

# 2019 CORPORATE REPORT

# To our shareholders:

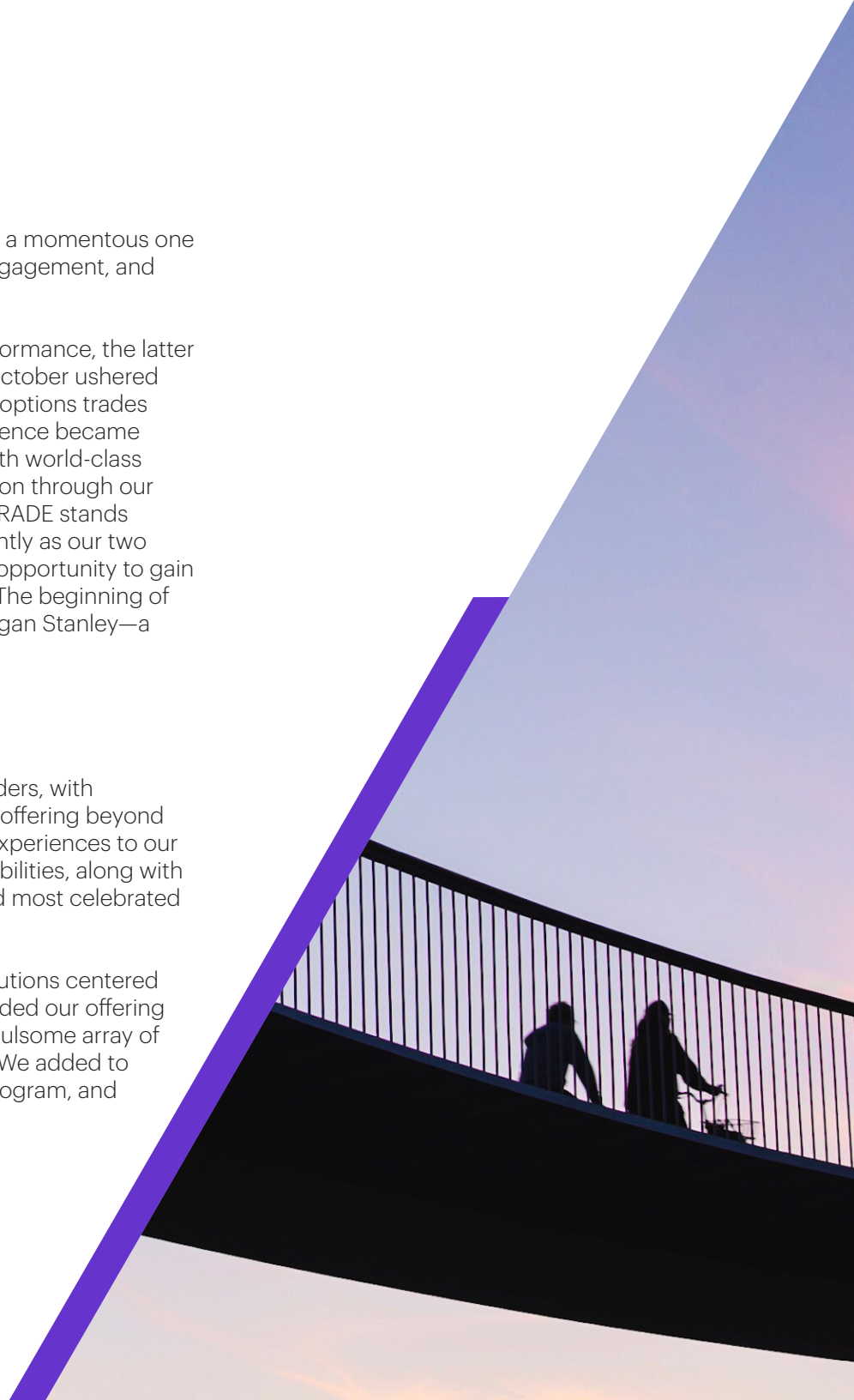
Amid arguably the most transformational year in our industry's history, 2019 was a momentous one for E\*TRADE, punctuated by solid fundamental results, remarkable customer engagement, and significant achievements across our retail and institutional channels.

While the full year carried a multitude of Company records and noteworthy performance, the latter half of the year saw the pace of change accelerate in unprecedented fashion. October ushered in the elimination of base retail commissions for online US listed stock, ETF, and options trades across the industry. With price removed from the equation, the customer experience became the primary differentiator in our space—which plays directly to our strengths. With world-class trading and investing tools backed by professional guidance, powerful distribution through our Financial Consultants, and one of the most recognized brands in the space, E\*TRADE stands tall against the shifting landscape. Our value proposition shined even more brightly as our two largest peers announced their intention to merge. We swiftly capitalized on the opportunity to gain share and generated meaningful account and asset growth as the year closed. The beginning of 2020 brought further change as we announced our planned acquisition by Morgan Stanley—a watershed development, which I will cover in more depth later in this letter.

