E*TRADE FINANCIAL

Q1'20 FREQUENTLY ASKED QUESTIONS
APRIL 23, 2020

COVID-19

1. How have you adapted operations in the current environment?

We have robust business continuity plans that we were able to execute during the COVID-19 pandemic to continue to serve our customers 24x7 while keeping our employees safe. We are proud to have been able to quickly and seamlessly move 99% of our workforce to remote settings and concurrently meet the significant surge in activity while providing our customers the level of reliability and security that they have come to expect of E*TRADE.

MORGAN STANLEY ACQUISITION

2. What is the status of the Morgan Stanley acquisition of E*TRADE?

The acquisition is subject to customary closing conditions, including regulatory approvals and approval by E*TRADE shareholders, and is expected to close in the fourth quarter of 2020. The parties' Hart-Scott-Rodino (HSR) notifications were filed with the Federal Trade Commission and Department of Justice on March 11, 2020, and the waiting period with respect to such HSR notifications expired on April 10, 2020. For more information on the proposed merger, please see the preliminary proxy statement/prospectus filed with the US Securities and Exchange Commission by Morgan Stanley.

CUSTOMER ACTIVITY

3. Could you provide background on the record trading volume in the first quarter? How has this impacted commissions and other trading-related revenue, and what is your expectation for commission-based revenue going forward?

The pronounced and historic spike in market volatility has driven an unparalleled level of customer trades, as our DARTs (Daily Average Revenue Trades) set a quarterly record of 652,000 in the first quarter (previous record of 331,000 in the fourth quarter of 2019). The first quarter presented our three highest individual months ever, culminating in March DARTs of 887,000. March alone produced 17 of our top 20 trading days of all time, with six days above 1,000,000 DARTs. We generated 186,000 derivative DARTs—also a Company record. The increase in volume was notable across all customer tiers, with the number of accounts engaging in the markets up materially in the first quarter.

Total trading-related revenue of $156 million, including commissions and order flow, was up 42% sequentially, and down 5% year-over-year. The material increase in volume helped to partially offset foregone revenue from the elimination of base retail commissions for online US-listed stock, ETF, and options trades that went into effect on October 7, 2019. On average, we are seeing smaller trade sizes and a smaller proportion of derivative trades (given unprecedented equity volumes), which have reduced commission and order flow on a per trade basis. (Continued…)

Strong customer trading momentum has continued in April, with 923,000 total DARTs, including 226,000 derivative DARTs. April-to-date commissions per trade (CPT) is approximately $1.35, down from the $1.76 CPT in the first quarter, as continued strength in equity trade volumes dilutes our derivative mix. Average trade sizes has also moderated lower with the overall increase in volumes.

4. **How has your platform performed given peak volumes and operational challenges present from COVID-19?**

   We are proud to have balanced an increased volume of activity while prioritizing the safety of our employees and customers. Despite the extraordinary circumstances arising from the COVID-19 pandemic, our platform and service capabilities held up remarkably well while our dedicated service professionals worked many nights and weekends to address all customer questions and concerns. First quarter customer inquiries were more than 50% higher than the average volume from 2019 with March inquiries alone more than double last year’s average monthly level.

5. **How have your margin and futures books withstood the market volatility?**

   The market produced unprecedented volatility in the first quarter, with the VIX setting record levels and major indexes entering bear market territory. While our customer margin balances contracted meaningfully as collateral values declined, unsecured losses within the book were minimal during the first quarter at approximately $2 million.

   Following the conclusion of the quarter, West Texas Intermediate Crude Oil prices exhibited extraordinary price movements, with the May 2020 contracts settling at a negative price on April 20. Despite the unprecedented price action, we have contained unsecured April-to-date customer losses related to the drop in oil to under $150,000.

6. **What fueled the record net new assets in the first quarter?**

   We generated record organic net new retail assets of over $18 billion. The combination of our industry-leading platform, tools, and services is resonating with customers new and old, while successful promotion activity and relentless efforts by our Financial Consultants have proven particularly effective in an especially active market.

