E*TRADE BANK DODD-FRANK ACT

COMPANY-RUN STRESS TEST DISCLOSURE

OCTOBER 2016

Explanatory Note

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"), E*TRADE Bank and its operating subsidiaries (the "Bank") are required to conduct an annual company-run stress test based on balance sheet information as of December 31, 2015, and disclose certain results of the test.

As a covered institution with consolidated assets between $10 and $50 billion, the Dodd-Frank Act requires the Bank to conduct an annual stress test, a forward-looking analysis under which the Bank must estimate the impact of a hypothetical, severely adverse macroeconomic scenario (the "Severely Adverse Scenario") on its financial condition and capital ratios. The Federal Reserve and OCC provided the Severely Adverse Scenario in January 2016, which the Bank has employed to model a nine-quarter forecast horizon starting on January 1, 2016 and ending on March 31, 2018. The Dodd-Frank Act also requires the Bank to publicly disclose certain financial metrics and capital ratios under the Severely Adverse Scenario.

The Severely Adverse Scenario used in the 2016 stress test is a hypothetical scenario that involves economic conditions that are more severe than currently expected by the Bank. Accordingly, the Severely Adverse Scenario is not a forecast of anticipated economic conditions, and therefore the results shown herein do not reflect the Bank's current expectations regarding future results of operations or financial condition, and the Bank's actual results may differ materially from those disclosed below.

Scenario Description

The Severely Adverse Scenario is characterized by a severe global recession, accompanied by large reductions in asset prices and negative yields for short-term U.S. Treasury securities. In the Severely Adverse Scenario, real GDP growth begins to decline in Q1 2016 and is negative for the first 5 quarters of the forecast horizon while the unemployment rate increases 5 percent from Q4 2015 levels to peak at 10 percent in Q3 2017. Additionally, short term Treasury rates fall to negative 50 bps by Q3 2016 and remain negative until the end of the scenario. Equity prices fall 51 percent from Q4 2015 while VIX approaches 2008 levels. Lastly, home prices fall 24 percent through Q1 2018 while spreads between BBB corporate bonds and long-term Treasuries increase to 575 bps by the end of 2016.

Overview of Risk Types and Stress Testing Methodology

The Board of Directors has approved the Enterprise Risk Appetite Statement ("RAS"), which specifies the risks the Bank is exposed to and its tolerance to those risks.

- *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 our balance sheet positions due to changes in interest rates. This includes convexity risk, which arises primarily from prepayment options on mortgages as well as the ability of customers to withdraw deposits.

- *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 Technology and Cybersecurity Risk* - the risk of loss of customer or company data, integrity, or availability of systems through the compromise of our electronic digital media (e.g., computers, mobile devices).

- *Strategic Risk* - the risk of loss of market size, market share, or margin of any 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, Regulatory, and Compliance Risk* - the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, applicable guidance, internal policies and procedures, or ethical standards.

The 2016 stress test primarily incorporated credit risk (associated with loans and counterparties), interest rate risk, liquidity risk, market risk, and operational risk (including customer and other legal claims, fraud, and other operational losses). The stress testing methodology and approach applies quantitative, econometric models to assess the Bank's financial performance and capital ratios in the Severely Adverse Scenario. Some qualitative methods were used to assess operational expenses during the forecast horizon and are based upon the historical experience of the Bank and management judgment. Econometric models were used to forecast the Bank's credit losses, number of accounts and deposit balances, and net interest income under the Severely Adverse Scenario.

Credit losses for 1-4 family mortgages, junior lien mortgages, home equity lines of credit, and consumer loans are forecasted using a third-party vendor-hosted credit loss model ("Credit Loss Model"). The Credit Loss Model is a suite of models that forecasts the net charge-offs for the Bank's loan portfolios at the loan level given a set of market and macroeconomic conditions. The loan charge-off output from the Credit Loss Model is used to compute the Bank's provision and Allowance for Loan and Leases Losses. These are then used in the Bank's overall balance sheet, income statement, and capital adequacy forecast under the Severely Adverse Scenario.

The Bank's cash flows and income projections are forecasted using a vendor-developed asset-liability management ("ALM") system and a vendor-developed prepayment model. The ALM system integrates accounting and income simulation for balance sheet and income statement forecasting. It also projects the yields, gains/losses from available-for-sale securities sales, and future security purchases and sales. The vendor-developed prepayment model is used to estimate the prepayment speeds of agency securities on the Bank's balance sheet, given a set of current and projected market conditions such as interest rates and home prices.

The Bank has also developed in-house, econometric models to forecast its key balance sheet drivers, including the total number of accounts and sweep deposit balances. The various, internally-developed econometric models used for stress testing utilize a variety of modeling techniques, statistical model types, and may use different external variables depending on the forecasted variable of interest. As part of the Bank's model risk management and governance process, all models, both vended and internally developed, that were used in the 2016 stress test were independently validated by the Company's Model Risk Management Group. The models are also subject to the Bank's internal model governance framework and procedures, which includes a defined selection process and requires detailed model documentation, data quality assessments, model testing, and ongoing performance monitoring and review. Additionally, the models' performances and results were also reviewed by senior management throughout the stress testing process to ensure consistent quality for the 2016 stress test. The Bank uses management judgment in some cases to develop overlays to modeled outputs to address risks that are not captured in models.

