



# INTEGRATION SERVICE GROWTH

Strategic *integration* at every level of business—from invisible back-office functions to each customer-facing interaction—and a compelling value proposition marked by competitive pricing, superior product functionality, and exceptional customer *service* are driving E\*TRADE FINANCIAL's *growth*.

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Mitchell H. Caplan  
Chief Executive Officer

## DEAR SHAREHOLDERS

Fiscal 2005 was a defining year for E\*TRADE FINANCIAL thanks to substantial strategic progress with our corporate organization, our product solutions, and our geographic presence. Of our many accomplishments, the following are some of the most noteworthy:

- We realigned our organization to more effectively focus on key customer segments and to improve the transparency of our financial reporting.
- We launched E\*TRADE Complete, a pioneering cash management solution that delivers the greatest level of online account integration available and helps customers optimize the three key elements of their financial lives: investments, cash, and credit.
- We made strategic acquisitions that broadened our customer base, increased our portfolio of award-winning service platforms, and expanded our advisory capabilities.
- We introduced a breakthrough security measure: Digital Security ID, a two-factor authentication system to protect customers from fraudulent access to their financial accounts.
- We enhanced our value proposition across all products by adding increased functionality, strengthening our customer interface, and simplifying our pricing structure.
- We invested in our international operations by enhancing our platforms to include more-sophisticated analytics, order types, and screeners while broadening access to research.
- We deepened our U.S. geographic presence by opening six new E\*TRADE FINANCIAL Centers in key regions, bringing the total number of investor centers to 16 across the country.
- We deployed a powerful new branding campaign with the "Be E\*traordinary" theme, building stronger market visibility.

We are proud of these accomplishments, but, most important, we are proud that our progress netted measurable results. In 2005 we reported record revenues of \$1.7 billion and record net income of \$430.4 million (\$1.12 per share). In addition to marking our third consecutive year of growth, 2005 results set the foundation for continued momentum in 2006 and beyond.

Fueling our momentum are three complementary factors: organic growth opportunities, strategic acquisitions executed in 2005, and customer-facing/back-office integration initiatives. The acquisitions of *Harrisdirect* and *BrownCo* expanded our customer base to include some of the industry's most highly sought-after investors. Our ability to secure, finance, and close both of these acquisitions in 90 days points to a competitive advantage that continues to serve us well: our ability to maintain focus and discipline to rapidly garner rewards.

Although our newly broadened customer base clearly represents significant opportunities for growth, we are even more excited by the prospect of the organic growth we believe will result from customer adoption of our integrated financial solutions. Certainly, each of our products has stand-alone value, but the true competitive differentiator lies in integrating products into solutions that make it easier and more beneficial for customers to deepen their engagement with E\*TRADE FINANCIAL. Successful organic growth requires something much more sophisticated than simple cross-selling. Our approach is focused on product extension that breaks down barriers to provide customers with access to a single, holistic view of their finances through a central, trusted source: E\*TRADE FINANCIAL.

Launched in April 2005, E\*TRADE Complete has proven that integration is the key to generating more business with existing customers and attracting new customers. A true manifestation of our business model, E\*TRADE Complete compounds the value of multiple stand-alone products and services by seamlessly integrating them into a more powerful solution. E\*TRADE Complete allows customers to manage *all* of their money with powerful investing, cash management, and borrowing tools and services. Not only do customers have a complete view of their financial landscape but with a few clicks of a mouse they can evaluate optimal scenarios for their investments, their cash balances, and their use of credit within their E\*TRADE FINANCIAL accounts as well as with funds held at other institutions.

## DEAR SHAREHOLDERS (continued)

E\*TRADE Complete's adoption within our customer base continues to grow faster than anticipated. In 2005 it was a catalyst for further diversification of our revenue. We are no longer dependent on trading as the primary driver of revenue growth. In fact, as we have broadened customer engagement across our product suite and leveraged that engagement through integration with our institutional business, 80% of our revenue in 2005 was generated from sources other than retail trading commissions. Our business model has evolved to encompass a broader set of financial solutions, encouraging deeper engagement with customers. This evolution has solidified our growth potential. Although we will continue to benefit by leveraging strong trading volumes, we are no longer solely dependent on market dynamics for growth.

