Q2’20 FREQUENTLY ASKED QUESTIONS
July 23, 2020

CUSTOMER ACTIVITY

1. **How is retail trading trending, and what is driving the record volume?**

Retail volume shattered records, with second quarter trading surpassing a million DARTs, up 54% sequentially and more than three times the daily volume generated in 2019. Stay-at-home working conditions and elevated levels of volatility are contributing to high levels of activity across the board, and E*TRADE is capturing market share as our number-one rated brokerage platform is resonating with traders and investors alike.

The growth in new accounts is a significant driver of the increase in DARTs, as new customers to the platform are particularly active. We are also seeing a notable step-up in activity among existing customers. The number of households engaged with at least one trade over the quarter is up nearly 80% compared to the same quarter last year, while DARTs per customer are up nearly 120% compared to the same period last year.

Platform usage surged during the quarter with customers logging in over 200 million times during the period, up over 100% from the year-ago quarter, and reflective of active clients accessing our platforms on average at least one time each day that the market was open. The continuing trend of mobile access was also pronounced during the period with 63% of all logins taking place through a mobile device. Enhancements to our mobile application are gaining traction, as new mobile app downloads are up 175% versus Q2’19.

Strong customer trading momentum has continued in July, with 1,029,000 total DARTs through July 22.

2. **What is driving the elevated derivatives volume?**

Derivatives volume set all-time records with second quarter derivative DARTs of 253,000, up 35% sequentially, and up 177% versus the year ago quarter. To put current volumes into perspective, derivative DARTs in Q2’20 were greater than total DARTs in Q2’18. Consistent with last quarter we are seeing growing engagement from our current customers, and remarkable growth in new traders. The overall growth in accounts trading derivatives is up nearly 90% versus the year-ago quarter, while the number of early tenured accounts trading derivatives is up more than five times.

We are perpetually improving our platform and expanding our educational resources to make our tools more powerful, intuitive, and accessible across the spectrum of traders. The Q2 monthly active user base for Power E*TRADE is up over 160% compared to Q2’19. Similarly, the active user base for our Power E*TRADE mobile application is up over 180% versus the year-ago quarter. Our educational series have been particularly popular, with solid demand for our virtual options forum, and viewership in our new weekly webcast series up 150% quarter-over-quarter.

Momentum has continued in July, with 278,000 derivative DARTs through July 22.

3. How has the evolving trading environment affected commission and other trading-related revenue?

Total trading-related revenue, including commissions and order flow, are the highest of all time, up 34% sequentially and up 26% year-over-year. The material increase in trading volume from the year-ago period more than offset the 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.

Commissions per trade (CPT) fell from $1.74 in Q1 to $1.39 in Q2. On average, we are seeing smaller trade sizes and a lower proportion of derivatives trades (given unprecedented equity volumes), which have reduced commission and order flow on a per trade basis. July-to-date CPT has come in at $1.36, as a stronger derivative mix is offset by a lower average contract size.

4. How did account growth trend in the second quarter and what was the profile of your new customers?

We generated 327,000 net new retail accounts in the second quarter, just shy of the record 329,000 in Q1'20. Consistent with Q1, a significant portion of growth came from smaller accounts, but we also accelerated growth in accounts with meaningful assets. Growth of new accounts with more than $10,000 in initial funding was up more than 140%, compared to the prior year's quarter.

Year-to-date account growth has been tremendous. The retail account growth in the first six months of 2020 alone is more than two times our previous best full-year period and is greater than the account growth from the prior five years combined. The unprecedented account growth is driven by robust gross new additions as well as record retention. Most encouraging, our account retention rates are strongest among our largest and longest-tenured customers.

5. What fueled the continued strength in net new assets?

We generated $13.6 billion in net new retail assets in Q2, our second-best quarter, trailing only Q1'20. Our industry-leading platform, tools, and services are resonating with new and existing customers, while successful promotion activity and concerted efforts by our Financial Consultants have proven particularly effective in an especially active market.

The strong asset growth was steady throughout the period as we generated more than $4 billion per month in April, May, and June, representing three of our five best months on record. The near-record account growth has contributed to strong asset flows, but assets continue to build significantly after the initial funding period as the majority of our asset flows come from existing accounts. Much of our account growth in the first half of the year has been sourced from smaller accounts, with less than $10,000 in initial assets. These accounts that funded with under $10,000 in Q1 more than tripled their asset balances in Q2.

6. How is your Corporate Services channel performing?

Our momentum in Corporate Services remains strong. We generated $14 billion in new stock plan client implementations in the last twelve months, contributing to $96 billion in total gross stock plan inflows. Furthermore, our Corporate Services channel continues to be a robust and strategically important driver of growth in retail accounts and assets, with the second quarter setting a record for net new Corporate Services-linked retail accounts and net new Corporate Services-sourced retail assets. We've only amplified our continued focus on delivering a leading-class experience, enabling deeper engagement with our participants across our suite of offerings, through digital and human channels. In this regard, the value proposition of our newly formed Executive Services team is resonating with clients, as their white glove service has directly influenced a meaningful portion of the improvement in proceeds retention. **On a trailing twelve-month basis, we have seen all Corporate Services proceeds retention march steadily upward from its historical 15% rate to end this quarter at an astounding 24%.**

CUSTOMER CASH

7. How did customer cash balances trend in the quarter? What were the primary drivers?

Customer cash growth of approximately $8 billion was our third highest quarter ever, primarily fueled by $14 billion of net retail asset flows and was aided by our highest quarter ever for Corporate Services domestic stock plan proceeds. This was partially offset by $7 billion of record customer net buy activity as retail customers deployed cash into the market following the sharp pull back in equities in the first quarter.

