



# > Corporate Report 2016



## **TO OUR SHAREHOLDERS:**

This past year was a pivotal one for E\*TRADE. I am tremendously proud to be leading a talented, synchronized, and reinvigorated team, intensely focused on recapturing our place as a market leader, growing our business, and continuing to deliver value to you. Following years of attending to the Company's regulatory and capital initiatives, this year we were presented with an opportunity to pivot firmly toward growth, provided we realign ourselves to seize it. In response, we took action: Restructuring the leadership and clearly defining the growth targets for the Company. Together, we installed a structure and an agenda that appropriately shifted our focus from defense, resulting from past issues, to offense, moving forward to grow our business. And now it's full speed ahead.

**Karl Roessner**

Chief Executive Officer

## A SHIFT IN FOCUS

In conjunction with this charge, I moved into the CEO role in September. My first order of business was to revive the E\*TRADE that I came to know and love over the many years I have spent here—the scrappy, innovative Company that led this industry forward. While we were once the undisputed leader in the active trader segment, we had lost ground over the past several years. Fortunately, as I took the helm we had just completed the acquisition of OptionsHouse—the #1-rated<sup>(1)</sup> retail options platform, which brings with it a fantastic and coveted set of capabilities, customers, and colleagues.

Upon completion of the transaction, I installed a strong and experienced leadership team to propel our business, and together we redefined our mission and vision as a Company. Our mission is to enhance the financial independence of traders and investors through a powerful digital offering and professional guidance. Our vision is to be the #1 digital broker and advisor to traders and investors—known for our ease of use and the completeness of our offering.

How will we measure our success? To begin, we set tangible growth goals and instilled an accompanying sense of urgency to achieve them by the latter part of 2018. Specifically, we aim to improve our asset and account growth rates by 200 to 300 basis points, shift the mix of our trades to be 35 percent in derivatives (compared to around 30 percent at year-end 2016), and grow our managed assets to \$6 billion (from nearly \$4 billion).

These goals demonstrate our sincere commitment to significantly raising the bar in the performance of our

core business. We take this commitment seriously, and we operate with a sense of accountability throughout our entire organization. Together, we are all accountable to deliver.

## GROWING THE BUSINESS

There are three key areas of near-term focus that will drive us toward this achievement:

1. Completing and fully capitalizing on the integration of OptionsHouse;
2. Tending to our shortcomings that result in customer pain points; and
3. Revitalizing our brand and customer perception through marketing.

First, we acquired the #1-rated<sup>(1)</sup> retail options platform in the industry to elevate our offering to once again rival the best in the industry. We will deliver superior active trading capabilities to our customer base, incorporating the best of what the combined E\*TRADE/OptionsHouse platforms offer. Supplying an exceptional digital experience has always been part of our DNA and the integration affords us a unique moment in time to ensure that our entire digital offering captivates our customers.

Next, we will revisit the issues that result in pain points for our customers to ensure that once a trader or investor chooses E\*TRADE, they rarely have any reason to leave. We do a very good job as a Company with respect to customer service, and over the years we've certainly been a contender on the functionality front. But in today's age of true customer-centricity and exceptionally simple technology, it is incumbent upon us to not only keep up with offerings available through the broad digital

marketplace, but to lead it in the sectors we should own. That is an aspirational goal, but in the most tangible sense, we must begin by closing gaps and tightening up the entire customer journey to ensure it is as seamless and as delightful as possible. Lastly on the service front, we must take a good offering, and make it great.

Finally, we must significantly enhance how we project exactly who we are, and convey a compelling value proposition, including all of what E\*TRADE has to offer. We need to revitalize the brand and increase awareness and understanding of our offerings. Our offerings must resonate with customers and prospects. We enjoy phenomenal brand awareness, but I'm not certain the trading and investing world still knows exactly why they should come to E\*TRADE. A critical pillar of our success is clearly stating this rationale for investors and traders to hear, and doing so in a persuasive and differentiated way. We are avidly working to move the needle on our brand identity, starting with a relaunch this year. We are also working diligently to develop a unified message across all communication channels with our customers, and I am excited for them to experience the changes that lie ahead.

