

\$1.8B

Retail segment
net revenue *

\$789M

Retail pretax
segment income *

43% +

Retail segment
operating margin *

A Study in Contrast



Donald H. Layton
Chairman and Chief Executive Officer

Dear Fellow Shareholders,

To quote *A Tale of Two Cities*, "It was the best of times, it was the worst of times." More fitting words could not capture my perspective as I write this, my first shareholder letter as Chairman and Chief Executive Officer of E*TRADE FINANCIAL. The first three quarters of 2007 represented the best of times in E*TRADE's Retail business, as customers significantly increased their trading, investing and deposit activity. The worst of times set in as the credit market crisis engulfed the U.S. financial system and investments in our bank subsidiary suffered significant losses in value, resulting in a fourth quarter crisis in customer confidence that quickly erased the entire year's gains.

An Effective Team with a Strong Plan: *The Golden Thread*

In the almost six months since the credit crisis peaked, we have dealt forthrightly with the associated problems and continue to do so. The Board approved and closed a recapitalization transaction and changed management. We set and are acting decisively on our top priorities: to restore the Retail business to full growth and to rebuild the balance sheet to full health. As we end the first quarter of 2008, our Retail business is in fact beginning to grow once again, a result of management focus, our employees' commitment to execution and service, the depth of our product offerings and the strong loyalty of our customers. We are also dealing effectively with our remaining troubled mortgage assets, generating capital to absorb losses and to pay down debt.

2007 in Review: *The Track of a Storm*

In the U.S. financial markets, the first half of 2007 seemed to be delivering a continuation of the excellent markets and economy of the prior few years. The greatest credit crisis in many decades began to emerge in the summer, however, and unfolded in the fall. Even today, half a year later, the credit crisis continues, although most observers believe the worst of it has passed. These market conditions — from terrific to terrible — serve as the backdrop to E*TRADE's performance.

Through the third quarter of 2007, our Retail business maintained a steep growth trajectory. We successfully attracted, retained and migrated customers into our target segments — mass affluent and active trading. Retail's total client assets reached a record \$218 billion by September 30, a 16-percent annualized growth rate from the beginning of the year. This included a 25 percent year-over-year increase in customer cash and deposits, to a record \$40 billion. Daily average revenue trades were 194,000, a Company record for third quarter activity a quarter that is typically impacted by a seasonal decrease in investor activity.

290,000

New
Retail accounts



38% +

Increase in Q4
daily average
revenue trades



(continued)

Innovation and customer commitment, which have always been at the heart of our culture and brand, were again center stage in 2007. As examples, E*TRADE Securities introduced the Global Trading Platform, providing online access to foreign stocks and currencies, with the ability to buy, hold, and sell in six local currencies; and E*TRADE Bank rolled-out Max Rate Checking, which offers premium cash management features.

As the general credit market crisis grew in intensity, moving from original focus on sub-prime lending (in which E*TRADE did not materially participate) to broader mortgage-related asset classes, the Company began to suffer an erosion in the value of mortgage-related loans and investment securities. Customer confidence in E*TRADE's financial health began to deteriorate, and in mid-November a severe disruption within our customer base emerged as dire, worst-case scenarios for real estate-related investments became the focus. Within days, it was clear that the Board and management would need to act quickly to regain customer confidence and strengthen the franchise by decisively addressing balance sheet weakness.

Following a thorough review of strategic alternatives, the Board reached an agreement with Citadel Investment Group for a \$2.5 billion cash infusion. This infusion, which closed on November 29, 2007, allowed E*TRADE to divest itself of its troubled \$3 billion mortgage-related asset-backed securities portfolio while replenishing its capital position. The transaction was designed to enable the Company to quickly regain customer confidence. It also allowed management to set the Company on a turnaround path, which includes addressing remaining balance sheet concerns in an orderly manner.

The cash infusion worked as designed. Our customer base stabilized in December and through January, and growth began to emerge again in the first quarter of 2008.

In the face of these dramatic market disruptions, the Company reported a consolidated net loss of \$3.40 per share for the year, our first annual loss since repositioning the business in 2002. This was due largely to a \$2.4 billion loss on securities and \$640 million in loan loss provision expenses, a \$595 million increase of provision expense from the prior year.

In spite of the disruption, our Retail business revenue was still able to grow 10 percent for the full year, totaling a record \$1.8 billion. Pre-tax income in the Retail segment increased 14 percent to a record \$789 million. Daily average revenue trades rose 38 percent in the fourth quarter over the same period in 2006. Our account base grew by 290,000 or seven percent, with mass affluent and active trading customers' account growth up 14 percent year over year.

