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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, 2019

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

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)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	ETFC	The NASDAQ Stock Market LLC NASDAQ Global Select Market

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x 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	x	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 x

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 29, 2019, there were 225,915,870 shares of common stock outstanding.

E*TRADE FINANCIAL CORPORATION
FORM 10-Q QUARTERLY REPORT
For the Quarter Ended September 30, 2019
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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
- our capital plan initiatives
- the timing and payment of dividends on 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 comply with future changes to government 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
- the ability of our technology solution for advisors and our referral program to attract and retain customers seeking specialized services and sophisticated advice
- the expected impact of the adoption of the amended accounting and disclosure guidance governing the accounting for credit losses
- the expected impact from and responses to the elimination of retail commissions for online US listed stock, exchange-traded funds (ETF), and options trades
- 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:

- 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
- our ability to manage our balance sheet size and capital levels
- disruptions or failures of our information technology systems or those of our third-party service providers
- cyber security threats, system disruptions and other potential security breaches or incidents
- customer demand for financial products and services

- our ability to continue to compete effectively and respond to aggressive competition within our industry, such as the elimination of retail commissions for online US listed stock, ETF and options trades

- 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 manage our significant risk exposures effectively

- the occurrence of risks associated with our advisory services

- our ability to manage credit risk with customers and counterparties

- our ability to service our corporate debt and, if necessary, to raise additional capital

- changes in government regulation, including interpretations, or actions by our regulators, including those that may result from the implementation and enforcement of regulatory reform legislation

- adverse developments in any investigations, disciplinary actions or litigation

- changes in actual or forecasted assumptions impacting the measurement of expected credit losses upon adoption of the amended guidance governing the accounting for credit losses

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 II. Item 1A. Risk Factors* and *Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations* 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, 2018, as amended by Amendment No. 1 on Form 10-K/A (the 2018 Annual Report), 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 2018 Annual Report.

OVERVIEW

Company Overview

E*TRADE is a financial services company that provides brokerage and related products and services for traders, investors, stock plan administrators and participants, and registered investment advisors (RIAs). Founded on the principle of innovation, we aim to enhance the financial independence of customers through a powerful digital offering that includes tools and educational materials, complemented by professional advice and support, catering to the complex and unique needs of customers to help meet their near- and long-term investing goals. We provide these services 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 transactions
- E*TRADE Bank is a federally chartered savings bank that provides Federal Deposit Insurance Corporation (FDIC) insurance on certain 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 certain qualifying amounts of customer deposits and provides custody solutions for RIAs
- E*TRADE Financial Corporate Services, Inc. (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 retail futures transaction capabilities for our customers
- 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. We offer a broad range of products and services to customers through the following customer channels:

- **Retail:** Our retail channel includes retail brokerage and banking customers that utilize our web, mobile and/or active trading platforms to meet trading, investing and/or banking needs.
- **Institutional:** Our institutional channels include Corporate Services and Advisor Services. We provide stock plan administration services for public and private companies globally through our corporate services channel. We also provide custody services to independent RIAs through our advisor services channel.

Strategy

Our business strategy is focused on leveraging our brand, hybrid support model, and technology to grow our retail and institutional channels while generating robust earnings growth and maximizing shareholder returns.

Leverage our brand, hybrid support model, and leading technology for scale and growth

E*TRADE's unrivaled and tech-forward brand is synonymous with digital brokerage and drives outsized awareness and consideration among business-to-customer and business-to-business audiences. We are able to serve peak volumes across channels with capacity for growth and acquisition through our strong and scalable infrastructure. Our customers benefit from digitally led experiences, complemented by professional advice and support. We cater to the complex and unique needs of traders, investors, stock plan administrators and participants, and independent RIAs.

Empower self-directed retail customers through a powerful digital offering and professional guidance

E*TRADE has three core digital offerings for the retail investor—trading, investing, and banking. With trading, we maintain a leading position among active and derivatives traders through the Power E*TRADE web-based platform and support model. On the investing front we connect customers with a range of easy-to-use wealth management solutions. We are also advancing digital banking capabilities to help increase engagement with customers and prospects.

Capitalize on symbiotic institutional channels to drive growth

E*TRADE's corporate services and advisor services channels are critical for growth. We aim to expand on our #1 position in stock plan administration through innovative digital solutions and expert support—driving growth in retail and institutional relationships. We plan to leverage the power of E*TRADE's brand, digital ethos, and our broad customer base to grow the advisor services channel. We also plan to connect retail customers and stock plan participants seeking higher touch services to top-tier advisors through our referral network—driving asset growth and retention.

Generate robust earnings growth and returns

We aim to deliver superior returns on customer assets by capturing the full value of our retail and institutional relationships and leveraging E*TRADE's highly scalable model to generate robust earnings growth and maximize shareholder returns.

Products and Services

Our hybrid delivery model is available through the following award-winning digital platforms which are complemented by professional advice and support.

Platforms for Retail Channel[(1)]	***Platforms for Institutional Channel***[(1)]
Web Our easy-to-use site is the primary channel to interact with customers and prospects	***Equity Edge Online***[(2)] Equity Edge Online is the #1 rated platform in the stock plan administration industry that offers automation and flexibility
Mobile[(3)] Our top-rated mobile applications are industry leading and include integrations with leading artificial intelligence assistants	***Liberty*** Liberty is intuitive technology built for RIAs that simplifies the investment and management of client assets
Active Trading Platforms Active trading platforms include sophisticated trading tools, advanced portfolio and market tracking, and idea generation and analysis	

Complemented by professional advice and support	
Customer Service Customer service is available 24/7 via phone, email or chat from industry licensed representatives. White glove service is available for our highest-tiered customers	***Financial Consultants*** Financial consultants are available by phone or at branches to provide one-on-one investing advice
Active Trader Services Active trader services support includes specialized support for sophisticated customers with advanced knowledge and skill	***Corporate Services*** Corporate services support includes personalized service on a global scale driven by dedicated relationship and service managers backed by comprehensive training and education
Advisor Services Advisor services support includes dedicated relationship managers who act as a single point of contact for specialized support	

(1) E*TRADE was rated #1 online broker in Kiplinger's 2019 Best Online Brokers review.

(2) In September 2019, Equity Edge Online was rated #1 in Loyalty and Overall Satisfaction for the eighth consecutive year in the Group Five Stock Plan Administration Benchmark Study.

(3) E*TRADE was awarded the #1 Mobile Trading award in StockBrokers.com's 2019 Online Broker Review of 17 firms across 284 different variables.

We deliver a broad range of products and services through our retail and institutional customer channels across the following five product areas: Trading, Investing, Banking and Cash Management, Corporate Services and Advisor Services.

Trading

The Company delivers automated trade order placement and execution services, offering our customers a full range of investment vehicles, including US equities, ETFs, options, bonds, futures, American depositary receipts and non-proprietary mutual funds. We also offer margin accounts, enabling qualifying customers to borrow against their securities, supported by robust tools enabling customers to analyze their positions and easily understand collateral requirements. The Company also offers a fully paid lending program which allows customers to earn income on certain securities when they permit us to lend these securities.

The Company markets trading products and services to active traders and self-directed investors. Products and services are delivered through web, desktop and mobile platforms. 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 through a variety of products and services, a suite of managed products, and asset allocation models. These include our Core Portfolios, Blend Portfolios, Dedicated Portfolios, and Fixed Income Portfolios. The Company also offers self-directed digital tools across web and mobile platforms, including mutual fund and ETF screeners, All-Star Lists, a collection of pre-built ETF or mutual fund portfolios based on time frame and risk tolerance, an assortment of planning and allocation tools, thematic investing opportunities, education and editorial content. Investors also have access to a wide selection of ETFs and mutual funds, including more than 2,300 ETFs and more than 4,700 no-load, no-transaction fee mutual funds.

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

Banking and Cash Management Capabilities

The Company's banking and cash management capabilities include deposit accounts insured by the FDIC, which are fully integrated into customer brokerage accounts. Among other features, E*TRADE Bank's customers can transfer to and from accounts at E*TRADE and elsewhere for free and checking account customers have access to debit cards with ATM fee refunds, online and mobile bill pay, and mobile check deposits. E*TRADE Bank's savings account offerings include the Premium Savings Account, which provides a higher yield to savings account customers as compared to our other deposit products. The E*TRADE Line of Credit program allows customers to borrow against the market value of securities pledged as collateral.

Corporate Services

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, and streamlined tax calculation. Additionally, corporate clients are offered 10b5-1 plan design and implementation, along with SEC filing assistance and automated solutions. Through our platform, participants have enhanced visibility into the creation and approval of their plan through digital tools and resources. Participants have full access to E*TRADE's robust investing and trading capabilities, including tailored education and planning tools, and dedicated stock plan service representatives. Of companies that offer equity plans to employees, we serve approximately 50% of US publicly traded technology and healthcare companies, and more than 20% of companies within the S&P 500 index.

Corporate Services is an important driver of account and asset growth, serving as a conduit to the retail channel. Over the trailing 12 months, there were approximately $100 billion of gross inflows into our corporate services channel, primarily driven by $25 billion of new corporate client implementations and $73 billion of new grants and employee stock purchase plan transactions. Over this same 12 month period, domestic stock plan participants generated $30 billion of net proceeds through transactions of vested assets. These participant proceeds represent a key source of net new assets for the retail customer channel.

Advisor Services

Through our proprietary technology platform, Liberty, the Company offers sophisticated modeling, rebalancing, reporting, and practice management capabilities that are fully customizable for the RIA. E*TRADE's financial consultants can refer retail customers to pre-qualified RIAs on our custody platform through our referral program, the E*TRADE Advisor Network, which is operational at our two national and 30 regional financial centers. We expect the E*TRADE Advisor Network will improve the Company's ability to drive asset growth and retain customers seeking specialized services and sophisticated advice.

Significant Events

Rated #1 online broker in Kiplinger's annual Best Online Brokers review

In August 2019, E*TRADE was awarded first place overall and "Best for Mutual Fund Investors" in Kiplinger's annual Best Online Brokers Review of 10 firms across seven categories. We also received high marks for user experience, investment choices, advisory services, and mobile as part of the review.

Completed $1 billion share repurchase program; progress made on $1.5 billion program

The Company repurchased 3.6 million shares for $157 million during the third quarter to complete repurchases under its previous $1 billion share repurchase program. The Company also repurchased 9.8 million shares for $409 million under its $1.5 billion share repurchase program during the third quarter. We have the ability to complete this program by the third quarter of 2020; however we retain flexibility to deploy capital in the most accretive way possible.

Eliminated commission rates for equity and options trades

On October 2, 2019, we announced the elimination of retail commissions for online US listed stock, ETF and options trades. We also reduced the options contract charge to $0.65 per contract for all traders while maintaining our active trader pricing at $0.50 per contract. The Company estimates that the annual revenue impact of these changes, which became effective on October 7, 2019, would be approximately $300 million based on operating results in the second quarter of 2019. We expect the majority of commissions revenue in future periods will be driven from options contract charges and futures trading activity.

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, securities lending, 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. With the elimination of retail commissions for online US listed stock, ETF and options trades, we expect the majority of commissions revenue in future periods will be driven from options contract charges and futures trading activity.

- Fees and service charges revenue is primarily 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.

Key Performance Metrics

Management monitors customer activity and corporate metrics to evaluate the Company's performance. The most significant of these are displayed below.

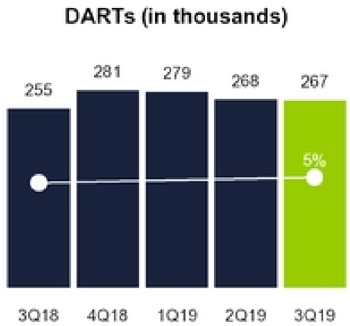
In the first quarter of 2019, the Company updated the structure of its customer activity metrics to better align to its retail and institutional customer channels. Additionally, the Company has refined the presentation of certain customer activity metrics, as follows:

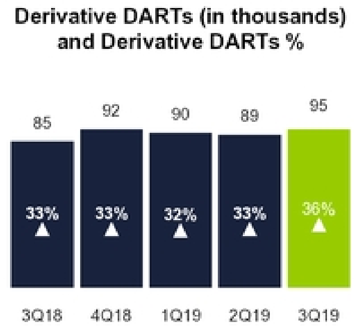
- **Commissionable trades:** The definition of trades was updated to capture only commissionable trades (this impacts daily average revenue trades (DARTs), derivative DARTs percentage, and average commission per trade).

- **Customer accounts:** The definition of accounts was updated to align the minimum threshold for gross new and end of period retail accounts to $25. The definition for gross new retail accounts sourced from Corporate Services was also updated to include only those accounts which maintain a minimum balance of $25 at the end of the reporting period or trade within the reporting period.

These updates have been reflected in the customer activity metrics for all periods presented and did not have an impact on the Company's financial statements.

Customer Activity Metrics





Daily Average Revenue Trades is an important measure of customer trading activity, and is a key driver of commissions revenue. DARTs were 266,935 and 271,514 for the three and nine months ended September 30, 2019, respectively, compared to 255,139 and 267,985 for the same periods in 2018.

Derivative DARTs, a key component of overall DARTs that represents advanced trading activities by our customers, is the daily average number of options and futures trades, and ***Derivative DARTs percentage*** is the mix of options and futures trades as a component of total DARTs. Derivative DARTs were 94,895 and 91,470 for the three and nine months ended September 30, 2019, respectively, compared to 84,978 and 89,164 for the same periods in 2018. Derivative DARTs represented 36% and 34% of total DARTs for the three and nine months ended September 30, 2019, respectively, compared to 33% for the same periods in 2018.

Average commission per trade is an indicator of changes in our customer mix, product mix and/or product pricing. Average commission per trade was $7.18 and $7.16 for the three and nine months ended September 30, 2019, respectively, compared to $7.34 and $7.47 for the same periods in 2018.

Margin receivables represent 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. Margin receivables were $9.9 billion and $11.2 billion at September 30, 2019 and 2018, respectively.

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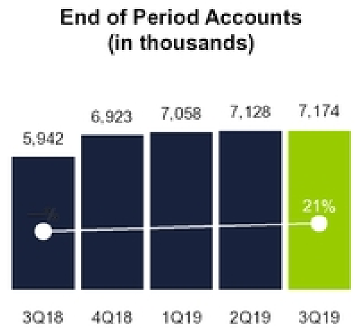
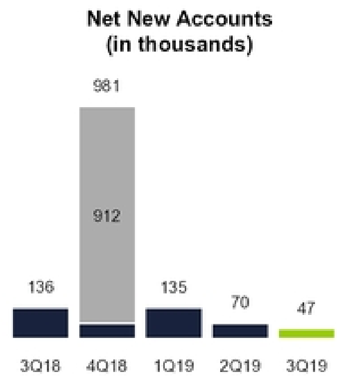




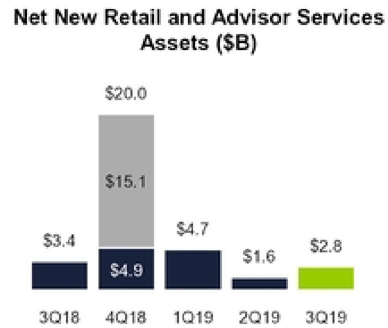
End of period accounts and ***net new accounts*** are indicators of our ability to attract and retain customers. The following table presents end of period accounts by channel:

	3Q 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018
End of period retail accounts	5,130,138	5,122,669	5,088,597	5,007,767	4,056,416
End of period advisor services accounts	150,401	151,275	151,222	151,241	150,063
End of period corporate services accounts	1,893,881	1,853,875	1,817,983	1,763,829	1,735,675
End of period accounts	7,174,420	7,127,819	7,057,802	6,922,837	5,942,154

The following table presents net new accounts and annualized growth rates by channel:

	3Q 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018
Net new retail accounts	7,469	34,072	80,830	951,351	63,841
Net new advisor services accounts	(874)	53	(19)	1,178	2,423
Net new corporate services accounts	40,006	35,892	54,154	28,154	69,321
Net new accounts	46,601	70,017	134,965	980,683	135,585
Net new retail account growth rate	0.6%	2.7%	6.5%	93.8%	6.4%
Net new advisor services account growth rate	(2.3)%	0.1%	(0.1)%	3.1%	6.6%
Net new corporate services account growth rate	8.6%	7.9%	12.3%	6.5%	16.6%
Net new total account growth rate	2.6%	4.0%	7.8%	66.0%	9.3%

We added 1,057,956 net new accounts as part of acquisitions during the year ended December 31, 2018, including 145,891 advisor services accounts related to the Trust Company of America (TCA) acquisition in the three months ended June 30, 2018 and 912,065 retail accounts related to the Capital One account acquisition in the three months ended December 31, 2018.



Total customer assets is an indicator of the value of our relationship with our customers. An increase generally indicates that the use of our products and services is expanding. Changes in this metric are also driven by changes in the valuations of our customers' underlying securities. The following table presents the significant components of total customer assets (dollars in billions):

	3Q 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018
Security holdings	$ 284.7	$ 286.6	$ 279.3	$ 242.0	$ 274.4
Cash and deposits	65.0	62.2	61.7	60.2	58.4
Retail and advisor services assets	349.7	348.8	341.0	302.2	332.8
Corporate services vested assets	138.9	142.3	140.6	111.9	140.0
Retail, advisor services, and corporate services vested assets	488.6	491.1	481.6	414.1	472.8
Corporate services unvested holdings	115.4	117.0	115.4	94.4	119.5
Total customer assets	$ 604.0	$ 608.1	$ 597.0	$ 508.5	$ 592.3

Customer cash and deposits is a significant component of total customer assets as it 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. The following table presents the significant components of total customer cash and deposits (dollars in billions):

	3Q 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018
Sweep deposits	$ 30.8	$ 31.7	$ 38.6	$ 39.3	$ 38.0
Customer payables	11.2	10.6	10.6	10.1	10.5
Savings, checking and other banking assets	9.6	8.6	7.7	6.0	5.1
Total on-balance sheet cash	51.6	50.9	56.9	55.4	53.6
Sweep deposits at unaffiliated financial institutions	11.7	9.6	3.0	3.0	3.0
Money market funds and other	1.7	1.7	1.8	1.8	1.8
Total customer cash held by third parties(1)	13.4	11.3	4.8	4.8	4.8
Total customer cash and deposits	$ 65.0	$ 62.2	$ 61.7	$ 60.2	$ 58.4

(1) Customer cash held by third parties is maintained at unaffiliated financial institutions. Customer cash held by third parties is not reflected in the Company's consolidated balance sheet and is not immediately available for liquidity purposes.