## **2016 HIGHLIGHTS**

Some of our most pronounced accomplishments in 2016 were on the capital front, where we gained flexibility, generated meaningful amounts of capital, and put it to work for shareholders. Kicking off the year, we lowered the bank's target Tier 1 leverage ratio by 100 basis points, reflective of our financial strength, improved regulatory position, and reduced risk profile. Coupled with strong earnings, this enabled us to move more than \$850 million of capital to the parent, which we deployed via multiple

avenues:

- In the first half of the year we seized opportunities amidst dislocations in the market to accelerate our share repurchase program and bought in more than \$450 million worth of our shares;
- We grew our balance sheet to nearly \$50 billion, positioning ourselves to move beyond that threshold in earnest this year; and
- Towards the end of the year we acquired OptionsHouse—an accretive transaction that also marks our first major transaction in more than a decade.

In addition to capital deployment, we delivered a commitment to you to be responsive to the revenue environment—shifting our investment philosophy to an operating margin framework.

Meanwhile, legacy risks continued to diminish as we managed through the last major credit risk overhang on the legacy loan portfolio. By year-end, we had successfully managed the HELOC portion of the portfolio through 85% of the conversions from interest-only to fully amortizing. The performance significantly outperformed our expectations, providing a benefit to our financial results this year through the provision line.

In all, these actions and developments put us in a place where we took a long, hard look at our Company and determined that, as a financially strong institution, it was time to stop looking behind us and focus on the road ahead.



## FINANCIAL AND CAPITAL DISCIPLINE

We recognize that much of the financial progress E\*TRADE achieved over the past several years stems from the disciplined execution of our multi-year capital plan and stewardship of our shareholders' capital. That is a discipline that will be unwavering under my leadership as we continue to focus on opportunities to drive meaningful value through prudent stewardship of our shareholders' capital.

At the forefront of capital deployment is growing our balance sheet. In mid-2016 we arrived at a point where the returns justified crossing \$50 billion. We began to prepare for this event, addressing systems and structure to meet the heightened regulatory expectations of larger institutions. In the meantime, all factors affecting the return equation on this initiative have moved in our favor. The amount of available customer deposits has more than doubled, the interest rate environment has improved dramatically, and the associated implementation costs have lessened—all of which serve to enhance the expected returns. We officially crossed the \$50 billion threshold in January 2017 and we plan to exceed \$62 billion by year-end.

We also intend to resume share repurchases in the second half of this year, while simultaneously pursuing balance sheet growth. Importantly, both balance sheet growth and share repurchases afford us the flexibility to pursue additional strategies including inorganic growth, provided that the returns justify it. Needless to say, the fact that we are able to consider such a robust spectrum of capital deployment strategies is a testament to our strength that grows from our financial and capital discipline.

## LOOKING AHEAD

In closing, I want to reiterate how good I feel about what is in motion at E\*TRADE. We are in the midst of a critical and transformative time. We will not lose sight of what we need to do for our customers and for you as our owners. Our team comprises passionate and highly skilled individuals with a shared enthusiasm for success. We are an aligned organization with definitive goals and a plan to achieve them. I am confident in the road map we set forth, and look forward to an exciting and eventful year for E\*TRADE.

Respectfully,

A handwritten signature in dark ink, appearing to read 'Karl A. Roessner', with a long, sweeping horizontal line extending to the right.

Karl A. Roessner



## > Overview

E\*TRADE is a financial services company that provides online 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 material, supported by professional guidance, to help individual investors and traders meet their 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 and by email at two national branches and in-person at 30 regional branches across the United States. We operate federally chartered savings banks with the primary purpose of maximizing the value of deposits generated through our brokerage business.

**Delivering a powerful digital offering to our customers is a core pillar of our business strategy. We believe our focus on being a digital leader in the financial services industry is a competitive advantage. Our hybrid service delivery model is available through the following award-winning digital platforms, which include both E\*TRADE and OptionsHouse products:**



### **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 knowledge for decision making



### **MOBILE**

Powerful trading applications for smartphones, tablets and watches

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



### **ACTIVE TRADING PLATFORM**

Powerful software-based trading application

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

These digital platforms are complemented by our offline channels, which include our network of customer service representatives and financial consultants and our 24/7 customer service available via phone, email and online at our two national branches and in person through our 30 regional branches.



