2018 ANNUAL DODD-FRANK ACT COMPANY-RUN STRESS TEST DISCLOSURE

JUNE 2018

Explanatory Note

E*TRADE Financial Corporation ("ETFC" or the "Company") is a savings and loan holding company that provides online brokerage and related products and services primarily to individual retail investors under the brand "E*TRADE Financial." ETFC also provides investor-focused banking products to retail investors.

Pursuant to regulations issued by the Board of Governors of the Federal Reserve System ("Federal Reserve") under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), ETFC is required to conduct a company-run stress test ("Dodd-Frank Act Stress Test" or "DFAST") annually.

The annual company-run stress test is a forward-looking analysis under which covered institutions must estimate the financial impact of three hypothetical Supervisory scenarios (Baseline, Adverse, and Severely Adverse) over a nine-quarter forecast horizon. The Dodd-Frank Act also requires a public disclosure of a summary of the company-run stress test results under the Supervisory Severely Adverse Scenario ("Severely Adverse Scenario").

This disclosure reports the company-run stress results for ETFC for the Severely Adverse Scenario for the nine-quarter forecast horizon beginning on January 1, 2018 and ending on March 31, 2020 (the "forecast horizon").

This disclosure contains forward-looking statements, including projections of ETFC's capital ratios, risk weighted assets, revenue, losses and pre-tax income under a hypothetical scenario provided by the Federal Reserve, incorporating a set of assumed economic and financial conditions that are more adverse than the Company expects. These projections do not reflect the Company's current expectations regarding future results, but rather possible results under the prescribed hypothetical scenario. The Company's actual results may differ materially from those indicated herein and will be influenced by actual economic and financial conditions and various other factors as described in the Company's annual, quarterly, and current reports on Form 10-K, Form 10-Q, and Form 8-K previously filed with the Securities and Exchange Commission (including information in these reports under the caption "Risk Factors"). Any forward-looking statement included in this release speaks only as of the date of this communication; the Company disclaims any obligation to update any information, except as required by law.

Scenario Description

The Severely Adverse Scenario is characterized by a severe recession that is accompanied by an aversion to long-term fixed-income assets. As a result, long-term rates do not fall and yield curves steepen. The scenario assumes the following key macroeconomic variables over the nine-quarter forecast horizon:

- The level of U.S. real GDP begins to decline in Q1 2018 and reaches a trough in Q3 2019 that is about 7.5% below the pre-recession peak.
- The unemployment rate increases by about 6 percentage points, to 10%, by Q3 2019.
- Short-term Treasury rates fall and remain near zero and 10-year yields remain unchanged at 2.4% through the scenario period.
- Equity prices fall by 65% by early 2019, accompanied by a surge in equity market volatility.
- There is a large decline in house prices (30% by Q3 2019) and commercial real estate prices (40% by Q3 2019).

A complete description of the Severely Adverse Scenario can be found on the Federal Reserve's website[1].

Overview of Risk Types

E*TRADE has a Board-approved Enterprise Risk Appetite Statement (RAS) that describes the nature and the level of risks that E*TRADE is willing to take in pursuit of its strategic objectives while ensuring that the Company operates in a safe and sound manner. The RAS specifies significant risk exposures and addresses the Company's tolerance of those risks, which are categorized into the following major categories:

- **Credit Risk**— the risk of loss arising from the failure of a borrower or counterparty to meet its credit obligations.
- **Liquidity Risk**— the potential inability to meet in a timely and cost-effective manner contractual and contingent financial obligations, either on- or off-balance sheet, as they come due.
- **Market Risk**—the risk that asset values or income streams will be adversely affected by changes in market conditions.
- **Operational Risk**— the risk of losses or near misses due to failure of people, processes, and systems, or damage to physical assets.
- **Information Security Risk**— the risk of loss of customer or company data, integrity, or availability of systems through the compromise of our digital media (e.g., computers, mobile devices, etc.).
- **Data Risk**— the risk of impairment to or loss of data assets through ineffective governance over the creation, usage, quality, inventory, storage, security and disposal of data assets.
- **Strategic Risk**— the risk of loss of market size, market share, or margin in our business, leading to lost revenues and potentially significant reductions to net income and/or market value.
- **Reputational Risk**— the potential that negative perceptions regarding our conduct or business practices or capacity to conduct business will adversely affect valuation, profitability, operations, or the customer base, or require costly litigation or other measures.
- **Legal Risk**— the risk to earnings or capital arising from violations of, or non-conformance with, laws or ethical standards, as well as uncertainties surrounding the interpretation or application of laws.
- **Regulatory and Compliance Risk**— the risk to earnings or capital arising from violations of, or nonconformance with, regulations, applicable guidance, and internal policies, as well as risk associated with ambiguous, changing, or untested rules governing certain regulated products or activities.

