UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-11921

E*TRADE Financial Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware	**94-2844166**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

671 N. Glebe Road, Arlington, Virginia 22203

(Address of principal executive offices and Zip Code)

(646) 521-4340

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	ETFC	The NASDAQ Stock Market LLC NASDAQ Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)		Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x

At June 30, 2019, the aggregate market value of voting stock held by non-affiliates of the registrant was approximately $7.4 billion (based upon the closing price per share of the registrant's common stock as reported by the NASDAQ Global Select Market on that date). Shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliates' status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

As of February 14, 2020, there were 221,750,841 shares of common stock outstanding.

Documents Incorporated by Reference: Certain portions of the definitive Proxy Statement related to the Annual Meeting of Stockholders, to be filed hereafter (incorporated into Part III hereof).

E*TRADE FINANCIAL CORPORATION
FORM 10-K ANNUAL REPORT
For the Year Ended December 31, 2019
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Unless otherwise indicated, references to "the Company," "we," "us," "our," "E*TRADE" and "E*TRADE Financial" mean E*TRADE Financial Corporation and its subsidiaries, and references to the parent company mean E*TRADE Financial Corporation but not its subsidiaries.

E*TRADE, E*TRADE Financial, E*TRADE Bank, E*TRADE Savings Bank, the Converging Arrows logo, Power E*TRADE, Equity Edge Online, Trust Company of America, now E*TRADE Advisor Services, E*TRADE Advisor Network, Liberty and Gradifi are trademarks or registered trademarks of E*TRADE Financial Corporation in the United States and in other countries. All other trademarks are the property of their respective owners.

PART I

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. These statements discuss, among other things:

- our future plans, objectives, outlook, strategies, expectations and intentions relating to our business and future financial and operating results and the assumptions that underlie these matters
- our capital plan initiatives
- the timing and payment of dividends on our common and preferred stock
- the payment of dividends from our subsidiaries to our parent company
- the management of our legacy mortgage loan portfolio
- our ability to comply with future changes to government regulations
- our ability to maintain required regulatory capital ratios
- continued repurchases of our common stock
- our ability to meet upcoming debt obligations
- the integration and related restructuring costs of past and any future acquisitions
- the expected outcome of existing or new litigation
- our ability to execute our business plans and manage risk
- future sources of revenue, expense and liquidity
- the ability of our technology solution for advisors and our referral program to attract and retain customers seeking specialized services and sophisticated advice
- the expected impact of the adoption of the amended accounting and disclosure guidance governing the accounting for credit losses
- the expected impact from and responses to the elimination of retail commissions for online US listed stock, exchange-traded funds (ETF), and options trades
- any other statement that is not historical in nature

These statements may be identified by the use of words such as "assume," "expect," "believe," "may," "will," "should," "anticipate," "intend," "plan," "estimate," "continue" and similar expressions.

We caution that actual results could differ materially from those discussed in these forward-looking statements. Important factors that could contribute to our actual results differing materially from any forward-looking statements include, but are not limited to:

- changes in business, economic or political conditions
- performance, volume and volatility in the equity and capital markets
- changes in interest rates or interest rate volatility
- our ability to manage our balance sheet size and capital levels
- disruptions or failures of our information technology systems or those of our third-party service providers
- cyber security threats, system disruptions and other potential security breaches or incidents
- customer demand for financial products and services
- our ability to continue to compete effectively and respond to aggressive competition within our industry, such as through the elimination of retail commissions for online US listed stock, ETF and options trades

- our ability to participate in consolidation opportunities in our industry, to complete consolidation transactions and to realize synergies or implement integration plans
- our ability to manage our significant risk exposures effectively
- the occurrence of risks associated with our advisory services
- our ability to manage credit risk with customers and counterparties
- our ability to service our corporate debt and, if necessary, to raise additional capital
- changes in government regulation, including interpretations, or actions by our regulators, including those that may result from the implementation and enforcement of regulatory reform legislation
- adverse developments in any investigations, disciplinary actions or litigation
- changes in actual or forecasted assumptions impacting the measurement of expected credit losses upon adoption of the amended guidance governing the accounting for credit losses

By their nature forward-looking statements are not guarantees of future performance or results and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Actual future results may vary materially from expectations expressed or implied in this report or any of our prior communications. Investors should also consider the risks and uncertainties described elsewhere in this report, including under *Part I. Item 1A. Risk Factors* and *Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of this Annual Report. The forward-looking statements contained in this report reflect our expectations only as of the date of this report. Investors should not place undue reliance on forward-looking statements, as we do not undertake to update or revise forward-looking statements, except as required by law.

ITEM 1. BUSINESS

OVERVIEW

Company Overview

E*TRADE is a financial services company that provides brokerage and related products and services for traders, investors, stock plan administrators and participants, and registered investment advisors (RIAs). We were incorporated in California in 1982, reincorporated in Delaware in July 1996 and had approximately 4,100 employees at December 31, 2019. Founded on the principle of innovation, we aim to enhance the financial independence of customers through a powerful digital offering that includes tools and educational materials, complemented by professional advice and support, catering to the complex and unique needs of customers to help meet their near- and long-term investing goals. We provide these services through our digital platforms and network of industry-licensed customer service representatives and financial consultants, over the phone, by email and online via two national financial centers, and in-person at 30 regional financial centers across the United States. We also operate federally chartered savings banks with the primary purpose of maximizing the value of deposits generated through our brokerage business.

We operate directly and through several subsidiaries, many of which are overseen by governmental and self-regulatory organizations (SROs). Substantially all of our revenues for the years ended December 31, 2019, 2018, and 2017 were derived from our operations in the United States. Our most important subsidiaries are described below:

- E*TRADE Securities LLC (E*TRADE Securities) is a registered broker-dealer that clears and settles customer transactions
- E*TRADE Bank is a federally chartered savings bank that provides Federal Deposit Insurance Corporation (FDIC) insurance on certain qualifying amounts of customer deposits and provides other banking and cash management capabilities
- E*TRADE Savings Bank, a subsidiary of E*TRADE Bank, is a federally chartered savings bank that provides FDIC insurance on certain qualifying amounts of customer deposits and provides custody solutions for RIAs
- E*TRADE Financial Corporate Services, Inc. (E*TRADE Financial Corporate Services) is a provider of software and services for managing equity compensation plans and student loan and financial wellness benefits to our corporate clients
- E*TRADE Futures LLC (E*TRADE Futures) is a registered non-clearing Futures Commission Merchant (FCM) that provides retail futures transaction capabilities for our customers
- E*TRADE Capital Management LLC (E*TRADE Capital Management) is an RIA that provides investment advisory services for our customers

Delivering a powerful digital offering for our customers is a core pillar of our business strategy and we believe our focus on being a digital leader in the financial services industry is a competitive advantage. We offer a broad range of products and services to customers through the following channels:

- **Retail:** Our retail channel services individual brokerage and banking customers that utilize our web, mobile and/or active trading platforms to meet trading, investing and/or banking needs
- **Institutional:** Our institutional channels include Corporate Services and Advisor Services. We provide stock plan, student loan and financial wellness solutions for public and private companies globally through our corporate services channel. We provide custody services to independent RIAs through our advisor services channel

STRATEGY

Our business strategy is focused on leveraging our brand, hybrid support model, and technology to grow our retail and institutional channels while generating robust earnings growth and maximizing shareholder returns.

Leverage our brand, hybrid support model, and leading technology for scale and growth

E*TRADE's unrivaled and tech-forward brand is synonymous with digital brokerage and drives outsized awareness and consideration among business-to-customer and business-to-business audiences. We are able to serve peak volumes across channels with capacity for growth and acquisition through our strong and scalable infrastructure. Our customers benefit from digitally led experiences, complemented by professional advice and support. We cater to the complex and unique needs of traders, investors, stock plan administrators and participants, and independent RIAs.

Empower self-directed retail customers through a powerful digital offering and professional guidance

E*TRADE has three core digital offerings for the retail investor—trading, investing, and banking. We maintain a leading position among active and derivatives traders through the Power E*TRADE web-based platform and support model. We connect customers with a range of easy to use wealth management solutions. We are also advancing digital banking capabilities to complement our existing product set and increase engagement with customers and prospects.

Capitalize on symbiotic institutional channels to drive growth

E*TRADE's corporate services and advisor services channels are critical for growth. We aim to expand on our #1 position in stock plan administration through innovative digital solutions, complementary service offerings and expert support—driving growth in retail and institutional relationships. We plan to leverage the power of E*TRADE's brand, digital ethos, and our broad customer base to grow the advisor services channel. We also plan to connect retail customers and stock plan participants seeking higher touch services to top-tier advisors through our referral network—driving asset growth and retention.

Generate robust earnings growth and shareholder returns

We aim to deliver superior returns on customer assets by capturing the full value of our retail and institutional relationships and leveraging E*TRADE's highly scalable model to generate robust earnings growth and maximize shareholder returns.

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PRODUCTS AND SERVICES

Our hybrid delivery model is available through the following award-winning digital platforms which are complemented by professional advice and support.

Platforms for Retail Channel(1)	***Platforms for Institutional Channel***(1)
Web Our easy to use site is the primary channel to interact with customers and prospects	***Equity Edge Online***(2) Equity Edge Online is the #1 rated platform in the stock plan administration industry that offers automation and flexibility
Mobile(3) Our industry leading mobile applications include integrations with leading artificial intelligence assistants	***Gradifi*** Gradifi is a secure, scalable, and streamlined platform that offers student loan and financial wellness benefits
Active Trading Platforms Active derivatives trading platforms include sophisticated trading tools, advanced portfolio and market tracking, and idea generation and analysis	***Liberty*** Liberty is intuitive technology built for RIAs that simplifies the investment and management of client assets

Complemented by professional advice and support

Customer Service Customer service is available 24/7 via phone, email or chat from industry licensed representatives. White glove service is available for our highest-tiered customers	***Financial Consultants*** Financial consultants are available by phone or at branches to provide one-on-one investing advice
Active Trader Services Active trader services includes specialized support for sophisticated customers with advanced knowledge and skill	***Corporate Services*** Corporate services support includes personalized service on a global scale driven by dedicated relationship and service managers backed by comprehensive training and education
	Advisor Services Advisor services support includes dedicated relationship managers who act as a single point of contact for specialized support

(1) In August 2019, E*TRADE was rated the #1 online broker in Kiplinger's 2019 Best Online Brokers review.

(2) In September 2019, Equity Edge Online was rated #1 in Loyalty and Overall Satisfaction for the eighth consecutive year in the Group Five Stock Plan Administration Benchmark Study.

(3) E*TRADE maintained its #1 ranking for its Mobile Trading, Options Trading, and Web-based Platform (Power E*TRADE) in Stockbrokers.com's 2020 review of Best Online Brokers for Stock Trading. We also finished Best in Class for research, education, active trading, futures trading, and IRA accounts.

We deliver a broad range of products and services through our retail and institutional channels across the following five product areas: Trading, Investing, Banking and Cash Management Capabilities, Corporate Services and Advisor Services.

Trading

The Company delivers automated trade order placement and execution services, offering our customers a full range of investment vehicles, including US equities, ETFs, options, bonds, futures, American depositary receipts and non-proprietary mutual funds. We also offer margin accounts, enabling qualifying customers to borrow against their securities, supported by robust customer tools to analyze positions and understand collateral requirements. The Company also offers a fully paid lending program which allows customers to earn income on certain securities when they permit us to lend these securities.

The Company markets trading products and services to active traders and self-directed investors. Products and services are delivered through web, desktop and mobile platforms. Trading tools are supported by guidance, including options, futures and fixed income specialists available on-call for customers. Other tools and resources include independent research and analytics, live and on-demand education, market commentary, trading ideas, strategies, and screeners for major asset classes.

Investing

The Company endeavors to help investors build wealth and address their long-term investing needs through a suite of managed products, asset allocation models, and other services. These include our Core Portfolios, Blend Portfolios, Dedicated Portfolios, and Fixed Income Portfolios. The Company offers self-directed digital tools across web and mobile platforms, including mutual fund and ETF screeners, All-Star Lists, a collection of pre-built ETF or mutual fund portfolios based on time frame and risk tolerance, an assortment of planning and allocation tools, thematic investing opportunities, education and editorial content. Investors also have access to a wide selection of ETFs and mutual funds, including more than 2,300 ETFs and more than 4,600 no-load, no-transaction fee mutual funds.

The Company also offers guidance through a team of licensed financial consultants and Chartered Retirement Planning Counselors℠ at our 30 regional financial centers and through our two national financial centers by phone, email and online. Customers can also receive complimentary portfolio reviews and personalized investment recommendations.

Banking and Cash Management Capabilities

The Company's banking and cash management capabilities include deposit accounts insured by the FDIC, which are fully integrated into customer brokerage accounts. E*TRADE Bank's deposit account offerings include the Premium Savings Account, which provides a higher yield to savings account customers as compared to our other deposit products. Among other features, E*TRADE Bank's customers can transfer to and from accounts at E*TRADE and elsewhere for free and checking account customers have access to debit cards with ATM fee refunds, online and mobile bill pay, and mobile check deposits. We also offer the E*TRADE Line of Credit, a securities-based lending program, which allows customers to borrow against the market value of securities pledged as collateral.

Corporate Services

Through our industry-leading platform, Equity Edge Online, the Company offers fully-automated employee stock plan and employee stock purchase plan administration, as well as comprehensive accounting, reporting and scenario modeling tools. The integrated stock plan solutions include multi-currency settlement and delivery, and streamlined tax calculation. Additionally, corporate clients are offered 10b5-1 plan design and implementation, along with SEC filing assistance and automated solutions. Participants have full access to E*TRADE's robust investing and trading capabilities, including tailored education and planning tools, and dedicated stock plan service representatives. Comprehensive financial wellness and student loan solutions have been introduced to complement our existing corporate services offering with the acquisition of Gradifi, Inc. (Gradifi) in December 2019. Refer to *Note 2—Acquisitions and Restructuring* for further detail.

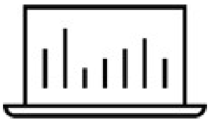
Corporate Services is an important driver of account and asset growth, serving as a conduit to the retail channel. During the year ended December 31, 2019, there were approximately $100 billion of gross inflows into our corporate services channel, primarily driven by new corporate client implementations and new grants and employee stock purchase plan transactions. Over this same period, domestic stock plan participants generated $35 billion of net proceeds through transactions of vested assets. These participant proceeds represent a key source of net new assets for the retail customer channel.

Advisor Services

Through our proprietary technology platform, Liberty, the Company offers sophisticated modeling, rebalancing, reporting, and practice management capabilities that are fully customizable for the RIA. E*TRADE's financial consultants can refer retail customers to pre-qualified RIAs on our custody platform through our referral program, the E*TRADE Advisor Network, which is offered through our two national and 30 regional financial centers. We expect the E*TRADE Advisor Network will improve the Company's ability to drive asset growth and retain customers seeking specialized services and sophisticated advice.

SALES AND CUSTOMER SERVICE

We believe providing superior sales and customer service is fundamental to our business. We strive to maintain a high standard of customer service by staffing our teams with professionals who are equipped to handle customer inquiries in a prompt and thorough manner. Our customer service representatives utilize technology solutions that enable our team to reduce the number of steps required to address customer needs. We also have specialized customer service programs that are tailored to the needs of various customer groups. We provide sales and customer support as follows:

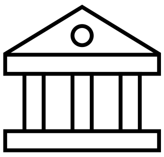


Online

Our Online Service Center serves as a portal for customer requests, providing answers to frequently asked questions, a secure message portal, and live chat capabilities to engage directly with our customer service representatives. In addition, our Investor Education Center provides customers with access to a variety of live and on-demand educational content and courses.

Phone

Our toll-free number connects customers to the appropriate department where an investment advisor or customer service representative can address the customer's needs.



Financial Centers

We have 30 financial centers located across the US where investors can get face-to-face support and guidance. Financial consultants are available on-site, over the phone and via email to help customers assess their asset allocations and develop plans to help them achieve their investment goals. Additionally, the E*TRADE Advisor Network, our RIA referral program, is operational at all financial centers.

COMPETITION

The online financial services industry continues to evolve and remains highly competitive. Our retail and institutional channels compete with full service and online brokerage firms, RIAs, finance technology start-ups, and retail and savings banks. Some of these competitors also provide online trading and banking services, investment advisor services, robo-advice capabilities, and a host of other financial products and services.

Competition in the financial services industry continues to intensify, particularly amid continued consolidation and pressures on pricing. The proliferation of emerging financial technology start-ups further evidences the continued shift to digital offerings. Our future success will depend upon our ability to continue providing compelling and easy to use products and solutions to our customers.

We also face competition in attracting and retaining qualified employees. Our ability to compete effectively in financial services will depend upon our ability to attract new employees, and to retain and motivate our existing employees while efficiently managing compensation-related costs.

REGULATION

Our business is subject to regulation, primarily by US federal and state regulatory agencies and certain SROs, such as central banks and securities exchanges, that have been charged with the protection of the financial markets and the interests of those participating in those markets. We, along with other larger institutions, have been subject to a broad range of rules and regulations and a climate of heightened regulatory scrutiny, that resulted in part from the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in 2010, which significantly changed the bank regulatory structure of our Company and federal savings bank subsidiaries.

In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (EGRRCPA) was passed. The EGRRCPA amended provisions in the Dodd-Frank Act as well as other statutes administered by the Federal Reserve Board, the Office of the Comptroller of the Currency (OCC), and the FDIC (collectively, the “federal banking agencies”). On November 1, 2019, the Federal Reserve Board published a final rule that applies certain requirements to savings and loan holding companies with $100 billion or more in total consolidated assets. For the Company, this final rule formalized relief resulting from the passage of EGRRCPA from certain requirements including company-run stress testing requirements and the modified liquidity coverage ratio. The final rule established four categories of U.S. banking organizations that are determined based on risk-based indicators and tailored the application of certain enhanced prudential standards to those categories, with requirements generally applying beginning at the $100 billion consolidated asset threshold. While the Company currently does not surpass that threshold, it could in the future.

Financial Services Regulation

Our regulators are increasingly focused on ensuring that our customer privacy, data protection, information security and cyber security-related policies and practices are adequate to inform consumers of our data collection, use, sharing or security practices, to provide them with choices, if required, about how we use and share their information, and to safeguard their personal information. We maintain systems designed to comply with these privacy, data protection, information security and cyber security requirements, including procedures designed to securely process, transmit and store confidential information and protect against unauthorized access to such information.

Our brokerage and banking entities are required by the Gramm-Leach-Bliley Act of 1999 and certain state laws, including the California Consumer Privacy Act (CCPA), to disclose their privacy policies and practices related to sharing customer information with affiliates and non-affiliates and to provide customers with the ability to "opt out" of sharing certain non-public information for certain purposes. Additionally, the CCPA requires us to provide California residents, whether or not they are customers, with the ability to make certain requests related to their personal information, including accessing and/or deleting their information, subject to statutory exceptions. The U.S. Congress also continues to consider various proposals for a comprehensive federal data privacy law, and we expect federal data privacy laws to continue to evolve. For additional information on the privacy and security of our customers' and employees' personal information and the potential impact to our business if we fail to protect such information or comply with relevant laws, rules, and regulations, refer to *Item 1A. Risk Factors* under the heading *Risks Relating to the Regulation of Our Business*. The Bank Secrecy Act, as amended by the USA PATRIOT ACT of 2001 (BSA/USA PATRIOT Act), applies to our brokerage and banking entities and requires financial institutions to develop anti-money laundering (AML) programs to assist in the prevention and detection of money laundering and combating terrorism. To comply with the BSA/USA PATRIOT Act, we have an AML department that is responsible for developing and implementing our enterprise-wide programs for compliance with the various AML and counter-terrorist financing laws and regulations. Our brokerage and banking entities are also subject to US sanctions laws administered by the Office of Foreign Assets Control and we have policies and procedures in place to comply with these laws. In providing certain retirement account types and services to such accounts, E*TRADE Securities, E*TRADE Capital Management, and E*TRADE Savings Bank are also subject to certain rules and regulations of the Department of Labor and the Internal Revenue Service. For additional regulatory information on our brokerage and banking regulations, see *MD&A—Liquidity and Capital Resources* and *Note 18—Regulatory Requirements.*

Savings and Loan Holding Company and Bank Regulation

The Board of Governors of the Federal Reserve System (Federal Reserve Board, and together with the twelve Federal Reserve Banks, the Federal Reserve) has primary jurisdiction for the supervision and regulation of savings and loan holding companies, including the Company. We are required to file periodic reports with the Federal Reserve and are subject to its examination and supervision. The Company is required to serve as a source of financial and managerial strength for its subsidiary banks.

Our banking entities are regulated, supervised, and examined by the OCC, the Consumer Financial Protection Bureau (CFPB), and the FDIC. The Company and the banking entities are also subject to regulations and various requirements and restrictions under state and other federal laws. Such regulations cover all aspects of the banking business, including lending practices, safeguarding deposits, customer privacy and information security, capital structure, transactions with affiliates and conduct and qualifications of personnel, and provide the regulatory authorities broad discretion in connection with their supervisory, examination and enforcement activities and policies.

In certain circumstances, each of our banking entities may be subject to restrictions on its ability to declare dividends or make capital distributions and may be required to provide notice, submit applications or requests for non-objection from the OCC or the Federal Reserve in connection with a planned capital distribution. The Company's ability to pay dividends on our stock is subject to limits, including in certain instances the requirement that we consult with or receive approval from the Federal Reserve prior to taking such capital actions to ensure that the proposed actions do not raise safety and soundness considerations. Prior Federal Reserve approval is required for the Company to repurchase its stock and such approval is conditioned on multiple factors, including the Company's current and projected financial condition.

Basel III Capital Framework

The US Basel III framework for the calculation of a banking organization's regulatory capital and risk-weighted assets became effective for us and for our federal savings bank subsidiaries on January 1, 2015. The US Basel III rules increased the quantity and quality of required regulatory capital, established a capital conservation buffer, and made changes to the calculation of risk-weighted assets. Failure to maintain the capital conservation buffer limits a banking organization's ability to make capital distributions and discretionary bonus payments to executive officers.

Failure to meet capital requirements can trigger discretionary and mandatory actions by regulators. The FDIC Improvement Act of 1991 requires the appropriate federal banking regulator to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards. While these regulations generally apply only to banks, such as E*TRADE Bank and E*TRADE Savings Bank, the Federal Reserve is authorized to take appropriate action against a parent savings and loan holding company, such as the Company, based on the undercapitalized status of any bank subsidiary. In certain instances, we would be required to guarantee the performance of a capital restoration plan if either of our bank subsidiaries were undercapitalized.

Resolution Planning

Current FDIC rules require insured depository institutions with total assets of $50 billion or more, based on the average of the four most recent quarters, to submit to the FDIC periodic plans providing for their resolution by the FDIC in the event of failure under the receivership and liquidation provisions of the Federal Deposit Insurance Act. While E*TRADE Bank crossed the applicable total assets threshold of $50 billion in 2019, neither E*TRADE Bank nor E*TRADE Savings Bank will, at this time, be required to submit a resolution plan to the FDIC due to interim FDIC actions. On April 16, 2019, the FDIC approved an advanced notice of proposed rulemaking seeking comment on potential changes to this rule (the "IDI Rule") including whether to change the asset threshold. On the same day, the FDIC also announced that its board of directors voted to delay submissions under the IDI Rule until the rulemaking process has been completed.

Federal Deposit Insurance and Related Assessments

The FDIC’s Deposit Insurance Fund (DIF) provides insurance coverage for certain deposits, generally up to $250,000 per depositor, per insured bank and per account ownership type, and is funded by quarterly assessments on insured depository institutions. Each of our banking entities has deposits insured by the FDIC and pays quarterly assessments to the DIF, maintained by the FDIC, for this insurance coverage. On March 25, 2016, the FDIC published its final rule to add a surcharge to the regular DIF assessments of banks with $10 billion or more in assets, which included E*TRADE Bank. Under the final rule, E*TRADE Bank was subject to an additional surcharge applied to its assessment base, which took effect for the assessment period beginning on July 1, 2016. Surcharges at an annual rate of 4.5 basis points were assessed until the sooner of (1) the DIF attaining the minimum reserve ratio of 1.35 percent of insured deposits or (2) the fourth quarter of 2018. In November 2018, the FDIC announced the end of these surcharges, with the last surcharge being assessed for the third quarter of 2018. The surcharge did not have a material impact on our financial condition, results of operations or cash flows.

Home Owners' Loan Act

Under the Home Owners’ Loan Act, the OCC requires E*TRADE Bank and E*TRADE Savings Bank to comply with the qualified thrift lender (QTL) test. Under the QTL test, a federal savings bank is required to maintain at least 65% of its “portfolio assets” (defined as the savings bank’s total assets less the sum of: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct its business) in certain “qualified thrift investments” (primarily residential mortgages and related investments, including certain mortgage-backed securities (MBS), credit card loans, student loans and small business loans) in at least nine months of the most recent 12-month period. E*TRADE Bank and E*TRADE Savings Bank currently meet that test. A savings bank that fails to meet the QTL test is subject to certain operating restrictions and may be required to convert to a national bank charter.

Brokerage Regulation and Capital Requirements

Our US broker-dealer, E*TRADE Securities, is registered with the SEC and is subject to regulation by the SEC and by SROs, such as the Financial Industry Regulatory Authority (FINRA) and the securities exchanges of which it is a member, as well as various state regulators. In addition, our FCM subsidiary, E*TRADE Futures, is registered with the Commodity Futures Trading Commission (CFTC) and is a member of the National Futures Association (NFA).

Brokerage regulation covers various aspects of brokerage activities, including segregated cash requirements and net capital. E*TRADE Securities carries security accounts for customers and maintains segregated cash and investments pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934. E*TRADE Futures maintains cash deposits that have been segregated or secured for the benefit of futures clients pursuant to CFTC regulations governing FCMs. E*TRADE Securities is subject to the Uniform Net Capital Rule, Rule 15c3-1 under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital, and E*TRADE Futures is subject to CFTC net capital requirements. Brokerage regulation also covers other brokerage activities, including required books and records, safekeeping of funds and securities, trading, prohibited transactions, public offerings, margin lending, customer qualifications for margin and options transactions, registration of personnel and transactions with affiliates, conflicts, and securities and other investment related recommendations made to customers and prospects.

Investment Adviser Regulation

E*TRADE Capital Management is registered with the SEC as an investment adviser and is subject to regulation as such by the SEC as well as various state regulators. Investment advisers registered with the SEC are subject to the Investment Advisers Act of 1940 (Advisers Act) and potentially state regulations (in addition to laws and regulations mentioned above in the *Financial Services Regulation* discussion). The Advisers Act, together with related regulations and interpretations of the SEC, impose numerous obligations and restrictions on investment advisers, including requirements relating to the safekeeping of client funds and securities, limitations on advertising, disclosure, reporting and recordkeeping obligations.

AVAILABLE INFORMATION

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, available free of charge at our corporate website as soon as reasonably practicable after they have been filed with the SEC. Our corporate website address is *about.etrade.com*. Information on our website is not part of this report. The SEC maintains a website that contains the materials we file with the SEC at *www.sec.gov*.

ITEM 1A. RISK FACTORS

The following discussion sets forth the risk factors which could materially and adversely affect our business, financial condition and results of operations, and should be carefully considered in addition to the other information set forth in this report. Additional risks and uncertainties not currently known to us or that we currently do not deem to be material may also adversely affect our business, financial condition and results of operations.

Risks Relating to the Nature and Operation of Our Business

Changes in business, economic, or political conditions could impact trading volumes, margin lending and sweep deposits, resulting in lower revenues.

Services provided to retail customers, including trading, margin lending and sweep deposits, account for a significant portion of our revenues. Changes in business, economic or political conditions could cause a downturn in the global financial markets. Such a downturn could decrease the volume of customer transactions which may, in turn, result in lower trading-based revenue, fees and service charges, and a decrease in margin lending, which would reduce our interest income earned on margin receivables. Changes in business, economic or political conditions could also result in our customers reducing their cash allocations or transferring cash away from us, either of which could negatively impact the amount of sweep deposits our customers maintain with the Company and reduce net revenue.

We may be unsuccessful in managing the effects of changes in interest rates on our business.

Net interest income is our most significant source of revenue and our ability to manage interest rate risk could impact our financial condition. Our results of operations depend, in part, on our level of net interest income and our effective management of the impact of changing interest rates and varying asset and liability maturities. We use derivatives as hedging instruments to reduce the potential effects of changes in interest rates on our results of operations. However, the derivatives we utilize may not be effective at managing this risk and changes in market interest rates and the yield curve could reduce the value of our financial assets and reduce our net interest income.

Net interest margin may fluctuate based on the size and mix of the balance sheet, as well as the impact of the interest rate environment. Rising interest rates and other market factors may cause the Company's funding costs to increase and the value of our debt securities to decrease. Increases in funding costs without offsetting increases in asset yields, especially when a flattened or inverted yield curve persists over a sustained period of time, may adversely affect our results of operations.

The manner in which interest rates are calculated could also impact net interest income. For example, recent reforms, when effective after 2021, may cause the London Interbank Offered Rate (LIBOR) to perform differently than in the past, or be replaced as a benchmark. Although it is not possible to predict the effects of the reform, it could result in, among other things, a reduction in the interest payments we receive, reductions in the value of securities with floating interest rates that we hold, and an increase in the dividend payments on our preferred stock and in the interest payments on certain of our borrowings.

We rely heavily on technology, which can be subject to interruption and instability due to operational and technological failures, both internal and external.

We rely on technology, particularly the internet and mobile services, to conduct much of our business activity and allow our customers to conduct financial transactions. Our systems and operations, including our primary and disaster recovery data center operations, as well as those of the third parties on whom we rely to conduct certain key functions, are vulnerable to disruptions from natural disasters, power outages, computer and telecommunications failures, software bugs, cyber attacks, computer viruses, malware, distributed denial of service attacks, spam attacks, phishing or other social engineering, ransomware, security breaches, credential stuffing, technological failure, human error, terrorism and other similar events. In addition, extraordinary trading volumes or site usage could cause our computer systems to operate at an unacceptably slow speed or even fail. Disruptions to, destruction of, instability of or other failure to effectively maintain our information technology systems or external technology that allows our customers to use our products and services could harm our business and our reputation.

Should our technology operations be disrupted, we may have to make significant investments to upgrade, repair or replace our technology infrastructure and may not be able to make such investments on a timely basis. While we have made significant investments designed to enhance the reliability and scalability of our operations, we cannot assure that we will be able to maintain, expand and upgrade our systems and infrastructure to meet future requirements and mitigate future risks on a timely basis. Disruptions in service and slower system response times could interrupt our business and result in substantial losses, decreased customer service and satisfaction, customer attrition, fines, litigation, and harm to our reputation. Our insurance coverage may be insufficient to protect us against all losses and costs stemming from operational and technological failures and we cannot be certain that such insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material and adverse effect on our business, financial condition and results of operations.

We rely on third parties to perform certain key functions, and their failure to perform those functions could result in the interruption of our operations and systems and could result in significant costs and reputational damage to us.

We rely on third-party service providers for certain technology, security, processing, servicing and support functions. These providers are susceptible to operational, technological and security vulnerabilities, including security breaches, which may impact our business. In addition, these third-party service providers may rely on other parties (sub-contractors) to provide services to us that face similar risks. For example, third-party service providers provide us with certain transaction processing and customer-facing support services, as well as financial information, market news, quotes, research reports and other fundamental data that we offer to customers.

We have third party oversight capabilities, including processes to evaluate third-party providers, designed to verify that the third-party service providers can support the functionality, security and stability of our operations and systems. However, these processes may be insufficient and we cannot assure that we will not experience an operational, technological or security failure as a result of a third-party service provider. Any significant failure by or of our third-party service providers or their sub-contractors that result in an interruption in service, unauthorized access, misuse, loss or destruction of data or other similar occurrences, including failures as a result of natural disasters, power outages, computer and telecommunications failures, software bugs, acts of vandalism, actual or perceived cyber attacks, computer viruses, malware, distributed denial of service attacks, spam attacks, phishing or other social engineering, or ransomware could interrupt our business, cause us to incur losses, result in decreased customer service and satisfaction and increased customer attrition, subject us to fines or litigation and harm our reputation. An interruption in or the cessation of service by any third-party service provider and our inability to make alternative arrangements in a timely manner could have a material impact on our ability to offer certain products and services and cause us to incur losses and could lead to a general loss of customer confidence. We cannot assure that any of these third-party service providers or their sub-contractors will be able to continue to provide their products and services in an efficient, reliable, secure, legally compliant or cost effective manner, if at all, or that they will be able to adequately expand their services to meet our needs and those of our customers, if necessary. Although we may have contractual protections with our third-party service providers, any actual or perceived security breach could harm our reputation and brand, expose us to potential liability or require us to expend significant resources on data security and in responding to any such actual or perceived breach. Any contractual protections we may have from our third-party service providers may not be sufficient to adequately protect us from any such liabilities and losses, and we may be unable to enforce any such contractual protections.

We expect that our regulators will hold us responsible for any deficiencies in our oversight and control of our third-party relationships and for the performance of such third parties. If there were deficiencies in the oversight and control of our third-party relationships, and if our regulators held us responsible for those deficiencies, our business, reputation, and results of operations could be adversely affected.

Unauthorized disclosure, use, modification or misappropriation of our data may subject us to significant liability and reputational harm as well as reduced revenues and increased costs.

As part of our business, we are required to collect, transmit, store and otherwise process sensitive and confidential customer and employee data, including personally identifiable information and similar information as defined by applicable federal, state, and international laws and regulations (collectively "Personal Information"), third-party data, and our proprietary and confidential information, including intellectual property and trade secrets. We maintain, and we contractually require our third-party service providers who have access to Personal Information to maintain, systems and procedures designed to securely collect, transmit, store and otherwise process sensitive and confidential information (including Personal Information) and to protect against unauthorized access to and disclosure of such information. However, risks associated with the collection, transmission, storage and other processing of sensitive and confidential data have grown in recent years due to increasing use of the internet and mobile technologies, and the increasing sophistication and activities of organized crime, hackers, terrorists, nation-states, and other external parties. Like other financial services firms, we experience malicious cyber activity directed at our computer systems, software, networks, and users, including phishing attacks and other forms of social engineering and credential stuffing, attempted unauthorized access, acts of vandalism, computer viruses, malware, ransomware, security breaches, spam attacks, and other cyber attacks. Furthermore, parties may attempt to fraudulently induce employees, customers, clients, third parties or other users of our systems to disclose sensitive or confidential information in order to gain access to our data or that of our customers. Security and privacy threats could derive from third parties, malicious employees or insiders, human error, or technological failures. In 2013, we, and other financial institutions, experienced a cyber incident that resulted in certain customer contact information being compromised and potentially accessed by unauthorized third parties. As of the date of this Annual Report, we are unaware of any financial fraud or other misuse of customer data resulting from this incident. We are cooperating with government agencies in connection with their investigation.

We have continued to invest in security measures, but, despite these investments, we, our customers and our third-party service providers may be unable to anticipate, detect or implement effective preventative measures against cyber attacks or security or privacy breaches, which could result in theft, unauthorized access, acquisition, use disclosure, modification, misuse, loss or destruction of systems or data, interruptions in service, impacts on financial data reporting, theft of intellectual property, or other similar events. We may be required to expend significant capital and other resources to protect against any potential security breaches or failures and their consequences.

An actual or perceived breach of the security of our technology or media (whether social or traditional media), the reporting or announcement of such an event, or reports of perceived security vulnerabilities of our systems or the systems of our third-party service providers, whether accurate or not, or our failure or perceived failure to respond or remediate an event or make adequate or timely disclosures to the public or law enforcement agencies following any such event could severely damage our reputation, expose us to the risk of litigation and liability, result in regulatory actions from state or federal governmental authorities and significant fines, orders and sanctions, disrupt our operations, increase our costs with respect to investigations and remediations, reduce our revenues as a result of the theft of intellectual property, distract our management and otherwise have a materially adverse effect on our business. Additionally, if securities analysts or investor perceive these announcements to be negative, it could, among other things, have a substantial adverse effect on the price of our common stock. Further, any actual or perceived security breach or cyber attack directed at other financial institutions or financial services companies, whether or not we are impacted, could lead to a general loss of customer confidence in the use of technology to conduct financial transactions, which could negatively impact us, including the market perception of the effectiveness of our security measures and technology infrastructure. The occurrence of any of these events may have a material adverse effect on our business or results of operations.

A security breach could occur and persist for an extended period of time without detection. We expect that any investigation of a security breach could take a substantial amount of time, and during such time we may not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, all of which could further increase the costs and consequences of such a breach. Further, detecting and remediating such incidents may require specialized expertise and there can be no assurance that we will be able to retain or hire individuals who possess, or otherwise internally develop, such expertise. Our remediation efforts therefore may not be successful. The inability to implement, maintain, and upgrade adequate safeguards could have a material and adverse impact on our business, financial condition and results of operations. Moreover, there could be public announcements regarding any data security-related incidents and any steps we take to respond to or remediate such incidents. Consumers are generally concerned with security and privacy of the internet, and any publicized security problems affecting our businesses or those of third parties with whom we are affiliated or otherwise conduct business may discourage consumers from doing business with us, which could have a material and adverse effect on our business, financial condition and results of operations.

If any person, including any of our employees, contractors or other agents, negligently disregards or intentionally breaches our established controls with respect to client, employee or third-party data, or otherwise mismanages or misappropriates that data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution in one or more jurisdictions.

As our business model relies heavily on our customers' use of their own personal computers, mobile devices and the internet, our business and reputation could be harmed by security breaches of our customers and third parties. Computer viruses and other attacks on our customers' personal computer systems, home networks and mobile devices or against the third-party networks and systems of internet and mobile service providers could create losses for our customers even without any breach in the security of our systems, and could thereby harm our business and our reputation. As part of our E*TRADE Complete Protection Guarantee, we reimburse our customers for certain losses caused by a breach of security of our customers' own personal systems. Such reimbursements may not be covered by applicable insurance and could have a material impact on our financial performance and results of operations.

Although we maintain insurance coverage that we believe is reasonable, prudent and adequate for the purpose of our business, it may be insufficient to protect us against all losses and costs stemming from security breaches, cyber attacks and other types of unlawful activity, or any resulting disruptions from such events. We cannot be certain that cyber insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material and adverse effect on our business, financial condition and results of operations.

We conduct all of our operations through subsidiaries and rely on dividends from our subsidiaries for a substantial amount of our cash flows.

We depend on dividends, distributions and other payments from our subsidiaries to fund payments on our obligations, including our debt obligations, payments of cash dividends to holders of our preferred stock, as well as capital returns to holders of our common stock. Regulatory and other legal restrictions may limit our ability to transfer funds to or from certain subsidiaries, including E*TRADE Securities, E*TRADE Bank, and E*TRADE Savings Bank. In addition, many of our subsidiaries are subject to laws and regulations that authorize regulatory bodies to block or reduce the flow of funds to us, or that prohibit such transfers altogether in certain circumstances. These laws and regulations may hinder our ability to access funds that we may need to make payments on our obligations, including our debt obligations, and otherwise conduct our business by, among other things, reducing our liquidity in the form of corporate cash. In addition to negatively affecting our business, a significant decrease in our liquidity could also reduce client confidence in E*TRADE.

Under applicable rules, a dividend in excess of 10% of a member firm's excess net capital may not be paid without FINRA's prior written approval. Compliance with these rules may impede our ability to receive dividends from E*TRADE Securities. Additionally, a savings bank that is part of a savings and loan holding company structure, such as E*TRADE Bank and E*TRADE Savings Bank, must file a notice of a declaration of a dividend with the Federal Reserve at least 30 days before the proposed dividend declaration by the bank's board of directors. OCC regulations set forth the circumstances under which a federal savings bank is required to submit an application or notice before it may make a dividend or capital distribution. See *Business—Regulation* for additional information.

As of December 31, 2019, much of our capital was invested in our banking subsidiary, E*TRADE Bank. The Federal Reserve and/or OCC may object to a proposed dividend or capital distribution if, among other things, E*TRADE Bank is, or as a result of such dividend or distribution would be, undercapitalized or it has safety and soundness concerns. We cannot be certain, however, that we will receive regulatory approval for such contemplated dividends at the requested levels or at all.

We operate in a highly competitive industry where many of our competitors have greater resources and may have product suites that may appeal to our current or potential customers.

The financial services industry is highly competitive, with multiple industry participants competing for the same customers. Many of our competitors have longer operating histories and greater resources than we have and offer a wider range of financial products and services. The impact of competitors with superior name recognition, greater market acceptance, larger customer bases or stronger capital positions could adversely affect our revenue growth and customer retention. Our competitors may also be able to respond more quickly to new or changing opportunities and demands and withstand changing market conditions better than we can, especially larger competitors that may benefit from more diversified product and customer bases. Competitors may conduct extensive promotional activities, offering better terms, lower prices, pay higher interest rates on deposits, or offer different products and services that could attract current and prospective E*TRADE customers and potentially result in intensified price competition within the industry. We continue to experience aggressive price competition in the industry, including the elimination of retail commissions for online US listed stock, ETFs, and options trades, reduced options contract charges and various free trade offers. We may not be able to match the marketing efforts or prices of our competitors. Some of our competitors may also benefit from established relationships among themselves or with third parties that enhance their products and services and from consolidation with other competitors.

In addition, we compete in a technology-intensive industry characterized by rapid innovation. Some of our competitors, including new and emerging competitors, are not subject to the same regulatory requirements or scrutiny to which we are subject, which could place us at a competitive disadvantage, in particular in the development of new technology platforms or the ability to rapidly innovate. We may be unable to effectively use new technologies, adapt our services to emerging industry standards or develop, introduce and market enhanced or new products and services. If we are not able to update or adapt our products and services to take advantage of the latest technologies and standards, or are otherwise unable to tailor the delivery of our services to the latest personal and mobile computing devices preferred by our retail customers, our business and financial performance could suffer.

Our ability to compete successfully in the financial services industry depends on a number of factors, including, among other things:

- Maintaining and expanding our market position
- Attracting and retaining customers
- Providing easy to use and innovative financial products and services
- Our reputation and the market perception of our brand and overall value
- Maintaining competitive pricing
- Competing in a concentrated competitive landscape
- The effectiveness of our technology (including cyber security defenses), products and services
- Deploying a secure and scalable technology and back office platform
- Innovating effectively in launching new or enhanced products
- The differences in regulatory oversight regimes to which we and our competitors are subject
- General economic and industry trends, including customer demand for financial products and services

Our competitive position within the industry could be adversely affected if we are unable to adequately address these factors, which could have a material adverse effect on our business and financial condition.

Our business could be adversely affected due to risks related to our mergers and acquisitions and the subsequent business integrations.

We consider opportunistic acquisitions to grow our existing business, add new technologies, or expand distribution. We cannot be certain that we will be able to identify, consummate and successfully integrate businesses or acquired assets, and no assurance can be given with respect to the timing, likelihood or business effect of any possible transaction. Transactions that we consummate would involve risks and uncertainties to us, including mispricing the inherent value of an acquired entity, as well as potential difficulties integrating people, systems and customers and realizing synergies.

We completed the acquisition of Gradifi in the fourth quarter of 2019, the acquisition of retail brokerage accounts from Capital One Financial Corporation (Capital One) in the fourth quarter of 2018, and the acquisition of Trust Company of America (TCA) in the second quarter of 2018. The acquisitions subject us to a number of risks, uncertainties, and potential costs. The risks associated with these transactions and any future transactions include:

- We may experience significant attrition in the acquired customers, accounts and assets under custody, and our retention of the accounts and assets may be impacted by our ability to successfully integrate the acquired operations, products and personnel
- We could be subject to undisclosed liabilities that could be material or become subject to litigation or regulatory risks as a result of the acquisition
- Management's attention may be diverted from other business initiatives
- Unanticipated restructuring and other integration costs may be incurred
- We will have less cash available for other purposes, including for use in acquisitions or the development of other technologies or products

Any future transactions could involve these and additional risks. Our ability to pursue additional strategic transactions may also be limited by our corporate debt, including our senior unsecured revolving credit facility, and dividend payments on our common stock and preferred stock. Future acquisitions may also be funded through the issuance of additional debt or preferred stock.

Any of these risks, whether with respect to the current or any future transactions, could have a material adverse effect on our business and results of operations.

Our risk management practices may leave us exposed to unidentified or unanticipated risk.

As a financial services company, our business exposes us to certain risks. We seek to monitor and manage our significant risk exposures through a set of board-approved limits as well as Key Risk Indicators or metrics. We have adopted a governance framework which includes reporting of these metrics and other significant risks and exposures to management and the board of directors. See *MD&A—Risk Management* for additional information. However, our risk management methods may not identify future risk exposures and may not be effective in mitigating our key risks. Furthermore, our risk management methods may not properly identify and mitigate the aggregation of risks across our organization or the interdependency of our risk mitigation efforts. In addition, some of our risk management methods are based on an evaluation of information regarding markets, customers and other matters that are based on assumptions that may not be accurate. A failure to manage our risk effectively could materially and adversely affect our business, results of operations and financial condition.

Providing investment advice and recommendations subjects us to additional risks.

We provide investment advice and recommendations to investors to aid them in their decision making. We also provide a variety of investment education and tools to our clients that we do not consider investment advice or an investment recommendation, including web-based educational seminars for new customers, introductions to the equities and options markets, and retirement planning tools. Investment recommendations and suggestions are based on publicly available documents and communications with investors regarding investment preferences and risk tolerances. Publicly available documents may be inaccurate and misleading, resulting in recommendations or transactions that are inconsistent with investors' intended results. In addition, our Financial Consultants' recommendations may not fulfill regulatory requirements as a result of their failing to collect sufficient information about a customer or failing to understand the customer's needs or risk tolerances. Risks associated with providing investment advice and recommendations also include those arising from how we disclose and address possible conflicts of interest, inadequate due diligence, inadequate disclosure, human error and fraud. New regulations, such as the SEC's Regulation Best Interest, will impose heightened conduct standards and requirements when we provide recommendations to retail investors. In addition, various states are considering potential regulations that could impose additional standards of conduct or other obligations on us when we provide investment advice or recommendations to retail investors and possibly to all of our clients. To the extent that we fail to satisfy regulatory requirements, fail to know our customers, improperly advise our customers, or risks associated with advisory services otherwise materialize, we could be found liable for losses suffered by such customers, or could be subject to regulatory fines, and civil penalties, any of which could harm our reputation and business.

We may suffer losses due to credit risk associated with margin lending, securities lending transactions, our investment and mortgage loan portfolios or other financial transactions.

We permit certain customers to purchase securities on margin and borrow against their securities holdings. A downturn in securities markets may impact the value of collateral held in connection with margin receivables and assets pledged for securities-based lending and may reduce its value below the amount borrowed, potentially creating collections issues if deficiencies are not remediated timely. In addition, we frequently borrow securities from and lend securities to other broker-dealers. Under regulatory guidelines, when we borrow or lend securities, we must simultaneously disburse or receive cash deposits. A sharp change in security market values may result in losses if counterparties to the borrowing and lending transactions default on their obligations. Even without defaults, the value of debt securities may be negatively affected by the credit deterioration of a security's issuer. We also engage in financial transactions with counterparties, including repurchase agreements and hedging transactions, that expose us to credit losses in the event counterparties cannot meet their obligations.

Our mortgage loan portfolio represents our most significant credit risk exposure. At December 31, 2019, the principal balance of our one-to four-family loan portfolio was $803 million with an allowance for loan losses of $6 million. The principal balance of our home equity loan portfolio was $635 million with an allowance for loan losses of $11 million. Certain characteristics of our mortgage loan portfolio indicate an additional risk of loss, including lien position and geographical concentration. Actual loan defaults and delinquencies that exceed our current expectations could negatively impact our financial performance. In the normal course of conducting examinations, our banking regulators, the OCC and Federal Reserve, continue to review our policies and procedures. This process is dynamic and ongoing and we cannot be certain that additional changes or actions to our policies and procedures will not result from their continuing review. Due to the complexity and judgment required by management regarding the effect of matters that are inherently uncertain, there can be no assurance that our allowance for loan losses will be adequate. See *MD&A—Risk Management* for additional information.

We face competition in hiring and retaining qualified employees.

The market for qualified personnel in the financial services industry, particularly skilled information technology personnel, is highly competitive. At various times, different functions and roles are in especially high demand in the market, compelling us to pay more to attract talent. Our ability to continue to compete effectively will depend upon our ability to attract new employees and retain existing employees while managing compensation costs.

Our corporate debt may restrict how we conduct our business and failure to comply with the terms of our corporate debt could adversely affect our financial condition and results of operations.

As of December 31, 2019, we have $1.4 billion of corporate debt and have the capacity to incur $300 million in additional indebtedness under our senior unsecured revolving credit facility, subject to certain covenant requirements. Our expected annual debt service interest payment is approximately $52 million. The degree to which we are leveraged could have important consequences, including:

- A portion of our cash flow from operations is dedicated to the payment of interest on our indebtedness, thereby reducing the funds available for other purposes
- Our ability to obtain additional financing for working capital, capital expenditures, acquisitions and other corporate needs may be limited
- Our ability to adjust rapidly to changing market conditions, making us more vulnerable in the event of a downturn in general economic conditions or our business

Our senior unsecured revolving credit facility and the indentures governing our corporate debt place limitations on our ability, and certain of our subsidiaries' ability to, among other things:

- Create liens
- Merge, consolidate or transfer substantially all of our assets
- With respect to our subsidiaries only, incur additional indebtedness

The senior unsecured revolving credit facility also contains certain financial covenants, including that we maintain a minimum interest coverage ratio, a maximum total leverage ratio and certain capitalization requirements for the parent company and certain of its subsidiaries.