Net new retail and advisor services assets equals total inflows to new and existing retail and advisor services accounts less total outflows from closed and existing retail and advisor services accounts. The net new retail and advisor services assets metric is a general indicator of the use of our products and services by new and existing retail and advisor services customers. Net new retail and advisor services assets were $2.8 billion and $9.1 billion for the three and nine months ended September 30, 2019, respectively, compared to $3.4 billion and $29.7 billion for the same periods in 2018. The following table presents annualized net new retail and advisor services assets growth rates:

	3Q 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018
Net new retail assets growth rate	3.4%	2.1%	6.8%	25.2%	4.2%
Net new advisor services assets growth rate	0.8%	(1.2)%	(3.5)%	3.9%	7.6%
Net new retail and advisor services assets growth rate	3.2%	1.9%	6.2%	24.0%	4.4%

We added $33.5 billion in net new retail and advisor services assets as part of acquisitions during the year ended December 31, 2018, including $18.4 billion in advisor services assets related to the TCA acquisition during the three months ended June 30, 2018 and $15.1 billion in retail assets related to the acquisition of customer accounts from Capital One during the three months ended December 31, 2018.

Corporate Metrics:

Earnings per diluted common share is the portion of a company's profit allocated to each diluted share of common stock and is a key indicator of the Company's profitability. Earnings per diluted share was $1.08 and $3.07 for the three and nine months ended September 30, 2019, respectively, compared to $1.00 and $2.82 for the same periods in 2018. Earnings per diluted share includes $80 million of losses from our balance sheet repositioning in June 2019, which had an after-tax impact of $59 million, or $0.24 per diluted share for the three months ended June 30, 2019 and the nine months ended September 30, 2019.

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 50% and 48% for the three and nine months ended September 30, 2019, respectively, compared to 52% and 49% for the same periods in 2018. Income before income tax expense and net revenue, the numerator and denominator in the operating margin calculation, include $80 million of losses from our balance sheet repositioning in June 2019, which resulted in a 6 percentage point and a 2 percentage point reduction in operating margin for the three months ended June 30, 2019 and the nine months ended September 30, 2019, respectively.

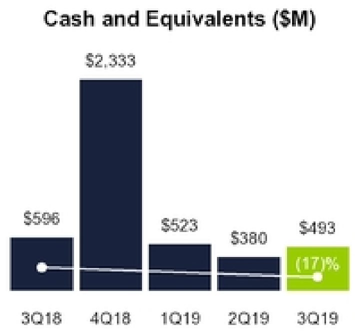
Adjusted operating margin is a non-GAAP measure that provides useful information about our ongoing operating performance by excluding the provision (benefit) for loan losses and losses on early extinguishment of debt, which are not viewed as key factors governing our investment in the business and are excluded by management when evaluating operating margin performance. Adjusted operating margin was 48% and 47% for the three and nine months ended September 30, 2019, respectively, compared to

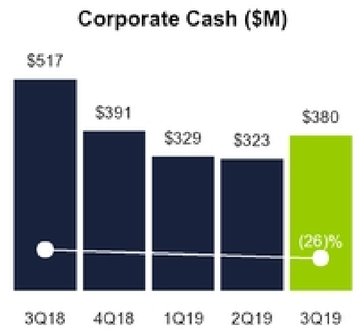
48% and 46% for the same periods in 2018. Adjusted income before income tax expense and net revenue, the numerator and denominator in the adjusted operating margin calculation, include $80 million of losses from our balance sheet repositioning in June 2019, which resulted in a 6 percentage point and a 2 percentage point reduction in adjusted operating margin for the three months ended June 30, 2019 and the nine months ended September 30, 2019, respectively. See *MD&A—Earnings Overview* for a reconciliation of adjusted operating margin to operating margin.

Capital return to shareholders represents the amount of earnings returned to shareholders through share repurchases and common stock dividends and ***Capital return percentage to shareholders*** is capital returned to shareholders as a percentage of net income available to common shareholders. Capital return to shareholders was $1.0 billion and $1.2 billion for the nine months ended September 30, 2019 and the year ended December 31, 2018, respectively. Capital return percentage to shareholders was 136% and 116% for the nine months ended September 30, 2019 and the year ended December 31, 2018, respectively. The Company's balance sheet repositioning in the second quarter 2019 generated additional capital to support share repurchases. In addition, the Company also returned capital to shareholders in the form of shares withheld for taxes of $20 million and $28 million for the nine months ended September 30, 2019 and the year ended December 31, 2018, respectively.

Return on common equity is calculated by dividing net income available to common shareholders by average common shareholders' equity, which excludes preferred stock. Return on common equity was 17% for both the three and nine months ended September 30, 2019, respectively, compared to 17% and 16% for the same periods in 2018. Net income available to common shareholders includes $80 million of losses from our balance sheet repositioning in June 2019, which had an after-tax impact of $59 million and resulted in a 4 percentage point and one percentage point reduction in return on common equity for the three months ended June 30, 2019 and the nine months ended September 30, 2019, respectively.

Adjusted return on common equity is a non-GAAP measure calculated by dividing adjusted net income available to common shareholders by average common shareholders' equity, which excludes preferred stock. Adjusted net income available to common shareholders is 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. Adjusted return on common equity was 16% for both the three and nine months ended September 30, 2019 compared to 16% and 15% for the same periods in 2018. 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. Adjusted net income available to common shareholders includes $80 million of losses from our balance sheet repositioning in June 2019, which had an after-tax impact of $59 million and resulted in a 4 percentage point and 2 percentage point reduction in adjusted return on common equity for the three months ended June 30, 2019 and the nine months ended September 30, 2019, respectively.





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 $493 million and $596 million at September 30, 2019 and 2018, respectively, while corporate cash was $380 million and $517 million for the same periods. See *MD&A—Liquidity and Capital Resources* for a reconciliation of corporate cash to cash and equivalents.

Average interest-earning assets, along with net interest margin, are indicators of our ability to generate net interest income. Average interest-earning assets were $55.4 billion and $59.3 billion for the three and nine months ended September 30, 2019, respectively, compared to $60.1 billion and $60.0 billion for the same periods in 2018.

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 3.28% and 3.23% for the three and nine months ended September 30, 2019, respectively, compared to 3.10% and 3.03% for the same periods in 2018.

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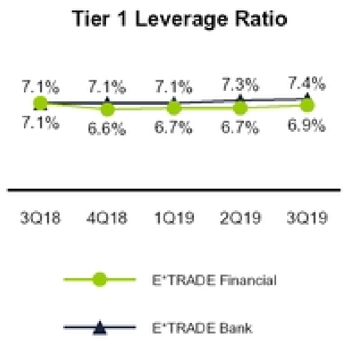

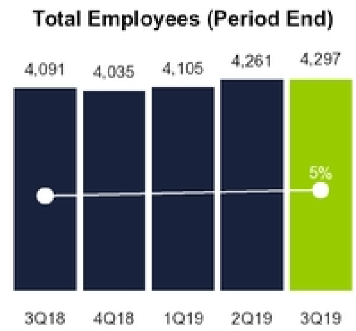

Tier 1 leverage ratio is an indicator of capital adequacy for E*TRADE Financial and E*TRADE Bank. Tier 1 leverage ratio is Tier 1 capital divided by adjusted average assets for leverage capital purposes. E*TRADE Financial's Tier 1 leverage ratio was 6.9% and 7.1% at September 30, 2019 and 2018, respectively. E*TRADE Bank's Tier 1 leverage ratio was 7.4% and 7.1% at September 30, 2019 and 2018, respectively. The internal threshold for E*TRADE Financial's Tier 1 leverage ratio is 6.5% and the internal threshold for E*TRADE Bank's Tier 1 leverage ratio is 7.0%. See *MD&A—Liquidity and Capital Resources* for additional information, including the calculation of regulatory capital ratios.

Total employees is the key driver of compensation and benefits expense, our largest non-interest expense category. Total employees were 4,297 and 4,091 at September 30, 2019 and 2018, respectively.

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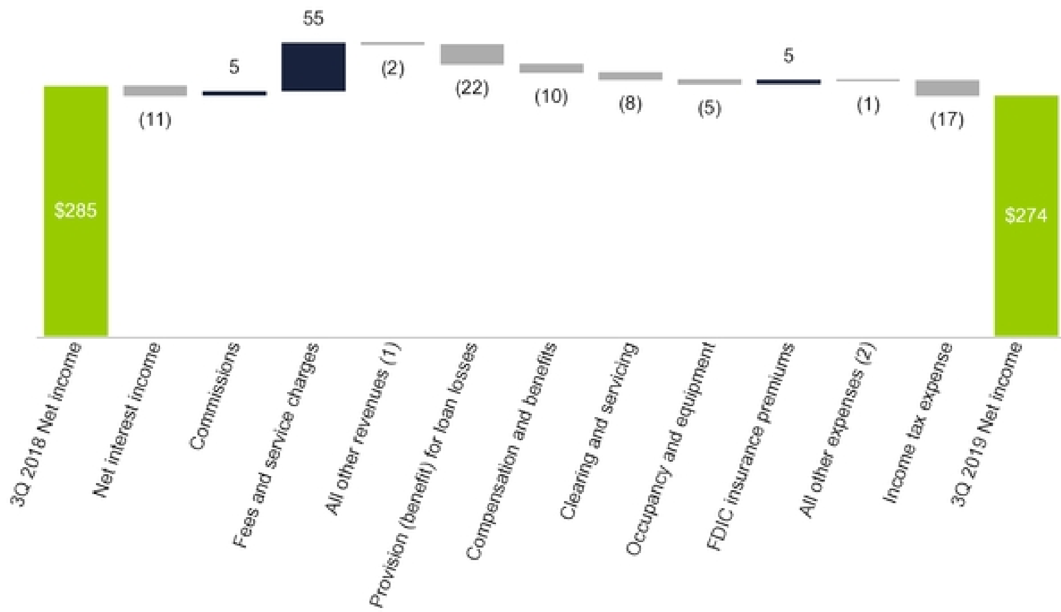
EARNINGS OVERVIEW

We generated net income of $274 million and $783 million on total net revenue of $767 million and $2.2 billion for the three and nine months ended September 30, 2019, respectively. The following chart presents a reconciliation of net income for the three months ended September 30, 2018 to net income for the three months ended September 30, 2019 (dollars in millions):



(1) Includes gains (losses) on securities and other, net and other revenue.

(2) Includes advertising and market development, professional services, communications, depreciation and amortization, amortization of other intangibles, restructuring and acquisition-related activities, losses on early extinguishment of debt 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 2019 vs. 2018		Nine Months Ended September 30,		Variance 2019 vs. 2018	
	2019	2018	Amount	%	2019	2018	Amount	%
Net interest income	$ 455	$ 466	$ (11)	(2)%	$ 1,437	$ 1,364	$ 73	5%
Total non-interest income	312	254	58	23%	770	774	(4)	(1)%
Total net revenue	767	720	47	7%	2,207	2,138	69	3%
Provision (benefit) for loan losses	(12)	(34)	22	(65)%	(32)	(74)	42	(57)%
Total non-interest expense	399	380	19	5%	1,172	1,159	13	1%
Income before income tax expense	380	374	6	2%	1,067	1,053	14	1%
Income tax expense	106	89	17	19%	284	271	13	5%
Net income	$ 274	$ 285	$ (11)	(4)%	$ 783	$ 782	$ 1	—%
Preferred stock dividends	20	24	(4)	(17)%	40	36	4	11%
Net income available to common shareholders	$ 254	$ 261	$ (7)	(3)%	$ 743	$ 746	$ (3)	—%
Diluted earnings per common share	$ 1.08	$ 1.00	$ 0.08	8%	$ 3.07	$ 2.82	$ 0.25	9%

Net income decreased 4% to $274 million or $1.08 per diluted share and slightly increased to $783 million or $3.07 per diluted share, for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. Net income available to common shareholders was $254 million and $743 million for the three and nine months ended September 30, 2019, respectively, which reflects payments of $20 million and $40 million in preferred stock dividends, respectively. This compares to $261 million and $746 million for the same periods in 2018, which reflects payments of $24 million and $36 million in preferred stock dividends, respectively.

The decrease in net income for the three months ended September 30, 2019 was primarily driven by lower benefit for loan losses and higher non-interest and income tax expenses, partially offset by higher non-interest income primarily due to higher revenue earned on customer cash held by third parties. The increase for the nine months ended September 30, 2019 was primarily driven by higher net interest income, partially offset by a lower benefit for loan losses and higher non-interest and income tax expenses.

Net Revenue

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

	Three Months Ended September 30,		Variance 2019 vs. 2018		Nine Months Ended September 30,		Variance 2019 vs. 2018	
	2019	2018	Amount	%	2019	2018	Amount	%
Net interest income	$ 455	$ 466	$ (11)	(2)%	$ 1,437	$ 1,364	$ 73	5%
Commissions	122	117	5	4%	365	375	(10)	(3)%
Fees and service charges	163	108	55	51%	407	323	84	26%
Gains (losses) on securities and other, net	16	17	(1)	(6)%	(37)	42	(79)	*
Other revenue	11	12	(1)	(8)%	35	34	1	3%
Total non-interest income	312	254	58	23%	770	774	(4)	(1)%
Total net revenue	$ 767	$ 720	$ 47	7%	$ 2,207	$ 2,138	$ 69	3%

* Percentage not meaningful.

Net Interest Income

Net interest income decreased 2% to $455 million and increased 5% to $1.4 billion for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. Net interest income is earned primarily through investment securities, margin receivables, securities lending, and our legacy mortgage and consumer loan portfolio, offset by funding costs.

The following tables present average balance sheet data and interest income and expense data, as well as related net interest margin, yields, and rates (dollars in millions):

	Three Months Ended September 30,					
	2019			2018		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
Cash and equivalents	$ 429	$ 2	2.11%	$ 471	$ 2	1.84%
Cash segregated under federal or other regulations	1,073	7	2.41%	836	4	2.15%
Investment securities	41,326	324	3.13%	44,773	315	2.82%
Margin receivables	9,880	120	4.83%	10,902	130	4.74%
Loans[1]	1,812	25	5.58%	2,332	32	5.38%
Broker-related receivables and other	918	5	2.02%	798	4	2.02%
Total interest-earning assets	55,438	483	3.47%	60,112	487	3.24%
Other interest revenue[2]	—	38		—	27	
Total interest-earning assets	55,438	521	3.74%	60,112	514	3.41%
Total non-interest-earning assets	5,859			4,291		
Total assets	$ 61,297			$ 64,403		
Sweep deposits	$ 30,559	$ 11	0.14%	$ 37,550	$ 14	0.15%
Savings deposits	7,533	27	1.44%	2,972	2	0.26%
Other deposits	1,614	—	0.03%	1,934	—	0.03%
Customer payables	10,915	7	0.27%	10,352	8	0.30%
Broker-related payables and other	1,241	2	0.51%	1,880	3	0.53%
Other borrowings	102	1	4.77%	752	6	2.95%
Corporate debt	1,410	14	3.86%	1,408	13	3.90%
Total interest-bearing liabilities	53,374	62	0.46%	56,848	46	0.32%
Other interest expense[3]	—	4		—	2	
Total interest-bearing liabilities	53,374	66	0.49%	56,848	48	0.33%
Total non-interest-bearing liabilities	1,251			859		
Total liabilities	54,625			57,707		
Total shareholders' equity	6,672			6,696		
Total liabilities and shareholders' equity	$ 61,297			$ 64,403		
Excess interest earning assets over interest bearing liabilities/net interest income/net interest margin	$ 2,064	$ 455	3.28%	$ 3,264	$ 466	3.10%

(1) 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.

(2) Other interest revenue is earned on certain securities loaned balances. Interest expense incurred on other securities loaned balances is presented on the broker-related payables and other line item above.

(3) Other interest expense is incurred on certain securities borrowed balances. Interest income earned on other securities borrowed balances is presented on the broker-related receivables and other line item above.

	Nine Months Ended September 30,					
	2019			2018		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
Cash and equivalents	$ 497	$ 8	2.26%	$ 601	$ 7	1.60%
Cash segregated under federal or other regulations	977	19	2.55%	795	11	1.91%
Investment securities	45,202	1,057	3.12%	44,979	908	2.69%
Margin receivables	9,910	376	5.08%	10,225	351	4.59%
Loans[(1)]	1,929	81	5.60%	2,475	98	5.25%
Broker-related receivables and other	738	12	2.15%	898	12	1.76%
Total interest-earning assets	59,253	1,553	3.50%	59,973	1,387	3.09%
Other interest revenue[(2)]	—	83		—	84	
Total interest-earning assets	59,253	1,636	3.68%	59,973	1,471	3.27%
Total non-interest-earning assets	5,318			4,479		
Total assets	$ 64,571			$ 64,452		
Sweep deposits	$ 35,429	$ 49	0.18%	$ 38,012	$ 23	0.08%
Savings deposits	6,292	65	1.39%	2,857	3	0.11%
Other deposits	1,709	—	0.03%	2,008	—	0.02%
Customer payables	10,658	24	0.30%	9,817	13	0.18%
Broker-related payables and other	1,098	4	0.49%	1,885	7	0.49%
Other borrowings	227	7	3.94%	837	21	3.28%
Corporate debt	1,410	42	3.94%	1,149	32	3.75%
Total interest-bearing liabilities	56,823	191	0.45%	56,565	99	0.23%
Other interest expense[(3)]	—	8		—	8	
Total interest-bearing liabilities	56,823	199	0.47%	56,565	107	0.25%
Total non-interest-bearing liabilities	1,152			939		
Total liabilities	57,975			57,504		
Total shareholders' equity	6,596			6,948		
Total liabilities and shareholders' equity	$ 64,571			$ 64,452		
Excess interest earning assets over interest bearing liabilities/net interest income/net interest margin	$ 2,430	$ 1,437	3.23%	$ 3,408	$ 1,364	3.03%

(1) 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.

(2) Other interest revenue is earned on certain securities loaned balances. Interest expense incurred on other securities loaned balances is presented on the broker-related payables and other line item above.

(3) Other interest expense is incurred on certain securities borrowed balances. Interest income earned on other securities borrowed balances is presented on the broker-related receivables and other line item above.

