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PRESENTATION

Richard Repetto - *Sandler O'Neill - Moderator*

Continuing on with that theme of what a difference a year makes, year to year, conference to conference, E*TRADE is up 96.5% from last June. Mitch Caplan actually -- and maybe it's overlooked as we looked at the -- you are not overlooked, [I know]. But maybe it's overlooked that he actually initiated the consolidation. He was the one that started the consolidation within the e-brokerage space, highlighting a lot of the potential as you brought platforms together and the cost savings as you brought companies together. He also has benefited, acquiring both Harrisdirect and BrownCo in the last year.

Mitch took over E*TRADE in January 2003. Prior, he was both the COO -- and prior to that, he was actually the CEO and, I believe, the founder of Telebank, an online bank. But today, we believe E*TRADE could be at an inflection point. And I think he'll talk about the different linkages of the model, of how they're come together to produce -- and I [will] call it a bank; he won't call it a bank, but incremental bank revenue and incremental profits to E*TRADE.

So with that, I would like to introduce Mitch Caplan, the CEO of E*TRADE.

Mitch Caplan - *E*TRADE Financial - President, CEO*

Thank you, Mr. Repetto. Good morning, everybody. Thanks for joining us. First slide? Who's going to drive this (indiscernible)? Do you want me to do it?

Okay, so we're going to begin quickly with the -- give a quick update on the Company, where we are, sort of the transformational process that we have been through over these last couple of years for our core business model, spend a few minutes on the finances, specifically for last year, and then where we are so far through the first quarter of 2006. And then, very much like Joe did, spend a few minutes in closing thinking about the industry -- broadly defined, where we think there is opportunity, and how we intend to sort of grow and execute.

So really quickly, many have you have seen this before. We actually use this as the Holy Grail. We developed it about three years ago, interestingly, for the board when we as a new management team were taking over. And we wanted to talk about how we wanted to transform the business over the next couple of years, and why we thought there was an interesting opportunity in the marketplace.

And at that time, about January of 2003, as Rich said, when we were taking over as a new management team, we probably still had 60 or 70% of our revenue streams coming from retail trading commissions. We stepped back, and we talked to the board and said, it's ultimately our goal both internally as you think about the employee base and externally as you think about shareholders -- this could be a growth company, and to look for opportunities to grow year over year as you build out a franchise.

We actually believe that if you continue to focus on nothing but online trading, you are not going to be successful. And the reason that you won't be successful is that you will be limited by capacity. If you look at the global universe of online traders, and you assume even a 60 or a 70% sustained rate of market share, in two or three years out you would cap out in terms of some achieving significant growth objectives around revenue, around earnings, around operating margins and ROE.

So the vision that we had been building for a while and what we were trying to execute on was to start with a core global retail customer. In many respects, in those early days, the customers had come to us because of trading. But we felt there was an opportunity to transform the relationship, and to think about that customer and, over the long term, build a relationship around four key products and then four key revenue streams.

The first would be engage with that customer around their assets -- have them bring assets into our Company. As a result of that, there would be some trading behavior. But as interestingly, you could engage with them around cash and around credit or lending products.

And we had had a 16- or 17-year operating history, many of us on the management team, in the early days from when we started the bank. And we thought it would be incredibly interesting if you could focus demographically on that customer base. And in that period of time, about three years ago, there were about 44 million households and growing who had between 50 and 500,000 in assets.

And if we could begin to take all those customers who were within our system and then start targeting those customers from a growth perspective as we brought in new base of customers, could we engage with them not only around their assets and investing and sell them mutual funds and exchange traded funds, equities, fixed income, some of which would generate trading behavior -- but, as interestingly, could we begin to tap into both cash as a real product and an asset-generating product, as well as credit?

And what we learned was that our retail customers both here and outside of the North American sort of footprint, and you started looking internationally, really had two behaviors with respect to cash. One was cash -- and they were less sensitive to rate; it was typically viewed as uninvested. It was sitting in an account, and it would move into and out of varying investment opportunities.

The other was invested cash. And it's really where there were keeping 10-15% of their liquid net worth. And our goal over time was to build out functionality around cash where we could engage and deepen the relationship with the customer and grow it and bring it onto balance sheet -- for us, managing a growing balance sheet as a liability.

Similarly, could we engage with those customers around credit? We knew we often had a relationship with them, and that they thought about the securities that they bought through our Company as collateral, and they would borrow against it on margin. Could we deepen that relationship in a way in which they thought about margin, mortgages, home equity lines of credit, and related products, in a way in which we were protected as a Company because there was underlying collateral, and we could give greater value back to that customer? And as we deepened the engagement around assets, had some focus and a growing revenue stream around trading behavior, but outpaced growth in revenue around cash and credit, which we could manage on balance sheet, we could generate superior risk-adjusted returns.

