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CORPORATE PARTICIPANTS

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PRESENTATION

Rob Simmons - *E*TRADE Financial Corp - CFO*

Good morning everybody. I'm Rob Simmons. I'm the CFO of E*TRADE Financial, and welcome to my living room. It is nice to have a nice, cozy intimate venue like this such that actually I'm delighted to be here at the GARP Conference this year. And I think format wise the plan is that I will go through my presentation that I have got and then we will have plenty of time at the end for Q&A. Obviously feel free if you feel like you need to, stop me along the way. Obviously today's presentation may contain forward-looking statements that are subject to risks that we publish in our SEC filings, as usual. Let me start a little bit with the general comments about the E*TRADE financial model because it really is one that I think has been -- it is like sometimes flattery or imitation is the sincerest form of flattery -- we've certainly been broadly imitated at times. And so it's one of the things that I think continues to be one of our strengths is that we have converted what was ten years ago, a pure brokerage model into what is now a really pretty interesting integrated financial services model. But we haven't abandoned our roots. We still love that core retail customer; in fact the core retail customer is still at the heart of everything we do today.

We're just trying to do a much better job as a company in providing a complete value proposition around that customer base, and it has really been gratifying to see it work. I mean we really see very nice organic growth building on that core of what was in the day original people that came to us to trade stocks online. It was the new, neat thing to do in the '90s. And suddenly we turned something that was neat and trendy into what is really a very, very solid business model at this point. But again, if you look at this chart, the global retail customer is at the heart of what we're doing. And we say global on that for a real reason because our ambitions are global. If you look at our business and we will get into this a little bit later, international -- everything outside of the U.S. is where we (indiscernible) international has been the fasted growing sector of our Company over the last two years. So this one of the things we think is really exciting. We think that it makes a lot of sense for us to do that and look at international, it is a significant source of growth, because we've already made the investment in technology. We've already got that technological footprint there. It's very scalable. You don't have to go out and invest tens and hundreds of millions of dollars to grow a brick-and-mortar network in another geography. We can enter a country very, very inexpensively by deploying the technology that has already been developed and just checking the regulatory boxes and we are up and running, and we will get into that more in a little bit.

Again, the model starts with that global retail customer. We offer, we vest in cash management and lending products, credit products around that. You will notice that it is much more than just trading and this is the thing that we have been trying to beat that drum for a couple of years now. But E*TRADE's financial model is much more than just a trading model. People -- sometimes analyst -- fall into the trap because it is easy to do of following our trends in the industry and what not. I mean if you will notice retail commission revenue is only about 20% of our total revenue buy at this point so there is much more going on than just the trading world.

Once you leave the realm of kind of the retail customer we've also got a couple institutional businesses, and you should really think of institutional in our case as really existing only because we have this nice retail business. We have retail order flow, that retail overflow can be leveraged within the context of an institutional business and we can generate incremental economics; again off that same retail customer base that otherwise would be taken away to other third parties. For things like market-making institutional brokerage services, balance sheet management, we keep all that there to leverage the core retail customer that we've got there. So then obviously you have got a single company that can leverage the technology development that has been made in the back offices, you get lots of synergies there, the customer experience is integrated and that is really the E*TRADE model. It is to build on our strengths, don't abandon our roots but build on our roots and add those other layers to the model.

One of the things that we came out with a little over a year ago now was called E*TRADE Complete which was meant to be a nice way to bundle what I'm talking about here. It is a single account that has a lot of functionality that could be thought of as having banking products, brokerage products; but its all about that integration again of investing, trading, lending and cash management in one place and also make it very easy. One of the things that really we are trying to do is provide technological tools to our customers to help them be smarter and be better about managing their own businesses. We came out with E*TRADE Complete a year ago; started with the intelligence cash optimizer. We made it easy for people to look at all the layers of their cash investments and said, gee, I can toggle this one up a little bit and make a little bit more money by putting it in a money market account then I can having it sit in my checking account. Just a way to give people a way to make a decision about the liquidity they have. All of us are probably guilty of this. I know that I am, of keeping too much money in your checking account just because you want the liquidity (indiscernible) I don't want the hassle of having to transfer money around, but people have a very nice tool where they can manage that cash position, and then via our quick transfer technology can very easily and (indiscernible)transfer money anywhere they want into or outside of the E*TRADE system.

