



# REINVENTING THE FUTURE OF INVESTING

2011 was a defining year for E\*TRADE and on behalf of the Company's 3,000 employees, I am pleased to report our progress.



Steven Freiberg  
Chief Executive Officer

**“Total interactions with our education platform increased 63% in 2011 to over one million.”**

## To Our Shareholders

2011 was a pivotal year for E\*TRADE Financial, as we returned to profitability for the first time since 2006. It wasn't an easy year by any measure, but we maintained focus on the business and on our customers, and I'm proud of the way our team executed. We continued to make progress on our strategic plan, along with significant enhancements to the customer experience. We accomplished this in the face of a very challenging market, which included an unprecedented low interest rate environment, unfavorable macro-economic conditions, and continued stress in the housing market. As we think about the year ahead, we are determined to continue our positive momentum and further leverage the strength of the E\*TRADE franchise.

Our mission is to deliver the best investing experience to our customers. To that end, we enhanced the products and services preferred by our active traders, while developing what we believe to be an outstanding offering for long-term investors. We expanded customer access points across online, mobile, licensed sales professionals, and service center associates. Our brokerage business experienced good growth, as we innovated and invested for the future.

During the year, we launched Pro Elite, an exclusive program for our most valuable active traders, featuring our most advanced platforms, competitive pricing and priority service. We also introduced several upgrades to our E\*TRADE Pro platform, including expanded CNBC content, algorithmic charts, and a number of sophisticated new options tools. We launched the E\*TRADE Community, to complement the role that social media plays in influencing how individual investors plan their finances, and interact with other investors. Finally, we made a number of enhancements to our industry-leading mobile platform, including mobile check deposit capability for the iPhone.®

We are increasingly focused on the long-term investing and retirement needs of consumers, and continue to build on our offering to better serve clients seeking investment advisory services. To complement our Managed Investment Portfolio offering, launched in 2010, we introduced Unified Managed Accounts, for those customers with balances over \$250,000. Our managed account balances are growing, and we are building a solid foundation for this business. Our sales force initiative is a very important element of this strategy; in 2011, we grew our team of financial consultants by 42%, and remain committed to expanding this effort.

Recognizing that our customers are seeking guidance in an uncertain market, we expanded upon our investor education offerings across a number of channels including online videos, live and on-demand web seminars, and live events. Total interactions with our education platform increased 63% in 2011 to over one million.

Our commitment to extraordinary customer service is evidenced by improvements to a number of customer satisfaction measures. This is most apparent in substantially better account retention, as our

brokerage attrition rate improved nearly 200 basis points to a firm record 10% in 2011. In addition, we received external validation through the International Service Excellence Award presented to us by the International Council of Customer Service Organizations.

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Our investments in brokerage products and services were highly beneficial as well, as evidenced by our key performance measures. Customer Daily Average Revenue Trades (DARTs) grew 5% from the prior year, and product mix continued to improve – with options accounting for 21% of all trades during the year. We nearly doubled the number of net new brokerage accounts in 2011 versus 2010, and our net new brokerage assets of \$9.7 billion were an improvement from \$8.1 billion in 2010. We also significantly grew brokerage customer deposits, enabling the company to offset the majority of net interest spread compression during the year.

Our corporate services and market making businesses remain an integral part of our strategy. In 2011 we brought on 46 new stock plan clients, building on our market leadership position with over 1,400 corporate clients – providing equity compensation tools and services to over 20 percent of S&P 500 companies. Market making grew revenue during 2011 in spite of declining industry volumes, as we diversified the types of products for which we make markets.

### Improving financial position

In addition to strengthening our core business, we also made significant strides in de-risking the company. We increased our capital ratios to some of the strongest levels in the firm’s history. We continued to improve our risk profile as our legacy loan portfolio declined by approximately \$3 billion in the aggregate, and is now down 60 percent from its peak. The relative quality of our loan portfolio also experienced improvement, with total delinquent loans down 32 percent from 2010 levels.



(1) Excludes impact of the debt exchange. In the third quarter of 2009, the Company exchanged \$1.7 billion aggregate principal amount of interest-bearing corporate debt for an equal principal amount of newly-issued non-interest-bearing convertible debentures. This Debt Exchange resulted in a non-cash charge of \$723 million. The following table provides a reconciliation of GAAP net loss to non-GAAP net loss for FY2009:

	FY 2009
Net loss	\$ (1,297,762)
Add back: non-cash charge on Debt Exchange	772,908
Adjusted net loss	\$ (524,854)

Finally, during the year, we engaged in the transition of our primary banking regulator, from the former Office of Thrift Supervision, to the Office of the Comptroller of the Currency. This transition is ongoing and we are working to bring our policies and practices in line with our new regulator. We expect the transition period to extend through 2012.