We could be forced to repay immediately any outstanding borrowings under the senior unsecured revolving credit facility and outstanding debt securities at their full principal amount if we were to breach their respective covenants and not cure such breach, even if we otherwise meet our debt service obligations. If we experience a change in control, as defined in the senior unsecured revolving credit facility, we could be required to repay all loans outstanding under the credit facility at their full principal amount plus any accrued interest or fees.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition, operating performance and our ability to receive dividend payments from our subsidiaries, which are subject to certain business, economic and competitive conditions, regulatory approval or notification, and other factors beyond our control. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In addition, the terms of our existing or future debt instruments may restrict us from adopting some of these alternatives.

Any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to obtain additional financing in the future. In addition, any future indebtedness could be at a higher interest rate or include covenants that are more restrictive than our current covenants.

Risks Relating to the Regulation of Our Business

We are subject to extensive government regulation, including banking and securities rules and regulations, which could restrict our business practices.

The financial services industry is subject to extensive regulation. Our brokerage and investment adviser subsidiaries must comply with many laws and rules, including rules relating to the provision of investment advice, sales practices and the suitability of recommendations to customers, possession and control of customer funds and securities, margin lending, execution and settlement of transactions and AML. E*TRADE Financial Corporation, as a savings and loan holding company, and E*TRADE Bank and E*TRADE Savings Bank, as federally chartered savings banks, are subject to extensive regulation, supervision and examination by the OCC, the Federal Reserve and the CFPB, and, in the case of E*TRADE Bank and E*TRADE Savings Bank, the FDIC. Such regulation and supervision covers all aspects of the banking business, including lending practices, safeguarding deposits, capital structure, recordkeeping, transactions with affiliates and conduct and qualifications of personnel.

In addition, our results of operations could be affected by regulations which impact the business and financial communities generally, including changes to the laws governing taxation, electronic commerce, customer privacy and security of customer data. If we fail to establish and enforce procedures to comply with applicable regulations, our failure could have a material adverse effect on our business.

While we have implemented policies and procedures designed to provide for compliance with all applicable laws and regulations, regulators have broad discretion with respect to the enforcement of applicable laws and regulations and there can be no assurance that violations will not occur. Failure to comply with applicable laws and regulations and our policies could result in sanctions by regulatory agencies, litigation, civil penalties and harm to our reputation, which could have a material adverse effect on our business, financial condition and results of operations. Further, to the extent we undertake actions requiring regulatory approval or non-objection, our regulators may make their approval or non-objection subject to conditions or restrictions that could have a material adverse effect on our business, results of operations and financial condition.

New or amended legislation or regulations, rule changes or changes in the interpretation or enforcement of existing laws, rules and regulations and new or amended guidance and supervisory practices could increase our compliance costs and adversely affect our business and results of operations. For example, LIBOR is used in many of our systems and significant work may be required to transition to new benchmark rates following the expected phase-out of LIBOR. This may impact our existing financial models, transaction data, products, systems, operations and pricing processes. For further information on how ongoing regulatory reform could affect us, see *Business—Regulation*.

If we fail to comply with applicable securities and banking laws, rules and regulations, either domestically or internationally, we could be subject to disciplinary actions, litigation, investigations, damages, penalties or restrictions that could significantly harm our business.

The financial services industry faces substantial litigation and regulatory risks. We are subject to arbitration claims and lawsuits in the ordinary course of our business, as well as class actions and other significant litigation. We also are the subject of inquiries, investigations and proceedings by regulatory and other governmental agencies. Actions brought against us may result in settlements, awards, injunctions, fines, penalties and other results adverse to us. Predicting the outcome of such matters is inherently difficult, particularly where claims are brought on behalf of various classes of claimants or by a large number of claimants, when claimants seek substantial or unspecified damages or when investigations or legal proceedings are at an early stage. A substantial judgment, settlement, fine or penalty could be material to our operating results or cash flows, or could cause us significant reputational harm, which could harm our business prospects. In market downturns, the volume of legal claims and amount of damages sought in litigation and regulatory proceedings against financial services companies have historically increased. We are also subject to litigation claims from third parties alleging infringement of their intellectual property rights. Such litigation can require the expenditure of significant resources, regardless of whether the claims have merit. If we were found to have infringed a third-party patent or other intellectual property right, we could incur substantial liability and in some circumstances could be enjoined from using the relevant technology or providing related products and services, which could have a material adverse effect on our business and results of operations.

The SEC, FINRA and other SROs and state securities commissions, among other things, can censure, fine, issue cease-and-desist orders or suspend or expel a broker-dealer or any of its officers or employees. Clearing securities firms, such as E*TRADE Securities, are subject to substantially more regulatory control and examination than introducing brokers that rely on others to perform clearing functions. Similarly, the attorneys general of each state could bring legal action on behalf of the citizens of the various states to ensure compliance with local laws. Regulatory agencies in countries outside of the US have similar authority. The ability to comply with applicable laws and rules is dependent in part on the establishment and maintenance of a reasonable compliance function. The failure to establish and enforce reasonable compliance procedures, even if unintentional, could subject us to significant losses or disciplinary or other actions.

The Federal Reserve has primary jurisdiction for the supervision and regulation of savings and loan holding companies, including the Company; and the OCC has primary supervision and regulation of federal savings banks, such as the Company’s two federal savings bank subsidiaries. Although the Dodd-Frank Act maintained the federal thrift charter, it eliminated certain preemption, branching and other benefits of the charter and imposed new penalties for failure to comply with the QTL test.

We are required to file periodic reports with the Federal Reserve and are subject to examination and supervision by it. The Federal Reserve also has certain types of enforcement powers over us, including the ability to issue cease-and-desist orders, force divestiture of our savings bank subsidiaries and impose civil and monetary penalties for violations of federal banking laws and regulations or for unsafe or unsound banking practices. The Federal Reserve has issued regulation and guidance that generally aligns the supervisory and regulatory standards of savings and loan holding companies more closely with the standards applicable to bank holding companies. Our savings bank subsidiaries are also subject to reporting, examination, supervision and enforcement oversight by the OCC. For all insured depository institutions, including savings banks with total consolidated assets over $10 billion, such as E*TRADE Bank, as well as their affiliates, the CFPB has exclusive rulemaking and examination, and primary enforcement authority, under federal consumer financial laws and regulations. In addition, states may adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB.

The EGRRCPA, enacted in 2018, relieved the Company of certain regulatory burdens to which it had become subject as a result of surpassing $50 billion in total consolidated assets on a four-quarter average basis in 2017. In addition, the Federal Reserve Board finalized a rulemaking in November 2019 that applies certain requirements to savings and loan holding companies with $100 billion or more in total consolidated assets. While the Company currently does not surpass that threshold, it could in the future. We anticipate that regulators will continue to intensify their supervision through the exam process and increase their enforcement of regulations across the industry. The regulators' heightened expectations and intense supervision may increase our costs and limit our ability to pursue certain business opportunities.

If we do not maintain the capital and liquidity levels required by regulators, we may be fined or subject to other disciplinary or corrective actions.

The SEC, FINRA, the OCC, the CFTC, the Federal Reserve and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of net capital by securities broker-dealers and regulatory capital by banks.

Failure to maintain the required net capital by our securities broker-dealer or FCM could result in suspension or revocation of registration by the SEC or suspension or expulsion by FINRA, the CFTC or the NFA, as applicable, and could ultimately lead to these entities' liquidation. If such net capital rules are changed or expanded, or if there is an unusually large charge against net capital, operations that require an intensive use of capital could be limited. Such operations may include investing activities, marketing and the financing of customer account balances. Also, our ability to withdraw capital from brokerage subsidiaries could be restricted.

E*TRADE Bank and E*TRADE Savings Bank are subject to various regulatory capital requirements administered by the OCC, and the Company is subject to specific capital requirements administered by the Federal Reserve. Failure to meet minimum capital requirements can trigger certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could affect the operations and financial performance of these entities. The capital amounts and classifications of the Company, E*TRADE Bank and E*TRADE Savings Bank are subject to qualitative judgments by the regulators of these entities, including about the strength of components of their capital, risk weightings of assets, off-balance sheet transactions and other factors. Any significant reduction in the Company's, E*TRADE Bank's or E*TRADE Savings Bank's regulatory capital could result in them being less than "well capitalized" or "adequately capitalized" under applicable capital standards. A failure to be "adequately capitalized" that is not cured within time periods specified in the credit agreement for our senior unsecured revolving credit facility would constitute a default under our senior unsecured revolving credit facility and likely result in any outstanding balance on the senior unsecured revolving credit facility becoming immediately due and payable. In addition, the Federal Deposit Insurance Act prohibits the acceptance, renewal or roll-over of "brokered deposits" by depository institutions that are not "well capitalized," unless a depository institution is "adequately capitalized" and receives a waiver from the FDIC. Sweep deposits that qualify as "brokered deposits" are a significant source of liquidity for E*TRADE Bank and E*TRADE Savings Bank, and if they were terminated by the FDIC, that could have a material negative effect on our business. If we fail to meet certain capital requirements, the Federal Reserve and the OCC may request we raise equity or otherwise increase the regulatory capital of the Company, E*TRADE Bank or E*TRADE Savings Bank. If we were unable to raise equity or otherwise increase capital, we could face negative regulatory consequences, including under the "prompt corrective action" framework, such as restrictions on our activities and requirements that we dispose of certain assets and liabilities within a prescribed period. Any such actions could have a material negative effect on our business.

As a savings and loan holding company, we are subject to activity limitations and requirements that could restrict our ability to engage in certain activities and take advantage of certain business opportunities.

Under applicable law, our banking activities are restricted to those that are financial in nature or specifically authorized by law, such as certain real estate-related activities. Although we believe all of our existing activities and investments are permissible, we are unable to pursue future activities that are not financial in nature or otherwise authorized. We are also limited in our ability to invest in other savings and loan holding companies. Various other laws and regulations require savings and loan holding companies such as the Company, as well as our savings bank subsidiaries, to be both "well capitalized" and "well managed" in order for us to conduct certain financial activities, such as securities underwriting. We believe that we will be able to continue to engage in all of our current financial activities. However, if we and our savings bank subsidiaries are unable to satisfy the "well capitalized" and "well managed" requirements, we could be subject to activity restrictions that could prevent us from engaging in certain activities as well as other negative regulatory actions.

In addition, E*TRADE Bank and E*TRADE Savings Bank are currently subject to extensive regulation of their activities and investments, capitalization, community reinvestment, risk management policies and procedures and relationships with affiliated companies. Acquisitions of, and mergers with, other financial institutions, purchases of deposits and loan portfolios, the establishment of new depository institution subsidiaries and the commencement of certain new activities by these subsidiaries require the prior approval of the OCC and the Federal Reserve, and in some cases the FDIC, any of which may deny approval or condition their approval on the imposition of limitations on the scope of our planned activity. Also, these regulations and conditions could affect our ability to realize synergies from future acquisitions, negatively affect us following an acquisition and also delay or prevent the development, introduction and marketing of new products and services.

Our collection, use, storage, disclosure, transfer and other processing of personal information could give rise to significant costs and liabilities, including as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights, which may have a material and adverse impact on our business, financial condition and results of operations.

In providing services to customers, we manage, use, store, disclose, transfer and otherwise process a large volume of consumer and customer data, including Personal Information and other sensitive information. We are subject to numerous data protection laws and regulations, such as US federal and state laws and foreign regulations governing the protection of Personal Information and other consumer and customer data, including, but not limited to, the federal Gramm-Leach-Bliley Act and the CCPA. These laws and regulations have increased in complexity and number, change frequently and can conflict with one another. In certain cases, they provide a private right of action, which may increase the likelihood of, and risks associated with, data breach litigation. As we seek to expand our business, we are, and may increasingly become, subject to various laws, regulations and standards, as well as contractual obligations, relating to data privacy and security in the jurisdictions in which we operate. In many cases, these laws and regulations apply not only to third-party transactions, but also to transfers of information between or among us, our affiliates and other parties with whom we conduct business. These laws, regulations and standards may be interpreted and applied differently over time and from jurisdiction to jurisdiction, and it is possible that they will be interpreted and applied in ways that may have a material and adverse impact on our business, financial condition and results of operations. For example, the interpretation and application of the extraterritorial application of certain foreign regulations, including the General Data Protection Regulation, is unclear at this time. The regulatory framework for data privacy and security worldwide is continuously evolving and developing and, as a result, interpretation and implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future.

Many statutory requirements, both in the United States and abroad, include obligations for companies to notify individuals of security breaches involving certain personal information, which could result from breaches experienced by us or our third-party service providers. For example, laws in all 50 U.S. states and the District of Columbia require businesses to provide notice to consumers whose personal information has been disclosed as a result of a data breach. These laws are not consistent, and compliance in the event of a widespread data breach is difficult and may be costly. We also may be contractually required to notify consumers or other counterparties of a security breach.

We expect that there will continue to be new proposed laws and regulations concerning data privacy and security, and we cannot yet determine the impact such future laws, regulations and standards may have on our business. New laws, amendments to or re-interpretations of existing laws, regulations, standards and other obligations may require us to incur additional costs and restrict our business operations. Because the interpretation and application of laws, regulations, standards and other obligations relating to data privacy and security are still uncertain, it is possible that the scope and requirements of these laws may be interpreted and applied broadly by various jurisdictions, and in a manner that is inconsistent with our understanding and practices and with other legal requirements. If so, in addition to the possibility of fines, lawsuits, regulatory investigations, public censure, other claims and penalties, and significant costs for remediation and damage to our reputation, we could be materially and adversely affected if legislation or regulations are expanded to require changes in our data processing practices and policies or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively impact our business, financial condition and results of operations. We may be unable to make such changes and modifications in a commercially reasonable manner, or at all. Any inability to adequately address data privacy or security-related concerns, even if unfounded, or to comply with applicable laws, regulations, standards and other obligations relating to data privacy and security, could result in additional cost and liability to us, harm our reputation and brand, damage our relationships with consumers and have a material and adverse impact on our business, financial condition and results of operations.

We make public statements about our use and disclosure of personal information through our privacy policies, information provided on our website and press statements. Although we endeavor to comply with our public statements and documentation, we may at times fail to do so or be alleged to have failed to do so. The publication of our privacy policies and other statements that provide promises and assurances about data privacy and security can subject us to potential government or legal action if they are found to be deceptive, unfair or misrepresentative of our actual practices. Moreover, from time to time, concerns may be expressed about whether our products and services compromise the privacy of consumers and others. Any concerns about our data privacy and security practices, even if unfounded, could damage the reputation of our businesses, discourage potential users from our products and services and have a material and adverse impact on our business, financial condition and results of operations.

Any failure or perceived failure by us or our third-party service providers to comply with our posted privacy policies or with any applicable federal, state or similar foreign laws, regulations, standards, certifications or orders relating to data privacy, security or consumer protection, or any compromise of security that results in the theft, unauthorized access, acquisition, use, disclosure, or misappropriation of personal information or other user data, could result in fines or proceedings or litigation by governmental agencies or consumers, including class action privacy litigation in certain jurisdictions, which would subject us to significant awards, penalties or judgments, one or all of which could materially and adversely affect our business, financial condition and results of operations. In addition, if our practices are not consistent, or viewed as not consistent, with legal and regulatory requirements, including changes in laws, regulations and standards or new interpretations or applications of existing laws, regulations and standards, we may also become subject to audits, inquiries, whistleblower complaints, adverse media coverage, investigations, or severe criminal or civil sanctions, all of which may affect our financial condition, operating results and our reputation.

Risks Relating to Owning Our Stock

The value of our common stock may be diluted if we need additional funds in the future and is subject to the liquidation preference of our preferred stock.

In the future, we may need to raise additional funds via the issuance and sale of our debt or equity instruments, which we may not be able to conduct on favorable terms, if at all. If adequate funds are not available on acceptable terms, we may be unable to fund our capital needs and our plans for the growth of our business.

In addition, if funds are available, the issuance of equity securities could significantly dilute the value of our shares of our common stock and cause the market price of our common stock to fall. We have the ability to issue a significant number of shares of stock in future transactions, which would substantially dilute existing stockholders, without seeking further stockholder approval. We have issued $700 million aggregate liquidation preference of preferred stock in two series, Series A Preferred Stock and Series B Preferred Stock. Future issuances and sales of preferred stock or the perception that such issuances and sales could occur, may also cause prevailing market prices for the Series A Preferred Stock, Series B Preferred Stock and our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us.

Our future ability to pay cash dividends to holders of our common stock is subject to the discretion of our board of directors and will be limited by our ability to generate sufficient earnings and cash flows.

In the fourth quarter of 2018 we announced the declaration of a quarterly dividend on shares of our common stock and have continued to declare such dividends quarterly during 2019. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend upon a number of factors that the board of directors deems relevant, including future earnings, the success of our business activities, capital requirements, the general financial condition and future prospects of our business and general business conditions. If we are unable to generate sufficient earnings and cash flows from our business, we may not be able to pay dividends on our common stock; however, even with sufficient earnings and cash flows from our business, our board of directors may exercise its discretion by not declaring a dividend on our common stock. In addition, our ability to pay dividends on our common stock is subject to statutory and regulatory limitations. As noted above, we depend on dividends from our subsidiaries to fund payments of cash dividends to holders of our common stock and such subsidiaries may not pay dividends without the non-objection, or in certain cases the approval, of their regulators.

The failure to declare or pay a quarterly dividend in the future could adversely affect the market price of our common stock. Furthermore, the terms of our outstanding preferred stock prohibit us from declaring or paying any dividends on any junior series of our capital stock, including our common stock, or from repurchasing, redeeming or acquiring such junior stock, unless we have declared and paid full dividends on our outstanding preferred stock for the most recently completed dividend period.

The market price of our common stock may continue to be volatile.

The market price of our common stock has been, and is likely to continue to be, highly volatile and subject to wide fluctuations. Among the factors that may affect our stock price are the following:

- Speculation in the investment community or the press about, or actual changes in, our competitive position, organizational structure, executive team, operations, financial condition, financial reporting and results, ability to maximize shareholder returns or plans to engage in strategic transactions by us or others in the financial services industry
- The announcement of mergers, acquisitions, dispositions or new products or services by us or others in the financial services industry
- Increases or decreases in revenues or earnings, changes in earnings estimates by the investment community, and variations between estimated financial results and actual financial results
- The pricing structure for products and services offered to customers by us or our competitors

General stock market volatility or volatility related to our industry may also affect our stock price. In the past, volatility in the market price of a company's securities has often led to securities class action litigation. Such litigation could result in substantial costs to us and divert our attention and resources, which could harm our business. We have been a party to litigation related to the decline in the market price of our stock in the past and such litigation could occur again in the future. Declines in the market price of our common stock or failure of the market price to increase could also harm our ability to retain key employees, reduce our access to capital and otherwise harm our business.

We have provisions in our organizational documents that may discourage takeover attempts.

Certain provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a third party from acquiring control of us in a merger, acquisition or similar transaction that a stockholder may consider favorable. Such provisions include:

- Authorization for the issuance of "blank check" preferred stock
- The prohibition of cumulative voting in the election of directors
- A super-majority voting requirement to effect business combinations and certain amendments to our certificate of incorporation and bylaws
- Limits on the persons who may call special meetings of stockholders
- The prohibition of stockholder action by written consent
- Advance notice requirements for nominations to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings

In addition, certain provisions of our stock incentive plans, management retention and employment agreements, including severance payments and stock option acceleration, our senior unsecured revolving credit facility, certain provisions of Delaware law and certain provisions of the indentures governing certain series of our debt securities that would require us to offer to purchase such securities at a premium in the event of certain changes in our ownership may also discourage, delay or prevent someone from acquiring or merging with us, which could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

A summary of our significant locations at December 31, 2019 is shown in the following table. Square footage amounts are net of space that has been sublet or space that is part of a facility restructuring.

Location	Approximate Square Footage
Alpharetta, Georgia	236,000
Jersey City, New Jersey	132,000
Arlington, Virginia	101,000
Menlo Park, California	91,000
Sandy, Utah	85,000
Denver, Colorado	58,000
Chicago, Illinois	46,000

The Company exited its New York headquarters during the three months ended December 31, 2019 and consolidated related operations at its Jersey City, New Jersey location. Refer to *Note 2—Acquisitions and Restructuring* and *Note 19—Lease Arrangements* for additional information.

All facilities are leased at December 31, 2019. All other leased facilities with space of less than 25,000 square feet are not listed by location. In addition to the significant facilities above, we also lease all 30 regional financial centers, ranging in space from approximately 2,500 to 8,000 square feet.

ITEM 3. LEGAL PROCEEDINGS

Information in response to this item can be found under the heading *Litigation Matters* in *Note 20—Commitments, Contingencies and Other Regulatory Matters* in this Annual Report and is incorporated by reference into this item.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NASDAQ Stock Market under the ticker symbol ETFC. The closing sale price of our common stock as reported on the NASDAQ on February 14, 2020 was $44.19 per share. At that date, there were 574 holders of record of our common stock.

Common Stock Dividends

In October 2018, our board of directors declared our first quarterly cash dividend of $0.14 per share on our outstanding shares of common stock. The Company declared quarterly dividends at the rate of $0.14 per share on its outstanding shares of common stock during the year ended December 31, 2019 and expects to continue to be able to declare dividends at such a rate in the future. Refer to *MD&A—Liquidity and Capital Resources* and *Note 15—Shareholders' Equity* for additional information.

Issuer Purchases of Equity Securities

The table below shows the timing and impact of our share repurchase programs, and the shares withheld from employees to satisfy tax withholding obligations during the three months ended December 31, 2019 (dollars in millions, except share data and per share amounts):

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(1)(2)	Total Number of Shares Purchased as Part of the Publicly Announced Programs(3)	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program(3)
October 1, 2019 - October 31, 2019	1,405,492	$ 41.25	1,405,492	$ 1,033
November 1, 2019 - November 30, 2019	2,785,795	$ 42.61	2,781,601	$ 914
December 1, 2019 - December 31, 2019	2,695	$ 46.31	—	$ 914
Total	4,193,982	$ 42.15	4,187,093	

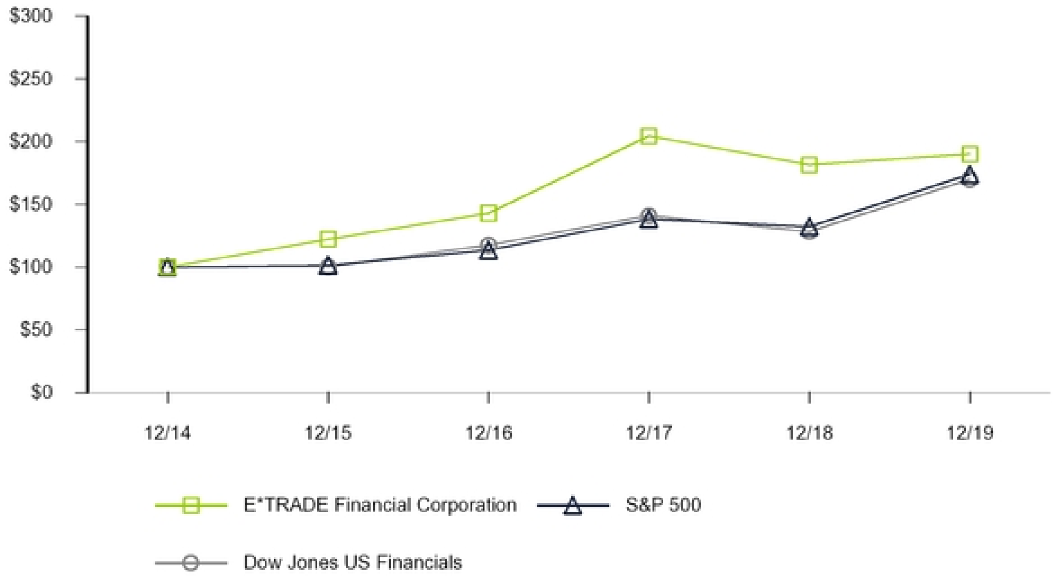
(1) Includes 6,889 shares withheld to satisfy tax withholding obligations associated with vesting of share-based awards. The average price paid per share for shares withheld was $45.66.

(2) Excludes commission paid, if any.

(3) On October 18, 2018, the Company announced a $1 billion share repurchase program and the Company completed repurchases under this program in September 2019. On July 18, 2019, the Company announced a new $1.5 billion share repurchase program that the Company is currently operating under.

Performance Graph

The following performance graph shows the cumulative total return to a holder of our common stock, assuming dividend reinvestment, compared with the cumulative total return, assuming dividend reinvestment, of the S&P 500 Index and the Dow Jones US Financials Index during the period from December 31, 2014 through December 31, 2019.



	12/14	12/15	12/16	12/17	12/18	12/19
E*TRADE Financial Corporation	100.00	122.20	142.86	204.37	181.44	189.95
S&P 500 Index	100.00	101.38	113.51	138.29	132.23	173.86
Dow Jones US Financials Index	100.00	100.09	117.45	140.97	128.32	170.10

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Item 8. Financial Statements and Supplementary Data.* As of or for the years ended December 31, dollars in millions except per share amounts, shares in thousands:

	Year Ended December 31,					Variance
Results of Operations:	**2019**	**2018**	**2017**	**2016**	**2015**	**2019 vs. 2018**
Net interest income	$ 1,852	$ 1,846	$ 1,485	$ 1,148	$ 1,021	—%
Total net revenue	$ 2,886	$ 2,873	$ 2,366	$ 1,941	$ 1,370	—%
Provision (benefit) for loan losses	$ (51)	$ (86)	$ (168)	$ (149)	$ (40)	(41)%
Total non-interest expense	$ 1,618	$ 1,541	$ 1,470	$ 1,252	$ 1,319	5%
Net income	$ 955	$ 1,052	$ 614	$ 552	$ 268	(9)%
Basic earnings per common share	$ 3.86	$ 3.90	$ 2.16	$ 1.99	$ 0.92	(1)%
Diluted earnings per common share	$ 3.85	$ 3.88	$ 2.15	$ 1.98	$ 0.91	(1)%
Weighted average common shares outstanding —basic	237,396	260,600	273,190	277,789	290,762	(9)%
Weighted average common shares outstanding—diluted	237,931	261,669	274,352	279,048	295,011	(9)%
Dividends declared per common share	$ 0.56	$ 0.14	$ —	$ —	$ —	300%
Performance Measures:						
Net interest margin	3.18%	3.08%	2.79%	2.65%	2.50%	0.10%
Operating margin	46%	49%	45%	43%	7%	(3)%
Return on common equity	16%	17%	10%	10%	5%	(1)%
Capital return to shareholders	133%	116%	61%	82%	19%	17%
Financial Condition:						
Investment securities	$ 41,470	$ 45,037	$ 44,518	$ 29,643	$ 25,602	(8)%
Margin receivables	$ 9,675	$ 9,560	$ 9,071	$ 6,731	$ 7,398	1%
Loans receivable, net	$ 1,595	$ 2,103	$ 2,654	$ 3,551	$ 4,613	(24)%
Total assets	$ 61,416	$ 65,003	$ 63,365	$ 48,999	$ 45,427	(6)%
Deposits	$ 38,606	$ 45,313	$ 42,742	$ 31,682	$ 29,445	(15)%
Customer payables	$ 12,849	$ 10,117	$ 9,449	$ 8,159	$ 6,544	27%
Corporate debt	$ 1,410	$ 1,409	$ 991	$ 994	$ 997	—%
Shareholders' equity	$ 6,543	$ 6,562	$ 6,931	$ 6,272	$ 5,799	—%

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

The following discussion should be read in conjunction with the consolidated financial statements and related notes included in *Item 8. Financial Statements and Supplementary Data*.

OVERVIEW

E*TRADE is a financial services company that provides brokerage and related products and services for traders, investors, stock plan administrators and participants, and RIAs. For additional information related to our business activities see *Part 1. Item 1. Business.*

Financial Performance

Our net revenue is generated primarily from net interest income, commissions and fees and service charges:

- Net interest income is largely impacted by the size of our balance sheet, our balance sheet mix, and average yields on our assets and liabilities. Net interest income is driven primarily from interest earned on investment securities, margin receivables, securities lending, and our legacy loan portfolio, less interest incurred on interest-bearing liabilities, including deposits, customer payables, corporate debt and other borrowings.
- Commissions revenue is generated by customer trades and is largely impacted by trade volume and trade type. With the elimination of retail commissions for online US listed stock, ETF and options trades, we expect the majority of commissions revenue in future periods will be driven from options contract charges.
- Fees and service charges revenue is primarily impacted by order flow revenue, fees earned from off-balance sheet customer cash, advisor management and custody fees, and mutual fund service fees.

Our net revenue is offset by non-interest expenses, the largest of which are compensation and benefits and advertising and market development.

Significant Events

Acquired Gradifi, student loan benefit and financial wellness provider

On December 9, 2019, the Company completed its acquisition of Gradifi, a student loan benefit and financial wellness provider, for a purchase price of $30 million. The acquisition is expected to enhance the Company's Corporate Services offering through its comprehensive suite of financial wellness solutions which is expected to complement the Company's leading stock plan administration services. Refer to *Note 2—Acquisitions and Restructuring* for additional information.

Completed $1 billion share repurchase program; progress made on $1.5 billion program

The Company repurchased 10.8 million shares for $499 million during 2019 to complete repurchases under its previous $1 billion share repurchase program which was announced in October 2018. The Company also repurchased 14.0 million shares for $586 million during 2019 under its $1.5 billion share repurchase program which was announced in July 2019. As of February 14, 2020, we have subsequently repurchased approximately 1.8 million shares of common stock at an average price of $44.02 per share.

We expect to continue share repurchases in 2020; however, we retain flexibility to deploy capital in the most accretive way possible.

Eliminated commission rates for equity and options trades

On October 2, 2019, we announced the elimination of retail commissions for online US listed stock, ETF and options trades. We also reduced the options contract charge to $0.65 per contract for all traders while maintaining our active trader pricing at $0.50 per contract. The Company estimated that the annual revenue impact of these changes, which became effective on October 7, 2019, would be approximately $300 million based on operating results in the second quarter of 2019. We expect the majority of commissions revenue in future periods will be driven from options contract charges.

Rated #1 online broker in Kiplinger's annual Best Online Brokers review

In August 2019, E*TRADE was awarded first place overall and "Best for Mutual Fund Investors" in Kiplinger's annual Best Online Brokers Review of 10 firms across seven categories. We also received high marks for user experience, investment choices, advisory services, and mobile as part of the review.

Generated additional capital capacity by repositioning balance sheet

The Company sold $4.5 billion of lower-yielding investment securities, enabling the reduction of the size of our balance sheet during the three months ended June 30, 2019. Gains (losses) on securities and other, net includes $80 million of losses related to these sales. During the second quarter, the Company moved $6.6 billion of deposits to third-party banks, generating additional capital capacity to support share repurchases. The Company's balance sheet repositioning prioritized longer-term growth in earnings per share and capital return to shareholders over short-term revenue growth and operating margin. See *MD&A—Earnings Overview, MD&A—Balance Sheet Overview* and *Note 6—Available-for-Sale and Held-to-Maturity Securities* for additional information.

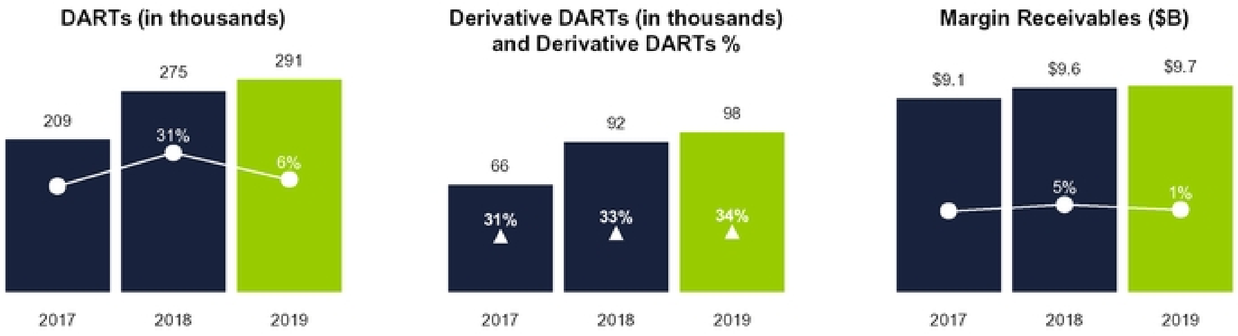
Key Performance Metrics

Management monitors customer activity and corporate metrics to evaluate the Company’s performance. The most significant of these are displayed below. During 2019, the Company updated the structure of its customer activity metrics to better align to its retail and institutional channels. Additionally, the Company has updated the presentation of certain customer activity metrics, as follows:

- **Customer-directed trades:** The definition of trades was updated in November 2019 to reflect all customer-directed trades. This includes trades associated with no-transaction-fee mutual funds, options trades through the Dime Buyback Program, and all ETF transactions, including those that were formerly classified as commission-free. This update was as a result of the commissions reduction announced on October 2, 2019 and impacts daily average revenue trades (DARTs), derivative DARTs, and derivative DARTs percentage.
- **Customer accounts:** The definition of accounts was updated during the first quarter of 2019 to align the minimum threshold for gross new and end of period retail accounts to $25. The definition for gross new retail accounts sourced from Corporate Services was also updated to include only those accounts which maintain a minimum balance of $25 at the end of the reporting period or trade within the reporting period.

These updates have been reflected in the customer activity metrics for all periods presented and did not have an impact on the Company’s financial statements.

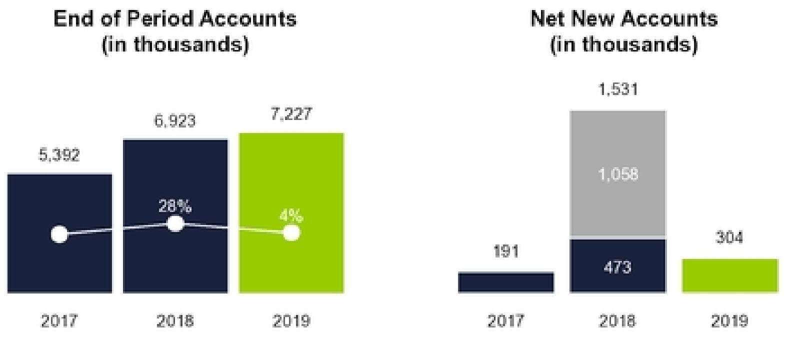
Customer Activity Metrics



Daily Average Revenue Trades is an important measure of customer trading activity, and is a key driver of trading-based revenue. DARTs were 291,023, 274,997 and 209,296 for the years ended December 31, 2019, 2018 and 2017, respectively.

Derivative DARTs, a key component of overall DARTs that represents advanced trading activities by our customers, is the daily average number of options and futures trades, and ***Derivative DARTs percentage*** is the mix of options and futures trades as a component of total DARTs. Derivative DARTs were 97,912, 91,543 and 65,525 for the years ended December 31, 2019, 2018 and 2017, respectively. Derivative DARTs represented 34%, 33% and 31% of total DARTs for the years ended December 31, 2019, 2018 and 2017, respectively. We expect options trades will be the primary driver of commissions revenue in future periods.

Margin receivables represent credit extended to customers to finance their purchases of securities by borrowing against securities they own and is a key driver of net interest income. Margin receivables were $9.7 billion, $9.6 billion and $9.1 billion at December 31, 2019, 2018 and 2017, respectively.



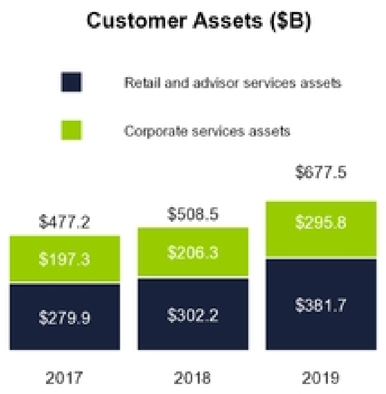
End of period accounts and ***net new accounts*** are indicators of our ability to attract and retain customers. Net new accounts represent gross new accounts less accounts attrited during the period. The following table presents end of period accounts by channel:

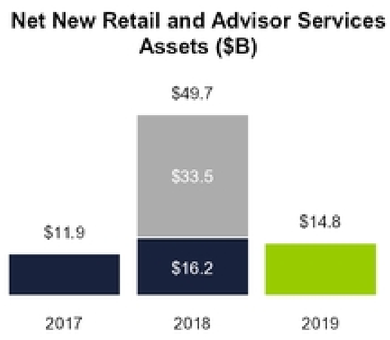
	December 31,		
	2019	**2018**	**2017**
End of period retail accounts	5,169,757	5,007,767	3,899,222
End of period advisor services accounts	148,198	151,241	—
End of period corporate services accounts	1,908,836	1,763,829	1,492,376
End of period accounts	7,226,791	6,922,837	5,391,598

The following table presents net new accounts and annualized growth rates by channel:

	Year Ended December 31,		
	2019	**2018**	**2017**
Net new retail accounts	161,990	1,108,545	155,180
Net new advisor services accounts	(3,043)	151,241	—
Net new corporate services accounts	145,007	271,453	36,316
Net new accounts	303,954	1,531,239	191,496
Net new retail account growth rate	3.2 %	28.4%	4.1%
Net new advisor services account growth rate	(2.0)%	100.0%	—%
Net new corporate services account growth rate	8.2 %	18.2%	2.5%
Net new total account growth rate	4.4 %	28.4%	3.7%

We added 1,057,956 net new accounts as part of acquisitions during the year ended December 31, 2018, including 145,891 advisor services accounts related to the TCA acquisition and 912,065 retail accounts related to the Capital One account acquisition. Refer to *Note 2—Acquisitions and Restructuring* for additional information





Total customer assets is an indicator of the value of our relationship with our customers. An increase generally indicates that the use of our products and services is expanding. Changes in this metric are also driven by changes in the valuations of our customers' underlying securities. The following table presents the significant components of total customer assets (dollars in billions):

	December 31,		
	2019	**2018**	**2017**
Security holdings	$ 310.7	$ 242.0	$ 222.0
Cash and deposits	71.0	60.2	57.9
Retail and advisor services assets	381.7	302.2	279.9
Corporate services vested assets	159.1	111.9	103.4
Retail, advisor services, and corporate services vested assets	540.8	414.1	383.3
Corporate services unvested holdings	136.7	94.4	93.9
Total customer assets	$ 677.5	$ 508.5	$ 477.2

Customer cash and deposits is a significant component of total customer assets and is a key driver of net interest income as well as fees and service charges revenue, which includes fees earned on customer cash held by third parties. The following table presents the significant components of total customer cash and deposits (dollars in billions):

	December 31,		
	2019	2018	2017
Sweep deposits:			
Brokerage sweep deposits	$ 27.9	$ 39.3	$ 37.7
Bank sweep deposits(1)	6.4	—	—
Customer payables	12.8	10.1	9.5
Savings, checking, and other banking assets(2)	4.3	6.0	5.0
Total on-balance sheet customer cash and deposits	51.4	55.4	52.2
Brokerage sweep deposits at unaffiliated financial institutions(3)	16.9	3.0	4.7
Bank sweep deposits at unaffiliated financial institutions(1)(3)	0.8	—	—
Money market funds and other	1.9	1.8	1.0
Total customer cash held by third parties(4)	19.6	4.8	5.7
Total customer cash and deposits	$ 71.0	$ 60.2	$ 57.9

(1) Beginning November 2019, bank sweep deposits include Premium Savings Accounts participating in the newly established bank sweep deposit account program. Refer to *MD&A—Balance Sheet Overview* for additional information.

(2) Savings, checking, and other banking assets include $1.0 billion and $2.0 billion of deposits at December 31, 2019 and December 31, 2018, respectively, in our Premium Savings Account product. We plan to convert the remaining Premium Savings Account balances to the new bank sweep deposit account program.

(3) Average brokerage sweep deposit balances at unaffiliated financial institutions were $8.2 billion, $3.5 billion, $8.3 billion for the years ended December 31, 2019, 2018, and 2017 respectively. The Company received 201 bps, 180 bps, and 94 bps, net of interest paid, on these balances for the same periods. Average bank sweep deposits at unaffiliated institutions were $80 million for the year ended December 31, 2019. The Company received 6 bps, net of interest paid, on these balances for the same period.

(4) Customer cash held by third parties is held outside E*TRADE Financial and includes money market funds and sweep deposit accounts at unaffiliated financial institutions, net of deposit balances from unaffiliated institutions held on-balance sheet. Customer cash held by third parties is not reflected in the Company's consolidated balance sheet and is not immediately available for liquidity purposes.

Net new retail and advisor services assets equals total inflows to new and existing retail and advisor services accounts less total outflows from closed and existing retail and advisor services accounts. The net new retail and advisor services assets metric is a general indicator of the use of our products and services by new and existing retail and advisor services customers. Net new retail and advisor services assets exclude the effects of market movements in the value of retail and advisor services assets. Net new retail and advisor services assets were $14.8 billion, $49.7 billion and $11.9 billion for the years ended December 31, 2019, 2018 and 2017, respectively. The following table presents annualized net new retail and advisor services assets growth rates:

	Year Ended December 31,		
	2019	2018	2017
Net new retail assets growth rate	5.3 %	10.9%	5.1%
Net new advisor services assets growth rate	(1.6)%	100.0%	—%
Net new retail and advisor services assets growth rate	4.9 %	17.7%	5.1%

We added $33.5 billion in net new retail and advisor services assets as part of acquisitions during the year ended December 31, 2018, including $18.4 billion in advisor services assets related to the TCA acquisition and $15.1 billion in retail assets related to the acquisition of customer accounts from Capital One. Refer to *Note 2—Acquisitions and Restructuring* for additional information.

Corporate Metrics:

Diluted earnings per common share is the portion of a company's profit allocated to each diluted share of common stock and is a key indicator of the Company's profitability. Diluted earnings per common share was $3.85, $3.88 and $2.15 for the years ended December 31, 2019, 2018 and 2017, respectively.

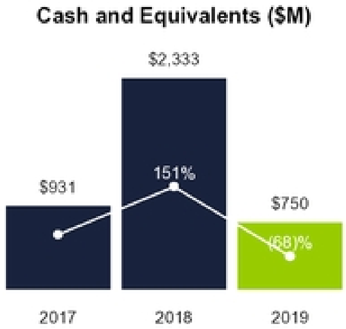
Operating margin is the percentage of net revenue that results in income before income taxes and is an indicator of the Company's profitability. Operating margin was 46%, 49% and 45% for the years ended December 31, 2019, 2018 and 2017, respectively.

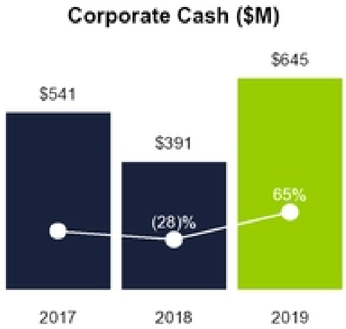
Adjusted operating margin is a non-GAAP measure that provides useful information about our ongoing operating performance by excluding the provision (benefit) for loan losses and losses on early extinguishment of debt, which are not viewed as key factors governing our investment in the business and are excluded by management when evaluating operating margin performance. Adjusted operating margin was 44%, 47% and 40% for the years ended December 31, 2019, 2018 and 2017, respectively. See *MD&A—Earnings Overview* for a reconciliation of adjusted operating margin to operating margin.

Capital return to shareholders represents the amount of earnings returned to shareholders through share repurchases and common stock dividends and ***Capital return percentage to shareholders*** is capital returned to shareholders as a percentage of net income available to common shareholders. Capital return to shareholders was $1.2 billion, $1.2 billion and $362 million for the years ended December 31, 2019, 2018 and 2017, respectively. Capital return percentage to shareholders was 133%, 116% and 61% for the years ended December 31, 2019, 2018 and 2017, respectively. The Company's balance sheet repositioning in the second quarter 2019 generated additional capital to support share repurchases. In addition, the Company also returned capital to shareholders in the form of shares withheld for taxes of $20 million, $28 million and $22 million for the years ended December 31, 2019, 2018 and 2017, respectively.

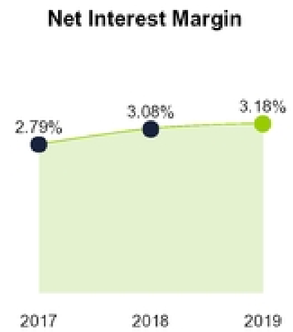
Return on common equity is calculated by dividing net income available to common shareholders by average common shareholders' equity, which excludes preferred stock. Return on common equity was 16%, 17% and 10% for the years ended December 31, 2019, 2018 and 2017, respectively.

Adjusted return on common equity is a non-GAAP measure calculated by dividing adjusted net income available to common shareholders by average common shareholders' equity, which excludes preferred stock. Adjusted net income available to common shareholders is a non-GAAP measure which excludes the provision (benefit) for loan losses and losses on early extinguishment of debt, which are not viewed as key factors governing our investment in the business and are excluded by management when evaluating return on common equity performance. Adjusted return on common equity was 15%, 16% and 9% for the years ended December 31, 2019, 2018 and 2017, respectively. See *MD&A—Earnings Overview* for a reconciliation of adjusted net income available to common shareholders to net income and adjusted return on common equity to return on common equity.



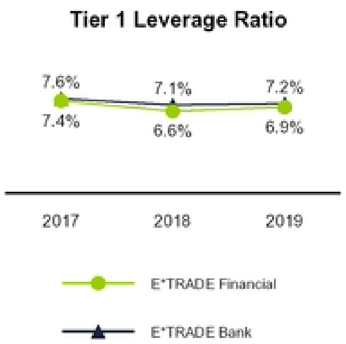


Corporate cash*,* a non-GAAP measure, is a component of ***cash and equivalents*** and represents the primary source of capital above and beyond the capital deployed in our regulated subsidiaries. Cash and equivalents was $750 million, $2.3 billion and $931 million at December 31, 2019, 2018 and 2017, respectively, while corporate cash was $645 million, $391 million and $541 million for the same periods. See *MD&A—Liquidity and Capital Resources* for a reconciliation of corporate cash to cash and equivalents.



Average interest-earning assets, along with net interest margin, are indicators of our ability to generate net interest income. Average interest-earning assets were $58.2 billion, $60.0 billion and $53.2 billion for the years ended December 31, 2019, 2018 and 2017, respectively.

Net interest margin is a measure of the net yield on our average interest-earning assets. Net interest margin is calculated for a given period by dividing the annualized sum of net interest income by average interest-earning assets. Net interest margin was 3.18%, 3.08% and 2.79% for the years ended December 31, 2019, 2018 and 2017, respectively.

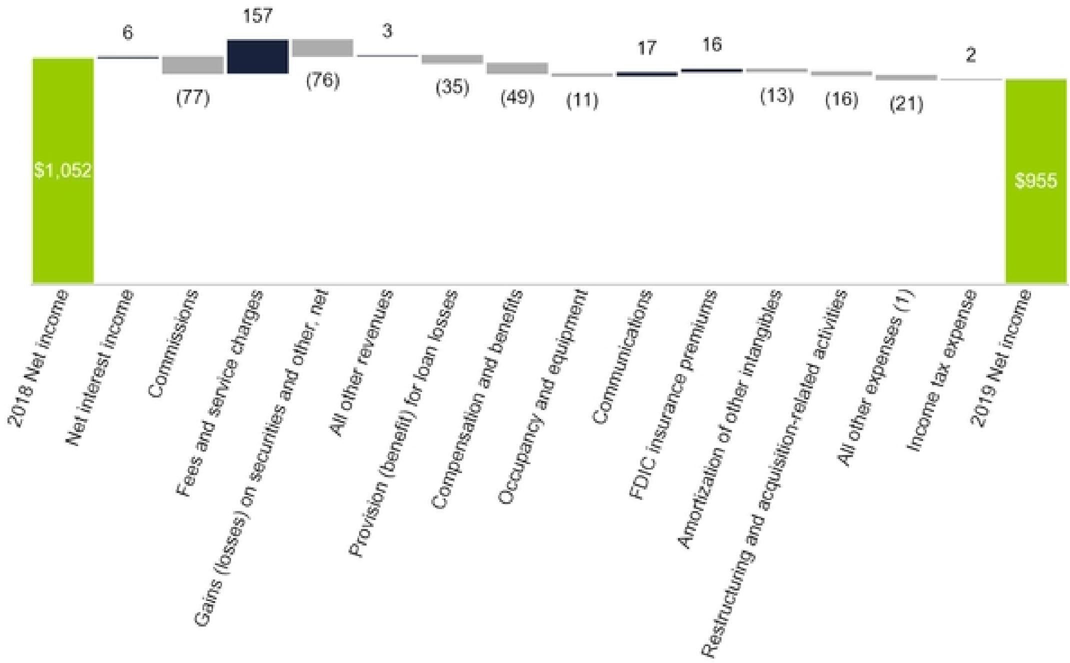


Tier 1 leverage ratio is an indicator of capital adequacy for E*TRADE Financial and E*TRADE Bank. Tier 1 leverage ratio is Tier 1 capital divided by adjusted average assets for leverage capital purposes. E*TRADE Financial's Tier 1 leverage ratio was 6.9%, 6.6% and 7.4% at December 31, 2019, 2018 and 2017, respectively. E*TRADE Bank's Tier 1 leverage ratio was 7.2%, 7.1% and 7.6% at December 31, 2019, 2018 and 2017, respectively. The internal threshold for E*TRADE Financial's Tier 1 leverage ratio is 6.5% and the internal threshold for E*TRADE Bank's Tier 1 leverage ratio is 7.0%. See *MD&A—Liquidity and Capital Resources* for additional information, including the calculation of regulatory capital ratios.

Total employees is the key driver of compensation and benefits expense, our largest non-interest expense category. Total employees were 4,122, 4,035 and 3,607 at December 31, 2019, 2018 and 2017, respectively.

EARNINGS OVERVIEW

We generated net income of $955 million on total net revenue of $2.9 billion for the year ended December 31, 2019. The following chart presents a reconciliation of net income for the year ended December 31, 2018 to net income for the year ended December 31, 2019 (dollars in millions):



(1) Includes advertising and market development, clearing and servicing, professional services, depreciation and amortization, losses on early extinguishment of debt and other non-interest expenses.