Average interest-earning assets decreased 8% to $55.4 billion and 1% to $59.3 billion for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The fluctuation in interest-earning assets is generally driven by changes in interest-bearing liabilities, primarily deposits and customer payables. Average interest-bearing liabilities decreased 6% to $53.4 billion and slightly increased to $56.8 billion for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018 due to the following:

- **Deposits and customer payables:** The increase to savings deposits was primarily driven by growth in the Premium Savings Account product first introduced in the second quarter of 2018. The decrease in sweep deposits was primarily driven by the balance sheet repositioning during the second quarter of 2019, as we moved $6.6 billion of deposits to third-party banks. The deposits and customer payables balances were also impacted by customer net buying, which reflected net buying of $3.4 billion during the nine months ended September 30, 2019, compared to net buying of $12.0 billion in the same period in 2018.

- **Other interest-bearing liabilities:** The decrease in broker-related payables and other borrowings was driven by customer activity, including short-term liquidity needs at E*TRADE Bank and E*TRADE Securities. In addition, net proceeds from the June 2018 issuance of corporate debt were used to redeem the Company's trust preferred securities in the third quarter of 2018, resulting in a decrease in other borrowings and an offsetting increase to corporate debt as compared to the nine months ended September 30, 2018.

Net interest margin increased 18 basis points to 3.28% and 20 basis points to 3.23% for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. 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, 2019, compared to the same periods in 2018, is due to higher interest rates earned on margin receivables, investment securities, and loans balances as well as higher securities lending revenues, partially offset by increased funding costs due to increased rates paid on deposits, including the Premium Savings Account product. The increase in rates was largely driven by the four increases in federal funds rates that occurred during 2018 partially offset by the two federal funds rate cuts during 2019. Our net interest margin was also impacted by the continued run-off of our higher yielding legacy mortgage and consumer loan portfolio.

Commissions

Commissions revenue increased 4% to $122 million and decreased 3% to $365 million for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The primary factors that affect commissions revenue are DARTs, average commission per trade and the number of trading days. With the elimination of retail commissions for online US listed stock, ETF and options trades, which became effective on October 7, 2019, we expect the majority of commissions revenue in future periods will be driven from options contract charges and futures trading activity. For additional information see *MD&A—Overview*.

DARTs volume increased 5% to 266,935 and 1% to 271,514 for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. DARTs volume is impacted by market sentiment as well as volatility of the equity markets. Derivative DARTs volume increased 12% to 94,895 and 3% to 91,470 for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018.

Average commission per trade decreased 2% to $7.18 and 4% to $7.16 for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. Average commission per trade is impacted by trade mix and differing commission rates on various trade types (e.g. equities, derivatives, corporate services and mutual funds).

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 2019 vs. 2018		Nine Months Ended September 30,		Variance 2019 vs. 2018	
	2019	2018	Amount	%	2019	2018	Amount	%
Money market funds and sweep deposits revenue(1)	$ 62	$ 18	$ 44	244%	$ 106	$ 53	$ 53	100%
Order flow revenue	46	40	6	15%	134	130	4	3%
Advisor management and custody fees	19	19	—	—%	56	46	10	22%
Mutual fund service fees	13	13	—	—%	38	36	2	6%
Foreign exchange revenue	8	7	1	14%	24	21	3	14%
Reorganization fees	5	3	2	67%	18	10	8	80%
Other fees and service charges	10	8	2	25%	31	27	4	15%
Total fees and service charges	$ 163	$ 108	$ 55	51%	$ 407	$ 323	$ 84	26%

(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 51% to $163 million and 26% to $407 million for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. These increases were primarily driven by higher money market funds and sweep deposits revenue driven by larger balances as a result of the balance sheet repositioning in June 2019 and a higher yield of approximately 195 and 180 basis points for the three and nine months ended September 30, 2019, respectively, compared to 145 and 140 basis points for the same periods in 2018. Advisor management and custody fees for the nine months ended September 30, 2019 also increased as a result of the acquisition of TCA in the second quarter of 2018.

Gains (Losses) on Securities and Other, Net

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

	Three Months Ended September 30,		Variance 2019 vs. 2018		Nine Months Ended September 30,		Variance 2019 vs. 2018	
	2019	2018	Amount	%	2019	2018	Amount	%
Gains (losses) on available-for-sale securities, net:								
Gains on available-for-sale securities[1][2]	$ 14	$ 65	$ (51)	(78)%	$ 40	$ 87	$ (47)	(54)%
Losses on available-for-sale securities[1][2]	—	(54)	54	(100)%	(80)	(54)	(26)	48%
Subtotal	14	11	3	27%	(40)	33	(73)	*
Equity method investment income and other[3]	2	6	(4)	(67)%	3	9	(6)	(67)%
Gains (losses) on securities and other, net	$ 16	$ 17	$ (1)	(6)%	$ (37)	$ 42	$ (79)	*

* Percentage not meaningful.

(1) In June 2019, the Company sold $4.5 billion of lower-yielding investment securities at losses as it repositioned its balance sheet. See *MD&A—Balance Sheet Overview* and *Note 5—Available-for-Sale and Held-to-Maturity Securities* for additional information.

(2) 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 5—Available-for-Sale and Held-to-Maturity Securities* for additional information.

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

Provision (Benefit) for Loan Losses

We recognized a benefit for loan losses of $12 million and $32 million for the three and nine months ended September 30, 2019, respectively, compared to a benefit for loan losses of $34 million and $74 million for the same periods in 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. For additional information on management's estimate of the allowance for loan losses, see *Note 6—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 2019 vs. 2018		Nine Months Ended September 30,		Variance 2019 vs. 2018	
	2019	2018	Amount	%	2019	2018	Amount	%
Compensation and benefits	$ 167	$ 157	$ 10	6%	$ 499	$ 469	$ 30	6%
Advertising and market development	41	45	(4)	(9)%	143	152	(9)	(6)%
Clearing and servicing	36	28	8	29%	98	94	4	4%
Professional services	27	23	4	17%	75	70	5	7%
Occupancy and equipment	34	29	5	17%	98	89	9	10%
Communications	26	30	(4)	(13)%	70	89	(19)	(21)%
Depreciation and amortization	23	25	(2)	(8)%	65	70	(5)	(7)%
FDIC insurance premiums	3	8	(5)	(63)%	11	26	(15)	(58)%
Amortization of other intangibles	16	12	4	33%	46	34	12	35%
Restructuring and acquisition-related activities	2	4	(2)	(50)%	2	6	(4)	(67)%
Losses on early extinguishment of debt	—	4	(4)	(100)%	—	4	(4)	(100)%
Other non-interest expenses	24	15	9	60%	65	56	9	16%
Total non-interest expense	$ 399	$ 380	$ 19	5%	$ 1,172	$ 1,159	$ 13	1%

Compensation and Benefits

Compensation and benefits expense increased 6% to $167 million and 6% to $499 million for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The expense increase was primarily driven by a 5% increase in headcount as a result of acquisitions during 2018, as well as growth in our business. The nine months ended September 30, 2019 also included an additional $7 million of severance expense compared to the nine months ended September 30, 2018. This increase in severance was related primarily to organizational realignments in the second quarter of 2019 and an executive transition in the third quarter of 2019.

Clearing and Servicing

Clearing and servicing expense increased 29% to $36 million and 4% to $98 million for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The expense increase was primarily driven by increased fees on higher off-balance sheet customer cash and increased trading volume.

Professional Services

Professional services expense increased 17% to $27 million and 7% to $75 million for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The expense increase includes continued investment in projects to drive operational efficiencies.

Occupancy and Equipment

Occupancy and equipment expense increased 17% to $34 million and 10% to $98 million for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The expense increase was primarily driven by higher software licenses and facilities expense.

Communications

Communications expense decreased 13% to $26 million and 21% to $70 million for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The decrease during the nine months ended September 30, 2019 was due to a $14 million benefit in the first quarter of 2019 related to a change in estimate for previous market data usage.

FDIC Insurance Premiums

FDIC insurance premiums expense decreased 63% to $3 million and 58% to $11 million for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The decreases were driven by the termination of surcharges paid to the Deposit Insurance Fund after it attained the minimum reserve ratio of 1.35 percent of insured deposits in September 2018, and our balance sheet repositioning in June 2019 when we moved $6.6 billion of deposits to third-party banks.

Amortization of Other Intangibles

Amortization of other intangibles increased 33% to $16 million and 35% to $46 million for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The increases were primarily due to the intangible assets recognized in connection with the TCA acquisition and acquisition of retail accounts from Capital One during 2018.

Other Non-Interest Expenses

Other non-interest expenses increased 60% to $24 million and 16% to $65 million for the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The increases were primarily driven by higher business taxes, asset disposals, and losses related to increased trading activity.

Operating Margin

Operating margin was 50% and 48% for the three and nine months ended September 30, 2019, respectively, compared to 52% and 49% for the same periods in 2018. Adjusted operating margin, a non-GAAP measure, was 48% and 47% for the three and nine months ended September 30, 2019, respectively, compared to 48% and 46% for the same periods in 2018.

Adjusted operating margin is 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,			
	2019		2018		2019		2018	
	Amount	Operating Margin %	Amount	Operating Margin %	Amount	Operating Margin %	Amount	Operating Margin %
Income before income tax expense / operating margin(1)	$ 380	50%	$ 374	52%	$ 1,067	48%	$ 1,053	49%
Add back impact of pre-tax items:								
Provision (benefit) for loan losses	(12)		(34)		(32)		(74)	
Losses on early extinguishment of debt	—		4		—		4	
Subtotal	(12)		(30)		(32)		(70)	
Adjusted income before income tax expense / adjusted operating margin(1)	$ 368	48%	$ 344	48%	$ 1,035	47%	$ 983	46%

(1) Income before income tax expense and adjusted income before income tax expense included $80 million of pre-tax losses from balance sheet repositioning for the nine months ended September 30, 2019, which resulted in a 2 percentage point reduction in both operating margin and adjusted operating margin.

Return on Common Equity

Return on common equity was 17% for both the three and nine months ended September 30, 2019, respectively, compared to 17% and 16% for the same periods in 2018. Adjusted return on common equity, a non-GAAP measure, was 16% for both the three and nine months ended September 30, 2019, respectively, compared to 16% and 15% for the same periods in 2018.

Adjusted return on common equity is calculated by dividing 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 the 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,			
	2019		2018		2019		2018	
	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(1)	$ 254	17%	$ 261	17%	$ 743	17%	$ 746	16%
Add back impact of the following items:								
Provision (benefit) for loan losses	(12)		(34)		(32)		(74)	
Losses on early extinguishment of debt	—		4		—		4	
Subtotal	(12)		(30)		(32)		(70)	
Income tax impact	3		8		8		18	
Net of tax	(9)		(22)		(24)		(52)	
Adjusted net income available to common shareholders and return on common equity(1)	$ 245	16%	$ 239	16%	$ 719	16%	$ 694	15%

(1) Net income available to common shareholders and adjusted net income available to common shareholders included $59 million of after-tax losses from balance sheet repositioning for the nine months ended September 30, 2019, which resulted in one percentage point reduction to return on common equity and a 2 percentage point reduction to adjusted return on common equity.

Income Tax Expense

Income tax expense was $106 million and $284 million for the three and nine months ended September 30, 2019, respectively, compared to $89 million and $271 million for the same periods in 2018. The effective tax rate was 28% and 27% for the three and nine months ended September 30, 2019, respectively, compared to 24% and 26% for the same periods in 2018. The lower effective tax rate for both the three and nine months ended September 30, 2018 includes an $8 million income tax benefit related to the revaluation of certain net state deferred tax assets.

BALANCE SHEET OVERVIEW

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

	September 30, 2019	December 31, 2018	Variance 2019 vs. 2018 Amount	Variance 2019 vs. 2018 %
Assets:				
Cash and equivalents	$ 493	$ 2,333	$ (1,840)	(79)%
Segregated cash	1,365	1,011	354	35%
Investment securities	42,562	45,037	(2,475)	(5)%
Margin receivables	9,859	9,560	299	3%
Loans receivable, net	1,747	2,103	(356)	(17)%
Receivables from brokers, dealers and clearing organizations	1,038	760	278	37%
Property and equipment, net	338	281	57	20%
Goodwill and other intangibles, net	2,931	2,976	(45)	(2)%
Other assets	1,374	942	432	46%
Total assets	$ 61,707	$ 65,003	$ (3,296)	(5)%
Liabilities and shareholders' equity:				
Deposits	$ 40,382	$ 45,313	$ (4,931)	(11)%
Customer payables	11,183	10,117	1,066	11%
Payables to brokers, dealers and clearing organizations	1,091	948	143	15%
Corporate debt	1,410	1,409	1	—%
Other liabilities	1,072	654	418	64%
Total liabilities	55,138	58,441	(3,303)	(6)%
Shareholders' equity	6,569	6,562	7	—%
Total liabilities and shareholders' equity	$ 61,707	$ 65,003	$ (3,296)	(5)%

Cash and Equivalents

Cash and equivalents decreased 79% to $493 million during the nine months ended September 30, 2019. 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 segregated under federal or other regulations increased 35% to $1.4 billion during the nine months ended September 30, 2019. The level of segregated cash is driven 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 segregate for the exclusive benefit of our brokerage customers. Segregated cash can also be impacted by the level of securities purchased under agreements to resell between E*TRADE Securities and E*TRADE Bank, representing investments that were also segregated under federal or other regulations by E*TRADE Securities and eliminated in consolidation, which increased $550 million to $950 million as of September 30, 2019.

Investment Securities

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

	September 30, 2019	December 31, 2018	Variance 2019 vs. 2018 Amount	%
Available-for-sale securities:				
Agency mortgage-backed securities	$ 18,514	$ 22,162	$ (3,648)	(16)%
Other agency debt securities	674	991	(317)	(32)%
US Treasuries	1,349	—	1,349	100%
Non-agency debt securities[(1)]	483	—	483	100%
Total available-for-sale securities	$ 21,020	$ 23,153	$ (2,133)	(9)%
Held-to-maturity securities:				
Agency mortgage-backed securities	$ 19,563	$ 18,085	$ 1,478	8%
Other agency debt securities	1,979	3,799	(1,820)	(48)%
Total held-to-maturity securities	$ 21,542	$ 21,884	$ (342)	(2)%
Total investment securities	$ 42,562	$ 45,037	$ (2,475)	(5)%

(1) Includes non-agency asset-backed securities (ABS) and non-agency commercial mortgage-backed securities.

Securities represented 69% of total assets at both September 30, 2019 and December 31, 2018, 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.

The decrease in available-for-sale securities during the nine months ended September 30, 2019 related primarily to the sale of $4.5 billion of lower-yielding investment securities as part of the Company's balance sheet repositioning in June 2019. See *MD&A—Overview*, *MD&A—Earnings Overview* and *Note 5—Available-for-Sale and Held-to-Maturity Securities* for additional information.

Margin Receivables

Margin receivables increased 3% to $9.9 billion during the nine months ended September 30, 2019. Market valuation of customer assets and market sentiment are economic factors that impact the margin receivables balance.

Loans Receivable, Net

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

	September 30, 2019	December 31, 2018	Variance 2019 vs. 2018 Amount	Variance 2019 vs. 2018 %
One- to four-family	$ 861	$ 1,071	$ (210)	(20)%
Home equity	680	836	(156)	(19)%
Consumer	85	118	(33)	(28)%
Securities-based lending[(1)]	142	107	35	33%
Total loans receivable	1,768	2,132	(364)	(17)%
Unamortized premiums, net	6	8	(2)	(25)%
Subtotal	1,774	2,140	(366)	(17)%
Less: Allowance for loan losses	27	37	(10)	(27)%
Total loans receivable, net	$ 1,747	$ 2,103	$ (356)	(17)%

(1) E*TRADE Line of Credit is a securities-based lending product where customers can borrow against the market value of their securities pledged as collateral. The unused credit line amount totaled $310 million and $173 million as of September 30, 2019 and December 31, 2018, respectively.

Loans receivable, net decreased 17% to $1.7 billion during the nine months ended September 30, 2019. 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 continue 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 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* and *Note 6—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, 2019	December 31, 2018	Variance 2019 vs. 2018 Amount	%
Receivables:				
Securities borrowed	$ 621	$ 140	$ 481	344%
Receivables from clearing organizations	326	555	(229)	(41)%
Other	91	65	26	40%
Total	$ 1,038	$ 760	$ 278	37%
Payables:				
Securities loaned	$ 1,028	$ 887	$ 141	16%
Payables to clearing organizations	16	11	5	45%
Other	47	50	(3)	(6)%
Total	$ 1,091	$ 948	$ 143	15%

Securities borrowed increased 344% to $621 million during the nine months ended September 30, 2019. The increase was primarily driven by a higher demand for securities to cover customer short positions during the period. The 41% decrease in receivables from clearing organizations during the nine months ended September 30, 2019 to $326 million was primarily driven by the decreased use of cash collateral for the Company's derivatives transactions utilized for hedging activities.

Securities loaned increased 16% to $1.0 billion during the nine months ended September 30, 2019. The increase was primarily driven by higher demand for securities from our counterparties, and an increase in fully paid lending activity. For additional information on E*TRADE Securities liquidity, see *MD&A—Liquidity and Capital Resources.*

Other Assets

Other assets increased 46% to $1.4 billion during the nine months ended September 30, 2019. The increase was driven by $250 million of securities purchased under agreements to resell that were outstanding at the end of the period and $211 million of operating lease assets related to the Company's adoption of the new guidance on accounting for leases in 2019. See *Note 10—Lease Arrangements* for additional information.

Deposits

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

	September 30, 2019	December 31, 2018	Variance 2019 vs. 2018 Amount	%
Sweep deposits	$ 30,778	$ 39,322	$ (8,544)	(22)%
Savings deposits(1)	7,964	4,133	3,831	93%
Other deposits	1,640	1,858	(218)	(12)%
Total deposits	$ 40,382	$ 45,313	$ (4,931)	(11)%

(1) Includes $6.3 billion and $2.0 billion of deposits at September 30, 2019 and December 31, 2018, respectively, in our Premium Savings Account product.

Deposits represented 73% and 78% of total liabilities at September 30, 2019 and December 31, 2018, respectively. The decrease in deposits during the nine months ended September 30, 2019 was primarily driven by the move of $6.6 billion of deposits to third-party banks as part of the Company's balance sheet repositioning in June 2019 partially offset by the growth in our Premium Savings Account product. See *MD&A—Earnings Overview* and *Note 5—Available-for-Sale and Held-to-Maturity Securities* for additional information.