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

The average yield on third-party sweep cash was 28 basis points, net of the cost of deposits. This was comprised of third-party brokerage sweep deposit fees of 34 basis points and bank sweep deposit fees of 15 basis points. The average yield on third-party money market fees was 24 basis points.

For the third quarter, we anticipate net fees from brokerage and bank customer sweep cash managed by third parties will be around 28 basis points (32 basis points on brokerage deposits, and 18 basis points on banking deposits). We anticipate generating third-party money market fees of 4 basis points.

NET INTEREST MARGIN (NIM)

9. What drove the change in NIM in the second quarter?

Our NIM contracted by 26 basis points in Q2. The decline in NIM was driven by the full quarter impact of Fed rate cuts, which brought the average effective fed funds rate down approximately 120 bps quarter over quarter. Furthermore, the dramatic decline in interest rates as well as tightening of mortgage spreads drove an acceleration in prepayment speeds, leading to a greater than normal headwind from premium amortization, and lower yields on reinvestment of prepayments. The pressure from low rates was partially offset by record revenue from securities lending. Our blended deposit rate on balance sheet decreased by 17 basis points to 2 basis points as we lowered both sweep rates and premium savings deposit rates across our brokerage and banking products.

10. What is your ongoing expectation for NIM?

We anticipate generating a NIM of 230–240 basis points in the third quarter and anticipate generating a NIM of 245–250 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 125–150 basis points. For the third quarter, we expect the average rate for customer-driven liabilities (both on and off balance sheet) to remain around 3 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

11. Were there any unusual or notable expenses that impacted the second quarter results?

Diluted earnings per common share of $0.88 included expenses of $3 million, or $0.01 per diluted share, related to costs incurred as a result of the proposed merger with Morgan Stanley, offset by a benefit for credit losses:

	Pre-Tax Amount	After-Tax Amount	Per Share Amount
Provision (benefit) for credit losses[a]	$ 1	$ 1	$ 0.01
Professional services[b]	(3)	(2)	(0.01)
Restructuring and acquisition-related activities[b]	(2)	(2)	(0.01)
Total	$ (4)	$ (3)	$ (0.01)

(a) Estimates of credit losses in our mortgage loan portfolio.
(b) Merger related costs.

12. What is your expectation for expenses in the back half of the year?

We remain focused on prudent expense management as we also seek to maximize growth. We expect advertising and market development expenses will moderate in the back half of the year, with the full-year spend falling between $205–$215 million. Aside from advertising and market development, and excluding merger-related costs, we expect Q3 and Q4 expenses to be relatively consistent with Q2 levels.

13. Why did your Q2 tax rate come in lower than expected? What tax rate do you anticipate for the full year?

Our Q2 tax rate of 26% included the benefit of certain discrete tax adjustments recorded during the quarter. We expect to report a full year tax rate of approximately 27%.

DIVERSITY AND INCLUSION

14. What is E*TRADE doing to address questions around diversity, inclusion, and equality?

Diversity and inclusion are deep-rooted in our DNA, and we are at our best when we respect diverse viewpoints and listen to those around us—from our teammates, to our communities where we live and work, to our customers. In that vein, we are humbled to have recently earned accolades from InvestmentNews, Glassdoor, and the Human Rights Campaign for the diverse and inclusive culture we strive to foster every day.

During this remarkable period of social change, it is important to reaffirm what we stand for. We do not tolerate racism, nor do we take the role we play in helping advance society on the issues of racial equality and justice lightly. For us to enact meaningful change, E*TRADE is looking both outward and inward. To that end, in June we announced a $1 million donation to the Equal Justice Initiative and the NAACP Legal Defense Fund, and we established a Belonging in FinTech Scholarship program to support emerging African American and Black talent pursuing education at colleges, universities, or community-based programs in preparation for a career in financial services and/or technology. The Company also recently launched "Days of Action," a new initiative for employees to take time away from work to get involved in civic activities of their choice. Furthermore, we are actively engaged with our employees through leadership-led forums, providing a space for colleagues to learn from each other and build connections.

MORGAN STANLEY ACQUISITION

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

On July 17, 2020, E*TRADE stockholders voted to adopt the merger agreement with Morgan Stanley. 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. The acquisition is still subject to other regulatory approvals as described in the Company's proxy statement filed on June 12, 2020, including approval by the Federal Reserve Board, and is expected to close in the fourth quarter of 2020.

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, objectives, outlook, strategies, expectations and intentions relating to its business and future financial and operating results and the assumptions that underlie these matters, including about its ability to manage expenses and the consummation of 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 and subsequent reports on Forms 10-Q and 8-K 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.

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