The following table presents significant components of the consolidated statements of income (dollars in millions, except per share amounts):

	Year Ended December 31,			Variance 2019 vs. 2018		Variance 2018 vs. 2017	
	2019	2018	2017	Amount	%	Amount	%
Net interest income	$ 1,852	$ 1,846	$ 1,485	$ 6	— %	$ 361	24 %
Total non-interest income	1,034	1,027	881	7	1 %	146	17 %
Total net revenue	2,886	2,873	2,366	13	— %	507	21 %
Provision (benefit) for loan losses	(51)	(86)	(168)	35	(41)%	82	(49)%
Total non-interest expense	1,618	1,541	1,470	77	5 %	71	5 %
Income before income tax expense	1,319	1,418	1,064	(99)	(7)%	354	33 %
Income tax expense	364	366	450	(2)	(1)%	(84)	(19)%
Net income	$ 955	$ 1,052	$ 614	$ (97)	(9)%	$ 438	71 %
Preferred stock dividends	40	36	25	4	11 %	11	44 %
Net income available to common shareholders	$ 915	$ 1,016	$ 589	$ (101)	(10)%	$ 427	72 %
Diluted earnings per common share	$ 3.85	$ 3.88	$ 2.15	$ (0.03)	(1)%	$ 1.73	80 %

Net income decreased 9% to $955 million or $3.85 per diluted share, for the year ended December 31, 2019 compared to 2018 and increased 71% to $1.1 billion, or $3.88 per diluted share, for the year ended December 31, 2018 compared to 2017. Net income available to common shareholders was $915 million, $1.0 billion, and $589 million for the years ended December 31, 2019, 2018, and 2017, respectively, which includes preferred stock dividends of $40 million, $36 million, and $25 million in the same periods, respectively.

- The decrease in net income during 2019 was primarily driven by higher non-interest expense due to increased compensation and benefits expenses, restructuring and acquisition-related activities, and other non-interest expenses partially offset by decreases in communications and FDIC insurance premiums expenses as compared to 2018. Lower benefit for loan losses also contributed to the decrease in net income, which was partially offset by higher net revenue.
- The increase in net income during 2018 was driven by higher interest income due to a larger average balance sheet, an improvement in net interest margin, higher commissions due to increased trading activity, higher fees and service charges and net gains on securities and other as compared to 2017. Lower losses on early extinguishment of debt also contributed to increased net income in 2018. During the year ended December 31, 2018, these increases were partially offset by a lower benefit for loan losses and higher non-interest expense due primarily to increased compensation and benefits and advertising and market development expense.

Net Revenue

The following table presents the significant components of total net revenue (dollars in millions):

	Year Ended December 31,			Variance 2019 vs. 2018		Variance 2018 vs. 2017	
	2019	2018	2017	Amount	%	Amount	%
Net interest income	$ 1,852	$ 1,846	$ 1,485	$ 6	— %	$ 361	24%
Commissions	421	498	441	(77)	(15)%	57	13%
Fees and service charges	588	431	369	157	36 %	62	17%
Gains (losses) on securities and other, net	(23)	53	28	(76)	*	25	89%
Other revenue	48	45	43	3	7 %	2	5%
Total non-interest income	1,034	1,027	881	7	1 %	146	17%
Total net revenue	$ 2,886	$ 2,873	$ 2,366	$ 13	— %	$ 507	21%

* Percentage not meaningful.

Net Interest Income

Net interest income increased slightly to $1.9 billion for the year ended December 31, 2019 compared to 2018 and increased 24% to $1.8 billion for the year ended December 31, 2018 compared to 2017. Net interest income is earned primarily through investment securities, margin receivables, securities lending, and our legacy loan portfolio, offset by funding costs.

The following tables present average balance sheet data and interest income and expense data, as well as related net interest margin, yields, and rates (dollars in millions):

	Year Ended December 31,								
	2019			2018			2017		
	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost	Average Balance	Interest Inc./Exp.	Average Yield/ Cost
Cash and equivalents	$ 467	$ 10	2.14%	$ 616	$ 11	1.75%	$ 1,011	$ 9	0.89%
Cash segregated under federal or other regulations	1,097	26	2.35%	743	15	2.02%	1,186	12	0.99%
Investment securities(1)	44,108	1,360	3.08%	44,993	1,241	2.76%	39,090	962	2.46%
Margin receivables	9,850	482	4.89%	10,437	491	4.71%	7,721	320	4.15%
Loans(2)	1,873	104	5.58%	2,405	128	5.31%	3,194	157	4.93%
Broker-related receivables and other	839	17	1.98%	818	14	1.79%	1,014	3	0.29%
Total interest-earning assets	58,234	1,999	3.43%	60,012	1,900	3.17%	53,216	1,463	2.75%
Other interest revenue(3)	—	112		—	109		—	108	
Total interest-earning assets	58,234	2,111	3.62%	60,012	2,009	3.35%	53,216	1,571	2.95%
Total non-interest-earning assets	5,405			4,428			4,979		
Total assets	$ 63,639			$ 64,440			$ 58,195		
Sweep deposits:									
Brokerage sweep deposits	$ 33,723	$ 54	0.16%	$ 38,039	$ 42	0.11%	$ 33,775	$ 4	0.01%
Bank sweep deposits(4)	604	11	1.77%	—	—	—%	—	—	—%
Savings deposits	6,216	85	1.36%	3,049	9	0.30%	3,085	—	0.01%
Other deposits	1,682	—	0.03%	1,965	—	0.03%	2,055	—	0.03%
Customer payables	10,982	30	0.27%	9,881	22	0.22%	8,793	5	0.06%
Broker-related payables and other	1,062	4	0.41%	1,813	10	0.57%	1,250	—	—%
Other borrowings	245	9	3.59%	745	25	3.30%	665	22	3.33%
Corporate debt	1,410	55	3.93%	1,214	46	3.80%	994	48	4.77%
Total interest-bearing liabilities	55,924	248	0.44%	56,706	154	0.27%	50,617	79	0.16%
Other interest expense(5)	—	11		—	9		—	7	
Total interest-bearing liabilities	55,924	259	0.46%	56,706	163	0.29%	50,617	86	0.17%
Total non-interest-bearing liabilities	1,178			896			1,058		
Total liabilities	57,102			57,602			51,675		
Total shareholders' equity	6,537			6,838			6,520		
Total liabilities and shareholders' equity	$ 63,639			$ 64,440			$ 58,195		
Excess interest earning assets over interest bearing liabilities/net interest income/net interest margin	$ 2,310	$ 1,852	3.18%	$ 3,306	$ 1,846	3.08%	$ 2,599	$ 1,485	2.79%

(1) For the years ended December 31, 2019 and 2018, includes $3 million and $19 million, respectively, of net losses related to fair value hedging adjustments, previously referred to as hedge ineffectiveness. Amounts for the year ended December 31, 2017 have not been reclassified to conform to current period presentation and continue to be reflected within the gains (losses) on securities and other, net line item. See *Note 8—Derivative Instruments and Hedging Activities* for additional information.

(2) Nonaccrual loans are included in the average loan balances. Interest payments received on nonaccrual loans are recognized on a cash basis in interest income until it is doubtful that full payment will be collected, at which point payments are applied to principal.

(3) Other interest revenue is earned on certain securities loaned balances. Interest expense incurred on other securities loaned balances is presented on the broker-related payables and other line item above.

(4) Beginning November 2019, bank sweep deposits include Premium Savings Accounts participating in the newly established bank sweep deposit account program. Refer to *MD&A—Balance Sheet Overview* for additional information.

(5) Other interest expense is incurred on certain securities borrowed balances. Interest income earned on other securities borrowed balances is presented on the broker-related receivables and other line item above.

	Year Ended December 31,		
	2019	2018	2017
Ratio of interest-earning assets to interest-bearing liabilities	104.13%	105.83%	105.14%
Return on average total assets	1.50%	1.63%	1.06%
Return on average total shareholders' equity[1]	14.61%	15.38%	9.42%
Average total shareholders' equity to average total assets	10.27%	10.61%	11.20%
Dividend payout ratio[2]	14.51%	3.59%	—%

(1) Calculated by dividing net income by average total shareholders' equity. As described in the *Earnings Overview* section below, the Company's return on common equity corporate metric is calculated by dividing net income available to common shareholders by average common shareholders' equity, which excludes preferred stock.

(2) Calculated by dividing dividends declared per common share by basic earnings per share.

Average interest-earning assets decreased 3% to $58.2 billion for the year ended December 31, 2019 as compared to 2018. The fluctuation in interest-earning assets is generally driven by changes in interest-bearing liabilities, primarily deposits and customer payables. Average interest-bearing liabilities decreased 1% to $55.9 billion for the year ended December 31, 2019 compared to 2018 due to the following:

- **Deposits and customer payables:** The decrease in sweep deposits was primarily driven by the balance sheet repositioning during the second quarter of 2019, as we moved $6.6 billion of deposits to third-party banks. The increase in savings deposits was primarily driven by the growth in the Premium Savings Account balances during the year, which was partially offset by the conversion of Premium Savings Accounts into a sweep deposit program beginning in November 2019. Refer to *MD&A—Balance Sheet Overview* for additional information.

- **Other interest-bearing liabilities:** The decrease in broker-related payables and other borrowings was driven by customer activity and short-term liquidity needs at E*TRADE Bank and E*TRADE Securities. In addition, net proceeds from the June 2018 issuance of corporate debt were used to redeem the Company's trust preferred securities in the third quarter of 2018, resulting in a decrease in other borrowings and an offsetting increase to corporate debt as compared to 2018.

Net interest margin increased 10 basis points to 3.18% for the year ended December 31, 2019 compared to 2018. Net interest margin is driven by the mix of average asset and liability balances and the interest rates earned or paid on those balances. The increase during the year ended December 31, 2019, compared to 2018, is due to higher interest rates earned on margin receivables, investment securities, and loans balances as well as higher securities lending revenues, partially offset by increased funding costs due to increased rates paid on deposits, including the Premium Savings Account product. The increase in rates was largely driven by the four increases in federal funds rates that occurred during 2018 partially offset by the three federal funds rate cuts during 2019. Our net interest margin was also impacted by the continued run-off of our higher yielding legacy loan portfolio.

Average interest-earning assets increased 13% to $60.0 billion for the year ended December 31, 2018 compared to 2017. The fluctuation in interest-earning assets is generally driven by changes in interest-bearing liabilities, primarily deposits and customer payables. Average interest-bearing liabilities increased 12% to $56.7 billion for the year ended December 31, 2018 compared to 2017. The increase was driven by higher sweep deposits during 2018 and deposits assumed as part of the acquisition of TCA and retail brokerage accounts from Capital One, partially offset by customer net buying of $13.6 billion during the year ended December 31, 2018, compared to net buying of $9.2 billion during the same period in 2017.

Net interest margin increased 29 basis points to 3.08% for the year ended December 31, 2018 compared to 2017. Net interest margin is driven by the mix of average asset and liability balances and the interest rates earned or paid on those balances. The increase during the year ended December 31, 2018, compared to 2017 is due to higher interest rates earned on higher margin receivables and investment securities balances, partially offset by the continued run-off of our higher yielding legacy mortgage and consumer loan portfolio. Additionally, funding costs increased primarily due to increased rates paid on deposits, customer payables, and broker-related payables during the year ended December 31, 2018.

Commissions

Commissions revenue decreased 15% to $421 million for the year ended December 31, 2019 compared to 2018 and increased 13% to $498 million for the year ended December 31, 2018 compared to 2017. The decrease during 2019 was primarily related to the elimination of retail commissions which was effective on October 7, 2019. The primary factors that affect commissions revenue are DARTs, derivative DARTs, trade type, and the number of trading days. We expect the majority of commissions revenue in future periods will be driven from options contract charges. For additional information see *MD&A—Overview*.

DARTs volume increased 6% to 291,023 for the year ended December 31, 2019 compared to 2018 and increased 31% to 274,997 for the year ended December 31, 2018 compared to 2017. DARTs volume is impacted by market sentiment as well as volatility of the equity markets. Derivative DARTs volume increased 7% to 97,912 for the year ended December 31, 2019, compared to 2018 and increased 40% to 91,543 for the year ended December 31, 2018 compared to 2017.

Fees and Service Charges

The following table presents the significant components of fees and service charges (dollars in millions):

	Year Ended December 31,			Variance 2019 vs. 2018		Variance 2018 vs. 2017	
	2019	2018	2017	Amount	%	Amount	%
Order flow revenue	$ 188	$ 174	$ 135	$ 14	8%	$ 39	29 %
Money market funds and sweep deposits revenue[1]	175	71	92	104	146%	(21)	(23)%
Advisor management and custody fees	77	64	36	13	20%	28	78 %
Mutual fund service fees	51	48	39	3	6%	9	23 %
Foreign exchange revenue	33	25	26	8	32%	(1)	(4)%
Reorganization fees	24	14	16	10	71%	(2)	(13)%
Other fees and service charges	40	35	25	5	14%	10	40 %
Total fees and service charges	$ 588	$ 431	$ 369	$ 157	36%	$ 62	17 %

(1) Includes revenue earned on average customer cash held by third parties based on the federal funds rate or LIBOR plus a negotiated spread or other contractual arrangements with the third-party institutions.

Fees and service charges increased 36% to $588 million for the year ended December 31, 2019 compared to 2018 and 17% to $431 million for the year ended December 31, 2018 compared to 2017. The increase for the year ended December 31, 2019 was primarily driven by higher average off-balance sheet money market and sweep deposits balances as a result of the balance sheet repositioning in June 2019 and a higher yield of approximately 175 basis points for the year ended December 31, 2019 compared to 140 basis points in 2018 and 90 basis points in 2017. In both 2019 and 2018 order flow revenue increased driven by higher trade volume and advisor management and custody fees increased as a result of the acquisition of TCA in the second quarter of 2018. The increase in order flow revenue and advisor management and custody fees in 2018 as compared to 2017 was partially offset by decreased money market funds and sweep deposits revenue driven by lower average customer cash balances held by third parties as a result of transferring cash onto our balance sheet.

Gains (Losses) on Securities and Other, Net

The following table presents the significant components of gains (losses) on securities and other, net (dollars in millions):

	Year Ended December 31,			Variance 2019 vs. 2018		Variance 2018 vs. 2017	
	2019	2018	2017	Amount	%	Amount	%
Gains (losses) on available-for-sale securities, net:							
Gains on available-for-sale securities[1][2]	$ 51	$ 98	$ 40	$ (47)	(48)%	$ 58	145 %
Losses on available-for-sale securities[1][2]	(80)	(54)	—	(26)	48 %	(54)	(100)%
Subtotal	(29)	44	40	(73)	(166)%	4	10 %
Equity method investment income (loss) and other[3][4]	6	9	(12)	(3)	(33)%	21	(175)%
Gains (losses) on securities and other, net	$ (23)	$ 53	$ 28	$ (76)	(143)%	$ 25	89 %

(1) In June 2019, the Company sold $4.5 billion of lower-yielding investment securities at losses as it repositioned its balance sheet. See *MD&A—Balance Sheet Overview* and *Note 6—Available-for-Sale and Held-to-Maturity Securities* for additional information.

(2) In August 2018, the Company sold available-for-sale securities and reinvested the sale proceeds in agency-backed securities at current market rates. See *Note 6—Available-for-Sale and Held-to-Maturity Securities* for additional information.

(3) Includes a $5 million gain on the sale of our Chicago Stock Exchange investment for the year ended December 31, 2018.

(4) Includes losses of $14 million on hedge ineffectiveness for the year ended December 31, 2017. Beginning January 1, 2018, fair value hedging adjustments are recognized within net interest income. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

Provision (Benefit) for Loan Losses

We recognized a benefit for loan losses of $51 million, $86 million and $168 million for the years ended December 31, 2019, 2018 and 2017, respectively. The timing and magnitude of the provision (benefit) for loan losses is affected by many factors that could result in variability. These benefits reflected better than expected performance of our legacy loan portfolio as well as recoveries in excess of prior expectations, including sales of charged-off loans and recoveries of previous charge-offs that were not included in our loss estimates. For additional information on management's estimate of the allowance for loan losses, see *Note 7—Loans Receivable, Net*.

Non-Interest Expense

The following table presents the significant components of non-interest expense (dollars in millions):

	Year Ended December 31,			Variance 2019 vs. 2018		Variance 2018 vs. 2017	
	2019	2018	2017	Amount	%	Amount	%
Compensation and benefits	$ 670	$ 621	$ 546	$ 49	8 %	$ 75	14 %
Advertising and market development	196	200	166	(4)	(2)%	34	20 %
Clearing and servicing	133	126	124	7	6 %	2	2 %
Professional services	105	96	99	9	9 %	(3)	(3)%
Occupancy and equipment	135	124	116	11	9 %	8	7 %
Communications	99	116	121	(17)	(15)%	(5)	(4)%
Depreciation and amortization	88	92	82	(4)	(4)%	10	12 %
FDIC insurance premiums	14	30	31	(16)	(53)%	(1)	(3)%
Amortization of other intangibles	61	48	36	13	27 %	12	33 %
Restructuring and acquisition-related activities	23	7	15	16	229 %	(8)	(53)%
Losses on early extinguishment of debt	—	4	58	(4)	(100)%	(54)	(93)%
Other non-interest expenses	94	77	76	17	22 %	1	1 %
Total non-interest expense	$ 1,618	$ 1,541	$ 1,470	$ 77	5 %	$ 71	5 %

Compensation and Benefits

Compensation and benefits expense increased 8% to $670 million for the year ended December 31, 2019 compared to 2018 and 14% to $621 million for the year ended December 31, 2018 compared to 2017. The expense increase during 2019 was primarily driven by higher compensation expense, insurance benefit and payroll taxes due to an increase in average headcount as compared to the prior year and an executive transition in the third quarter of 2019. The expense increase during 2018 was primarily driven by a 12% increase in headcount as a result of the TCA acquisition and to support the onboarding of the retail brokerage accounts from Capital One, as well as other growth in our business.

Advertising and Market Development

Advertising and market development expense decreased 2% to $196 million for the year ended December 31, 2019 compared to 2018 and increased 20% to $200 million for the year ended December 31, 2018 compared to 2017. The expense decrease during 2019 was driven by lower media and brand production spend as compared to prior period. The planned expense increase during 2018 was primarily due to higher media and brand production spend resulting from our focus on increasing engagement across new and existing customers.

Clearing and Servicing

Clearing and servicing expense increased 6% to $133 million for the year ended December 31, 2019, compared to 2018 and 2% to $126 million for the year ended December 31, 2018 compared to 2017. The expense increase during 2019 was primarily due to higher fees driven by increased trading volume and higher average off-balance sheet customer cash balances held by third parties, partially offset by lower loan servicing fees due to the run-off of our legacy loan portfolio. The expense increase during 2018 was primarily due to increased fees driven by increased trading volume, partially offset by lower loan servicing fees and decreased fees due to lower customer cash balances held by third parties.

Professional Services

Professional services expense increased 9% to $105 million for the year ended December 31, 2019, compared to 2018 and decreased 3% to $96 million for the year ended December 31, 2018 compared to 2017. The expense increase during 2019 includes continued investment in projects to drive operational efficiencies and expand our business capabilities. The expense decrease during 2018 was primarily driven by lower legal services expense.

Occupancy and Equipment

Occupancy and equipment expense increased 9% to $135 million for the year ended December 31, 2019 compared to 2018 and 7% to $124 million for the year ended December 31, 2018 compared to 2017. The expense increase during both periods was primarily driven by higher software licenses and facilities expense.

Communications

Communications expense decreased 15% to $99 million for the year ended December 31, 2019, compared to 2018 and 4% to $116 million for the year ended December 31, 2018 compared to 2017. The decrease during both periods was primarily driven by lower market data expenses. Communications expense for the year ended December 31, 2019 included a $14 million benefit related to a change in estimate for previous market data usage.

FDIC Insurance Premiums

FDIC insurance premiums expense decreased 53% to $14 million for the year ended December 31, 2019 compared to 2018 and 3% to $30 million for the year ended December 31, 2018 compared to 2017. The decreases were driven by the termination of surcharges paid to the Deposit Insurance Fund after it attained the minimum reserve ratio of 1.35 percent of insured deposits in September 2018, and our balance sheet repositioning during the second quarter 2019 when we moved $6.6 billion of deposits to third-party banks.

Amortization of Other Intangibles

Amortization of other intangibles increased 27% to $61 million for the year ended December 31, 2019, compared to 2018 and 33% to $48 million for the year ended December 31, 2018 compared to 2017. The increase during 2019 related primarily to a full year of amortization associated with the intangible assets recognized in connection with the acquisition of TCA and the acquisition of retail accounts from Capital One during 2018, which also contributed to the increase from 2017. See *Note 2—Acquisitions and Restructuring* for additional information.

Restructuring and Acquisition-Related Activities

Restructuring and acquisition-related activities expense was $23 million for the year ended December 31, 2019 as compared to $7 million and $15 million for the years ended December 31, 2018 and 2017, respectively. Restructuring and acquisition-related activities expense for the year ended December 31, 2019 related primarily to expenses incurred as part of the closure of our New York headquarters, severance from organizational changes driven by enterprise-wide cost containment initiatives, and costs incurred as part of the Gradifi acquisition. Refer to *Note 2—Acquisitions and Restructuring* and *Note 19—Lease Arrangements* for additional information. Restructuring and acquisition-related activities expense for the years ended December 31, 2018 included costs incurred in connection with the restructuring of our regulatory and enterprise risk management functions due to bank regulatory reform and the closing of the TCA acquisition. Restructuring and acquisition-related activities expense during the year ended December 31, 2017 related primarily to costs incurred in connection with the integration of OptionsHouse.

Losses on Early Extinguishment of Debt

There were no losses on early extinguishment of debt for the year ended December 31, 2019. Losses on early extinguishment of debt were $4 million for the year ended December 31, 2018 compared to $58 million for the year ended December 31, 2017.

- During the third quarter of 2018, we used the net proceeds from the June 2018 issuance of Senior Notes to redeem all $413 million of our outstanding trust preferred securities (TRUPs). In connection with the redemption, we recognized a loss on early extinguishment of debt of $4 million.
- During the third quarter of 2017, we issued $600 million of 2.95% Senior Notes due 2022 and $400 million of 3.80% Senior Notes due 2027. We used the net proceeds, along with existing corporate cash, to redeem our outstanding $540 million of 5.375% Senior Notes and $460 million of 4.625% Senior Notes, which resulted in a $58 million loss on early extinguishment of debt.

Other Non-Interest Expenses

Other non-interest expenses increased 22% to $94 million for the year ended December 31, 2019, compared to 2018 and 1% to $77 million for the year ended December 31, 2018 compared to 2017. The increase during 2019 was primarily driven by $8 million impairment of certain technology assets and increased franchise taxes. Refer to *Note 9—Property and Equipment, Net* for additional information.

Operating Margin

Operating margin was 46% for the year ended December 31, 2019 compared to 49% and 45% for the same periods in 2018 and 2017, respectively. Adjusted operating margin, a non-GAAP measure, was 44% for the year ended December 31, 2019 compared to 47% and 40% for the same periods in 2018 and 2017, respectively.

Adjusted operating margin is calculated by dividing adjusted income before income tax expense by total net revenue. Adjusted income before income tax expense, a non-GAAP measure, excludes provision (benefit) for loan losses and losses on early extinguishment of debt. The following table presents a reconciliation of adjusted income before income tax expense and adjusted operating margin, non-GAAP measures, to the most directly comparable GAAP measures (dollars in millions):

	Year Ended December 31,					
	2019		2018		2017	
	Amount	Operating Margin %	Amount	Operating Margin %	Amount	Operating Margin %
Income before income tax expense / operating margin	$ 1,319	46%	$ 1,418	49%	$ 1,064	45%
Add back impact of pre-tax items:						
Provision (benefit) for loan losses	(51)		(86)		(168)	
Losses on early extinguishment of debt	—		4		58	
Subtotal	(51)		(82)		(110)	
Adjusted income before income tax expense / adjusted operating margin	$ 1,268	44%	$ 1,336	47%	$ 954	40%

Return on Common Equity

Return on common equity was 16% for the year ended December 31, 2019 compared to 17% and 10% for the same periods in 2018 and 2017, respectively. Adjusted return on common equity, a non-GAAP measure, was 15% for the year ended December 31, 2019 compared to 16% and 9% for 2018 and 2017, respectively.

Adjusted return on common equity is calculated by dividing adjusted net income available to common shareholders by average common shareholders' equity, which excludes preferred stock. Adjusted net income available to common shareholders, a non-GAAP measure, excludes the after-tax impact of the provision (benefit) for loan losses and losses on early extinguishment of debt. The following table provides a reconciliation of GAAP net income available to common shareholders and return on common equity percentage to non-GAAP adjusted net income available to common shareholders and adjusted return on common equity percentage (dollars in millions):

	Year Ended December 31,					
	2019		2018		2017	
	Amount	Return on Common Equity %	Amount	Return on Common Equity %	Amount	Return on Common Equity %
Net income available to common shareholders and return on common equity	$ 915	16%	$ 1,016	17%	$ 589	10%
Add back impact of the following items:						
Provision (benefit) for loan losses	(51)		(86)		(168)	
Losses on early extinguishment of debt	—		4		58	
Subtotal	(51)		(82)		(110)	
Income tax impact	14		21		43	
Net of tax	(37)		(61)		(67)	
Adjusted net income available to common shareholders and return on common equity	$ 878	15%	$ 955	16%	$ 522	9%

Income Tax Expense

Income tax expense was $364 million, $366 million and $450 million for the years ended December 31, 2019, 2018 and 2017, respectively. The effective tax rate was 27.6%, 25.8% and 42.2% respectively, for the same periods.

- The effective tax rate of 27.6% for the year ended December 31, 2019 includes additional tax expense related primarily to the remeasurement of net state deferred taxes.
- The effective tax rate of 25.8% for the year ended December 31, 2018 included the new statutory federal income tax rate of 21% which was effective January 1, 2018 as well as a slight benefit related to the remeasurement of certain net state deferred tax assets and the accounting for employee share-based compensation.
- The effective tax rate of 42.2% for the year ended December 31, 2017 includes the impact of the Tax Cuts and Jobs Act (TCJA) that was enacted on December 22, 2017. This resulted in a reduction in the value of our net federal deferred tax assets using the new statutory federal corporate income tax rate of 21%. As a result, we recognized $58 million of additional tax expense for the year ended December 31, 2017. The effective tax rate also includes the impact of adopting amended accounting guidance for employee share-based compensation.

Refer to *Note 14—Income Taxes* for further information.

BALANCE SHEET OVERVIEW

The following table presents the significant components of the consolidated balance sheet (dollars in millions):

	December 31,		Variance 2019 vs. 2018	
	2019	2018	Amount	%
Assets:				
Cash and equivalents	$ 750	$ 2,333	$ (1,583)	(68)%
Segregated cash	1,879	1,011	868	86 %
Investment securities	41,470	45,037	(3,567)	(8)%
Margin receivables	9,675	9,560	115	1 %
Loans receivable, net	1,595	2,103	(508)	(24)%
Receivables from brokers, dealers and clearing organizations	1,395	760	635	84 %
Property and equipment, net	339	281	58	21 %
Goodwill and other intangibles, net	2,943	2,976	(33)	(1)%
Other assets	1,370	942	428	45 %
Total assets	$ 61,416	$ 65,003	$ (3,587)	(6)%
Liabilities and shareholders' equity:				
Deposits	$ 38,606	$ 45,313	$ (6,707)	(15)%
Customer payables	12,849	10,117	2,732	27 %
Payables to brokers, dealers and clearing organizations	893	948	(55)	(6)%
Corporate debt	1,410	1,409	1	— %
Other liabilities	1,115	654	461	70 %
Total liabilities	54,873	58,441	(3,568)	(6)%
Shareholders' equity	6,543	6,562	(19)	— %
Total liabilities and shareholders' equity	$ 61,416	$ 65,003	$ (3,587)	(6)%

Cash and Equivalents

Cash and equivalents decreased 68% to $750 million during the year ended December 31, 2019. Cash and equivalents will fluctuate based on a variety of factors, including, among other drivers, liquidity needs at the parent, customer activity at our regulated subsidiaries, and the timing of investments at E*TRADE Bank. For additional information on our use of cash and equivalents, see *MD&A—Liquidity and Capital Resources* and the *Consolidated Statements of Cash Flows*.

Segregated Cash

Cash segregated under federal or other regulations increased 86% to $1.9 billion during the year ended December 31, 2019. The level of segregated cash is driven by customer payables and securities lending balances we hold as liabilities compared with the amount of margin receivables and securities borrowed balances we hold as assets. The excess represents customer cash that we segregate for the exclusive benefit of our brokerage customers. Segregated cash can also be impacted by the level of securities purchased under agreements to resell between E*TRADE Securities and E*TRADE Bank, representing investments that were also segregated under federal or other regulations by E*TRADE Securities and eliminated in consolidation, which increased $1.5 billion to $1.9 billion as of December 31, 2019.

Investment Securities

The following table presents the significant components of investment securities (dollars in millions):

	December 31,		Variance 2019 vs. 2018	
	2019	2018	Amount	%
Available-for-sale securities:				
Agency mortgage-backed securities	$ 17,035	$ 22,162	$ (5,127)	(23)%
Other agency debt securities	659	991	(332)	(34)%
US Treasuries	1,227	—	1,227	100 %
Non-agency debt securities[1]	580	—	580	100 %
Total available-for-sale securities	$ 19,501	$ 23,153	$ (3,652)	(16)%
Held-to-maturity securities:				
Agency mortgage-backed securities	$ 20,085	$ 18,085	$ 2,000	11 %
Other agency debt securities	1,884	3,799	(1,915)	(50)%
Total held-to-maturity securities	$ 21,969	$ 21,884	$ 85	— %
Total investment securities	$ 41,470	$ 45,037	$ (3,567)	(8)%

(1) Includes non-agency asset-backed securities (ABS) and non-agency commercial mortgage-backed securities.

Securities represented 68% and 69% of total assets at December 31, 2019 and 2018, respectively. We classify debt securities as available-for-sale or held-to-maturity based on our investment strategy and management's assessment of our intent and ability to hold the debt securities until maturity.

The decrease in available-for-sale securities during the year ended December 31, 2019 related primarily to the sale of $4.5 billion of lower-yielding investment securities as part of the Company's balance sheet repositioning in June 2019 and the transfer of securities with a fair value of $744 million from available-for-sale to held-to-maturity based on a change in intent and demonstrated ability to hold them to maturity in December 2019. See *MD&A—Overview, MD&A—Earnings Overview* and *Note 6—Available-for-Sale and Held-to-Maturity Securities* for additional information.

Loans Receivable, Net

The following table presents the significant components of loans receivable, net (dollars in millions):

	December 31,		Variance 2019 vs. 2018	
	2019	2018	Amount	%
One- to four-family	$ 803	$ 1,071	$ (268)	(25)%
Home equity	635	836	(201)	(24)%
Consumer	—	118	(118)	(100)%
Securities-based lending[1]	169	107	62	58 %
Total loans receivable	1,607	2,132	(525)	(25)%
Unamortized premiums, net	5	8	(3)	(38)%
Subtotal	1,612	2,140	(528)	(25)%
Less: Allowance for loan losses	17	37	(20)	(54)%
Total loans receivable, net	$ 1,595	$ 2,103	$ (508)	(24)%

(1) E*TRADE Line of Credit is a securities-based lending product where customers can borrow against the market value of their securities pledged as collateral. The unused credit line amount totaled $431 million and $173 million as of December 31, 2019 and 2018, respectively.

Loans receivable, net decreased 24% to $1.6 billion during the year ended December 31, 2019 on continued paydowns and the sale of our consumer loan portfolio in December 2019. We expect the remaining legacy mortgage loan portfolio to continue its run-off for the foreseeable future. As our portfolio has seasoned and substantially all interest-only loans have converted to amortizing, we continue to assess underlying performance, the economic environment, and the value of the portfolio in the marketplace. While it is our intention to continue to hold these loans, our strategy could change subject to market conditions. For additional information on management's estimate of the allowance for loan losses, see *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* and *Note 7—Loans Receivable, Net*.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

The following table presents the significant components of receivables from and payables to brokers, dealers and clearing organizations (dollars in millions):

	December 31,		Variance 2019 vs. 2018	
	2019	2018	Amount	%
Receivables:				
Securities borrowed	$ 1,003	$ 140	$ 863	*
Receivables from clearing organizations	297	555	(258)	(46)%
Other	95	65	30	46 %
Total	$ 1,395	$ 760	$ 635	84 %
Payables:				
Securities loaned	$ 838	$ 887	$ (49)	(6)%
Payables to clearing organizations	10	11	(1)	(9)%
Other	45	50	(5)	(10)%
Total	$ 893	$ 948	$ (55)	(6)%

* Percentage not meaningful.

Securities borrowed increased to $1.0 billion during the year ended December 31, 2019. The increase was primarily driven by increased cash available and continued demand for cash from our counterparties. The 46% decrease in receivables from clearing organizations during the year ended December 31, 2019 to $297 million was primarily driven by the decreased use of cash collateral for the Company's derivatives transactions utilized for hedging activities.

Securities loaned decreased 6% to $838 million during the year ended December 31, 2019. The decrease was primarily driven by lower demand for securities from our counterparties. For additional information on E*TRADE Securities liquidity, see *MD&A—Liquidity and Capital Resources.*

Other Assets

Other assets increased 45% to $1.4 billion during the year ended December 31, 2019. The increase was driven by $200 million of securities purchased under agreements to resell that were outstanding at the end of the period and $195 million of operating lease assets related to the Company's adoption of the new guidance on accounting for leases in 2019. See *Note 19—Lease Arrangements* for additional information.

Deposits

The following table presents the significant components of deposits (dollars in millions):

	December 31,		Variance 2019 vs. 2018	
	2019	2018	Amount	%
Sweep deposits:				
Brokerage sweep deposits	$ 27,949	$ 39,322	$ (11,373)	(29)%
Bank sweep deposits[(1)]	6,355	—	6,355	100 %
Savings deposits[(2)]	2,592	4,133	(1,541)	(37)%
Other deposits	1,710	1,858	(148)	(8)%
Total deposits	$ 38,606	$ 45,313	$ (6,707)	(15)%

(1) Beginning November 2019, bank sweep deposits include Premium Savings Accounts participating in the newly established bank sweep deposit account program.

(2) Savings deposits include $1.0 billion and $2.0 billion of deposits at December 31, 2019 and 2018, respectively, in our Premium Savings Account product. We plan to convert the remaining Premium Savings Account balances to the new bank sweep deposit account program.

Deposits represented 70% and 78% of total liabilities at December 31, 2019 and 2018, respectively. The decrease in deposits during the year ended December 31, 2019 was primarily driven by the balance sheet repositioning during the second quarter 2019, partially offset by growth in our Premium Savings Account product.

We offer the following sweep deposit account programs to customers which utilize our bank subsidiaries, in combination with additional third-party program banks, as applicable:

- Extended insurance sweep deposit account (ESDA) program
- Retirement sweep deposit account (RSDA) program for retirement plan customers
- Cash balance program offered by E*TRADE Savings Bank for uninvested cash held in eligible custodial accounts as part of the advisor services offering launched in connection with the TCA acquisition
- Bank sweep deposit account program offered by E*TRADE Bank for Premium Savings Account holders

Our sweep deposit programs are designed to offer up to $1.25 million in FDIC coverage for individual accounts ($2.5 million for joint accounts). The bank sweep deposit program, which launched in November 2019, provides the Company with the ability to transfer amounts held on deposit in E*TRADE Bank Premium Savings Accounts to an FDIC-insured account at one or more participating banks if desired. As the bank sweep deposit program was established to allow for reciprocal deposits, E*TRADE Bank may also accept deposits from customers of the participating third-party banks. Bank sweep deposits included $1.0 billion of reciprocal deposits received from third-party banks at December 31, 2019. See *MD&A—Earnings Overview*, *Note 6—Available-for-Sale and Held-to-Maturity Securities*, and *Note 12—Deposits* for additional information.

As of December 31, 2019, approximately 98% of sweep deposits were in these programs. Sweep deposits on balance sheet are held at bank subsidiaries and are included in the deposits line item on our consolidated balance sheet.

Other Liabilities

Other liabilities increased 70% to $1.1 billion during the year ended December 31, 2019. The increase was driven by $337 million of deferred tax liabilities, net and $235 million of operating lease liabilities related to the Company's adoption of the new guidance on accounting for leases in 2019. See *Note 19—Lease Arrangements* for additional information.

LIQUIDITY AND CAPITAL RESOURCES

We have established liquidity and capital policies to support the successful execution of our business strategy, while maintaining ongoing and sufficient liquidity through the business cycle. We believe liquidity is of critical importance to the Company and especially important for E*TRADE Bank and E*TRADE Securities. The objective of our policies is to ensure that we can meet our corporate, banking and broker-dealer liquidity needs under both normal operating conditions and under periods of stress in the financial markets.

Liquidity

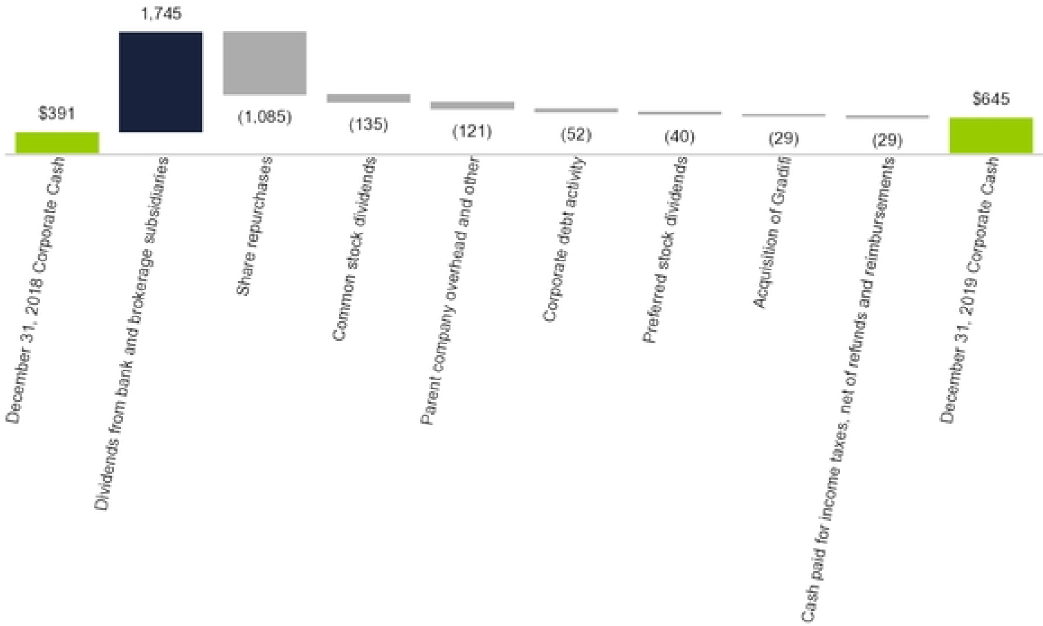
Our liquidity needs are primarily driven by capital needs at E*TRADE Bank and E*TRADE Securities, interest due on our corporate debt, dividend payments on our preferred stock and other capital returns to holders of our common stock. Our banking and brokerage subsidiaries' liquidity needs are driven primarily by the level and volatility of our customer activity. Management maintains a set of liquidity sources and monitors certain business trends and market metrics closely in an effort to ensure we have sufficient liquidity. Potential loans by E*TRADE Bank or E*TRADE Savings Bank to the parent company or the parent company's other non-bank subsidiaries are subject to various quantitative, arm’s length, collateralization, capital and other requirements.

Parent Company Liquidity

The parent company's primary source of liquidity is corporate cash. Corporate cash, a non-GAAP measure, is a component of cash and equivalents; see the *Consolidated Statements of Cash Flows* for information on cash and equivalents activity. We define corporate cash as cash held at the parent company and subsidiaries, excluding bank, broker-dealer, and FCM subsidiaries that require regulatory approval or notification prior to the payment of certain dividends to the parent company. Corporate cash includes the parent company's deposits placed with E*TRADE Bank. E*TRADE Bank may use these deposits for investment purposes; however, these investments are not included in consolidated cash and equivalents.

We believe corporate cash is a useful measure of the parent company’s liquidity as it is the primary source of capital above and beyond the capital deployed in our regulated subsidiaries. Corporate cash is monitored as part of our liquidity risk management. Our current corporate cash target is $300 million and covers approximately 18 months of parent company fixed costs, which include corporate overhead costs, preferred stock dividends, corporate debt interest, and, as applicable, contractual corporate debt maturities over the next 12 months. Parent company fixed costs are defined as minimum expenditures required to operate the business and exclude controllable, or variable costs. The Company maintains additional liquidity through a $300 million unsecured committed revolving credit facility. The parent has the ability to borrow against the credit facility for working capital and general corporate purposes. Dividends from our operating subsidiaries, including E*TRADE Bank and E*TRADE Securities, are additional sources of corporate cash. Subject to regulatory approval or notification, capital generated by these subsidiaries could be distributed to the parent company to the extent the excess capital levels exceed both regulatory capital requirements and internal capital thresholds. As of December 31, 2019, our subsidiaries maintained excess regulatory capital over internal thresholds and paid dividends of $1.7 billion to the parent company during the year ended December 31, 2019.

The following chart presents the key activities impacting corporate cash and provides a roll forward of corporate cash from December 31, 2018 to December 31, 2019 (dollars in millions):



The following table presents a reconciliation of consolidated cash and equivalents to corporate cash, a non-GAAP measure (dollars in millions):

	December 31,		
	2019	2018	2017
Consolidated cash and equivalents	$ 750	$ 2,333	$ 931
Less: Cash at regulated subsidiaries	(716)	(2,347)	(659)
Add: Cash on deposit at E*TRADE Bank[(1)]	611	405	269
Corporate cash	$ 645	$ 391	$ 541

(1) Corporate cash includes the parent company's deposits placed with E*TRADE Bank. E*TRADE Bank may use these deposits for investment purposes; however, these investments are not included in consolidated cash and equivalents.

Corporate cash increased $254 million to $645 million during the year ended December 31, 2019 primarily due to the following:

- $1.7 billion of dividends received from bank and brokerage subsidiaries
- $1.1 billion used for share repurchases
- $175 million used for dividends, including $135 million in common stock dividends and $40 million in preferred stock dividends
- $121 million used primarily for parent company overhead, including both fixed and variable costs, less reimbursements from subsidiaries under cost sharing arrangements and the impact of cash activity at other non-regulated subsidiaries
- $52 million used for corporate debt activity
- $29 million used for the acquisition of Gradifi
- $29 million used for income tax payments, net of refunds and subsidiary reimbursements

*E*TRADE Bank Liquidity*

E*TRADE Bank, including its subsidiary E*TRADE Savings Bank, relies primarily on deposits for liquidity needs. Management believes that within deposits, sweep deposits are of particular importance as they are a stable source of liquidity for E*TRADE Bank. The vast majority of E*TRADE Bank's liquidity is invested in securities backed by the US government or its agencies, representing highly liquid securities with low credit risk.

We may also utilize wholesale funding sources for short-term liquidity and contingency funding requirements. Our ability to borrow these funds is dependent upon the continued availability of funding in the wholesale borrowings market. In addition, we can borrow from the Federal Reserve Bank of Richmond's discount window to meet short-term liquidity requirements, although it is not viewed as a primary source of funding. At December 31, 2019, E*TRADE Bank had $6.8 billion and $1.3 billion in collateralized borrowing capacity with the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank of Richmond, respectively.

*E*TRADE Securities Liquidity*

E*TRADE Securities relies primarily on customer payables and securities lending to provide liquidity and to fund margin lending. E*TRADE Securities maintains additional liquidity through external lines of credit totaling approximately $1.3 billion. E*TRADE Securities also maintains lines of credit with the parent company and E*TRADE Bank.

External Liquidity Sources

The following table presents the Company's external lines of credit at December 31, 2019 (dollars in millions):

Description	Maturity Date	Borrower	Outstanding	Available
Senior unsecured, committed revolving credit facility(1)	June 2024	ETFC	$ —	$ 300
FHLB secured credit facility	Determined at trade	ETB	$ —	$ 6,837
Federal Reserve Bank discount window	Overnight	ETB	$ —	$ 1,336
Senior unsecured, committed revolving credit facility(2)	June 2020	ETS	$ —	$ 600
Secured, committed lines of credit	June 2020	ETS	$ —	$ 175
Unsecured, uncommitted lines of credit	June 2020	ETS	$ —	$ 50
Unsecured, uncommitted lines of credit	None	ETS	$ —	$ 75
Secured, uncommitted lines of credit	None	ETS	$ —	$ 425

(1) On June 21, 2019, the Company entered into a new five year, $300 million senior unsecured committed revolving credit facility, which replaced its three year senior unsecured committed revolving credit facility entered into on June 23, 2017. The senior unsecured committed revolving credit facility contains certain covenants, including maintenance covenants related to the Company's interest coverage, leverage and regulatory net capital ratios with which the Company was in compliance at December 31, 2019.

(2) On June 21, 2019, E*TRADE Securities entered into a 364-day, $600 million senior unsecured committed revolving credit facility, which replaced its 364-day senior unsecured committed revolving credit facility entered into on June 22, 2018. The senior unsecured committed revolving credit facility contains certain covenants, including maintenance covenants related to E*TRADE Securities' minimum consolidated tangible net worth and regulatory net capital ratio with which the Company was in compliance at December 31, 2019.

Capital Resources

The Company seeks to manage capital levels in support of our business strategy of generating and effectively deploying capital for the benefit of our shareholders, governed by the Company's risk management framework. For additional information on our bank and brokerage capital requirements, refer to *Note 18—Regulatory Requirements.*

Bank Capital Requirements

At December 31, 2019, our regulatory capital ratios for E*TRADE Financial and E*TRADE Bank were above the minimum ratios required to be "well capitalized." Currently, the internal threshold for E*TRADE Financial's Tier 1 leverage ratio is 6.5% and the internal threshold for E*TRADE Bank's Tier 1 leverage ratio is 7.0%. For additional information on bank regulatory requirements refer to *Part I. Item 1. Business—Regulation* and to *Note 18—Regulatory Requirements.*

The following table presents E*TRADE Financial and E*TRADE Bank's capital ratios (dollars in millions):

	E*TRADE Financial		E*TRADE Bank	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Shareholders' equity	$ 6,543	$ 6,562	$ 3,488	$ 3,557
Deduct:				
Preferred stock	(689)	(689)	—	—
Common Equity Tier 1 capital before regulatory adjustments	$ 5,854	$ 5,873	$ 3,488	$ 3,557
Add:				
Losses in other comprehensive income on available-for-sale debt securities, net of tax	28	275	28	275
Deduct:				
Goodwill and other intangible assets, net of deferred tax liabilities	(2,466)	(2,540)	(276)	(287)
Disallowed deferred tax assets	(70)	(200)	—	(61)
Common Equity Tier 1 capital	$ 3,346	$ 3,408	$ 3,240	$ 3,484
Add:				
Preferred stock	689	689	—	—
Tier 1 capital	$ 4,035	$ 4,097	$ 3,240	$ 3,484
Add:				
Other	25	46	17	37
Total capital	$ 4,060	$ 4,143	$ 3,257	$ 3,521
Average assets for leverage capital purposes	$ 60,968	$ 64,767	$ 45,320	$ 49,568
Deduct:				
Goodwill and other intangible assets, net of deferred tax liabilities	(2,466)	(2,540)	(276)	(287)
Disallowed deferred tax assets	(70)	(200)	—	(61)
Adjusted average assets for leverage capital purposes	$ 58,432	$ 62,027	$ 45,044	$ 49,220
Total risk-weighted assets(1)	$ 10,635	$ 10,970	$ 8,872	$ 9,994
Tier 1 leverage ratio (Tier 1 capital / Adjusted average assets for leverage capital purposes)	6.9%	6.6%	7.2%	7.1%
Common Equity Tier 1 capital / Total risk-weighted assets(1)	31.5%	31.1%	36.5%	34.9%
Tier 1 capital / Total risk-weighted assets	37.9%	37.3%	36.5%	34.9%
Total capital / Total risk-weighted assets	38.2%	37.8%	36.7%	35.2%

(1) Under the regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total risk-weighted assets.

Broker-Dealer and FCM Capital Requirements

Our broker-dealer and FCM subsidiaries are subject to capital requirements determined by their respective regulators. At December 31, 2019, these subsidiaries met their minimum net capital requirements. We continue to assess our ability to distribute excess net capital to the parent while maintaining adequate capital at the broker-dealer and FCM subsidiaries. For additional information on our broker-dealer and FCM capital requirements, refer to *Note 18—Regulatory Requirements.*

Off-Balance Sheet Arrangements

We enter into various off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our customers and to reduce our own exposure to interest rate risk. These arrangements include firm commitments to extend credit. Additionally, we enter into guarantees and other similar arrangements as part of transactions in the ordinary course of business. For additional information on these arrangements, refer to *Note 20—Commitments, Contingencies and Other Regulatory Matters.*

Contractual Obligations and Commitments

The following table summarizes our contractual obligations at December 31, 2019 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (dollars in millions):

	Payments Due by Period				
	Less Than 1 Year	1-3 Years	3-5 Years	Thereafter	Total
Corporate debt[1]	$ 52	$ 697	$ 68	$ 926	$ 1,743
Leases[2]	41	75	73	107	296
Purchase obligations[3]	111	44	16	—	171
Uncertain tax positions	2	21	11	—	34
Certificates of deposit[4][5]	14	4	1	—	19
Total contractual obligations	$ 220	$ 841	$ 169	$ 1,033	$ 2,263

(1) Includes annual interest payments and scheduled maturities.

(2) Includes future minimum lease payments for non-cancelable operating leases, including a sale-leaseback that is accounted for as a financing, with initial or remaining terms in excess of one year, net of sublease proceeds.

(3) Includes material purchase obligations for goods and services covered by non-cancelable contracts and obligations through the contractual termination date for cancelable contracts. Includes contracts through the termination date, even if the contract is renewable.