We also have (indiscernible) investing optimizer and a lending optimizer that helps to round out the tools that we give within the context of that E*TRADE Complete account. So here is how we -- another way that we can think of ourselves is that we are trying to provide a solution of financial products for our customer. Involving broad categories to investing cash management and lending and again, it is leveraging that technology that allows us the scale ability to really grow in a way that -- growth helps widen our margins, not the other way around like it is for many companies.

Let's talk a little bit about this customer experience and the customer relationship. Obviously moving left to right you can see kind of where we started. So we started with the website. We started with electronic trading ten years ago. Self-service, it was there for convenience, it was there for ease and it was there because it was a great value. Rather than paying $300 or $500 for a trade, you could do it for much, much less. But it has evolved into something that is much more than that. Obviously now we have contact points, we have customer service, it is tiered based on the relationship the value we are going to get out of that is going to get better and better as you engage more deeply with E*TRADE Financial. We now have relationship managers so if you fall into one of our categories of being one of our top tier customers you are going to have your own personal relationship manager that is available to you; via largely be a phone base relationship but also we have a handful of branches where you can walk into for those times when you might need a face-to-face meeting. It is not our ambition to build a national or global branch network, but what we do want to have is we want to have representation in the major MSAs, the metropolitan statistical areas; we want to have a presence there. So you will probably see us go from about 18 at what these branches today to maybe 36 over the next couple of years. But it's clearly not our ambition to go to that 100, 200, 300 sort of branch networks. We think that we want to be much more flexible than that. We want to be much more nimble than that and that is one of the ways that we differentiate ourselves from some of our competition.

We've also moved into the adviser stage, very quietly; you probably haven't seen a lot of news about it, but very quietly we've been building our adviser network as well for those moments when someone wants to sit down and have a real in-depth conversation about a long-term financial planning, about retirement planning; we've got the capability to do that. Just as important for pretty obvious reasons that if you visit our customer base, it tended to be relatively young, relatively comfortable with technology. And these are people that have now been in the workplace a few years, they are starting to build wealth, they are getting to be interesting customers. We want to grow with them; we want to grow our capabilities with them and we have been.

So let's talk about how it has been working. Obviously the proof is in the proverbial pudding, when it comes to that, but we rolled out E*TRADE Complete just a little over a year ago today. So just in the last three quarters, and again so (indiscernible) initially our cash optimizer tool, one of the objectives of this tool was to give people a tool that could see better the full suite of products that we offer, the value that we offer not only in trading but in cash management and lending as well. And it has been pretty interesting. If you go back to Q3 of last year we grew our cash organically meaning not from acquisitions; we have done some acquisitions, too, but organically we've grown. We grew $800 million in cash in the third quarter. We grew $1 billion in the fourth quarter and we grew $1.6 billion in the first quarter. So cash is very important to our model. Because we run that complete balance sheet view of a customer, (indiscernible) this additional engagement is very important to us from the ability to deliver value to our shareholders.

If you look at cash again why is it so important to ask? It is kind of interesting because if you look at the trading universe, there is not a lot of traders that would fall into that active trader category. If you look at someone that saves, like someone who is trading 15 times a quarter, in industry (indiscernible) that is a pretty good account. Someone who is trading 15 times a quarter that is a valuable customer. Contrast that with a customer that comes to us, opens an account and for whatever reason doesn't trade at all, doesn't like the market, doesn't like what they see, they are on the proverbial sidelines, right? But they bring $15,000 to their account and they leave it here, put it into one of our cash management solutions. That customer that is trading 15 times a quarter is no more valuable to us than the customer that brings $15,000 in cash. And I got to tell you there is a lot more people in the world today that has $15,000 of cash to deploy than people that are trading 15 times a quarter on a regular basis. So this is why from a growth perspective cash is been a very important component of that.