The Bank uses an internal capital adequacy assessment process ("ICAAP") to evaluate its capital adequacy, capital stress test results, as well as risks that may not be captured by the stress test, including liquidity risks, reputational risks, model risks, and risks unique to the Bank's business model. The Board of Directors and executive management use the Bank's ICAAP results to assess the level of capital that is appropriate for the Bank, the Bank's business strategy, and its overall risk appetite.

Detailed Results of the Bank's 2016 Company-Run Stress Test

The financial information and capital ratios for the Bank are calculated per the Federal Reserve and OCC's stress test regulations and guidelines. Based on the modeled outcomes, dividends to the Parent in the Severely Adverse Scenario may become subject to 12 U.S.C. 60(b) which requires the Bank to obtain prior approval from the OCC to pay dividends that exceed its current net profits and prior two years' retained profits.

The tables below summarize the Dodd-Frank Act Stress Tests ("DFAST") results submitted to the OCC for the Severely Adverse Scenario. The scenario assumptions used to create the results were provided by the OCC and Federal Reserve and represent a hypothetical economic environment. The Bank's DFAST results demonstrate the Bank has sufficient capital to sustain a severe economic recession as outlined by the Severely Adverse Scenario.

Table 1: Actual and Projected Capital Ratios through Q1 2018 under the Severely Adverse Scenario

E*TRADE Bank	Actual Q4 2015	Stressed Capital Ratios 9 Qtr. Ending	Minimum
Capital Ratios:			
Tier 1 Leverage Ratio (%)	9.7%	8.5%	8.5%
Tier 1 Common Ratio (%)	36.5%	35.9%	33.7%
Tier 1 Capital-to-Risk Weighted (%)	36.5%	35.9%	33.7%
Total Capital-to-Risk Weighted (%)	37.8%	37.2%	35.1%

Table 2: Actual Q4 2015 and Projected Q1 2018 Capital Metrics in the Severely Adverse Scenario

E*TRADE Bank	Actual Q4 2015	Projected Q1 2018
Total Risk-Weighted Assets	8,423,882,804	8,395,791,660
Tier 1 Capital	3,074,852,778	3,013,856,525
Adjusted Average Assets	31,577,785,703	35,295,808,570

Table 3: Projected Pre-provision Net Revenue and Pre-Tax Income under the Severely Adverse Scenario, Q1 2016 to Q1 2018, 9-Quarter Cumulative

E*TRADE Bank (in $ Millions)	Millions of Dollars	% of Avg. Assets
Net Interest Income	$ 1,813	5.1%
Non-Interest Income	17	0.0%
Non-Interest Expense (including Operational Expense)	(793)	-2.2%
Pre-provision Net Revenue	**$ 1,037**	**2.9%**
Gains (losses) on securities and other	29	0.1%
Provision for loan losses	(659)	-1.9%
Counterparty Stress Loss	(9)	0.0%
Other income (loss)	-	0.0%
Pre-tax income (loss)	**$ 399**	**1.1%**
9 Quarter Average Assets	**$ 35,260**	

*Numbers may not foot due to rounding

Table 4: Projected Loan Losses by Loan Type under the Severely Adverse Scenario, Q1 2016 to Q1 2018, 9-Quarter Cumulative

E*TRADE Bank	Millions of Dollars	9 Qtr. Cumulative Charge-off Rates
1-4 Family Mortgages	205	7.8%
HEILs	79	17.6%
HELOCs	434	21.8%
Total Residential	718	14.1%
Total Consumer	23	6.6%
Total Loan Loss (Net Charge-offs)	741	

*Numbers may not foot due to rounding

In the Severely Adverse Scenario, the Bank ends the nine-quarter forecast horizon with a cumulative pre-tax income of $399 million. The depressed income is primarily driven by decreasing pre-provision net revenue, as net interest income declines, and an increasing provision for loan losses. Interest income suffers due to declining long-term, and negative short-term, interest rates in the Severely Adverse Scenario. The significant fall in home prices and higher unemployment rates throughout the forecast horizon results in higher net charge-offs and an increase in the provision for loan losses.

Despite the negative effects of the Severely Adverse Scenario, the Bank remains well capitalized and above all regulatory minimums throughout the forecast horizon. The Tier 1 Leverage Ratio starts the forecast horizon at 8.9 percent in Q1 2016 and declines slightly by the end of the projection period, ending at 8.5 percent in Q1 2018. However, the Tier 1 Common Ratio and the Tier 1 Capital Ratio both start the forecast at 33.7 percent and increase to 35.9 percent by Q1 2018. Similarly, the Total Capital Ratio also increases by the end of the forecast horizon. The improvement is driven by increasing Tier 1 Capital levels along with a commensurate decrease in Risk-Weighted Assets.