(4) Includes annual interest based on the contractual features of each security, using market rates at December 31, 2019. Interest rates are assumed to remain at current levels over the life of all adjustable rate instruments.

(5) Does not include sweep deposits, savings deposits, money market or checking deposits as there are no stated maturity dates and/or scheduled contractual payments.

The Company also had $43 million in unfunded contingent investment commitments to partnerships, companies and other similar entities, including tax credit partnerships and community development entities, which are not required to be consolidated, at December 31, 2019. Additional information related to commitments and contingent liabilities is detailed in *Note 20—Commitments, Contingencies and Other Regulatory Matters.*

RISK MANAGEMENT

The identification, mitigation and management of existing and potential risks is critical to effective enterprise risk management. There are certain risks inherent to our industry (e.g. execution of transactions) and certain risks that will surface through the conduct of our business operations. We seek to monitor and manage our significant risk exposures by operating under a set of Board-approved limits and by monitoring certain risk indicators. Our governance framework is designed to comply with applicable requirements and requires regular reporting on metrics and significant risks and exposures to senior management and the board of directors.

We have a Board-approved Enterprise Risk Appetite Statement (RAS) that is provided to all employees. The RAS specifies significant risk exposures and addresses the Company's tolerance of those risks, which are categorized as follows, with further information provided below:

- Credit Risk—the risk of loss arising from the failure of a borrower or counterparty to meet its credit obligations
- Liquidity Risk—the potential inability to meet in a timely and cost-effective manner 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 losses or near misses due to failure of people, processes, and systems, or damage to physical assets
- Strategic Risk—the risk of loss of market size, market share, capital or margin in our business, leading to lost revenues and potentially significant reductions to net income, assets, 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 and Regulatory Risk—the risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, applicable guidance, internal policies, or ethical standards, as well as uncertainties surrounding the interpretation or application of laws. Legal and regulatory risk also arises in situations where the rules governing certain related products or activities may be ambiguous, untested, or in the process of significant change or revision.

We are also subject to other risks that could affect our business, financial condition, results of operations or cash flows in future periods. For additional information see *Part I. Item 1A.— Risk Factors.*

We manage risk through a governance structure of risk committees, which consist of members of senior management, to help ensure that business decisions are executed within our stated risk profile and consistent with the RAS. A variety of methodologies and measures are used to monitor, quantify, assess and forecast risk. Measurement criteria, methodologies and calculations are reviewed periodically to ensure that risks are represented appropriately. Certain risks are described in the RAS and related policies which establish processes and limits. The RAS and these policies are reviewed, challenged, and approved by certain risk committees and/or the board of directors, where applicable, at least annually.

The Risk Oversight Committee (ROC), which consists of independent members of the board of directors, reviews, challenges and approves the RAS and certain risk policies each year, receives regular reports on the status of certain limits and Key Risk Indicators and discusses certain key risks. In addition to this Board-level committee, various management committees and subcommittees throughout the Company aid in the identification, measurement and management of risks, including but not limited to:

- Enterprise Risk Management Committee (ERMC)—the ERMC is the senior-most risk management committee and has primary responsibility for approving risk limits and monitoring risk management activities. The ERMC also resolves issues escalated by the other risk management committees and in certain instances approves exceptions to risk policies
- Asset Liability Committee (ALCO)—the ALCO has primary responsibility for monitoring of market, interest rate, and liquidity risk, and approves related risk limits or recommends related risk limits to be approved by the ERMC
- Credit Committee—the Credit Committee has responsibility for approving credit programs, including those supporting margin lending, investments in credit sensitive assets, loan modifications and securities-based lending. The Credit Committee also has responsibility for developing credit risk limits and submitting them to the ERMC for approval
- Operational Risk and Control Committee (ORCC)—the ORCC has responsibility for the oversight and management of the operational risks in all business lines, legal entities, and departments, including the development and reporting of key operational risk metrics. The ORCC has oversight of operational risk management in the existing enterprise risk categories, including: transactions execution risk, information security (e.g. cyber security) and other security risks, legal and regulatory risks, systems and information technology risks, and employment risks
- Technology Risk Committee (TRC)—the TRC provides oversight to ensure that all information technology, including information security, objectives and requirements are met and that policies, programs and plans are implemented

Credit Risk Management

We have expanded our credit risk appetite to include purchases of non-agency securities within risk limits. We face credit risks as follows:

- We hold credit risk exposure in our legacy loan portfolio and in connection with our investments in non-agency commercial mortgage-backed and non-agency ABS
- We offer securities-based lending products and margin loans to our customers which leads to the risk of credit losses in the event a customer's assets decline due to adverse market conditions, leaving the account with an unsecured debit that the customer is not able or willing to cover
- We engage in financial transactions with counterparties, which expose us to counterparty credit losses or collateral losses in the event a counterparty cannot meet its obligations. These financial transactions include our invested cash, securities lending, repurchase and reverse repurchase agreements, and derivatives portfolios, as well as the settlement of trades.

Credit risk is monitored by the Credit Committee. The Credit Committee's objective is to evaluate current and expected credit performance of our loans, investments, borrowers and counterparties relative to market conditions and the probable impact on our financial performance. It establishes credit risk guidelines in accordance with our strategic objectives and existing policies, and reviews investment and lending activities with credit risk to ensure consistency with those established guidelines. These reviews involve an analysis of portfolio balances, delinquencies, losses, recoveries, default management and collateral liquidation performance, as well as any credit risk mitigation efforts relating to the portfolios. In addition, the Credit Committee reviews and approves credit related counterparties engaged in financial transactions with us. The Credit Committee is responsible for corporate governance and oversight with regard to margin risk. The Credit Committee identifies, monitors and mitigates where necessary market, operational and credit risks related to our margin lending activities.

Loss Mitigation on the Loan Portfolio

Our credit risk team manages the mitigation of credit risk within the loan portfolio. We continue to have loan modification programs that were established to minimize potential losses in the mortgage portfolios by targeting borrowers experiencing financial difficulties. During the years ended December 31, 2019 and 2018, these programs were utilized to modify $9 million and $15 million, respectively, of one- to four-family loans, and $4 million and $5 million, respectively, of home equity loans. These modifications were classified as troubled debt restructurings (TDRs). We also process minor modifications on certain loans in the normal course of servicing delinquent accounts. Minor modifications resulting in an insignificant delay in the timing of payments are not considered economic concessions and therefore are not classified as TDRs. At December 31, 2019 and 2018, we had $5 million and $7 million, respectively, of mortgage loans with minor modifications that were not considered TDRs.

Currently, our entire mortgage loan portfolio is serviced by third parties. To reduce vendor, operational and regulatory risks, we have assessed our servicing relationships and, where appropriate, consolidated providers or transferred certain mortgage loans to servicers that specialize in managing troubled assets. At December 31, 2019, $981 million gross unpaid principal balance of our mortgage loans were held at servicers that specialize in managing troubled assets. We believe this initiative has improved and will continue to improve the credit performance of the loans transferred compared to the expected credit performance of these same loans if they had not been transferred.

Liquidity Risk Management

Liquidity risk is monitored by the ALCO, the ERMC and the ROC. Liquidity risk arises in a number of key areas:

- Negative news affecting the financial services and banking sector, in general, could have a systemic liquidity impact
- Significant concerns about our solvency or liquidity position could cause idiosyncratic liquidity stress
- Increases in short term rates could cause deposit outflow and funding pressure
- The parent company has no revenue sources other than dividends from its subsidiaries to fund corporate debt obligations, which introduces additional liquidity concerns
- Our corporate debt covenants and restrictions could impact our ability to distribute capital or obtain additional debt financing

We have in place a comprehensive set of liquidity and funding policies as well as contingency funding plans that are intended to maintain our flexibility to address liquidity events specific to us or the market in general. See *MD&A—Liquidity and Capital Resources* for additional information.

Market Risk Management

The most significant type of market risk we face is interest rate risk. Interest rate risk is the risk of adverse changes in earnings or market value arising from our balance sheet position due to changes in interest rates. We face interest rate risk in the following areas:

- A large proportion of our balance sheet is actively invested in MBS, agency notes, and other federal government obligations, which are subject to income and market value changes due to changes in interest rates and spreads
- We hold a sizable amount of customer deposits, which can be sensitive to the offer rate and/or the stock market environment

- Our margin customers (inclusive of futures and options customers) are subject to market risk when an account's value declines due to market conditions

Market risk is monitored by the Credit Committee, the ALCO, the ERMC and the ROC. The ALCO monitors current and expected market conditions and their probable impact on the Company and provides oversight for interest rate risk. Risks associated with the margin portfolio are reviewed monthly by the Credit Committee. See *Part II. Item 7A. Quantitative and Qualitative Disclosures about Market Risk* for additional information about our market risks.

Operational Risk Management

Operational risk is reviewed, challenged and monitored by the ORCC, the ERMC and the ROC. Operational risk is one of the most significant risks inherent in our strategy and business model. We face a wide variety of operational risks and consider operational risk across five categories:

Information Security / Cyber Risk is the potential for misuse, disclosure, loss or corruption of our data (including customer data), or damage to information systems, that may adversely impact the confidentiality, integrity, and/or availability of our information resources, including:

- Internal Malicious - Deliberate acts of sabotage, theft, or other malicious activities committed by employees or other insiders
- Internal Unintentional - Acts leading to misuse, disclosure, loss, or damage stemming from human error committed by employees and other insiders
- External Malicious - The most exposed cyber risk; deliberate attacks from outside parties, including criminal syndicates, hacktivists, and nation states
- External Unintentional - Similar to the internal unintentional, these acts cause misuse, disclosure, loss, or damage to the Company by outside parties but are not deliberate

Information Technology Risk is associated with the use, ownership, operation, influence, and adoption of technology within the Company, including:

- Disaster Recovery Risk - The risk of a natural or human-induced disaster (e.g., weather event, technology outage, unrest, pandemic) resulting in the inability to continue or recover critical technology systems in a timely manner
- Change Management Risk - The risk that changes to technology systems do not meet the objectives and requirements of the business
- IT Operations Risk - The risk of issues with network, database, application, or infrastructure systems that result in loss of revenue or productivity

Vendor Risk is associated with our reliance on third parties to provide products or services either directly to us or on behalf of us to customers, employees, and/or institutions, including:

- Failure of third party service providers to adequately perform certain functions or to perform oversight of their own third parties
- Unexpected interruptions in service
- Breach of data of the third party that includes our data

Model Risk is associated with our models used for a variety of internal purposes that may be critical to our day-to-day business, operations, decisions, and/or protection from external factors, such as money laundering attempts. Some of the key risks associated with using models that may affect business decisions and client interactions include:

- Model design, methodology, modeling choices, data, outputs are not appropriate for the model's intended use
- Model results cannot be interpreted, are not intuitive, or the model's performance deteriorates, making the model unreliable for use

General Operational Risk is meant to capture all other risks not detailed in the other specific operational risk categories above, including:

- External or internal fraud
- Process failures, unrelated to technology
- Failure of internal controls, unrelated to technology
- High turnover or loss of key personnel affecting performance

Strategic Risk Management

Strategic risk is reviewed, challenged and monitored by the ERMC and the ROC. We aim to mitigate strategic risk through the competitive positioning of our offerings. In our efforts to expand market share and product offerings, we may engage in inorganic growth opportunities that broaden our strategic risk profile. The main sources of strategic risk are:

- A strategy which is ill-defined or which does not respond to trends in our competitive landscape
- A lack of appropriate reaction mechanisms to adapt to changes in the business or regulatory environment
- Regulatory changes impacting our strategic flexibility
- Performance of our strategic initiatives or investments below key assumptions considered at the time of the investments

Reputational Risk Management

Reputational risks are reviewed, challenged and monitored by the ERMC and the ROC. Reputational risk can manifest itself in all areas of our business often due to negative publicity associated with other types of risk. The most significant reputational risks to us are in the following areas:

- Business disruption, system failures, security breaches, identity theft, vendor, or other cyber related events
- Impact of investigations and lawsuits (with or without merit)
- Publication of regulatory findings
- Conflicts of interest
- Unethical behavior of any employee of the Company or members of the Boards of Directors
- Failure of controls supporting the accuracy of financial reports and disclosures
- Errors in public communication

Legal and Regulatory Risk Management

Legal and Regulatory risks are reviewed, challenged and monitored by the ERMC and the ROC. This risk exposes the Company to fines, civil money penalties, diminished reputation, reduced franchise value, limited business opportunities and reduced expansion potential. The following areas of legal and regulatory risk are particularly pertinent:

- Extensive government regulation, including broker-dealer, banking and securities rules and regulations, which could restrict our business practices
- Changes in laws and regulation may have a material impact on our operations. In addition, we could face negative regulatory consequences, which could have a material negative effect on our business, if we are unable to meet these new requirements
- Failure to comply with applicable laws or regulations, either domestically or internationally, could subject us to disciplinary actions, monetary or other penalties or restrictions that could significantly harm our business
- We may be subject to investigations, threatened or actual lawsuits as a result of alleged or actual business practices, changes in laws, business disputes, or regulatory expectations. If we fail to take appropriate measures to protect assets (for example, intellectual property) owned by the institution that could lead to a loss in franchise value.

CONCENTRATIONS OF CREDIT RISK

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its credit obligations. Our mortgage loan portfolio represents our most significant credit risk exposure.

- **One- to Four-Family Interest-Only Loans and Home Equity Loans:** One- to four-family loans include loans with a five to ten-year interest-only period, followed by an amortizing period ranging from 20 to 25 years. The home equity loan portfolio consists of home equity installment loans (HEILs) and home equity lines of credit (HELOCs) and is primarily second lien loans on residential real estate properties that have a higher level of credit risk than first lien mortgage loans. HEILs are primarily fixed rate and fixed term, fully amortizing loans that do not offer the option of an interest-only payment. The majority of HELOCs had an interest-only draw period at origination and converted to amortizing loans at the end of the draw period, which typically ranged from five to ten years. At December 31, 2019, all of the one-to four-family loans were amortizing and substantially all of the HELOC portfolio had converted from the interest-only draw period. These conversions mitigate the risk associated with these loans; however, the Company is still exposed to the risk if the borrows fail to perform.
- **Securities:** We focus primarily on security type and credit rating to monitor credit risk in our securities portfolios. We consider securities backed by the US government or its agencies to have low credit risk as the long-term debt rating of the US government is AA+ by S&P and Aaa by Moody's at December 31, 2019. The amortized cost of these securities accounted for 99% of our total securities portfolio at December 31, 2019. We review the remaining debt securities that were not backed by the US government or its agencies according to their credit ratings from S&P and Moody's where available, and all such debt securities were rated investment grade at December 31, 2019.

SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented.

Critical Accounting Estimates

We believe that certain accounting estimates are critical because they require complex and subjective judgments by management. Changes in these estimates or assumptions could materially impact our financial condition and results of operations, and actual results could differ from our estimates. Our critical accounting estimates are described below.

Allowance for Loan Losses

The allowance for loan losses is management's estimate of probable losses inherent in the loan portfolio as of the balance sheet date. Determining the adequacy of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. We recognized a benefit to provision for loan losses of $51 million for the year ended December 31, 2019. The benefit recognized reflected better than expected performance of our portfolio as well as recoveries in excess of prior expectations, including sales of charged-off loans and recoveries of previous charge-offs that were not included in our loss estimates. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* and *Note 7—Loans Receivable, Net* for additional information on the allowance methodology and the quantitative and qualitative factors considered in determination of the allowance for loan losses for the periods presented. See *New Accounting Standards Not Yet Adopted* for additional information on the impact of the new accounting for credit losses guidance that became effective for the Company beginning on January 1, 2020.

Valuation and Impairment of Goodwill and Acquired Intangible Assets

Goodwill is recognized as a result of business combinations and represents the excess of the purchase price over the fair value of net tangible assets and identifiable intangible assets acquired. Goodwill and other intangible assets are evaluated for impairment on an annual basis as of November 30 and in interim periods when events or changes indicate the carrying value may not be recoverable, such as a significant deterioration in the operating environment. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* and *Note 10—Goodwill and Other Intangibles, Net* for additional information on the valuation and impairment policies governing goodwill and acquired intangible assets.

The valuation of goodwill and acquired intangible assets requires significant judgment and estimates by management. For example, the valuation of certain finite lived intangible assets acquired in the Gradifi, Capital One, and TCA transactions were performed using variations of the income approach (relief from royalty method or multi-period excess earnings method) which required management estimates of future earnings and cash flows. The useful life of the finite lived intangible assets was determined based on management's estimate of the period over which those intangible assets are expected to provide economic benefit to the Company. Management also applies judgment in conducting impairment testing for goodwill and finite lived intangible assets, including estimates of fair value based on the income or market approach and estimates required to determine the useful lives of finite lived intangible assets. The Company evaluated the customer relationship intangibles (CRI) associated with its retail channel for impairment as a result of the commissions reduction announced in the fourth quarter of 2019 and noted that no impairment or resulting change to the useful lives of the related CRIs was indicated as a result of this analysis.

If our estimates of fair value change due to future events differing significantly from the forecasts used to determine fair value, changes in our business or other factors, the Company may recognize an impairment of goodwill or acquired intangible assets, which could have a material adverse effect on our financial condition and results of operations. If the Company's publicly traded equity were to experience a significant decrease in market capitalization, goodwill would be tested for impairment. Intangible assets with finite lives are amortized over their estimated useful lives, therefore changes in the estimated useful lives could result in the recognition of an impairment.

Income Taxes

In preparing the consolidated financial statements, we calculate income tax expense (benefit) based on our interpretation of the tax laws in the various jurisdictions where we conduct business. This requires us to estimate current tax obligations and the realizability of uncertain positions to assess temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities, which result in deferred tax assets and liabilities. We must also assess the likelihood that the deferred tax assets will be realized and recognize valuation allowances based on our estimates of the amount that is not realizable. In estimating accrued taxes, we assess the relative metrics and risks of the appropriate tax treatment considering statutory, judicial and regulatory guidance in the context of the tax position. Because of the complexity of tax laws and regulations, interpretation can be difficult and subject to legal judgment given specific facts and circumstances.

Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by various taxing authorities, and newly enacted statutory, judicial and regulatory guidance that impacts the relative merits and risks of the tax positions. These changes, when they occur, affect accrued taxes and can be significant to the Company's results of operations. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* and *Note 14—Income Taxes* for additional information about the Company's income taxes.

New Accounting Standards Not Yet Adopted

Accounting for Credit Losses

In June 2016, the Financial Accounting Standards Board (FASB) amended the guidance on accounting for credit losses and has subsequently issued clarifications and improvements. The new guidance became effective for the Company's interim and annual periods beginning January 1, 2020. The amended guidance requires measurement of an allowance for credit losses for financial instruments, including loans and debt securities, and other commitments to extend credit held at the reporting date. For financial assets measured at amortized cost, factors such as historical performance, current conditions, and reasonable and supportable forecasts, including expected charge-off recoveries, will be used to estimate expected credit losses. The FASB issued additional amended guidance during the second quarter of 2019 clarifying that the current expected credit losses (CECL) standard allows for subsequent increases in the fair value of collateral for collateral-dependent loans to be recognized up to the amount previously charged-off.

Determining the CECL allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. The Company has not originated a mortgage loan since 2008 when the Company exited direct retail lending, which was the last remaining loan origination channel after the Company’s exit from the wholesale mortgage lending channel in 2007. We expect the legacy mortgage portfolio to continue its run-off for the foreseeable future. Our portfolio has seasoned, as the weighted average age of the mortgage loan portfolio is approximately 14 years, and substantially all interest-only loans have converted to amortizing loans. As of December 31, 2019, the Company expects to recognize an after-tax benefit related to mortgage loans of approximately $80 million as an adjustment to opening retained earnings at adoption on January 1, 2020. The expected benefit is related to the fair value of the underlying collateral for mortgage loans that were determined to be collateral-dependent and previously written down to the fair value of the underlying collateral. The final opening adjustment will be included in the Company's periodic filing for the three months ended March 31, 2020.

The CECL allowance is based on assumptions about quantitative and qualitative factors, and changes to the allowance may result if future conditions differ from these assumptions. For example, in the event the cash received through liquidation or other form of recovery for collateral-dependent loans is less than the fair value of collateral less estimated costs to sell, additional losses may be recognized. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the CECL allowance in future periods. Our underlying assumptions and judgments could prove to be inaccurate, which could impact our regulatory capital position and results of operations in future periods. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

The following table outlines the information required by the *SEC's Industry Guide 3, Statistical Disclosure by Bank Holding Companies:*

Interest Rates and Interest Differential

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates (rate). The following table shows the effect that these factors had on the interest earned on our interest-earning assets and the interest incurred on our interest-bearing liabilities. The effect of rate changes is calculated by multiplying the change in average yield/cost by the current year's average daily balance, with the remaining change applied to volume (dollars in millions):

	2019 Compared to 2018 Increase (Decrease) Due To			2018 Compared to 2017 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Cash and equivalents	$ (3)	$ 2	$ (1)	$ (3)	$ 5	$ 2
Cash segregated under federal or other regulation	7	4	11	(5)	8	3
Investment securities	(24)	143	119	145	134	279
Margin receivables	(27)	18	(9)	113	58	171
Loans(1)	(29)	5	(24)	(38)	9	(29)
Broker-related receivables and other	1	2	3	(1)	12	11
Subtotal interest-earning assets	(75)	174	99	211	226	437
Other interest revenue(2)			3			1
Total interest-earning assets	(75)	174	102	211	226	438
Interest-bearing liabilities:						
Sweep deposits:						
Brokerage sweep deposits	(5)	17	12	—	38	38
Bank sweep deposits(3)	11	—	11	—	—	—
Savings deposits	10	66	76	—	9	9
Customer payables	3	5	8	1	16	17
Broker-related payables and other	(4)	(2)	(6)	—	10	10
Other borrowings	(17)	1	(16)	3	—	3
Corporate debt	7	2	9	10	(12)	(2)
Subtotal interest-bearing liabilities	5	89	94	14	61	75
Other interest expense(4)			2			2
Total interest-bearing liabilities	5	89	96	14	61	77
Change in net interest income	$ (80)	$ 85	$ 6	$ 197	$ 165	$ 361

(1) Nonaccrual loans are included in the average loan balances. Interest payments received on nonaccrual loans are recognized on a cash basis in interest income until it is doubtful that full payment will be collected, at which point payments are applied to principal.

(2) Other interest revenue is earned on certain securities loaned balances. Interest expense incurred on other securities loaned balances is presented on the broker-related payables and other line item above.

(3) Beginning November 2019, bank sweep deposits include Premium Savings Accounts participating in a sweep deposit account program.

(4) Other interest expense is incurred on certain securities borrowed balances. Interest income earned on other securities borrowed balances is presented on the broker-related receivables and other line item above.

Securities

Our investment portfolio includes a mortgage-backed securities portfolio and other debt securities that are classified into the following categories: available-for-sale or held-to-maturity.

Our mortgage-backed securities portfolio is primarily composed of:

- Fannie Mae participation certificates, guaranteed by Fannie Mae
- Freddie Mac participation certificates, guaranteed by Freddie Mac
- Ginnie Mae participation certificates, guaranteed by Ginnie Mae, which is backed by the full faith and credit of the US Government
- Collateralized mortgage obligations (CMO), which are guaranteed by one of the three above organizations
- Non-agency mortgage-backed securities

Our other debt securities include agency debt securities guaranteed by the Small Business Administration, agency debentures which are unsecured senior debt offered by Fannie Mae, Freddie Mac and other government agencies, US Treasuries, and non-agency ABS collateralized by credit card, automobile loan and student loan receivables.

The following table presents the amortized cost and fair value of securities that we held and classified as available-for-sale or held-to-maturity (dollars in millions):

	December 31,					
	2019		2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities:[(1)]						
Debt securities:						
Agency mortgage-backed securities	$ 16,267	$ 17,035	$ 22,140	$ 22,162	$ 19,395	$ 19,195
Agency debentures	632	659	833	839	939	966
US Treasuries	1,233	1,227	—	—	452	458
Non-agency asset-backed securities[(2)]	417	417	—	—	—	—
Non-agency mortgage-backed securities	159	163	—	—	—	—
Other agency debt securities	—	—	140	139	34	33
Municipal bonds	—	—	12	12	20	20
Other	—	—	1	1	—	—
Total debt securities	18,708	19,501	23,126	23,153	20,840	20,672
Publicly traded equity securities[(3)]	—	—	—	—	7	7
Total available-for-sale securities	$ 18,708	$ 19,501	$ 23,126	$ 23,153	$ 20,847	$ 20,679
Held-to-maturity securities:[(1)]						
Agency mortgage-backed securities	$ 20,085	$ 20,329	$ 18,085	$ 17,748	$ 20,502	$ 20,404
Agency debentures	267	271	1,824	1,808	710	708
Other agency debt securities	1,617	1,646	1,975	1,935	2,615	2,595
Other	—	—	—	—	12	12
Total held-to-maturity securities	$ 21,969	$ 22,246	$ 21,884	$ 21,491	$ 23,839	$ 23,719

(1) Securities with a fair value of $744 million were transferred from available-for-sale to held-to-maturity based on a change in intent and demonstrated ability to hold these to maturity during the year ended December 31, 2019. Securities with a carrying value of $4.7 billion and related unrealized pre-tax gain of $7 million were transferred from held-to-maturity to available-for-sale during the year ended December 31, 2018, as part of a one-time transition election for early adopting the new derivatives and hedge accounting guidance. Securities with a fair value of $1.2 billion were transferred from available-for-sale to held-to-maturity during the year ended December 31, 2018, pursuant to an evaluation of our investment strategy and an assessment by management about our intent and ability to hold those particular securities until maturity.

(2) Non-agency ABS collateralized by credit card, automobile loan and student loan receivables represented approximately 54%, 18% and 28%, respectively, of the non-agency ABS held at December 31, 2019.

(3) Consists of investments in a mutual fund related to the Community Reinvestment Act (CRA). At December 31, 2018, these equity securities are included in other assets on the consolidated balance sheet as a result of the adoption of amended accounting guidance related to the classification and measurement of financial instruments. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

The following table presents the contractual maturities, amortized cost and current yields for the Company's available-for-sale and held-to-maturity investment portfolio at December 31, 2019 (dollars in millions):

	Within One Year		One to Five Years		Five to Ten Years		After Ten Years		Total	
	Balance Due	Weighted Average Yield	Balance Due	Weighted Average Yield	Balance Due	Weighted Average Yield	Balance Due	Weighted Average Yield	Balance Due	Weighted Average Yield
Available-for-sale debt securities:										
Agency mortgage-backed securities	$ 37	3.75%	$ 21	3.27%	$ 8,839	3.54%	$ 7,370	3.10%	$ 16,267	3.34%
Agency debentures	—	—%	—	—%	404	3.39%	228	3.82%	632	3.55%
US Treasuries	50	2.50%	175	2.50%	—	—%	1,008	2.46%	1,233	2.47%
Non-agency asset-backed securities	—	—%	164	2.54%	136	2.39%	117	2.57%	417	2.50%
Non-agency mortgage-backed securities	—	—%	—	—%	—	—%	159	2.99%	159	2.99%
Total available-for-sale debt securities	$ 87		$ 360		$ 9,379		$ 8,882		$ 18,708	
Held-to-maturity debt securities:										
Agency mortgage-backed securities	$ 29	3.70%	$ 1,558	2.71%	$ 2,372	2.85%	$ 16,126	3.11%	$ 20,085	3.05%
Agency debentures	—	—%	21	2.58%	184	3.39%	62	3.22%	267	3.29%
Other agency debt securities	18	3.21%	421	2.70%	479	2.38%	699	2.74%	1,617	2.63%
Total held-to-maturity debt securities	$ 47		$ 2,000		$ 3,035		$ 16,887		$ 21,969	

Lending Activities

The following table presents the balance and associated percentage of each major loan category (dollars in millions):

	December 31,									
	2019		2018		2017		2016		2015	
	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
One- to four-family	$ 803	50%	$ 1,071	50%	$ 1,432	53%	$ 1,950	52%	$ 2,488	50%
Home equity	635	40	836	39	1,097	40	1,556	41	2,114	43
Consumer[(1)]	—	—	118	6	176	7	250	7	341	7
Securities-based lending	169	10	107	5	12	—	—	—	—	—
Total loans receivable	1,607	100%	2,132	100%	2,717	100%	3,756	100%	4,943	100%
Adjustments:										
Unamortized premiums, net	5		8		11		16		23	
Allowance for loan losses	(17)		(37)		(74)		(221)		(353)	
Total adjustments	(12)		(29)		(63)		(205)		(330)	
Loans receivable, net	$ 1,595		$ 2,103		$ 2,654		$ 3,551		$ 4,613	

(1) The Company sold its consumer loan portfolio in December 2019. Refer to *Note 7—Loans Receivable, Net* for additional information.

The following table presents the contractual maturities of the loan portfolio at December 31, 2019, including scheduled principal repayments. This table does not, however, include any estimate of prepayments. These prepayments could significantly shorten the average loan lives and cause the actual timing of the loan repayments to differ from those shown in the following table (dollars in millions):

	Due in(1)			
	< 1 Year	1-5 Years	>5 Years	Total
One- to four-family	$ 26	$ 133	$ 644	$ 803
Home equity	36	187	412	635
Securities-based lending(2)	169	—	—	169
Total loans receivable	$ 231	$ 320	$ 1,056	$ 1,607

(1) Estimated scheduled principal repayments are calculated using weighted-average interest rate and weighted-average remaining maturity of each loan portfolio.
(2) Securities-based lending is reflected in the less than one year category as these loans have no contractual maturity.

The following table presents the distribution of those loans that mature in more than one year between fixed and adjustable interest rate loans at December 31, 2019 (dollars in millions):

	Interest Rate Type		
	Fixed	Adjustable	Total
One- to four-family	$ 126	$ 651	$ 777
Home equity	92	507	599
Total loans receivable	$ 218	$ 1,158	$ 1,376

Nonperforming Assets

We classify loans as nonperforming when they are no longer accruing interest, which includes loans that are 90 days and greater past due, TDRs that are on nonaccrual status for all classes of loans (including loans in bankruptcy) and certain junior liens that have a delinquent senior lien. The following table presents comparative data for nonperforming loans and assets for the past five years (dollars in millions):

	December 31,				
	2019	2018	2017	2016	2015
One- to four-family	$ 114	$ 139	$ 192	$ 215	$ 263
Home equity	54	71	98	136	154
Consumer	—	—	—	1	1
Total nonperforming loans receivable	168	210	290	352	418
Real estate owned and other repossessed assets, net	13	13	27	36	29
Total nonperforming assets, net	$ 181	$ 223	$ 317	$ 388	$ 447

During the year ended December 31, 2019, we recognized $9 million of interest income on loans that were nonperforming at December 31, 2019. If our nonperforming loans at December 31, 2019 had been performing in accordance with their terms, we would have recorded additional interest income of approximately $15 million for the year ended December 31, 2019. At December 31, 2019 there were no commitments to lend additional funds to any of these borrowers.

The following table presents an analysis of net charge-offs for the past five years (dollars in millions):

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Allowance for loan losses, beginning of period	$ 37	$ 74	$ 221	$ 353	$ 404
Provision (benefit) for loan losses	(51)	(86)	(168)	(149)	(40)
Charge-offs:					
One- to four-family[(1)]	—	—	—	(1)	(2)
Home equity[(1)]	—	—	(7)	(17)	(31)
Consumer	(3)	(4)	(6)	(7)	(11)
Total charge-offs	(3)	(4)	(13)	(25)	(44)
Recoveries:[(2)]					
One- to four-family	6	7	8	8	—
Home equity	26	43	23	29	26
Consumer	2	3	3	5	7
Total recoveries	34	53	34	42	33
Net (charge-offs) recoveries[(2)]	31	49	21	17	(11)
Allowance for loan losses, end of period	$ 17	$ 37	$ 74	$ 221	$ 353
Net charge-offs (recoveries) to average loans receivable outstanding	(1.7)%	(2.0)%	(0.7)%	(0.4)%	0.2%

(1) Includes benefits resulting from recoveries of partial charge-offs due to principal paydowns or payoffs for the periods presented. The benefits included in the charge-offs line item exceeded other charge-offs for both one-to-four family and home equity loan portfolios during the year ended 2019 and 2018, and for the one-to-four family loan portfolio during the year ended 2017.

(2) Recoveries include the impact of mortgage originator settlements and sale of previously charged-off loans as applicable. For additional information refer to *Note 6—Loans Receivable, Net*.

The following table presents the allocation of the allowance for loans losses by loan category for the past five years (dollars in millions):

	December 31,									
	2019		2018		2017		2016		2015	
	Amount	%[(1)]	Amount	%[(1)]	Amount	%[(1)]	Amount	%[(1)]	Amount	%[(1)]
One-to four family	$ 6	50%	$ 9	50%	$ 24	53%	$ 45	52%	$ 40	50%
Home equity	11	40	26	39	46	40	171	41	307	43
Consumer	—	—	2	6	4	7	5	7	6	7
Securities-based lending	—	10	—	5	—	—	—	—	—	—
Total allowance for loan losses[(2)]	$ 17	100%	$ 37	100%	$ 74	100%	$ 221	100%	$ 353	100%

(1) Represents percentage of loans receivable in the category to total loans receivable, excluding premiums (discounts).

(2) Securities-based lending was launched in 2017. These loans were fully collateralized by cash and securities with fair values in excess of borrowings at December 31, 2019, 2018 and 2017, respectively.

Borrowings

Deposits represent our most significant and stable source of funding. In addition, we have utilized wholesale funding sources such as FHLB advances and repurchase agreements.

We are a member of, and own capital stock in, the FHLB system. The FHLB provides us with reserve credit capacity and authorizes us to apply for advances based on the security of pledged mortgage loans and mortgage-backed securities—principally agency-backed securities—provided we meet certain creditworthiness standards.

We are also able to raise funds by entering into agreements to repurchase the same or similar securities. The counterparties to these agreements hold the securities in custody. We account for repurchase agreements as borrowings and secure them with designated fixed- and variable-rate debt securities. We may use the proceeds from these transactions to meet our cash flow or asset/liability matching needs.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion about market risk includes forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of certain factors, including, but not limited to, those set forth in *Risk Factors* in this report.

Interest Rate Risk

Our exposure to interest rate risk is related primarily to interest-earning assets and interest-bearing liabilities. Managing interest rate risk is essential to profitability. The primary objective of interest rate risk management is to control exposure to interest rates within the Board-approved limits and with limited exposure to earnings volatility resulting from interest rate fluctuations. Our general strategies to manage interest rate risk include balancing variable-rate and fixed-rate assets and liabilities and utilizing derivatives to help manage exposures to changes in interest rates. Exposure to interest rate risk requires management to make complex assumptions regarding maturities, market interest rates and customer behavior. Changes in interest rates, including the following, could impact interest income and expense:

- Interest-earning assets and interest-bearing liabilities may re-price at different times or by different amounts, creating a mismatch
- The yield curve may steepen, flatten or otherwise change shape, which could affect the spread between short- and long-term rates. Widening or narrowing spreads could impact net interest income
- Market interest rates may influence prepayments, resulting in maturity mismatches. In addition, prepayments could impact yields as premiums and discounts amortize

Exposure to interest rate risk is dependent upon the distribution and composition of interest-earning assets, interest-bearing liabilities and derivatives. The differing risk characteristics of each product are managed to mitigate our exposure to interest rate fluctuations. At December 31, 2019, 91% of our total assets were interest-earning assets and we had no securities classified as trading.

At December 31, 2019, 62% of total assets were available-for-sale and held-to-maturity mortgage-backed securities and residential real estate loans. The values of these assets are sensitive to changes in interest rates as well as expected prepayment levels. As interest rates increase, fixed-rate residential mortgages and mortgage-backed securities tend to exhibit lower prepayments. The inverse is true in a falling rate environment.

When real estate loans or mortgage-backed securities are prepaid, unamortized premiums and/or discounts are recognized immediately in interest income. Depending on the timing of the prepayment, these adjustments to income would impact anticipated yields. The Company reviews estimates of the impact of changing market rates on prepayments. This information is incorporated into our interest rate risk management strategy.

Our liability structure consists of two central sources of funding: deposits and customer payables, both of which re-price at management's discretion. We may utilize securities lending and wholesale funding sources as needed for short-term liquidity and contingency funding requirements.

Derivative Instruments

We use derivative instruments to help manage interest rate risk using designated hedge relationships. Interest rate swaps involve the exchange of fixed-rate and variable-rate interest payments between two parties based on a contractual underlying notional amount, but do not involve the exchange of the underlying notional amounts. See *Note 8—Derivative Instruments and Hedging Activities* for additional information about our use of derivative contracts.

Scenario Analysis

Scenario analysis is an advanced approach to estimating interest rate risk exposure. The Company monitors interest rate risk using the Economic Value of Equity (EVE) approach and the Earnings-at-Risk (EAR) approach.

Under the EVE approach, the present value of expected cash flows of all existing interest-earning assets, interest-bearing liabilities, derivatives and forward commitments are estimated and combined to produce an EVE figure. The change in EVE is a long-term sensitivity measure of interest rate risk. The approach values only the current balance sheet in which the most significant assumptions are the prepayment rates of the loan and mortgage-backed securities portfolios and the repricing of deposits. This approach does not incorporate assumptions related to business growth, or liquidation and reinvestment of instruments. This approach provides an indicator of future earnings and capital levels because changes in EVE indicate the anticipated change in the value of future cash flows. The sensitivity of this value to changes in interest rates is then determined by applying alternative interest rate scenarios. The change in EVE amounts fluctuate based on instantaneous parallel shifts in interest rates primarily due to the change in timing of cash flows, which considers prepayment estimates, in the Company's residential loan and mortgage-backed securities portfolios.

EAR is a short-term sensitivity measure of interest rate risk and illustrates the impact of alternative interest rate scenarios on net interest income, including corporate interest expense, over a twelve month time frame. In measuring the sensitivity of net interest income to changes in interest rates, we assume instantaneous parallel interest rate shocks applied to the forward curve. In addition, we assume that cash flows from loan payoffs are reinvested in mortgage-backed securities, we exclude revenue from off-balance sheet customer cash and we assume no balance sheet growth.

The following table presents the sensitivity of EVE and EAR at the consolidated E*TRADE Financial level (dollars in millions):

	Economic Value of Equity				Earnings-at-Risk			
	December 31,				December 31,			
Instantaneous Parallel Change in Interest Rates (basis points) (1)	2019		2018		2019		2018	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
+200	$ (217)	(3.6)%	$ 148	1.8 %	$ 246	15.8 %	$ 187	9.2 %
+100	$ 39	0.6 %	$ 198	2.4 %	$ 140	9.0 %	$ 101	5.0 %
+50	$ 96	1.6 %	$ 146	1.8 %	$ 83	5.3 %	$ 53	2.6 %
-50	$ (200)	(3.3)%	$ (273)	(3.4)%	$ (103)	(6.6)%	$ (88)	(4.3)%

(1) These scenario analyses assume a balance sheet size as of the dates indicated. Any changes in size would cause the amounts to vary.

We actively manage interest rate risk. As interest rates change, we will adjust our strategy and mix of assets, liabilities and derivatives to optimize our interest rate risk position. For example, a 100 basis points increase in rates may not result in a change in value as indicated above. We compare the instantaneous parallel interest rate changes in EVE and EAR to the established limits set by the board of directors in order to assess interest rate risk. In the event that the percentage change in EVE or EAR exceeds the Board limits, our Chief Executive Officer, Chief Risk Officer, Chief Financial Officer and Treasurer must all be promptly notified in writing and decide upon a plan of remediation. In addition, the board of directors must be notified of the exception and the planned resolution. At December 31, 2019 the EVE and EAR percentage changes were within our Board limits.

Market Risk

Equity Securities Risk

We are indirectly exposed to equity securities risk in connection with securities collateralizing margin receivables and amounts borrowed under our E*TRADE Line of Credit, a securities-based lending product, as well as risk related to our securities lending and borrowing activities. We manage risk on margin and securities-based lending by requiring customers to maintain collateral in compliance with internal and, as applicable, regulatory guidelines. We monitor required margin levels daily and require our customers to deposit additional collateral, or to reduce positions, when necessary. We continuously monitor customer accounts to detect excessive concentration, large orders or positions, and other activities that indicate increased risk to us. We manage risks associated with our securities lending and borrowing activities by requiring credit approvals for counterparties, by monitoring the market value of securities loaned and collateral values for securities borrowed on a daily basis and requiring additional cash as collateral for securities loaned or return of collateral for securities borrowed when necessary, and by participating in a risk-sharing program offered through the Options Clearing Corporation.

Non-Agency Debt Securities Risk

During the fourth quarter of 2018, we expanded our enterprise RAS and updated our investment policies to permit investments in high-credit quality non-agency securities that include commercial mortgage-backed securities and ABS. We are exposed to risk in connection with the investments in non-agency commercial mortgage-backed and non-agency ABS, the latter of which are collateralized by credit card, automobile loan and student loan receivables at December 31, 2019. While our current non-agency investments are limited to senior classes, we may be exposed to a higher level of credit risk in the future if we purchase non-senior classes of notes. We manage risk with respect to non-agency securities by performing pre-purchase due diligence to assess collateral quality, transaction structure, cash flow sensitivity, and overall transaction risk. The results of the due diligence are reviewed and approved prior to purchase and the related investment performance is monitored monthly to assess any risk or other trends that emerge.

KEY TERMS

Active trader—Customers that execute 30 or more trades per quarter.

Adjusted operating margin—A non-GAAP measure calculated by dividing adjusted income before income tax expense by total net revenue. Adjusted income before income tax expense, a non-GAAP measure, excludes provision (benefit) for loan losses and losses on early extinguishment of debt, as applicable.

Adjusted return on common equity—A non-GAAP measure calculated by dividing adjusted net income available to common shareholders, a non-GAAP measure which excludes the provision (benefit) for loan losses and losses on early extinguishment of debt, as applicable, by average common shareholders' equity, which excludes preferred stock.

Advisers Act—Investment Advisers Act of 1940.

Agency—US Government sponsored enterprises and federal government and other agencies, such as the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, the Small Business Administration, the Export-Import Bank, Federal Home Loan Bank and the Federal Farm Credit Bank.

Asset-backed securities (ABS)—Debt securities backed by financial assets such as credit cards, automobile loans, student loans or other receivables.

Basel III—Global regulatory standards for bank capital adequacy and liquidity as issued by the international Basel Committee on Banking Supervision.

Basis point—One one-hundredth of a percentage point.

Capital return percentage to shareholders—Represents the amount of earnings returned to shareholders through share repurchases and common stock dividends as a percentage of net income available to common shareholders.

CECL—Current expected credit losses.

CFTC—Commodity Futures Trading Commission.

Charge-off—The result of removing a loan or portion of a loan from an entity’s balance sheet because the loan is considered to be uncollectible.

CLTV—Combined loan-to-value ratio.

CMO—Collateralized mortgage obligations.

Collateral-dependent—Prior to adoption of the CECL accounting standard, a loan where repayment is expected to be provided solely through the sale of the underlying collateral when the borrower is experiencing financial difficulty. After adoption of the CECL accounting standard, a loan for which foreclosure is probable or a loan where repayment is expected to be provided substantially through the sale of the underlying collateral when the borrower is experiencing financial difficulty.

Common Equity Tier 1 capital—A measurement of the Company's core equity capital used in the calculation of capital adequacy ratios. Common Equity Tier 1 capital equals: total shareholders' equity, less preferred stock and related surplus, plus/(less) unrealized losses (gains) on certain available-for-sale securities, less goodwill and certain other intangible assets, less certain disallowed deferred tax assets and subject to certain other applicable adjustments.

Consolidated financial statements—Refers to the consolidated financial statements prepared in accordance with GAAP as included in the Company's Annual Report on Form 10-K, as amended, and the condensed consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q.

Corporate cash—Cash held at the parent company as well as cash held in certain subsidiaries that can distribute cash to the parent company without any regulatory approval or notification.

CRA—Community Reinvestment Act.

Customer account—Retail and advisor services accounts are defined as those with a minimum balance of $25 or a trade within the prior six months. Corporate services accounts are defined as those holding any type of vested or unvested securities from a corporate services client company or with a trade in the prior six months.

Customer assets—Market value of all customer assets held by the Company including security holdings, customer cash and deposits, and corporate services vested and unvested equity and option holdings.

Customer-directed trades—Includes all customer directed trades, including trades associated with no-transaction-fee mutual funds, options trades through the Dime Buyback Program, and all ETF transactions (including those formerly classified as commission-free).

Daily average revenue trades (DARTs)—Total customer-directed trades in a period divided by the number of trading days during that period.

Derivative—A financial instrument or other contract which includes one or more underlying securities, notional amounts, or payment provisions. The contract generally requires no initial net investment and is settled on a net basis.

Derivative DARTs—Customer directed options and futures trades in a period divided by the number of trading days during that period.

Dime Buyback Program—A program that allows customers to manage and protect capital by allowing them to close short options without commissions or contract fees.

Earnings at risk (EAR)—The sensitivity of net interest income to changes in interest rates over a twelve month horizon. It is a short-term measurement of interest rate risk and does not consider risks beyond the simulation time horizon. In addition, it requires reinvestment, funding, and hedging assumptions for the horizon.

Economic value of equity (EVE)—The sensitivity of the value of existing assets and liabilities, including derivatives and forward commitments, to changes in interest rates. It is a long-term measurement of interest rate risk and requires assumptions that include prepayment rates on the loan portfolio and mortgage-backed securities and the repricing of deposits.

ESDA—Extended insurance sweep deposit accounts.

ETB—E*TRADE Bank.

ETFC—E*TRADE Financial Corporation.

ETS—E*TRADE Securities.

Fair value—The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hedge—A derivative instrument designated in a hedging relationship that mitigates exposure to changes in the fair value of a recognized asset or liability or a firm commitment.

FASB—Financial Accounting Standards Board.

FCM—Futures Commission Merchant.

FDIC—Federal Deposit Insurance Corporation.

Federal Reserve—Federal Reserve System, including the Board of Governors of the Federal Reserve System and the twelve regional Federal Reserve Banks.

FHLB—Federal Home Loan Bank.

FICO—Fair Isaac Credit Organization.

FINRA—Financial Industry Regulatory Authority.

Generally accepted accounting principles (GAAP)—Accounting principles generally accepted in the United States of America.

Gross loans receivable—Includes unpaid principal balances and premiums (discounts).

HEIL—Home equity installment loan.

HELOC—Home equity line of credit.

Interest-bearing liabilities—Liabilities such as deposits, customer payables, other borrowings, corporate debt and certain customer credit balances and securities lending balances on which the Company pays interest; excludes customer cash held by third parties.

Interest-earning assets—Assets such as available-for-sale securities, held-to-maturity securities, margin receivables, loans, securities borrowed balances and segregated cash that earn interest for the Company.

Interest rate swaps—Contracts that are entered into primarily as an asset/liability management strategy to reduce interest rate risk. Interest rate swap contracts are exchanges of interest rate payments, such as fixed-rate payments for floating-rate payments, based on notional amounts.

Investment grade—Defined as a rating equivalent to a Moody's Investors Service (Moody's) rating of "Baa3" or higher or an S&P rating of "BBB-" or higher.

LIBOR—London Interbank Offered Rate. LIBOR is the interest rate at which banks borrow funds from other banks in the London wholesale money market (or interbank market).

LLC—Limited liability company.

LTV—Loan-to-value ratio.

NASDAQ—National Association of Securities Dealers Automated Quotations.

Net interest income—A measure of interest revenue, net interest income is equal to interest income less interest expense.

Net interest margin—A measure of the net yield on our average interest-earning assets. Net interest margin is calculated for a given period by dividing the annualized sum of net interest income by average interest-earning assets.

NFA—National Futures Association.

Notional amount—The specified dollar amount underlying a derivative on which the calculated payments are based.

OCC—Office of the Comptroller of the Currency.

Options—Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to either purchase or sell the associated financial instrument at a set price during a period or at a specified date in the future.

RAS—Risk Appetite Statement.

Real estate owned and repossessed assets—Ownership or physical possession of real property by the Company, generally acquired as a result of foreclosure or repossession.

Recovery—Represents cash proceeds received on a loan that had been previously charged off.

Repurchase agreement—An agreement giving the transferor of an asset the right or obligation to repurchase the same or similar securities at a specified price on a given date from the transferee. These agreements are generally collateralized by mortgage-backed or investment-grade securities. From the transferee's perspective the arrangement is referred to as a reverse repurchase agreement.

RIA—Registered Investment Advisor.

Risk-weighted assets—Primarily computed by the assignment of specific risk-weightings to assets and off-balance sheet instruments for capital adequacy calculations.

RSDA—Retirement sweep deposit account.

S&P—Standard & Poor's.

SEC—US Securities and Exchange Commission.

Sweep deposit accounts—Accounts with the functionality to transfer customer cash balances to and from an FDIC insured account.

TCA—Trust Company of America, Inc.

TCJA—Tax Cuts and Jobs Act.

Tier 1 capital—Adjusted equity capital used in the calculation of capital adequacy ratios. Tier 1 capital equals: Common Equity Tier 1 capital plus qualifying preferred stock and related surplus, subject to certain other applicable adjustments.

Troubled debt restructuring (TDR)—A loan modification that involves granting an economic concession to a borrower who is experiencing financial difficulty, and loans that have been charged-off due to bankruptcy notification.

TRUPs—Trust preferred securities.

VIE—Variable interest entity.

Wholesale borrowings—Borrowings that consist of repurchase agreements and FHLB advances.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. Internal control over financial reporting, as defined in Rules 13a-15(f) promulgated under the Securities Exchange Act of 1934, is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles (GAAP) and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting using the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that its internal control over financial reporting was effective as of December 31, 2019 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with GAAP.

E*TRADE Financial Corporation's Independent Registered Public Accounting Firm, Deloitte & Touche LLP, has issued an audit report regarding the Company's internal control over financial reporting, which appears on page 88.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of E*TRADE Financial Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of E*TRADE Financial Corporation and subsidiaries (the "Company") as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 19, 2020, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
McLean, Virginia
February 19, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of E*TRADE Financial Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of E*TRADE Financial Corporation and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for Credit Losses*—*Valuation of Collateral-Dependent Loans*—*Refer to Note 1 to the financial statements.