However, our customers' crisis of confidence in the fourth quarter reversed the entire year's growth in customer assets. E*TRADE ended the year with customer cash and deposits flat year over year at \$33.6 billion, with total client assets declining slightly to \$190 billion.

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\$190BIn customer assets
at year-end ***14% +**Growth in target
segment Retail
accounts *

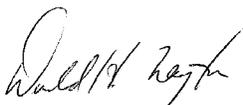
Fourth quarter 2007 was clearly a low point for E*TRADE. When I joined the Company as non-executive Chairman on November 29, the Board was acting quickly and decisively to protect the franchise. The Citadel infusion solved our most immediate issues, and our Turnaround Plan, announced on January 24, 2008, set us solidly on a path designed to lead us back to growth and profitability.

Looking Ahead: *Recalled to Life*

As I write this letter, after having become CEO in early March and subsequently announcing 2008 first quarter financial results, management and the Board continue to successfully execute the Turnaround Plan. We have exited our wholesale mortgage business and institutional trading, enabling a stronger focus on our core Retail franchise in the future. Our customer business is growing again – we added 62,000 net new accounts in the quarter. And our balance sheet is regaining health. E*TRADE Bank had excess regulatory capital of \$695 million at the end of the quarter and long-term debt was reduced by \$60 million. We entered 2008 with loan reserves of \$508 million and expect to exit 2008 with strong reserves and excess bank regulatory capital approaching \$1 billion.

Moving forward, we are acutely aware that current market conditions and volatility continue to cause anxiety. However, E*TRADE was founded on the concept of empowering the individual investor, and I firmly believe that is a great place to be for long-term growth. Thus, despite today's conditions, we are still investing in providing the products, pricing, service and functionality our customers expect from E*TRADE. We are committed both to helping them maximize their investments and protect their assets in every type of market condition. This is what we do best.

As I face the remainder of 2008, my first year at the helm of E*TRADE, I am optimistic. Our operating and financial plans are tough-minded and achievable. We are committed to returning the Company to quarterly profitability as soon as possible, even in the face of continuing market, economic and industry uncertainty. We hope you will share our growing optimism for E*TRADE.



Donald H. Layton
Chairman and Chief Executive Officer

Financial Highlights

Dollars in millions; shares in thousands, except per share amounts

Years Ended December 31,	2007	2006	2005
Total net revenue	\$ (378.2)	\$ 2,420.3	\$ 1,703.8
Net income (loss) from continuing operations	\$ (1,441.8)	\$ 626.8	\$ 446.2
Gain (loss) from discontinued operations, net of tax	\$ —	\$ 2.0	\$ (17.5)
Cumulative effect of accounting change, net of tax	—	—	\$ 1.6
Net income (loss)	\$ (1,441.8)	\$ 628.9	\$ 430.4
Earnings (loss) per share from continuing operations			
Basic	\$ (3.40)	\$ 1.49	\$ 1.20
Diluted	\$ (3.40)	\$ 1.44	\$ 1.16
Net earnings (loss) per share			
Basic	\$ (3.40)	\$ 1.49	\$ 1.16
Diluted	\$ (3.40)	\$ 1.44	\$ 1.12
Shares used in computation of per share data			
Basic	424,439	421,127	371,468
Diluted	424,439	436,357	384,630

Corporate Information

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New York, NY 10022
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646-521-4340

Financial Information
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Wholly-Owned Subsidiaries
For a list of wholly-owned
subsidiaries, please refer to
our Form 10-K.

Transfer Agent and Registrar
American Stock Transfer &
Trust Company
59 Maiden Lane
New York, NY 10038
1-800-937-5449

Independent Auditors
Deloitte & Touche LLP
McLean, VA

Annual Meeting
The annual meeting of
shareholders will be held:
Friday, May 16, 2008 at 10:00am
The Ritz-Carlton Hotel
1250 South Hayes Street
Arlington, VA

Importance Notice

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Corporate Governance

In compliance with NYSE Rule 303A.12, E*TRADE FINANCIAL has filed its CEO certification and is in full compliance with NYSE corporate governance rules.

Company Profile

About E*TRADE FINANCIAL

The E*TRADE FINANCIAL family of companies provides financial services including trading, investing and banking for retail and institutional customers. Securities products and services are offered by E*TRADE Securities LLC (Member FINRA/SIPC). Bank products and services are offered by E*TRADE Bank, a Federal savings bank, Member FDIC, or its subsidiaries.