

Since 1982, we have challenged the financial services status quo. With a focus on innovation, we provide financial solutions and services to millions of retail and institutional customers worldwide. Through discipline we deliver long-term value to our customers and our shareholders.

# **DISCIPLINE** **Creates Value.** **Our Model Proves It.**

[SHAREHOLDER LETTER](#)[THE E\\*TRADE DIFFERENCE](#)[FINANCIAL HIGHLIGHTS](#)[CORPORATE INFORMATION](#)[COMPANY PROFILE](#)



**Mitchell H. Caplan**  
Chief Executive Officer  
and Director

Dear Fellow Shareholders,

At E\*TRADE FINANCIAL, we are cautious of companies that tout vision in the absence of execution. Our management philosophy concludes that success is a product of focus, discipline, and execution. We prove it with continued multidimensional growth.

Growth is the measurement of our success, and in 2006 we achieved significant growth and shareholder value by all key metrics. In fact, our results eclipsed the performance of the overall financial services industry. Last year was a record-setting year for E\*TRADE — we set records for the fourth consecutive year, earning record total net revenue of \$2.4 billion with record net income of \$629 million. We delivered record full-year earnings of \$1.44 per share, including acquisition-related integration expenses. We achieved record growth in total retail client assets of \$195 billion, with organic growth in customer deposits representing \$5.4 billion — exiting the year with a 45 percent operating margin.

While our results are impressive in their own right, they tell a larger, more dynamic story. The financial services market is undergoing fundamental change, characterized by extraordinary opportunities that can only be realized by companies whose perspectives truly differ from those of traditional firms. E\*TRADE FINANCIAL is poised to capitalize on these changes because our business model gives us the flexibility to take advantage of new opportunities as they emerge in dynamic markets. With a disciplined approach to cost reduction and efficient execution, we plan to turn new global financial opportunities into good business and solid value for our shareholders. This approach drove our success in 2006, and we believe it will continue to serve us well.

In 2006, we put the finishing touches on our integration strategy by maximizing existing platforms and resources to grow the business efficiently and broadly while minimizing capital outlay. Every milestone achieved in 2006 is a testament to our ability to maximize existing synergies. The power of E\*TRADE lies in integrating operational capabilities with products and services to deliver an extraordinary customer experience.

The acquisitions of *Harrisdirect* and *BrownCo* further completed our transformation into a diversified financial services company, and we once again demonstrated our ability to quickly integrate employees and processes by completing these tasks and welcoming our new customers ahead of an extremely aggressive schedule. We retained a higher percentage of customers than expected, and those customers brought additional assets to E\*TRADE. We also acquired Retirement Advisors of America, a registered investment advisory firm that manages over \$1 billion in assets and nearly 1,300 client relationships. This acquisition will help us build a nationwide network of wealth managers, which will efficiently deliver localized advice to clients nationwide.

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Our \$40 million investment in customer service in 2006 resulted in an average 69 percent improvement in retail customer satisfaction, as well as recognition as a finalist in *The American Business Awards* for *Best Customer Service Organization*. Whether customers prefer to invest on their own, seek advice when necessary, or look to E\*TRADE for full portfolio management, we are proud to say that they can find answers and assistance faster and more effectively than ever before — at [www.etrade.com](http://www.etrade.com), over the phone, through email, or by visiting an E\*TRADE Financial Center.

An essential element of extraordinary customer satisfaction is a customer's experience with E\*TRADE services and products. Last year, we delivered major enhancements to our flagship product, E\*TRADE Complete<sup>™</sup>. We introduced our E\*TRADE Complete Protection Guarantee — the industry's first solution that provides retail customers with complete fraud coverage, as well as bill payment and privacy protection. We delivered new risk analysis and money management tools for optimizing customers' holdings, cash, and credit through their E\*TRADE Complete Investment Accounts. Retail trading customers gained new automated trading tools. Enhanced conditional order capabilities make it easier for them to pre-program strategies and trade with discipline. An innovative retail futures offering now provides access to more than 200 products through the top five worldwide futures exchanges, with low commissions and assistance from a dedicated derivatives service team.

Futures were not our only worldwide interest in 2006. E\*TRADE operations grew globally as well, expanding the E\*TRADE web site and trading features to France, Italy, and United Arab Emirates. In 2006, we began working with IL&FS Investsmart Limited, exploring opportunities for providing India's investors with access to international markets and paving the way for our global customers to gain new investment opportunities in India. Our new office in Shanghai is helping us deepen our strategic business relationships in China. We continue to identify opportunities around the world where we can serve growing streams of new customers.