Critical Audit Matter Description

In 2016, the Financial Accounting Standards Board (FASB) amended the guidance on accounting for credit losses and has subsequently issued clarifications and improvements. The FASB subsequently issued additional amended guidance that clarified that the current expected credit losses (CECL) standard allows for subsequent increases in the fair value of collateral for collateral-dependent loans to be recognized up to the amount previously charged-off. The Company adopted the new standard on January 1, 2020, using a modified retrospective approach. The Company expects to recognize an after-tax benefit related to mortgage loans of approximately $80 million as an adjustment to opening retained earnings at adoption. The adoption impact will also be presented on the balance sheet as a “negative allowance” associated with these loans. When estimating the fair value of the underlying collateral, management utilizes the most recent “as is” property valuation data available, which includes appraisals, broker price opinions, automated valuation models or updated values using home price indices, reduced by qualifying estimated costs to sell.

We identified the accounting for collateral-dependent loans under CECL and related valuations as a critical audit matter because of the significant change in the accounting for these loans and judgments made by management to estimate collateral values, which included unobservable inputs that were significant to the collateral fair value and the magnitude of the impact on the allowance for credit losses. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve professionals in our firm having expertise in the application of the CECL accounting standard.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the accounting and valuation of the collateral-dependent loans under CECL included the following, among others:

- With the assistance of professionals in our firm having expertise in the CECL accounting standard, we evaluated the Company’s conclusions regarding the accounting for subsequent increases in the fair value of collateral for collateral-dependent loans under CECL.
- Tested the effectiveness of controls over the collateral-dependent loans and related negative allowance, including management’s controls over obtaining the fair value of the underlying collateral and calculation of the negative allowance.
- Evaluated the appropriateness of the methodology and valuation sources used by management to develop the estimates of collateral values.
- Evaluated management’s ability to estimate fair value by comparing, for a sample of collateral-dependent loans, the estimated fair values to valuation sources, including appraisals, broker price opinions, automated valuation models, or home price indices, and independently-obtained collateral values, and performed a trend analysis on the collateral fair values.
- Tested the mathematical accuracy of management’s calculation of the negative allowance associated with the collateral-dependent loans.

/s/ Deloitte & Touche LLP

McLean, Virginia
February 19, 2020

We have served as the Company’s auditor since 1994.

E*TRADE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except share data and per share amounts)

	Year Ended December 31,		
	2019	**2018**	**2017**
Revenue:			
Interest income	$ 2,111	$ 2,009	$ 1,571
Interest expense	(259)	(163)	(86)
Net interest income	1,852	1,846	1,485
Commissions	421	498	441
Fees and service charges	588	431	369
Gains (losses) on securities and other, net	(23)	53	28
Other revenue	48	45	43
Total non-interest income	1,034	1,027	881
Total net revenue	2,886	2,873	2,366
Provision (benefit) for loan losses	(51)	(86)	(168)
Non-interest expense:			
Compensation and benefits	670	621	546
Advertising and market development	196	200	166
Clearing and servicing	133	126	124
Professional services	105	96	99
Occupancy and equipment	135	124	116
Communications	99	116	121
Depreciation and amortization	88	92	82
FDIC insurance premiums	14	30	31
Amortization of other intangibles	61	48	36
Restructuring and acquisition-related activities	23	7	15
Losses on early extinguishment of debt	—	4	58
Other non-interest expenses	94	77	76
Total non-interest expense	1,618	1,541	1,470
Income before income tax expense	1,319	1,418	1,064
Income tax expense	364	366	450
Net income	$ 955	$ 1,052	$ 614
Preferred stock dividends	40	36	25
Net income available to common shareholders	$ 915	$ 1,016	$ 589
Basic earnings per common share	$ 3.86	$ 3.90	$ 2.16
Diluted earnings per common share	$ 3.85	$ 3.88	$ 2.15
Weighted average common shares outstanding:			
Basic (in thousands)	237,396	260,600	273,190
Diluted (in thousands)	237,931	261,669	274,352

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Year Ended December 31,		
	2019	2018	2017
Net income	$ 955	$ 1,052	$ 614
Other comprehensive income (loss), net of tax			
Available-for-sale securities:			
Unrealized gains (losses), net	224	(203)	137
Reclassification into earnings, net	23	(31)	(24)
Transfer of held-to-maturity securities to available-for-sale securities(1)	—	6	—
Net change from available-for-sale securities	247	(228)	113
Reclassification of foreign currency translation into earnings, net	—	—	(2)
Other comprehensive income (loss)	247	(228)	111
Comprehensive income	$ 1,202	$ 824	$ 725

(1) During the year ended December 31, 2018, securities with a carrying value of $4.7 billion and related unrealized pre-tax gain of $7 million, or $6 million net of tax, were transferred from held-to-maturity securities to available-for-sale securities as part of a one-time transition election for early adopting the new derivatives and hedge accounting guidance.

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	December 31, 2019	December 31, 2018
ASSETS		
Cash and equivalents	$ 750	$ 2,333
Cash segregated under federal or other regulations	1,879	1,011
Available-for-sale securities	19,501	23,153
Held-to-maturity securities (fair value of $22,246 and $21,491 at December 31, 2019 and 2018, respectively)	21,969	21,884
Margin receivables	9,675	9,560
Loans receivable, net (net of allowance for loan losses of $17 and $37 at December 31, 2019 and 2018, respectively)	1,595	2,103
Receivables from brokers, dealers and clearing organizations	1,395	760
Property and equipment, net	339	281
Goodwill	2,510	2,485
Other intangibles, net	433	491
Other assets	1,370	942
Total assets	$ 61,416	$ 65,003
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 38,606	$ 45,313
Customer payables	12,849	10,117
Payables to brokers, dealers and clearing organizations	893	948
Corporate debt	1,410	1,409
Other liabilities	1,115	654
Total liabilities	54,873	58,441
Commitments and contingencies (see Note 20)		
Shareholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, 403,000 shares issued and outstanding at both December 31, 2019 and 2018, respectively; aggregate liquidation preference of $700 at both December 31, 2019 and 2018, respectively	689	689
Common stock, $0.01 par value, 400,000,000 shares authorized, 222,622,333 and 246,495,174 shares issued and outstanding at December 31, 2019 and 2018, respectively	2	2
Additional paid-in-capital	4,416	5,462
Retained earnings	1,464	684
Accumulated other comprehensive loss	(28)	(275)
Total shareholders' equity	6,543	6,562
Total liabilities and shareholders' equity	$ 61,416	$ 65,003

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In millions)

	Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Amount	Shares	Amount				
Balance at December 31, 2016	$ 394	274	$ 3	$ 6,921	$ (909)	$ (137)	$ 6,272
Cumulative effect of accounting change	—	—	—	—	3	—	3
Net income	—	—	—	—	614	—	614
Other comprehensive income	—	—	—	—	—	111	111
Issuance of preferred stock - Series B	295	—	—	—	—	—	295
Preferred stock dividends - Series A ($62.02 per share)	—	—	—	—	(25)	—	(25)
Repurchases of common stock	—	(9)	—	(362)	—	—	(362)
Share-based compensation	—	—	—	41	—	—	41
Other common stock activity	—	2	—	(18)	—	—	(18)
Balance at December 31, 2017	$ 689	267	$ 3	$ 6,582	$ (317)	$ (26)	$ 6,931
Cumulative effect of hedge accounting adoption	—	—	—	—	7	(7)	—
Reclassification of tax effects due to federal tax reform	—	—	—	—	14	(14)	—
Net income	—	—	—	—	1,052	—	1,052
Other comprehensive loss	—	—	—	—	—	(228)	(228)
Common stock dividends ($0.14 per share)	—	—	—	—	(36)	—	(36)
Preferred stock dividends - Series A ($58.76 per share)	—	—	—	—	(24)	—	(24)
Preferred stock dividends - Series B ($4,107.50 per share)	—	—	—	—	(12)	—	(12)
Repurchases of common stock	—	(22)	(1)	(1,139)	—	—	(1,140)
Share-based compensation	—	—	—	46	—	—	46
Other common stock activity	—	1	—	(27)	—	—	(27)
Balance at December 31, 2018	$ 689	246	$ 2	$ 5,462	$ 684	$ (275)	$ 6,562
Net income	—	—	—	—	955	—	955
Other comprehensive income	—	—	—	—	—	247	247
Common stock dividends ($0.56 per share)	—	—	—	—	(135)	—	(135)
Preferred stock dividends - Series A ($58.76 per share)	—	—	—	—	(24)	—	(24)
Preferred stock dividends - Series B ($5,300.00 per share)	—	—	—	—	(16)	—	(16)
Repurchases of common stock	—	(25)	—	(1,085)	—	—	(1,085)
Share-based compensation	—	—	—	53	—	—	53
Other common stock activity	—	2	—	(14)	—	—	(14)
Balance at December 31, 2019	$ 689	223	$ 2	$ 4,416	$ 1,464	$ (28)	$ 6,543

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2019	**2018**	**2017**
Cash flows from operating activities:			
Net income	$ 955	$ 1,052	$ 614
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (benefit) for loan losses	(51)	(86)	(168)
Depreciation and amortization (including amortization and accretion on investment securities)	225	244	262
(Gains) losses on securities and other, net	23	(53)	(28)
Losses on early extinguishment of debt	—	4	58
Share-based compensation	53	46	41
Deferred tax expense	245	339	450
Other	15	18	(7)
Net effect of changes in assets and liabilities:			
(Increase) decrease in receivables from brokers, dealers and clearing organizations	(635)	418	(134)
Increase in margin receivables	(115)	(489)	(2,340)
(Increase) decrease in other assets	(204)	159	(49)
(Decrease) increase in payables to brokers, dealers and clearing organizations	(55)	(594)	559
Increase in customer payables	2,732	668	1,290
(Decrease) increase in other liabilities	(341)	(40)	34
Net cash provided by operating activities	2,847	1,686	582
Cash flows from investing activities:			
Purchases of available-for-sale securities	(8,382)	(8,386)	(9,819)
Proceeds from sales of available-for-sale securities	10,735	7,423	1,645
Proceeds from maturities of and principal payments on available-for-sale securities	1,588	1,944	1,588
Purchases of held-to-maturity securities	(4,688)	(4,163)	(10,519)
Proceeds from maturities of and principal payments on held-to-maturity securities	5,307	2,395	2,556
Proceeds from sales of loans	80	30	40
Decrease in loans receivable	463	609	983
Capital expenditures for property and equipment	(149)	(112)	(102)
Net increase in securities purchased under agreements to resell	(200)	—	—
Proceeds from sale of real estate owned and repossessed assets	14	24	29
Acquisitions, net of cash acquired	(29)	(150)	—
Net cash flow from derivative contracts	(277)	221	66
Other	(34)	(25)	(43)
Net cash provided by (used in) investing activities	4,428	(190)	(13,576)

E*TRADE FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2019	2018	2017
Cash flows from financing activities:			
(Decrease) increase in deposits	$ (6,707)	$ 1,781	$ 11,060
Common stock dividends	(135)	(36)	—
Preferred stock dividends	(40)	(36)	(25)
Net (decrease) increase in advances from FHLB	—	(500)	500
Proceeds from issuance of senior notes	—	420	999
Payments on senior notes	—	—	(1,049)
Payments on trust preferred securities	—	(413)	—
Proceeds from issuance of preferred stock	—	—	300
Repurchases of common stock	(1,085)	(1,139)	(362)
Other	(23)	(32)	(36)
Net cash (used in) provided by financing activities	(7,990)	45	11,387
(Decrease) increase in cash, cash equivalents and segregated cash	(715)	1,541	(1,607)
Cash, cash equivalents and segregated cash, beginning of period	3,344	1,803	3,410
Cash, cash equivalents and segregated cash, end of period	$ 2,629	$ 3,344	$ 1,803
Cash and equivalents, end of period	$ 750	$ 2,333	$ 931
Segregated cash, end of period	1,879	1,011	872
Cash, cash equivalents and segregated cash, end of period	$ 2,629	$ 3,344	$ 1,803
Supplemental disclosures:			
Cash paid for interest	$ 255	$ 157	$ 126
Cash paid for income taxes, net of refunds	$ 112	$ 11	$ 8
Right-of-use assets recognized upon adoption of new lease standard	$ 193	$ —	$ —
Right-of-use assets obtained during the period	$ 43	$ —	$ —
Non-cash investing and financing activities:			
Transfers of loans held-for-investment to loans held-for-sale	$ 78	$ —	$ 57
Transfers from loans to other real estate owned and repossessed assets	$ 17	$ 15	$ 27
Conversion of convertible debentures to common stock	$ —	$ —	$ 3
Transfer of available-for-sale securities to held-to-maturity securities	$ 744	$ 1,161	$ —
Transfer of held-to-maturity securities to available-for-sale securities	$ —	$ 4,672	$ —

See accompanying notes to the consolidated financial statements

E*TRADE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

E*TRADE Financial Corporation is a financial services company that provides brokerage and related products and services for traders, investors, stock plan administrators and participants, and RIAs. The Company also provides investor-focused banking products, including sweep deposit accounts insured by the FDIC, to customers. The Company's most significant, wholly-owned subsidiaries are described below:

- E*TRADE Securities is a registered broker-dealer that clears and settles customer transactions
- E*TRADE Bank is a federally chartered savings bank that provides FDIC insurance on certain qualifying amounts of customer deposits and provides other banking and cash management capabilities
- E*TRADE Savings Bank, a subsidiary of E*TRADE Bank, is a federally chartered savings bank that provides FDIC insurance on certain qualifying amounts of customer deposits and provides custody solutions for RIAs
- E*TRADE Financial Corporate Services is a provider of software and services for managing equity compensation plans and student loan and financial wellness benefits to our corporate clients
- E*TRADE Futures is a registered non-clearing FCM that provides retail futures transaction capabilities for our customers
- E*TRADE Capital Management is an RIA that provides investment advisory services for our customers

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries as determined under the voting interest model. Entities in which the Company has the ability to exercise significant influence but in which the Company does not possess control are generally accounted for by the equity method. Entities in which the Company does not have the ability to exercise significant influence are generally carried at cost. The Company also evaluates its initial and continuing involvement with certain entities to determine if the Company is required to consolidate the entities under the variable interest entity (VIE) model. This evaluation is based on a qualitative assessment of whether the Company is the primary beneficiary of a VIE, which requires the Company to possess both: 1) the power to direct the activities that most significantly impact the economic performance of the VIE; and 2) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. There are no investments in which the Company represents the primary beneficiary of a VIE; therefore, there are no consolidated VIEs included for all periods presented.

The Company's consolidated financial statements are prepared in accordance with GAAP. Intercompany accounts and transactions are eliminated in consolidation. These consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented.

E*TRADE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Beginning January 1, 2018, the Company updated the presentation of its consolidated statements of income to reclassify fair value hedging adjustments, previously referred to as hedge ineffectiveness, to net interest income as a result of the adoption of new accounting guidance. Prior period amounts have not been reclassified to current period presentation and continue to be reflected within gains (losses) on securities and other, net. Fair value hedging adjustments were losses of $3 million, $19 million and $14 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Use of Estimates

Preparing the Company's consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented. Actual results could differ from management's estimates. Certain significant accounting policies are critical because they are based on estimates and assumptions that require complex and subjective judgments by management including the allowance for loan losses, valuation and impairment of goodwill and acquired intangible assets, and income taxes. Management also makes estimates in recognizing accrued operating expenses and other liabilities. These liabilities are impacted by estimates for litigation and regulatory matters as well as estimates related to general operating expenses, such as incentive compensation and market data usage within communications expense. Management estimates reflect the liabilities deemed probable at the balance sheet date as determined as part of the Company's ongoing evaluations based on available information.

Summary of Significant Accounting Policies

Cash and Equivalents

The Company considers all highly liquid investments with original or remaining maturities of three months or less at the time of purchase that are not segregated under federal or other regulations to be cash and equivalents. Cash and equivalents included $322 million and $1.8 billion at December 31, 2019 and 2018, respectively, of overnight cash deposits, a portion of which the Company is required to maintain with the Federal Reserve Bank.

Cash Segregated Under Federal or Other Regulations

Certain cash balances that are segregated for the exclusive benefit of the Company's brokerage and futures customers are included in the cash segregated under federal or other regulations line item.

Investment Securities

Available-for-Sale Securities

Available-for-sale securities are composed principally of debt securities, primarily residential mortgage-backed securities and agency debt securities. Securities classified as available-for-sale are carried at fair value, with the unrealized gains and losses, after applicable hedge accounting adjustments, reflected as a component of accumulated other comprehensive loss, net of tax. Realized and unrealized gains or losses on available-for-sale debt securities are computed using the specific identification method. Interest earned on available-for-sale securities is included in interest income. Amortization or accretion of premiums and discounts on available-for-sale debt securities is also recognized in interest income using the effective interest method over the contractual life of the security and is adjusted to reflect actual prepayments. Gains or losses resulting from the sale of available-for-sale securities are recognized at the trade-date, based on the difference between the anticipated proceeds and the amortized cost of the specific securities sold. Realized gains and losses on available-for-sale debt securities, with the exception of other-than-temporary impairment (OTTI) if applicable, are included in the gains (losses) on securities and other, net line item.

Held-to-Maturity Securities

Held-to-maturity securities consist of debt securities, primarily residential mortgage-backed securities and agency debt securities. Held-to-maturity securities are carried at amortized cost based on the Company's intent and ability to hold these securities to maturity. Interest earned on held-to-maturity debt securities is included in interest income. Amortization or accretion of premiums and discounts is also recognized in interest income using the effective interest method over the contractual life of the security and is adjusted to reflect actual prepayments. Transfers of debt securities from available-for-sale to held-to-maturity are made at fair value at the date of transfer. Unrealized holding gains or losses at the date of transfer are included in other comprehensive income and in the carrying value of the held-to-maturity security and are amortized over the remaining life of the security.

Other-than-Temporary Impairment

The Company evaluates impaired available-for-sale and held-to-maturity debt securities for OTTI on a quarterly basis. Impaired securities include available-for-sale securities that have an unrealized loss and held-to-maturity securities that have an unrecognized loss. There was no OTTI recognized for the periods presented. The Company considers OTTI for an available-for-sale or held-to-maturity debt security to have occurred if one of the following conditions are met: the Company intends to sell the impaired debt security; it is more likely than not that the Company will be required to sell the impaired debt security before recovery of the security's amortized cost basis; or the Company does not expect to recover the entire amortized cost basis of the security.

For impaired debt securities that the Company does not intend to sell and it is not more likely than not that the Company will be required to sell before recovery of the security's amortized cost basis, the Company uses both qualitative and quantitative valuation measures to evaluate whether the Company expects to recover the entire amortized cost basis of the security. If the Company does not expect to recover the entire amortized cost basis of these securities then the Company will separate OTTI into two components: 1) the amount related to credit loss, recognized in earnings; and 2) the noncredit portion of OTTI, recognized through other comprehensive income.

If the Company intends to sell an impaired debt security or if it is more likely than not that the Company will be required to sell the impaired debt security before recovery of the security's amortized cost basis as of the reporting date, the Company will recognize OTTI in earnings equal to the entire difference between the security's amortized cost basis and the security's fair value.

Margin Receivables

Margin receivables represent credit extended to customers to finance their purchases of securities by borrowing against securities they own. Securities owned by customers are held as collateral for amounts due on the margin receivables, the value of which is not reflected in the consolidated balance sheet. The Company is permitted to sell or re-pledge securities held as collateral for amounts due on the margin receivables and to use the securities to enter into securities lending transactions, to collateralize borrowings or for delivery to counterparties to cover customer short positions. Revenues earned from the securities lending transactions are included in interest income and expenses incurred are included in interest expense.

Loans Receivable and related Allowance for Loan Losses

Loans Receivable, Net

Loans receivable, net consists of real estate and securities-based lending loans that management has the intent and ability to hold for the foreseeable future or until maturity, also known as loans held-for-investment. Management reviews this assessment at each balance sheet date. Loans held-for-investment are carried at amortized cost adjusted for unamortized premiums or discounts on purchased loans, deferred fees or costs on originated loans, net charge-offs, and the allowance for loan losses. Premiums or discounts on purchased loans and deferred fees or costs on originated loans are recognized in interest income using the effective interest method over the contractual life of the loans and are adjusted for actual prepayments. The Company's classes of loans are one- to four-family, home equity, and securities-based lending. The Company sold its consumer loan portfolio in December 2019. For additional information on the consumer loan sale, see *Note 7—Loans Receivable, Net*.

Impaired Loans

The Company considers a loan to be impaired when it meets the definition of a TDR. Delinquency status is the primary measure the Company uses to evaluate the performance of loans modified as TDRs.

Troubled Debt Restructurings

Loan modifications completed under the Company's loss mitigation programs in which economic concessions were granted to borrowers experiencing financial difficulty are considered TDRs. TDRs also include loans that have been charged-off based on the estimated current value of the underlying property less estimated selling costs due to bankruptcy notification, even if the loan has not been modified under the Company's programs. Upon being classified as a TDR, such loan is categorized as an impaired loan and is considered impaired until maturity regardless of whether the borrower performs under the terms of the loan. The Company also processes minor modifications on a number of loans through traditional collections actions taken in the normal course of servicing delinquent accounts. Minor modifications resulting in an insignificant delay in the timing of payments are not considered economic concessions and therefore are not classified as TDRs.

Impairment on loan modifications is measured on an individual loan level basis, generally using a discounted cash flow model. When certain characteristics of the modified loan cast substantial doubt on the borrower's ability to repay the loan, the Company identifies the loan as collateral dependent and charges-off the amount of the modified loan balance in excess of the estimated current value of the underlying property less estimated selling costs. Collateral dependent TDRs are identified based on the terms of the modification, which includes assigning a higher level of risk to loans in which the loan-to-value (LTV) or combined loan-to-value (CLTV) is greater than 110% or 125%, respectively, a borrower's credit score is less than 600 and certain types of modifications, such as interest-only payments. TDRs that are not identified as higher risk using this risk assessment process and for which impairment is measured using a discounted cash flow model, continue to be evaluated in the event that they become higher risk collateral dependent TDRs.

Nonperforming Loans

The Company classifies loans as nonperforming when they are no longer accruing interest, which includes loans that are 90 days and greater past due, TDRs that are on nonaccrual status for all classes of loans, including loans in bankruptcy, and certain junior liens that have a delinquent senior lien. Interest previously accrued, but not collected, is reversed against current income when a loan is placed on nonaccrual status. Interest payments received on nonperforming loans are recognized on a cash basis in interest income until it is doubtful that full payment will be collected, at which point payments are applied to principal. The recognition of deferred fees or costs on originated loans and premiums or discounts on purchased loans in interest income is discontinued for nonperforming loans.

Nonperforming loans return to accrual status based on the following policy:

- Nonperforming loans, excluding TDRs and certain junior liens that have a delinquent senior lien, return to accrual status when the loan becomes less than 90 days past due
- TDRs, excluding loans in bankruptcy, are classified as nonperforming loans at the time of modification. Such TDRs return to accrual status after six consecutive payments are made in accordance with the modified terms. Accruing TDRs that subsequently become delinquent will immediately return to nonaccrual status
- Bankruptcy loan TDRs are classified as nonperforming loans within 60 days of bankruptcy notification and remain on nonaccrual status regardless of the payment performance

Delinquent Loans

Loans delinquent 180 days and greater have been written down to the estimated current value of the underlying property less estimated selling costs. Loans delinquent 90 to 179 days generally have not been written down to the estimated current value of the underlying property less estimated selling costs (unless they are in process of bankruptcy or are modifications for which there is substantial doubt as to the borrower’s ability to repay the loan), but present a risk of future charge-off. Additional charge-offs on loans delinquent 180 days and greater are possible if home prices decline beyond current estimates.

The Company monitors loans in which a borrower’s current credit history casts doubt on their ability to repay a loan. Loans are classified as special mention when they are between 30 and 89 days past due. The trend in special mention loan balances is generally indicative of the expected trend for charge-offs in future periods, as these loans have a greater propensity to migrate into nonaccrual status and ultimately charge-off. One- to four-family loans are generally secured in a first lien position by real estate assets, reducing the potential loss when compared to an unsecured loan. Home equity loans are generally secured by real estate assets; however, the majority of these loans are secured in a second lien position, which substantially increases the potential loss when compared to a first lien position.

Allowance for Loan Losses

The allowance for loan losses is management’s estimate of probable losses inherent in the loan portfolio as of the balance sheet date. In determining the adequacy of the allowance, the Company performs ongoing evaluations of the loan portfolio and loss assumptions. Loan losses are recognized when, based on management's estimate, it is probable that a loss has been incurred. The property value for both one- to four-family and home equity loans is assessed when the loan has been delinquent for 180 days or when the Company has received bankruptcy notification, regardless of whether or not the property is in foreclosure, and the amount of the loan balance in excess of the estimated current value of the underlying property less estimated selling costs is recognized as a charge-off to the allowance for loan losses. Modified loans considered TDRs are charged off when they are identified as collateral dependent based on certain terms of the modification.

Securities-based lending is collateralized by customers' brokerage holdings, including cash and marketable securities with liquid markets. Credit lines are over-collateralized, and the market value of the collateral is monitored on a daily basis. Committed lines may be reduced or collateral liquidated if the collateral is in danger of falling below specified levels. These collateralization policies and procedures mitigate the risk of potential losses on securities-based lending.

Determining the adequacy of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in future periods. For loans that are not TDRs, the Company establishes a general allowance and evaluates the adequacy of the allowance for loan losses by loan portfolio segment: one- to four-family, home equity, and securities-based lending. For modified loans accounted for as TDRs that are valued using the discounted cash flow model, a specific allowance is established by forecasting losses, including economic concessions to borrowers, over the estimated remaining life of these loans.

The estimate of the allowance for loan losses is based on a variety of quantitative and qualitative factors, including:

- The composition and quality of the portfolio
- Delinquency and default levels and trends
- Charge-off assumptions and loss experience
- The Company's historical loss mitigation experience
- The condition of the real estate market and geographic concentrations within the loan portfolio
- The interest rate environment
- The overall availability of housing credit
- General economic conditions, including the impact of weather-related events

The allowance for loan losses is typically equal to management’s forecast of loan losses in the 18 months following the balance sheet date as well as the forecasted losses, including economic concessions to borrowers, over the estimated remaining life of loans modified as TDRs. The quantitative allowance methodology also includes the identification of higher risk mortgage loans and the period of loan losses captured within the general allowance includes the total probable loss over the remaining life of these loans.

The general allowance for loan losses also includes a qualitative component to account for a variety of factors that present additional uncertainty that may not be fully considered in the quantitative loss model but are factors that may impact the level of credit losses. The Company utilizes a qualitative factor framework whereby, on a quarterly basis, the risk associated with the following three primary sets of factors are evaluated: external factors, internal factors, and portfolio specific factors. The uncertainty related to these factors may expand over time, temporarily impacting the qualitative component in advance of the more precise identification of these probable losses being captured within the quantitative component of the general allowance.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from brokers, dealers and clearing organizations include deposits paid for securities borrowed, clearing deposits and net receivables arising from unsettled trades. Payables to brokers, dealers and clearing organizations include deposits received for securities loaned and net payables arising from unsettled trades.

Deposits paid for securities borrowed and deposits received for securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowing transactions require the Company to deposit cash with the lender whereas securities lending transactions result in the Company receiving collateral in the form of cash, with both requiring cash in an amount generally in excess of the market value of the securities. Interest income and interest expense are recorded on an accrual basis. The Company monitors the market value of the securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary.

Property and Equipment, Net

Property and equipment is carried at cost and depreciated on a straight-line basis over their estimated useful lives, generally three to seven years. Leasehold improvements are depreciated over the lesser of their estimated useful lives or lease terms. An impairment loss is recognized if the carrying amount of the long-lived asset is not recoverable and exceeds its fair value.

The costs of internally developed software that qualify for capitalization are included in the property and equipment, net line item. For qualifying internal-use software costs, capitalization begins when the conceptual formulation, design and testing of possible software project alternatives are complete and management authorizes and commits to funding the project. The Company does not capitalize pilot projects and projects where it believes that future economic benefits are less than probable. Technology development costs incurred in the development and enhancement of software used in connection with services provided by the Company that do not otherwise qualify for capitalization treatment are expensed as incurred. Completed projects, as well as other purchased software, are carried at cost and are amortized on a straight-line basis over their estimated useful lives. The estimated useful life of internally developed software is four years.

Goodwill and Other Intangibles, Net

Goodwill is recognized as a result of business combinations and represents the excess of the purchase price over the fair value of net tangible assets and identifiable intangible assets. The Company evaluates goodwill for impairment on an annual basis as of November 30 and in interim periods when events or changes indicate the carrying value may not be recoverable. The Company has the option of performing a qualitative assessment of goodwill to determine whether it is more likely than not that the fair value of its equity is less than the carrying value. If it is more likely than not that the fair value exceeds the carrying value, then no further testing is necessary; otherwise, the Company must perform a two-step quantitative assessment of goodwill. The Company may elect to bypass the qualitative assessment and proceed directly to performing a two-step quantitative assessment.

For the year ended December 31, 2019, the Company elected to perform a quantitative goodwill impairment assessment. The Company performed a quantitative assessment for the year ended December 31, 2018 and a qualitative assessment for the year ended December 31, 2017. There have been no impairments to the carrying value of the Company's goodwill during the periods presented.

The Company currently does not have any intangible assets with indefinite lives other than goodwill. The Company evaluates intangible assets with finite lives for impairment on an annual basis or when events or changes indicate the carrying value may not be recoverable. The Company also evaluates the remaining useful lives of intangible assets with finite lives each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. Customer relationship intangibles are amortized on an accelerated basis, while technology is amortized on a straight-line basis. The Company evaluated the CRIs associated with its retail channel for impairment as a result of the commissions reduction announced in the fourth quarter 2019 and noted that no impairment or resulting change to the useful lives of the related CRIs was indicated as a result of this analysis.

For additional information on goodwill and other intangibles, net, see *Note 10—Goodwill and Other Intangibles, Net*.

Other Assets

Real Estate Owned and Repossessed Assets

Real estate owned and repossessed assets are included in the other assets line item in the consolidated balance sheet. Real estate owned represents real estate acquired through foreclosure and also includes those properties acquired through a deed in lieu of foreclosure or similar legal agreement. Both real estate owned and repossessed assets are carried at the lower of carrying value or fair value, less estimated selling costs.

Equity Method Investments, Investments Measured at Cost and Other Investments

The Company’s equity method investments, investments measured at cost and other investments are generally limited liability investments in partnerships, companies and other similar entities, including tax credit partnerships and community development entities, that are not required to be consolidated. These investments are reported in the other assets line item in the consolidated balance sheet. The Company recognizes a liability for all legally binding unfunded equity commitments to the investees in the other liabilities line item in the consolidated balance sheet.

Under the equity method, the Company recognizes its share of the investee’s net income or loss in the gains (losses) on securities and other, net line item in the consolidated statements of income. The Company’s other investments include those accounted for using the proportional amortization method, whereby the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received and the net investment performance is recognized in the consolidated statements of income as a component of income tax expense.

The Company evaluates its equity investments and investments measured at cost for impairment when events or changes indicate the carrying value may not be recoverable. If the impairment is determined to be other-than-temporary, the Company will recognize an impairment loss in the gains (losses) on securities and other, net line item equal to the difference between the expected realizable value and the carrying value of the investment.

The Company is a member of, and owns capital stock in, the FHLB system. As a condition of its membership in the FHLB, the Company is required to maintain a FHLB stock investment which totaled $20 million at both December 31, 2019 and 2018. The Company accounts for its investment in FHLB stock at cost.

Deposits and Customer Payables

Deposits are primarily composed of sweep deposits held at bank subsidiaries, which represent uninvested cash balances in certain customer brokerage accounts, and balances sourced from our Premium Savings Account product. Customer payables primarily represent deposits of customer cash and other credits in customer accounts related to sales of securities and other funds pending completion of securities transactions. Customer payables primarily represent balances held by E*TRADE Securities. The Company pays interest on certain deposits and customer payables balances.

Other Borrowings

Other borrowings includes securities sold under agreements to repurchase, FHLB advances, and borrowings from lines of credit.

Securities sold under agreements to repurchase the same or similar securities, also known as repurchase agreements, are collateralized by fixed- and variable-rate mortgage-backed securities or investment grade securities. Repurchase agreements are treated as secured borrowings for financial statement purposes and the obligations to repurchase securities sold are therefore reflected as liabilities in the consolidated balance sheet.

The FHLB provides the Company with reserve credit capacity and authorizes advances based on the security of pledged home mortgages and other assets (principally securities that are obligations of, or guaranteed by, the US Government) provided the Company meets certain creditworthiness standards.

Other Liabilities

Other liabilities includes accrued operating and related expenses. These liabilities are impacted by estimates for litigation and regulatory matters as well as estimates related to general operating expenses, such as incentive compensation and market data usage within communications expense. Management estimates reflect the probable liability as of the balance sheet date. In determining the adequacy of estimated liabilities, the Company performs ongoing evaluations based on available information.

Net Revenue

Net Interest Income

Interest income is recognized as earned through holding interest-earning assets, such as available-for-sale and held-to-maturity securities, margin receivables, loans, cash, and securities lending transactions. Interest income also includes the impact of the Company’s hedging activities related to interest-earning assets. Interest expense is recognized as incurred through holding interest-bearing liabilities, such as customer payables and deposits, corporate debt, other borrowings, and securities lending transactions.

Non-Interest Income

The Company's significant accounting policies addressing non-interest income reflect the adoption of the new accounting standard, *Revenue from Contracts with Customers,* and all the related amendments effective January 1, 2018. The Company's adoption did not result in a change to the financial statements for the comparative periods.

The core principle of the Company's policy for recognizing revenue from contracts with customers is to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. This core principle is achieved by applying the following steps:

- Identify the contract with the customer
- Identify each performance obligation in the contract, which represents a promise in a contract to transfer a distinct good or service to the customer and is the unit of account
- Determine the transaction price
- Allocate the transaction price to each distinct performance obligation
- Recognize revenue when, or as, the performance obligation is satisfied

Judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

Commissions

Effective October 7, 2019, the Company eliminated retail commissions for online US listed stock, ETF, and options trades. We also reduced the options contract charge to $0.65 per contract for all traders while maintaining our active trader pricing at $0.50 per contract. Commissions are derived from the Company's customer-directed trades, including options and futures, stock plan, mutual funds and fixed income. Commissions are impacted by DARTs, derivative DARTs, trade type, and the number of trading days. Commissions from customer transactions are recognized on a trade-date basis as the performance obligation is satisfied when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

Fees and Service Charges

The following policies address the most significant components of the Company's fees and service charges revenue based on agreed upon negotiated prices within the contracts:

- **Order Flow Revenue** is generated from market centers that accept trade orders from certain customer transactions. Order flow revenue is recognized on a trade-date basis when the Company has satisfied its performance obligation by routing a trade order to the exchange or market maker.

- **Money Market Funds and Sweep Deposits Revenue** is driven by fees earned from off-balance sheet customer cash. The fees are based on the federal funds rate or LIBOR plus a negotiated spread or other contractual arrangements with the third-party institutions and are earned on average off-balance sheet customer cash. Revenue is recognized over time as the performance obligation is satisfied.

- **Advisor Management and Custody Fees** vary based on a percentage of average customer assets under management or under custody. Revenue is recognized over time as the services are provided.

- **Mutual Fund Service Fees** are asset-based fees received from the funds and vary based on the amount of customer assets invested in each fund. Revenue is recognized over time as the performance obligation to provide shareholder services is satisfied.

Fees and service charges also includes foreign exchange revenue and reorganization fees which are recognized when or as the performance obligations are satisfied.

Other Revenue

Other revenue includes fees from stock plan administration software and services provided to the Company's corporate services clients. These fees are recognized as the performance obligations are satisfied.

Non-Interest Expense

Share-Based Payments

The Company recognizes compensation expense at the grant date fair value of a share-based payment award over the requisite service period less estimated forfeitures. Estimated forfeitures are based on the Company's historical experience and revised as needed based on actual forfeitures. Compensation expense for performance share units is also adjusted based on the Company’s estimated outcome of meeting the performance conditions. Share-based compensation expense is included in the compensation and benefits line item for employees and in the professional services line item for nonemployee members of the board of directors. For additional information on share-based compensation, see *Note 17—Share-Based Compensation, Employee Incentive and Retirement Plans.*

Advertising and Market Development

Advertising and market development includes production and placement of advertisements as well as customer promotions. Advertising production costs are expensed when the initial advertisement is run.

Income Taxes

Income tax expense (benefit) includes (1) current tax expense (benefit), which represents the amount of tax currently payable to or receivable from a taxing authority, and (2) deferred tax expense (benefit), which generally represents the net change in the deferred tax asset or liability balance during the year plus any change in valuation allowances.

Deferred income taxes are recorded when revenues and expenses are recognized in different periods for financial statement purposes than for tax purposes. Deferred tax asset or liability account balances are calculated at the balance sheet date using current tax laws and rates in effect. Valuation allowances for deferred tax assets are established if it is determined, based on evaluation of available evidence at the time the determination is made, that it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The evaluation of a tax position is a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on only the technical merits of the position. The technical merits of a tax position derive from both statutory and judicial authority and their applicability to the facts and circumstances. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. A tax position that meets the more-likely-than-not recognition threshold is then measured to determine the amount of benefit to recognize. The tax position is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate resolution with a taxing authority. Uncertain tax positions are evaluated based upon the facts and circumstances that exist at each reporting period. Subsequent changes in judgment based upon new information may lead to changes in recognition, de-recognition, and measurement. Adjustments may result, for example, upon resolution of an issue with the taxing authorities, or expiration of a statute of limitations barring an assessment for an issue. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

For additional information on income taxes, see *Note 14—Income Taxes*.

Earnings Per Share

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average common shares outstanding for the period. The computation of diluted earnings per share includes the potential impact of additional common share issuances related to unvested share-based payments and other contracts to issue common stock. For additional information, see *Note 16—Earnings Per Share*.

Comprehensive Income

The Company's comprehensive income includes net income, unrealized gains (losses) on available-for-sale debt securities, adjusted for the impact of fair value hedging relationships on these securities, and foreign currency translation gains (losses), net of reclassification adjustments and related tax.

Derivative Instruments and Hedging Activities

The Company enters into derivative transactions primarily to protect against interest rate risk on the value of certain assets. As these contracts were executed through central clearing organizations and settled by variation margin payments, they are not included as assets or liabilities on the consolidated balance sheet. Cash flows from derivative instruments in hedging relationships are classified in the same category on the consolidated statements of cash flows as the cash flows from the items being hedged. Cash flows related to variation margin payments are classified as operating cash flows.

Accounting for derivatives differs depending on whether a derivative is designated as a hedge based on the applicable accounting guidance and, if designated as a hedge, the type of hedge designation. Derivative instruments designated in hedging relationships that mitigate the exposure to the variability in expected future cash flows or other forecasted transactions are considered cash flow hedges. Derivative instruments in hedging relationships that mitigate exposure to changes in the fair value of assets or liabilities are considered fair value hedges. To qualify for hedge accounting, the Company formally documents at inception all relationships between hedging instruments and hedged items and the risk management objective and strategy for each hedge transaction. All of the Company's derivative instruments were designated in fair value hedging relationships at December 31, 2019 and December 31, 2018.

For each fair value hedge, both the gain or loss on the derivative, including interest accruals, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in net interest income. Hedge accounting is discontinued for fair value hedges if a derivative instrument is sold, terminated or otherwise de-designated. If fair value hedge accounting is discontinued, the previously hedged item is no longer adjusted for changes in fair value through the consolidated statements of income and the cumulative net gain or loss on the hedged item is amortized to net interest income using the effective interest method over the expected remaining contractual remaining life of the hedged item adjusted for prepayments.

Beginning January 1, 2018, fair value hedging adjustments, previously referred to as hedge ineffectiveness, are included within net interest income. Prior period amounts have not been reclassified to current period presentation and continue to be reflected within gains (losses) on securities and other, net. The earnings impact of interest accruals on the derivatives are reflected in the interest income line item in the consolidated statements of income.

The Company also recognizes certain contracts and commitments as derivatives if the characteristics of those contracts and commitments meet the definition of a derivative. For additional information on derivative instruments and hedging activities, see *Note 8—Derivative Instruments and Hedging Activities*.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the fair value for its financial instruments and for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. In addition, the Company determines the fair value for nonfinancial assets and nonfinancial liabilities on a nonrecurring basis as required during impairment testing or by other accounting guidance. For additional information on fair value, see *Note 4—Fair Value Disclosures.*

Adoption of New Accounting Standards

Accounting for Leases

In February 2016, the FASB amended the guidance on accounting for leases. The new guidance required lessees to recognize right-of-use (ROU) assets and lease liabilities on the balance sheet for the rights and obligations created by all qualifying leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee remains substantially unchanged and depends on classification as a finance or operating lease. The Company adopted the new guidance beginning on January 1, 2019 and elected to use the effective date as the date of initial application. As such, restated financial information and the additional disclosures required under the new standard will not be provided for the comparative periods presented. The new guidance also requires quantitative and qualitative disclosures that provide information about the amounts related to leasing arrangements recorded in the consolidated financial statements. The Company elected to apply the "package of practical expedients," which permits it to not reassess prior conclusions on existing leases regarding lease identification, lease classification and initial direct costs. In addition, the Company has elected to apply the short-term lease exception for lease arrangements with maximum lease terms of 12 months or less. The Company elected to not apply the use-of-hindsight practical expedient, and the practical expedient relating to land easements is not applicable. Adoption of the standard did not have a material impact on the Company's results of operations or cash flows.

At adoption, the Company recognized lease liabilities of $211 million, representing the present value of the remaining minimum fixed lease payments based on the incremental borrowing rates as of December 31, 2018. Changes in lease liabilities are based on current period interest expense and cash payments. The Company also recognized ROU assets of $193 million at adoption, which represents the measurement of the lease liabilities, prepaid lease payments made to lessors, initial direct costs incurred by the Company and lease incentives received. For further information, see *Note 19—Lease Arrangements.*

Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

In October 2018, the FASB amended the guidance on hedge accounting. The amended guidance adds the OIS rate based on the SOFR to the list of permitted benchmark interest rates for hedge accounting purposes. The amended guidance became effective on January 1, 2019, and the Company adopted the guidance on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. The adoption did not have a material impact on the Company's financial condition, results of operations or cash flows.

New Accounting Standards Not Yet Adopted

Accounting for Credit Losses

In June 2016, the FASB amended the guidance on accounting for credit losses and has subsequently issued clarifications and improvements. The amended guidance requires measurement of an allowance for credit losses for financial instruments, including loans and debt securities, and other commitments to extend credit held at the reporting date. For financial assets measured at amortized cost, factors such as historical performance, current conditions, and reasonable and supportable forecasts, including expected charge-off recoveries, will be used to estimate expected credit losses. The amended guidance will also result in credit losses on impaired available-for-sale debt securities being recorded through an allowance for credit losses. The FASB issued additional amended guidance during the second quarter of 2019 that clarified that the CECL standard allows for subsequent increases in the fair value of collateral for collateral-dependent loans to be recognized up to the amount previously charged-off. A loan is considered to be collateral-dependent when foreclosure is probable or when repayment is expected to be provided substantially through the sale of the underlying collateral when the borrower is experiencing financial difficulty. Additional amended transition guidance issued during the second quarter of 2019 allows entities to elect the fair value option on certain financial instruments, on an instrument-by-instrument basis; however, this fair value option election does not apply to held-to-maturity debt securities. The Company adopted the new standard on its effective date of January 1, 2020 using a modified retrospective approach.

The Company has developed credit loss estimation methods for the mortgage loan portfolio. The credit losses for the investment security portfolio, margin receivables, securities-based lending activities and other financial assets held at amortized cost are not expected to be material. The Company expects to recognize an after-tax benefit related to mortgage loans of approximately $80 million as an adjustment to opening retained earnings at adoption on January 1, 2020.

The benefit primarily relates to the fair value of the underlying collateral for mortgage loans that were determined to be collateral-dependent and previously written down to the fair value of the underlying collateral. This adoption impact will be presented on the balance sheet as a “negative allowance” associated with the mortgage loans. When estimating the fair value of collateral, property valuations for these one- to four- family and home equity loans are based on the most recent "as is" property valuation data available, which may include appraisals, broker price opinions, automated valuation models or updated values using home price indices. These property valuations are then reduced for qualifying estimated costs to sell. These costs do not include carrying costs or other disallowed adjustments, such as estimates for prolonged foreclosure proceedings associated with certain jurisdictions.

The adjustment to opening retained earnings includes the expected credit losses related to the remaining mortgage loans. The Company used a probability of default and loss given default model for determining the allowance for credit losses under CECL for these mortgage loans, which utilized prepayment forecasts, loan amortization calculations, and other internally derived and externally sourced data and assumptions. The Company also utilized an externally provided macroeconomic forecast over the remaining life of the loans. This forecast includes a forward-looking view of macroeconomic factors over the next two to five years, after which the macroeconomic factors revert to externally provided long-term equilibrium values, rates, or patterns that do not include specific predictions for the economy. Key inputs for the forecast included US home prices and unemployment data. The CECL impact for this portfolio is not expected to be material based on the seasoning of the Company’s mortgage loan portfolio and the credit quality of the remaining loans.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB amended the guidance to simplify the test for goodwill impairment by eliminating Step 2 from the goodwill impairment test. The amended guidance requires the Company to perform its annual goodwill impairment test by comparing the fair value of a reporting unit to its carrying amount. An impairment charge would be recognized at the amount by which the carrying amount exceeds the fair value of the reporting unit; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Income tax effects resulting from any tax deductible goodwill should be considered when measuring the goodwill impairment loss, if applicable. The Company has the option to perform a qualitative assessment to conclude whether it is more likely than not that the carrying amount of the Company exceeds its fair value. The Company adopted the new standard on its effective date of January 1, 2020 and will apply the standard prospectively.

Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract

In August 2018, the FASB amended the guidance on accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The amended guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Company adopted the new standard on its effective date of January 1, 2020 and applied the standard prospectively. Implementation costs incurred on and after January 1, 2020 in a cloud computing arrangement that is a service contract are capitalized or expensed in accordance with the accounting guidance, and capitalized costs are amortized over the term of the hosting arrangement.

Codification Improvements Related to Credit Losses, Financial Instruments, Derivatives and Hedging

In April 2019, the FASB clarified recently released guidance related to credit losses, financial instruments, derivatives and hedging. The FASB has an ongoing project on its agenda for improving the FASB's Accounting Standards Codification or correcting its unintended application. The Company adopted all new guidance related to credit losses on January 1, 2020 using a modified retrospective approach. The new guidance related to financial instruments was applied on January 1, 2020; however, there was no impact to the Company. The Company will apply the new guidance related to derivatives and hedging on a prospective basis effective January 1, 2020. As part of adoption, the Company will enhance its derivatives and hedging disclosures within its periodic filing for the three months ended March 31, 2020.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB amended the guidance to simplify the accounting for income taxes as part of its initiative to reduce complexity in accounting standards. The amendments remove certain exceptions to the general income tax accounting principles and provide for consistent application of and simplify GAAP for other areas by clarifying and amending existing guidance. The guidance will be effective for interim and annual periods beginning January 1, 2021 and each amendment will be applied on either a retrospective basis, modified retrospective basis, or prospective basis as required in accordance with the new standard. The Company is currently evaluating the impact of these clarifications on the Company's financial condition, results of operations and cash flows.

Clarifying the Interactions Between Accounting for Investments in Equity Securities, Investments in Equity Method and Joint Ventures, and Derivatives and Hedging

In January 2020, the FASB amended the guidance to clarify the interaction of the accounting for equity securities and investments accounted for under the equity method of accounting and the accounting for certain forward contracts and purchased options. The amended guidance clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative immediately before applying or upon discontinuing the equity method. The amended guidance also clarifies how a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option. The guidance will be effective for interim and annual periods beginning January 1, 2021, and must be applied prospectively. Early adoption is permitted. The Company is currently evaluating the impact of these clarifications on the Company's financial condition, results of operations and cash flows.

NOTE 2—ACQUISITIONS AND RESTRUCTURING

Gradifi Acquisition

On December 9, 2019, the Company completed its acquisition of Gradifi, a student loan and financial wellness provider, for a purchase price of $30 million. The acquisition is expected to complement the Company's corporate services offering to include financial wellness and student loan solutions as part of a comprehensive benefits platform integrated into the Company's stock plan administration offering.

The results of Gradifi's operations have been included in the Company's consolidated statements of income for the year ended December 31, 2019 from the date of acquisition. Supplementary pro forma financial information related to the acquisition is not included because the impact to the Company's consolidated statements of income is not material.

The following table summarizes the allocation of the purchase price to the net assets of Gradifi as of December 9, 2019 (dollars in millions):

	December 9, 2019
Purchase price	$ 30
Fair value of net assets acquired	5
Goodwill	$ 25

The following table summarizes the fair value of assets acquired and liabilities assumed at the date of acquisition (dollars in millions):

	December 9, 2019
Assets	
Other intangibles	$ 3
Other[1]	5
Total assets acquired	8
Liabilities	
Other liabilities	3
Total liabilities assumed	3
Net assets acquired	$ 5

(1) Includes balance sheet line items cash and equivalents, property and equipment, net and other assets.

The goodwill of $25 million includes synergies expected to result from combining operations with Gradifi to enhance the Company's existing product offerings. The goodwill is not deductible for tax purposes. The Company also recorded technology intangible assets of $3 million, which are subject to amortization over an estimated useful life of 6 years. The fair value of the intangible assets was determined under the income approach. The intangible assets are not deductible for tax purposes.

Capital One Accounts Acquisition

On November 6, 2018, the Company completed its acquisition of approximately one million retail brokerage accounts from Capital One for $109 million in cash. The Company recorded a customer relationships intangible asset of $114 million at acquisition, which includes the purchase price plus transaction costs. The fair value of the customer relationships intangible asset was determined using the multi-period excess earnings method, a discounted cash flow method, and the related asset is subject to amortization over an estimated useful life of 11 years.