Experts estimate that \$44 trillion in assets will be redeployed and reinvested during the next decade. Clearly, this societal shift represents tremendous upside potential for the financial services industry. As we continue to strengthen our franchise to ensure long-term value—for customers *and* shareholders—we have effectively positioned ourselves to reap true benefits from this redistribution of assets.

With E\*TRADE Complete as the cornerstone of our customer asset growth in 2006, we will pursue several other strategic growth initiatives:

- We will shift to a consolidated enterprise balance sheet, enabling us to maximize our customer cash and credit relationships.
- We will continue to expand our research capabilities, providing broad customer access to premier financial research.
- We will continue to build our institutional relationships and capabilities by investing in technology to streamline order handling, providing improved execution quality.
- We will continue to pursue the profitable Corporate Services business, which offers an untapped channel for attracting more individual retail customer assets.
- We will continue to enhance our customer experience by adding more Relationship Managers and Advisors.
- We will open more E\*TRADE FINANCIAL Centers in the United States to expand our network of customer touchpoints.
- We will continue to invest in our presence in international markets, with an eye toward evolving international business beyond trading to include cash management solutions.
- We will aggressively build the E\*TRADE FINANCIAL brand—and our business—through powerful, compelling marketing activities designed to maintain our company's visibility in a dynamic and competitive marketplace.

I hope you agree that 2005 was indeed a defining year for E\*TRADE FINANCIAL—a year in which we continued to execute on our vision of leveraging technology to create value for customers and shareholders and a year in which we strategically set the stage for future success. We fully recognize that there is always more work to be done to enhance our offerings and develop new capabilities that are valuable to customers and beneficial to shareholders—and we embrace the opportunity.

Finally, I know that I speak for every member of the E\*TRADE FINANCIAL team when I express how confident I am in our future—a future that is full of meaningful prospects for E\*traordinary business growth.

Sincerely,



Mitchell H. Caplan  
Chief Executive Officer

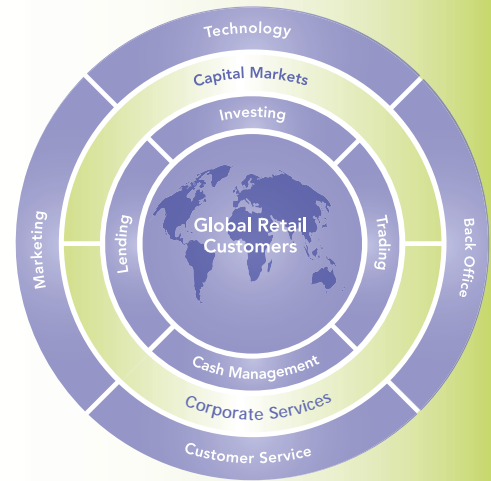
**THE E\*TRAORDINARY STARTS HERE...  
WITH OUR CUSTOMERS**

What do our customers need and want from a financial services firm? How can we better meet their needs? How can we deliver an extraordinary experience and a truly compelling value proposition?

The answers are simple:

- Deliver seamless, integrated financial solutions by leveraging our competitive strengths: technology, innovation, and scale
- Provide superior customer service—essential to winning and retaining customers

What follows is “the E\*TRADE FINANCIAL Worldview”: all the elements we bring to bear on the challenge of serving our customers—and, by extension, the challenge of growing our business.



**GLOBAL RETAIL CUSTOMERS**

Our core business is serving the self-directed investor, the individual comfortable making his or her own decisions but seeking tools, research, and support from a trusted financial services provider.

The real power of E\*TRADE FINANCIAL is how our capabilities—in technology and operations, capital markets, and customer service—integrate with our products and services to deliver a truly compelling value proposition: the combination of features, functions, service, and price that delivers an extraordinary customer experience.