The 2018 stress test results incorporate identifiable and measurable material risks from the risk categories that are impacted by the DFAST stress scenarios.

[1] https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20180201a1.pdf

Overview of Stress Testing Methodology and Approach

The estimated pre-provision net revenue ("PPNR") consists of three components: net interest income, non-interest income, and non-interest expense (excluding counterparty losses).

Net interest income is driven by interest earned on assets (investment securities, margin loan receivables, loan portfolio, and other assets) and income from securities lending, less interest incurred on interest-bearing liabilities (deposits, customer payables, corporate debt, and other liabilities).

Non-interest income primarily consists of commission revenue and fee and service charges revenue. Commission revenue is generated by customer trades (Daily Average Revenue Trades or "DARTs") and is the direct result of trading volume and commission rates. Fees and service charges revenue is mainly impacted by order flow revenue, fees earned on off-balance sheet customer cash, mutual fund service fees and advisor management fees.

Non-interest expense includes expense related to compensation and benefits, marketing, and professional services. Non-interest expense also includes operational and customer-related margin losses.

The DFAST forecasting process is a multi-step process which utilizes internally developed econometric models, vendor credit loss forecast models, a vendor-developed asset-liability management system, and a vendor-developed prepayment model to produce the balance sheet, income statement, and capital ratios for each of the DFAST scenarios.

As part of the model risk management and governance process all models that were used in the 2018 stress test were independently validated by the Company's Model Risk Management Group. The DFAST results, assumptions and methodology used in producing the DFAST results are reviewed by management before sharing with the Risk Oversight Committee. The Risk Oversight Committee, which consists of independent members of the Board of Directors, reviews and approves the DFAST results before they are submitted to the regulators.

Summary of Company-Run Stress Test Results

The tables below summarize the company-run stress test results for the Severely Adverse Scenario. The DFAST results demonstrate that ETFC has sufficient capital to sustain a severe economic recession as assumed in the Severely Adverse Scenario.

Table 1: Actual (Q4 2017) and Projected Stressed Scenario (Q1 2018 – Q1 2020) Capital Ratios

	Actual	Stressed Capital Ratios	
Regulatory ratio (%)	**Q4 2017**	**Ending**	**Minimum[2]**
Common equity Tier 1 capital ratio	33.9%	35.6%	31.4%
Tier 1 risk-based capital ratio	39.5%	42.5%	38.7%
Total risk-based capital ratio	43.8%	47.9%	44.3%
Tier 1 leverage ratio	7.4%	7.8%	6.8%

[2] The minimum capital ratios represent the lowest value over the nine-quarter forecast horizon

Table 2: Actual (Q4 2017) and Projected Stressed Scenario (Q1 2020) Risk-weighted assets

($ million)	Actual Q4 2017	Stressed Q1 2020
Risk-weighted assets	11,115	10,004

Table 3: Projected Stressed Scenario (Q1 2018 to Q1 2020) Losses, Revenue, and Pre-Tax Income

	Stressed Scenario	
	Millions of dollars	Percent of average assets[3]
Pre-provision net revenue[4]	901	1.68%
less		
Provision for loan losses	355	
Counterparty losses	15	
Realized losses on securities available for sale	171	
equals		
Pre-tax income	**360**	0.67%

Table 4: Projected Stressed Scenario (Q1 2018 to Q1 2020) Loan Losses by Type of Loan

	Stressed Scenario	
	Millions of dollars	Portfolio loss rate[5]
First-lien mortgages, domestic	115	7.4%
Junior liens and HELOCs, domestic	157	12.3%
Other consumer	10	5.7%
Loan losses	**283**	**9.4%**

In the Severely Adverse Scenario, ETFC's 7.4% Tier 1 leverage ratio at the beginning of the period drops to a low of 6.8% in Q1 2018 primarily driven by losses, recovering to 7.8% by the end of the forecast horizon driven by capital growth from earnings. The decline in capital ratio over the forecast horizon compared to the Supervisory Baseline Scenario is primarily due to lower earnings and higher disallowed deferred tax assets ("DTA") deduction, partially offset by a smaller balance sheet.

ETFC ends the nine-quarter forecast horizon with a cumulative pre-tax income of $360 million. Compared to the Supervisory Baseline Scenario, pre-tax income in the Severely Adverse Scenario is lower driven by smaller balance sheet, lower margin and securities lending income, lower rates, and higher provision for loan losses, partially offset by lower expenses.

[3] Average assets is the nine-quarter average of total assets
[4] Pre-provision net revenue = net interest income + non-interest income – non-interest expense
[5] Portfolio loss rates are nine-quarter losses divided by gross loan balances at the beginning of the forecast horizon