And so that was the core, really, of the business model and the transformation that we really had put in place many years ago but undertook starting in about January of '03. And I think Richard's right. We really have reached an inflection point today with respect to growth and with respect to the opportunity as you think about the global retail customer.

Surrounding it with an institutional business -- solely exists to create more leverage and more earnings power for retail. So half of it is as simple as managing what is a growing balance sheet. It's now at 47, $48 billion. So it's a growing number as you think about it.

And we have guided to continue growth over the next couple of years and over the long-term. And at the same time, we have also said totally independent of the balance sheet, can we think about other assets that we have in the system? Absolutely. We engage with retail customers globally on a significant basis every day around order flow. How can we maximize that order flow? We do it, again, through our institutional business, whether it's execution in settlement, using the information we have with pre-trade and post-trade analytics or, at the same time, using our market-making operation and internalizing about 50% of our order flow.

So that sort of surrounds the core retail. And then, finally and very quickly -- long, long time the idea was always to become the low-cost producer, to continue to drive down your costs and increase your operating margins. You'll see at the end of the presentation, we have now re-established a new goal for ourselves of operating over the long-term at a 50% plus op margin. And the way that we have been able to do that and drive economic performance over these last couple of years was to be in a place where, as you think about technology, as you think about service, as you think about operations, it becomes completely integrated on a global platform. So it doesn't matter whether you're dealing with a retail customer or an institutional customer. It doesn't matter in retail if you are dealing with a cash, credit, trading transaction -- you are using the core same platforms, and it allows you to drive incremental operating margins.

So very quickly, we launched about a year ago our E*TRADE complete product. And in many respects, it was the embodiment of what I've just described to you and what we were trying to build. And the idea was that you would have core functionality. So in a value proposition today, as you think about reaching out to a customer, there are really three points. First is price -- clearly, what you're saying to a customer is, we do business in a different way. We are using technology as opposed to brick and mortar. We have a lower-cost infrastructure, and we are going to share some of those economic benefits with you in the form of better pricing around products.

But, as important, it's the evolution of the value proposition where price becomes one part of the component, but you can also add functionality and service as differentiators. And we've found today, as you think about the global retail customer, they are looking for the optimum mix of all three of those.

So for us, E*TRADE complete, you can see in the center of -- [it's] complete view. You effectively have your own balance sheet. So when you come on, you hit your account summary page, and you can see your view. You know exactly what you have -- not only within our Company, but both can be imported externally from any of the other sources you want in terms of your assets and your liabilities.

Then you surround it with functionality, like the ability to transfer cash immediately, not only within the system but outside of the system, both in and out, as well as the credit/debit card and the security that we give with the RAS tokens to our customers.

And then you can see the key drivers around product go to investing, cash, and credit. So about a year ago, we launched the intelligent cash optimizer. We have had very, very strong growth rates in cash over these last three quarters. And then, more recently, we have launched the intelligent investing optimizer and the intelligent lending optimizer -- again, ways in which we can help our customers, show them -- what is the best place in the system for them to put their cash and generate the highest returns? What is the best way to borrow from our system and lower their cost of borrowing? And from an investing perspective, how do you think about a total financial review? What's the best way to allocate all of your assets and generate superior returns over the long term?

So what have we seen? We clearly have seen since we launched the intelligent cash optimizer about a year ago -- so this is really independent of the growth that we have experienced as a result of the acquisitions. So totally independent of just growing cash because of Harrisdirect or Brown, we have seen about 3.4, about $3.5 billion worth of organic growth in customer cash in this last year. We have seen it actually escalating, in that we had about around 900, and then 1 billion, and about 1.6 billion over these last three quarters. So you see really strong and consistent growth for us across the board with cash.

More recently, we have launched again the lending and intelligent investing optimizers, where we hope to be able to execute in a way in which we see some of the same benefits on the credit side that we saw on the cash site, as well as continued growth in assets within the system.

Next slide. So what has it really done for us? We are in a place where I've said 3, 4 years ago, 60, 70, as much as 1.80% of our revenue was being generated from retail trading commissions. Today it's at about 20%. So the model really has been transformed.

We are at about 50, 52% of our revenue coming from net interest income, which is simply managing the balance sheet in a way in which, as you have engaged with these customers, you are taking the cash and putting it on a balance sheet as a liability. You are engaging them with credit and credit product, margins, mortgage, and putting it on balance sheet as an asset.

