E*TRADE BANK DODD-FRANK ACT

COMPANY–RUN STRESS TEST DISCLOSURE

JUNE 2015

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 September 30, 2014, and disclose certain results of the test. The results of the stress test are for the Bank, including E*TRADE Securities and E*TRADE Clearing, which were wholly-owned subsidiaries of E*TRADE Bank as of September 30, 2014.[1]

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 exercise 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 October 2014, and it covers a nine-quarter forecast horizon starting on October 1, 2014, and ending on December 31, 2016. 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 2015 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 features a substantial weakening in global economic activity, accompanied by large reductions in asset prices. Under the Severely Adverse Scenario the unemployment rate increases by 4 percent from its Q3 2014 level, peaking at 10 percent in Q2 2016. Additionally, interest rates drop as the 10-year Treasury falls below 1 percent in Q4 2014 and stays below 2 percent while the three-month Treasury remains near zero through the nine-quarter forecast horizon. Mortgage rates also increase over the course of 2015 while home prices fall 25 percent throughout the forecast horizon. Lastly, and particularly important to the Bank's business model, the stock market falls by approximately 60 percent from Q4 2014 to Q4 2015 while market volatility increases sharply.

[1] E*TRADE Securities was moved from under E*TRADE Bank in February 2015 and E*TRADE plans to move E*TRADE Clearing later in 2015. Because both E*TRADE Securities and E*TRADE Clearing were subsidiaries of E*TRADE Bank at the time the stress test was conducted, the results disclosed below assume that both entities remained under E*TRADE Bank throughout the forecast horizon.

Overview of Risk Types and Stress Testing Methodology

The Board of Directors has approved a 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 inability or failure of a borrower or counterparty to meet its credit obligations.

- *Interest Rate Risk* - the risk of loss of income or value of future income due to changes in interest rates arising from the Company's balance sheet position. This includes convexity risk, which arises from optionality in the balance sheet related to prepayments of mortgage assets.

- *Liquidity Risk* - the potential inability to meet 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 loss due to failure of people, processes, and systems, or damage to physical assets caused by unexpected events.

- *Strategic Risk* - sometimes called business risk; the risk of loss of market size, market share, or margin in any business.

- *Reputational Risk* - the potential that negative perceptions regarding our conduct or business practices will adversely affect valuation, profitability, operations, or 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 non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards.

The 2015 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. The econometric models were used to forecast the Bank's credit losses, deposit accounts and balances, commission revenue from daily average revenue trades ("DARTs"), along with net interest income under the Severely Adverse Scenario.

Credit losses for 1-4 family mortgages, junior lien mortgages, home equity lines of credit ("HELOCs"), 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 Losses and Leases ("ALLL"). 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 ("AFS") 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 key balance sheet drivers, including DARTs, number of brokerage accounts and deposit balances, and margin loan balances. The models reflect the performance and behavior of the Bank's brokerage and deposit accounts, margin loan balances, and customer trade commissions for both their in-sample and out-of-sample fits. 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 used in the 2015 stress test were independently validated by the Bank'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 were also reviewed by senior management throughout the stress testing process to ensure consistent quality for the 2015 stress test.

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 ICCAP 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 2015 Company-Run Stress Test

The financial information and capital ratios for the Bank are calculated using the Basel III Standardized Approach. Capital ratios are also calculated using management's estimate of the financial and capital actions the Bank would take in the Severely Adverse Scenario (e.g., dividends to E*TRADE Financial, cash movements, etc.).

As provided in the stress testing regulations, the Bank's capital calculations for the 2015 stress test incorporate a transition from the OCC capital calculation methodology in 2014 to the Basel III framework, effective January 1, 2015. Accordingly, capital results reported in 2014 are based upon the OCC capital calculation methodology while the capital calculations in 2015 and 2016 are based upon the Basel III framework. The transition to the Basel III framework had an overall, favorable impact on the Bank's capital ratios in the stress test. Under Basel III the vast majority of margin receivables, which are a substantial portion of the Bank's assets, qualify for 0 percent risk weighting, whereas under the previous methodology margin receivables were risk weighted at 100 percent. This decreases overall risk-weighted assets, thus increasing our capital ratio where risk-weighted assets are used as the denominator. Additionally, under the new Basel III guidelines, the Bank includes a larger portion of deferred tax assets in regulatory capital. This raises the overall Tier 1 capital levels and translates into higher Tier 1 Leverage Ratios.

Table 1 illustrates the difference in the actual capital ratios under the prior OCC rules and under the Basel III framework. The Q1 2015 capital ratios also reflect the impact of moving E*TRADE Securities out from

under E*TRADE Bank in February 2015. Tables 2 and 3 illustrate the differences between the prior OCC capital ratios and the projected capital ratios under the Basel III framework for the specific situations disclosed below.