Trust Company of America Acquisition

On April 9, 2018, the Company completed its acquisition of TCA for $275 million in cash. The Company recorded goodwill of $115 million which primarily includes the synergies expected to result from combining operations with TCA, coupling its custody platform with the Company's existing product offerings and leveraging customer relationships with RIAs. The Company also recorded intangible assets of $140 million, which are subject to amortization over their estimated useful lives.

The following table summarizes the fair value and estimated useful lives of the intangible assets at the date of acquisition (dollars in millions):

	Estimated Fair Value	Estimated Useful Life (In Years)
Customer Relationships	$ 119	22
Technology	20	5
Trade name	1	2
Total intangible assets	$ 140	

Restructuring and Acquisition-related Activities Expense

The following table shows the components of restructuring and acquisition-related activities expense (dollars in millions):

	Year Ended December 31,		
	2019	2018	2017
Restructuring activities	$ 21	$ 4	$ 12
Acquisition-related costs	2	3	3
Total restructuring and acquisition-related activities	$ 23	$ 7	$ 15

Restructuring and acquisition-related activities during the year ended December 31, 2019 includes $9 million of expenses associated with the exit of our New York headquarters and $12 million of severance resulting from organizational changes driven by an enterprise-wide cost containment initiative. See *Note 19—Lease Arrangements* for additional information. Also included are acquisition-related costs associated with the Gradifi acquisition as discussed above. Restructuring and acquisition-related costs during the year ended December 31, 2018 relate primarily to costs incurred in connection with the restructuring of our regulatory and enterprise risk management functions due to bank regulatory reform and the closing of the TCA acquisition. Restructuring and acquisition-related costs during the year ended December 31, 2017 related primarily to costs incurred in connection with the integration of OptionsHouse.

NOTE 3—NET REVENUE

The following table presents the significant components of total net revenue (dollars in millions):

	Year Ended December 31,		
	2019	2018	2017
Net interest income	$ 1,852	$ 1,846	$ 1,485
Commissions	421	498	441
Fees and service charges	588	431	369
Gains (losses) on securities and other, net	(23)	53	28
Other revenue	48	45	43
Total net revenue [(1)]	$ 2,886	$ 2,873	$ 2,366

(1) Contract balances and transaction price allocated to remaining performance obligations were not material for the periods presented.

Effective October 7, 2019, we eliminated retail commissions for online US listed stock, ETF, and options trades. We also reduced the options contract charge to $0.65 per contract for all traders while maintaining our active trader pricing at $0.50 per contract.

Interest Income and Interest Expense

The following table presents the significant components of interest income and interest expense (dollars in millions):

	Year Ended December 31,		
	2019	2018	2017
Interest income:			
Cash and equivalents	$ 10	$ 11	$ 9
Cash segregated under federal or other regulations	26	15	12
Investment securities(1)	1,360	1,241	962
Margin receivables	482	491	320
Loans	104	128	157
Broker-related receivables and other	17	14	3
Subtotal interest income	1,999	1,900	1,463
Other interest revenue(2)	112	109	108
Total interest income	2,111	2,009	1,571
Interest expense:			
Sweep deposits:			
Brokerage sweep deposits	54	42	4
Bank sweep deposits(3)	11	—	—
Savings deposits	85	9	—
Customer payables	30	22	5
Broker-related payables and other	4	10	—
Other borrowings	9	25	22
Corporate debt	55	46	48
Subtotal interest expense	248	154	79
Other interest expense(4)	11	9	7
Total interest expense	259	163	86
Net interest income	$ 1,852	$ 1,846	$ 1,485

(1) For the years ended December 31, 2019 and 2018, includes $3 million and $19 million, respectively, of net fair value hedging adjustments. Amounts for the year ended December 31, 2017 have not been reclassified to conform to current period presentation and continue to be reflected within the gains (losses) on securities and other, net line item. See *Note 8—Derivative Instruments and Hedging Activities* for additional information.

(2) Other interest revenue is earned on certain securities loaned balances. Interest expense incurred on other securities loaned balances is presented on the broker-related payables and other line item above.

(3) Beginning November 2019, bank sweep deposits include Premium Savings Accounts participating in a sweep deposit account program. Refer to *Note 12—Deposits* for additional information.

(4) Other interest expense is incurred on certain securities borrowed balances. Interest income earned on other securities borrowed balances is presented on the broker-related receivables and other line item above.

Fees and Service Charges

The following table presents the significant components of fees and service charges (dollars in millions):

	Year Ended December 31,		
	2019	2018	2017
Fees and service charges:			
Order flow revenue	$ 188	$ 174	$ 135
Money market funds and sweep deposits revenue	175	71	92
Advisor management and custody fees	77	64	36
Mutual fund service fees	51	48	39
Foreign exchange revenue	33	25	26
Reorganization fees	24	14	16
Other fees and service charges	40	35	25
Total fees and service charges	$ 588	$ 431	$ 369

NOTE 4—FAIR VALUE DISCLOSURES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company may use various valuation approaches, including market, income and/or cost approaches. The fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. Accordingly, even when market assumptions are not readily available, the Company's own assumptions reflect those that market participants would use in pricing the asset or liability at the measurement date. The fair value measurement accounting guidance describes the following three levels used to classify fair value measurements:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities that are accessible by the Company
- Level 2 - quoted prices for similar assets and liabilities in an active market, quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly
- Level 3 - unobservable inputs that are significant to the fair value of the assets or liabilities

The availability of observable inputs can vary and in certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to a fair value measurement requires judgment and consideration of factors specific to the asset or liability.

Recurring Fair Value Measurement Techniques

Agency Debt and Mortgage-backed Securities

The Company’s agency mortgage-backed securities portfolio is comprised of debt securities which are guaranteed by US government sponsored enterprises and federal agencies. The fair value of agency mortgage-backed securities was determined using a market approach with quoted market prices, recent transactions and spread data for identical or similar instruments. Agency mortgage-backed securities were categorized in Level 2 of the fair value hierarchy.

The fair value measurements of agency debentures and other agency debt securities were determined using market and income approaches along with the Company’s own trading activities for identical or similar instruments and were categorized in Level 2 of the fair value hierarchy.

US Treasuries

The Company's fair value level classification of US Treasuries is based on the original maturity dates of the securities and whether the securities are the most recent issuances of a given maturity. US Treasuries with original maturities less than one year are classified as Level 1. US Treasuries with original maturities greater than one year are classified as Level 1 if they represent the most recent issuance of a given maturity; otherwise, these securities are classified as Level 2.

Non-agency Debt Securities

The Company's non-agency debt securities include senior classes of commercial mortgage-backed securities and ABS collateralized by credit card, automobile loan and student loan receivables. The fair value of non-agency debt securities was determined using a market approach with recent transactions and spread data for identical or similar instruments. Non-agency debt securities were categorized in Level 2 of the fair value hierarchy.

The Company sold its municipal bonds during the three months ended March 31, 2019. As of December 31, 2018, these securities were valued using a market approach with pricing service valuations corroborated by recent market transactions for identical or similar bonds and were categorized in Level 2 of the fair value hierarchy.

Nonrecurring Fair Value Measurement Techniques

Certain other assets are recorded at fair value on a nonrecurring basis: 1) one- to four-family and home equity loans in which the amount of the loan balance in excess of the estimated current value of the underlying property less estimated selling costs has been charged-off; and 2) real estate owned that is carried at the lower of the property’s carrying value or fair value less estimated selling costs.

Loans Receivable

Loans that have been delinquent for 180 days or that are in bankruptcy and certain TDR loan modifications are charged-off based on the estimated current value of the underlying property less estimated selling costs. Property valuations for these one- to four-family and home equity loans are based on the most recent "as is" property valuation data available, which may include appraisals, broker price opinions, automated valuation models or updated values using home price indices.

Real Estate Owned

Property valuations for real estate owned are based on the lowest value of the most recent property valuation data available, which may include appraisals, listing prices or approved offer prices. Nonrecurring fair value measurements on one- to four-family loans, home equity loans and real estate owned were classified as Level 3 of the fair value hierarchy as the valuations included unobservable inputs that were significant to the fair value. The following table presents additional information about significant unobservable inputs used in the valuation of assets measured at fair value on a nonrecurring basis that were categorized in Level 3 of the fair value hierarchy:

	Unobservable Inputs	Average	Range
December 31, 2019:			
Loans receivable:			
One- to four-family	Appraised value	$ 815,900	$92,000 - $2,700,000
Home equity	Appraised value	$ 437,300	$75,000 - $1,440,000
Real estate owned	Appraised value	$ 391,700	$80,000 - $897,000
December 31, 2018:			
Loans receivable:			
One- to four-family	Appraised value	$ 594,700	$17,000 - $2,000,000
Home equity	Appraised value	$ 397,700	$73,000 - $1,060,000
Real estate owned	Appraised value	$ 329,500	$57,900 - $900,000

Recurring and Nonrecurring Fair Value Measurements

The following tables present the significant components of assets and liabilities measured at fair value (dollars in millions):

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2019:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Agency mortgage-backed securities	$ —	$ 17,035	$ —	$ 17,035
Agency debentures	—	659	—	659
US Treasuries	—	1,227	—	1,227
Non-agency asset-backed securities	—	417	—	417
Non-agency mortgage-backed securities	—	163	—	163
Total available-for-sale securities	—	19,501	—	19,501
Total assets measured at fair value on a recurring basis(1)	$ —	$ 19,501	$ —	$ 19,501
Nonrecurring fair value measurements:				
Loans receivable, net:				
One- to four-family	$ —	$ —	$ 14	$ 14
Home equity	—	—	4	4
Total loans receivable	—	—	18	18
Other assets:				
Real estate owned	—	—	12	12
Total assets measured at fair value on a nonrecurring basis(2)	$ —	$ —	$ 30	$ 30

(1) Assets measured at fair value on a recurring basis represented 32% of the Company’s total assets at December 31, 2019.

(2) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at December 31, 2019, and for which a fair value measurement was recorded during the period.

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2018:				
Recurring fair value measurements:				
Assets				
Available-for-sale securities:				
Agency mortgage-backed securities	$ —	$ 22,162	$ —	$ 22,162
Agency debentures	—	839	—	839
Agency debt securities	—	139	—	139
Municipal bonds	—	12	—	12
Other	—	1	—	1
Total available-for-sale securities	—	23,153	—	23,153
Derivative assets(1)	—	1	—	1
Total assets measured at fair value on a recurring basis(2)	$ —	$ 23,154	$ —	$ 23,154
Nonrecurring fair value measurements:				
Loans receivable, net:				
One- to four-family	$ —	$ —	$ 17	$ 17
Home equity	—	—	6	6
Total loans receivable	—	—	23	23
Other assets:				
Real estate owned	—	—	10	10
Total assets measured at fair value on a nonrecurring basis(3)	$ —	$ —	$ 33	$ 33

(1) All derivative assets were interest rate contracts at December 31, 2018. Information related to derivative instruments is detailed in *Note 8—Derivative Instruments and Hedging Activities*.

(2) Assets measured at fair value on a recurring basis represented 36% of the Company's total assets at December 31, 2018.

(3) Represents the fair value of assets prior to deducting estimated selling costs that were carried on the consolidated balance sheet at December 31, 2018, and for which a fair value measurement was recorded during the period.

Gains and losses on assets measured at fair value on a nonrecurring basis were not material for the periods presented.

Recurring Fair Value Measurements Categorized within Level 3

For the periods presented, no assets or liabilities measured at fair value on a recurring basis were categorized within Level 3 of the fair value hierarchy. The Company had no transfers between levels during the periods presented.

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Fair Value of Financial Instruments Not Carried at Fair Value

The following tables present the carrying values, fair values and fair value hierarchy level classification of financial instruments that are not carried at fair value on the consolidated balance sheet (dollars in millions):

	December 31, 2019				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	$ 750	$ 750	$ —	$ —	$ 750
Cash segregated under federal or other regulations	$ 1,879	$ 1,879	$ —	$ —	$ 1,879
Held-to-maturity securities:					
Agency mortgage-backed securities	$ 20,085	$ —	$ 20,329	$ —	$ 20,329
Agency debentures	267	—	271	—	271
Agency debt securities	1,617	—	1,646	—	1,646
Total held-to-maturity securities	$ 21,969	$ —	$ 22,246	$ —	$ 22,246
Margin receivables[1]	$ 9,675	$ —	$ 9,675	$ —	$ 9,675
Loans receivable, net:					
One- to four-family	$ 802	$ —	$ —	$ 835	$ 835
Home equity	624	—	—	659	659
Securities-based lending	169	—	169	—	169
Total loans receivable, net[2]	$ 1,595	$ —	$ 169	$ 1,494	$ 1,663
Receivables from brokers, dealers and clearing organizations[1]	$ 1,395	$ —	$ 1,395	$ —	$ 1,395
Other assets[1][3]	$ 313	$ —	$ 313	$ —	$ 313
Liabilities					
Deposits	$ 38,606	$ —	$ 38,605	$ —	$ 38,605
Customer payables	$ 12,849	$ —	$ 12,849	$ —	$ 12,849
Payables to brokers, dealers and clearing organizations	$ 893	$ —	$ 893	$ —	$ 893
Corporate debt	$ 1,410	$ —	$ 1,485	$ —	$ 1,485

(1) The fair value of securities that the Company received as collateral in connection with margin receivables and securities borrowing activities, including the fully paid lending program, where the Company is permitted to sell or re-pledge the securities, was $14.0 billion at December 31, 2019. Of this amount, $2.1 billion had been pledged or sold in connection with securities loaned and deposits with clearing organizations at December 31, 2019.

(2) The carrying value of loans receivable, net includes the allowance for loan losses of $17 million and loans that are recorded at fair value on a nonrecurring basis at December 31, 2019.

(3) Includes $200 million of securities purchased under agreements to resell and $113 million of securities borrowing from customers under the fully paid lending program. The fair value of the securities that the Company received as collateral for securities purchased under agreements to resell was $206 million at December 31, 2019.

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	December 31, 2018				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets					
Cash and equivalents	$ 2,333	$ 2,333	$ —	$ —	$ 2,333
Cash segregated under federal or other regulations	$ 1,011	$ 1,011	$ —	$ —	$ 1,011
Held-to-maturity securities:					
Agency mortgage-backed securities	$ 18,085	$ —	$ 17,748	$ —	$ 17,748
Agency debentures	1,824	—	1,808	—	1,808
Agency debt securities	1,975	—	1,935	—	1,935
Total held-to-maturity securities	$ 21,884	$ —	$ 21,491	$ —	$ 21,491
Margin receivables(1)	$ 9,560	$ —	$ 9,560	$ —	$ 9,560
Loans receivable, net:					
One- to four-family	$ 1,069	$ —	$ —	$ 1,099	$ 1,099
Home equity	810	—	—	825	825
Consumer	117	—	—	115	115
Securities-based lending	107	—	107	—	107
Total loans receivable, net(2)	$ 2,103	$ —	$ 107	$ 2,039	$ 2,146
Receivables from brokers, dealers and clearing organizations(1)	$ 760	$ —	$ 760	$ —	$ 760
Other assets(1)(3)	$ 36	$ —	$ 36	$ —	$ 36
Liabilities					
Deposits	$ 45,313	$ —	$ 45,313	$ —	$ 45,313
Customer payables	$ 10,117	$ —	$ 10,117	$ —	$ 10,117
Payables to brokers, dealers and clearing organizations	$ 948	$ —	$ 948	$ —	$ 948
Corporate debt	$ 1,409	$ —	$ 1,372	$ —	$ 1,372

(1) The fair value of securities that the Company received as collateral in connection with margin receivables and securities borrowing activities, including the fully paid lending program, where the Company is permitted to sell or re-pledge the securities, was $12.9 billion at December 31, 2018. Of this amount, $2.3 billion had been pledged or sold in connection with securities loaned and deposits with clearing organizations at December 31, 2018.

(2) The carrying value of loans receivable, net includes the allowance for loan losses of $37 million and loans that are recorded at fair value on a nonrecurring basis at December 31, 2018.

(3) The $36 million in other assets at December 31, 2018 represents securities borrowing from customers under the fully paid lending program.

Fair Value of Commitments and Contingencies

In the normal course of business, the Company makes various commitments to extend credit and incur contingent liabilities that are not reflected in the consolidated balance sheet. Changes in the economy or interest rates may influence the impact that these commitments and contingencies have on the Company in the future. The Company does not estimate the fair value of those commitments. Information related to such commitments and contingent liabilities is included in *Note 20—Commitments, Contingencies and Other Regulatory Matters.*

NOTE 5—OFFSETTING ASSETS AND LIABILITIES

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are treated as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. For financial statement purposes, the Company does not offset securities purchased under agreements to resell transactions with securities sold under agreements to repurchase. The Company obtains securities as collateral from the counterparty with a market value in excess of the principal amount loaned. This activity could result in losses if the counterparty fails to repurchase the securities held as collateral for the cash advanced and the market value of the securities declines. The Company continuously monitors the collateral value and obtains additional collateral from the counterparty in an effort to ensure full collateralization.

Securities Lending Transactions

Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral delivered to or received from the counterparty plus accrued interest. For financial statement purposes, the Company does not offset securities borrowing and securities lending transactions. These activities are generally transacted under master agreements that are widely used by counterparties and that may allow for net settlements of payments in the normal course, as well as offsetting of all contracts with a given counterparty in the event of bankruptcy or default of one of the two parties to the transaction.

The Company is required to deliver cash to the lender for securities borrowed whereas the Company receives collateral in the form of cash for securities loaned. These activities both require cash in an amount generally in excess of the market value of the securities and have overnight or continuous remaining contractual maturities. Securities lending transactions expose the Company to counterparty credit risk and market risk. To manage the counterparty risk, the Company maintains internal standards for approving counterparties, reviews and analyzes the credit rating of each counterparty, and monitors its positions with each counterparty on an ongoing basis. In addition, for certain of the Company's securities lending transactions, the Company uses a program with a clearing organization that guarantees the return of collateral. The Company monitors the market value of the securities borrowed and loaned using collateral arrangements that require additional collateral to be obtained from or excess collateral to be returned to the counterparties based on changes in market value, in an effort to maintain specified collateral levels.

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The following table presents information about these transactions to enable the users of the Company's consolidated financial statements to evaluate the potential effect of rights of set-off between these recognized assets and liabilities (dollars in millions):

				Gross Amounts Not Offset in the Consolidated Balance Sheet		
	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet (1)(2)	Financial Instruments	Collateral Received or Pledged (Including Cash)	Net Amount
December 31, 2019:						
Assets:						
Securities purchased under agreements to resell (3)	$ 200	$ —	$ 200	$ —	$ (200)	$ —
Securities borrowed (4)	1,116	—	1,116	(83)	(1,003)	30
Total	$ 1,316	$ —	$ 1,316	$ (83)	$ (1,203)	$ 30
Liabilities:						
Securities loaned (5)	$ 838	$ —	$ 838	$ (83)	$ (699)	$ 56
Total	$ 838	$ —	$ 838	$ (83)	$ (699)	$ 56
December 31, 2018:						
Assets:						
Securities borrowed (4)	$ 176	$ —	$ 176	$ (104)	$ (61)	$ 11
Total	$ 176	$ —	$ 176	$ (104)	$ (61)	$ 11
Liabilities:						
Securities loaned (5)	$ 887	$ —	$ 887	$ (104)	$ (700)	$ 83
Total	$ 887	$ —	$ 887	$ (104)	$ (700)	$ 83

(1) Securities purchased under agreements to resell are included in the other assets line item in the consolidated balance sheet.

(2) The vast majority of the net amount of cash collateral paid for securities borrowed are reflected in the receivables from brokers, dealers and clearing organizations line item while the cash collateral paid for securities borrowed under the fully paid lending program are reflected in other assets. Cash collateral received for securities loaned are reflected in the payables to brokers, dealers and clearing organizations line item in the consolidated balance sheet.

(3) Securities purchased under agreements to resell were over-collateralized at December 31, 2019, as the market value of the securities received by the Company was $206 million.

(4) Included in the gross amounts of cash collateral paid for securities borrowed was $757 million and $65 million at December 31, 2019 and 2018, respectively, transacted through a program with a clearing organization, which guarantees the return of cash to the Company. For presentation purposes, these amounts presented are based on the counterparties under the Company's master securities loan agreements.

(5) Included in the gross amounts of cash collateral received for securities loaned was $401 million and $543 million at December 31, 2019 and 2018, respectively, transacted through a program with a clearing organization, which guarantees the return of securities to the Company. For presentation purposes, these amounts presented are based on the counterparties under the Company's master securities loan agreements.

Derivative Transactions

At December 31, 2019, all of the derivatives that the Company utilized in its hedging activities were subject to derivatives clearing agreements (centrally cleared derivatives contracts). These cleared derivatives contracts enable clearing by a derivatives clearing organization through a clearing member. Under the contracts, the clearing member typically has a one-way right to offset all contracts in the event of the Company's default or bankruptcy. Collateral exchanged under these contracts is not included in the preceding table as the contracts may not qualify as master netting agreements. For financial statement purposes, the Company does not offset derivatives assets and derivative liabilities. See *Note 8—Derivative Instruments and Hedging Activities* for additional information.

NOTE 6—AVAILABLE-FOR-SALE AND HELD-TO-MATURITY SECURITIES

The following table presents the amortized cost and fair value of available-for-sale and held-to-maturity securities (dollars in millions):

	Amortized Cost	Gross Unrealized / Unrecognized Gains	Gross Unrealized / Unrecognized Losses	Fair Value
December 31, 2019:				
Available-for-sale securities:[1]				
Agency mortgage-backed securities	$ 16,267	$ 836	$ (68)	$ 17,035
Agency debentures	632	27	—	659
US Treasuries	1,233	34	(40)	1,227
Non-agency asset-backed securities[2]	417	2	(2)	417
Non-agency mortgage-backed securities	159	4	—	163
Total available-for-sale securities	$ 18,708	$ 903	$ (110)	$ 19,501
Held-to-maturity securities:[1]				
Agency mortgage-backed securities	$ 20,085	$ 293	$ (49)	$ 20,329
Agency debentures	267	4	—	271
Other agency debt securities	1,617	31	(2)	1,646
Total held-to-maturity securities	$ 21,969	$ 328	$ (51)	$ 22,246
December 31, 2018:				
Available-for-sale securities:[1]				
Agency mortgage-backed securities	$ 22,140	$ 327	$ (305)	$ 22,162
Agency debentures	833	13	(7)	839
Other agency debt securities	140	1	(2)	139
Municipal bonds	12	—	—	12
Other	1	—	—	1
Total available-for-sale securities	$ 23,126	$ 341	$ (314)	$ 23,153
Held-to-maturity securities:[1]				
Agency mortgage-backed securities	$ 18,085	$ 26	$ (363)	$ 17,748
Agency debentures	1,824	—	(16)	1,808
Other agency debt securities	1,975	4	(44)	1,935
Total held-to-maturity securities	$ 21,884	$ 30	$ (423)	$ 21,491

(1) Securities with a fair value of $744 million were transferred from available-for-sale to held-to-maturity based on a change in intent and demonstrated ability to hold these to maturity in December 2019. Securities with a carrying value of $4.7 billion and related unrealized pre-tax gain of $7 million were transferred from held-to-maturity to available-for-sale during the year ended December 31, 2018, as part of a one-time transition election for early adopting the new derivatives and hedge accounting guidance. Securities with a fair value of $1.2 billion were transferred from available-for-sale to held-to-maturity during the year ended December 31, 2018 pursuant to an evaluation of our investment strategy and an assessment by management about our intent and ability to hold those particular securities until maturity. See *Note 15—Shareholders' Equity* for information on the impact to accumulated other comprehensive income.

(2) Non-agency ABS collateralized by credit card, automobile loan and student loan receivables represented approximately 54%, 18% and 28%, respectively, of the non-agency ABS held at December 31, 2019.

Contractual Maturities

The following table presents the contractual maturities of all available-for-sale and held-to-maturity debt securities (dollars in millions):

	December 31, 2019	
	Amortized Cost	Fair Value
Available-for-sale debt securities:		
Due within one year	$ 87	$ 87
Due within one to five years	360	364
Due within five to ten years	9,379	10,107
Due after ten years	8,882	8,943
Total available-for-sale debt securities	$ 18,708	$ 19,501
Held-to-maturity debt securities:		
Due within one year	$ 47	$ 47
Due within one to five years	2,000	2,029
Due within five to ten years	3,035	3,102
Due after ten years	16,887	17,068
Total held-to-maturity debt securities	$ 21,969	$ 22,246

At December 31, 2019 and 2018, the Company had pledged $7.4 billion and $6.3 billion, respectively, of held-to-maturity debt securities, and $456 million and $151 million, respectively, of available-for-sale securities, as collateral for FHLB advances, derivatives and other purposes.

Investments with Unrealized or Unrecognized Losses

The following table presents the fair value and unrealized or unrecognized losses on available-for-sale and held-to-maturity securities, and the length of time that individual securities have been in a continuous unrealized or unrecognized loss position (dollars in millions):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized / Unrecognized Losses	Fair Value	Unrealized / Unrecognized Losses	Fair Value	Unrealized / Unrecognized Losses
December 31, 2019:						
Available-for-sale securities:						
Agency mortgage-backed securities	$ 2,045	$ (32)	$ 1,916	$ (36)	$ 3,961	$ (68)
Non-agency mortgage-backed securities	50	—	—	—	50	—
US Treasuries	402	(40)	—	—	402	(40)
Non-agency asset-backed securities	251	(2)	—	—	251	(2)
Total temporarily impaired available-for-sale securities	$ 2,748	$ (74)	$ 1,916	$ (36)	$ 4,664	$ (110)
Held-to-maturity securities:						
Agency mortgage-backed securities	$ 1,337	$ (4)	$ 3,600	$ (45)	$ 4,937	$ (49)
Other agency debt securities	181	(1)	135	(1)	316	(2)
Total temporarily impaired held-to-maturity securities	$ 1,518	$ (5)	$ 3,735	$ (46)	$ 5,253	$ (51)
December 31, 2018:						
Available-for-sale securities:						
Agency mortgage-backed securities	$ 2,945	$ (34)	$ 7,826	$ (271)	$ 10,771	$ (305)
Agency debentures	383	(1)	116	(6)	499	(7)
Other agency debt securities	—	—	30	(2)	30	(2)
Municipal bonds	—	—	9	—	9	—
Other	1	—	—	—	1	—
Total temporarily impaired available-for-sale securities	$ 3,329	$ (35)	$ 7,981	$ (279)	$ 11,310	$ (314)
Held-to-maturity securities:						
Agency mortgage-backed securities	$ 2,802	$ (31)	$ 11,587	$ (332)	$ 14,389	$ (363)
Agency debentures	776	(2)	666	(14)	1,442	(16)
Other agency debt securities	97	(1)	1,487	(43)	1,584	(44)
Total temporarily impaired held-to-maturity securities	$ 3,675	$ (34)	$ 13,740	$ (389)	$ 17,415	$ (423)

The Company does not believe that any individual unrealized loss in the available-for-sale portfolio or unrecognized loss in the held-to-maturity portfolio represents an other-than-temporary impairment as of December 31, 2019 or through the date of this report. The Company does not intend to sell the debt securities in an unrealized or unrecognized loss position and it is not more likely than not that the Company will be required to sell the debt securities before the anticipated recovery of its remaining amortized cost of the debt securities in an unrealized or unrecognized loss position.

There were no impairment losses recognized in earnings on available-for-sale or held-to-maturity securities during the years ended December 31, 2019, 2018 and 2017.

Gains (Losses) on Securities and Other, Net

The following table presents the components of gains (losses) on securities and other, net (dollars in millions):

	Year Ended December 31,		
	2019	2018	2017
Gains (losses) on available-for-sale securities, net:			
Gains on available-for-sale securities[(1)(2)]	$ 51	$ 98	$ 40
Losses on available-for-sale securities[(1)(2)]	(80)	(54)	—
Subtotal	(29)	44	40
Equity method investment income (loss) and other[(3)(4)]	6	9	(12)
Gains (losses) on securities and other, net	$ (23)	$ 53	$ 28

(1) In the second quarter 2019, the Company repositioned its balance sheet through the sales of $4.5 billion of lower-yielding investment securities. These sales enabled the reduction of our balance sheet size and the Company moved $6.6 billion of deposits to third-party banks generating additional capital capacity to support future share repurchases. Gains (losses) on securities and other, net for the year ended December 31, 2019 includes $80 million of losses related to these sales. As both the change in intent related to these securities and the sale of these securities occurred within the same reporting period, the Company presented the losses on the sale of these securities within the gains (losses) on securities and other, net line item.

(2) In August 2018, the Company sold available-for-sale securities and reinvested the sale proceeds in agency-backed securities at current market rates. A subset of these securities had been purchased in lower interest rate environments and were in unrealized loss positions at the time of sale. As both the change in intent related to these securities and the sale of these securities occurred within the same reporting period, the Company presented the losses on the sale of these securities within the gains (losses) on securities and other, net line item.

(3) Includes a $5 million gain on the sale of our Chicago Stock Exchange investment for the year ended December 31, 2018.

(4) Includes losses of $14 million on hedge ineffectiveness for the year ended December 31, 2017. Beginning January 1, 2018, fair value hedging adjustments are recognized within net interest income. See *Note 1—Organization, Basis of Presentation and Summary of Significant Accounting Policies* for additional information.

NOTE 7—LOANS RECEIVABLE, NET

The following table presents loans receivable disaggregated by delinquency status (dollars in millions):

	Current	Days Past Due 30-89	Days Past Due 90-179	Days Past Due 180+	Total	Unamortized Premiums, Net	Allowance for Loans Losses	Loans Receivable, Net
December 31, 2019:								
One- to four-family	$ 718	$ 39	$ 11	$ 35	$ 803	$ 5	$ (6)	$ 802
Home equity	590	21	7	17	635	—	(11)	624
Securities-based lending[1]	169	—	—	—	169	—	—	169
Total loans receivable[2]	$ 1,477	$ 60	$ 18	$ 52	$ 1,607	$ 5	$ (17)	$ 1,595
December 31, 2018:								
One- to four-family	$ 958	$ 48	$ 9	$ 56	$ 1,071	$ 7	$ (9)	$ 1,069
Home equity	774	25	13	24	836	—	(26)	810
Consumer	117	1	—	—	118	1	(2)	117
Securities-based lending[1]	107	—	—	—	107	—	—	107
Total loans receivable	$ 1,956	$ 74	$ 22	$ 80	$ 2,132	$ 8	$ (37)	$ 2,103

(1) E*TRADE Line of Credit is a securities-based lending product where customers can borrow against the market value of their securities pledged as collateral. The unused credit line amount totaled $431 million and $173 million as of December 31, 2019 and December 31, 2018, respectively.

(2) The Company sold its consumer loan portfolio in December 2019 and recognized a corresponding reduction in the allowance for loan losses.

At December 31, 2019, the Company pledged $1.2 billion of loans as collateral to the FHLB. At December 31, 2018, the Company pledged $1.6 billion and $0.1 billion of loans as collateral to the FHLB and Federal Reserve Bank of Richmond, respectively.

Credit Quality and Concentrations of Credit Risk

The Company tracks and reviews factors to predict and monitor credit risk in its mortgage loan portfolio on an ongoing basis. The following tables present the distribution of the Company's mortgage loan portfolios by credit quality indicator (dollars in millions):

	One- to Four-Family		Home Equity	
	December 31,		December 31,	
Current LTV/CLTV[(1)]	**2019**	**2018**	**2019**	**2018**
<=80%	$ 661	$ 823	$ 377	$ 454
80%-100%	97	165	154	215
100%-120%	26	45	68	110
>120%	19	38	36	57
Total mortgage loans receivable	$ 803	$ 1,071	$ 635	$ 836
Average estimated current LTV/CLTV [(2)]	61%	66%	76%	80%
Average LTV/CLTV at loan origination [(3)]	70%	70%	82%	82%

(1) Current CLTV calculations for home equity loans are based on the maximum available line for HELOCs and outstanding principal balance for HEILs. For home equity loans in the second lien position, the original balance of the first lien loan at origination date and updated valuations on the property underlying the loan are used to calculate CLTV. Current property value estimates are updated on a quarterly basis.

(2) The average estimated current LTV/CLTV ratio reflects the outstanding balance at the balance sheet date and the maximum available line for HELOCs, divided by the estimated current value of the underlying property.

(3) Average LTV/CLTV at loan origination calculations are based on LTV/CLTV at time of purchase for one- to four-family purchased loans, HEILs and the maximum available line for HELOCs.

	One- to Four-Family		Home Equity	
	December 31,		December 31,	
Current FICO	**2019**	**2018**	**2019**	**2018**
>=720	$ 462	$ 617	$ 333	$ 442
719 - 700	77	89	61	78
699 - 680	55	80	54	70
679 - 660	40	66	43	56
659 - 620	63	79	59	80
<620	106	140	85	110
Total mortgage loans receivable	$ 803	$ 1,071	$ 635	$ 836

One- to four-family loans include loans with an interest-only period, followed by an amortizing period. At December 31, 2019, 100% of these loans were amortizing. The home equity loan portfolio consists of HEILs and HELOCs. HEILs are primarily fully amortizing loans that do not offer the option of an interest-only payment. The majority of HELOCs had an interest only draw period at origination and converted to amortizing loans at the end of the draw period. At December 31, 2019, substantially all of the HELOC portfolio had converted from the interest-only draw period.

The weighted average age of our mortgage and consumer loans receivable was 13.7 and 12.8 years at December 31, 2019 and 2018, respectively. Approximately 32% and 33% of the Company's mortgage loans receivable were concentrated in California at December 31, 2019 and 2018, respectively. Approximately 10% of the Company's mortgage loans receivable were concentrated in New York at both December 31, 2019 and 2018. No other state had concentrations of mortgage loans that represented 10% or more of the Company's mortgage loans receivable at December 31, 2019 or 2018.

At December 31, 2019, 23% and 20% of the Company's past-due mortgage loans were concentrated in California and New York, respectively. No other state had concentrations of past-due mortgage loans that represented 10% or more of the Company's past-due mortgage loans. At December 31, 2019, 41% and 10% of the Company's impaired mortgage loans were concentrated in California and New York, respectively. No other state had concentrations of impaired mortgage loans that represented 10% or more of the Company's impaired mortgage loans.

Nonperforming Loans

The Company classifies loans as nonperforming when they are no longer accruing interest. The following table presents nonperforming loans by loan portfolio (dollars in millions):

	December 31,	
	2019	2018
One- to four-family	$ 114	$ 139
Home equity	54	71
Total nonperforming loans receivable	$ 168	$ 210

At both December 31, 2019 and 2018, the Company held $13 million of real estate owned that was acquired through foreclosure or through a deed in lieu of foreclosure or similar legal agreement. The Company held $32 million and $51 million of loans for which formal foreclosure proceedings were in process at December 31, 2019 and 2018, respectively.

Allowance for Loan Losses

The allowance for loan losses is management's estimate of probable losses inherent in the loan portfolio at the balance sheet date, as well as the forecasted losses, including economic concessions to borrowers, over the estimated remaining life of loans modified as TDRs. The general allowance for loan losses includes a qualitative component to account for a variety of factors that present additional uncertainty that may not be fully considered in the quantitative loss model but are factors we believe may impact the level of credit losses.

The following table presents the allowance for loan losses by loan portfolio (dollars in millions):

	December 31, 2019		
	One- to Four-Family	Home Equity	Total[(1)(2)]
General reserve:			
Quantitative component	$ 2	$ 1	$ 3
Qualitative component	(1)	—	(1)
Specific valuation allowance	5	10	15
Total allowance for loan losses	$ 6	$ 11	$ 17
Allowance as a % of loans receivable[(3)]	0.7%	1.7%	1.1%

	December 31, 2018			
	One- to Four-Family	Home Equity	Consumer	Total[(2)]
General reserve:				
Quantitative component	$ 4	$ 6	$ 2	$ 12
Qualitative component	—	1	—	1
Specific valuation allowance	5	19	—	24
Total allowance for loan losses	$ 9	$ 26	$ 2	$ 37
Allowance as a % of loans receivable[(3)]	0.8%	3.1%	1.0%	1.7%

(1) The Company sold its consumer loan portfolio in December 2019 and recognized a corresponding reduction in the allowance for loan losses.
(2) Securities-based lending loans were fully collateralized by cash and securities with fair values in excess of borrowings at both December 31, 2019 and 2018, respectively.
(3) Allowance as a percentage of loans receivable is calculated based on the gross loans receivable including net unamortized premiums for each respective category.

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The following table presents a roll forward by loan portfolio of the allowance for loan losses (dollars in millions):

	Year Ended December 31, 2019			
	One- to Four-Family	Home Equity	Consumer[1]	Total
Allowance for loan losses, beginning of period	$ 9	$ 26	$ 2	$ 37
Provision (benefit) for loan losses	(9)	(41)	(1)	(51)
Charge-offs[2]	—	—	(3)	(3)
Recoveries[3]	6	26	2	34
Net (charge-offs) recoveries	6	26	(1)	31
Allowance for loan losses, end of period[4]	$ 6	$ 11	$ —	$ 17

	Year Ended December 31, 2018			
	One- to Four-Family	Home Equity	Consumer	Total
Allowance for loan losses, beginning of period	$ 24	$ 46	$ 4	$ 74
Provision (benefit) for loan losses	(22)	(63)	(1)	(86)
Charge-offs[2]	—	—	(4)	(4)
Recoveries[3]	7	43	3	53
Net (charge-offs) recoveries	7	43	(1)	49
Allowance for loan losses, end of period[4]	$ 9	$ 26	$ 2	$ 37

	Year Ended December 31, 2017			
	One- to Four-Family	Home Equity	Consumer	Total
Allowance for loan losses, beginning of period	$ 45	$ 171	$ 5	$ 221
Provision (benefit) for loan losses	(29)	(141)	2	(168)
Charge-offs[2]	—	(7)	(6)	(13)
Recoveries	8	23	3	34
Net (charge-offs) recoveries	8	16	(3)	21
Allowance for loan losses, end of period[4]	$ 24	$ 46	$ 4	$ 74

(1) The Company sold its consumer loan portfolio in December 2019 and recognized a corresponding reduction in the allowance for loan losses.
(2) Includes benefits resulting from recoveries of partial charge-offs due to principal paydowns or payoffs for the periods presented. The benefits included in the charge-offs line item exceeded other charge-offs for one- to four-family portfolio during the years ended December 31, 2019, 2018 and 2017, respectively. The benefits included in the charge-offs line item exceeded other charge-offs for the home equity loan portfolio during the years ended December 31, 2019 and 2018, respectively.
(3) Includes $3 million of recoveries recognized during the year ended December 31, 2019 and $15 million of recoveries recognized during the year ended December 31, 2018 related to the sale of previously charged-off home equity loans.
(4) Securities-based lending loans were fully collateralized by cash and securities with fair values in excess of borrowings for the years ended December 31, 2019, 2018 and 2017, respectively.

Total loans receivable designated as held-for-investment decreased $0.5 billion during the year ended December 31, 2019. The allowance for loan losses was $17 million, or 1.1% of total loans receivable, as of December 31, 2019 compared to $37 million, or 1.7% of total loans receivable, as of December 31, 2018. Net recoveries for the year ended December 31, 2019 were $31 million compared to $49 million in the same period in 2018.

The benefit for loan losses was $51 million for the year ended December 31, 2019. The timing and magnitude of the provision (benefit) for loan losses is affected by many factors that could result in variability. These benefits reflected better than expected performance of our portfolio as well as recoveries in excess of prior expectations, including sales of charged-off loans and recoveries of previous charge-offs, as applicable, that were not included in our loss estimates.

The following table presents the total recorded investment in loans receivable and allowance for loan losses by loans that have been collectively evaluated for impairment and those that have been individually evaluated for impairment by loan portfolio (dollars in millions):

	Recorded Investment		Allowance for Loan Losses	
	December 31,		December 31,	
	2019	2018	2019	2018
Collectively evaluated for impairment:				
One- to four-family	$ 640	$ 891	$ 1	$ 4
Home equity	523	698	1	7
Consumer[(1)]	—	119	—	2
Securities-based lending	169	107	—	—
Total collectively evaluated for impairment	1,332	1,815	2	13
Individually evaluated for impairment:				
One- to four-family	168	187	5	5
Home equity	112	138	10	19
Total individually evaluated for impairment	280	325	15	24
Total	$ 1,612	$ 2,140	$ 17	$ 37

(1) The Company sold its consumer loan portfolio in December 2019 and recognized a corresponding reduction in the allowance for loan losses.

Impaired Loans—Troubled Debt Restructurings

The Company considers a loan to be impaired when it meets the definition of a TDR. Delinquency status is the primary measure the Company uses to evaluate the performance of loans modified as TDRs. The Company classifies loans as nonperforming when they are no longer accruing interest. The recorded investment in loans modified as TDRs includes the charge-offs related to certain loans that were written down to estimated current value of the underlying property less estimated selling costs.

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The following table presents a summary of the Company's recorded investment in TDRs that were on accrual and nonaccrual status, further disaggregated by delinquency status (dollars in millions):

		Nonaccrual TDRs				
	Accrual TDRs[1]	Current[2]	30-89 Days Delinquent	90-179 Days Delinquent	180+ Days Delinquent	Total Recorded Investment in TDRs [3][4]
December 31, 2019:						
One- to four-family	$ 81	$ 57	$ 10	$ 3	$ 17	$ 168
Home equity	73	20	8	2	9	112
Total	$ 154	$ 77	$ 18	$ 5	$ 26	$ 280
December 31, 2018:						
One- to four-family	$ 87	$ 61	$ 12	$ 4	$ 23	$ 187
Home equity	90	23	8	5	12	138
Total	$ 177	$ 84	$ 20	$ 9	$ 35	$ 325

(1) Represents loans modified as TDRs that are current and have made six or more consecutive payments.
(2) Represents loans modified as TDRs that are current but have not yet made six consecutive payments, bankruptcy loans and certain junior lien TDRs that have a delinquent senior lien.
(3) Total recorded investment in TDRs includes premium (discount), as applicable, and is net of charge-offs, which were $46 million and $97 million for one-to four-family and home equity loans, respectively, as of December 31, 2019 and $55 million and $121 million, respectively, as of December 31, 2018.
(4) Total recorded investment in TDRs at December 31, 2019 consisted of $223 million of loans modified as TDRs and $57 million of loans that have been charged off due to bankruptcy notification. Total recorded investment in TDRs at December 31, 2018 consisted of $253 million of loans modified as TDRs and $72 million of loans that have been charged off due to bankruptcy notification.

The following table presents the monthly average recorded investment and interest income recognized both on a cash and accrual basis for the Company's TDRs (dollars in millions):

	Average Recorded Investment			Interest Income Recognized		
	December 31,			December 31,		
	2019	2018	2017	2019	2018	2017
One- to four-family	$ 177	$ 201	$ 221	$ 8	$ 9	$ 9
Home equity	125	152	179	12	13	16
Total	$ 302	$ 353	$ 400	$ 20	$ 22	$ 25

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The following table presents detailed information related to the Company's TDRs and specific valuation allowances (dollars in millions):

	December 31, 2019			December 31, 2018		
	Recorded Investment in TDRs	Specific Valuation Allowance	Net Investment in TDRs	Recorded Investment in TDRs	Specific Valuation Allowance	Net Investment in TDRs
With a recorded allowance:						
One- to four-family	$ 45	$ 5	$ 40	$ 50	$ 5	$ 45
Home equity	$ 45	$ 10	$ 35	$ 60	$ 19	$ 41
Without a recorded allowance:(1)						
One- to four-family	$ 123	$ —	$ 123	$ 137	$ —	$ 137
Home equity	$ 67	$ —	$ 67	$ 78	$ —	$ 78
Total:						
One- to four-family	$ 168	$ 5	$ 163	$ 187	$ 5	$ 182
Home equity	$ 112	$ 10	$ 102	$ 138	$ 19	$ 119

(1) Represents loans where the discounted cash flow analysis or collateral value is equal to or exceeds the recorded investment in the loan.

The following table presents the number of loans and post-modification balances immediately after being modified by major class (dollars in millions):

		Interest Rate Reduction			
	Number of Loans	Re-age/ Extension/ Interest Capitalization	Other with Interest Rate Reduction	Other(1)	Total
December 31, 2019:					
One- to four-family	30	$ 6	$ —	$ 6	$ 12
Home equity	44	3	—	—	3
Total	74	$ 9	$ —	$ 6	$ 15
December 31, 2018:					
One- to four-family	49	$ 14	$ —	$ 7	$ 21
Home equity	91	5	1	1	7
Total	140	$ 19	$ 1	$ 8	$ 28
December 31, 2017:					
One- to four-family	40	$ 13	$ 1	$ 4	$ 18
Home equity	294	12	1	9	22
Total	334	$ 25	$ 2	$ 13	$ 40

(1) Amounts represent loans whose terms were modified in a manner that did not result in an interest rate reduction, including re-aged loans, extensions, and loans with capitalized interest.

NOTE 8—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Presentation on the Consolidated Balance Sheet

Hedging Instruments

The Company utilizes fair value hedges to offset exposure to changes in value of certain fixed-rate assets. All derivative contracts were designated as hedging instruments at December 31, 2019 and 2018, and the notional amount associated with these fair value hedge contracts was $10.1 billion and $9.8 billion for the same periods, respectively. The Company had no bilateral derivative contracts at December 31, 2019. The consolidated balance sheet excludes derivative assets of $52 million and $175 million at December 31, 2019, and 2018, respectively, and derivative liabilities of $457 million and $131 million for the same periods. These contracts were executed through central clearing organizations and were settled by variation margin payments.

Credit Risk

As all of the derivatives that the Company utilizes in its hedging activities at December 31, 2019 are subject to derivatives clearing agreements (cleared derivatives contracts), the credit risk associated with these cleared derivatives contracts is largely mitigated by the daily variation margin exchanged with counterparties.

Hedged Assets

The following table presents the cumulative basis adjustments related to the carrying amount of hedged assets in fair value hedging relationships (dollars in millions):

	Carrying Amount of Hedged Assets(1)	Cumulative Amount of Fair Value Hedging Basis Adjustment Included in Carrying Amount of Hedged Assets(2)	
		Total	Discontinued
December 31, 2019:			
Available-for-sale securities(3)	$ 12,480	$ 583	$ (227)
December 31, 2018:			
Available-for-sale securities(3)	$ 13,203	$ (10)	$ (385)

(1) The carrying amount includes the impact of basis adjustments on active fair value hedges and the impact of basis adjustments from previously discontinued fair value hedges.

(2) Represents the increase (decrease) to the carrying amount of hedged assets. If fair value hedge accounting is discontinued, the previously hedged item is no longer adjusted for changes in fair value through the consolidated statements of income and the cumulative net gain or loss on the hedged item is amortized to net interest income using the effective interest method over the contractual life of the hedged item adjusted to reflect actual prepayments.

(3) Includes the amortized cost basis of closed portfolios of prepayable securities designated in hedging relationships in which the hedged item is the last layer of principal expected to be remaining throughout the hedge term. As of December 31, 2019 and 2018, respectively, the amortized cost basis of this portfolio was $162 million and $810 million, the amount of the designated hedged items was $148 million and $192 million and the cumulative basis adjustments associated with these hedges was a gain of $1 million and a loss of $6 million.

Presentation on the Consolidated Statements of Income

The following table presents the effects of fair value hedge accounting on the consolidated statements of income (dollars in millions):

	Interest Income	
	Year Ended December 31,	
	2019	2018
Total interest income	$ 2,111	$ 2,009
Effects of fair value hedging on total interest income[1][2]		
Agency debentures:		
Amounts recognized as interest accruals on derivatives	1	(3)
Changes in fair value of hedged items	2	(69)
Changes in fair value of derivatives	(4)	68
Net loss on fair value hedging relationships - agency debentures	(1)	(4)
Agency mortgage-backed securities:		
Amounts recognized as interest accruals on derivatives	(7)	(15)
Amortization of basis adjustments from discontinued hedges	35	24
Changes in fair value of hedged items	722	(111)
Changes in fair value of derivatives	(723)	93
Net gain (loss) on fair value hedging relationships - agency mortgage-backed securities	27	(9)
Total net gain (loss) on fair value hedging relationships	$ 26	$ (13)

(1) Excludes interest income accruals on hedged items and amounts recognized upon the sale of securities attributable to fair value hedge accounting.
(2) Excludes interest on variation margin related to centrally cleared derivative contracts.

The following table presents the changes in fair value of interest rate derivative contracts designated as fair value hedges and related hedged items as reflected on the consolidated statements of income (dollars in millions):

	Year Ended December 31, 2017		
	Hedging Instrument	Hedged Item	Hedge Ineffectiveness[1]
Agency debentures	$ 1	$ (3)	$ (2)
Agency mortgage-backed securities	36	(48)	(12)
Total gains (losses) included in earnings	$ 37	$ (51)	$ (14)

(1) Reflected in the gains (losses) on securities and other, net line item on the consolidated statements of income.

NOTE 9—PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following asset classes at December 31, 2019 and 2018 (dollars in millions):

	December 31, 2019			December 31, 2018		
	Gross Amount	Accumulated Depreciation and Amortization	Net Amount	Gross Amount	Accumulated Depreciation and Amortization	Net Amount
Software(1)	$ 429	$ (309)	$ 120	$ 416	$ (297)	$ 119
Equipment	171	(118)	53	147	(117)	30
Leasehold improvements(2)	87	(40)	47	131	(95)	36
Buildings	72	(36)	36	72	(34)	38
Furniture and fixtures	20	(4)	16	13	(3)	10
Land	3	—	3	3	—	3
Construction in progress(1)(3)	64	—	64	45	—	45
Total(4)	$ 846	$ (507)	$ 339	$ 827	$ (546)	$ 281

(1) The Company recognized $8 million of impairment of certain technology assets through other non-interest expense during the year ended December 31, 2019.