## Looking Ahead: 2012

Heading into 2012, we will continue to focus on executing our strategic plan as we build upon the progress and momentum we generated during the past year. In addition to new products in the pipeline, we are enhancing the way we position E\*TRADE, through the broadening of our advertising and platforms to better address both the trading and long-term investing needs of consumers.

In February, we officially launched a completely new public website experience at etrade.com, and a fundamentally new customer website - 'E\*TRADE 360'. Retirement planning remains a heightened priority, and we will continue to further enhance our Retirement Planning Center. For active traders, we have plans to launch FOREX trading, and to integrate futures trading into our E\*TRADE Pro platform.

In summary, 2011 was an important year for E\*TRADE, as we navigated challenging market conditions, grew our brokerage business and improved customer satisfaction. We continued to innovate products, platforms, and services, and are focused on serving the needs of the long-term investor segment. We improved the financial position of the franchise, in a difficult environment, and I'm pleased with the customer-first focus of our more than 3,000 employees. As we look toward the future, I see exceptional opportunities for E\*TRADE Financial and I am confident in our ability to navigate obstacles and capitalize on opportunities in this most challenging environment.

Sincerely,



Steven J. Freiberg Chief Executive Officer

## Company Profile

E\*TRADE Financial Corporation is a financial services company offering a full suite of easy-to-use online brokerage, investing, and banking solutions, delivered at a competitive price.

We empower consumers – ranging from active traders to long-term investors – to take control of their financial futures by providing the products, tools, and services they need to meet their near- and long-term investing goals.

We provide services to customers through our website at [www.etrade.com](http://www.etrade.com) and through our network of customer service representatives, relationship managers, and investment advisors – over the phone and in person at our 28 E\*TRADE branches.

We offer a full suite of financial products and services to individual retail traders and investors, including:

## Trading and Investing

- Automated order placement and execution of U.S. equities, futures, options, exchange-traded funds and bond orders;
- FDIC insured sweep deposit accounts that automatically transfer funds to and from customer brokerage accounts;
- E\*TRADE Mobile, which allows customers to securely trade stocks and options, monitor real-time investment, market and account information and transfer funds between accounts via an Apple iPhone®, iPod® Touch, or iPad®; Android™ or Blackberry® smartphone;
- Power E\*TRADE Pro, our desktop trading software for qualified active traders, which provides customers with customization capabilities, an expanded feature set and more news and information, plus live streaming via CNBC TV;
- Open applications programming interface (“Open API”) for third-party and independent software developers, which allows customers to have access to technical information and documentation, reference guides, and other resources to help network external applications and programs with our active trader platform;
- Two-Second Execution Guarantee on qualified market orders for Standard & Poors (“S&P”) 500 stocks and exchange-traded funds;
- Margin accounts allowing customers to borrow against their securities;
- Cross-border trading, which allows customers residing outside of the U.S. to trade in U.S. securities;
- Access to international equities in Canada, France, Germany, Hong Kong, Japan and the United Kingdom and foreign currencies, including the Canadian dollar, Euro, Hong Kong dollar, Yen and Sterling; and
- Research and trading idea generation tools that assist customers with identifying investment opportunities including analyst and technical research; consensus ratings, and market commentary from Morningstar, Dreyfus and BondDesk Group.

## Long-term Investing Products and Services

- E\*TRADE's Investor Resource Center, which provides an aggregated view of our investing tools, market insights, independent research, education and other investing resources;
- Flexible advisory services through Online Advisor, our investment advice tool designed to provide investors with actionable investment guidance, including recommended asset allocations ranging from fully self-directed investing to 100 percent discretionary portfolio management from an affiliated registered investment adviser;
- Fixed income tools in our Bond Resource Center aimed at helping customers identify, evaluate and implement fixed income investment strategies;
- Retirement planning resources including Retirement QuickPlan, an easy-to-use, four-step calculator that provides a customized action plan to help customers get on track with personal retirement savings goals, and access to Chartered Retirement Planning Counselors<sup>SM</sup> who can provide customers with one-on-one portfolio recommendations and personalized plans;
- Managed investment portfolio advisory services with an investment of \$25,000 or more from an affiliated registered investment adviser, which provides one-on-one professional portfolio management;
- Unified managed account advisory services with an investment of \$250,000 or more from an affiliated registered investment advisor, which provides customers the opportunity to work with a dedicated investment professional to obtain a comprehensive, integrated approach to asset allocation, investments, portfolio rebalancing and tax management;
- No fee and no minimum individual retirement accounts; plus, Rollover Specialists to guide customers through the rollover process;
- Access to more than 1,000 non-proprietary exchange-traded funds and over 8,000 non-proprietary mutual funds;
- Investing and trading educational services via online videos, web seminars and web tutorials; and
- FDIC insured deposit accounts, including checking, savings and money market accounts.

