxy statement with the SEC. Stockholders are advised to read the definitive proxy statement carefully and in its entirety because it contains important information about the proposals to be presented and voted upon. Stockholders may obtain a copy of the definitive proxy statement and any other relevant documents filed by E\*TRADE Financial Corporation for free at the SEC web site at [www.sec.gov](http://www.sec.gov). The definitive proxy statement and other documents also may be obtained for free from E\*TRADE Financial Corporation, Attn: Corporate Secretary, 135 East 57th Street, New York, New York 10022.

E\*TRADE Financial Corporation and its directors, executive officers and other members of management and employees may be deemed participants in the solicitation of proxies and voting instructions for the 2010 Annual Meeting of Stockholders. Information concerning the interests of these persons, if any, in the matters to be voted upon is set forth in the definitive proxy statement.

E\*TRADE Financial, E\*TRADE and the E\*TRADE logo are trademarks or registered trademarks of E\*TRADE Financial Corporation.