(2) The Company retired leasehold improvements with a cost and related accumulated depreciation of $70 million and $68 million, respectively, as part of facility renovations and closures during the year ended December 31, 2019.

(3) Construction in progress includes software in the process of development of $49 million and $36 million at December 31, 2019 and 2018, respectively.

(4) The Company executed a sale-leaseback transaction on its Alpharetta, Georgia office in 2014 and the transaction was accounted for as a financing as it did not qualify for leaseback accounting. The related assets continue to be included in the property and equipment, net line item on the consolidated balance sheet. Refer to *Note 19—Lease Arrangements* for further detail.

Depreciation and amortization expense related to property and equipment was $88 million, $92 million and $82 million for the years ended December 31, 2019, 2018 and 2017, respectively. The Company has capitalized salaries and related consulting costs of $72 million, $58 million and $53 million for the years ended December 31, 2019, 2018 and 2017, respectively. These costs are included in software or construction in progress as applicable. Amortization of completed and in-service software was $47 million, $43 million and $36 million for the years ended December 31, 2019, 2018 and 2017, respectively.

NOTE 10—GOODWILL AND OTHER INTANGIBLES, NET

Goodwill

The Company had goodwill of $2.5 billion at both December 31, 2019 and 2018, respectively. There was a $25 million addition to the carrying value of the Company's goodwill during the year ended December 31, 2019, which was recognized in connection with the Gradifi acquisition. For additional information, see *Note 2—Acquisitions and Restructuring*.

There were no impairments to the carrying value of the Company's goodwill during the years ended December 31, 2019, 2018 or 2017. At both December 31, 2019 and 2018, goodwill was net of accumulated impairment losses of $243 million.

Other Intangibles, Net

At December 31, 2019 and 2018, the Company had other intangible assets of $433 million and $491 million, respectively. The Company recognized $3 million of technology intangible assets in connection with the Gradifi acquisition during the year ended December 31, 2019. For additional information, see *Note 2—Acquisitions and Restructuring*.

The following table outlines the Company's other intangible assets with finite lives (dollars in millions):

	December 31, 2019				
	Weighted Average Original Useful Life (Years)	Weighted Average Remaining Useful Life (Years)	Gross Amount	Accumulated Amortization	Net Amount
Customer relationships	18	12	$ 786	$ (394)	$ 392
Technology	6	4	71	(30)	41
Trade name	2	0	4	(4)	—
Total			$ 861	$ (428)	$ 433

	December 31, 2018				
	Weighted Average Original Useful Life (Years)	Weighted Average Remaining Useful Life (Years)	Gross Amount	Accumulated Amortization	Net Amount
Customer relationships	18	13	$ 786	$ (345)	$ 441
Technology	6	5	68	(19)	49
Trade name	2	1	4	(3)	1
Total			$ 858	$ (367)	$ 491

The Company evaluated the CRIs associated with its retail channel for impairment as a result of the commissions reduction announced in the fourth quarter 2019 and noted that no impairment or resulting change to the useful lives of the related CRIs was indicated as a result of this analysis.

Assuming no future impairments of other intangibles or additional acquisitions or dispositions, the following table presents the Company's future annual amortization expense (dollars in millions):

Years ending December 31,		
2020	$	59
2021		58
2022		56
2023		49
2024		39
Thereafter		172
Total future amortization expense	$	433

NOTE 11—RECEIVABLES FROM AND PAYABLES TO BROKERS, DEALERS AND CLEARING ORGANIZATIONS

Receivables from and payables to brokers, dealers and clearing organizations consist of the following (in millions):

	December 31,			
	2019		2018	
Receivables:				
Securities borrowed	$	1,003	$	140
Receivables from clearing organizations		297		555
Other		95		65
Total	$	1,395	$	760
Payables:				
Securities loaned	$	838	$	887
Payables to clearing organizations		10		11
Other		45		50
Total	$	893	$	948

NOTE 12—DEPOSITS

The following table presents the significant components of deposits (dollars in millions):

	December 31,	
	2019	2018
Sweep deposits:		
Brokerage sweep deposits	$ 27,949	$ 39,322
Bank sweep deposits[1]	6,355	—
Savings deposits[2]	2,592	4,133
Other deposits[3]	1,710	1,858
Total deposits	$ 38,606	$ 45,313

(1) Beginning November 2019, bank sweep deposits include Premium Savings Accounts participating in the newly established bank sweep deposit account program.

(2) Savings deposits include $1.0 billion and $2.0 billion of deposits at December 31, 2019, and 2018, respectively, in our Premium Savings Account product.

(3) Includes checking deposits, money market deposits and certificates of deposit. As of December 31, 2019 and 2018, the Company had $197 million and $193 million in non-interest bearing deposits, respectively.

The decrease in deposits during the year ended December 31, 2019 was primarily driven by the balance sheet repositioning during the second quarter 2019, partially offset by growth in our Premium Savings Account product. The bank sweep deposit program, which launched in November 2019, provides the Company with the ability to transfer amounts held on deposit in E*TRADE Bank Premium Savings Accounts to an FDIC-insured account at one or more participating banks if desired. As the bank sweep deposit program was established to allow for reciprocal deposits, E*TRADE Bank may also accept deposits from customers of the participating third-party banks. Bank sweep deposits included $1.0 billion of reciprocal deposits received from third-party banks at December 31, 2019. See *Note 6—Available-for-Sale and Held-to-Maturity Securities* for additional information.

NOTE 13—OTHER BORROWINGS AND CORPORATE DEBT

Other Borrowings

The following table presents the Company's external lines of credit at December 31, 2019 (dollars in millions):

Description	Maturity Date	Borrower	Outstanding	Available
Senior unsecured, committed revolving credit facility[(1)]	June 2024	ETFC	$ —	$ 300
FHLB secured credit facility	Determined at trade	ETB	$ —	$ 6,837
Federal Reserve Bank discount window	Overnight	ETB	$ —	$ 1,336
Senior unsecured, committed revolving credit facility[(2)]	June 2020	ETS	$ —	$ 600
Secured, committed lines of credit	June 2020	ETS	$ —	$ 175
Unsecured, uncommitted lines of credit	June 2020	ETS	$ —	$ 50
Unsecured, uncommitted lines of credit	None	ETS	$ —	$ 75
Secured, uncommitted lines of credit	None	ETS	$ —	$ 425

(1) On June 21, 2019, the Company entered into a new five year, $300 million senior unsecured committed revolving credit facility, which replaced its three year senior unsecured committed revolving credit facility entered into on June 23, 2017. The senior unsecured committed revolving credit facility contains certain covenants, including maintenance covenants related to the Company's interest coverage, leverage and regulatory net capital ratios with which the Company was in compliance at December 31, 2019.

(2) On June 21, 2019, E*TRADE Securities entered into a 364-day, $600 million senior unsecured committed revolving credit facility, which replaced its 364-day senior unsecured committed revolving credit facility entered into on June 22, 2018. The senior unsecured committed revolving credit facility contains certain covenants, including maintenance covenants related to E*TRADE Securities' minimum consolidated tangible net worth and regulatory net capital ratio with which the Company was in compliance at December 31, 2019.

Corporate Debt

The following tables present the significant components of E*TRADE Financial's corporate debt (dollars in millions):

	Face Value	Discount	Net
December 31, 2019:			
Interest-bearing notes:			
2.95% Senior Notes, due 2022	$ 600	$ (3)	$ 597
3.80% Senior Notes, due 2027	400	(3)	397
4.50% Senior Notes, due 2028	420	(4)	416
Total corporate debt	$ 1,420	$ (10)	$ 1,410
December 31, 2018:			
Interest-bearing notes:			
2.95% Senior Notes, due 2022	$ 600	$ (4)	$ 596
3.80% Senior Notes, due 2027	400	(3)	397
4.50% Senior Notes, due 2028	420	(4)	416
Total corporate debt	$ 1,420	$ (11)	$ 1,409

Issuance of Corporate Debt

2018 Issuances

During the year ended December 31, 2018, the Company issued $420 million in aggregate principal amount of Senior Notes due 2028. The Senior Notes bear interest at an annual rate of 4.50% and will mature on June 20, 2028. The Senior Notes are our general unsecured senior obligations and rank equally in right of payment with all of our existing and future unsubordinated indebtedness. The Senior Notes effectively rank junior to our secured indebtedness, if any, to the extent of the collateral securing such indebtedness, and are structurally subordinated to all liabilities of our subsidiaries. The Senior Notes are not guaranteed by the subsidiaries.

Net proceeds from the issuance of $420 million Senior Notes were used to redeem all outstanding TRUPs during the year ended December 21, 2018. In connection with the redemption, the Company recognized a loss on early extinguishment of debt of $4 million, consisting of the difference between the carrying value of the TRUPs redeemed, including unamortized debt issuance costs, and the total cash amount paid, including related fees and expenses.

Ranking of Debt Seniority

All of the Company’s notes rank equal in right of payment with all of the Company’s existing and future unsubordinated indebtedness and rank senior in right of payment to all its existing and future subordinated indebtedness. However, the notes rank effectively junior to the Company's secured indebtedness to the extent of the collateral securing such indebtedness.

NOTE 14—INCOME TAXES

The components of income tax expense for the years ended December 31, 2019, 2018 and 2017 were as follows (dollars in millions):

	Year Ended December 31,		
	2019	2018	2017
Current income tax expense (benefit):			
Federal	$ 63	$ —	$ —
State	26	13	(11)
Total current	89	13	(11)
Deferred income tax expense (benefit):			
Federal	181	266	399
State	64	73	51
Total deferred	245	339	450
Non-current income tax expense[(1)]	30	14	11
Income tax expense	$ 364	$ 366	$ 450

(1) Non-current income tax expense primarily relates to amortization for investments in qualified affordable housing projects recognized under the proportional amortization method and uncertain tax positions.

Income tax expense for the year ended December 31, 2018 reflects the impact of the TCJA, which was enacted on December 22, 2017 and resulted in remeasurement of certain deferred tax assets and liabilities during the year ended December 31, 2017 at the new statutory federal corporate income tax rate of 21%. Accordingly, the Company recognized $58 million of additional tax expense for the year ended December 31, 2017.

Unrecognized Tax Benefits

The following table provides a reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2019, 2018, and 2017 (dollars in millions):

	Year Ended December 31,		
	2019	2018	2017
Unrecognized tax benefits, beginning of period	$ 31	$ 25	$ 28
Additions based on tax positions related to prior years	2	3	1
Additions based on tax positions related to current year	11	9	11
Reductions based on tax positions related to prior years	(2)	—	(3)
Settlements with taxing authorities	—	(2)	(6)
Statute of limitations lapses	(3)	(4)	(6)
Unrecognized tax benefits, end of period	$ 39	$ 31	$ 25

The unrecognized tax benefits increased $8 million to $39 million during the year ended December 31, 2019. At December 31, 2019, the Company had $31 million, net of federal benefits, of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate in future periods.

The following table summarizes the tax years that are either currently under examination or remain open to assessment under the statute of limitations and subject to examination by the major tax jurisdictions in which the Company operates:

Jurisdiction	Open Tax Years
Hong Kong	2013-2018
Philippines	2016-2019
United Kingdom	2017
United States	2016-2019
Various states[(1)]	2013-2019

(1) Major state tax jurisdictions include California, Georgia, Illinois, New York and Virginia.

It is reasonably possible that the Company's unrecognized tax benefits could be reduced by as much as $7 million within the next twelve months as a result of settlements of certain examinations or expiration of statutes of limitations.

The Company accrues interest and penalties, if any, related to income tax matters in income tax expense. The Company has total reserves for interest and penalties of $6 million and $3 million as of December 31, 2019 and 2018, respectively.

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Deferred Taxes and Valuation Allowances

Deferred income taxes are recorded when revenues and expenses are recognized in different periods for financial statement and tax return purposes. The temporary differences and tax carryforwards that created deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are summarized in the following table (dollars in millions):

	December 31,	
	2019	2018
Deferred tax assets:		
Net operating losses	$ 96	$ 162
Reserves and allowances, net	70	105
Leasing liability	58	—
Deferred compensation	20	34
Financial instrument valuations	1	54
Tax credits	2	69
Other	—	1
Total deferred tax assets	247	425
Valuation allowance	(20)	(20)
Total deferred tax assets, net of valuation allowance	227	405
Deferred tax liabilities:		
Depreciation and amortization	(506)	(413)
Leasing asset	(52)	—
Other	(6)	(2)
Total deferred tax liabilities	(564)	(415)
Deferred tax liabilities, net	$ (337)	$ (10)

The Company had $14 million of gross federal net operating losses, or $3 million in deferred tax assets related to these losses, at December 31, 2019 that is limited by Internal Revenue Code section 382. There is no valuation allowance recorded against federal net operating losses. In addition, the Company had $1.9 billion of gross state net operating losses, or $93 million in deferred tax assets related to these losses, at December 31, 2019. The $20 million valuation allowance relates to state net operating losses, which expire between 2026 and 2038. Deferred tax assets, net and deferred tax liabilities are recorded in the Other assets and Other liabilities line items respectively on the consolidated balance sheet.

The following table provides a reconciliation of the beginning and ending amount of valuation allowance for the years ended December 31, 2019, 2018, and 2017 (dollars in millions):

	Year Ended December 31,		
	2019	2018	2017
Valuation allowance, beginning of period	$ (20)	$ (23)	$ (35)
Additions related to reduced federal benefit	—	—	(4)
Reductions related to the wind-down of foreign operations	1	2	14
(Additions) reductions related to state valuation allowance	(1)	1	2
Valuation allowance, end of period	$ (20)	$ (20)	$ (23)

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The Company's valuation allowance remained flat at December 31, 2019 and decreased $3 million to $20 million at December 31, 2018, respectively.

Effective Tax Rate

The effective tax rate differed from the federal statutory rate as summarized in the following table for the years ended December 31, 2019, 2018 and 2017:

	Year Ended December 31,		
	2019	2018	2017
Federal statutory tax rate	21.0 %	21.0 %	35.0 %
State income taxes, net of federal tax benefit	5.0	5.1	4.2
Disallowed executive compensation	0.3	0.2	0.1
Change in valuation allowances	—	—	(0.1)
Tax credits	(0.1)	(0.1)	(0.3)
Estimated reserve for uncertain tax positions	0.7	0.2	(0.3)
Deferred tax adjustments	0.5	(0.5)	(0.3)
Tax reform adjustments	—	—	5.5
Excess tax benefit on share-based compensation	(0.2)	(0.6)	(0.7)
Other	0.4	0.5	(0.9)
Effective tax rate	27.6 %	25.8 %	42.2 %

NOTE 15—SHAREHOLDERS' EQUITY

Preferred Stock

The following table presents the preferred stock outstanding (in millions except total shares outstanding and per share data):

Description	Issuance Date	Per Annum Dividend Rate	Total Shares Outstanding	Liquidation Preference per Share	Carrying Value at December 31, 2019	Carrying Value at December 31, 2018
Series A						
Fixed-to-Floating Rate Non-Cumulative	8/25/2016	5.875% to, but excluding, 9/15/2026; 3-mo LIBOR + 4.435% thereafter	400,000	$ 1,000	$ 394	$ 394
Series B						
Fixed-to-Floating Rate Non-Cumulative	12/6/2017	5.30% to, but excluding, 3/15/2023; 3-mo LIBOR + 3.16% thereafter	3,000	$ 100,000	295	295
Total			403,000		$ 689	$ 689

Dividend on Preferred Stock

The following table presents the cash dividends paid on preferred stock (in millions except per share data):

Year Ended December 31, 2019				
Declaration Date	Record Date	Payment Date	Dividend per Share	Dividend Paid
Series A (1)				
2/7/2019	2/28/2019	3/15/2019	$ 29.38	$ 12
7/25/2019	8/30/2019	9/16/2019	$ 29.38	12
Series B (1)				
2/7/2019	2/28/2019	3/15/2019	$ 2,650.00	8
7/25/2019	8/30/2019	9/16/2019	$ 2,650.00	8
Total				$ 40

Year Ended December 31, 2018				
Declaration Date	Record Date	Payment Date	Dividend per Share	Dividend Paid
Series A (1)				
2/8/2018	2/28/2018	3/15/2018	$ 29.38	$ 12
7/26/2018	8/31/2018	9/17/2018	$ 29.38	12
Series B (1)				
7/26/2018	8/31/2018	9/17/2018	$ 4,107.50	12
Total				$ 36

Year Ended December 31, 2017				
Declaration Date	Record Date	Payment Date	Dividend per Share	Dividend Paid
Series A (1)				
2/2/2017	2/28/2017	3/15/2017	$ 32.64	$ 13
8/2/2017	8/31/2017	9/15/2017	$ 29.38	12
Total				$ 25

(1) Dividends are non-cumulative and payable semi-annually, if declared.

On February 6, 2020, the Company declared a cash dividend of $29.38 per share on its Series A Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock and $2,650.00 per share (equivalent to $26.50 per depository share) on its Series B Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock. The dividends are payable on March 16, 2020, to shareholders of record as of the close of business on March 2, 2020.

Common Stock

Dividend on Common Stock

The following table presents the cash dividends paid on common stock (in millions except per share data):

Year Ended December 31, 2019						
Declaration Date	Record Date	Payment Date		Dividend per Share		Dividend Paid
1/23/2019	2/1/2019	2/15/2019	$	0.14	$	35
4/16/2019	5/13/2019	5/20/2019	$	0.14		34
7/17/2019	8/19/2019	8/26/2019	$	0.14		34
10/16/2019	11/8/2019	11/15/2019	$	0.14		32
Total					$	135

Year Ended December 31, 2018						
Declaration Date	Record Date	Payment Date		Dividend per Share		Dividend Paid
10/17/2018	10/30/2018	11/15/2018	$	0.14	$	36
Total					$	36

On January 22, 2020, the Company declared a cash dividend for the first quarter of $0.14 per share on its outstanding shares of common stock. The dividend will be payable on March 2, 2020 to shareholders of record as of the close of business on February 25, 2020.

Share Repurchases

In October 2018, the Company announced that its board of directors authorized the repurchase of up to $1 billion of shares of its common stock. During 2019, the Company completed this $1 billion share repurchase program with the repurchase of 10.8 million shares of common stock at an average price of $46.18 per share, or $499 million during the year. In July 2019, the Company announced that its board of directors authorized a new $1.5 billion share repurchase program. As of December 31, 2019, the Company had repurchased 14.0 million shares of common stock at an average price of $41.97 per share, or $586 million under the new program. In total, we utilized $1.1 billion to repurchase 24.8 million shares at an average price of $43.81 under these programs during the year ended December 31, 2019. The Company accounts for share repurchases retired after repurchase by allocating the excess repurchase price over par to additional paid-in-capital.

Other Common Stock Activity

Other common stock activity includes shares withheld to pay taxes for share-based compensation, employee stock purchase plan and other activity. During the year ended December 31, 2017, it also includes a $3 million conversion of the Company's convertible debentures into 0.3 million shares of common stock. There were no conversions of convertible debentures during the years ended December 31, 2018 and 2019.

Accumulated Other Comprehensive Loss

The following tables present after-tax changes in each component of accumulated other comprehensive loss (dollars in millions):

	2019	2018
Accumulated other comprehensive loss, beginning of period(1)	$ (275)	$ (26)
Other comprehensive income (loss) before reclassifications	224	(203)
Amounts reclassified from accumulated other comprehensive loss	23	(31)
Transfer of held-to-maturity securities to available-for-sale securities(2)	—	6
Net change	247	(228)
Cumulative effect of hedge accounting adoption	—	(7)
Reclassification of tax effects due to federal tax reform	—	(14)
Accumulated other comprehensive loss, end of period(1)(3)	$ (28)	(275)

(1) The accumulated other comprehensive loss balances and activities were related to available-for-sale securities in both periods.

(2) Securities with a carrying value of $4.7 billion and related unrealized pre-tax gain of $7 million, or $6 million net of tax, were transferred from held-to-maturity securities to available-for-sale securities during the year ended December 31, 2018, as part of a one-time transition election for early adopting the new derivatives and hedge accounting guidance.

(3) Includes unamortized unrealized pre-tax losses of $21 million at December 31, 2019 of which $1 million and $14 million are related to the transfer of available-for-sale securities to held-to-maturity securities during the years ended December 31, 2019 and 2018, respectively.

	Available-for-Sale Securities	Foreign Currency Translation	Total
Balance, December 31, 2016	$ (139)	$ 2	$ (137)
Other comprehensive income before reclassifications	137	—	137
Amounts reclassified from accumulated other comprehensive loss	(24)	(2)	(26)
Net change	113	(2)	111
Balance, December 31, 2017	$ (26)	$ —	$ (26)

The following table presents other comprehensive income (loss) activity and the related tax effect (dollars in millions):

	Year Ended December 31,								
	2019			2018			2017		
	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax	Before Tax	Tax Effect	After Tax
Other comprehensive income (loss)									
Available-for-sale securities:									
Unrealized gains (losses), net	$ 300	$ (76)	$ 224	$ (272)	$ 69	$ (203)	$ 213	$ (76)	$ 137
Reclassification into earnings, net	32	(9)	23	(42)	11	(31)	(39)	15	(24)
Transfer of held-to-maturity securities to available-for-sale securities	—	—	—	7	(1)	6	—	—	—
Net change from available-for-sale securities	332	(85)	247	(307)	79	(228)	174	(61)	113
Reclassification of foreign currency translation into earnings, net	—	—	—	—	—	—	(2)	—	(2)
Other comprehensive income (loss)	$ 332	$ (85)	$ 247	$ (307)	$ 79	$ (228)	$ 172	$ (61)	$ 111

The following table presents the consolidated statements of income line items impacted by reclassifications out of accumulated other comprehensive loss (dollars in millions):

Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss			Affected Line Items in the Consolidated Statements of Income
	Year Ended December 31,			
	2019	2018	2017	
Available-for-sale securities:	$ (29)	$ 45	$ 39	Gains (losses) on securities and other, net
	(3)	(3)	—	Interest income
	(32)	42	39	Reclassification into earnings, before tax
	9	(11)	(15)	Income tax benefit (expense)
	$ (23)	$ 31	$ 24	Reclassification into earnings, net
Foreign currency translation:	$ —	$ —	$ 2	Other non-interest expenses
	$ —	$ —	$ 2	Reclassification into earnings, net

NOTE 16—EARNINGS PER SHARE

Net income available to common shareholders, or net income less preferred stock dividends, represents the numerator used in the computation of basic and diluted earnings per common share. The denominators used in the computation of basic and diluted earnings per common share are basic and diluted weighted average common shares outstanding, respectively.

Basic weighted average common shares outstanding were 237.4 million, 260.6 million and 273.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. The difference between basic and diluted weighted average common shares outstanding includes the weighted-average dilutive impact of securities, including restricted stock units and awards, dividend equivalent units, employee stock purchase plan shares and stock options, as well as the weighted-average dilutive impact of convertible debentures. This activity represented 0.5 million, 1.1 million and 1.2 million shares for the years ended December 31, 2019, 2018 and 2017, respectively. This resulted in diluted weighted average common shares outstanding of 237.9 million, 261.7 million and 274.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. The amount of certain restricted stock and options excluded from the calculations of diluted earnings per common share due to the anti-dilutive effect was not material for the years ended December 31, 2019, 2018 and 2017.

NOTE 17—SHARE-BASED COMPENSATION, EMPLOYEE INCENTIVE AND RETIREMENT PLANS

Share-Based Compensation Plans

In 2015, the Company adopted and the shareholders approved the 2015 Omnibus Incentive Plan (2015 Plan), which replaced the 2005 Stock Incentive Plan (2005 Plan). The 2015 Plan provides the Company the ability to grant equity awards to officers, directors, employees and consultants, including, but not limited to, nonqualified or incentive stock options, restricted stock awards, restricted stock units and deferred restricted stock units at a price based on the date of the grant. The Company typically issues new shares upon exercise of stock options and vesting of other equity awards.

Under the 2015 Plan, the remaining unissued authorized shares of the 2005 Plan that are not subject to outstanding awards thereunder were authorized for issuance. Additionally, any shares that had been awarded but remained unissued under the 2005 Plan that were subsequently canceled, forfeited, or reacquired by the Company would be authorized for issuance under the 2015 Plan. As of December 31, 2019, 6.9 million shares were available for grant under the 2015 Plan.

The Company recognized $53 million, $46 million and $41 million in share-based compensation expense for the years ended December 31, 2019, 2018 and 2017, respectively. Total unrecognized compensation expense related to non-vested restricted stock awards, restricted stock units, and performance share units was $46 million as of December 31, 2019. This cost is expected to be recognized over a weighted-average period of 1.6 years.

Employee Stock Option Plans

Through 2011, the Company issued options to directors and to certain of the Company's officers and employees. Options generally vested ratably over a two- to four-year period from the date of grant and expired within seven to ten years from the date of grant. Certain options provide for accelerated vesting upon a change of control. The Company measures compensation expense based on the exercise price which is equal to the fair value of the shares on the grant date.

As of December 31, 2019, there were no options outstanding and no unrecognized compensation expense related to non-vested stock options.

Restricted Stock Awards

The Company issues restricted stock awards to directors. Restricted stock awards are issued at the fair value on the date of grant and vest one year from the date of issuance. At December 31, 2019 there were less than 0.1 million restricted stock awards outstanding. Non-employee directors may also elect to defer all or a portion of their cash and equity compensation into deferred restricted stock units.

Restricted Stock and Performance Share Units

The Company issues restricted stock units to certain of the Company's officers and employees. Each restricted stock unit can be converted into one share of the Company’s common stock upon vesting. These restricted stock units are issued at the fair value on the date of grant and vest ratably over the requisite service period, generally one to four years.

Beginning in 2015, the Company also issued performance share units to certain of the Company's officers. Each performance share unit can be converted into one share of the Company's common stock upon vesting. Vesting of performance share units is contingent upon achievement of certain predefined performance targets over the performance period. These performance share units are issued at the fair value on the date of grant. Performance share units granted prior to 2019 vest over three successive one-year performance periods based upon the achievement of performance targets. Beginning in 2019, performance share units vest over a single three-year performance period.

A summary of restricted stock and performance stock unit activity is presented below (shares in thousands):

	Restricted Stock Units		Performance Share Units	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2018	1,987	$ 39.87	229	$ 47.24
Granted[(1)]	1,053	45.86	180	46.70
Vested[(1)]	(1,050)	34.53	(142)	48.66
Forfeited	(85)	44.80	—	—
Outstanding at December 31, 2019	1,905	44.84	267	46.12
Expected to vest at December 31, 2019	1,859	44.80		

(1) The number of performance share units granted and vested includes the impact of the achievement of performance targets.

The total fair value of restricted stock awards, restricted stock units and performance share units that vested was $56 million, $76 million and $58 million during the years ended December 31, 2019, 2018 and 2017, respectively.

On the date that the Company pays a common stock dividend, holders of restricted stock units, deferred restricted stock units and performance stock units are granted dividend equivalent units which are forfeitable and are subject to the same vesting terms as the stock units with respect to which they have been awarded. The amount of such dividend equivalent units are not material to the year ended December 31, 2019 or December 31, 2018 and are included in the number of shares granted.

Employee Incentive and Retirement Plans

Employee Stock Purchase Plan

In May 2018, the shareholders of the Company approved the 2018 Employee Stock Purchase Plan (2018 ESP Plan), and reserved 4.0 million shares of common stock for sale to employees at a price no less than 85% of the fair market value per share of the common stock on the purchase date. The Company currently offers six month enrollment periods at the end of which employees can purchase shares of the Company's common stock at a price equal to 95% of the closing market price on the date of purchase. The initial offering period began on September 1, 2018. No share-based compensation expense was recorded in connection with the 2018 ESP Plan as it was deemed non-compensatory. Employees purchased 90,348 shares under the plan during the year ended December 31, 2019.

401(k) Plan

The Company has a 401(k) salary deferral program for eligible employees who have met certain service requirements. The Company matches certain employee contributions; additional contributions to this plan are at the discretion of the Company. Total contribution expense under this plan was $21 million, $19 million and $11 million for the years ended December 31, 2019, 2018, and 2017 respectively.

NOTE 18—REGULATORY REQUIREMENTS

Broker-Dealer and FCM Capital Requirements

The Company's US broker-dealer, E*TRADE Securities, is subject to the Uniform Net Capital Rule under the Securities Exchange Act of 1934 administered by the SEC and FINRA, which requires the maintenance of minimum net capital. The minimum net capital requirements can be met under either the Aggregate Indebtedness method or the Alternative method. Under the Aggregate Indebtedness method, a broker-dealer is required to maintain net capital equal to or in excess of the greater of 6 2/3% of its aggregate indebtedness, as defined, or a minimum dollar amount. E*TRADE Securities has elected the Alternative method, under which it is required to maintain net capital equal to the greater of $250,000 or 2% of aggregate debit balances arising from customer transactions.

The Company's FCM, E*TRADE Futures, is subject to CFTC net capital requirements, including the maintenance of adjusted net capital equal to or in excess of the greater of (1) $1,000,000, (2) the FCM's risk-based capital requirement, computed as 8% of the total risk margin requirements for all positions carried in customer and non-customer accounts, or (3) the amount of adjusted net capital required by the NFA.

At December 31, 2019 and 2018, all of the Company’s broker-dealer and FCM subsidiaries met applicable minimum net capital requirements. The following table presents a summary of the minimum net capital requirements and excess capital for the Company’s broker-dealer and FCM subsidiaries (dollars in millions):

	Required Net Capital	Net Capital	Excess Net Capital
December 31, 2019:			
E*TRADE Securities[1]	$ 223	$ 1,251	$ 1,028
E*TRADE Futures	3	28	25
Total[2]	$ 226	$ 1,279	$ 1,053
December 31, 2018:			
E*TRADE Securities	$ 209	$ 1,294	$ 1,085
E*TRADE Futures	1	26	25
International broker-dealer	—	18	18
Total	$ 210	$ 1,338	$ 1,128

(1) E*TRADE Securities paid dividends of $910 million to the parent company during the year ended December 31, 2019.
(2) The Company's international broker-dealer de-registered and entered into voluntary liquidation in May 2019. The international broker-dealer was not subject to minimum net capital requirements at December 31, 2019.

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Bank Capital Requirements

E*TRADE Financial and its bank subsidiaries, E*TRADE Bank and E*TRADE Savings Bank, are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial condition and results of operations of these entities. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, these entities must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. In addition, the Company's bank subsidiaries may not pay dividends to the parent company without the non-objection, or in certain cases the approval, of their regulators, and any loans by the bank subsidiaries to the parent company or its other non-bank subsidiaries are subject to various quantitative, arm's length, collateralization and other requirements. The capital amounts and classifications of these entities are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require these entities to meet minimum Tier 1 leverage, Common Equity Tier 1 capital, Tier 1 risk-based capital and Total risk-based capital ratios. Events beyond management's control, such as deterioration in credit markets, could adversely affect future earnings and their ability to meet future capital requirements. E*TRADE Financial, E*TRADE Bank and E*TRADE Savings Bank were categorized as "well capitalized" under the regulatory framework for prompt corrective action for the periods presented in the following table (dollars in millions):

	December 31, 2019					December 31, 2018				
	Actual		Well Capitalized Minimum Capital		Excess Capital	Actual		Well Capitalized Minimum Capital		Excess Capital
	Amount	Ratio	Amount	Ratio	Amount	Amount	Ratio	Amount	Ratio	Amount
E*TRADE Financial[1]										
Tier 1 leverage	$ 4,035	6.9%	$ 2,922	5.0%	$ 1,113	$ 4,097	6.6%	$ 3,101	5.0%	$ 996
Common Equity Tier 1	$ 3,346	31.5%	$ 692	6.5%	$ 2,654	$ 3,408	31.1%	$ 713	6.5%	$ 2,695
Tier 1 risk-based	$ 4,035	37.9%	$ 852	8.0%	$ 3,183	$ 4,097	37.3%	$ 877	8.0%	$ 3,220
Total risk-based	$ 4,060	38.2%	$ 1,064	10.0%	$ 2,996	$ 4,143	37.8%	$ 1,097	10.0%	$ 3,046
E*TRADE Bank[1][2]										
Tier 1 leverage	$ 3,240	7.2%	$ 2,253	5.0%	$ 987	$ 3,484	7.1%	$ 2,461	5.0%	$ 1,023
Common Equity Tier 1	$ 3,240	36.5%	$ 577	6.5%	$ 2,663	$ 3,484	34.9%	$ 650	6.5%	$ 2,834
Tier 1 risk-based	$ 3,240	36.5%	$ 710	8.0%	$ 2,530	$ 3,484	34.9%	$ 800	8.0%	$ 2,684
Total risk-based	$ 3,257	36.7%	$ 888	10.0%	$ 2,369	$ 3,521	35.2%	$ 999	10.0%	$ 2,522
E*TRADE Savings Bank[1]										
Tier 1 leverage	$ 1,480	40.7%	$ 182	5.0%	$ 1,298	$ 1,456	26.6%	$ 273	5.0%	$ 1,183
Common Equity Tier 1	$ 1,480	224.7%	$ 43	6.5%	$ 1,437	$ 1,456	169.4%	$ 56	6.5%	$ 1,400
Tier 1 risk-based	$ 1,480	224.7%	$ 53	8.0%	$ 1,427	$ 1,456	169.4%	$ 69	8.0%	$ 1,387
Total risk-based	$ 1,480	224.7%	$ 66	10.0%	$ 1,414	$ 1,456	169.4%	$ 86	10.0%	$ 1,370

(1) Basel III includes a capital conservation buffer that limits a banking organization's ability to make capital distributions and discretionary bonus payments to executive officers if a banking organization fails to maintain a Common Equity Tier 1 capital conservation buffer of more than 2.5%, on a fully phased-in basis, of total risk-weighted assets above each of the following minimum risk-based capital ratio requirements: Common Equity Tier 1 capital (4.5%), Tier 1 risk-based capital (6.0%), and Total risk-based capital (8.0%). This requirement was effective beginning on January 1, 2016, and became fully phased-in on January 1, 2019.

(2) E*TRADE Bank paid dividends of $835 million to the parent company during the year ended December 31, 2019.

NOTE 19—LEASE ARRANGEMENTS

The Company enters into non-cancelable operating leases for its corporate offices, retail branches and other facilities. These leases have remaining terms ranging from less than one to 12 years, and the weighted-average remaining lease term for these leases is 8.2 years. Most leases include one or more options to renew, with renewal terms that can extend the lease term up to 10 years. Only those renewal terms that the Company is reasonably certain of exercising are included in the calculation of the lease liability. Leases that have not yet commenced at December 31, 2019 will have an immaterial impact on the Company's ROU assets and lease liabilities. Certain lease agreements include rental payments based on power usage or that adjust periodically for inflation or costs incurred by the lessor. None of the Company's current lease agreements contain material residual value guarantees or material restrictive covenants.

The following table presents balance sheet information related to the Company's classification of ROU assets and operating lease liabilities (dollars in millions):

	Classification	December 31, 2019	
Operating lease assets, net	Other assets	$	195
Operating lease liabilities	Other liabilities	$	235

In December 2019, the Company exited its New York headquarters and consolidated related operations at its Jersey City, New Jersey location. The Company remeasured the ROU asset and lease liability, reducing them both by $9 million respectively, to reflect the shortened lease term and recognized an impairment charge of $6 million in restructuring and acquisition-related activities. Refer to *Note 2—Acquisitions and Restructuring* for further detail.

The Company utilizes incremental borrowing rates to determine the present value of lease payments for each lease. As the Company's leases do not provide an implicit rate, the incremental borrowing rate estimates are based on the terms of each lease as well as the interest rate environment at the later of the adoption date of January 1, 2019, lease commencement date or lease remeasurement date. The incremental borrowing rate has also been adjusted to reflect a secured rate. A weighted-average discount rate of 4.3% was used to calculate the lease liability balances for the Company's operating leases.

Leases with an initial term of twelve months or less are not recorded on the balance sheet; lease expense for these leases is recognized on a straight-line basis over the lease term. The Company has elected not to separate lease and non-lease components for all property leases for the purposes of calculating ROU assets and lease liabilities.

Cash paid for amounts included in the measurement of operating lease liabilities was $29 million for the year ended December 31, 2019. The following table presents the significant components of lease expense (dollars in millions):

	Classification	Year Ended December 31, 2019	
Operating lease cost(1)	Occupancy and Equipment	$	35
Variable lease cost	Occupancy and Equipment	$	3
Net lease expense(2)		$	38

(1) Includes short-term lease costs which are not material.
(2) Net of sublease income which is not material.

The following table presents the maturities of lease liabilities (dollars in millions):

	Operating Leases
Years ending December 31,	
2020	$ 39
2021	37
2022	35
2023	34
2024	29
Thereafter	107
Total lease payments	281
Imputed interest	(46)
Present value of lease liabilities	$ 235

The Company executed a sale-leaseback transaction on its Alpharetta, Georgia office in 2014. The transaction was initially accounted for as a financing as it did not qualify for sale accounting. The Company evaluated this transaction as part of the adoption of the new lease guidance in 2019 and concluded that it did not qualify for sale accounting and should continue to be accounted for as a financing. The office building is included in the property and equipment, net line item and the related financing obligation is included in the other liabilities line item in the Company's consolidated balance sheet. Future minimum lease payments and sublease proceeds to be received under the lease are $24 million and $9 million, respectively.

NOTE 20—COMMITMENTS, CONTINGENCIES AND OTHER REGULATORY MATTERS

The Company reviews its lawsuits, regulatory inquiries and other legal proceedings on an ongoing basis and provides disclosure and records loss contingencies in accordance with the loss contingencies accounting guidance. The Company establishes an accrual for losses at management's best estimate when it assesses that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company monitors these matters for developments that would affect the likelihood of a loss and the accrued amount, if any, and adjusts the amount as appropriate.

Litigation Matters

On October 27, 2000, Ajaxo, Inc. (Ajaxo) filed a complaint in the Superior Court for the State of California, County of Santa Clara. Ajaxo sought damages and certain non-monetary relief for the Company’s alleged breach of a non-disclosure agreement with Ajaxo pertaining to certain wireless technology that Ajaxo offered the Company as well as damages and other relief against the Company for their alleged misappropriation of Ajaxo’s trade secrets. Following a jury trial, a judgment was entered in 2003 in favor of Ajaxo against the Company for $1 million for breach of the Ajaxo non-disclosure agreement. The trial court subsequently denied Ajaxo’s requests for additional damages and relief following which Ajaxo appealed. Although the Company paid Ajaxo the full amount due on the above-described judgment, the case was remanded back to the trial court by the California Court of Appeals, and on May 30, 2008, a jury returned a verdict in favor of the Company denying all claims raised and demands for damages against the Company. After various appeals the case was again remanded back to the trial court. Following the third trial in this matter, in a Judgment and Statement of Decision filed September 16, 2015, the Court denied all claims for royalties by Ajaxo. Ajaxo's post-trial motions were denied. Ajaxo has appealed to the Court of Appeals, Sixth District. The Company will continue to defend itself vigorously in this matter.

On May 13, 2019, a FINRA Dispute Resolution Statement of Claim was received on behalf of an E*TRADE customer and the customer's limited liability company. The Statement of Claim alleges that E*TRADE Securities and E*TRADE Capital Management violated Section 10(b) of the Securities Exchange Act, committed common law fraud, breached fiduciary duties, breached contractual duties, failed to supervise, and were negligent in the maintenance of the LLC's accounts. The claim relates to margin liquidations from the LLC's accounts in February 2018. The Company intends to defend itself vigorously in this matter.

In addition to the matters described above, the Company is subject to various legal proceedings and claims that arise in the normal course of business. In each pending matter, the Company contests liability or the amount of claimed damages. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages, or where investigation or discovery have yet to be completed, the Company is unable to estimate a range of reasonably possible losses on its remaining outstanding legal proceedings; however, the Company believes any losses, both individually or in the aggregate, should not be reasonably likely to have a material adverse effect on the consolidated financial condition or results of operations of the Company.

An unfavorable outcome in any matter could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows. In addition, even if the ultimate outcomes are resolved in the Company's favor, the defense of such litigation could entail considerable cost or the diversion of the efforts of management, either of which could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

Regulatory Matters

The securities, futures, foreign currency and banking industries are subject to extensive regulation under federal, state and applicable international laws. From time to time, the Company has been threatened with or named as a defendant in lawsuits, arbitrations and administrative claims involving securities, banking and other matters. The Company is also subject to periodic regulatory examinations and inspections. Compliance and trading problems that are reported to regulators, such as the SEC, FINRA, NASDAQ, CFTC, NFA, FDIC, Federal Reserve Bank of Richmond, OCC, or the CFPB by dissatisfied customers or others are investigated by such regulators, and may, if pursued, result in formal claims being filed against the Company by customers or disciplinary action being taken against the Company or its employees by regulators. Any such claims or disciplinary actions that are decided against the Company could have a material impact on the financial results of the Company or any of its subsidiaries.

Insurance

The Company maintains insurance coverage that management believes is reasonable and prudent. The principal insurance coverage it maintains covers commercial general liability; property damage; hardware/software damage; cyber liability; directors and officers; employment practices liability; certain criminal acts against the Company; and errors and omissions. The Company believes that such insurance coverage is adequate for the purpose of its business. The Company's ability to maintain this level of insurance coverage in the future, however, is subject to the availability of affordable insurance in the marketplace.

Commitments

In the normal course of business, the Company makes various commitments to extend credit and incur contingent liabilities that are not reflected in the consolidated balance sheet. Significant changes in the economy or interest rates may influence the impact that these commitments and contingencies have on the Company in the future.

The Company's equity method investments, investments measured at cost and other investments are generally limited liability investments in partnerships, companies and other similar entities, including tax credit partnerships and community development entities, which are not required to be consolidated. The Company had $43 million in unfunded contingent investment commitments with respect to these investments at December 31, 2019.

At December 31, 2019, the Company had $14 million of certificates of deposit scheduled to mature in less than one year.

Guarantees

In prior periods when the Company sold loans, the Company provided guarantees to investors purchasing mortgage loans, which are considered standard representations and warranties within the mortgage industry. The primary guarantees are that: the mortgage and the mortgage note have been duly executed and each is the legal, valid and binding obligation of the Company, enforceable in accordance with its terms; the mortgage has been duly acknowledged and recorded and is valid; and the mortgage and the mortgage note are not subject to any right of rescission, set-off, counterclaim or defense, including, without limitation, the defense of usury, and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto. The Company is responsible for the guarantees on loans sold. If these claims prove to be untrue, the investor can require the Company to repurchase the loan and return all loan purchase and servicing release premiums. Management does not believe the potential liability exposure will have a material impact on the Company's results of operations, cash flows or financial condition due to the nature of the standard representations and warranties, which have resulted in a minimal amount of loan repurchases.

NOTE 21—CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Year Ended December 31,		
	2019	**2018**	**2017**
Dividends from subsidiaries[1]	$ 1,770	$ 1,150	$ 350
Other revenues, net	404	410	377
Total net revenue	2,174	1,560	727
Total non-interest expense	603	575	611
Income before income tax expense and equity in income of consolidated subsidiaries	1,571	985	116
Income tax expense	184	149	75
Equity in undistributed income (loss) of subsidiaries	(432)	216	573
Net income[2]	955	1,052	614
Other comprehensive income (loss)	247	(228)	111
Comprehensive income	$ 1,202	$ 824	$ 725

(1) Dividends from subsidiaries includes the gross amount of dividends received.

(2) Net income available to common shareholders was $915 million, $1.0 billion and $589 million for the years ended December 31, 2019, 2018, and 2017, respectively, and includes the impact of $40 million, $36 million, and $25 million of preferred stock dividends, respectively.

CONDENSED BALANCE SHEETS
(In millions)

	December 31,	
	2019	**2018**
ASSETS		
Cash and equivalents	$ 614	$ 340
Property and equipment, net	215	169
Investment in consolidated subsidiaries[1]	7,578	7,722
Receivable from subsidiaries	29	24
Other assets	356	175
Total assets	$ 8,792	$ 8,430
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Corporate debt	$ 1,410	$ 1,409
Other liabilities	839	459
Total liabilities	2,249	1,868
Total shareholders' equity	6,543	6,562
Total liabilities and shareholders' equity	$ 8,792	$ 8,430

(1) Includes $3.5 billion and $3.6 billion of investments in bank subsidiaries at December 31, 2019 and 2018, respectively.

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CONDENSED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2019	**2018**	**2017**
Cash flows from operating activities:			
Net income	$ 955	$ 1,052	$ 614
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	74	55	51
Equity in undistributed (income) loss from subsidiaries	432	(216)	(573)
Losses on early extinguishment of debt	—	—	58
Other	189	292	213
Net cash provided by operating activities	1,650	1,183	363
Cash flows from investing activities:			
Capital expenditures for property and equipment	(87)	(60)	(59)
Cash contributions to subsidiaries	(31)	(464)	(61)
Other	—	2	6
Net cash used in investing activities	(118)	(522)	(114)
Cash flows from financing activities:			
Proceeds from issuance of senior notes	—	420	999
Payments on senior notes	—	—	(1,049)
Proceeds from issuance of preferred stock	—	—	300
Repurchases of common stock	(1,085)	(1,139)	(362)
Preferred stock dividends	(40)	(36)	(25)
Common stock dividends	(135)	(36)	—
Other	2	(23)	(35)
Net cash used in financing activities	(1,258)	(814)	(172)
Increase (decrease) in cash and equivalents	274	(153)	77
Cash and equivalents, beginning of period	340	493	416
Cash and equivalents, end of period	$ 614	$ 340	$ 493

Parent Company Guarantees

Guarantees are contingent commitments issued by the parent for the purpose of guaranteeing the financial obligations of a subsidiary to a third party. The financial obligations of the parent and the relevant subsidiary do not change by the existence of a parent guarantee. Rather, upon the occurrence of certain events, the guarantee shifts ultimate payment responsibility of an existing financial obligation from the relevant subsidiary to the parent company. During the year ended December 31, 2019, no claims had been made against the parent for payment under any guarantees and thus, no obligations have been recognized. The parent has not provided any guarantees that are collateralized.

NOTE 22—QUARTERLY DATA (UNAUDITED)

The information presented below reflects all adjustments, which, in the opinion of management, are of a normal and recurring nature necessary to present fairly the results of operations for the quarterly periods presented (dollars in millions, except per share amounts):

	2019				2018			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Total net revenue	$ 755	$ 685	$ 767	$ 679	$ 708	$ 710	$ 720	$ 735
Net income	$ 290	$ 219	$ 274	$ 172	$ 247	$ 250	$ 285	$ 270
Earnings per share:								
Basic	$ 1.10	$ 0.90	$ 1.08	$ 0.76	$ 0.88	$ 0.95	$ 1.01	$ 1.07
Diluted	$ 1.09	$ 0.90	$ 1.08	$ 0.76	$ 0.88	$ 0.95	$ 1.00	$ 1.06

Net income in the fourth quarter of 2019 included $21 million of restructuring and acquisition-related activities expense and $8 million of expense related to the impairment of certain technology assets which was recognized in other non-interest expense. The restructuring and acquisition-related activities expense related primarily to the closure of our New York headquarters, severance from organizational changes driven by enterprise-wide cost containment initiatives, and costs incurred as part of the Gradifi acquisition. See *Note 2—Acquisitions and Restructuring* and *Note 9—Property and Equipment, Net* for additional information. Net income and total net revenue in the second quarter of 2019 included $80 million of pre-tax losses from balance sheet repositioning. See *Note 6—Available-for-Sale and Held-to-Maturity Securities* for additional information.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Based on an evaluation under the supervision and with the participation of our management, our Chief Executive Officer and our Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), were effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company’s management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Report on Internal Controls over Financial Reporting and the attestation report of our independent registered public accounting firm, Deloitte & Touche LLP, are included in *Item 8. Financial Statements and Supplementary Data* and are incorporated herein by reference.

(c) There were no changes in the Company’s internal control over financial reporting during the quarter ended December 31, 2019, identified in connection with management's evaluation required by paragraph (d) of Exchange Act Rules 13a-15 and 15d-15, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference from the Company's definitive proxy statement for its 2020 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A within 120 days after December 31, 2019 (the Proxy Statement).

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference from the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference from the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference from the Proxy Statement.

PART IV

ITEM 15. EXHIBITS

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements: The information concerning our consolidated financial statements required by this Item is incorporated by reference herein to *Item 8. Financial Statements and Supplementary Data.*

2. Financial Statement Schedules:

Consolidated Financial Statement Schedules have been omitted because the required information is not applicable, not material or is provided in the consolidated financial statements or notes thereto.

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of E*TRADE Financial Corporation (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q filed on August 4, 2010, Commission File Number 1-11921).
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 11, 2012, Commission File Number 1-11921).
3.3	Certificate of Designations of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A of E*TRADE Financial Corporation (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 25, 2016, Commission File Number 1-11921).
3.4	Certificate of Designations of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series B of E*TRADE Financial Corporation (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on December 6, 2017, Commission File Number 1-11921).
3.5	Amended and Restated Bylaws of E*TRADE Financial Corporation (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on June 20, 2017, Commission File Number 1-11921).
4.1	Specimen of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 1 to the Company's Registration Statement on Form S-1, Registration Statement No. 333-05525, filed on July 22, 1996, Commission File Number 1-11921).
*4.2	Description of Common Stock.
4.3	Senior Indenture dated November 14, 2012 between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee (includes form of note) (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on November 14, 2012, Commission File Number 1-11921).
4.4	Second Supplemental Indenture dated November 17, 2014, to the Senior Indenture dated November 14, 2012, between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 5.375% Senior Notes due 2022 (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on November 17, 2014, Commission File Number 1-11921).