As we move into 2007, we will continue executing our growth strategy by focusing on winning and retaining key target customer segments. We expect to take advantage of the unique opportunity that we have created on the global front, as well as to tap new areas of opportunity, such as our corporate client base. Approximately 2,100 E\*TRADE corporate clients represent close to \$50 billion in un-invested assets — most commonly in stock options. Last year we retained 23 percent of clients' exercise proceeds, up from 17 percent in 2005, and we intend to grow this business.

Two high-value corporate changes also occurred last year. We are pleased to say that in 2006 E\*TRADE joined the NASDAQ<sup>®</sup> Global Select Market under the symbol ETFC. We believe that NASDAQ is a true in-

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novator whose value proposition parallels our own. We are proud to be listed with NASDAQ and look forward to a long, mutually rewarding association. Also last year, the Federal Reserve Board approved E\*TRADE Clearing to operate as a subsidiary of E\*TRADE Bank, enabling us to complete the integration of our balance sheet. This new structure provides us with more efficient capital allocation and lower cost of funding.

It's wonderful to be recognized by the industry for excellent performance, and in 2006 E\*TRADE's senior debt rating was upgraded by the Dominion Bond Rating Service, while Moody's upgraded E\*TRADE's Bank and Corporate debt rating. E\*TRADE also received numerous financial and technology industry awards in 2006. We're pleased by the accolades and view them as validation of our disciplined approach to capitalizing on opportunities.

When we began, we committed ourselves to product and service innovation, disciplined management, and maintaining the highest levels of integrity with shareholders. We believe that these commitments are the core components of enduring value. I feel confident that this formula for value continues to yield the growth our shareholders expect. We thank you for your support and are honored to have the opportunity to continue to earn it.



Mitchell H. Caplan  
Chief Executive Officer and Director

## THE E\*TRADE DIFFERENCE: An Extraordinary Year It Was

In 2006, teamwork, technology, and unwavering commitment contributed to creating a trading, investing, and banking environment with the customer at the center. E\*TRADE focused on four key strategies: integrating acquisitions; investing in customer service; growing our customer base; and expanding our international channels.

## INTEGRATING ACQUISITIONS: When Growing Bigger Means Growing Better

Growth can only be considered a measure of success when it contributes to a superior competitive advantage. The power of E\*TRADE lies in integrating operational capabilities with products and services to deliver an extraordinary customer experience. In 2006, we integrated our acquisitions of Harrisdirect and BrownCo, bringing world-class customer service skills and more than 600,000 high-value customer accounts to E\*TRADE. Thanks to the scalability of E\*TRADE's platform, these acquisitions were completed ahead of schedule, enabling us to benefit from the synergies sooner than anticipated.

Harrisdirect brought approximately 430,000 active high-value customer accounts, with an average account balance of over \$70,000, as well as \$32.3 billion in assets, \$5 billion in customer cash and 15,000 daily average revenue trades (DARTs). In addition, the Company's superb customer service organization played a significant role in helping us improve our customer service performance during 2006.

As a premier brokerage asset, BrownCo contributed approximately 200,000 customers with the second-highest average account balances in the industry — more than \$145,000 per account — as well as \$29 billion in assets, \$3.4 billion in customer cash and approximately 28,000 DARTs.

One platform. One application. One common set of services. There is nothing else in the market like E\*TRADE's approach to integrating new business through technology. We welcome the employees and customers of Harrisdirect and BrownCo and thank them for their loyalty.

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#### **IMPROVING SERVICE: That Was \$40 Million Well Spent**

Discipline often requires investing in a critical area sooner, rather than later, to attain short- and long-term payoffs. In 2006, we invested \$40 million in customer service initiatives and operational infrastructure with the goal of delivering an extraordinary customer experience for every E\*TRADE customer.

We instituted “click, call, visit” to help guide customers to the right service or product, at the right time. We upgraded technology to further improve telephone and online self-service features and to deliver enhancements such as expanded free research offerings from Reuters and S&P and free access to institutional-quality equity research on over 850 leading U.S. companies within 50 industries. We delivered an enhanced stock screener that allows customers to identify and search specific equities using 47 criteria, such as price and volume, fundamentals, and analyst opinions. We improved the Industry and Sector analysis section, enabling customers to easily identify and compare attractive industry sectors. With our new wireless account and trading platform, customers can use mobile devices to access E\*TRADE services.