## **Commitment to our customers**

E\*TRADE has a rich legacy as the undisputed home for active and derivative traders, with unparalleled technology and service, and over the years we have advanced our offering beyond brokerage capabilities to deliver a robust and diversified suite of solutions and experiences to our customers. Today, we offer comprehensive trading, investing, and banking capabilities, along with a leading stock plan administration platform that counts some of the largest and most celebrated corporations in the world as clients.

As we turn the page on a new decade, we are excited to further expand into solutions centered on wealth management and financial wellness. We have long refined and expanded our offering to meet broad financial health needs, be it through managed asset solutions, a fulsome array of retirement products and tools, or helpful educational resources, to name a few. We added to this foundation meaningfully in 2019, with the build-out of our advisor referral program, and through our acquisition of Gradifi, a leading student loan benefit administrator.





## 2019 highlights

The past year was a record for customer engagement. Our traders, investors, stock plan participants, and advisors executed 291,000 darts, our highest level of activity ever. Perhaps even more important, we generated 98,000 derivative darts—also a Company record—representing more than a third of all darts. Growth in derivatives has been a strategic imperative for E\*TRADE for several years, which was brought to the forefront with our 2016 acquisition of optionshouse. Since then, we have further developed our tools for active traders, and our leading Power E\*TRADE platform has become a chief source of earnings power given the superior profitability of derivative trades. The reduction of commissions in October led to more pronounced trading activity as our customers set new records for volume in the fourth quarter, which have only climbed further in 2020.

The surge in activity is clear evidence of the value we deliver for our customers, but as the industry evolves beyond transactions as a primary revenue source, our business proves uniquely capable to drive resilient, low-cost customer deposits, which is a key ingredient to capitalizing on the full value of our model. In 2019, our customers contributed nearly \$11 billion to sweep deposits, bank deposits, money market funds, and customer payables, our strongest year ever of customer cash growth.

Our Corporate Services channel—a key contributor of franchise and shareholder value—grew client assets to nearly \$300 billion, as we generated \$79 billion in grants and purchases at our existing corporate clients while executing on \$24 billion of implementations to new companies, our best year ever for each measure. We will capitalize on phenomenal momentum in the Corporate Services channel, adding to the exceptional organic growth we have already achieved.

We also built out our Executive Services team offering a dedicated point of contact for the corporate leadership of our institutional clients and providing support for unique executive needs such as customized 10b5-1 plans, assistance with regulatory filings, and other high-touch brokerage and investing solutions. We are also encouraged by the progress in our Advisor Services channel and the establishment of the E\*TRADE Advisor Network, our RIA referral program. Our Retail, Corporate Services, and Advisor Services channels are each powerful in their own right, but when woven together create a whole that is truly greater than the sum of its parts.

Our financial and operational performance is predicated on a culture of innovation, and on that front 2019 was a banner year.

- We continued to enhance the accessibility of our offering and improve ease of use. We began 2019 with the launch of our award-winning Power E\*TRADE platform, giving a fully integrated, web-based toolset for active traders, and capped off the year by making our solutions meaningfully more accessible through a revamped ios mobile app and integration of Google Assistant, establishing a foothold in the increasingly important voice-assistant space.
- On our institutional channels, we continued to raise the bar on our world-class Corporate Services platform with the introduction of cutting-edge technology across tax reporting, ESPP share withholding, and trade clearance automation. We are also proud to be the first stock plan administrator to partner with Carver Edison, an innovative startup that enables employees to maximize their ESPP contribution with limited payroll deductions.