**INVESTING:  
CHOICE. VALUE. INSIGHT.**

Our customers want access to the entire universe of investments: including stocks (U.S., international, and IPOs), bonds, exchange-traded funds, mutual funds, options, futures, and cash management instruments.

Just as important, we provide that access at an extremely competitive price. And we help our customers make better decisions with educational and informational services and a full spectrum of advice offerings. For self-directed investors, for example, we supply a wealth of research and analytical tools. For investors looking for guidance, we offer periodic advice and consultation as well as full-service portfolio management.



## TRADING: HIGH-PERFORMANCE PLATFORMS

Our customers require access to the world's major securities markets and fast, efficient execution of their trades.

We offer trading capabilities designed for every kind of customer, from the buy-and-hold investor to the active trader. Whether an investor makes a dozen trades a year or a hundred trades a day, we provide a high-performance platform that ensures the best possible execution at an extremely attractive price. In fact, we have a 2-Second Execution Guarantee on all market orders from 100 to 500 shares of the stocks included in the S&P 500 Index and for exchange-traded funds.

## LENDING: A CORNERSTONE OF PERSONAL FINANCE

Our customers demand credit options to help them manage everything from portfolio optimization to unlocking the equity potential in their homes, from finding the best credit card to buying a house.

We have developed and deployed a broad range of lending services for our customers: home mortgages and refinancing, home equity lines and loans, margin lending for securities accounts, credit cards, and a variety of custom loan solutions. Most important, we enable our customers to view credit holistically, so they can obtain the liquidity they need in the most cost-effective way possible.

## CASH MANAGEMENT: MAKING MONEY WORK

Our customers seek to optimize the use of their cash to earn the best return on their balances and ensure their liquidity.

A growing number of E\*TRADE FINANCIAL customers don't even have a traditional bricks-and-mortar banking relationship anymore. Instead, they bank with E\*TRADE FINANCIAL to seamlessly integrate their investment and banking accounts. They pay their bills online, they access cash fee-free from any ATM nationwide, and they put their idle cash to work with the kind of cash management capabilities once reserved only for the wealthy.

## CAPITAL MARKETS: OUR INTERFACE TO GLOBAL MARKETS

Our customers want state-of-the-art execution, requiring us to have a broad and deep presence in the world's capital markets as well as solid relationships with institutional investors.

Serving our core retail customer demands that we have a deeply entrenched presence in the world of institutional investors and the global capital markets; and our scale—our \$32 billion balance sheet, a \$2 billion stock-lending book, and a 5 percent share of U.S. equity trades—helps us execute customer trades more efficiently while generating revenues and profits.

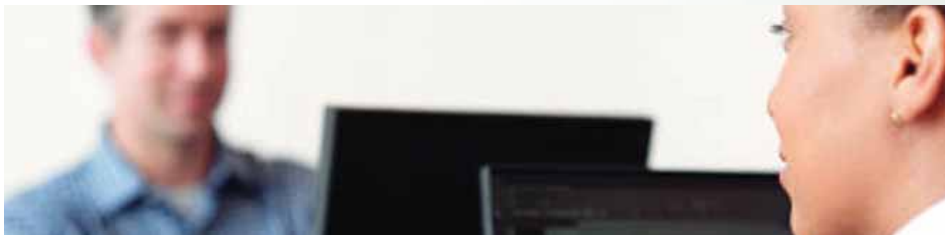
## CORPORATE SERVICES: HELPING COMPANIES SERVICE THEIR EMPLOYEES

We manage employee stock and options plans for more than 2,500 companies and their more than 1.3 million employees worldwide.

Equity compensation plans are a popular benefit for corporations around the world, and our infrastructure allows us to manage stock purchase, stock award, and stock options plans—an important way to generate fee income. Our corporate services business also gives E\*TRADE FINANCIAL another entry point into the retail market—another way to add customers and assets to our business.