## Corporate Services

We offer software and services for managing equity compensation plans for corporate customers. Our Equity Edge platform facilitates the management of employee option plans, employee stock purchase plans and restricted stock plans, including necessary accounting and reporting functions. This is a product of the trading and investing segment since it serves as an introduction to E\*TRADE for many employees of our corporate customers who conduct equity option and restricted stock transactions, with our goal being that these individuals will also use our other products and services. Our corporate services business received top ratings in overall satisfaction and loyalty among broker plan administrators by Group Five, an independent consulting and research firm, in its 2011 Stock Plan Administration Benchmarking Study.

## Market Making

Our trading and investing segment also includes market making activities which match buyers and sellers of securities from our retail brokerage business and unrelated third parties. As a market maker, we take positions in securities and function as a wholesale trader by combining trading lots to match buyers and sellers of securities. Trading gains and losses result from these activities. Our revenues are influenced by overall trading volumes, the number of stocks for which we act as a market maker and the trading volumes and volatility of those specific stocks.

## Board of Directors

**Frank J. Petrilli**  
Chairman, E\*TRADE Financial Corporation

**Ronald D. Fisher**  
President, SoftBank Holdings, Inc.

**Steven J. Freiberg**  
Chief Executive Officer,  
E\*TRADE Financial Corporation

**Kenneth C. Griffin**  
Founder and Chief Executive Officer,  
Citadel LLC

**Frederick W. Kanner**  
Of Counsel, Dewey & LeBoeuf LLP

**Rodger A. Lawson**  
Former Industry Executive

**Michael K. Parks**  
Managing Director, Crescent Capital Group

**Rebecca Saeger**  
Former Corporate Marketing Executive

**Joseph L. Scalfani**  
Retired Banking Executive

**Joseph M. Velli**  
Chairman and Chief Executive Officer,  
ConvergEX Group

**Donna L. Weaver**  
Chairman, MxSecure, Inc.

**Stephen H. Willard**  
Chief Executive Officer,  
Flamel Technologies S.A.

## Executive Leadership

**Steven J. Freiberg**  
Chief Executive Officer

**Matthew J. Audette**  
Chief Financial Officer

**Paul W. Brandow**  
Chief Risk Officer

**Michael J. Curcio**  
President of E\*TRADE Securities

**Gregory A. Framke**  
Chief Operating Officer

**Andrew G. Goodman**  
Chief Human Resources Officer

**Peter R. Knitzer**  
President of E\*TRADE Bank

**Karl A. Roessner**  
General Counsel

**Nicholas A. Utton**  
Chief Marketing Officer

## Shareholder Services

### Corporate Headquarters

1271 Avenue of the Americas  
14th Floor  
New York, NY 10020-1302

### Shareholder Information

ir@etrade.com  
646-521-4340

### Investor Relations

Brett Goodman  
brett.goodman@etrade.com  
646-521-4406

### Corporate Communications

Lea Stendahl  
lea.stendahl@etrade.com  
646-521-4418

### 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  
6201 15th Avenue  
Brooklyn, NY 11219  
1-800-937-5449

### Independent Auditors

Deloitte & Touche LLP  
McLean, VA

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Forward-Looking Statements: The statements contained herein that are forward looking are based on current expectations that are subject to a number of uncertainties and risks, and actual results may differ materially. Such statements include those relating to the ability of the Company to achieve growth and profitability, attract and retain customers, increase brokerage inflows, reduce expenses, avoid unexpected or unusual expenses and continue progress in our legacy loan portfolio. The uncertainties and risks include, but are not limited to, potential changes in market activity, anticipated changes in the rate of new customer acquisition, macro trends of the economy in general and the residential real estate market, instability in the consumer credit markets and credit trends, increased mortgage loan delinquency and default rates, portfolio growth, portfolio seasoning and resolution through collections, sales or chargeoffs, the uncertainty surrounding the foreclosure process, and the potential negative regulatory consequences resulting from the implementation of financial regulatory reform as well as from actions by the Office of Thrift Supervision or other regulators. Further information about these risks and uncertainties can be found in the annual, quarterly, and current reports on Form 10-K, Form 10-Q, and Form 8-K previously filed by E\*TRADE Financial Corporation with the Securities and Exchange Commission ("SEC") (including information in these reports under the caption "Risk Factors"). Any forward-looking statement included herein speaks only as of the date of this communication; the Company disclaims any obligation to update any information.

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