And you can see since Q1 of '05 through Q1 of '06, clearly everybody knows we are in a rising rate environment. Our average asset yields have continued to tick up, and our cost of funds have continued to also drop as a result of engaging with these customers around the cash products. So we have been in a place where we have very slowly and very methodically been able to consistently widen out our interest rate spread on what is a growing balance sheet, generating not only a growth in earnings, but also transforming the model in a way in which -- where now, as I've said, about 52 or 53% is coming from net interest income.

Next slide. So the takeaway here is really just how do you think about the balance sheet? What is our goal? If you go back even a year ago, from Q1 of '05 to Q1 of '06, we said, we want to be in a place where, as we grow our balance sheet, we really are proving to ourselves that the growth on the asset side is related to loans. It's related to margin loans, it's related to mortgage and home equity lines of credit with our customers. So we want to be in a place where -- not 50% of our balance sheet on the asset side is in whole loans, but ultimately 70, 75%. In a year, we have been able to move that from 50 to 63%. So we have increased the percent, and we have also increased it on a growing base.

Same thing on the liability side. We long knew that we wanted to focus away from other forms of liability and again move to 70, 75% of the balance sheet being driven by customer cash. Customer cash can range anywhere from a traditional free credit type of product all the way through money markets, checking, other transactional accounts, and certificates of deposit.

So you can see we have gone from 54 to 64% in that same time period, also on a growing base. And the result has clearly been moving our spread from a year ago at about 242 basis points to now about 286 basis points. And both sides have contributed. We have benefited from engaging with our customers around cash, as a lower-cost liability, and also engaging with our customers around credit products, margin, and otherwise, which is a great asset class for us to have on balance sheet.

So you can see graphically here, very quickly, that we are at a place where, even in '05, on average, we were at about 48% for net interest income. You can see retail commissions from 30 down to 20. As you look at this year, we would expect to see the same consistent trends. And I would expect over time, as we continue to increase our net interest income and grow our balance sheet, you could end up seeing the 48% -- again, today, it's 52 -- move up slowly and methodically in terms of execution.

While we have been growing the balance sheet, one of the things that's probably the most important to us is that it makes sense to be able to grow it as you engage with that retail customer. Its core. It's crucial. But similarly, you have got to do it in a way in which you're consistent about credit and interest rate risk.

And when I talk internally and externally, and as a leadership team, when we're trying to figure out how strategically to grow the business, one of the things we always say to ourselves is, it's got to be risk-adjusted returns, and that the purpose of institutional business within E*TRADE Financial, and particularly the balance sheet management, is to take the growth which we are getting from the retail customer and generate those superior risk-adjusted returns by focusing on credit risk and interest rate risk.

So here, if you look at credit risk from a long-term perspective, I guess since the early days when we really first started building out the business and began a balance sheet back in '89, we have done it virtually identically for the last 17 years. So if you look at any moment in time, you would consistently see from a FICO score perspective -- and the good news is, as you look at our customer base and our prospective customer base, tends to have very high FICO scores; so a propensity, obviously, to repay.

So where we are sort of interested is in what you would consider the super-prime category of borrower -- loan to values much lower than the industry. So we have had consistent, very low charge-offs, very low losses, whether you look at it in a one-year, three-year, five-year, all the way back for 17 years.

And similarly, the same thing is true with geographic concentration. So when you look outside of margin loans, and you look at mortgage-related product, ensuring that because your customer base is all over the United States, it puts you in a place where you can have significant geographic concentration.

Next slide. Without a doubt, this is one of the most important slide to me as I think about our business and where we're trying to go. Key to being successful and creating a value proposition is really being able to be efficient, to be able to take advantage of opportunity in the marketplace where you think there's growth, be able to meld with that your business model and do it in a way in which you have controlled costs. So you can see, back in '04 -- back in '03, it was significantly lower; it was in the low 20s. In '04, we moved to a 33% operating margin; in '05, to a 38. Q1, we were at an adjusted 44%. And right now, each additional dollar of revenue that comes into our business model, regardless of where it's coming from - retail; institutional; within retail, cash, credit, investing, or trading -- it has an incremental op margin of about 74%.

So you can see the benefit is that last year, from '04 to '05, we grew revenue about 15%, not including the acquisitions, because they weren't integrated yet. And at the same time, we grew earnings by about 31%. So you can see the leverage really dropping through. And it's what gives us the comfort to be able to move in the direction that we're trying to achieve over the long term of 50% plus operating margin.

Next slide. Very quickly, in '06, a couple of key points. We want to grow assets. We want to grow cash. We want to grow credit. And we want to grow trade. And we are measuring and monitoring ourselves around each one of those core metrics as you think about the business.

