

E*TRADE

Corporate Report 2012



To Our Shareholders

As I reflect back on 2012, it was a year of significant progress for E*TRADE in which a number of important accomplishments were achieved. Although the year was marked by a high level of disengagement by retail investors as macroeconomic and geopolitical uncertainties led to a loss of overall confidence, we made important progress against our long-term Strategic and Capital Plan which was submitted to our regulators in the second quarter. Core to our execution of the plan are four key areas of focus:

- First: expand the brokerage business – This is the heart of everything we are doing. With plenty of distractions in today's world, we cannot lose focus of our overarching purpose, marked by our goals to expand market share and to increase our share of our existing customers' investable assets.
- Second: strengthen the overall financial position of the Company – This speaks to both the balance sheet and the income statement, and will always be a focus, but is particularly important today, given the meaningful value that can be unlocked through the execution of our Strategic Plan.
- Third: focus on cost reductions and efficiencies – This obviously ties in directly with the second area I just highlighted, but it is a heightened area of focus as we work to fundamentally change the way in which we assess our expense base on all levels.
- And fourth: build out our Enterprise Risk Management capabilities – This needs to be appropriate for our size and complexity, mindful of the current regulatory environment.

I would like to share with you a select group of achievements during 2012 with respect to each of these key areas of focus.

Expand the brokerage business

The heart of E*TRADE is the brokerage business. During a year characterized by global macroeconomic uncertainty, domestic political uncertainty, and an ever-approaching fiscal cliff, we are proud of our successes in the core brokerage business. Net new accounts for the year reached the highest absolute level since 2008, and we retained more of those accounts as evidenced by our record-low brokerage account attrition rate during 2012. Similarly, we recorded \$10.4 billion in net new brokerage assets during the year – a 7% growth rate, and the highest level since we began tracking the metric in 2007. However, with waning investor confidence and volatility at a five-year low, our average trades per day declined 12 percent during the year.

Expanding brand awareness around our suite of retirement and investing offerings is key to decreasing our reliance on trading, and to expanding our relationship with our existing customers, as we aim to consolidate more of their investable assets at E*TRADE.

To that end, we continued to expand our retirement and investing product and service offering. During the year, we placed Chartered Retirement Planning CounselorsSM in nearly every branch, complementing our call center capability. We launched OneStop Rollover, which simplifies what was traditionally a tedious process of moving a 401(k) to E*TRADE, and allows customers access to a professionally-managed portfolio at E*TRADE.

Education also remains an important component of our overall value proposition. During 2012, we more than tripled our customer interactions with nearly 3.5 million interactions on our education platforms, comprising live events, and live and on-demand videos and web seminars, including those available via our mobile platforms. We also saw an increase in the options-related interactions on our education platform. This speaks to an evolving and more sophisticated customer base, which is also evident in that nearly one-quarter of our trades this year were in options.

Mobile continues to be a crucial way to serve our customer base, as retail investors are increasingly diminishing their use of desktop computing. We introduced a new E*TRADE Mobile platform for Windows Phone, bringing our total mobile platforms to six. Within these six platforms, we made several upgrades and enhancements, including the introduction of options and mutual fund trading, mobile check deposit, voice recognition software, and barcode scanning features. Mobile adoption rates continue to improve as we saw 6.5% of all customer trades in 2012 executed through our mobile platforms.

Giving our customers capabilities, knowledge and advice when and where they need it has not gone unnoticed. The hard work and commitment of our employees earned us the #1 ranking in Kiplinger's annual "best of the online brokers" survey – the only firm to receive 5 star ratings in both the Customer Service and Investment Choice categories. Among the other third party recognition and awards received in 2012, our customer offering was recognized by SmartMoney – receiving top marks in the trading tools and research categories – and by Barron's – earning top marks in portfolio analysis and research. Both firms also recognized our customer service as one of the best in the industry.

Strengthen the financial position of the Company

In addition to growing our core business, we also made significant strides in strengthening the financial position of the Company through execution of our Strategic and Capital Plan. Principally, we refinanced our most expensive corporate debt, replacing it with the lowest coupons the Company has ever issued. This effectively reduces the corporate cash interest expense by more than one-third and extends our nearest debt maturity to 2016.