7. **How did account growth trend in the first quarter and what was the profile of the new customers you acquired?**

   We generated an unprecedented level of retail account growth in the first quarter, bringing in a total of 329,000 net new accounts, with 260,000 coming in March. The growth in March alone is better than our previous best annual net record. We had robust growth across all demographics, with particular strength among Millennials and Generation X, who tend to be more active. Growth of accounts with initial funding greater than $25,000 was robust, at more than double the volume from the fourth quarter of 2019.

8. **How is your Corporate Services channel performing?**

   Our momentum in Corporate Services remains very strong. We generated more than $4 billion in new stock plan client implementations in the first quarter, bringing our last twelve-month total to more than $20 billion contributing to more than $100 billion in total gross stock plan inflows. Additionally, we continue to make inroads in financial wellness, and with Congress currently allowing up to $5,250 in student loan repayment benefits to be contributed tax-free annually, our Gradifi by E*TRADE offering has become even more compelling.

CUSTOMER CASH

9. **What fueled the record growth in customer cash?**

   Customer cash growth of $14 billion was primarily fueled by the $18 billion of record net asset flows, which largely came in as cash. This was offset by relatively modest net buying of under $1 billion for the quarter. The majority of the flows came through our self-directed brokerage channel, but positive activity in Corporate Services and banking also contributed to the cash growth. The first quarter marked the highest quarter ever for Corporate Services participant proceeds as strong market gains early in the quarter spurred relatively heavy activity among our stock plan participants. Furthermore, our Premium Savings banking product continued to prove attractive throughout the quarter, generating nearly $2 billion of net inflows. We lowered our Premium Savings interest rate to 0.2% on March 18, following the Federal Reserve's cut of its benchmark rate to 0-25 basis points.

10. **What was the average yield on third-party customer cash? What rate do you expect to earn on third-party customer cash in the second quarter?**

    The average yield on third-party sweep cash was 111 basis points, net of the cost of deposits. This was comprised of third-party brokerage sweep deposit fees of 148 basis points and bank sweep deposit fees of 8 basis points. The average yield on third-party money market fees was 53 basis points.

    For the second quarter, we anticipate net fees from brokerage and bank customer sweep cash managed by third parties will be around 26 basis points (35-40 basis points on brokerage deposits, and 4-6 basis points on banking deposits). We anticipate generating third-party money market fees of 10 basis points.

11. **How will you manage third-party customer cash in the current environment?**

    In connection with the planned merger with Morgan Stanley, we have suspended share repurchases. As we continue to generate capital, we plan to bring customer cash back onto our balance sheet and will utilize our third-party, off-balance sheet flexibility to the extent customer cash grows faster than we generate capital.

NET INTEREST MARGIN (NIM) AND INTEREST RATE SENSITIVITY

12. What drove the change in NIM in the first quarter?

Our NIM contracted by 19 basis points in Q1. The decline in NIM was driven by a more than 100 basis point move lower in yields across the rate curve, including two rounds of rate cuts by the Federal Reserve, bringing the fed funds target to 0–25 basis points. Our blended deposit rate decreased by 2 basis points to 26 basis points as we lowered both sweep rates and premium saving deposit rates across our brokerage and banking products.

13. What is your ongoing expectation for NIM?

We anticipate generating a NIM of 250–255 basis points in the second quarter and anticipate generating a NIM of 240–250 basis points for the full-year 2020, which assumes the current yield curve persists and customer margin balances remain flat to quarter-end balances. We are currently investing new funds at approximately 150–175 basis points. For the second quarter, we expect the average rate for customer driven liabilities to be around 2 basis points. The actual NIM will depend on the shape of the yield curve, pace of bond pre-payments, and the ultimate size and mix of the balance sheet.

EXPENSES AND TAXES

14. Were there any unusual or notable expenses that impacted the first quarter results?

Diluted earnings per common share of $0.72 included expenses of $23 million, or $0.10 per diluted share, related to the provision for credit losses, costs incurred as a result of the proposed merger with Morgan Stanley, and other items:

	Pre-Tax Amount	After-Tax Amount	Per Share Amount
Provision for credit losses[a]	$ (6)	$ (4)	$ (0.02)
Restructuring and acquisition-related activities[b]	(16)	(12)	(0.05)
Other non-interest expense[c]	(10)	(7)	(0.03)
Total	$ (32)	$ (23)	$ (0.10)

(a) Estimates of credit losses in our mortgage loan portfolio under the new guidance related to accounting for credit losses.
(b) Merger related costs.
(c) Impairment of certain technology assets.