A low-angle photograph of a modern building with a glass facade, featuring a large dark blue arrow graphic pointing right with the word 'Strategy' inside.

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 stockholders.

## 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

We leverage our industry-leading position in corporate stock plan administration to improve client acquisition and engage with plan participants to bolster awareness of our full suite of offerings. Our corporate services channel is a strategically important driver of brokerage account and asset growth.

## Generate Robust Earnings Growth and Healthy Returns on Capital

### Utilize balance sheet to enhance returns

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

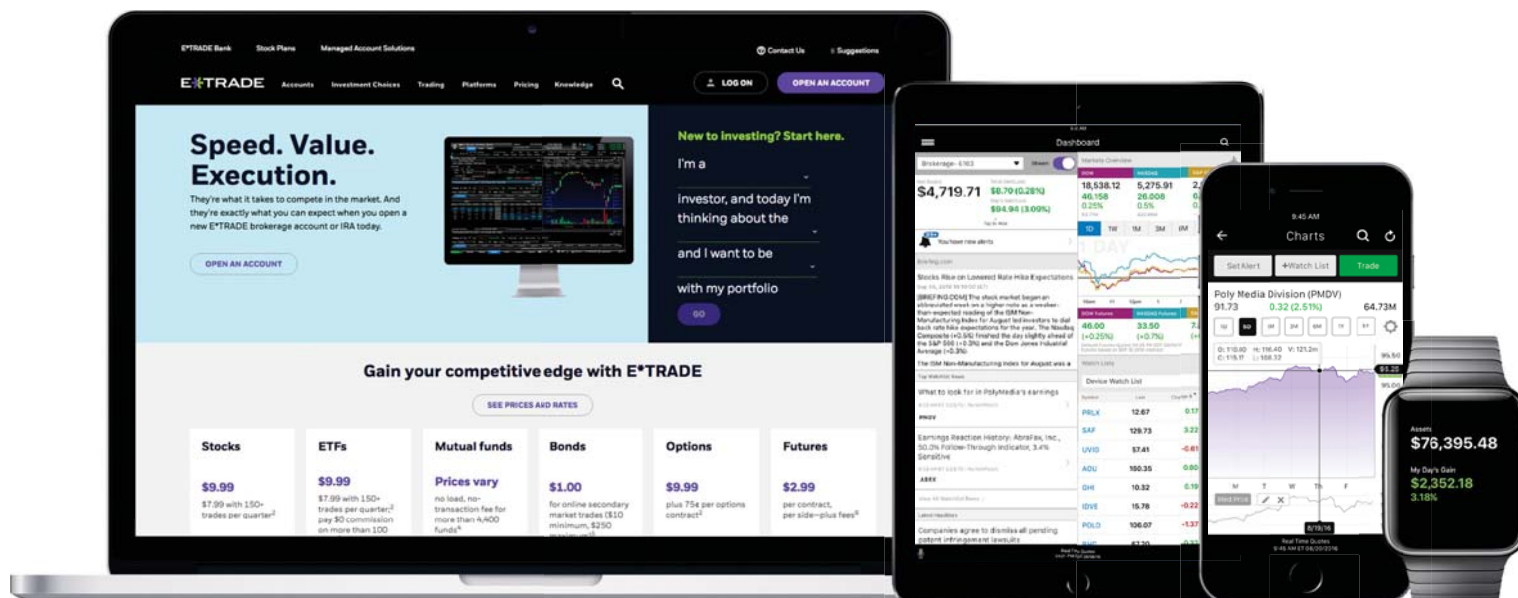
### Put capital to work for shareholders

As we continue to deliver on our capital plan initiatives, we are focused on generating and effectively deploying excess capital 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 three product areas: Trading, Investing, and Corporate Services. Additionally, we offer banking and cash management capabilities, including FDIC-insured deposit accounts, 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 Apple Pay.

## TRADING

Trading products deliver automated trade order placement and execution services. We offer our customers a full range of investment vehicles including U.S. equities, exchange-traded funds (ETFs), options, bonds, futures, American depositary receipts (ADRs), and non-proprietary mutual funds. Margin

accounts are also available to qualified customers, enabling them to borrow against their securities. We provide margin solutions, including calculators and requirement lookup and analysis tools, helping customers strategize, plan, and execute margin trades efficiently and effectively.