Furthermore, we took tangible steps to improving our Tier 1 Leverage ratio – our most constraining ratio and also an important barometer in gauging our success against the Strategic and Capital Plan we submitted to regulators. We view deleveraging to be the most practical and shareholder-friendly approach to improving this ratio, and to that end, we completed a total of \$4.9 billion in deleveraging actions in 2012 – at the low end of our targeted \$5 to \$10 billion. Considering actions taken in 2013 to date, along with those planned for the future, we expect to ultimately settle toward the high end of this range.

Progress on improving the quality of our balance sheet continued, as our legacy loan portfolio is down 68 percent from its peak size. Along with the reduction in the size of this portfolio, these loans are becoming more seasoned and total delinquencies have declined substantially, down 32 percent in 2012.

Focus on cost reductions and efficiencies

Our third area of focus relates to reducing our costs and managing our business more efficiently. We turned our attention away from the macroeconomic environment and factors outside of our control and took a closer view of ourselves. Early in the year we set a target to identify \$50 million in cost reductions. I am proud to say that following our in-depth analysis, we have identified \$110 million in cost reductions, all of which we expect to be implemented by the end of 2013.

Build out Enterprise Risk Management capabilities

The Company's last key area of focus relates to the build out of our Enterprise Risk Management capabilities, to create a structure that is appropriate for our size and complexity. We made significant progress on this front during 2012, and are well on our way to implementing a best-in-class structure.

While risk management is the responsibility of every employee at E*TRADE, it really starts with the appropriate tone at the top, which I believe we have set through internal communications and focused actions. We are enhancing our risk management structure to focus on specific areas – for example, operational risk management, capital planning, and regulatory relations. We are bolstering areas like vendor management and stress testing; we have built out our teams of compliance personnel and internal auditors, and utilized external consultants; and we began engaging in systems upgrades.

Looking ahead: 2013

It is clear that these are pivotal times at E*TRADE. I am proud of what our team accomplished in 2012 and look forward to what is to come in 2013. With our new CEO Paul Idzik at the helm, I have every confidence that the Company will continue to seamlessly move forward with respect to executing on our Strategic and Capital Plan.

Sincerely,



Frank J. Petrilli
Chairman of the Board

Company Profile

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 and through our network of customer service representatives, relationship managers, and investment advisors – over the phone and in person at our 30 E*TRADE branches.

We offer a full suite of financial products and services to individual retail traders and investors, including:

Trading and Investing

- Automated order placement and execution of U.S. equities, futures, options, exchange-traded funds, forex, mutual fund and bond orders;
- FDIC insured sweep deposit accounts that automatically transfer funds to and from customer brokerage accounts;
- E*TRADE Mobile, which allows customers to securely trade, monitor real-time investment, market and account information and transfer funds between accounts via iPhone®, iPad®, Android™, Windows® Phone or Blackberry®;
- E*TRADE Pro, our desktop trading software for qualified active traders, which provides customers with customization capabilities, an expanded feature set and more news and information, plus live streaming via CNBC TV;
- Two-second execution guarantee on all qualified market orders for Standard & Poors (“S&P”) 500 stocks and exchange-traded funds;
- Margin accounts allowing customers to borrow against their securities;
- Cross-border trading, which allows customers residing outside of the U.S. to trade in U.S. securities;
- Access to 77 international markets with American depository receipts (“ADRs”), exchange-traded funds (“ETFs”), and mutual funds, plus online equity trading in local currencies in Canada, France, Germany, Hong Kong, Japan and the United Kingdom; and
- Research and trading idea generation tools that assist customers with identifying investment opportunities including analyst and technical research; consensus ratings, and market commentary from Morningstar, Dreyfus and BondDesk Group.

Retirement and Investing Products and Services

- No annual fee and no minimum individual retirement accounts; plus, Rollover Specialists to guide customers through the rollover process;