We have the sense now of quick transfer we talked about. A quick transfer for those of you that are familiar it is kind of basically an ATH engine behind it, but it allows our customers for free to transfer money either within their E*TRADE accounts or out to another account (indiscernible) or from another account into the E*TRADE realm. And this is where it gets interesting because again when we rolled this out we didn't know how it would work but so far it has been great. For every $3 that has been transferred in from accounts like Citi, Wachovia, WAMU, etc., we have only had $2 flow out. So we've been a net and net positive on those transfers since we originated that product.

Another interesting product, E*TRADE Corporate Services, now I don't know if any of you are even aware that we have this business but we help companies -- about 2100 companies, as a matter-of-fact -- manage their own stock plan administration. There is employee stock purchase plans, their employee stock option plans, we provide the technological tools and service to help them do that. Well, why is that interesting? Well, at some point when people go through their process and they get vested options, those options they monetize and now it becomes cash. It becomes a great feeder channel for us to grab these customers, these noveau riche customers that now have generated wealth via their employer stock option plans. Today we have $34 billion in our network of vested in the money options, and that has been growing very rapidly. So let's look at the overall model and see how all this could translate into the financial terms since this is my baby.

If you look at the model going from 2001 to 2005, probably none of this is too surprising. Start the bottom, retail commissions was 30% of our model; was really important, everyone focused on it. That is declined now, it is only 20% of our model today. You look at net interest income after provision, it was relatively small in 2001. Now remember we had done the acquisition we had acquired a bank in 2000 but we were firmly in banking and brokerage mode in 2001. 33% of our model was net interest income after provision. That has grown to 48% of our model now. Why do we like that? We love that (indiscernible) it is a recurring very stable source of revenue. We (indiscernible) commission? Absolutely subject to the vagaries of the market; we don't control that. Right? The market moves kind of ebb and flow and creates volatility. So we like the upside that comes from this component of it, it is very high margin. An incremental dollar of revenue above your breakeven point in this business carries like an 85% operating margin on it.

So as you grow that business it is great. There is a lot of leverage that comes. But there's also the downside, when that market comes back in you don't want to be too reliant on this slice of revenue, and we haven't been. We love fee income, we love principal transaction revenue that comes largely from our market maker business; again leveraging order flow that we are generating from that retail customer base. We hand it off to our marketmaker and generate market-making income and revenue from that, as well. But you should see how the model has really evolved.

What are the translated truth of operating margin because this is, again, the proof is in the pudding. 2003 our operating margins were 14%. We had told people that we wanted to get into the 30 to 40% range back then. No one believed us. Of course our stock reflected it and anyone that bought our stock back then did well. But in 2003, 14% we've grown to 38% in 2005. We've guided in 2006 we think operating margins will run somewhere in the 43 to 44% range, obviously plus or minus a little bit based on how market conditions are. So let me talk a little bit about balance sheet management.

Balance sheet management is a critical part of understanding what E*TRADE is doing at this point. We are trying to engage with customers in a number of ways. Obviously when we started with the investing and trading world but we are also trying to invest or engage with customers in the form of getting more cash from them. And also engaging in credit products; we love to give them loans on their house. We love ELOCS. We love all sorts of credit products including margin in the brokerage where we think of that as (indiscernible) and then we manage a single holistic balance sheet. The idea that we started with the retail customer; we engaged with that customer in a number of different ways and then we optimized the management of those assets and liabilities that are generated from that activity to try to optimize the balance sheet and generate incremental economics in the form of net interest spread. The trend goes onto the P&L in the previous slide in the form of net interest income. Obviously the customer value proposition is enhanced by this too, because the more successful we are the more that we have that we can make the customer experience even better.