And then as you are growing them, how is it that we strengthen and enhance the way in which we interact with our customers, ranging from -- on the low end or low-cost side, the online experience, really the Website, which is our storefront, and recognizing that it isn't 70% of our customers who are using the web site and 30% who are not, but rather, 70% of the time our customers are using the Website as a way to interact; 30% of the time they will use something other than the Website.

So you sort of move along the spectrum to the phone-based delivery, which could be just purely service or it could be service and sales with a relationship manager. It can be in person; we now have about 17 physical facilities. When we are done in the U.S., we will probably have 30, 32 -- pretty limited and controlled, in our mind -- all the way to a regional advisor model, where we had been slowly acquiring regional advisors only as subsets of areas where we also have a physical facility and we have a relationship with a corporate services client and have access to a vast number of employees.

On the institutional side, again, it's really their goal on the balance sheet side to optimize the balance sheet mix, help us move in a direction where 70 to 75% of the assets and the liabilities are coming from our core retail customers, and generating the returns that are necessary by monetizing effectively the duration characteristics of -- so how long do we expect to hold that customer and the customer's cash? How long do we expect to hold that credit and maximize the return there?

Similarly, on an institutional equity side, it's using technology to be more efficient, to lower our costs around market-making, as well as using that information for things, as I mentioned before, like pre-trade and post-trade analytics.

Q1 -- we continued to have pretty strong results. We've had 3 record years now, I guess, in '03, '04 and '05. Each year has really been a record over the last. In '06, we hit a bunch of new records as well. We're at a place now where we're approaching about 200 billion in assets. Of those 200 billion, I think we said that at the end of Q1 we were managing about 44 billion of them on our own balance sheet. Our revenue was approaching about 600 million. Income was about 142 million. And you saw spreads continuing to widen.

So as you step back -- I was listening to Joe earlier speak. And we very much are of the same mind as you think about the opportunity. And that is that ultimately, and as I said in the early part of my comments, if you wanted to build a business model that was focused on nothing but online trading, you just can't build a sustainable growth franchise.

On the other hand, when you look globally at the marketplace and say, you've got 44 million, 46, 47 million, whatever the number is, and growing households just in the U.S. alone; and you look and you say outside the U.S., which for us is an interesting opportunity internationally, because we're there, and there are similar numbers of opportunities around this mass affluence, you recognize it is a very large and growing marketplace.

It's going to grow because we're in the midst of a significant generational transfer of wealth, so a multi-trillion dollar generational transfer of wealth. And independent of inheritance, you also have people who had built wealth and lost some of it in the Internet bubble and are rebuilding it -- totally different behavior characteristics in how they interact with us today, as well as a whole new group of customers who are building wealth for the first time.

So as you target that market, you recognize on a global basis it's huge. And then you also recognize that, within that space, the online or alternative distribution, however you want to look at it -- that channel is growing faster. So there is a huge opportunity there because, as Joe said, for those of you who were earlier, many of the bulge bracket firms can't effect to cost-effectively service that mass affluent customer, so they are pushing them out. And as they are pushing them out the door, there's a huge opportunity for everybody in our category. All of us in our space are gaining share from the likes of Merrill and Morgan Stanley and JPMorgan and Citi.

There is a different opportunity when you think about it in a global marketplace today for all of us as we position. Where a couple years ago, it may have been fighting out marketshare among a select group, today, as we have been able to transform our models, and certainly as we have been able to think about our business model in a different way, it has allowed us to take advantage of that and really think about where the long-term growth opportunities are.

Finally, the last point I would make in the growth trends is the significant and most important differentiator is really around the value proposition. And it's balancing price, functionality, and service. That's the thing that is really allowing us, in particular, to gain market share, because we can indicate to that customer clearly what the value is to them and why it makes sense to move as they are building wealth from an off-line environment to an online environment.

Next slide is -- you can see one of the things that we talk about internally as a team is this past year, in '05, we had about 1.7 billion in revenue. I think this year, we have talked about a range of 2.2 to 2.4, and continuing to look at the opportunity.

Every time we penetrate about 2% of that mass affluent market we can grow another 1.4 billion. So that is really -- even three years ago when we were presenting to our board, that was really the context that we were operating in. It's so much easier to continue to grow and transform the model when you think about incremental share growth against a much bigger marketplace.

Finally, for us, international continues to present a huge opportunity. It was a business where as recently as four years ago, three years ago, we were losing significant amounts of money. Today, this year, we will probably make about $50 million in total in our international operations. We transformed it by lowering our costs and at the same time growing revenue. Revenue was initially grown simply by focusing on daily average revenue trades as a product. As we now continue to transform the international model and go beyond trades into cash and credit and assets, it gives us a huge opportunity. And you can see where we are physically located.