Exhibit Number	Description
4.5	Third Supplemental Indenture dated March 5, 2015, to the Senior Indenture dated November 14, 2012, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on March 5, 2015, Commission File Number 1-11921).
4.6	Certificate of Designations of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A of E*TRADE Financial Corporation (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 25, 2016, Commission File Number 1-11921).
4.7	Form of Certificate representing the Series A Preferred Stock (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on August 25, 2016, Commission File Number 1-11921).
4.8	Indenture, dated as of August 24, 2017, between E*TRADE Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on August 24, 2017, Commission File Number 1-11921).
4.9	First Supplemental Indenture, dated as of August 24, 2017, between E*TRADE Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on August 24, 2017, Commission File Number 1-11921).
4.10	Second Supplemental Indenture, dated as of August 24, 2017, between E*TRADE Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K filed on August 24, 2017, Commission File Number 1-11921).
4.11	Certificate of Designations of Preferences and Rights of the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series B of E*TRADE Financial Corporation (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on December 6, 2017, Commission File Number 1-11921).
4.12	Form of Certificate representing the Series B Preferred Stock (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on December 6, 2017, Commission File Number 1-11921).
4.13	Deposit Agreement, dated as of December 6, 2017, among the Company, The Bank of New York Mellon and the holders from time to time of the depositary receipts described therein (incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K filed on December 6, 2017, Commission File Number 1-11921).
4.14	Form of Depositary Receipt (included in Exhibit 4.13).
4.15	Third Supplemental Indenture, dated as of June 20, 2018, between E*TRADE Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on June 20, 2018, Commission File Number 1-11921).
4.16	Form of 2.950% Senior Notes due 2022 (included in Exhibit 4.9).
4.17	Form of 3.800% Senior Notes due 2027 (included in Exhibit 4.10).
4.18	Form of 4.500% Senior Notes due 2028 (included in Exhibit 4.15).
10.1	Form of Indemnification Agreement for Directors (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on November 2, 2017, Commission File Number 1-11921).
+10.2	Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 10-K filed on February 24, 2010, Commission File Number 1-11921).
+10.3	Amended 2005 Equity Incentive Plan of E*TRADE Financial Corporation. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 14, 2010, Commission File Number 1-11921).
+10.4	2015 Omnibus Incentive Plan (incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A filed on March 25, 2015, Commission File Number 1-11921).

Exhibit Number	Description
+10.5	Form of Executive Restricted Stock Award Agreement for Amended 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of the Company's Form 10-K filed on February 24, 2015, Commission File Number 1-11921).
+10.6	Form of Executive Restricted Stock Unit Award Agreement for 2015 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on November 1, 2018, Commission File Number 1-11921).
+10.7	Form of Executive Restricted Stock Unit Award Agreement for 2015 Omnibus Incentive Plan, as adopted January 17, 2019 (incorporated by reference to Exhibit 10.7 of the Company's Form 10-K/A filed on February 21, 2019, Commission File Number 1-11921).
+10.8	Form of Restricted Stock Unit Award Agreement for 2015 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q filed on November 1, 2018, Commission File Number 1-11921).
+10.9	Form of Restricted Stock Unit Award Agreement for 2015 Omnibus Incentive Plan, as adopted January 17, 2019 (incorporated by reference to Exhibit 10.9 of the Company's Form 10-K/A filed on February 21, 2019, Commission File Number 1-11921).
+10.10	Form of Performance Share Unit Award Agreement for 2015 Equity Incentive Plan, as adopted March 12, 2015 (incorporated by reference to Exhibit 10.8 of the Company's Form 10-K filed on February 24, 2016, Commission File Number 1-11921).
+10.11	Form of Performance Share Unit Award Agreement for 2015 Equity Incentive Plan for Certain Executive Officers, as adopted January 17, 2019 (incorporated by reference to Exhibit 10.11 of the Company's Form 10-K/A filed on February 21, 2019, Commission File Number 1-11921).
+10.12	Form of Performance Share Unit Award Agreement for 2015 Equity Incentive Plan, as adopted January 17, 2019 (incorporated by reference to Exhibit 10.12 of the Company's Form 10-K/A filed on February 21, 2019, Commission File Number 1-11921).
+10.13	Form of Restricted Stock Agreement for Non-Employee Directors under the 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on May 4, 2016, Commission File Number 1-11921).
+10.14	Form of Deferred Restricted Stock Unit Agreement for Non-Employee Directors under the 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q filed on May 4, 2016, Commission File Number 1-11921).
+10.15	Form of Employment Agreement between the Company and Michael J. Curcio (incorporated by reference to Exhibit 10.16 of the Company's Form 10-K filed on February 22, 2017, Commission File Number 1-11921).
+10.16	Amendment, dated March 7, 2019, to the Employment Agreement, dated February 14, 2017, between the Company and Michael J. Curcio (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on May 5, 2019, Commission File Number 1-11921).
+10.17	Form of Employment Agreement between the Company and each of Alice Milligan and Lori S. Sher (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on November 1, 2018, Commission File Number 1-11921).
*+10.18	Form of Amendment to Employment Agreement between the Company and each of Michael A. Pizzi, Michael J. Curcio, Alice Milligan and Lori S. Sher.
*+10.19	Form of Employment Agreement between the Company and Chad E. Turner.
+10.20	Employment Agreement effective as of August 15, 2019 between the Company and Michael A. Pizzi (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on October 31, 2019, Commission File Number 1-11921).
*21.1	Subsidiaries of the Registrant.
*23.1	Consent of Independent Registered Public Accounting Firm.
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit Number	Description
*31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
*101.SCH	Inline XBRL Taxonomy Extension Schema Document
*101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
*104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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* Filed herewith.

+ Exhibit is a management contract or a compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 19, 2020

E*TRADE Financial Corporation
(Registrant)

By /S/ MICHAEL A. PIZZI

Michael A. Pizzi
Chief Executive Officer
(Principal Executive Officer)

By /S/ CHAD E. TURNER

Chad E. Turner
Chief Financial Officer
(Principal Financial Officer)

By /S/ DIRK W. WYCKOFF

Dirk W. Wyckoff
Corporate Controller
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ MICHAEL A. PIZZI Michael A. Pizzi	Director and Chief Executive Officer (Principal Executive Officer)	February 19, 2020
/S/ CHAD E. TURNER Chad E. Turner	Chief Financial Officer (Principal Financial Officer)	February 19, 2020
/S/ DIRK W. WYCKOFF Dirk W. Wyckoff	Corporate Controller (Principal Accounting Officer)	February 19, 2020
/S/ RODGER A. LAWSON Rodger A. Lawson	Chairman of the Board	February 19, 2020
/S/ RICHARD J. CARBONE Richard J. Carbone	Director	February 19, 2020
/S/ ROBERT J. CHERSI Robert J. Chersi	Director	February 19, 2020
/S/ JAIME W. ELLERTSON Jaime W. Ellertson	Director	February 19, 2020
/S/ JAMES P. HEALY James P. Healy	Director	February 19, 2020
/S/ KEVIN T. KABAT Kevin T. Kabat	Director	February 19, 2020
/S/ JAMES LAM James Lam	Director	February 19, 2020
/S/ SHELLEY B. LEIBOWITZ Shelley B. Leibowitz	Director	February 19, 2020
/S/ REBECCA SAEGER Rebecca Saeger	Director	February 19, 2020
/S/ DONNA L. WEAVER Donna L. Weaver	Director	February 19, 2020
/S/ JOSHUA A. WEINREICH Joshua A. Weinreich	Director	February 19, 2020

Exhibit 4.2

DESCRIPTION OF COMMON STOCK

As used in this section, the terms “we,” “us” and “our” refer only to E*TRADE Financial Corporation and not to any existing or future subsidiaries of E*TRADE Financial Corporation.

The following description of our common stock is based upon our Amended and Restated Certificate of Incorporation, as amended (“Certificate of Incorporation”), our Amended and Restated Bylaws (“Bylaws”) and applicable provisions of law as currently in effect. We have summarized certain portions of the Certificate of Incorporation and Bylaws below. The summary is not complete. The Certificate of Incorporation and Bylaws are filed as exhibits to the Annual Report on Form 10-K for the year ended December 31, 2019. You should read the Certificate of Incorporation and Bylaws.

Certain provisions of the Delaware General Corporation Law (“DGCL”), the Certificate of Incorporation and the Bylaws summarized in the following paragraphs may have an anti-takeover effect. This may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interests, including those attempts that might result in a premium over the market price for its shares.

General

Our authorized common stock consists of 400,000,000 shares of common stock, $0.01 par value per share. As of February 14, 2020, we had outstanding 221,750,841 shares of our common stock.

Each holder of common stock is entitled to one vote per share held on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably the dividends, if any, as may be declared from time to time by our Board of Directors out of funds legally available for the payment of dividends. If we liquidate, dissolve or wind up our business, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and non-assessable, and any shares of common stock to be issued upon completion of any offering of our common stock under this prospectus will be fully paid and non-assessable.

Anti-Takeover Effects or Provisions of Our Certificate of Incorporation, Bylaws and Delaware Law

Certificate of Incorporation and Bylaws

Our Certificate of Incorporation and Bylaws contain provisions that could discourage potential takeover attempts and make more difficult attempts by stockholders to change management.

Our Certificate of Incorporation and Bylaws currently permit the Board of Directors to create new directorships and to elect new directors to serve for a term expiring at the next annual meeting of stockholders. In uncontested elections, each director must be elected to the Board of Directors by the majority of the votes cast with respect to the director’s election, and must submit his or her resignation to the Board of Directors if he or she does not obtain the required majority. The Board of Directors has the power to decide whether or not to accept the resignation, but must publicly disclose its decision and, if the resignation is rejected, its rationale within 90 days following certification of the stockholder vote. The Board of Directors (or its remaining members, even though less than a quorum) is also empowered to fill vacancies on the Board of Directors occurring for any reason, including a vacancy from an enlargement of the Board of Directors. Any director so elected according to the preceding sentence shall hold office for a term expiring at the next annual meeting of stockholders and until such director’s successor shall have been elected and qualified, or until such director’s earlier death, resignation or removal. Our Certificate of Incorporation does not provide for cumulative voting in the election of directors.

Our Certificate of Incorporation provides that stockholders may take action only at an annual meeting or special meeting and may not take action by written consent. Special meetings of our stockholders may only be called by our Chairman of the Board, our President, a majority of the number of directors constituting the full Board of Directors, or the holders of voting stock entitled to cast no less than 10% of the votes at such special meeting.

Under the terms of our Bylaws, stockholders who intend to present business or nominate persons for election to the Board of Directors at annual meetings of stockholders must provide notice to our corporate secretary no more than 120 days and no less than 90 days prior to the one year anniversary of the preceding year's annual meeting, as more fully set forth in our Bylaws.

Our Certificate of Incorporation provides that, in addition to the requirements of the Delaware General Corporation Law described below, any business combination with an interested stockholder, as these terms are defined in our Certificate of Incorporation and summarized below, requires the affirmative vote of at least two-thirds of the outstanding voting stock entitled to vote generally in the election of directors (such stock, the "Voting Shares"), unless two-thirds of the number of directors constituting the full Board of Directors approve the transaction.

A business combination is defined for purposes of this provision of our Certificate of Incorporation as:

- any merger or consolidation of us or any of our subsidiaries with an interested stockholder or with a corporation that is or would become an affiliate or associate, with these terms defined for purposes of this provision of our Certificate of Incorporation as they are defined in the Exchange Act, of an interested stockholder,

- any sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with, or proposed by or on behalf of, an interested stockholder or any affiliate or associate of an interested stockholder involving any assets of ours or our subsidiaries that constitute 5% or more of our total assets,

- the issuance or transfer by us or by any of our subsidiaries of any of our or their securities to, or proposed by or on behalf of, an interested stockholder or any affiliate or associate of an interested stockholder in exchange for cash, securities or other property that constitute 5% or more of our total assets,

- the issuance or transfer by us or by any of our subsidiaries of any of our or their securities to, or proposed by or on behalf of, an interested stockholder or any affiliate or associate of an interested stockholder in exchange for cash, securities or other property that constitute 5% or more of our total assets,

- the adoption of any plan or proposal for our liquidation or dissolution or any spin-off or split-up of any kind of us or any of our subsidiaries, proposed by or on behalf of an interested stockholder or an affiliate or associate of an interested stockholder, or

- any reclassification of securities, recapitalization of us, or merger or consolidation of us with any of our subsidiaries or any similar transaction that has the effect, directly or indirectly, of increasing the percentage of the outstanding shares of (i) any class of equity securities of us or any of our subsidiaries or (ii) any class of securities of us or any of our subsidiaries convertible into equity securities of us or any of our subsidiaries which are directly or indirectly owned by an interested stockholder or an affiliate or associate of an interested stockholder.

An interested stockholder is defined for purposes of this provision of our Certificate of Incorporation as an individual, corporation or other entity which, as of the record date for notice of the transaction or immediately prior to the transaction:

- is one of our associates or affiliates and at any time within the prior two-year period was the beneficial owner, directly or indirectly, of 10% or more of our outstanding Voting Shares,

- is, or was at any time within the prior two-year period, the beneficial owner, directly or indirectly, of 10% or more of our outstanding Voting Shares, or

- is, under circumstances described in more detail in our Certificate of Incorporation, an assignee of any of the persons described above.

A person is the beneficial owner of any Voting Shares which:

- that person or any of its affiliates or associates, beneficially owns, directly or indirectly,

- that person or any of its affiliates or associates has the right to acquire (whether such right is exercisable immediately or subject only to the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or the right to vote pursuant to any agreement, arrangement or understanding, or

- are beneficially owned, directly or indirectly, by any other person with which the person in question or any of its affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of our capital stock.

Under our Certificate of Incorporation, our Board of Directors has the authority to issue preferred stock in one or more series and to fix the powers, rights, designations, preferences, qualifications, limitations and restrictions applicable to the preferred stock. The issuance of preferred stock may have the effect of delaying, deferring or preventing potential takeover attempts without further action by the stockholders and may adversely affect the voting and other rights of the holders of our common stock.

These provisions of our Certificate of Incorporation and Bylaws as currently in effect may deter any potential unsolicited offers or other efforts to obtain control of us that are not approved by our Board of Directors. Such provisions could deprive our stockholders of opportunities to realize a premium on their common stock and could make removal of incumbent directors more difficult. At the same time, these provisions may have the effect of inducing any persons seeking to control us or seeking a business combination with us to negotiate terms acceptable to our Board of Directors. These provisions of our Certificate of Incorporation, other than our Board of Director's authorization to issue preferred stock, and Bylaws can be changed or amended, in the case of our Certificate of Incorporation, only by the affirmative vote of the holders of at least two-thirds of the outstanding voting stock entitled to vote generally in the election of directors and, in the case of our Bylaws, only by the affirmative vote of the holders of at least two-thirds of the outstanding voting stock entitled to vote generally in the election of directors or by our Board of Directors.

Delaware Law

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, Section 203 prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

- prior to such time the board of directors of the corporation approved either the business combination or the transaction that resulted in the interested stockholder attaining that status;

- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or

- on or after the date the business combination is approved by the board of directors of the corporation and authorized at a meeting of stockholders by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines "business combination" to include the following:

- any sale, lease, exchange, mortgage, transfer, pledge or other disposition of 10% or more of the assets of the corporation or any majority-owned subsidiary involving the interested stockholder;

- any merger or consolidation involving the corporation or any majority-owned subsidiary and the interested stockholder;

- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation or by any majority-owned subsidiary of any stock of the corporation or of such subsidiary to the interested stockholder;

- any transaction involving the corporation or any majority-owned subsidiary that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or

- the receipt by the interested stockholder of a disproportionate benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation or any majority-owned subsidiary.

In general, Section 203 defines “interested stockholder” to be any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by any of these entities or persons.

A Delaware corporation may opt out of this provision either with an express provision in its original Certificate of Incorporation or in an amendment to its Certificate of Incorporation or Bylaws approved by its stockholders. We have not opted out of this provision. Section 203 could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

Delaware as Sole and Exclusive Forum

Our Bylaws generally provide that the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for any stockholder (including a beneficial owner) to bring (a) any derivative action or proceeding brought on our behalf, (b) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (c) any action asserting a claim against us or our directors, officers, or other employees arising pursuant to any provision of the Delaware General Corporation Law or our Certificate of Incorporation or Bylaws or (d) any action asserting a claim against us or our directors, officers, or other employees governed by the internal affairs doctrine. As a result, any action brought by any of our stockholders with regard to any of these matters will generally need to be filed in the Court of Chancery of the State of Delaware and cannot be filed in any other jurisdiction. Although our Bylaws contain the choice of forum provision described above, it is possible that a court could rule that such a provision is inapplicable for a particular claim or action or that such provision is unenforceable.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, N.A.

Listing

Our common stock is listed for trading on the NASDAQ Global Select Market under the trading symbol “ETFC.”

Exhibit 10.18

Form of Amendment to Employment Agreement

This Amendment No. [ ] (this "Amendment") to that certain Employment Agreement by and between E*TRADE Financial Corporation (the "Company") and [ ] ("Executive"), dated as of [ ] (as may be amended, supplemented or modified from time to time, the "Employment Agreement"), is made and entered into by and between the Company and Executive, effective as of [[ ], 20[ ]]. Any capitalized term that is used but not otherwise defined in this Amendment shall have the meaning set forth in the Employment Agreement.

In consideration of the mutual covenants and agreements set forth herein and for good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound hereby, the parties hereto do hereby agree as follows:

1. Section 5(b)(i) of the Employment Agreement is hereby amended by replacing the reference to "two times" in the first line thereof with "two point ninety-nine (2.99) times".

2. Except as expressly set forth in this Amendment, the Employment Agreement shall remain in full force and effect in accordance with the terms and conditions thereof as in effect immediately prior to the date hereof.

3. This Amendment may be signed in counterparts, each of which shall be deemed an original and which together shall constitute one instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date set forth above.

E*TRADE FINANCIAL CORPORATION

____
By:

____
By:

FORM EMPLOYMENT AGREEMENT

This Employment Agreement (this "**Agreement**") is made and entered into by and between E*TRADE Financial Corporation (the "**Company**") and [ ] ("**Executive**") as of [, 20[ ]] (the "**Effective Date**").

1. *Position and Duties*: As of the Effective Date, Executive will (become/continue in the role) as [ ]. Executive agrees to devote all necessary time, energy and skill to Executive's duties at the Company.

The Company shall provide Executive with the same indemnification and D&O insurance protection provided from time to time to its officers and directors generally. Notwithstanding anything to the contrary in this Agreement, the rights of Executive to indemnification and the D&O insurance coverage with respect to all matters, events or transactions occurring or effected during the Executive's period of employment with the Company shall survive the termination of Executive's employment.

2. *Term of Agreement*: This Agreement shall remain in effect through December 31, 20[ ] (the "**Term**"), unless Executive's employment is terminated earlier by either party, subject to payments under Section 5 hereof to the extent applicable. The Term of this Agreement shall automatically renew for additional one-year periods (each one-year period following December 31, 20[ ], a "**Successive Term**") unless either party provides at least ninety days' prior written notice of termination of the Agreement; *provided* that in the event of a Change in Control during the Term (or any Successive Term) of this Agreement, this Agreement may not be terminated until 24 months following such Change in Control. Executive's employment with the Company shall be "at-will". Unless Executive terminates Executive's employment prior to the end of the Term or any Successive Term pursuant to the terms of this Agreement (for the avoidance of doubt, including to the extent an Involuntary Termination occurs following the Company's delivery of notice of its non-renewal of this Agreement pursuant to the preceding sentence), Executive's continued employment following the end of the Term or any Successive Term shall continue to be on an at-will basis and on such terms and conditions as the parties may agree.

3. *Compensation*: During the Term or any Successive Term, Executive shall be compensated by the Company for Executive's services as follows:

(a) *Base Salary*: Executive shall be paid an annualized base salary of $[ ] per year, subject to applicable withholding, in accordance with the Company's normal payroll procedures. Executive's base salary may be adjusted from time to time in the discretion of the

Company, subject to the provisions of Section 5 (incorporating the definitions set forth in Section 8) (this is referred to as the "**Base Salary**").

(b) *Performance Bonus*: Executive shall have the opportunity to earn an annual performance bonus. The performance bonus shall be earned upon the Executive and the Company meeting pre-established performance targets. Executive's current cash bonus target amount is $[ ]. The annual cash bonus, if earned, will be paid at the same time and in the same manner as payments to similarly situated executives of the Company and, except as expressly provided otherwise in this Agreement or in the applicable bonus plan document, shall not be earned unless Executive remains employed with the Company on the date of payment.

(c) *Benefits*: Executive shall have the right, on the same basis as other senior executives of the Company, to participate in and to receive benefits under any of the Company's employee benefit plans, as such plans may be modified from time to time.

4. *Equity Compensation*. Executive will be eligible to receive equity compensation awards from time to time if the Company's Board of Directors or its designee, in its sole discretion, determines that such an award(s) is appropriate.

5. *Effect of Termination of Employment During the Term or any Successive Term*:

(a) *Involuntary Termination outside a Change in Control Period*: If Executive's employment with the Company is terminated as a result of an Involuntary Termination outside of a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, Executive shall receive the following benefits, in addition to any compensation and benefits earned and unpaid under Section 3 through the date of Executive's termination of employment:

(i) a lump sum cash severance payment equal to one times the sum of (x) Executive's annual Base Salary and (y) Executive's annual cash performance bonus at the target payment level, which payment shall be paid within 30 days following the effectiveness of the Release, but in no event later than March 15 of the year following the year in which such termination of employment occurs;

(ii) a lump sum cash payment equal to the product of (x) the annual cash performance bonus that would have been paid to Executive had he remained employed through the date of payment in accordance with Section 3(b), based on the Company's actual performance for the year in which such termination occurs, and (y) a fraction, the numerator of which is the number of days elapsed in the calendar year in which such termination occurs and the denominator of which is 365, which payment shall be paid no later than March 15 of the year following the year in which such termination of employment occurs;

(iii) reimbursement for the cost of medical coverage at a level equivalent to that provided by the Company immediately prior to termination of employment, through the earlier of: (A) 12 months following Executive's termination of employment, or (B) the date that Executive becomes eligible for medical coverage from a subsequent employer; *provided* that (x) it shall be the obligation of Executive to inform the Company that Executive has become eligible for such medical coverage and (y) such reimbursement shall be made by the Company subsidizing or reimbursing COBRA premiums or, if Executive is no longer eligible for COBRA continuation coverage, by a lump sum payment based on the monthly premiums immediately prior to the expiration of COBRA coverage;

(iv) any options, restricted stock awards, restricted stock units and other equity awards at any particular time that are subject to vesting based solely on the Executive's continued employment ("Time-Based Equity Grants") and that are unvested on the date of termination of employment (collectively, the "Post- Termination Awards") shall not terminate, but will remain eligible to become vested (and, with respect to restricted stock units ("RSUs"), converted into shares) on their normal vesting dates as if Executive's employment had not terminated (the "Scheduled Vesting Date"); provided that all of the Post-Termination Awards will be canceled immediately if any of the following events (the "Post- Termination Events") occur at any time before the applicable Scheduled Vesting Date:

- Executive acts in any manner that the Compensation Committee of the Company Board of Directors determines is contrary or materially harmful to the interests of the Company or any of its subsidiaries;
- Executive fails to comply with the covenants in Section 6 hereof; *provided* that such covenants shall be of no further force or effect as of the twelve (12) month anniversary of the termination of Executive's employment;

- Executive encourages or solicits any employee, consultant, or contractor of the Company or its affiliates to leave or diminish their relationship with the Company for any reason or to accept employment, consultancy or a contracting relationship with any other company;
- Executive, directly or indirectly, encourages or solicits or attempts to encourage or solicit any customers, clients, partners or affiliates of the Company to terminate or diminish their relationship with the Company;
- Executive disparages the Company or its officers, directors, employees, products or services;
- Executive misuses or discloses the Company's confidential or Proprietary Information, breaches any proprietary information, confidentiality agreement or any other agreement between Executive and the Company (or any of its affiliates), or breaches the Release;
- Executive fails or refuses to reasonably cooperate with or assist the Company in a timely manner in connection with any investigation, regulatory matter, lawsuit or arbitration in which the Company is a subject, target or party and as to which Executive may have pertinent information; or
- the Company determines that Executive's employment could have been terminated for Cause (regardless of any "cure" periods) or that Executive's actions or omissions during employment caused a restatement of the Company's financial statements or constituted a violation of the Company's policies and standards.

Notwithstanding the foregoing, (i) the Post-Termination Awards shall become fully vested and, if applicable, settled upon the death of Executive or upon a Change in Control that constitutes a "a change in ownership", a "change in effective control", or a "change in the ownership of a substantial portion of the assets" of the Company under Section 409A and the Section 409A Regulations (a "***409A Change in Control***"), so long as such death or 409A Change in Control occurs following the applicable termination date and prior to the earlier of the final Scheduled Vesting Date or the occurrence of a Post- Termination Event, and (ii) to the extent required to avoid acceleration taxation or tax penalties under Section 409A, the settlement of the tranche of RSUs that would first vest following the termination date if the Executive remained in employment shall occur on the latest of (1) the applicable Scheduled Vesting Date, (2) the date the Release becomes effective and (3) the 60th day following the date of termination, if the 60 day period referenced in this Section 5(a) in respect of the Release begins in one calendar year and ends in another.

(b) *Involuntary Termination during a Change in Control Period*: If Executive's employment with the Company is terminated as a result of an Involuntary Termination during a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, Executive shall receive the following benefits, in addition to any compensation and benefits earned and unpaid under Section 3 through the date of Executive's termination of employment:

(i) a lump sum cash severance payment equal to two point ninety-nine (2.99) times the sum of (x) Executive's annual Base Salary as in effect immediately prior to such termination, or if higher, as in effect immediately prior to the first occurrence of an event constituting Change in Control Period Good Reason and (y) Executive's annual cash performance bonus at the target payment level in effect for the year in which such termination occurs, or, if higher, in effect for the year preceding the first occurrence of an event constituting Change in Control Period Good Reason, which payment shall be paid within 30 days following the effectiveness of the Release, but in no event later than March 15 of the year following the year in which such termination of employment occurs;

(ii) a lump sum cash payment equal to the product of (x) the annual cash performance bonus (which shall be no less than the annualized amount accrued by the Company) that would have been paid to Executive had he remained employed through the date of payment in accordance with Section 3(b), based on the Company's actual performance for the year in which such termination occurs, and (y) a fraction, the numerator of which is the number of days elapsed in the calendar year in which such termination occurs and the denominator of which is 365, which payment shall be paid no later than March 15 of the year following the year in which such termination of employment occurs;

(iii) each Time-Based Equity Grant shall become fully vested (and, with respect to RSUs, converted into shares) in full as of the date on which the Release becomes effective; provided that, to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, (x) if such termination occurs during a Change in Control Period but prior to a 409A Change in Control, then to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, any RSUs will be settled on the same dates on which such settlement would have occurred if the Executive remained employed and (y) if the 60 day period referenced in this Section 5(b) in respect of the Release begins in one calendar year and ends in another, then the RSUs will be settled in the second calendar year;

(iv) reimbursement for the cost of medical coverage at a level equivalent to that provided by the Company immediately prior to termination of employment, through the earlier of: (A) 24 months following Executive's termination of employment, or (B) the date that Executive becomes eligible for medical coverage from a subsequent employer; *provided* that (x) it shall be the obligation of Executive to inform the Company that Executive has become eligible for such medical coverage and (y) such reimbursement shall be made by the Company subsidizing or reimbursing COBRA premiums or, if Executive is no longer eligible for COBRA continuation coverage, by a lump sum payment based on the monthly premiums immediately prior to the expiration of COBRA coverage.

(c) *Death or Permanent Disability*.

(i) In the event of Executive's death or termination as a result of Permanent Disability, all Time-Based Equity Grants held by Executive, to the

extent then outstanding, shall become fully vested (and, with respect to RSUs, converted into shares) as of the date of such termination.

(ii) In the event the Executive's employment terminates as a result of Executive's death or Permanent Disability, Executive (or Executive's estate, as applicable) shall be entitled to a pro rata share of the Executive's cash or other performance bonus to the date of death or Permanent Disability, based on target performance.

(d) *Retirement and Retirement Eligibility*.

(i) *Retirement outside a Change in Control Period*: If Executive's employment with the Company is terminated as a result of Executive's Retirement outside of a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date of termination, any Post-Termination Awards shall not terminate, but will remain eligible to become vested (and, with respect to RSUs, converted into shares) on the applicable Scheduled Vesting

Dates; *provided* that (1) to the extent required to avoid acceleration taxation or tax penalties under Section 409A, the settlement of the tranche of RSUs that would first vest following the termination date if the Executive remained in employment shall occur on the latest of (x) the applicable Scheduled Vesting Date, (y) the date the Release becomes effective and (z) the 60th day following the date of termination, if the 60 day period referenced in this Section in respect of the Release begins in one calendar year and ends in another, (2) all of the Post-Termination Awards will be canceled immediately if any of the Post-Termination Events occur at any time before the applicable Scheduled Vesting Date and (3) notwithstanding anything set forth in this paragraph to the contrary, the Post-Termination Awards shall become fully vested and settled upon the death of the Participant or upon a 409A Change in Control.

(ii) *Retirement-Eligibility during a Change in Control Period*: If Executive is or becomes Retirement-Eligible during a Change in Control Period, then subject to Executive signing the Release and any revocation period with respect thereto expiring without revocation within 60 days following the date thereof, each Time-Based Equity Grant shall become

fully vested (and, with respect to RSUs, converted into shares) in full as of the date on which the Release becomes effective; provided that, to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, (x) if such Retirement-Eligibility occurs during a Change in Control Period but prior to a 409A Change in Control, then to the extent necessary to avoid accelerated taxation or tax penalties under Section 409A, any RSUs will be settled on the same dates on which such settlement would have occurred if the Executive remained employed and

(y) if the 60 day period referenced in this Section in respect of the Release begins in one calendar year and ends in another, then the RSUs will be settled in the second calendar year.

(e) *Other Termination*: In the event of a termination of Executive's employment not specified under Section 5(a), Section 5(b), Section 5(c) or Section 5(d) above, including, without limitation, a termination for Cause, Executive shall not be entitled to any compensation or benefits from the Company, other than those earned and unpaid under Section 3 through the date of Executive's termination and, in the case of each stock option, restricted stock award or other Company stock-based award granted to Executive, the extent to which such awards are vested through the date of Executive's termination or as otherwise provided in the applicable award agreement.

6. *Agreement Not to Compete*:

(a) During Executive's employment with the Company and for twelve (12) months thereafter, Executive shall not hold any position, or engage in any activities as an employee, agent, contractor, or otherwise, with

(i) [ ] ("**Competitors**"), or

(ii) any of Competitors' affiliates, subsidiaries, successors or assigns; *provided* that the Company shall have the right to revise the list of Competitors on one occasion during the Term or any Successive Term upon written notice to Executive, but in no event shall such revision take place after Executive has given the Company notice that Executive's employment with the Company will terminate, and only so long as the list of Competitors is comprised of no more than four (4) entities.

(b) Executive acknowledges that the restrictions contained in this Section 6, in view of the nature of the business in which the Company is engaged, are reasonable and necessary in order to protect the legitimate interests of the Company, and that any violation thereof would result in irreparable injuries to the Company, and the Executive therefore acknowledges that, in the event of Executive's violation of any of these restrictions, the Company shall be entitled to obtain from any court of competent jurisdiction preliminary and permanent injunctive relief (without the posting of any bond) as well as damages and an equitable accounting of all earnings, profits and other benefits arising from such a violation, which rights shall be cumulative and in addition to any other rights or remedies to which the Company may be entitled.

(c) The invalidity or unenforceability of any provision or provisions of this Section 6 shall not affect the validity or enforceability of any other provision or provisions of this Section 6, which shall remain in full force and effect. If any provision of this Section 6 is held to be invalid, void or unenforceable in any jurisdiction, any court or arbitrator so holding shall substitute a valid, enforceable provision that preserves, to the maximum lawful extent, the terms and intent of this Agreement.

7. *Certain Tax Considerations*:

(a) *Section 409A*:

(i) The payments under Section 5 are intended to qualify for the short-term deferral exception to Section 409A of the Code ("**Section 409A**") described in the regulations promulgated under Section 409A (the "**Section 409A Regulations**") to the maximum extent possible, and to the extent they do not so qualify, they are intended to qualify for the involuntary separation pay plan exception to Section 409A described in the Section 409A Regulations to the maximum extent possible. To the extent Section 409A is applicable to this Agreement, this Agreement is intended to comply with Section 409A, and shall be interpreted and construed and shall be performed by the parties consistent with such intent, and the Company shall have no right, without Executive's consent, to accelerate any payment or the provision of any benefits under this Agreement if such payment or provision of such benefits would, as a result, be subject to tax under Section 409A. To the extent any payment hereunder is determined to be deferred compensation subject to Section 409A and the timing of such payment is conditioned on the Release becoming effective, then to the extent required to avoid penalty under Section 409A, any such payment hereunder that could be paid in either of two taxable years shall be made in the second taxable year.

(ii) Without limiting the generality of the foregoing, if Executive is a "specified employee" within the meaning of Section 409A, as determined under the Company's established methodology for determining specified employees, on the date of termination of employment, then to the extent required in order to comply with Section 409A, amounts that would otherwise be payable under this Agreement during the six-month period immediately following such termination date shall instead be paid (together with interest at the then current six-month LIBOR rate) on the first business day after the first to occur of (i) the date that is six months following Executive's termination of employment and (ii) the date of Executive's death.

(iii) Except as expressly provided otherwise herein, no reimbursement payable to Executive pursuant to any provisions of this Agreement or pursuant to any plan or arrangement of the Company covered by this Agreement shall be paid later than the last day of the calendar year following the calendar year in which the related expense was incurred, and no such reimbursement during any calendar year shall affect the amounts eligible for reimbursement in any other calendar year, except, in each case, to the extent that the right to reimbursement does not provide for a "deferral of compensation" within the meaning of Section 409A of the Code.

(iv) For purposes of this Agreement, the terms "terminate," "terminated" and "termination" mean a termination of Executive's employment that constitutes a "separation from service" within the meaning of the default rules of Section 409A of the Code; *provided*, however, that, in the event of the Executive's Permanent Disability, "separation from service" means the date that is six months after the first day of disability.

(b) *280G Limitation*:

(i) If the payments and benefits provided to Executive under this Agreement, either alone or together with other payments and benefits provided to Executive from the Company (including, without limitation, any accelerated vesting thereof) (the "**Total Payments**"), would constitute a "parachute payment"

(as defined in Section 280G of the Code) and be subject to the excise tax (the "**Excise Tax**") imposed under Section 4999 of the Code, the Total Payments shall be reduced if and to the extent that a reduction in the Total Payments would result in Executive retaining a larger amount than if Executive received all of the Total

Payments, in each case measured on an after-tax basis (taking into account federal, state and local income taxes and, if applicable, the Excise Tax). The determination of any reduction in the Total Payments shall be made at the Company's cost by the Company's independent public accountants or another firm designated by the Company and reasonably approved by Executive, and may be determined using reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company shall pay Executive's costs incurred for tax, accounting and other professional advice in the event of a challenge of any such reasonable, good faith interpretations by the Internal Revenue Service.

(ii) In the case of a reduction in the Total Payments pursuant to Section 7(b)(i), the Total Payments will be reduced in the following order: (a) payments that are payable in cash that are valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a) will be reduced (if necessary, to zero), with amounts that are payable last reduced first; (b) payments and benefits due in respect of any equity valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a), with the highest values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24) will next be reduced; (c) payments that are payable in cash that are valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24, with amounts that are payable last reduced first, will next be reduced; (d) payments and benefits due in respect of any equity valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24, with the highest values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24) will next be reduced; and (e) all other non-cash benefits not otherwise described in clauses
(b) or (d) will be next reduced pro-rata.

(iii) In the event that the Executive receives any of the Total Payments prior to a Change in Control, then the calculation of the amount of Total Payments that shall be reduced shall be made as provided in Section 7(b)(ii) however, such reductions will be first offset against any Total Payments not yet made at the time of the Change in Control. If Executive does not have sufficient Total Payments remaining unpaid at the time of the Change in Control which may be reduced as required by Section 7(b)(i), then the Executive agrees to repay to

the Company in cash the amount by which his Total Payments should have been reduced under Section 7(b)(i).

8. *Certain Definitions*: For the purposes of this Agreement, the following capitalized terms shall have the meanings set forth below. For the avoidance of doubt, to the extent any of the following defined terms conflict with any corresponding defined term in any other agreement applicable to Executive, the following defined terms shall prevail:

(a) "**Cause**" shall mean any of the following:

(i) Executive's theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit, or falsification of any material employment or Company records;

(ii) Executive's conviction (including any plea of guilty or nolo contendere) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs Executive's ability to perform Executive's duties with the Company;

(iii) Executive's intentional and repeated failure to perform stated duties after notice from the Company of, and a reasonable opportunity to cure, such failure;

(iv) Executive's improper disclosure of the Company's confidential or Proprietary Information;

(v) any material breach by Executive of the Company's Code of Professional Conduct, which breach shall be deemed "material" if it results from an intentional act by Executive and has a material detrimental effect on the Company's reputation or business; or

(vi) any material breach by Executive of this Agreement or of any agreement regarding proprietary information and inventions, which breach, if curable, is not cured within thirty (30) days following written notice of such breach from the Company.

In the event that the Company terminates Executive's employment for Cause, the Company shall provide written notice to Executive of that fact prior to, or concurrently

with, the termination of employment. Failure to provide written notice that the Company contends that the termination is for Cause shall constitute a waiver of any contention that the termination was for Cause, and the termination shall be irrebuttably presumed to be an involuntary termination without Cause. However, if, within thirty (30) days following the termination, the Company first discovers facts that would have established "Cause" for termination, and those facts were not known by the Company at the time of the termination, then the Company shall provide Executive with written notice, including the facts establishing that the purported "Cause" was not known at the time of the termination, and the Company will pay no severance.

(b) "**Change in Control**" shall have the meaning set forth in the Company's 2015 Omnibus Incentive Plan, as in effect from time-to-time, or any successor thereto

(c) "**Change in Control Period**" shall mean the period commencing on the earlier of: (i) 60 days prior to the date of consummation of the Change in Control; (ii) the date of the first public announcement of a definitive agreement that would result in a Change in Control (even though still subject to approval by the Company's stockholders and other conditions and contingencies); or (iii) the date of the public announcement of a tender offer that is not approved by the Incumbent Directors and ending on the two year anniversary date of the consummation of the Change in Control.

(d) “**Change in Control Period Good Reason**” shall mean any of the following conditions:

(i) a material decrease in Executive’s Base Salary other than as part of any across-the-board reduction applying to all senior executives of an acquiror;

(ii) a material, adverse change in Executive’s title, authority, responsibilities or duties, as measured against Executive’s title, authority, responsibilities or duties immediately prior to such change; *provided* that for purposes of this subsection (ii), in addition to any other material, adverse change in title, authority, responsibilities or duties, a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Executive is required to report shall constitute an event of “Change in Control Period Good Reason”;

(iii) the relocation of Executive’s principal workplace to a location greater than fifty (50) miles from the prior workplace;

(iv) any material breach by the Company of any provision of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach from Executive, or the Company’s delivery of written notice of non-renewal of this Agreement (other than as a result of a termination for Cause) pursuant to Section 2 hereof;

(v) any failure of the Company to obtain the assumption (by operation of law or by contract) of this Agreement by any successor or assign of the Company; or

(vi) any purported termination of Executive’s employment for “material breach of contract” which is purportedly effected without providing the “cure” period, if applicable, described in Section 8(a)(vi), above;

provided that Executive shall have provided written notice to the Company of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition.

(e) “**Code**” means the Internal Revenue Code of 1986, as amended.

(f) "**Incumbent Directors**" shall mean members of the Board who either (i) are members of the Board as of the date hereof, or (ii) are elected, or nominated for election, to the Board with the affirmative vote of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of members of the Board).

(g) "**Involuntary Termination**" shall mean the occurrence of one of the following:

(i) termination by the Company of Executive's employment with the Company for any reason other than Cause at any time;

(ii) Executive's resignation from employment for Non Change in Control Period Good Reason within six months following the occurrence of the event constituting Non Change in Control Period Good Reason; or

(iii) during a Change in Control Period, Executive's resignation from employment for Change in Control Period Good Reason within six months

following the occurrence of the event constituting Change in Control Period Good Reason.

(h) "**Non Change in Control Period Good Reason**" shall mean any of the following conditions first occurring outside of a Change in Control Period and occurring without Executive's written consent:

(i) a decrease in Executive's Base Salary of greater than 20% during the Term or any Successive Term, in the aggregate;

(ii) a material, adverse change in Executive's title, authority, responsibilities or duties, as measured against Executive's title, authority, responsibilities or duties immediately prior to such change; *provided* that for purposes of this subsection, a material, adverse change shall not occur merely by a change in reporting relationship; or

(iii) the relocation of Executive’s principal workplace to a location greater than fifty (50) miles from the prior workplace;

(iv) any material breach by the Company of any provision of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach from Executive, or the Company’s delivery of written notice of non-renewal of this Agreement (other than as a result of a termination for Cause) pursuant to Section 2 hereof;

provided that Executive shall have provided written notice to the Company of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition.

(i) “**Permanent Disability**” shall mean Executive’s permanent and total disability within the meaning of Section 22(e)(3) of the Code.

(j) “**Proprietary Information**” is information that was developed, created, or discovered by or on behalf of the Company, or which became or will become known by, or was or is conveyed to the Company, which has commercial value in the Company’s business. “Proprietary Information” includes, but is not limited to, software programs and subroutines, source and object code, algorithms, trade secrets, designs, technology, know-how, processes, data, ideas, techniques, inventions (whether patentable or not), works of authorship, formulas, business and product development plans, vendor lists, customer lists, terms of compensation and performance levels of Company employees, and other information concerning the Company’s actual or anticipated business, research or development, or which is received in confidence by or for the Company from another person or entity.

(k) “**Release**” shall mean a general release of claims substantially in the form attached as Exhibit A hereto.

(l) “**Retirement**” means termination of the Executive’s employment at or following the Executive becoming Retirement-Eligible.

(m) "**Retirement-Eligible**" means the Executive is at least age 60 <u>and</u> has at least 5 years of service with the Company and its affiliates.

9. *Insider Trading Policy*: Executive agrees to abide by the terms and conditions of the Company's Insider Trading Policy, as it may be amended from time to time.

10. *Dispute Resolution*: In the event of any dispute or claim relating to or arising out of this Agreement (including, but not limited to, any claims of breach of contract, wrongful termination or age, sex, race or other discrimination), Executive and the Company agree that all such disputes shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in Arlington, Virginia in accordance with its National Employment Dispute Resolution rules. Executive acknowledges that by accepting this arbitration provision Executive is waiving any right to a jury trial in the event of such dispute. In connection with any such arbitration, the Company shall bear all costs not otherwise borne by a plaintiff in a court proceeding.

11. *Attorneys' Fees*: The prevailing party shall be entitled to recover from the losing party its attorneys' fees and costs incurred in any action brought to enforce any right arising out of this Agreement. The Company shall pay Executive's reasonable legal fees in connection with the review and negotiation of this Agreement and any ancillary services related thereto.

12.*General*.

(a) *Successors and Assigns*: The provisions of this Agreement shall inure to the benefit of and be binding upon the Company, Executive and each and all of their respective heirs, legal representatives, successors and assigns. The duties, responsibilities and obligations of Executive under this Agreement shall be personal and not assignable or delegable by Executive in any manner whatsoever to any person, corporation,

partnership, firm, company, joint venture or other entity. Executive may not assign, transfer, convey, mortgage, pledge or in any other manner encumber the compensation or other benefits to be received by Executive or any rights which Executive may have pursuant to the terms and provisions of this Agreement, except to the extent permitted by the applicable plan for financial or estate planning purposes.

(b) *Amendments; Waiver*: No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company. No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) *Notices*: Any notices to be given pursuant to this Agreement by either party to the other party may be effected by personal delivery or by overnight delivery with receipt requested.

Mailed notices shall be addressed to the parties at the addresses stated below, but each party may change its or Executive's address by written notice to the other in accordance with this Paragraph:

Mailed notices to Executive shall be addressed to the last known address provided by Executive to the Company,

Mailed notices to the Company shall be addressed as follows: E*TRADE Financial Corporation
671 North Glebe Road Arlington, VA 22203
Attention: Chief Human Resources Officer

(d) *Entire Agreement*: This Agreement constitutes the entire employment agreement between Executive and the Company regarding the terms and conditions of Executive's employment and any amounts due on termination of such employment, with the exception of (i) the Agreement Regarding Employment and Proprietary Information and Inventions between the Company and Executive, (ii) any stock option, restricted stock, restricted stock unit award or other Company stock-based award agreements between Executive and the Company to the extent not modified by this Agreement, (iii) any indemnification agreement referenced in Section 1 and (iv) the Company's employee benefit plans referenced in Section 3(c). This Agreement (including the documents

described in (i) through (iv) herein) supersedes all prior negotiations, representations or agreements between Executive and the Company, whether written or oral, concerning Executive's employment by or service to the Company.

(e) *Withholding Taxes*: All payments made under this Agreement shall be subject to reduction to reflect taxes required to be withheld by law.

(f) *Counterparts*: This Agreement may be executed by the Company and Executive in counterparts, each of which shall be deemed an original and which together shall constitute one instrument.

(g) *Headings*: Each and all of the headings contained in this Agreement are for reference purposes only and shall not in any manner whatsoever affect the construction or interpretation of this Agreement or be deemed a part of this Agreement for any purpose whatsoever.

(h) *Savings Provision*: To the extent that any provision of this Agreement or any paragraph, term, provision, sentence, phrase, clause or word of this Agreement shall be found to be illegal or unenforceable for any reason, such paragraph, term, provision, sentence, phrase, clause or word shall be modified or deleted in such a manner as to make this Agreement, as so modified, legal and enforceable under applicable laws. The remainder of this Agreement shall continue in full force and effect.

(i) *Construction*: The language of this Agreement and of each and every paragraph, term and provision of this Agreement shall, in all cases, for any and all purposes, and in any and all circumstances whatsoever be construed as a whole, according to its fair meaning, not strictly for or against Executive or the Company, and with no regard whatsoever to the identity or status of any person or persons who drafted all or any portion of this Agreement.

(j) *Further Assurances*: From time to time, at the Company's request and without further consideration, Executive shall execute and deliver such additional documents and take all such further action as reasonably requested by the Company to be necessary or desirable to make effective, in the most expeditious manner possible, the terms of this Agreement and to provide adequate assurance of Executive's due performance hereunder.

(k) *Governing Law*: Executive and the Company agree that this Agreement shall be interpreted in accordance with and governed by the laws of the Commonwealth of Virginia.

(l) *Permitted Disclosures*: Pursuant to 18 U.S.C. § 1833(b), Executive will not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret of the Company that (a) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to Executive's attorney and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. If Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the trade secret to Executive's attorney and use the trade secret information in the court proceeding, if Executive (I) files any document containing the trade secret under seal, and (II) does not disclose the trade secret, except pursuant to court order. Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by such section. Further, nothing in any agreement Executive has with the Company shall prohibit or restrict Executive from making any disclosure of information or documents to any governmental agency or legislative body, or any self-regulatory organization, in each case, without advance notice to the Company.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year written below.

Dated: __

E*TRADE Financial Corporation

____
By:

Dated: __

____
By:

<u>Exhibit A</u>

Form of Release

Exhibit 21.1

E*TRADE Financial Corporation

Subsidiaries of Registrant

Company	Jurisdiction Name
Distribution Financial Services RV/Marine Trust 2001-1	New York
E*TRADE Bank	Federal Charter
E*TRADE Capital Management, LLC	Delaware
E*TRADE Community Development Corporation	Delaware
E*TRADE Financial Corporate Services, Inc.	Delaware
E*TRADE Futures LLC	Delaware
E*TRADE Information Services, LLC	Delaware
E*TRADE Next, LLC	Delaware
E*TRADE RV and Marine Trust 2004-1	New York
E*TRADE Savings Bank	Federal Charter
E*TRADE Securities LLC	Delaware
ET Canada Holdings Inc.	Canada
ETB Holdings, Inc.	Delaware
ETCF Asset Funding Corporation	Nevada
ETCM Holdings, LLC	Delaware
ETRADE Securities (Hong Kong) Limited	Hong Kong
TIR (Holdings) Limited (Cayman)	Cayman

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of E*TRADE Financial Corporation of our reports dated February 19, 2020, relating to the consolidated financial statements of E*TRADE Financial Corporation and subsidiaries (the “Company”) and the effectiveness of the Company's internal control over financial reporting appearing in this Annual Report on Form 10-K of E*TRADE Financial Corporation for the year ended December 31, 2019.

Filed on Form S-3:

Registration Statement No.:	333-223133

Filed on Form S-8:

Registration Statement Nos.:	333-225997, 333-12503, 333-52631, 333-62333, 333-72149, 333-35068, 333-35074, 333-37892, 333-44608, 333-44610, 333-54904, 333-56002, 333-113558, 333-91534, 333-125351, 333-81702, 333-159653, 333-168939, 333-204495

/s/ Deloitte & Touche LLP

McLean, Virginia
February 19, 2020

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael A. Pizzi, certify that:

1. I have reviewed this Annual Report on Form 10-K of E*TRADE Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 19, 2020

E*TRADE Financial Corporation
(Registrant)

By /S/ MICHAEL A. PIZZI

Michael A. Pizzi
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Chad E. Turner, certify that:

1. I have reviewed this Annual Report on Form 10-K of E*TRADE Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 19, 2020

E*TRADE Financial Corporation
(Registrant)

By /S/ CHAD E. TURNER

Chad E. Turner
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with this Annual Report on Form 10-K of E*TRADE Financial Corporation (the “Annual Report”) for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Michael A. Pizzi, the Chief Executive Officer and Chad E. Turner, the Chief Financial Officer of E*TRADE Financial Corporation, each certifies that, to the best of their knowledge:

1. the Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of E*TRADE Financial Corporation.

Dated: February 19, 2020

/S/ MICHAEL A. PIZZI

Michael A. Pizzi
Chief Executive Officer
(Principal Executive Officer)

/S/ CHAD E. TURNER

Chad E. Turner
Chief Financial Officer
(Principal Financial Officer)