Spread is one of the things that has been a hot topic for us. Spread obviously in the banking part is just the difference between what we are earning on our interest-earning assets minus what we're paying on our interest-bearing liabilities. You can see that as (indiscernible) funds has grown since the Q1 of '05 the distance between blue and the red line in that chart has continued to widen. In fact on the next slide you can see that we have actually grown our spread from about 2.4%, the difference between what we are earning on our assets and what we are paying on our liabilities is about 2.86 by the end of Q1. And the thing that makes this all the more interesting is when you dig down another couple layers or two and look at the composition of our balance sheet, we have incredibly low credit risk. We have incredibly high FICO scores that are consistently in the prime to super prime range on average, and our loan loss performance has absolutely mirrored that.

So we've been able to very successfully grow the earnings from up from our balance sheet largely by engaging better with our customers in the form of cash. As we grow the asset side of the balance sheet we're funding that more and more with this growth in cash that we are talking about the last three quarters, rather than having to borrow wholesale funds in the secondary market which would be more expensive. We are engaging with our customers in a way that allows us to also widen spread at the same time given our customers' great value for their cash investing dollars.

So let's talk a little bit about the long-term growth objective of the Company since this is a GARP conference, after all. We think that long-term given this model we have the ability to grow revenue 10 to 15% a year. And that that will translate into consistent growth of about 20% in terms of bottom line earnings per share. We think operating margins can be between 40 and 50%; again internally we are -- our next target we will try to get to 50% in terms of operating margins over the next period of time. But I think our growth opportunities are significant and they are there. I think all the secular trends are nicely in place. If you look at the direction the market is going it is moving absolutely in our direction. I had the pleasure if you want to cal it that, last fall of sending my oldest kid off to college. So last year a year ago I went through the process of getting him set up with bank accounts and all that good stuff. And it was funny because at the point when he went to college he had never before been into a bank branch. When I was at the same stage getting ready to go to college I knew my favorite teller by name and all the names of her kids and all that stuff. There is no reason for kids to go into bank branches these days and I love the staff, but if you look at the large regional banks the only way that they are growing their deposit base is by growing the branch network. I think it is absolutely counter to what is going on with the secular trends in the industry when you look at customers. And that is where we are playing right now.

So let's talk about how we've spent the last couple of years. So we've talked about our long-term revenue growth objectives, 2004 to 2005 we grew our topline by [60%] We grew pretax revenue income by 31%. Again we are seeing the sort of leverage the operating leverage in the model that we would want to see. In 2005 a record net revenue for us $1.7 billion, we had great net income $430 million. Operating margins just under that magic goal of ours of 40% and that EBITDA of $869 million. Total (indiscernible) assets for the first time in 2005 cracked $100 billion; in fact we ended the year at $179 billion. And interestingly too just to get into another point here options trades have been another significant source of growth for us. One of the things that has been not widely publicized is that options, our options business has been one of the fastest-growing areas of our business as well. If we look at where they were options were about a year and a half earlier -- options were only about 5% of our total daily average revenue trade. Ending the year they were about 12% -- or actually in Q1 they were about 12%. So again, for the quarter, net revenue just a hair under $600 million, net income $142 million, net interest spread again 286 basis points and in fact we hit our magic operating margin in Q1 of 41%.

So let's talk about organic growth going forward because obviously at this point we have now acquired Harris and Brown, which we did in 2005. But the integration for Harris occurred in February and is largely complete now. And in fact we -- the integration work for Brown happened just a week ago. And that has gone very nicely so far and we will give everyone an update on that progress when we give our quarterly update call in July. But again, when we think about the organic growth plan in 2006 and beyond, it is very consistent with what I've been saying. It is not just about trading and investment product. It is very much built around our cash management and our lending business. We want to grow customer assets. We want to get more of our customer's cash. We want to do a better job of engaging with them in credit products; we have a great value there. And obviously we still want them to trade with us; the things we started, the relationship with, more than 10 years earlier.

So the other thing we are doing at this point is with the integration of the Harris and Brown acquisitions is we are really renewing our commitment to customer service at this point. When you look at synergies from a deal as you are looking at a merger opportunity like we did obviously you're looking for ways that you can generate synergies out of the deal. Well I can assure you that customer service is not an area that we look to for synergies in either deal. In fact, we've built on both the customer service platforms that we acquired in Harris and Brown and we are even going beyond that. We are investing additionally in customer service personnel right now to make sure that our customers have a good customer experience.