A focus on improving call center response resulted in significant efficiency gains. We hired and trained 417 additional call center employees and enabled E\*TRADE retail branches to back up the call center teams during peak times.

At the close of 2006, we brought the number of E\*TRADE retail branches to 24, strengthening our brand visibility while allowing more customers to easily do business with us. We also expanded our network of financial advisors and specialized wealth managers to provide more personalized service to our high-value customers and corporate clients.

Customers noticed — we improved customer satisfaction by 69 percent, and a record percentage of clients surveyed expressed their willingness to recommend E\*TRADE FINANCIAL to friends and associates.

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## Mass Affluent vs. Main Street

Mass affluent customer accounts:

- 81 million mass affluent households worldwide
- Generate 10 times the revenue of main street accounts
- Have 19 times more assets per account than main street accounts
- Trade 12 times more often
- Average 83 percent higher margin per account

Mass affluent and active trader customers drive 75 percent of E\*TRADE revenues

## GROWING CUSTOMERS: Moving Up Main Street

The world is growing richer. Globally, there is a large population of individuals in their prime earning years. This population is also experiencing unprecedented intergenerational wealth transfer. These combined factors have created a new investing segment — the mass affluent. There are 81 million mass affluent households in the world, with approximately \$12.2 trillion of assets to invest — and this population is growing twice as fast as the overall population. Research shows that when mass affluent customers move assets, 70 percent also switch to institutions that provide their products and services in a different channel — our channel, online financial services. These customers show us the future landscape of financial services, and these customers are E\*TRADE's target customers. In 2006, we grew this segment by 32 percent.

We expect to continue growing this customer base in three ways. First, we plan to capitalize on the unique opportunities that we have created internationally by extending our brand further into continental Europe and Asia, as well as to emerging markets. In addition, we expect to broaden our global offering by integrating banking functionality with our trading capabilities in all markets.

Second, we plan to deepen our relationships with a significant percentage of our 2.4 million main street customers. Building upon the 2005 launch of the E\*TRADE Complete™ Investment Account — an integrated online financial solution that helps customers maximize their use of day-to-day cash and credit while taking into account long-term investments — in 2006 we launched the Intelligent Lending Optimizer and the Intelligent Investing Optimizer to help customers further optimize their security holdings, cash, and credit through one integrated, easy-to-use account. During the first quarter, eight percent of web site traffic to the Intelligent Lending Optimizer resulted in credit application inquiries. The Optimizers and similar tools drive customer engagement.

Third, we intend to help employees of the 2,100 corporate clients who already work with E\*TRADE to administer their stock plans. These customers hold \$50 billion in vested and unvested stock options. In 2006, \$2.7 billion in exercise proceeds stayed with us — and these customers brought \$1.2 billion more in funds to their E\*TRADE accounts.

Finally, we execute. We deliver great execution through a combination of back-office efficiency and a premier portfolio of customer-friendly financial tools. With a clear customer target and disciplined delivery, we look forward to substantial growth in this segment of our market.

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## International Opportunity

- 46 million mass affluent households
- \$6 trillion to invest
- 66 percent of E\*TRADE's global customer survey respondents indicated they want access to international trading

## EXPANDING REACH: Capturing the Other Half: \$6 Trillion

International growth opportunities exceed those in the United States. Approximately 46 million international mass affluent households hold \$6 trillion in assets for investment.<sup>1</sup> That's not to say that capitalizing on this opportunity is easy. A disciplined approach and E\*TRADE's unique technology platform has steadily turned the tide in our direction. As competitors exited international market segments, E\*TRADE expanded. Today, we have a unique opportunity that rewards the Company's tenacity.

Our success in Canada illustrates this approach. When we launched E\*TRADE Complete in Canada last year, retail revenues there increased 33 percent; assets under management increased 52 percent; cash grew 68 percent; average margin per account increased 111 percent; and the total number of accounts grew 38 percent. We will model our international expansion on our success in Canada, continuing the disciplined execution approach that serves us so well.

We extended the E\*TRADE platform to France, Italy, and the United Arab Emirates, bringing discount trading capabilities to more people than ever before. We have engaged successfully in India and continue to build relationships in China that provide a foundation for future business growth. In 2006 we partnered with IL&FS Investsmart Limited to provide India's investors with access to international markets and ultimately to provide global customers with greater opportunity to invest in India. Within months of our strategic alliance, Franchise India recognized E\*TRADE and Investsmart Limited as the *Best Franchisor of the Year* for Financial Services.