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, and strategies, trading ideas, and screeners for major asset classes.



## INVESTING

Investing products help investors build wealth and address their long-term investing needs. Products and services include individual retirement accounts (IRAs), including Roth IRAs, virtual advice through our Adaptive Portfolio product, managed investment portfolios, unified managed accounts, and separately managed accounts. Investors are provided a full breadth of digital tools through web and mobile channels to address their investing needs. These include resource centers, allocation tools, educational, and editorial content.

The Company also offers guidance through a team of licensed Financial Consultants and Chartered Retirement Planning Counselors<sup>SM</sup> at our 30 regional branches across the country, and through our two national branches by phone and email. Customers can receive complimentary portfolio reviews and personalized investment recommendations.



## CORPORATE SERVICES

The Corporate Services channel provides stock plan administration services for both public and private companies. Through its industry-leading platform, Equity Edge Online<sup>TM</sup>, the Company offers management of employee stock option plans, employee stock purchase plans, and restricted stock plans with fully-automated stock plan administration, as well as accounting, reporting, and scenario modeling tools. The integrated stock plan solutions include multi-currency settlement and delivery, disbursement in international countries, 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. Additionally, participants have access to educational tools, restricted stock sales support, and dedicated stock plan service representatives. The Corporate Services channel is an important driver of brokerage account and asset growth, serving as an introductory channel for the Company's core brokerage business, with approximately 1.5 million individual stock plan accounts across approximately 1,000 corporate clients that represent approximately 20% of S&P 500 companies.

Equity Edge Online<sup>TM</sup> recordkeeping and reporting was rated #1 in Loyalty and Overall Satisfaction for the fifth year in a row by Group Five, an independent consulting and research firm, in its 2016 Stock Plan Administration Study Industry Report.

# Sales and Customer Service



We believe providing superior sales and customer service is fundamental to our business. We strive to maintain a high standard of customer service by staffing the customer support team with appropriately trained personnel who are equipped to handle customer inquiries in a prompt and thorough manner. Our customer service representatives utilize our proprietary web-based platform that enables our team to reduce the number of touch-points required to answer customer inquiries. We also have specialized customer service programs that are tailored to the needs of each core customer group. We provide sales and customer support through the following channels of our registered broker-dealer and investment advisory subsidiaries:



### **ONLINE**

Our Online Service Center serves as a portal where customers can request services on their accounts and obtain answers to frequently asked questions. The online service center also provides customers with the ability to send a secure message and/or engage in live chat with one of our customer service representatives. In addition, we offer our Investor Education Center, providing customers with access to a variety of live and on-demand educational content and courses.