Table 1: Actual OCC Regulatory Capital Ratios and Basel III Capital Ratios

	Actual (OCC Ratios)		Actual (Basel III)
E*TRADE Bank	Q3 2014	Q4 2014	Q1 2015[(a)]
Capital Ratios			
Tier 1 Leverage Ratio	10.4%	10.6%	9.8%
Tier 1 Common Ratio	24.6%	25.7%	42.4%
Tier 1 Capital Ratio	24.6%	25.7%	42.4%
Total Capital Ratio	25.9%	26.9%	43.7%

[(a)] E*TRADE Securities was moved from under E*TRADE Bank in February 2015.

Table 2: Actual OCC Regulatory Capital Ratios and Projected Basel III Capital Ratios through Q4 2016 under the Severely Adverse Scenario

	Actual (OCC Ratios)	Stressed Capital Ratios[(a)] (Basel III Methodology)	
E*TRADE Bank	Q3 2014	Ending	Minimum
Capital Ratios:			
Tier 1 Leverage Ratio	10.4%	12.2%	11.4%
Tier 1 Common Ratio	24.6%	51.1%	45.1%
Tier 1 Capital Ratio	24.6%	51.1%	45.1%
Total Capital Ratio	25.9%	52.4%	46.4%

[(a)] Stressed capital ratios include E*TRADE Securities and E*TRADE Clearing throughout the forecast horizon as they were subsidiaries of E*TRADE Bank at the time the stress test was conducted. E*TRADE Securities was moved from under E*TRADE Bank in February 2015 and E*TRADE plans to move E*TRADE Clearing later in 2015.

Table 3: Actual Q3 2014 and Projected Q4 2016 Capital Metrics in the Severely Adverse Scenario

	Actual Q3 2014	Projected Q4 2016
E*TRADE Bank (in $Thousands)	OCC Guidance	Basel III Methodology
Risk-Weighted Assets	18,035,214	8,802,812[(a)]
Tier 1 Capital	4,438,906	4,501,352
Average Assets for Leverage Purposes	42,681,389	36,882,716

[(a)] Decrease in projected Risk-Weighted Assets under severely adverse scenario is driven by a decrease in margin loan and investment securities balances, combined with the Basel III risk-weight reduction for margin loans.

Table 4: Projected Losses, Revenue, and Net Income Before Taxes under the Severely Adverse Scenario, Q4 2014 to Q4 2016 Cumulative, 9 Quarters

E*TRADE Bank (in $Millions)		Millions of Dollars	% of Avg. Assets
Net Interest Income	$	1,681	4.4%
Non-Interest Income (Commissions and Fees)		1,196	3.1%
Non-Interest Expense (Operational Expense) [(a)]		2,214	5.8%
Pre-provision Net Revenue	$	663	1.7%
Gains (losses) on securities sales, net		106	0.3%
Provision for loan losses		(1,033)	-2.7%
Counterparty Stress Loss		(78)	-0.2%
Other income (loss)		-	0.0%
Pre-tax income (loss)	$	(341)	-0.9%
9 Quarter Average Assets	$	38,306	

*Numbers may not foot due to rounding

[(a)] Includes $96 million of stress operational losses and $15 million of stress margin losses in Q4 2014

Table 5: Projected Loan Losses by Loan Type under the Severely Adverse Scenario, Q4 2014 to Q4 2016 Cumulative

E*TRADE Bank		Millions of Dollars	Cumulative Charge-Off Rates
1-4 Family Mortgages		246	7.3%
HEILs		113	17.0%
HELOCs		465	16.8%
Total Residential	$	824	12.1%
RV		34	8.4%
Marine		12	11.1%
Total Consumer	$	46	9.0%
Total Loan Loss (Net Charge-Offs)	$	870	

*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 net loss of $341 million. This is primarily driven by decreasing pre-provision net revenue and an increasing provision for loan losses. The stock market deterioration decreases the overall balance sheet size, specifically margin loan balances and sweep account balances. The decline in sweep account balances results in a smaller securities portfolio on the asset side as securities are sold in response to the sweep balance outflow. The shrinking balance sheet, combined with low interest rates throughout the forecast horizon, drives overall net interest income down. Additionally, the stock market deterioration also drives declines in DARTs and fees, resulting in a decline in non-interest income. Lastly, 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 11.4 percent in Q4 2014 and increases throughout the remaining projection period, ending at 12.2 percent in Q4 2016. Similar increases are seen in the Tier 1 Common Ratio, the Tier 1 Capital Ratio, and the Total Capital Ratio throughout the forecast horizon.