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

- Extended insurance sweep deposit account (ESDA) program
- Retirement sweep deposit account (RSDA) program for retirement plan customers
- Cash balance 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

The programs utilize our bank subsidiaries, in combination with additional third-party program banks, as applicable, to allow customers the ability to have aggregate deposits they hold in the programs insured up to $1,250,000 for each category of legal ownership depending on the program. As of September 30, 2019, approximately 98% 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.

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

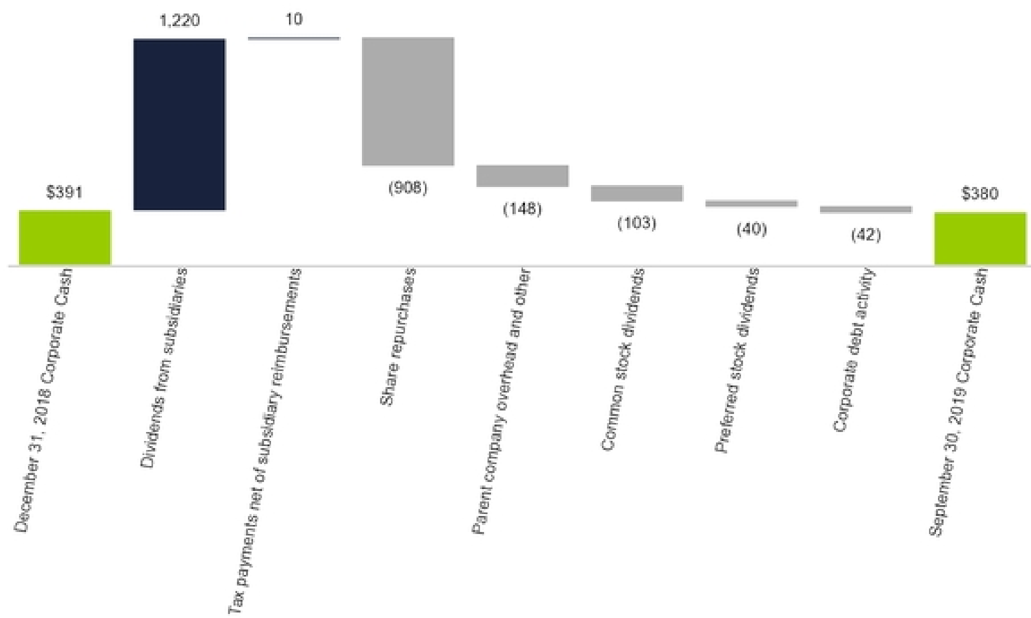
Our liquidity needs are primarily driven by capital needs at E*TRADE Bank and E*TRADE Securities, interest due on our corporate debt, dividend payments on our preferred stock and other capital returns to holders of our common stock. Our banking and brokerage subsidiaries' liquidity needs are driven primarily 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 or the parent company's other non-bank subsidiaries are subject to various quantitative, arm’s length, collateralization, capital and other requirements.

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 is monitored as part of our liquidity risk management. Our current corporate cash minimum target is $300 million and covers approximately 18 months of parent company fixed costs, which includes preferred stock dividends, corporate debt interest and other overhead costs, and contractual corporate debt maturities over the next 12 months. 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. Dividends from our operating subsidiaries, including E*TRADE Bank and E*TRADE Securities, are additional sources of corporate cash. Subject to regulatory approval or notification, capital generated by these subsidiaries could be distributed to the parent company to the extent the excess capital levels exceed both regulatory capital requirements and internal capital thresholds. As of September 30, 2019, our subsidiaries maintained excess regulatory capital over internal thresholds and paid dividends of $1.2 billion to the parent company during the nine months ended September 30, 2019.

The following chart presents the key activities impacting corporate cash and provides a roll forward of corporate cash from December 31, 2018 to corporate cash at September 30, 2019 (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, 2019	December 31, 2018
Consolidated cash and equivalents	$ 493	$ 2,333
Less: Cash at regulated subsidiaries	(465)	(2,347)
Add: Cash on deposit at E*TRADE Bank(1)	352	405
Corporate cash	$ 380	$ 391

(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 $11 million to $380 million during the nine months ended September 30, 2019 primarily due to the following:

- $1.2 billion of dividends received from subsidiaries
- $10 million of tax payments received from subsidiaries, net of taxes paid
- $908 million used for share repurchases
- $148 million used primarily for parent company overhead less reimbursements from subsidiaries under cost sharing arrangements
- $143 million used for dividends, including $103 million in common stock dividends and $40 million in preferred stock dividends
- $42 million used for corporate debt activity

*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.

*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. E*TRADE Securities maintains additional liquidity through external lines of credit totaling approximately $1.3 billion. E*TRADE Securities also maintains lines of credit with the parent company and E*TRADE Bank.

External Liquidity Sources

The following table presents the Company's external lines of credit at September 30, 2019 (dollars in millions):

Description	Maturity Date	Borrower	Outstanding	Available
Senior unsecured, committed revolving credit facility(1)	June 2024	ETFC	$ —	$ 300
FHLB secured credit facility	Determined at trade	ETB	$ —	$ 7,290
Federal Reserve Bank discount window	Overnight	ETB	$ —	$ 1,131
Senior unsecured, committed revolving credit facility(2)	June 2020	ETS	$ —	$ 600
Secured, committed lines of credit	June 2020	ETS	$ —	$ 175
Unsecured, uncommitted lines of credit	June 2020	ETS	$ —	$ 50
Unsecured, uncommitted lines of credit	None	ETS	$ —	$ 75
Secured, uncommitted lines of credit	None	ETS	$ —	$ 425

(1) On June 21, 2019, the Company entered into a new five year, $300 million senior unsecured committed revolving credit facility, which replaced its three year senior unsecured committed revolving credit facility entered into on June 23, 2017. The senior unsecured committed revolving credit facility contains certain covenants, including maintenance covenants related to the Company's interest coverage, leverage and regulatory net capital ratios with which the Company was in compliance at September 30, 2019.

(2) On June 21, 2019, E*TRADE Securities entered into a 364-day, $600 million senior unsecured committed revolving credit facility, which replaced its 364-day senior unsecured committed revolving credit facility entered into on June 22, 2018. The senior unsecured committed revolving credit facility contains certain covenants, including 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, 2019.

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, refer to *Note 13—Regulatory Requirements.*

Bank Capital Requirements

At September 30, 2019, our regulatory capital ratios for E*TRADE Financial and E*TRADE Bank were above the minimum ratios required to be "well capitalized." Currently, the internal threshold for E*TRADE Financial's Tier 1 leverage ratio is 6.5% and the internal threshold for E*TRADE Bank's Tier 1 leverage ratio is 7.0%. For additional information on bank regulatory requirements and phase-in periods, refer to *Part I. Item 1. Business—Regulation* in the Company's 2018 Annual Report.

The following table presents E*TRADE Financial and E*TRADE Bank's capital ratios (dollars in millions):

	E*TRADE Financial		E*TRADE Bank	
	September 30, 2019	**December 31, 2018**	**September 30, 2019**	**December 31, 2018**
Shareholders' equity	$ 6,569	$ 6,562	$ 3,662	$ 3,557
Deduct:				
Preferred stock	(689)	(689)	—	—
Common Equity Tier 1 capital before regulatory adjustments	$ 5,880	$ 5,873	$ 3,662	$ 3,557
Add:				
Losses in other comprehensive income on available-for-sale debt securities, net of tax	24	275	24	275
Deduct:				
Goodwill and other intangible assets, net of deferred tax liabilities	(2,475)	(2,540)	(279)	(287)
Disallowed deferred tax assets	(74)	(200)	(3)	(61)
Common Equity Tier 1 capital	$ 3,355	$ 3,408	$ 3,404	$ 3,484
Add:				
Preferred stock	689	689	—	—
Tier 1 capital	$ 4,044	$ 4,097	$ 3,404	$ 3,484
Add:				
Other	35	46	27	37
Total capital	$ 4,079	$ 4,143	$ 3,431	$ 3,521
Average assets for leverage capital purposes	$ 61,364	$ 64,767	$ 46,126	$ 49,568
Deduct:				
Goodwill and other intangible assets, net of deferred tax liabilities	(2,475)	(2,540)	(279)	(287)
Disallowed deferred tax assets	(74)	(200)	(3)	(61)
Adjusted average assets for leverage capital purposes	$ 58,815	$ 62,027	$ 45,844	$ 49,220
Total risk-weighted assets(1)	$ 10,689	$ 10,970	$ 9,155	$ 9,994
Tier 1 leverage ratio (Tier 1 capital / Adjusted average assets for leverage capital purposes)	6.9%	6.6%	7.4%	7.1%
Common Equity Tier 1 capital / Total risk-weighted assets(1)	31.4%	31.1%	37.2%	34.9%
Tier 1 capital / Total risk-weighted assets	37.8%	37.3%	37.2%	34.9%
Total capital / Total risk-weighted assets	38.2%	37.8%	37.5%	35.2%

(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, 2019, 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, refer to *Note 13—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, refer to *Note 14—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 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: strategic, operational, reputational, liquidity, market, credit, as well as legal and regulatory. We have a Board-approved Enterprise Risk Appetite Statement that specifies significant risk exposures and addresses the Company's tolerance for these risks, which are described in further detail within *Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2018 Annual Report.

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 2018 Annual Report.

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.

- **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, 2019, 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, 2019, 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, 2019. The amortized cost of these securities accounted for 99% of our total securities portfolio at September 30, 2019. 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, and all such debt securities were rated investment grade at September 30, 2019.

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 2018 Annual Report 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 income taxes. 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 2018 Annual Report.

New Accounting Standards Not Yet Adopted

Accounting for Credit Losses

In June 2016, the Financial Accounting Standards Board (FASB) amended the guidance on accounting for credit losses and has subsequently issued clarifications and improvements. The new guidance will be effective for interim and annual periods beginning January 1, 2020 and early adoption is permitted. The amended guidance requires measurement of an allowance for 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 performance, current conditions, and reasonable and supportable forecasts, including expected charge-off recoveries, will be used to estimate expected credit losses. The FASB issued additional amended guidance during the second quarter of 2019 that clarified that the current expected credit losses (CECL) standard allows for subsequent increases in the fair value of collateral for collateral-dependent loans to be recognized up to the amount previously charged-off. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information on the Company's interpretation of the amended guidance.

Determining the CECL allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. The Company has not originated a mortgage loan since 2008 when the Company exited direct retail lending, which was the last remaining loan origination channel after the Company's exit from the wholesale mortgage lending channel in 2007. We expect the legacy mortgage portfolio to continue its run-off for the foreseeable future. Our portfolio has seasoned, as the weighted average age of the mortgage loan portfolio is approximately 14 years, and substantially all interest-only loans have converted to amortizing loans. As of September 30, 2019, the Company expects to recognize an after-tax benefit related to mortgage loans of approximately $75 million to $100 million as an adjustment to opening retained earnings at adoption on January 1, 2020. The expected benefit is related to the fair value of the underlying collateral for mortgage loans that were determined to be collateral-dependent and previously written down to the fair value of the underlying collateral.

The CECL allowance is based on assumptions about quantitative and qualitative factors, and changes to the allowance may result if future conditions differ from these assumptions. For example, in the event the cash received through liquidation or other form of recovery for collateral-dependent loans is less than the fair value of collateral less estimated costs to sell, additional losses may be recognized. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the CECL allowance in future periods. Our underlying assumptions and judgments could prove to be inaccurate, which could materially impact our regulatory capital position and results of operations in future periods. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

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 2018 Annual Report.

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 interest rate risk management 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, 2019, 91% of our total assets were interest-earning assets and we had no securities classified as trading.

At September 30, 2019, 63% 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 7—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 and mortgage-backed securities portfolios and the repricing of deposits. This approach does not incorporate assumptions related to business growth, or liquidation and reinvestment 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, 2019		December 31, 2018		September 30, 2019		December 31, 2018	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
+200	$ 109	1.8%	$ 148	1.8%	$ 253	15.6%	$ 187	9.2%
+100	$ 215	3.6%	$ 198	2.4%	$ 148	9.1%	$ 101	5.0%
+50	$ 153	2.5%	$ 146	1.8%	$ 79	4.9%	$ 53	2.6%
-50	$ (271)	(4.5)%	$ (273)	(3.4)%	$ (105)	(6.4)%	$ (88)	(4.3)%

(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. As interest rates change, we will adjust our strategy and mix of assets, liabilities and derivatives to optimize our interest rate risk 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 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, 2019 the EVE and EAR percentage changes were within our Board limits.

KEY TERMS

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

Adjusted operating margin—Adjusted operating margin is 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, as applicable.

Adjusted return on common equity—A non-GAAP measure calculated by dividing 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, as applicable, by average common shareholders' equity, which excludes preferred stock.

Agency—US Government sponsored enterprises and federal government and other agencies, such as the 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.

Asset-backed securities (ABS)—Debt securities backed by financial assets such as credit cards, automobile loans, student loans or other receivables.

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

Capital return percentage to shareholders—Represents the amount of earnings returned to shareholders through share repurchases and common stock dividends as a percentage of net income available to common shareholders.

CECL—Current expected credit losses.

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.

CLTV—Combined loan-to-value ratio.

Collateral-dependent—Prior to adoption of the CECL accounting standard, a loan where repayment is expected to be provided solely through the sale of the underlying collateral when the borrower is experiencing financial difficulty. After adoption of the CECL accounting standard, a loan for which foreclosure is probable or a loan where repayment is expected to be provided substantially through the sale of the underlying collateral when the borrower is experiencing financial difficulty.

Commissionable trades—Commissionable trades exclude trades related to no transaction fee mutual funds and commission-free ETFs, rebalancing trades associated with our managed products, and other non-commissionable trades.

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 2018 Annual Report, 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.

CRA—Community Reinvestment Act.

Customer account—Retail and advisor services accounts are defined as those with a minimum balance of $25 or a trade within the prior six months. Corporate services accounts are defined as those holding any type of vested or unvested securities from a corporate services client company or with a trade in the prior six months.

Customer assets—Market value of all customer assets held by the Company including security holdings, customer cash and deposits, and corporate services vested and unvested equity and option holdings.

Daily average revenue trades (DARTs)—Total commissionable 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—Commissionable options and futures trades in a period divided by the number of trading days during that period.

Earnings at risk (EAR)—The sensitivity of 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.

ETB—E*TRADE Bank.

ETFC—E*TRADE Financial Corporation.

ETS—E*TRADE Securities.

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.

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 line of credit.

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 cash 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 segregated cash 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.

Investment grade—Defined as a rating equivalent to a Moody’s Investors Service (Moody’s) rating of “Baa3” or higher or a Standard & Poor’s (S&P) rating of “BBB-” or higher.

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.

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.

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 retail and advisor services assets—Net new retail and advisor services assets exclude the effects of market movements in the value of retail and advisor services assets.

NFA—National Futures Association.

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.

Real estate owned and 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.

VIE—Variable interest entity.

Wholesale borrowings—Borrowings that consist of repurchase agreements and FHLB advances.

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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,	
	2019	2018	2019	2018
Revenue:				
Interest income	$ 521	$ 514	$ 1,636	$ 1,471
Interest expense	(66)	(48)	(199)	(107)
Net interest income	455	466	1,437	1,364
Commissions	122	117	365	375
Fees and service charges	163	108	407	323
Gains (losses) on securities and other, net	16	17	(37)	42
Other revenue	11	12	35	34
Total non-interest income	312	254	770	774
Total net revenue	767	720	2,207	2,138
Provision (benefit) for loan losses	(12)	(34)	(32)	(74)
Non-interest expense:				
Compensation and benefits	167	157	499	469
Advertising and market development	41	45	143	152
Clearing and servicing	36	28	98	94
Professional services	27	23	75	70
Occupancy and equipment	34	29	98	89
Communications	26	30	70	89
Depreciation and amortization	23	25	65	70
FDIC insurance premiums	3	8	11	26
Amortization of other intangibles	16	12	46	34
Restructuring and acquisition-related activities	2	4	2	6
Losses on early extinguishment of debt	—	4	—	4
Other non-interest expenses	24	15	65	56
Total non-interest expense	399	380	1,172	1,159
Income before income tax expense	380	374	1,067	1,053
Income tax expense	106	89	284	271
Net income	$ 274	$ 285	$ 783	$ 782
Preferred stock dividends	20	24	40	36
Net income available to common shareholders	$ 254	$ 261	$ 743	$ 746
Basic earnings per common share	$ 1.08	$ 1.01	$ 3.08	$ 2.84
Diluted earnings per common share	$ 1.08	$ 1.00	$ 3.07	$ 2.82
Weighted average common shares outstanding:				
Basic (in thousands)	235,829	259,498	241,657	263,292
Diluted (in thousands)	236,313	260,661	242,199	264,433

See accompanying notes to the condensed consolidated financial statements (unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 274	$ 285	$ 783	$ 782
Other comprehensive income (loss), net of tax				
Available-for-sale securities:				
Unrealized gains (losses), net	43	(86)	219	(265)
Reclassification into earnings, net	(9)	(8)	32	(23)
Transfer of held-to-maturity securities to available-for-sale securities	—	—	—	6
Net change from available-for-sale securities	34	(94)	251	(282)
Other comprehensive income (loss)	34	(94)	251	(282)
Comprehensive income	$ 308	$ 191	$ 1,034	$ 500

See accompanying notes to the condensed consolidated financial statements (unaudited)