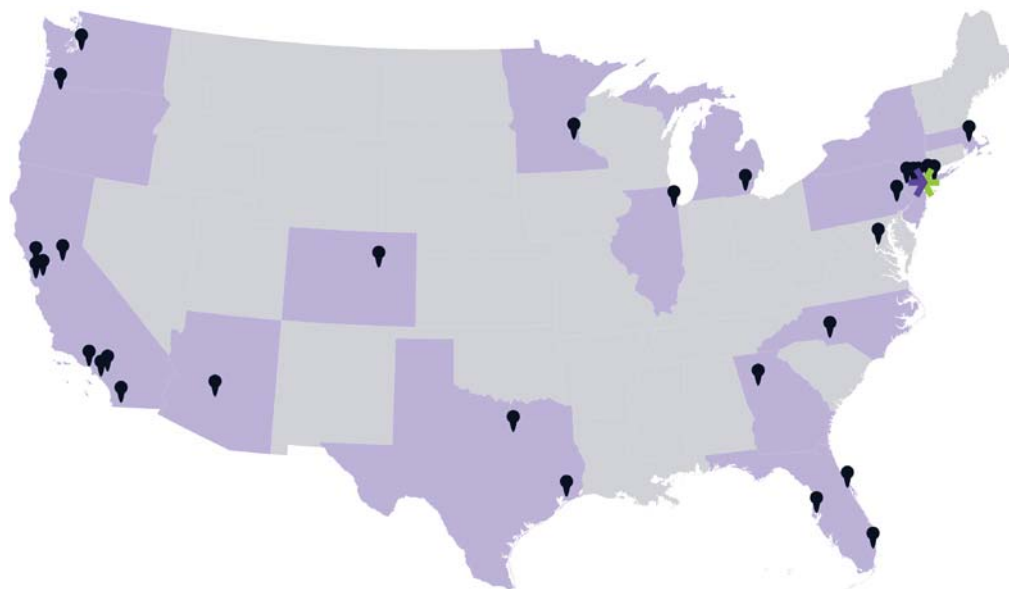
### **PHONE**

We have a toll free number that connects customers to the appropriate department where a financial consultant or customer service representative can assist with the customer's inquiry.



### **BRANCHES**

We have 30 branches located across the U.S. where retail investors can get face-to-face support and guidance. Financial consultants are available on-site to help customers assess their current asset allocation and develop plans to help them achieve their investment goals. Customers can also contact our financial consultants via phone or e-mail if they cannot visit the branches.





## **E\*TRADE FINANCIAL BOARD OF DIRECTORS**

### **Rodger A. Lawson**

Executive Chairman, E\*TRADE  
Financial Corporation

### **Kevin T. Kabat**

Lead Independent Director  
Retired Banking Executive

### **Richard J. Carbone**

Retired Financial Services Executive

### **James P. Healy**

Chief Executive Officer, Capra Ibex  
Advisors

### **Frederick W. Kanner**

Retired Corporate Lawyer

### **James Lam**

President, James Lam & Associates

### **Shelley B. Leibowitz**

Technology Advisor

### **Karl A. Roessner**

Chief Executive Officer, E\*TRADE  
Financial Corporation

### **Rebecca Saeger**

Retired Marketing Executive

### **Joseph L. Sclafani**

Retired Banking Executive

### **Gary H. Stern**

Retired Financial Services Regulator

### **Donna L. Weaver**

Retired Corporate Executive

## **E\*TRADE FINANCIAL EXECUTIVE LEADERSHIP**

### **Karl A. Roessner**

Chief Executive Officer

### **Paul W. Brandow**

Chief Risk Officer

### **Michael J. Curcio**

Chief Brokerage Officer

### **Glory DeSimone**

Chief Human Resources Officer

### **Michael E. Foley**

Chief Technology & Operations Officer

### **Brett H. Goodman**

Chief Communications Officer

### **Michael A. Pizzi**

Chief Financial Officer

### **Lori S. Sher**

General Counsel

## **SHAREHOLDER SERVICES**

### **Corporate Headquarters**

1271 Avenue of the Americas  
14<sup>th</sup> Floor  
New York, NY 10020-1302

### **Investor Relations and Shareholder Information**

[ir@etrade.com](mailto:ir@etrade.com)  
646-521-4340

### **Media Relations**

[mediainq@etrade.com](mailto: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 15<sup>th</sup> Avenue  
Brooklyn, NY 11219  
1-800-937-5449

### **Independent Auditors**

Deloitte & Touche LLP  
McLean, VA

<sup>(1)</sup> The OptionsHouse platform was rated “Best for Options Traders” in the Baron’s 2015, 2014, 2013, and 2012 annual reviews. Barron’s is a registered trademark of Dow Jones & Co.

#### Forward-Looking Statements

The statements contained in this report that are forward looking, including statements regarding: the continued improvement of the Company’s risk profile; the ability of the Company to meaningfully grow its business; the Company’s market position goals; the utilization of excess capital for balance sheet growth, share repurchases and inorganic growth; the Company’s plans to integrate OptionsHouse, offer competitive and innovative products, and build its brand and customer perception; and the Company’s planned balance sheet size and timing, are “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, and are subject to a number of uncertainties and risks. Actual results may differ materially from those indicated in the forward-looking statements. The uncertainties and risks include, but are not limited to, macro trends of the economy in general, including in interest rates, the residential real estate market and other financial markets, 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, the Company’s ability to continue to compete effectively and execute its business plans, the effectiveness of the Company’s marketing, and the potential negative regulatory consequences resulting from the implementation of financial regulatory reform as well as from actions by or 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 report speaks only as of the date of this communication; the Company disclaims any obligation to update any information.