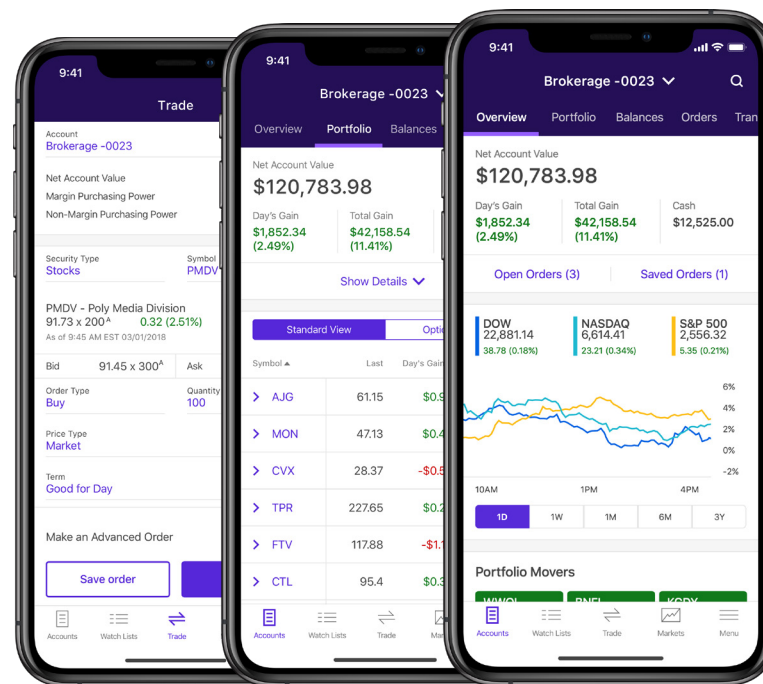
## Commitment to innovation and excellence

Our tech-forward heritage, innovative culture, and iconic brand are the intangibles that make E\*TRADE a pioneer in the industry and a continued force in today's market. Our commitment to innovation garnered a triumphant year for awards and recognition, as we were named the #1 overall online broker by Kiplinger's; earned top rankings for mobile, options, and web-based platforms by stockbrokers.com; and maintained the belt as the top-ranked stock plan administration platform as measured by loyalty and overall satisfaction by Group Five for the eighth consecutive year.

## Navigating turbulent markets

We are able to win market share from our much larger peers because of our steadfast and sole focus on the customer—on channeling our energy first to developing and enhancing the services and capacity to help our customers reach their financial goals, no matter the market conditions. While equity markets had been on a historic, decade-long bull run, in the beginning of 2020, turmoil related to the COVID-19 virus and its knock-on impact to interest rates, commodities, currency, and credit, have led stocks into bear market territory, with volatility not seen since the financial crisis.

We offer a wide array of tools to help investors and traders alike find opportunities within increased uncertainty—including a best-in-class derivatives platform for active traders who are managing risk or seeking to capitalize on market swings, a leading mobile platform to access their account anytime and anywhere, and managed products that establish diversified portfolios built for the long-term. At all times, and particularly times of market stress, our operations and service professionals go above and beyond to make sure customers can access and manage their accounts and receive the service levels they expect. Time and again these teams have risen to the occasion and shown tremendous resilience, not skipping a beat in their continued duty to serve our customers. Our platforms, systems, and customer service have also continued to demonstrate their robustness, and E\*TRADE has reliably handled the dramatic surge in activity. Many in our industry are unable to make such a claim.



## **Focus on talent**

Our team of 4,100 associates are the lifeblood of E\*TRADE and are responsible for developing our platforms, enhancing our offering, serving our customers, and fostering a brand that punches way above its weight. Embedded in our ethos is an emphasis on diversity and inclusion, which fosters creativity and ingenuity. Our inclusive spirit is woven into the fabric of our organization—starting from when we democratized Wall Street for Main Street—and embodies who we are today.

Diversity and inclusion start at the top and are felt throughout the organization, and we firmly believe this fosters the ideal environment to attract, develop, and retain the best talent in the industry.

The accolades we've received for the culture we've worked so hard to build at E\*TRADE speak for themselves—investmentnews' 2019 Excellence in Diversity and Inclusion Finalist, Glassdoor's Best Places to Work in 2020, and the Human Rights Campaign Corporate Equality Index's Best Places to Work for LGBTQ Equality.

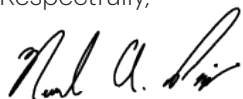
## **Looking ahead**

As noted, 2019 was a year of transformation, and 2020 has kicked off with a jolt to say the least. The pronounced and historic spike in market volatility has driven an unparalleled level of customer trades, as our darts set a monthly record of 464,000 in January, only to blow by that mark with 587,000 darts in February—more than double the level we achieved throughout our record-setting 2019.

Over the last 12 months we have clearly seen, and contributed to, an unbelievable pace of industry change. The biggest change for our Company came on February 20, when we announced our combination with Morgan Stanley. The union with Morgan Stanley enables us to take the thriving E\*TRADE of today to new heights and deliver an even more comprehensive suite of wealth management capabilities. As part of Morgan Stanley, the iconic E\*TRADE brand, our market-leading customer service and offerings, and innovative digital tools will complement one of the world's preeminent financial services institutions. This positions us to meet the intensifying competitive environment head-on and further build on all that has made E\*TRADE such a formidable force over the last four decades.