15. What is your expectation for full-year 2020 expenses?

We remain vigilant on managing expenses as we seek to maximize current operating margins while continuing to invest in our franchise for growth. The current environment provides incredibly fertile ground for acquisition of new accounts and assets, while our existing customers are transacting at unprecedented levels. Given the active market backdrop, we expect 2020 operating expenses, excluding merger-related costs, will be greater than the $1.6 billion we previously anticipated, with the higher expenses primarily related to variable trading volume-related expenses and higher advertising and market development costs.

We anticipate full-year advertising and market development expenses will fall between $200–$220 million, with the spend peaking in Q2 at approximately $65 million as we continue to take advantage of a strong environment for customer acquisition and fulfill promotional spend related to the first quarter's record growth.

16. What drove the elevated first quarter tax rate? What tax rate do you anticipate recording in 2020?

The elevated effective tax rate for the first quarter related primarily to discrete state tax expenses recorded during the period. We expect that the tax rate for the remainder of the year will be approximately 28%.

CURRENT EXPECTED CREDIT LOSS (CECL) STANDARDS

17. What impact did the implementation of CECL have on first quarter capital and results?

We recognized an after-tax benefit of $84 million as an adjustment to opening retained earnings when we adopted CECL on January 1, 2020. The benefit primarily related to appreciation of the fair value of collateral for our mortgage loans that had been written down in prior periods. During the first quarter, we recognized a $6 million provision expense for credit losses, reflecting our revised expectations for the credit losses over the remaining life of our mortgage loans.

Forward-Looking Statements
This document contains forward-looking statements made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. The statements contained in this document that are forward looking, including statements regarding the Company's future plans and its ability to differentiate itself through the quality of customer experiences, deliver value for its customers and shareholders, pay additional dividends in the future and the proposed transaction with Morgan Stanley, are “forward-looking statements” within the meaning of the federal securities laws, 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: risks related to macro trends of the economy in general; market volatility and its impact on trading volumes; fluctuations in interest rates; potential system disruptions and security breaches; our ability to attract and retain customers and develop new products and services; increased competition; increased restrictions resulting from financial regulatory reform or changes in the policies of our regulators, including with respect to approval of any future dividend; the consummation of the proposed transaction with Morgan Stanley and the anticipated benefits thereof; adverse developments in litigation or regulatory matters; the timing and duration of, and the amount of cash expended in connection with dividend payments; the extent to which the coronavirus pandemic (COVID-19), and measures taken in response thereto, has had, and could have, an adverse effect on our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the outbreak and actions taken by governmental authorities to contain the financial and economic impact of the outbreak ; and the other factors set forth in our annual report on Form 10-K, previously filed with the U.S. Securities and Exchange Commission (including information under the caption “Risk Factors”). Any forward-looking statement included in this release speaks only as of the date of this communication; the Company disclaims any obligation to update any information, except as required by law.

About E*TRADE Financial Corporation
E*TRADE Financial Corporation and its subsidiaries provide financial services including brokerage and related products and services to traders, investors, stock plan administrators and participants, and registered investment advisers (RIAs). Securities products and services are offered by E*TRADE Securities LLC (Member FINRA/SIPC). Commodity futures and options on futures products and services are offered by E*TRADE Futures LLC (Member NFA). Managed Account Solutions are offered through E*TRADE Capital Management, LLC, a Registered Investment Adviser. Bank products and services are offered by E*TRADE Bank, and RIA custody solutions are offered by E*TRADE Savings Bank, both of which are federal savings banks (Members FDIC). Employee stock and student loan benefit plan solutions are offered by E*TRADE Financial Corporate Services, Inc. E*TRADE Securities LLC, E*TRADE Futures LLC, E*TRADE Capital Management, LLC, E*TRADE Bank, E*TRADE Savings Bank, and E*TRADE Financial Corporate Services, Inc. are separate but affiliated companies. More information is available at www.etrade.com.