## E\*TRAORDINARY CAPABILITIES: FOUR KEYS TO SUCCESS

Our customers demand exacting standards of excellence. To deliver our products and services effectively—in ways that provide value for our customers and generate profits for our shareholders—we must continuously demonstrate superb capabilities across four key areas: technology, back office/operations, customer service, and marketing.



## **E\*TRADE COMPLETE: OUR E\*TRAORDINARY NEW SOLUTION**

Our newest offering, E\*TRADE Complete, is the very embodiment of what E\*TRADE FINANCIAL is all about: simplifying customers' financial lives with tools to better manage their portfolios. There is no other solution on the market today that is comparable to E\*TRADE Complete, and we expect fantastic things from it.

As its name suggests, E\*TRADE Complete provides a complete view of a customer's portfolio—including checking, brokerage, and retirement accounts—and integrates every critical capability into a single, seamless, easy-to-use interface. E\*TRADE Complete offers checkwriting, a platinum debit card, online bill paying, ATM access, and money transfers (among E\*TRADE accounts and between external accounts)—all of which are free, as well as access to our market-leading investing, cash management, and credit services. One of its most powerful features is the suite of tools that makes it easy and efficient for customers to optimize their cash, investment, and credit allocations. E\*TRADE Complete enables them to tap the most profitable instruments for idle cash, determine if they can lower their cost of borrowing, and maximize the potential of their assets through asset allocation.

We believe that E\*TRADE Complete will encourage customers to consolidate more of their financial assets with E\*TRADE FINANCIAL. We also believe that it is so compelling it will attract new customers. Either way, E\*TRADE Complete is poised to be a significant contributor to our company's growth in 2006 and beyond.

**HIGHLIGHTS** (dollars and shares in thousands except per-share amounts)

Years Ended December 31,	2005	2004	2003
Net revenues	\$ 1,703,845	\$ 1,482,922	\$ 1,342,716
Net income from continuing operations	\$ 446,238	\$ 381,830	\$ 200,521
Net income/(loss) from discontinued operations	\$ (17,472)	\$ (1,347)	\$ 2,506
Cumulative effect of accounting changes	\$ 1,646	—	—
Net income	\$ 430,412	\$ 380,483	\$ 203,027
Net income per share from continuing operations			
Basic	\$ 1.20	\$ 1.04	\$ 0.56
Diluted	\$ 1.16	\$ 0.99	\$ 0.55
Net income per share			
Basic	\$ 1.16	\$ 1.04	\$ 0.57
Diluted	\$ 1.12	\$ 0.99	\$ 0.55
Shares used in computation of net income/(loss) per share			
Basic	371,468	366,586	358,320
Diluted	384,630	405,389	367,361

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



## E\*TRADE FINANCIAL CORPORATION

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646-521-4300

### Financial Information

To request a printed copy,  
contact Investor Relations.

### Investor Relations

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### Corporate Communications

Pam Erickson  
Vice President, Corporate Communications  
[pam.erickson@etrade.com](mailto:pam.erickson@etrade.com)  
617-296-6080

### Wholly Owned Subsidiaries

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

### Transfer Agent and Registrar

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

### Independent Auditors

Deloitte & Touche LLP  
McLean, VA

### Annual Meeting

The annual meeting of shareholders  
will be held:  
Thursday, May 25, 2006  
The Ritz-Carlton  
Pentagon City  
1250 South Hayes Street  
Arlington, VA 22202

### 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.

### 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

[Audit Committee](#)  
[Compensation Committee](#)  
[Nominating and Corporate Governance Committee](#)  
[Corporate Governance Guidelines](#)

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.

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**OFFICERS**



**Mitchell H. Caplan**  
Chief Executive Officer



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



**Betsy Barclay**  
Chief Government  
Affairs Officer



**James R. Bidwell**  
Chief Risk Officer



**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 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.

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

**C. Cathleen Raffaelli**  
Chief Executive Officer  
and President  
UNext, Inc.

**Lewis E. Randall**  
Private Investor

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

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