We enter 2020 stronger and more invigorated by the future than ever before. It's been an amazing journey and we look forward to the next chapter.

Respectfully,

A handwritten signature in black ink, appearing to read "Michael A. Pizzi". The signature is fluid and cursive, with the first name "Michael" being more prominent.

Michael A. Pizzi

# 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.

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.



# 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<sup>(1)</sup>

### **Web**

Our easy to use site is the primary channel to interact with customers and prospects

### **Mobile<sup>(2)</sup>**

Our industry leading mobile applications include integrations with leading artificial intelligence assistants

### **Active Trading Platforms**

Active derivatives trading platforms include sophisticated trading tools, advanced portfolio and market tracking, and idea generation and analysis

## ■ PLATFORMS FOR INSTITUTIONAL CHANNEL<sup>(1)</sup>

### **Equity Edge Online<sup>(3)</sup>**

Equity Edge Online is the #1 rated platform in the stock plan administration industry that offers automation and flexibility

### **Gradifi**

Gradifi is a secure, scalable, and streamlined platform that offers student loan and financial wellness benefits

### **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

### **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

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<sup>SM</sup> 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.

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.

## E\*TRADE Financial Board of Directors

### **Rodger A. Lawson**

Chairman,  
E\*TRADE Financial Corporation

### **Kevin T. Kabat**

Lead Independent Director  
Retired Banking Executive

### **Richard J. Carbone**

Retired Financial Services Executive

### **Robert Chersi**

Financial Services Executive

### **Jaime W. Ellertson**

Executive Chairman,  
Everbridge, Inc.

### **James P. Healy**

Chief Executive Officer,  
Capra Ibex Advisors

### **James Lam**

President,  
James Lam & Associates

### **Shelley B. Leibowitz**

President,  
SL Advisory

### **Michael A. Pizzi**

Chief Executive Officer,  
E\*TRADE Financial Corporation

### **Rebecca Saeger**

Retired Marketing Executive

### **Donna L. Weaver**

Retired Corporate Financial Executive

### **Joshua A. Weinreich**

Retired Financial Services Executive

## E\*TRADE Financial Executive Leadership

### **Michael A. Pizzi**

Chief Executive Officer

### **Michael J. Curcio**

EVP, Institutional & Vice Chairman of  
Executive Committee

### **Alice Milligan**

EVP, Chief Customer Officer

### **Brent Simonich**

EVP, Chief Risk Officer

### **Lori S. Sher**

EVP, General Counsel

### **Chad E. Turner**

EVP, Chief Financial Officer

## Shareholder Services

### **Corporate Headquarters**

671 N. Glebe Road  
Arlington, VA 22203

### **Investor Relations & Shareholder Information**

ir@etrade.com  
646-521-4406

### **Media Relations**

mediainq@etrade.com  
646-521-4418

### **Transfer Agent and Registrar**

American Stock Transfer (AST)  
6201 15th Avenue  
Brooklyn, NY 11219  
1-800-937-5449

### **Independent Auditors**

Deloitte & Touche LLP  
McLean, VA

- (1) In August 2019, E\*TRADE was rated the #1 online broker in Kiplinger's 2019 Best Online Brokers review.
- (2) 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.
- (3) 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.

#### **Forward-Looking Statements**

The statements contained in this report that are forward looking, including statements regarding: 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, the achievement of synergies across our channels, our ability to execute our business plans, including further developing and enhancing our services and expanding our product offerings, future sources of revenue and gains of market share, the ability of our technology solution for advisors and our referral program to attract and retain customers seeking specialized services and sophisticated advice, the consummation of the proposed transaction and the anticipated benefits thereof and any other statement that is not historical in nature, are "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, and are subject to a number of uncertainties and risks. Actual results may differ materially from those indicated in the forward-looking statements. The uncertainties and risks include, but are not limited to, changes in business, economic or political conditions, performance, volume and volatility in the equity and capital markets, the completion of the proposed transaction with Morgan Stanley on anticipated terms and timing, the ability of Morgan Stanley and E\*TRADE to integrate the business successfully and to achieve anticipated benefits and synergies, 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, and adverse developments in any investigations, disciplinary actions or litigation, including with respect to the proposed transaction. Further information about these risks and uncertainties can be found in the annual report on Form 10-K previously filed by E\*TRADE Financial Corporation with the Securities and Exchange Commission (including information in such report under the caption "Risk Factors"). Any forward-looking statement included in this report speaks only as of the date of this communication; the Company disclaims any obligation to update any information, except as required by law.