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

	September 30, 2019	December 31, 2018
ASSETS		
Cash and equivalents	$ 493	$ 2,333
Cash segregated under federal or other regulations	1,365	1,011
Available-for-sale securities	21,020	23,153
Held-to-maturity securities (fair value of $21,912 and $21,491 at September 30, 2019 and December 31, 2018, respectively)	21,542	21,884
Margin receivables	9,859	9,560
Loans receivable, net (net of allowance for loan losses of $27 and $37 at September 30, 2019 and December 31, 2018, respectively)	1,747	2,103
Receivables from brokers, dealers and clearing organizations	1,038	760
Property and equipment, net	338	281
Goodwill	2,485	2,485
Other intangibles, net	446	491
Other assets	1,374	942
Total assets	$ 61,707	$ 65,003
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 40,382	$ 45,313
Customer payables	11,183	10,117
Payables to brokers, dealers and clearing organizations	1,091	948
Corporate debt	1,410	1,409
Other liabilities	1,072	654
Total liabilities	55,138	58,441
Commitments and contingencies (see Note 14)		
Shareholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, 403,000 shares issued and outstanding at both September 30, 2019 and December 31, 2018; aggregate liquidation preference of $700 at both September 30, 2019 and December 31, 2018	689	689
Common stock, $0.01 par value, 400,000,000 shares authorized, 226,795,480 and 246,495,174 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	2	2
Additional paid-in-capital	4,578	5,462
Retained earnings	1,324	684
Accumulated other comprehensive loss	(24)	(275)
Total shareholders' equity	6,569	6,562
Total liabilities and shareholders' equity	$ 61,707	$ 65,003

See accompanying notes to the condensed consolidated financial statements (unaudited)

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

	Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Amount	Shares	Amount				
Balance at December 31, 2018	$ 689	246	$ 2	$ 5,462	$ 684	$ (275)	$ 6,562
Net income	—	—	—	—	290	—	290
Other comprehensive income	—	—	—	—	—	105	105
Common stock dividends ($0.14 per share)	—	—	—	—	(35)	—	(35)
Preferred stock dividends - Series A ($29.38 per share)	—	—	—	—	(12)	—	(12)
Preferred stock dividends - Series B ($2,650.00 per share)	—	—	—	—	(8)	—	(8)
Repurchases of common stock	—	(2)	—	(120)	—	—	(120)
Share-based compensation	—	—	—	13	—	—	13
Other common stock activity	—	1	—	(13)	—	—	(13)
Balance at March 31, 2019	$ 689	245	$ 2	$ 5,342	$ 919	$ (170)	$ 6,782
Net income	—	—	—	—	219	—	219
Other comprehensive income	—	—	—	—	—	112	112
Common stock dividends ($0.14 per share)	—	—	—	—	(34)	—	(34)
Repurchases of common stock	—	(5)	—	(222)	—	—	(222)
Share-based compensation	—	—	—	13	—	—	13
Balance at June 30, 2019	$ 689	240	$ 2	$ 5,133	$ 1,104	$ (58)	$ 6,870
Net income	—	—	—	—	274	—	274
Other comprehensive income	—	—	—	—	—	34	34
Common stock dividends ($0.14 per share)	—	—	—	—	(34)	—	(34)
Preferred stock dividends - Series A ($29.38 per share)	—	—	—	—	(12)	—	(12)
Preferred stock dividends - Series B ($2,650.00 per share)	—	—	—	—	(8)	—	(8)
Repurchases of common stock	—	(13)	—	(566)	—	—	(566)
Share-based compensation	—	—	—	12	—	—	12
Other common stock activity	—	—	—	(1)	—	—	(1)
Balance at September 30, 2019	$ 689	227	$ 2	$ 4,578	$ 1,324	$ (24)	$ 6,569

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	—	—	—	—	247	—	247
Other comprehensive loss	—	—	—	—	—	(129)	(129)
Preferred stock dividends - Series A ($29.38 per share)	—	—	—	—	(12)	—	(12)
Repurchases of common stock	—	(3)	—	(140)	—	—	(140)
Share-based compensation	—	—	—	10	—	—	10
Other common stock activity	—	1	—	(18)	—	—	(18)
Balance at March 31, 2018	$ 689	265	$ 3	$ 6,434	$ (61)	$ (176)	$ 6,889
Net income	—	—	—	—	250	—	250
Other comprehensive loss	—	—	—	—	—	(59)	(59)
Repurchases of common stock	—	(3)	—	(189)	—	—	(189)
Share-based compensation	—	—	—	12	—	—	12
Balance at June 30, 2018	$ 689	262	$ 3	$ 6,257	$ 189	$ (235)	$ 6,903
Net income	—	—	—	—	285	—	285
Other comprehensive loss	—	—	—	—	—	(94)	(94)
Preferred stock dividends - Series A ($29.38 per share)	—	—	—	—	(12)	—	(12)
Preferred stock dividends - Series B ($4,107.50 per share)	—	—	—	—	(12)	—	(12)
Repurchases of common stock	—	(5)	—	(309)	—	—	(309)
Share-based compensation	—	—	—	13	—	—	13
Other common stock activity	—	—	—	(8)	—	—	(8)
Balance at September 30, 2018	$ 689	257	$ 3	$ 5,953	$ 450	$ (329)	$ 6,766

See accompanying notes to the condensed consolidated financial statements (unaudited)

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

	Nine Months Ended September 30,	
	2019	**2018**
Cash flows from operating activities:		
Net income	$ 783	$ 782
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (benefit) for loan losses	(32)	(74)
Depreciation and amortization (including amortization and accretion on investment securities)	168	192
(Gains) losses on securities and other, net	37	(42)
Losses on early extinguishment of debt	—	4
Share-based compensation	38	35
Deferred tax expense	206	253
Other	(1)	10
Net effect of changes in assets and liabilities:		
(Increase) decrease in receivables from brokers, dealers and clearing organizations	(278)	392
Increase in margin receivables	(299)	(2,113)
(Increase) decrease in other assets	(189)	349
Increase in payables to brokers, dealers and clearing organizations	143	303
Increase in customer payables	1,066	1,085
(Decrease) increase in other liabilities	(673)	47
Net cash provided by operating activities	969	1,223
Cash flows from investing activities:		
Purchases of available-for-sale securities	(7,456)	(6,966)
Proceeds from sales of available-for-sale securities	9,720	6,293
Proceeds from maturities of and principal payments on available-for-sale securities	1,174	1,555
Purchases of held-to-maturity securities	(3,860)	(3,684)
Proceeds from maturities of and principal payments on held-to-maturity securities	4,176	1,781
Proceeds from sales of loans	—	30
Decrease in loans receivable	376	451
Capital expenditures for property and equipment	(117)	(78)
Net increase in securities purchased under agreements to resell	(250)	—
Proceeds from sale of real estate owned and repossessed assets	10	19
Acquisitions, net of cash acquired	—	(36)
Net cash flow from derivative contracts	(196)	200
Other	(28)	(32)
Net cash provided by (used in) investing activities	3,549	(467)

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

	Nine Months Ended September 30,	
	2019	**2018**
Cash flows from financing activities:		
Decrease in deposits	$ (4,931)	$ (458)
Common stock dividends	(103)	—
Preferred stock dividends	(40)	(36)
Net increase in advances from FHLB	—	50
Proceeds from issuance of senior notes	—	420
Payments on trust preferred securities	—	(413)
Repurchases of common stock	(908)	(638)
Other	(22)	(32)
Net cash used in financing activities	(6,004)	(1,107)
Decrease in cash, cash equivalents and segregated cash	(1,486)	(351)
Cash, cash equivalents and segregated cash, beginning of period	3,344	1,803
Cash, cash equivalents and segregated cash, end of period	$ 1,858	$ 1,452
Cash and equivalents, end of period	$ 493	$ 596
Segregated cash, end of period	1,365	856
Cash, cash equivalents and segregated cash, end of period	$ 1,858	$ 1,452
Supplemental disclosures:		
Cash paid for interest	$ 199	$ 106
Cash paid for income taxes, net of refunds	$ 52	$ 9
Right-of-use assets recognized upon adoption of new lease standard	$ 193	$ —
Right-of-use assets obtained during the period	$ 36	$ —
Non-cash investing and financing activities:		
Transfers from loans to other real estate owned and repossessed assets	$ 13	$ 13
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 (unaudited)

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 for traders, investors, stock plan administrators and participants, and RIAs. The Company also provides investor-focused banking products, including sweep deposit accounts insured by the FDIC, to customers. The Company's most significant, wholly-owned subsidiaries are described below:

- E*TRADE Securities is a registered broker-dealer that clears and settles customer transactions
- E*TRADE Bank is a federally chartered savings bank that provides FDIC insurance on certain 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 certain qualifying amounts of customer deposits and provides custody solutions for 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 is a registered non-clearing FCM that provides retail futures transaction capabilities for our customers
- E*TRADE Capital Management is an RIA that provides investment advisory services for our customers

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. 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 a 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. There are no investments in which the Company represents the primary beneficiary of a VIE; therefore, there are no consolidated VIEs included 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 and should be read in conjunction with our 2018 Annual Report.

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 income taxes. Management also makes estimates in recognizing accrued operating expenses and other 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 liabilities deemed probable at the balance sheet date as determined as part of the Company's ongoing evaluations based on available information.

Adoption of New Accounting Standards

Accounting for Leases

In February 2016, the FASB amended the guidance on accounting for leases. The new guidance required lessees to recognize right-of-use (ROU) assets and lease liabilities on the balance sheet for the rights and obligations created by all qualifying leases. 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 Company adopted the new guidance beginning on January 1, 2019 and elected to use the effective date as the date of initial application. As such, restated financial information and the additional disclosures required under the new standard will not be provided for the comparative periods presented. The new guidance also requires quantitative and qualitative disclosures that provide information about the amounts related to leasing arrangements recorded in the consolidated financial statements. For further information, see *Note 10—Lease Arrangements*. The Company elected to apply the "package of practical expedients," which permits it to not reassess prior conclusions on existing leases regarding lease identification, lease classification and initial direct costs. In addition, the Company has elected to apply the short-term lease exception for lease arrangements with maximum lease terms of 12 months or less. The Company elected to not apply the use-of-hindsight practical expedient, and the practical expedient relating to land easements is not applicable. Adoption of the standard did not have a material impact on the Company's results of operations or cash flows.

At adoption, the Company recognized lease liabilities of $211 million, representing the present value of the remaining minimum fixed lease payments based on the incremental borrowing rates as of December 31, 2018. Changes in lease liabilities are based on current period interest expense and cash payments. The Company also recognized ROU assets of $193 million at adoption, which represents the measurement of the lease liabilities, prepaid lease payments made to lessors, initial direct costs incurred by the Company and lease incentives received.

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 amended guidance became effective on January 1, 2019, and the Company adopted the guidance on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. The adoption did not have a material impact on the Company's financial condition, results of operations or cash flows.

New Accounting Standards Not Yet Adopted

Accounting for Credit Losses

In June 2016, the FASB amended the guidance on accounting for credit losses and has subsequently issued clarifications and improvements. The amended guidance requires measurement of an allowance for 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 performance, current conditions, and reasonable and supportable forecasts, including expected charge-off recoveries, 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 FASB issued additional amended guidance during the second quarter of 2019 that clarified that the CECL standard allows for subsequent increases in the fair value of collateral for collateral-dependent loans to be recognized up to the amount previously charged-off. A loan is considered to be collateral-dependent when foreclosure is probable or when repayment is expected to be provided substantially through the sale of the underlying collateral when the borrower is experiencing financial difficulty. Additional amended transition guidance issued during the second quarter of 2019 allows entities to elect the fair value option on certain financial instruments, on an instrument-by-instrument basis; however, this fair value option election does not apply to held-to-maturity debt securities. The new guidance will be effective for interim and annual periods beginning January 1, 2020 and early adoption is permitted.

The Company has continued to make progress in developing credit loss estimation methods for the mortgage loan portfolio. The Company does not expect that credit losses for the investment security portfolio, margin receivables, securities-based lending activities and other financial assets held at amortized cost will be material based on its current analysis and industry views. As of September 30, 2019, the Company expects to recognize an after-tax benefit related to mortgage loans of approximately $75 to $100 million as an adjustment to opening retained earnings at adoption on January 1, 2020.

The expected benefit relates to the fair value of the underlying collateral for mortgage loans that were determined to be collateral-dependent and previously written down to the fair value of the underlying collateral. This adoption impact will be presented on the balance sheet as a “negative allowance” associated with these loans. When estimating the fair value of collateral, 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. These property valuations are then reduced for qualifying estimated costs to sell. These costs do not include carrying costs or other disallowed adjustments, such as estimates for prolonged foreclosure proceedings associated with certain jurisdictions.

The expected impact includes the expected credit losses related to the remaining mortgage loans. The Company employed a probability of default and loss given default model for determining the CECL allowance for these mortgage loans, which utilized prepayment forecasts, loan amortization calculations, and other internally derived and externally sourced data and assumptions. Key inputs for the forecast included US home prices and unemployment data. The CECL impact for this portfolio is not expected to be material based on the seasoning of the Company’s mortgage loan portfolio and the credit quality of the remaining loans. The Company utilized an externally provided macroeconomic forecast over the remaining life of the loans. This forecast includes a forward-looking view of macroeconomic factors over the next two to five years, after which the macroeconomic factors revert to externally provided long-term equilibrium values, rates, or patterns that do not include specific predictions for the economy.

The Company's focus for the remainder of 2019 will be the continued development and refinement of its credit loss estimation methods, the development of policies and procedures in support of implementation, testing and validation of credit loss estimation methods, and the completion of parallel runs of credit loss modeling. The Company's evaluation of the impact of the guidance 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 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 would 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 will adopt prospectively and is currently finalizing modifications to the accounting processes necessary for adoption.

Codification Improvements Related to Credit Losses, Financial Instruments, Derivatives and Hedging

In April 2019, the FASB clarified recently released guidance related to credit losses, financial instruments, derivatives and hedging. The FASB has an ongoing project on its agenda for improving the FASB's Accounting Standards Codification or correcting its unintended application. The guidance will be effective for interim and annual periods beginning January 1, 2020. The Company is currently evaluating the impact of these clarifications on the Company's financial condition, results of operations and cash flows.

NOTE 2—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,	
	2019	2018	2019	2018
Net interest income	$ 455	$ 466	$ 1,437	$ 1,364
Commissions	122	117	365	375
Fees and service charges	163	108	407	323
Gains (losses) on securities and other, net	16	17	(37)	42
Other revenue	11	12	35	34
Total net revenue [(1)]	$ 767	$ 720	$ 2,207	$ 2,138

(1) Contract balances and transaction price allocated to remaining performance obligations were not material for the periods presented.

In October 2019, we announced the elimination of retail commissions for online US listed stock, ETF, and options trades. We also reduced the options contract charge to $0.65 per contract for all traders while maintaining our active trader pricing at $0.50 per contract.

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,	
	2019	2018	2019	2018
Interest income:				
Cash and equivalents	$ 2	$ 2	$ 8	$ 7
Cash segregated under federal or other regulations	7	4	19	11
Investment securities	324	315	1,057	908
Margin receivables	120	130	376	351
Loans	25	32	81	98
Broker-related receivables and other	5	4	12	12
Subtotal interest income	483	487	1,553	1,387
Other interest revenue(1)	38	27	83	84
Total interest income	521	514	1,636	1,471
Interest expense:				
Sweep deposits	11	14	49	23
Savings deposits	27	2	65	3
Customer payables	7	8	24	13
Broker-related payables and other	2	3	4	7
Other borrowings	1	6	7	21
Corporate debt	14	13	42	32
Subtotal interest expense	62	46	191	99
Other interest expense(2)	4	2	8	8
Total interest expense	66	48	199	107
Net interest income	$ 455	$ 466	$ 1,437	$ 1,364

(1) Other interest revenue is earned on certain securities loaned balances. Interest expense incurred on other securities loaned balances is presented on the broker-related payables and other line item above.

(2) Other interest expense is incurred on certain securities borrowed balances. Interest income earned on other securities borrowed balances is presented on the broker-related receivables and other line item above.

Fees and Service Charges

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Fees and service charges:				
Money market funds and sweep deposits revenue	$ 62	$ 18	$ 106	$ 53
Order flow revenue	46	40	134	130
Advisor management and custody fees	19	19	56	46
Mutual fund service fees	13	13	38	36
Foreign exchange revenue	8	7	24	21
Reorganization fees	5	3	18	10
Other fees and service charges	10	8	31	27
Total fees and service charges	$ 163	$ 108	$ 407	$ 323

NOTE 3—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

Agency Debt and Mortgage-backed Securities

The Company’s agency mortgage-backed securities portfolio is comprised of debt 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.

The fair value measurements of agency debentures and other 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.

US Treasuries

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.

Non-agency Debt Securities

The Company's non-agency debt securities include senior classes of commercial mortgage-backed securities and asset-backed securities collateralized by credit card, automobile loan and student loan receivables. The fair value of non-agency debt securities was determined using a market approach with recent transactions and spread data for identical or similar instruments. Non-agency debt securities were categorized in Level 2 of the fair value hierarchy.

The Company sold its municipal bonds during the three months ended March 31, 2019. As of December 31, 2018, these securities were valued using a market approach with pricing service valuations corroborated by recent market transactions for identical or similar bonds and 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.

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 troubled debt restructuring (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, 2019:			
Loans receivable:			
One- to four-family	Appraised value	$ 742,000	$92,000 - $2,700,000
Home equity	Appraised value	$ 405,200	$115,000 - $1,440,000
Real estate owned	Appraised value	$ 387,500	$30,000 - $1,050,000
December 31, 2018:			
Loans receivable:			
One- to four-family	Appraised value	$ 594,700	$17,000 - $2,000,000
Home equity	Appraised value	$ 397,700	$73,000 - $1,060,000
Real estate owned	Appraised value	$ 329,500	$57,900 - $900,000

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

Recurring and Nonrecurring Fair Value Measurements

The following tables present 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, 2019:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Agency mortgage-backed securities	$ —	$ 18,514	$ —	$ 18,514
Agency debentures	—	673	—	673
US Treasuries	—	1,349	—	1,349
Non-agency asset-backed securities	—	369	—	369
Non-agency mortgage-backed securities	—	114	—	114
Other	—	1	—	1
Total available-for-sale securities	—	21,020	—	21,020
Publicly traded equity securities(1)	7	—	—	7
Total assets measured at fair value on a recurring basis(2)	$ 7	$ 21,020	$ —	$ 21,027
Nonrecurring fair value measurements:				
Loans receivable, net:				
One- to four-family	$ —	$ —	$ 13	$ 13
Home equity	—	—	4	4
Total loans receivable	—	—	17	17
Other assets:				
Real estate owned	—	—	12	12
Total assets measured at fair value on a nonrecurring basis(3)	$ —	$ —	$ 29	$ 29

(1) Consists of investments in a mutual fund related to the Community Reinvestment Act (CRA).

(2) Assets measured at fair value on a recurring basis represented 34% of the Company's total assets at September 30, 2019.

(3) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at September 30, 2019, and for which a fair value measurement was recorded during the period.