In 2006 we established a presence in these new areas. Going forward, we expect to continue expanding our virtual and physical presence as well as expanding international investment capabilities for E\*TRADE customers. Eighty-five percent of our target customers have told us that they will use an E\*TRADE international offering for diversification, while 58 percent want exposure to different currencies. Building on our foundational relationships and successes, we look forward to increasing our share of customers in these promising markets.

<sup>1</sup> SRI Consulting MacroMonitor 2004-2005 and Company estimate.

(dollars in millions, shares in thousands except per-share amounts)

Years Ended December 31,	2006	2005	2004
Net revenues	\$ 2,420.2	\$ 1,703.8	\$ 1,482.9
Net income from continuing operations	\$ 626.8	\$ 446.2	\$ 381.8
Net income/(loss) from discontinued operations	\$ 2.0	\$ (17.4)	\$ (1.3)
Cumulative effect of accounting changes	—	\$ 1.6	—
Net income	\$ 628.8	\$ 430.4	\$ 380.5
Net income per share from continuing operations			
Basic	\$ 1.49	\$ 1.20	\$ 1.04
Diluted	\$ 1.44	\$ 1.16	\$ 0.99
Net income per share			
Basic	\$ 1.49	\$ 1.16	\$ 1.04
Diluted	\$ 1.44	\$ 1.12	\$ 0.99
Shares used in computation of net income/(loss) per share			
Basic	421,127	371,468	366,586
Diluted	436,357	384,630	405,389

Note: 2004 earnings-per-share calculations are based on if converted method.

**E\*TRADE FINANCIAL Corporation**

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**Wholly Owned Subsidiaries**

For a list of wholly owned subsidiaries,  
please refer to our Form 10-K.

**Transfer Agent and Registrar**

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

**Independent Auditors**

Deloitte & Touche LLP  
McLean, VA  
Annual Meeting

**The annual meeting of  
shareholders will be held:**

Wednesday, May 23, 2007  
The Ritz-Carlton, Tysons Corner  
1700 Tysons Boulevard  
McLean, VA 22102 USA

**Important Notice**

E\*TRADE FINANCIAL and the E\*TRADE FINANCIAL logo are trademarks or registered trademarks of E\*TRADE FINANCIAL Corporation. The statements in this report that are forward-looking are based on current expectations that are subject to a number of risks and uncertainties, and actual results may differ materially. The risks and uncertainties include, but are not limited to, changes in market activity, anticipated increases in the rate of new-customer acquisition, the conversion to customers of new visitors to the site, seasonality, the development of new products and services, the enhancement of existing products and services, competitive pressures (including price competition), system failures, economic and political conditions, changes in consumer behavior, and the introduction of competing products having technological and/or other advantages. Further information about these risks and uncertainties can be found in the annual reports previously filed by E\*TRADE Group, Inc., or E\*TRADE FINANCIAL Corporation with the SEC on Form 10-K (including information under the caption "Risk Factors") and quarterly reports on Form 10-Q.

**Corporate Governance**

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

Officers



**Mitch H. Caplan**  
Chief Executive Officer  
and Director



**R. Jarrett Lilien**  
President and  
Chief Operating Officer  
and Director



**Connie M. Dotson**  
Chief Communications  
Officer



**Russell S. Elmer**  
General Counsel and  
Corporate Secretary



**Arlen W. Gelbard**  
Chief Administration  
Officer and President  
E\*TRADE Bank



**Robert J. Simmons**  
Chief Financial Officer



**Nicholas A. Utton**  
Chief Marketing Officer



**Dennis Webb**  
President E\*TRADE  
Capital Markets

Directors

**George A. Hayter**  
Chairman of the Board  
E\*TRADE FINANCIAL  
Corporation

**Daryl G. Brewster**  
Chief Executive Officer  
Krispy Kreme Doughnuts

**Mitchell H. Caplan**  
Chief Executive Officer  
E\*TRADE FINANCIAL  
Corporation

**Ronald D. Fisher**  
Vice Chairman  
SOFTBANK Holdings, Inc.

**R. Jarrett Lilien**  
President and Chief  
Operating Officer  
E\*TRADE FINANCIAL  
Corporation

**Michael K. Parks**  
Managing Director  
Leveraged Finance Group of Trust  
Company of the West

**C. Cathleen Raffaeli**  
Managing Partner  
Hamilton White Group, LLC

**Lewis E. Randall**  
Private Investor

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

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

#### About E\*TRADE FINANCIAL

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