- Retirement planning resources including our easy-to-use Retirement Planning Calculator that provides a customized action plan to help customers get on track with personal retirement savings goals, and access to Chartered Retirement Planning CounselorsSM who can provide customers with one-on-one portfolio evaluations and personalized plans;
- OneStop Rollover, a simplified, online rollover program that enables investors to invest their 401(k) savings from a previous employer into a professionally-managed portfolio;
- Access to all ETFs sold, including over 80 commission-free ETFs from leading independent providers and over 8,000 non-proprietary mutual funds;
- Comprehensive Online Portfolio Advisor to help customers identify the right asset allocation and get either a one-time investment portfolio or a managed investment portfolio tailored to their needs;
- Managed investment portfolio advisory services with an investment of \$25,000 or more from an affiliated registered investment adviser, which provides one-on-one professional portfolio management;
- Unified managed account advisory services with an investment of \$250,000 or more from an affiliated registered investment adviser, which provides customers the opportunity to work with a dedicated investment professional to obtain a comprehensive, integrated approach to asset allocation, investments, portfolio rebalancing and tax management;
- Fixed income tools in our Bond Resource Center aimed at helping customers identify, evaluate and implement fixed income investment strategies;
- Comprehensive Investor Education Center that provides investing and trading resources via online videos, web seminars and web tutorials; and
- FDIC insured deposit accounts, including checking, savings and money market accounts.

Corporate Services

We offer software and services for managing equity compensation plans for corporate customers. Our Equity Edge OnlineTM platform facilitates the management of employee stock option plans, employee stock purchase plans and restricted stock plans, including necessary accounting and reporting functions. This is a product of the trading and investing segment since it serves as an introduction to E*TRADE for many employees of our corporate customers who conduct equity option and restricted stock transactions, with our goal being that these individuals will also use our retail products and services. Equity Edge OnlineTM was rated #1 in overall satisfaction and loyalty by Group Five, an independent consulting and research firm, in its 2012 Stock Plan Administration Study Industry Report.

Market Making

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. As a market maker, we take positions in securities and function as a wholesale trader by combining trading lots to match buyers and sellers of securities. Trading gains and losses result from these activities. Our revenues are influenced by overall trading volumes, trade mix and the number of stocks for which we act as a market maker, and the trading volumes and volatility of those specific stocks.

Board of Directors

Frank J. Petrilli

Chairman, E*TRADE Financial Corporation

Ronald D. Fisher

President, SoftBank Holdings, Inc.

Kenneth C. Griffin

Founder and Chief Executive Officer,
Citadel LLC

Paul T. Idzik

Chief Executive Officer,
E*TRADE Financial Corporation

Frederick W. Kanner

Senior Of Counsel, Covington & Burling LLP

James Lam

President, James Lam & Associates

Rodger A. Lawson

Former Industry Executive

Rebecca Saeger

Former Corporate Marketing Executive

Joseph L. Sclafani

Retired Banking Executive

Joseph M. Velli

Chairman and Chief Executive Officer,
ConvergEX Group

Donna L. Weaver

Chairman, MxSecure, Inc.

Stephen H. Willard

President, Flamel Technologies, Inc

Paul T. Idzik

Chief Executive Officer

Matthew J. Audette

Chief Financial Officer

Paul W. Brandow

Chief Risk Officer

Michael J. Curcio

President of E*TRADE Securities

Michael E. Foley

Transformation Management

Andrew G. Goodman

Chief Human Resources Officer

Karl A. Roessner

General Counsel

Shareholder Services

Corporate Headquarters

1271 Avenue of the Americas
14th Floor
New York, NY 10020-1302

Shareholder Information

ir@etrade.com
646-521-4340

Investor Relations

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

Corporate Communications

mediainq@etrade.com
646-521-4418

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
6201 15th Avenue
Brooklyn, NY 11219
1-800-937-5449

Independent Auditors

Deloitte & Touche LLP
McLean, VA

Forward-Looking Statements: The statements contained in this news release that are forward looking, including statements regarding our ability to drive a superior customer experience, create shareholder value, and to de-risk and deleverage our balance sheet, 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, our potential inability to reduce our balance sheet and costs, potential changes in market activity, anticipated changes in the rate of new customer acquisition and in rate of net acquisition of brokerage accounts and assets, 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, the uncertainty surrounding the foreclosure process, and the potential negative regulatory consequences resulting from the implementation of financial regulatory reform as well as from actions by or potentially more restrictive policies or interpretations of the Federal Reserve and the Office of the Comptroller of the Currency 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 (including information in these reports under the caption "Risk Factors"). Any forward-looking statement included in this release speaks only as of the date of this communication; the Company disclaims any obligation to update any information.

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

© 2013 E*TRADE Financial Corporation. All rights reserved.