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

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2018:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Agency mortgage-backed securities	$ —	$ 22,162	$ —	$ 22,162
Agency debentures	—	839	—	839
Agency debt securities	—	139	—	139
Municipal bonds	—	12	—	12
Other	—	1	—	1
Total available-for-sale securities	—	23,153	—	23,153
Derivative assets(1)	—	1	—	1
Publicly traded equity securities(2)	7	—	—	7
Total assets measured at fair value on a recurring basis(3)	$ 7	$ 23,154	$ —	$ 23,161
Nonrecurring fair value measurements:				
Loans receivable, net:				
One- to four-family	$ —	$ —	$ 17	$ 17
Home equity	—	—	6	6
Total loans receivable	—	—	23	23
Other assets:				
Real estate owned	—	—	10	10
Total assets measured at fair value on a nonrecurring basis(4)	$ —	$ —	$ 33	$ 33

(1) All derivative assets were interest rate contracts at December 31, 2018. Information related to derivative instruments is detailed in *Note 7—Derivative Instruments and Hedging Activities*.

(2) Consists of investments in a mutual fund related to the CRA. At December 31, 2018, these equity securities are included in other assets on the consolidated balance sheet as a result of the adoption of amended accounting guidance.

(3) Assets measured at fair value on a recurring basis represented 36% of the Company's total assets at December 31, 2018.

(4) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at December 31, 2018, and for which a fair value measurement was recorded during the period.

Gains and losses on assets measured at fair value on a nonrecurring basis were not material for the periods presented.

Recurring Fair Value Measurements Categorized within Level 3

For the periods presented, 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 periods presented.

Fair Value of Financial Instruments Not Carried at Fair Value

The following tables present 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, 2019				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	$ 493	$ 493	$ —	$ —	$ 493
Cash segregated under federal or other regulations	$ 1,365	$ 1,365	$ —	$ —	$ 1,365
Held-to-maturity securities:					
Agency mortgage-backed securities	$ 19,563	$ —	$ 19,880	$ —	$ 19,880
Agency debentures	327	—	333	—	333
Agency debt securities	1,652	—	1,699	—	1,699
Total held-to-maturity securities	$ 21,542	$ —	$ 21,912	$ —	$ 21,912
Margin receivables(1)	$ 9,859	$ —	$ 9,859	$ —	$ 9,859
Loans receivable, net:					
One- to four-family	$ 860	$ —	$ —	$ 897	$ 897
Home equity	661	—	—	701	701
Consumer	84	—	—	83	83
Securities-based lending	142	—	142	—	142
Total loans receivable, net(2)	$ 1,747	$ —	$ 142	$ 1,681	$ 1,823
Receivables from brokers, dealers and clearing organizations(1)	$ 1,038	$ —	$ 1,038	$ —	$ 1,038
Other assets(1)(3)	$ 357	$ —	$ 357	$ —	$ 357
Liabilities					
Deposits	$ 40,382	$ —	$ 40,382	$ —	$ 40,382
Customer payables	$ 11,183	$ —	$ 11,183	$ —	$ 11,183
Payables to brokers, dealers and clearing organizations	$ 1,091	$ —	$ 1,091	$ —	$ 1,091
Corporate debt	$ 1,410	$ —	$ 1,484	$ —	$ 1,484

(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 $14.0 billion at September 30, 2019. Of this amount, $2.3 billion had been pledged or sold in connection with securities loaned and deposits with clearing organizations at September 30, 2019.

(2) The carrying value of loans receivable, net includes the allowance for loan losses of $27 million and loans that are recorded at fair value on a nonrecurring basis at September 30, 2019.

(3) Includes $250 million of securities purchased under agreements to resell and $107 million of securities borrowing from customers under the fully paid lending program. The fair value of the securities that the Company received as collateral for securities purchased under agreements to resell was $258 million at September 30, 2019.

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	December 31, 2018				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	$ 2,333	$ 2,333	$ —	$ —	$ 2,333
Cash segregated under federal or other regulations	$ 1,011	$ 1,011	$ —	$ —	$ 1,011
Held-to-maturity securities:					
Agency mortgage-backed securities	$ 18,085	$ —	$ 17,748	$ —	$ 17,748
Agency debentures	1,824	—	1,808	—	1,808
Agency debt securities	1,975	—	1,935	—	1,935
Total held-to-maturity securities	$ 21,884	$ —	$ 21,491	$ —	$ 21,491
Margin receivables(1)	$ 9,560	$ —	$ 9,560	$ —	$ 9,560
Loans receivable, net:					
One- to four-family	$ 1,069	$ —	$ —	$ 1,099	$ 1,099
Home equity	810	—	—	825	825
Consumer	117	—	—	115	115
Securities-based lending	107	—	107	—	107
Total loans receivable, net(2)	$ 2,103	$ —	$ 107	$ 2,039	$ 2,146
Receivables from brokers, dealers and clearing organizations(1)	$ 760	$ —	$ 760	$ —	$ 760
Other assets(1)(3)	$ 36	$ —	$ 36	$ —	$ 36
Liabilities					
Deposits	$ 45,313	$ —	$ 45,313	$ —	$ 45,313
Customer payables	$ 10,117	$ —	$ 10,117	$ —	$ 10,117
Payables to brokers, dealers and clearing organizations	$ 948	$ —	$ 948	$ —	$ 948
Corporate debt	$ 1,409	$ —	$ 1,372	$ —	$ 1,372

(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 $12.9 billion at December 31, 2018. Of this amount, $2.3 billion had been pledged or sold in connection with securities loaned and deposits with clearing organizations at December 31, 2018.

(2) The carrying value of loans receivable, net includes the allowance for loan losses of $37 million and loans that are recorded at fair value on a nonrecurring basis at December 31, 2018.

(3) The $36 million in other assets at December 31, 2018 represents securities borrowing from customers under the fully paid lending program.

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 14—Commitments, Contingencies and Other Regulatory Matters.*

NOTE 4—OFFSETTING ASSETS AND LIABILITIES

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are treated as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. For financial statement purposes, the Company does not offset securities purchased under agreements to resell transactions with securities sold under agreements to repurchase. The Company obtains securities as collateral from the counterparty with a market value in excess of the principal amount loaned. This activity could result in losses if the counterparty fails to repurchase the securities held as collateral for the cash advanced and the market value of the securities declines. The Company continuously monitors the collateral value and obtains additional collateral from the counterparty in an effort to ensure full collateralization.

Securities Lending Transactions

Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral delivered to or received from the counterparty plus accrued interest. For financial statement purposes, the Company does not offset 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 Company is required to deliver cash to the lender for securities borrowed whereas the Company receives collateral in the form of cash for securities loaned. These activities both require cash in an amount generally in excess of the market value of the securities and 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, in an effort to maintain specified collateral levels.

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The following table presents information about these transactions 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 of Recognized Assets and Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet (1)(2)	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet: Collateral Received or Pledged (Including Cash)	Net Amount
September 30, 2019:						
Assets:						
Securities purchased under agreements to resell (3)	$ 250	$ —	$ 250	$ —	$ (250)	$ —
Securities borrowed (4)	728	—	728	(76)	(629)	23
Total	$ 978	$ —	$ 978	$ (76)	$ (879)	$ 23
Liabilities:						
Securities loaned (5)	$ 1,028	$ —	$ 1,028	$ (76)	$ (862)	$ 90
Total	$ 1,028	$ —	$ 1,028	$ (76)	$ (862)	$ 90
December 31, 2018:						
Assets:						
Securities borrowed (4)	$ 176	$ —	$ 176	$ (104)	$ (61)	$ 11
Total	$ 176	$ —	$ 176	$ (104)	$ (61)	$ 11
Liabilities:						
Securities loaned (5)	$ 887	$ —	$ 887	$ (104)	$ (700)	$ 83
Total	$ 887	$ —	$ 887	$ (104)	$ (700)	$ 83

(1) Securities purchased under agreements to resell are included in the other assets line item in the consolidated balance sheet.

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

(3) Over-collateralized at September 30, 2019, as the market value of the securities received by the Company was $258 million.

(4) Included in the gross amounts of cash collateral paid for securities borrowed was $501 million and $65 million at September 30, 2019 and December 31, 2018, 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.

(5) Included in the gross amounts of cash collateral received for securities loaned was $593 million and $543 million at September 30, 2019 and December 31, 2018, 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.

Derivative Transactions

At September 30, 2019, all of the derivatives that the Company utilized in its hedging activities were subject to derivatives clearing agreements (centrally 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. For financial statement purposes, the Company does not offset derivatives assets and derivative liabilities. See *Note 7—Derivative Instruments and Hedging Activities* for additional information.

NOTE 5—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, 2019:				
Available-for-sale securities:				
Agency mortgage-backed securities	$ 17,464	$ 1,095	$ (45)	$ 18,514
Agency debentures	639	34	—	673
US Treasuries	1,287	73	(11)	1,349
Non-agency asset-backed securities(1)	368	2	(1)	369
Non-agency mortgage-backed securities	108	6	—	114
Other	1	—	—	1
Total available-for-sale securities	$ 19,867	$ 1,210	$ (57)	$ 21,020
Held-to-maturity securities:				
Agency mortgage-backed securities	$ 19,563	$ 359	$ (42)	$ 19,880
Agency debentures	327	6	—	333
Other agency debt securities	1,652	48	(1)	1,699
Total held-to-maturity securities	$ 21,542	$ 413	$ (43)	$ 21,912
December 31, 2018:				
Available-for-sale securities:				
Agency mortgage-backed securities	$ 22,140	$ 327	$ (305)	$ 22,162
Agency debentures	833	13	(7)	839
Other agency debt securities	140	1	(2)	139
Municipal bonds	12	—	—	12
Other	1	—	—	1
Total available-for-sale securities	$ 23,126	$ 341	$ (314)	$ 23,153
Held-to-maturity securities:				
Agency mortgage-backed securities	$ 18,085	$ 26	$ (363)	$ 17,748
Agency debentures	1,824	—	(16)	1,808
Other agency debt securities	1,975	4	(44)	1,935
Total held-to-maturity securities	$ 21,884	$ 30	$ (423)	$ 21,491

(1) Non-agency ABS collateralized by credit card, automobile loan and student loan receivables represented approximately 61%, 21% and 18%, respectively, of the non-agency ABS held at September 30, 2019.

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, 2019	
	Amortized Cost	Fair Value
Available-for-sale debt securities:		
Due within one year	$ 103	$ 103
Due within one to five years	311	314
Due within five to ten years	9,464	10,391
Due after ten years	9,989	10,212
Total available-for-sale debt securities	$ 19,867	$ 21,020
Held-to-maturity debt securities:		
Due within one year	$ 23	$ 23
Due within one to five years	2,094	2,133
Due within five to ten years	3,137	3,236
Due after ten years	16,288	16,520
Total held-to-maturity debt securities	$ 21,542	$ 21,912

At September 30, 2019 and December 31, 2018, the Company had pledged $7.4 billion and $6.3 billion, respectively, of held-to-maturity debt securities, and $520 million and $151 million, respectively, of available-for-sale securities, as collateral for FHLB advances, derivatives and other purposes.

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, 2019:						
Available-for-sale securities:						
Agency mortgage-backed securities	$ 843	$ (4)	$ 3,118	$ (41)	$ 3,961	$ (45)
US Treasuries	429	(11)	—	—	429	(11)
Non-agency asset-backed securities	203	(1)	—	—	203	(1)
Total temporarily impaired available-for-sale securities	$ 1,475	$ (16)	$ 3,118	$ (41)	$ 4,593	$ (57)
Held-to-maturity securities:						
Agency mortgage-backed securities	$ 403	$ (3)	$ 4,166	$ (39)	$ 4,569	$ (42)
Agency debentures	—	—	35	—	35	—
Other agency debt securities	—	—	143	(1)	143	(1)
Total temporarily impaired held-to-maturity securities	$ 403	$ (3)	$ 4,344	$ (40)	$ 4,747	$ (43)
December 31, 2018:						
Available-for-sale securities:						
Agency mortgage-backed securities	$ 2,945	$ (34)	$ 7,826	$ (271)	$ 10,771	$ (305)
Agency debentures	383	(1)	116	(6)	499	(7)
Other agency debt securities	—	—	30	(2)	30	(2)
Municipal bonds	—	—	9	—	9	—
Other	1	—	—	—	1	—
Total temporarily impaired available-for-sale securities	$ 3,329	$ (35)	$ 7,981	$ (279)	$ 11,310	$ (314)
Held-to-maturity securities:						
Agency mortgage-backed securities	$ 2,802	$ (31)	$ 11,587	$ (332)	$ 14,389	$ (363)
Agency debentures	776	(2)	666	(14)	1,442	(16)
Other agency debt securities	97	(1)	1,487	(43)	1,584	(44)
Total temporarily impaired held-to-maturity securities	$ 3,675	$ (34)	$ 13,740	$ (389)	$ 17,415	$ (423)

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 represents an other-than-temporary impairment as of September 30, 2019 or through the date of this report. The Company does not intend to sell the debt securities in an unrealized or unrecognized loss position 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.

There were no impairment losses recognized in earnings on available-for-sale or held-to-maturity securities during the nine months ended September 30, 2019 and 2018.

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Gains (Losses) on Securities and Other, Net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Gains (losses) on available-for-sale securities, net:				
Gains on available-for-sale securities[(1)(2)]	$ 14	$ 65	$ 40	$ 87
Losses on available-for-sale securities[(1)(2)]	—	(54)	(80)	(54)
Subtotal	14	11	(40)	33
Equity method investment income and other[(3)]	2	6	3	9
Gains (losses) on securities and other, net	$ 16	$ 17	$ (37)	$ 42

(1) In June 2019, the Company repositioned its balance sheet through the sales of $4.5 billion of lower-yielding investment securities. These sales enabled the reduction of our balance sheet size and the Company moved $6.6 billion of deposits to third-party banks generating additional capital capacity to support future share repurchases. Gains (losses) on securities and other, net for the nine months ended September 30, 2019 includes $80 million of losses related to these sales.

(2) 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.

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

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NOTE 6—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, 2019:								
One- to four-family	$ 777	$ 37	$ 8	$ 39	$ 861	$ 5	$ (6)	$ 860
Home equity	633	21	9	17	680	—	(19)	661
Consumer	83	2	—	—	85	1	(2)	84
Securities-based lending[1]	142	—	—	—	142	—	—	142
Total loans receivable	$ 1,635	$ 60	$ 17	$ 56	$ 1,768	$ 6	$ (27)	$ 1,747
December 31, 2018:								
One- to four-family	$ 958	$ 48	$ 9	$ 56	$ 1,071	$ 7	$ (9)	$ 1,069
Home equity	774	25	13	24	836	—	(26)	810
Consumer	117	1	—	—	118	1	(2)	117
Securities-based lending[1]	107	—	—	—	107	—	—	107
Total loans receivable	$ 1,956	$ 74	$ 22	$ 80	$ 2,132	$ 8	$ (37)	$ 2,103

(1) E*TRADE Line of Credit is a securities-based lending product where customers can borrow against the market value of their securities pledged as collateral. The unused credit line amount totaled $310 million and $173 million as of September 30, 2019 and December 31, 2018, respectively.

At September 30, 2019, the Company pledged $1.3 billion and $0.1 billion of loans as collateral to the FHLB and Federal Reserve Bank of Richmond, respectively. At December 31, 2018, the Company pledged $1.6 billion and $0.1 billion of loans as collateral to the FHLB and Federal Reserve Bank of Richmond, respectively.

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, 2019**	**December 31, 2018**	**September 30, 2019**	**December 31, 2018**
<=80%	$ 706	$ 823	$ 393	$ 454
80%-100%	102	165	169	215
100%-120%	31	45	77	110
>120%	22	38	41	57
Total mortgage loans receivable	$ 861	$ 1,071	$ 680	$ 836
Average estimated current LTV/CLTV [2]	62%	66%	77%	80%
Average LTV/CLTV at loan origination [3]	70%	70%	82%	82%

(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, 2019**	**December 31, 2018**	**September 30, 2019**	**December 31, 2018**
>=720	$ 498	$ 617	$ 357	$ 442
719 - 700	68	89	63	78
699 - 680	66	80	58	70
679 - 660	45	66	48	56
659 - 620	69	79	62	80
<620	115	140	92	110
Total mortgage loans receivable	$ 861	$ 1,071	$ 680	$ 836

One- to four-family loans include loans with an interest-only period, followed by an amortizing period. At September 30, 2019, 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, 2019, nearly 100% of the HELOC portfolio had converted from the interest-only draw period.

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The weighted average age of our mortgage and consumer loans receivable was 13.5 and 12.8 years at September 30, 2019 and December 31, 2018, respectively. Approximately 32% and 33% of the Company’s mortgage loans receivable were concentrated in California at September 30, 2019 and December 31, 2018, respectively. Approximately 10% of the Company's mortgage loans receivable were concentrated in New York at both September 30, 2019 and December 31, 2018. No other state had concentrations of mortgage loans that represented 10% or more of the Company’s mortgage loans receivable at September 30, 2019 or December 31, 2018.

At September 30, 2019, 23% and 22% 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, 2019, 42% 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, 2019	December 31, 2018
One- to four-family	$ 118	$ 139
Home equity	58	71
Total nonperforming loans receivable	$ 176	$ 210

The Company held $13 million of real estate owned that was acquired through foreclosure or through a deed in lieu of foreclosure or similar legal agreement at September 30, 2019 and December 31, 2018, respectively. The Company held $33 million and $51 million of loans for which formal foreclosure proceedings were in process at September 30, 2019 and December 31, 2018, 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):

	September 30, 2019			
	One- to Four-Family	Home Equity	Consumer	Total[1]
General reserve:				
Quantitative component	$ 1	$ 3	$ 2	$ 6
Qualitative component	—	(1)	—	(1)
Specific valuation allowance	5	17	—	22
Total allowance for loan losses	$ 6	$ 19	$ 2	$ 27
Allowance as a % of loans receivable[2]	0.7%	2.8%	1.6%	1.5%

	December 31, 2018			
	One- to Four-Family	Home Equity	Consumer	Total[1]
General reserve:				
Quantitative component	$ 4	$ 6	$ 2	$ 12
Qualitative component	—	1	—	1
Specific valuation allowance	5	19	—	24
Total allowance for loan losses	$ 9	$ 26	$ 2	$ 37
Allowance as a % of loans receivable[2]	0.8%	3.1%	1.0%	1.7%

(1) Securities-based lending loans were fully collateralized by cash and securities with fair values in excess of borrowings at both September 30, 2019 and December 31, 2018, respectively.