Next slide. You can see the growth rate has been outpaced 51% in DARTs, and that's really been our historical product offering. And as I just mentioned, when you think about the others, that's where we feel like we have an opportunity to tap growth, not only here but outside of the U.S..

And finally, in closing, I would say we talk about this pretty consistently. But for us, it all begins and ends with being a growth company. And what we sort of hold ourselves accountable to is a belief that over the long-term sustainable future, we can continue to grow topline by 10 to 15%, bottom-line EPS by in excess of 20% a year and get our operating margins to 50% plus.

QUESTIONS AND ANSWERS

Richard Repetto - *Sandler O'Neill - Moderator*

Okay. We'll take a couple of minutes of questions, if anybody has a question.

First, I'll start. I know you talk about assets, cash, credit, and trade driving the future or the metrics of the Company. One, this is my little niche, is this employee stock plan administration program -- how that can generate cash. And I know this is narrowly focusing on one segment of your business, but I think it is an example of the linkages across the businesses that you build, and that's why I'm asking.

Mitch Caplan - *E*TRADE Financial - President, CEO*

I agree. So what Rich is really referring to is that a number of years ago, we bought a couple of companies that were really in the stock plan administration business. And I think for a long time as a management team, we recognized that we wanted to be in that business not simply to generate revenue by selling software or maintenance contracts around software but, more importantly, we wanted to be able to get to that customer and generate revenue as a result of some transaction.

I think the transaction that we always thought of was, if we -- and we have got, by the way, dominant market share in that space. So you name it, they are typically a customer of ours, ranging from Boeing to Microsoft, Yahoo!, Google, all of them.

And the idea is you want to be able to get to, ultimately, the employees. And transformationally, about a year, year and a half ago, we begin to recognize it was far more important to be focused on that customer around other products like cash and credit, rather than the one time that they took their options, traded, and turned it into cash. And even two years ago I think we were showing you some of the numbers -- 90, 95% of the cash that came through the system will be in and out.

And now, today, we have been able to generate significant retention rates around the cash and also begin to engage with them around credit, because often you find they are selling stock because they want to buy a house or they want -- there's some activity that they want. So we're in the place where we can help solve some of their problems on the credit side, as well as generate a longer relationship by offering interesting cash products.

Richard Repetto - *Sandler O'Neill - Moderator*

Which -- it might help if you just go through the very -- what is the program? There are some people that are very new.

Mitch Caplan - *E*TRADE Financial - President, CEO*

So simply what it is, is if you are at Yahoo! or Google or whatever it is and you have in-the-money options and you know it -- and we have got billions of dollars of vested, in-the-money options that we hold with respect to the employees of that customer base -- actually, tens of billion.

And the idea is to be able to work with the Company and therefore those employees. So we know when their options are in the money, we can target them, we can talk to them about -- very much the way you would with a traditional relationship manager. You now have value that's in the money. Do you want to think about it in a different way? Are there ways in which we can be helpful to you as you go to execute? Here are some value products we can offer you in the short-term around cash while you keep cash. We can build a relationship with you and think about how to holistically invest your money. And the same thing is true with credit. So we begin to build and deepen the relationship directly -- not with the Company, but directly with the employees of the Company as they are building wealth for the future.

Unidentified Audience Member

Mitch, you offer some relatively high-yielding bank accounts, and you also continue to offer [brokerage] free cash. Have you found the banking rates cannibalize the growth of free cash in any way? Or do they both grow?

Mitch Caplan - *E*TRADE Financial - President, CEO*

Both have grown. And both have grown at pretty strong rates in this last year. It's interesting; what we find is, notwithstanding launching -- and I think when we first launched it over a year ago, we assumed in the initial model that there would be significantly more cannibalization that we've seen in the last year. And part of it is because of the functionality. It's so easy to transfer and get a higher yielding.

But what we really have seen is that customers have a very different behavior around this invested and uninvested cash, and how they think about uninvested cash. Now, theoretically that could change if the market dynamics change. So if, all of a sudden, a bigger percentage of their net worth is going to stay in uninvested cash because they are afraid of the equities or fixed income market, you could see it move.

But what we have seen so far is just pretty significant growth. And the value associated with the cash for us is immense because of the duration characteristics. So it's a much lower cost to fund, notwithstanding the fact that we are offering good rates -- still, much lower than the cost associated with a wholesale borrowing and a corresponding hedge.

Richard Repetto - *Sandler O'Neill - Moderator*

Thanks very much.

Mitch Caplan - *E*TRADE Financial - President, CEO*

Absolutely.
