E*TRADE FINANCIAL CORPORATION AND E*TRADE BANK

2017 ANNUAL DODD-FRANK ACT COMPANY-RUN STRESS TEST DISCLOSURE

OCTOBER 2017

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. E*TRADE Bank (the "Bank"), a subsidiary of ETFC, is a federal savings association.

Pursuant to regulations issued by the Board of Governors of the Federal Reserve System ("Federal Reserve") and the Office of the Comptroller of the Currency ("OCC") under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), savings and loan holding companies and federal savings associations with total consolidated assets of more than $10 billion are 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 and the Bank (collectively, "E*TRADE") for the Severely Adverse Scenario for the nine-quarter forecast horizon beginning on January 1, 2017 and ending on March 31, 2019 (the "forecast horizon").

This disclosure contains forward-looking statements, including projections of ETFC's and the Bank's capital ratios, risk weighted assets, revenue, losses and pre-tax income under a hypothetical scenario determined by the Federal Reserve and the OCC, 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, the most extreme of the three supervisory scenarios, is characterized by a severe global recession that is accompanied by a period of heightened stress in corporate loan markets and commercial real estate markets. 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 2017 and reaches a trough in Q2 2018 that is about 6.5% below the pre-recession peak.
- The unemployment rate increases by about 5.25 percentage points, to 10%, by Q3 2018.
- Short-term Treasury rates fall and remain near zero - 10-year yields drop to 0.75% in Q1 2017, rising to around 1.5% by Q1 2019.
- Equity prices fall by 50% through the end of 2017, together with a surge in equity market volatility approaching 2008 level.
- There is a large decline in house prices (25% through Q1 2019) and commercial real estate prices (35% through Q1 2019).

A complete description of the severely adverse scenario can be found on the Federal Reserve's website[1] and the OCC's website[2].

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 of risk:

- **Credit Risk**—the risk of loss arising from the failure of a borrower or counterparty to meet its credit obligations.
- **Interest Rate Risk**—the risk of adverse changes in earnings or market value arising from balance sheet positions due to changes in interest rates. This includes convexity risk, which arises primarily from the mortgage holders' option to prepay their mortgages as well as deposit holders' option to withdraw their deposits. Additionally, spread volatility is a risk as the change in spread between mortgages and swaps or mortgages and treasury securities will affect the value of the investment portfolio.
- **Liquidity Risk**—the potential inability to meet contractual and contingent financial obligations, either on- or off-balance sheet, in a timely and cost-effective manner 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 loss 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 the Company's electronic digital media (e.g., computers, mobile devices, etc.).

[1] https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20170203a5.pdf
[2] https://www.occ.gov/tools-forms/forms/bank-operations/stress-test-reporting.html

- **Data Management Risk**—the risk of impairment to or loss of data assets through ineffective governance over the creation, usage, quality, inventory, storage and security of data assets.
- **Strategic Risk**—the risk of loss of market size, market share, or margin in any product, leading to lost revenues and potentially significant reductions to net income and/or market value.
- **Reputational Risk**—the potential that negative perceptions regarding the Company's 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 nonconformance with laws or ethical standards, as well as uncertainties surrounding the interpretation of applicable laws.
- **Regulatory and Compliance Risk**—the risk to earnings or capital arising from violations of, or nonconformance with regulations, applicable guidance, and internal policies. Regulatory and compliance risk also arises in situations where the rules governing certain regulated products or activities may be ambiguous, untested, or in the process of significant change or revision.

The 2017 stress test results incorporate identifiable and measurable material risks from the risk categories that are impacted by the DFAST stress scenarios.

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 investment securities and margin loans receivables, less interest paid on interest-bearing liabilities, including deposits, customer payables, corporate debt and other borrowings.

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 payment for order flow revenue, fees earned on off-balance sheet customer cash and other assets, and advisor management fees.

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 2017 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 DFAST company-run stress test results for the Severely Adverse Scenario. The DFAST results demonstrate that both ETFC and the Bank have sufficient capital to sustain a severe economic recession as assumed in the Severely Adverse Scenario.

Table 1: Actual (Q4 2016) and Projected Stressed Scenario (Q1 2017 – Q1 2019) Capital Ratios

	E*TRADE FINANCIAL			E*TRADE BANK		
	Actual	Stressed Capital Ratios		Actual	Stressed Capital Ratios	
Regulatory ratio (%)	Q4 2016	Ending	Minimum[3]	Q4 2016	Ending	Minimum[3]
Common equity Tier 1 capital ratio	37.0%	32.4%	29.6%	38.3%	35.3%	31.9%
Tier 1 risk-based capital ratio	38.3%	36.0%	32.5%	38.3%	35.3%	31.9%
Total risk-based capital ratio	44.0%	41.1%	37.7%	39.5%	36.6%	33.2%
Tier 1 leverage ratio	7.8%	7.0%	6.6%	8.8%	7.6%	7.0%

Table 2: Actual (Q4 2016) and Projected Stressed Scenario (Q1 2019) Risk-weighted assets

	E*TRADE FINANCIAL		E*TRADE BANK	
($ million)	Actual Q4 2016	Stressed Q1 2019	Actual Q4 2016	Stressed Q1 2019
Risk-weighted assets	9,422	10,879	8,187	10,087

Table 3: Projected Stressed Scenario (Q1 2017 to Q1 2019) Losses, Revenue, and Pre-Tax Income

	E*TRADE FINANCIAL		E*TRADE BANK	
	Stressed Scenario		Stressed Scenario	
	Millions of dollars	Percent of average assets[4]	Millions of dollars	Percent of average assets[4]
Pre-provision net revenue[5]	951	1.69%	1,214	2.67%
less				
Provision for loan losses	465		465	
Counterparty losses	16		11	
equals				
Pre-tax income	**470**	0.84%	**738**	1.62%

Table 4: Projected Stressed Scenario (Q1 2017 to Q1 2019) Loan Losses by Type of Loan

	E*TRADE FINANCIAL and E*TRADE BANK	
	Stressed Scenario	
	Millions of dollars	Portfolio loss rate[6]
First-lien mortgages, domestic	185	8.8%
Junior liens and HELOCs, domestic	325	18.2%
Other consumer	14	5.6%
Loan losses	**524**	**12.7%**

[3] The minimum capital ratios represent the lowest value over the nine-quarter forecast horizon
[4] Average assets is the nine-quarter average of total assets
[5] Pre-provision net revenue = net interest income + non-interest income – non-interest expense (excluding counterparty losses)
[6] Portfolio loss rates are nine-quarter losses divided by gross loan balances at the beginning of the forecast horizon

In the Severely Adverse Scenario, ETFC's 7.8% Tier 1 leverage ratio at the beginning of the period drops to a low of 6.6% in Q1 2018, recovering to 7.0% by the end of the forecast horizon. The Bank's 8.8% Tier 1 leverage ratio at the beginning of the period drops to a low of 7.0% in Q3 2017, recovering to 7.6% by the end of the forecast horizon. The decline in capital ratios for both ETFC and the Bank is primarily due to a bigger balance sheet offset by growth in capital during the forecast horizon.

ETFC ends the nine-quarter forecast horizon with a cumulative pre-tax income of $470 million. Compared to the Supervisory Baseline Scenario, lower balances, lower interest rates, lower DARTs, and higher provision for loan losses contribute to lower pre-tax income. The Bank ends the nine-quarter forecast horizon with a cumulative pre-tax income of $738 million. Compared to the Supervisory Baseline Scenario, lower balances, lower interest rates, and higher provision for loan losses contribute to lower pre-tax income.