(2) 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, 2019			
	One- to Four-Family	Home Equity	Consumer	Total
Allowance for loan losses, beginning of period	$ 9	$ 19	$ 2	$ 30
Provision (benefit) for loan losses	(5)	(6)	(1)	(12)
Charge-offs(1)	—	—	—	—
Recoveries	2	6	1	9
Net (charge-offs) recoveries	2	6	1	9
Allowance for loan losses, end of period(2)	$ 6	$ 19	$ 2	$ 27

	Three Months Ended September 30, 2018			
	One- to Four-Family	Home Equity	Consumer	Total
Allowance for loan losses, beginning of period	$ 16	$ 36	$ 2	$ 54
Provision (benefit) for loan losses	(6)	(28)	—	(34)
Charge-offs(1)	—	—	(1)	(1)
Recoveries(3)	2	19	1	22
Net (charge-offs) recoveries	2	19	—	21
Allowance for loan losses, end of period(2)	$ 12	$ 27	$ 2	$ 41

	Nine Months Ended September 30, 2019			
	One- to Four-Family	Home Equity	Consumer	Total
Allowance for loan losses, beginning of period	$ 9	$ 26	$ 2	$ 37
Provision (benefit) for loan losses	(8)	(24)	—	(32)
Charge-offs(1)	—	—	(2)	(2)
Recoveries	5	17	2	24
Net (charge-offs) recoveries	5	17	—	22
Allowance for loan losses, end of period(2)	$ 6	$ 19	$ 2	$ 27

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

(1) Includes benefits resulting from recoveries of partial charge-offs due to principal paydowns or payoffs for the periods presented. The benefits included in the charge-offs line item exceeded other charge-offs for both one-to-four family and home equity loan portfolios during the three months ended September 30, 2018 and 2019, respectively, and for the nine months ended September 30, 2019. The benefits included in the charge-offs line item exceeded other charge-offs for the home equity loan portfolio during the nine months ended September 30, 2018.

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(2) Securities-based lending loans were fully collateralized by cash and securities with fair values in excess of borrowings for both the three and nine months ended September 30, 2019 and September 30, 2018, respectively.

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

Total loans receivable designated as held-for-investment decreased $0.4 billion during the nine months ended September 30, 2019. The allowance for loan losses was $27 million, or 1.5% of total loans receivable, as of September 30, 2019 compared to $37 million, or 1.7% of total loans receivable, as of December 31, 2018. Net recoveries for the nine months ended September 30, 2019 were $22 million compared to $41 million in the same period in 2018.

The benefit for loan losses was $32 million for the nine months ended September 30, 2019. 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, as applicable, 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, 2019	**December 31, 2018**	**September 30, 2019**	**December 31, 2018**
Collectively evaluated for impairment:				
One- to four-family	$ 694	$ 891	$ 1	$ 4
Home equity	561	698	2	7
Consumer	86	119	2	2
Securities-based lending	142	107	—	—
Total collectively evaluated for impairment	1,483	1,815	5	13
Individually evaluated for impairment:				
One- to four-family	172	187	5	5
Home equity	119	138	17	19
Total individually evaluated for impairment	291	325	22	24
Total	$ 1,774	$ 2,140	$ 27	$ 37

Impaired Loans—Troubled Debt Restructurings

The Company considers a loan to be impaired when it meets the definition of a TDR. 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, 2019:						
One- to four-family	$ 83	$ 60	$ 10	$ 2	$ 17	$ 172
Home equity	78	22	7	3	9	119
Total	$ 161	$ 82	$ 17	$ 5	$ 26	$ 291
December 31, 2018:						
One- to four-family	$ 87	$ 61	$ 12	$ 4	$ 23	$ 187
Home equity	90	23	8	5	12	138
Total	$ 177	$ 84	$ 20	$ 9	$ 35	$ 325

(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 $48 million and $102 million for one-to four-family and home equity loans, respectively, as of September 30, 2019 and $55 million and $121 million, respectively, as of December 31, 2018.

(4) Total recorded investment in TDRs at September 30, 2019 consisted of $231 million of loans modified as TDRs and $60 million of loans that have been charged off due to bankruptcy notification. Total recorded investment in TDRs at December 31, 2018 consisted of $253 million of loans modified as TDRs and $72 million of loans that have been charged off due to bankruptcy notification.

The following table presents the monthly 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,	
	2019	2018	2019	2018
One- to four-family	$ 175	$ 198	$ 2	$ 2
Home equity	122	148	2	4
Total	$ 297	$ 346	$ 4	$ 6

	Average Recorded Investment		Interest Income Recognized	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
One- to four-family	$ 179	$ 205	$ 6	$ 6
Home equity	129	156	8	10
Total	$ 308	$ 361	$ 14	$ 16

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

	September 30, 2019			December 31, 2018		
	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	$ 47	$ 5	$ 42	$ 50	$ 5	$ 45
Home equity	$ 52	$ 17	$ 35	$ 60	$ 19	$ 41
Without a recorded allowance:(1)						
One- to four-family	$ 125	$ —	$ 125	$ 137	$ —	$ 137
Home equity	$ 67	$ —	$ 67	$ 78	$ —	$ 78
Total:						
One- to four-family	$ 172	$ 5	$ 167	$ 187	$ 5	$ 182
Home equity	$ 119	$ 17	$ 102	$ 138	$ 19	$ 119

(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 table presents 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, 2019:					
One- to four-family	7	$ 4	$ —	$ 1	$ 5
Home equity	15	1	—	—	1
Total	22	$ 5	$ —	$ 1	$ 6
September 30, 2018:					
One- to four-family	11	$ 2	$ —	$ 2	$ 4
Home equity	15	—	—	1	1
Total	26	$ 2	$ —	$ 3	$ 5

	Nine Months Ended				
		Interest Rate Reduction			
	Number of Loans	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other(1)	Total
September 30, 2019:					
One- to four-family	23	$ 6	$ —	$ 4	$ 10
Home equity	35	2	—	—	2
Total	58	$ 8	$ —	$ 4	$ 12
September 30, 2018:					
One- to four-family	46	$ 14	$ —	$ 6	$ 20
Home equity	75	4	1	1	6
Total	121	$ 18	$ 1	$ 7	$ 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 7—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Presentation on the Consolidated Balance Sheet

Hedging Instruments

The Company utilizes fair value hedges to offset exposure to changes in value of certain fixed-rate assets. 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	Net(2)
September 30, 2019:				
Interest rate contracts:				
Fair value hedges(3)	$ 10,643	$ —	$ —	$ —
Total derivatives designated as hedging instruments(4)	$ 10,643	$ —	$ —	$ —
December 31, 2018:				
Interest rate contracts:				
Fair value hedges	$ 9,763	$ 1	$ —	$ 1
Total derivatives designated as hedging instruments(4)	$ 9,763	$ 1	$ —	$ 1

(1) Reflected in the other assets line item on the consolidated balance sheet.

(2) Represents net fair value of derivative instruments for disclosure purposes only.

(3) As of September 30, 2019, there are no bilateral derivative contracts.

(4) All derivatives were designated as hedging instruments at September 30, 2019 and December 31, 2018.

The consolidated balance sheet and the table above exclude derivative assets of $5 million and $175 million at September 30, 2019 and December 31, 2018, respectively and derivative liabilities of $772 million and $131 million for the same periods. These contracts were executed through a central clearing organization and were settled by variation margin payments.

Credit Risk

As all of the derivatives that the Company utilizes in its hedging activities at September 30, 2019 are subject to derivatives clearing agreements (cleared derivatives contracts), the credit risk associated with these cleared derivatives contracts is largely mitigated by the daily variation margin exchanged with counterparties. For other derivative contracts, the Company also monitors collateral requirements through credit support agreements, which reduce risk by permitting the netting of transactions with the same counterparty upon the occurrence of certain events. During the nine months ended September 30, 2019, the consideration of counterparty credit risk did not result in an adjustment to the valuation of the Company's derivative instruments.

Hedged Assets

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

	Carrying Amount of Hedged Assets(1)	Cumulative Amount of Fair Value Hedging Basis Adjustment Included in Carrying Amount of Hedged Assets(2)	
		Total	Discontinued
September 30, 2019:			
Available-for-sale securities(3)	$ 13,386	$ 891	$ (274)
December 31, 2018:			
Available-for-sale securities(3)	$ 13,203	$ (10)	$ (385)

(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, 2019 and December 31, 2018, respectively, the amortized cost basis of this portfolio was $45 million and $810 million, the amount of the designated hedged items was $30 million and $192 million and the cumulative basis adjustments associated with these hedges was $1 million and $6 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,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total interest income	$ 521	$ 514	$ 1,636	$ 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	30	(8)	61	(74)
Changes in fair value of derivatives	(29)	8	(61)	74
Net loss on fair value hedging relationships - agency debentures	1	(1)	—	(4)
Agency mortgage-backed securities:				
Amounts recognized as interest accruals on derivatives	(3)	1	1	(14)
Amortization of basis adjustments from discontinued hedges	8	7	27	16
Changes in fair value of hedged items	258	(88)	946	(416)
Changes in fair value of derivatives	(260)	83	(946)	403
Net gain (loss) on fair value hedging relationships - agency mortgage-backed securities	3	3	28	(11)
Total net gain (loss) on fair value hedging relationships	$ 4	$ 2	$ 28	$ (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.

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NOTE 8—DEPOSITS

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

	September 30, 2019	December 31, 2018
Sweep deposits	$ 30,778	$ 39,322
Savings deposits[1]	7,964	4,133
Other deposits[2]	1,640	1,858
Total deposits	$ 40,382	$ 45,313

(1) Includes $6.3 billion and $2.0 billion of deposits at September 30, 2019, and December 31, 2018, respectively, in our Premium Savings Account product.

(2) Includes checking deposits, money market deposits and certificates of deposit. As of September 30, 2019 and December 31, 2018, the Company had $183 million and $193 million in non-interest bearing deposits, respectively.

The Company moved $6.6 billion of deposits to third-party banks in June 2019 as part of the Company's balance sheet repositioning. See *Note 5—Available-for-Sale and Held-to-Maturity Securities* for additional information.

NOTE 9—OTHER BORROWINGS AND CORPORATE DEBT

Other Borrowings

The following table presents the Company's external lines of credit at September 30, 2019 (dollars in millions):

Description	Maturity Date	Borrower	Outstanding	Available
Senior unsecured, committed revolving credit facility[1]	June 2024	ETFC	$ —	$ 300
FHLB secured credit facility	Determined at trade	ETB	$ —	$ 7,290
Federal Reserve Bank discount window	Overnight	ETB	$ —	$ 1,131
Senior unsecured, committed revolving credit facility[2]	June 2020	ETS	$ —	$ 600
Secured, committed lines of credit	June 2020	ETS	$ —	$ 175
Unsecured, uncommitted lines of credit	June 2020	ETS	$ —	$ 50
Unsecured, uncommitted lines of credit	None	ETS	$ —	$ 75
Secured, uncommitted lines of credit	None	ETS	$ —	$ 425

(1) On June 21, 2019, the Company entered into a new five year, $300 million senior unsecured committed revolving credit facility, which replaced its three year senior unsecured committed revolving credit facility entered into on June 23, 2017. The senior unsecured committed revolving credit facility contains certain covenants, including maintenance covenants related to the Company's interest coverage, leverage and regulatory net capital ratios with which the Company was in compliance at September 30, 2019.

(2) On June 21, 2019, E*TRADE Securities entered into a 364-day, $600 million senior unsecured committed revolving credit facility, which replaced its 364-day senior unsecured committed revolving credit facility entered into on June 22, 2018. The senior unsecured committed revolving credit facility contains certain covenants, including 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, 2019.

Corporate Debt

The following tables present the significant components of E*TRADE Financial's corporate debt (dollars in millions):

	Face Value	Discount	Net
September 30, 2019:			
Interest-bearing notes:			
2.95% Senior Notes, due 2022	$ 600	$ (3)	$ 597
3.80% Senior Notes, due 2027	400	(3)	397
4.50% Senior Notes, due 2028	420	(4)	416
Total corporate debt	$ 1,420	$ (10)	$ 1,410
December 31, 2018:			
Interest-bearing notes:			
2.95% Senior Notes, due 2022	$ 600	$ (4)	$ 596
3.80% Senior Notes, due 2027	400	(3)	397
4.50% Senior Notes, due 2028	420	(4)	416
Total corporate debt	$ 1,420	$ (11)	$ 1,409

NOTE 10—LEASE ARRANGEMENTS

The Company enters into non-cancelable operating leases for its corporate offices, retail branches and other facilities. These leases have remaining terms ranging from less than one to 12 years, and the weighted-average remaining lease term for these leases is 8.7 years. Most leases include one or more options to renew, with renewal terms that can extend the lease term up to 10 years. Only those renewal terms that the Company is reasonably certain of exercising are included in the calculation of the lease liability. Leases that have not yet commenced at September 30, 2019 will have an immaterial impact on the Company's right-of-use assets and lease liabilities. Certain lease agreements include rental payments based on power usage or that adjust periodically for inflation or costs incurred by the lessor. None of the Company's current lease agreements contain material residual value guarantees or material restrictive covenants.

The following table presents balance sheet information related to the Company's classification of ROU assets and operating lease liabilities (dollars in millions):

	Classification	September 30, 2019
Operating lease assets, net	Other assets	$ 211
Operating lease liabilities	Other liabilities	$ 243

The Company utilizes incremental borrowing rates to determine the present value of lease payments for each lease. As the Company's leases do not provide an implicit rate, the incremental borrowing rate estimates are based on the terms of each lease as well as the interest rate environment at the later of the adoption date of January 1, 2019, lease commencement date or lease remeasurement date. The incremental borrowing rate has also been adjusted to reflect a secured rate. A weighted-average discount rate of 4.3% was used to calculate the lease liability balances for the Company's operating leases.

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Leases with an initial term of twelve months or less are not recorded on the balance sheet; lease expense for these leases is recognized on a straight-line basis over the lease term. The Company has elected not to separate lease and non-lease components for all property leases for the purposes of calculating ROU assets and lease liabilities.

Cash paid for amounts included in the measurement of operating lease liabilities was $8 million and $21 million for the three and nine months ended September 30, 2019. The following table presents the significant components of lease expense (dollars in millions):

	Classification	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost(1)	Occupancy and Equipment	$ 10	$ 26
Variable lease cost	Occupancy and Equipment	—	2
Net lease expense(2)		$ 10	$ 28

(1) Includes short-term lease costs which are not material.

(2) Net of sublease income which is not material.

The following table presents the maturities of lease liabilities (dollars in millions):

	Operating Leases
Years ending December 31,	
2019(1)	$ 8
2020	37
2021	36
2022	32
2023	33
Thereafter	149
Total lease payments	295
Imputed interest	(52)
Present value of lease liabilities	$ 243

(1) Excludes maturities during the nine months ended September 30, 2019.

The Company executed a sale-leaseback transaction on its Alpharetta, Georgia office in 2014. The transaction was initially accounted for as a financing as it did not qualify for sale accounting. The Company evaluated this transaction as part of the adoption of the new lease guidance in 2019 and concluded that it did not qualify for sale accounting and should continue to be accounted for as a financing. The office building is included in the property and equipment, net line item and the related financing obligation is included in the other liabilities line item in the Company's consolidated balance sheet. Future minimum lease payments and sublease proceeds to be received under the lease are $26 million and $10 million, respectively.

NOTE 11—SHAREHOLDERS' EQUITY

Preferred Stock

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

						Carrying Value at	
Description	Issuance Date	Per Annum Dividend Rate	Total Shares Outstanding		Liquidation Preference per Share	September 30, 2019	December 31, 2018
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

Dividend on Preferred Stock

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

Nine Months Ended September 30, 2019					Nine Months Ended September 30, 2018				
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)									
2/7/2019	2/28/2019	3/15/2019	$ 29.38	$ 12	2/8/2018	2/28/2018	3/15/2018	$ 29.38	$ 12
7/25/2019	8/30/2019	9/16/2019	$ 29.38	12	7/26/2018	8/31/2018	9/17/2018	$ 29.38	12
Series B (1)									
2/7/2019	2/28/2019	3/15/2019	$ 2,650.00	8					
7/25/2019	8/30/2019	9/16/2019	$ 2,650.00	8	7/26/2018	8/31/2018	9/17/2018	$ 4,107.50	12
Total				$ 40					$ 36

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

Common Stock

Dividend on Common Stock

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

		Nine Months Ended September 30, 2019		
Declaration Date	**Record Date**	**Payment Date**	**Dividend per Share**	**Dividend Paid**
1/23/2019	2/1/2019	2/15/2019	$ 0.14	$ 35
4/16/2019	5/13/2019	5/20/2019	$ 0.14	34
7/17/2019	8/19/2019	8/26/2019	$ 0.14	34
Total				$ 103

On October 16, 2019, the Company declared a cash dividend for the third quarter of $0.14 per share on its outstanding shares of common stock. The dividend is payable on November 15, 2019, to shareholders of record as of the close of business on November 8, 2019.

Share Repurchases

During the three months ended September 30, 2019, the Company completed its prior $1 billion share repurchase program with the repurchase of 3.6 million shares of common stock for a total of $157 million.

In July 2019, the Company announced that its Board of Directors has authorized a new $1.5 billion share repurchase program. During the three months ended September 30, 2019, the Company repurchased 9.8 million shares of common stock for a total of $409 million under this new repurchase program. As of October 29, 2019, the Company had subsequently repurchased an additional 0.9 million shares of common stock at an average price of $40.88. The Company accounts for share repurchases retired after repurchase by allocating the excess repurchase price over par to additional paid-in-capital.

Other Common Stock Activity

Other common stock activity includes shares withheld to pay taxes for share-based compensation, employee stock purchase plan and other activity.

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Accumulated Other Comprehensive Loss

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

	2019	2018
Accumulated other comprehensive loss, beginning of period[1]	$ (275)	$ (26)
Other comprehensive income (loss) before reclassifications	112	(128)
Amounts reclassified from accumulated other comprehensive loss	(7)	(7)
Transfer of held-to-maturity securities to available-for-sale securities[2]	—	6
Net change	105	(129)
Cumulative effect of hedge accounting adoption	—	(7)
Reclassification of tax effects due to federal tax reform	—	(14)
Balance, March 31,	$ (170)	$ (176)
Other comprehensive income (loss) before reclassifications	64	(51)
Amounts reclassified from accumulated other comprehensive loss	48	(8)
Net change	112	(59)
Balance, June 30,	$ (58)	$ (235)
Other comprehensive income (loss) before reclassifications	43	(86)
Amounts reclassified from accumulated other comprehensive loss	(9)	(8)
Net change	34	(94)
Accumulated other comprehensive loss, end of period[1]	$ (24)	$ (329)

(1) The accumulated other comprehensive loss balances and activities were related to available-for-sale securities in both periods.

(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.

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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,					
	2019			2018		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Other comprehensive income (loss)						
Available-for-sale securities:						
Unrealized gains (losses), net	$ 58	$ (15)	$ 43	$ (112)	$ 26	$ (86)
Reclassification into earnings, net	(12)	3	(9)	(11)	3	(8)
Net change from available-for-sale securities	46	(12)	34	(123)	29	(94)
Other comprehensive income (loss)	$ 46	$ (12)	$ 34	$ (123)	$ 29	$ (94)

	Nine Months Ended September 30,					
	2019			2018		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Other comprehensive income (loss)						
Available-for-sale securities:						
Unrealized gains (losses), net	$ 294	$ (75)	$ 219	$ (353)	$ 88	$ (265)
Reclassification into earnings, net	43	(11)	32	(32)	9	(23)
Transfer of held-to-maturity securities to available-for-sale securities	—	—	—	7	(1)	6
Net change from available-for-sale securities	337	(86)	251	(378)	96	(282)
Other comprehensive income (loss)	$ 337	$ (86)	$ 251	$ (378)	$ 96	$ (282)

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				Affected Line Items in the Consolidated Statement of Income
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2019	2018	2019	2018	
Available-for-sale securities:	$ 13	$ 12	$ (41)	$ 34	Gains (losses) on securities and other, net
	(1)	(1)	(2)	(2)	Interest income
	12	11	(43)	32	Reclassification into earnings, before tax
	(3)	(3)	11	(9)	Income tax benefit (expense)
	$ 9	$ 8	$ (32)	$ 23	Reclassification into earnings, net

NOTE 12—EARNINGS PER SHARE

Net income available to common shareholders, or net income less preferred stock dividends, represents the numerator used in the computation of basic and diluted earnings per common share. The denominators used in the computation of basic and diluted earnings per common share are basic and diluted weighted average common shares outstanding, respectively.

Basic weighted average common shares outstanding were 235.8 million and 241.7 million for the three and nine months ended September 30, 2019, respectively, compared to 259.5 million and 263.3 million for the same periods in 2018. The difference between basic and diluted weighted average common shares outstanding includes the weighted-average dilutive impact of securities, including restricted stock units and awards, dividend equivalent units, employee stock purchase plan shares and stock options, as well as the weighted-average dilutive impact of convertible debentures. This activity represented 0.5 million shares for both the three and nine months ended September 30, 2019, compared to 1.2 million and 1.1 million shares for the same periods in 2018, respectively. This resulted in diluted weighted average common shares outstanding of 236.3 million and 242.2 million for the three and nine months ended September 30, 2019, respectively, compared to 260.7 million and 264.4 million for the same periods in 2018. The amount of certain restricted stock and options excluded from the calculations of diluted earnings per common share due to the anti-dilutive effect was not material for the three and nine months ended September 30, 2019 and 2018.

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NOTE 13—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 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, 2019 and December 31, 2018, 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, 2019:			
E*TRADE Securities[1]	$ 221	$ 1,348	$ 1,127
E*TRADE Futures	2	27	25
Total[2]	$ 223	$ 1,375	$ 1,152
December 31, 2018:			
E*TRADE Securities	$ 209	$ 1,294	$ 1,085
E*TRADE Futures	1	26	25
International broker-dealer	—	18	18
Total	$ 210	$ 1,338	$ 1,128

(1) E*TRADE Securities paid dividends of $660 million to the parent company during the nine months ended September 30, 2019.

(2) The Company's international broker-dealer de-registered and entered into voluntary liquidation in May 2019. The international broker-dealer was not subject to minimum net capital requirements at September 30, 2019.

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 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 or 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, 2019					December 31, 2018				
	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	$ 4,044	6.9%	$ 2,940	5.0%	$ 1,104	$ 4,097	6.6%	$ 3,101	5.0%	$ 996
Common Equity Tier 1	$ 3,355	31.4%	$ 695	6.5%	$ 2,660	$ 3,408	31.1%	$ 713	6.5%	$ 2,695
Tier 1 risk-based	$ 4,044	37.8%	$ 855	8.0%	$ 3,189	$ 4,097	37.3%	$ 877	8.0%	$ 3,220
Total risk-based	$ 4,079	38.2%	$ 1,069	10.0%	$ 3,010	$ 4,143	37.8%	$ 1,097	10.0%	$ 3,046
E*TRADE Bank[(1)(2)]										
Tier 1 leverage	$ 3,404	7.4%	$ 2,292	5.0%	$ 1,112	$ 3,484	7.1%	$ 2,461	5.0%	$ 1,023
Common Equity Tier 1	$ 3,404	37.2%	$ 595	6.5%	$ 2,809	$ 3,484	34.9%	$ 650	6.5%	$ 2,834
Tier 1 risk-based	$ 3,404	37.2%	$ 732	8.0%	$ 2,672	$ 3,484	34.9%	$ 800	8.0%	$ 2,684
Total risk-based	$ 3,431	37.5%	$ 916	10.0%	$ 2,515	$ 3,521	35.2%	$ 999	10.0%	$ 2,522
E*TRADE Savings Bank[(1)]										
Tier 1 leverage	$ 1,472	41.9%	$ 176	5.0%	$ 1,296	$ 1,456	26.6%	$ 273	5.0%	$ 1,183
Common Equity Tier 1	$ 1,472	213.0%	$ 45	6.5%	$ 1,427	$ 1,456	169.4%	$ 56	6.5%	$ 1,400
Tier 1 risk-based	$ 1,472	213.0%	$ 56	8.0%	$ 1,416	$ 1,456	169.4%	$ 69	8.0%	$ 1,387
Total risk-based	$ 1,472	213.0%	$ 69	10.0%	$ 1,403	$ 1,456	169.4%	$ 86	10.0%	$ 1,370

(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 became fully phased-in on January 1, 2019.

(2) E*TRADE Bank paid dividends of $535 million to the parent company during the three months ended September 30, 2019.

NOTE 14—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 Appeals, 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 13, 2019, a FINRA Dispute Resolution Statement of Claim was received on behalf of an E*TRADE customer and the customer's limited liability company. The Statement of Claim alleges that E*TRADE Securities and E*TRADE Capital Management violated Section 10(b) of the Securities Exchange Act, committed common law fraud, breached fiduciary duties, breached contractual duties, failed to supervise, and were negligent in the maintenance of the LLC’s accounts. The claim relates to margin liquidations from the LLC's accounts in February 2018. The Company intends 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, should 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.

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

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 CFPB 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.

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 $53 million in unfunded contingent investment commitments with respect to these investments at September 30, 2019.

At September 30, 2019, the Company had $15 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.

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, 2019, 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 14—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 2018 Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The table below presents 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, 2019 (dollars in millions, except share data and per share amounts):

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(1)(2)	Total Number of Shares Purchased as Part of the Publicly Announced Programs(3)	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program(3)
July 1, 2019 - July 31, 2019	254,914	$ 49.09	254,100	$ 1,645
August 1, 2019 - August 31, 2019	6,499,445	$ 41.27	6,491,700	$ 1,377
September 1, 2019 - September 30, 2019	6,706,689	$ 43.06	6,641,082	$ 1,091
Total	13,461,048	$ 42.31	13,386,882	

(1) Includes 74,166 shares withheld to satisfy tax withholding obligations associated with vesting of share-based awards. The average price paid per share for shares withheld was $44.19.

(2) Excludes commission paid, if any.

(3) In October 2018, the Company announced that its Board of Directors authorized a $1 billion share repurchase program. The Company completed repurchases under this program in September 2019. In July 2019, the Company announced that its Board of Directors authorized a new $1.5 billion share repurchase program.

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	Employment Agreement effective as of August 15, 2019 between the Company and Michael A. Pizzi.
*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 (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
*101.SCH	Inline XBRL Taxonomy Extension Schema Document
*101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
*104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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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: October 31, 2019

E*TRADE Financial Corporation
(Registrant)

By /S/ MICHAEL A. PIZZI

Michael A. Pizzi
Chief Executive Officer
(Principal Executive Officer)

By /S/ CHAD E. TURNER

Chad E. Turner
Chief Financial Officer
(Principal Financial Officer)

By /S/ BRENT B. SIMONICH

Brent B. Simonich
Corporate Controller
(Principal Accounting Officer)

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is made and entered into by and between E*TRADE Financial Corporation (the "Company") and Michael A. Pizzi ("Executive") as of August 15, 2019 (the "Effective Date").

1. Position and Duties:

(a) Appointment; Efforts: As of the Effective Date, Executive will become the Chief Executive Officer of the Company. Executive will devote all necessary time, energy and skill to Executive's duties at the Company.

(b) Duties and Responsibilities: Executive will have such duties, responsibilities and authorities as are determined by the Board of Directors of the Company (the "Board"), and consistent with the Company's Corporate Governance Guidelines and corporate governance structure as in effect from time-to-time.

(c) Indemnification: 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, 2022 (the "Term"), unless Executive's employment is terminated earlier by either party, subject to payments under Section 5 hereof to the extent applicable; *provided* that in the event of a Change in Control during the Term of this Agreement, the Term shall be extended to the date that is 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 pursuant to the terms of this Agreement, Executive's continued employment following the end of the 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, 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 $1,000,000 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 Board, 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 cash bonus target amount is $2,000,000; provided that for 2019, the target amount shall be $1,750,000. 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.

(a) Generally: Executive will be eligible to receive equity compensation awards from time to time if the Board or its designee, in its sole discretion, determines that such an award(s) is appropriate.

(b) Annual Equity Grants: Executive's target equity bonus for performance during each calendar year of the Term, commencing with 2020, is $4,000,000, of which $2,000,000 shall be in the form of Performance Stock Units ("PSUs") and the remaining $2,000,000 shall be in the form of Restricted Stock Units ("RSUs"), in each case subject to the Company's 2015 Omnibus Incentive Plan, as amended from time to time, or any successor thereto (the "Equity Plan"), and the then current form of RSU and PSU agreement.

(c) One-Time Grant: On or as soon as practicable following the Effective Date, Executive shall receive (i) a one-time grant of PSUs with a grant date value of 250,000, and (ii) a one-time grant of RSUs with a grant date value of$250,000, in each case subject to the terms and conditions of the Equity Plan and a PSU agreement and RSU agreement to be provided to Executive by the Company.

5. Effect of Termination of Employment During the 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) 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.

(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 Board 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, 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 5(d) 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) Capital One Corporation, Charles Schwab Corporation, Fidelity Investments, TD Ameritrade Holding Corporation or You Invest ("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 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 five (5) 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 Equity Plan.

(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, if Executive is required to report to any person other than the Board at any time during the Change in Control Period, a material diminution in the authority, duties, or responsibilities such person shall constitute an event of "Change in Control Period Good Reason";

(iii) 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 Non-Renewal;

(iv) 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

(v) 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 15% during the 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) 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 Non-Renewal;

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) "Non-Renewal" shall mean at least 90 days' prior to the end of the Term that the Company, other than with Cause has either: (A) delivered Executive in writing notice of its intention not to either extend this Agreement or to enter into a new employment agreement with Executive; or (B) has failed to deliver to Executive a new employment agreement on terms and conditions substantially comparable to or better than those under this Agreement, that the Company is prepared to execute. For the avoidance of doubt, a decrease in Executive's Base Salary of up to 15% shall be considered substantially comparable with respect to such term.

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

(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 claims substantially in the form attached as Exhibit A hereto.

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

(n) "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
671 North Glebe Road
15th Floor
Arlington, VA 22203
Attention: General Counsel

(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, including without limitation, the Employment Agreement by and between the Company and Executive, dated as of December 3, 2018, which is of no further force or effect as of the Effective Date.

(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.

[Signature Page Follows]

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

Dated: August 12, 2019		E*TRADE Financial Corporation
		/s/ Rodger A. Lawson
	By:	Rodger A. Lawson Chairman of the Board of Directors
Dated: August 12, 2019		/s/ Michael A. Pizzi
		Michael A. Pizzi

Exhibit A

This Release (this "Release Agreement") is between Michael A. Pizzi ("Executive") and E*TRADE Financial Corporation (the "Company") (the "Parties").

1. Release:

(a) In exchange for the benefits described in Section_ of the Employment Agreement by and between the Company and Executive, dated August 15, 2019 (the "Employment Agreement"), Executive, on behalf of himself and his heirs, executors, administrators and assigns, releases and absolutely discharges the Company (including its subsidiaries and other affiliated entities, and each of their respective shareholders, directors, employees, agents, attorneys, and each of their legal successors and assigns) (the "Company Parties") from any and all claims, actions and causes of action, whether now known or unknown, which Executive now has, or at any other time had, or shall or may have, against the Company Parties arising out of or relating to any matter, cause, fact, thing, act or omission whatsoever occurring or existing at any time to and including the date of execution of this Release Agreement by Executive, including, but not limited to, claims relating to the Employment Agreement or any other offer letter or written or oral, express or implied, agreement or understanding between Executive and the Company and/or any awards, policies, plans, programs or practices of the Company that may apply to Executive or in which Executive may participate, including, but not limited to, any rights under bonus plans or programs of the Company and/or any other short-term or long-term equity-based or cash-based incentive plans or programs of the Company, the parties' employment relationship, the termination of that relationship, the Executive's purchase or right to purchase shares of the Company's stock, and any claims of breach of contract, infliction of emotional distress, fraud, defamation, personal injury, wrongful discharge or age, sex, race, national origin, industrial injury, physical or mental disability, medical condition, sexual orientation or other discrimination, harassment or retaliation, claims under the federal Americans with Disabilities Act, Title VII of the federal Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act ("ADEA"), 42 U.S.C. Section 1981, the federal Fair Labor Standards Act, the federal Employee Retirement Income Security Act, the federal Worker Adjustment and Retraining Notification Act, the federal Family and Medical Leave Act, the National Labor Relations Act, the Civil Rights Act of 1991, the Equal Pay Act, the Immigration and Reform Control Act, the Uniform Services Employment and Re Employment Act, the Rehabilitation Act of 1973, any "whistleblower" or retaliation claims (to the extent permitted by applicable law); Executive Order 11246 or any other federal, state or local law, all as they have been or may be amended, and all claims for attorneys' fees and/or costs, to the full extent that such claims may be released (the "Release").

(b) The Release does not apply to claims which cannot be released as a matter of law or indemnification of Executive provided by the Company's bylaws, charter, other corporate or organizational documents or other agreement concerning indemnification (including the Company's insurance policies). The rights of Executive to indemnification and D&O insurance coverage with respect to all matters, events or transactions occurring or effected during Executive's period of employment with the Company shall survive the termination of Executive's employment. Executive acknowledges and agrees that, but for providing this waiver and release, Executive would not be receiving the economic benefits being provided under the terms of the Employment Agreement.

(c) Executive understands that Executive is releasing claims that Executive may not know about and that it is Executive's knowing and voluntary intent even though Executive recognizes that someday Executive may regret having signed this Release. Nevertheless, Executive is assuming that risk and agrees that this Release shall remain effective in all respects in any such case. Executive expressly waives all rights Executive might have under any law that is intended to protect Executive from waiving unknown claims.

(d) Executive represents that Executive has no complaints, charges or lawsuits currently pending against any of the Company Parties arising out of or relating to Executive's employment. Executive further covenants and agrees that neither Executive nor Executive's heirs, executors, administrators, successors or assigns will be entitled to any personal recovery in any proceeding of any nature whatsoever against any of the Company Parties arising out of any of the matters released in Section 1(a).

2. Older Workers Benefit Protection Act: In accordance with the Older Workers Benefit Protection Act, Executive understands and acknowledges that Executive has been advised of Executive's opportunity to consult an attorney before executing this Release. Executive further understands and acknowledges that Executive has up to 21 days following the date of Executive's termination of employment to execute this Release by dating and signing a copy of this Release and returning it to the Company, although it may be executed at any time within such period. Executive further understands that, once having executed this Release, Executive will have seven (7) days within which to revoke Executive's consent, by sending written notice of revocation of the Release to the [TITLE] of the Company at [FAX] or [E-MAIL ADDRESS], which must be received by the Company within such seven (7) day period. If Executive revokes this Release during the seven-day period, Executive will not be eligible for and will be required to return all consideration received under Section_ of the Employment Agreement.

EXECUTIVE UNDERSTANDS THAT EXECUTIVE IS ENTITLED TO CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS RELEASE AND THAT EXECUTIVE IS GIVING UP ANY LEGAL CLAIMS EXECUTIVE HAS AGAINST THE PARTIES RELEASED ABOVE BY SIGNING THIS RELEASE. EXECUTIVE HAS CAREFULLY READ AND FULLY UNDERSTANDS ALL OF THE PROVISIONS OF THIS RELEASE. EXECUTIVE IS SIGNING THIS AGREEMENT KNOWINGLY, WILLINGLY AND VOLUNTARILY IN EXCHANGE FOR THE BENEFITS DESCRIBED IN SECTION OF THE EMPLOYMENT AGREEMENT.

Executive:

_______________________________ Date: _______________________________
Michael A. Pizzi

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, 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: October 31, 2019

E*TRADE Financial Corporation
(Registrant)

By /S/ MICHAEL A. PIZZI

Michael A. Pizzi
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, Chad E. Turner, 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: October 31, 2019

E*TRADE Financial Corporation
(Registrant)

By /S/ CHAD E. TURNER

Chad E. Turner
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.

Michael A. Pizzi, the Chief Executive Officer and Chad E. Turner, 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: October 31, 2019

/S/ MICHAEL A. PIZZI

Michael A. Pizzi
Chief Executive Officer
(Principal Executive Officer)

/S/ CHAD E. TURNER

Chad E. Turner
Chief Financial Officer
(Principal Financial Officer)