One of the things that we are also doing is trying to do a better job of leveraging the assets and liabilities on an enterprise basis. Again, we have this kind of underlying legal entities going on with the bank and a broker but we are now running the business on an enterprise basis. Again we think the margins is a brokerage problem, we think of that as just another one of the asset classes that we have on our overall global balance sheet.

Liabilities we have obviously our deposit product at the bank, we have CDs and money markets and checking accounts but we always also look to the brokerage side for free credit and money market and cash that exists over in the brokerage side of the business.

We are running the business now as one consolidated entity, and one of the things that has been really interesting about our being able to do that is that when you think -- when you look at the brokerage side of the business -- you look at things like margin and cash that is in the brokerage world. They have very interesting duration characteristics from if you look at it as a banker. Obviously in the banking world one of the things that (indiscernible) very positive and always making sure your hedging is in place so that you've got the duration of your assets and the duration of your liabilities doesn't get out of whack.

So what we've been able to do by mainly looking at ourselves and run as one integrated company is taking that margin, taking the cash that is on the balance sheet as a broker and looking at it holistically in terms of our overall hedging strategy and there's a lot of value that is being created there. In fact one of the initiatives that we talked about for quite a while is actually moving our clearing corp within the brokerage world, moving that actually under our banking legal entity structure just to make that whole process a little bit easier. It is actually not technically necessary to do that but it just makes life a lot easier for everybody to actually move from a legal entity standpoint, that clear and corp under the bank so that you can monetize the duration characteristics of that margin as best that is sitting there at the brokerage entity.

Technology is very, very important that we've got a single technology platform that we've now developed that now allows us a lot of that scalability that we need to grow going forward both internationally and within other lines of business (indiscernible) institutional. So again, some of the overall broad fees in the financial services marketplace, again secular growth trends that I talked about very strong. We think that the engagement with customers that are increasingly becoming comfortable transacting at a largely electronic environment that is growing, (indiscernible) continuing to grow. We think online continues to take share from off-line or terrestrial sort of solution and that will continue for a long time to come.

Our brethren in the bulge brackets continue to focus, I mean there has been a lot of talk even in very recent weeks and months about, and yet another firm that is basically telling their sales forces you got to focus on the million dollar plus account. Our focus is firmly on the $50 to $500,000 accounts that are largely ignored or a least best underserved by the bulge bracket firms and that is our strategy is to get that segment in the $50 to $500 range and then grow with them and then accumulate wealth over time. And then again we think we are in a position to derive a more compelling value proposition that any of the off-line providers can because we are not doing it with brick-and-mortar. Brick-and-mortar creates a channel conflict that is very, very difficult for the off-line guys to ignore and overcome.

I used to -- I spent much of my career in California although I now live in Virginia or in Maryland, but I remember the experiment that the large regional banks Wells and those guys went through a couple years ago and maybe you will remember it when they were asking people that, okay, you can come to our branch but if you are going to transact with the teller we are going to charge you a dollar or two dollars or something. People went nuts. They wrote their congressmen and their governor and how can the banks do this and we got a legislative deal that they can't do this anymore. It didn't work. The channel concept is too great. It is too hard for these regional banks to offer one, value proposition to just on-line only customers and a separate lower value proposition to customers that want to use the branch network. So we love our work position, we love our model and we think that it is going to continue to give us very very well.

If you look at the households -- now this is based on Forrester Research that was done. Looking at about 108 million households in the U.S. 44 million fall into that category of mass affluence that we are going after. Seven million of the affluent ones that the bulge brackets are going after, we like the growth opportunity in that middle sector better.

If you want to look at what we call Main Street which is kind of our lowest tier customer, the average revenue per customer are not that affluent (indiscernible) in that $50 or $500,000 (indiscernible) investment range but you can see the difference in revenue. And you can see that as we continue to gain market share in that mass affluent sector in the country the opportunities are significant. Again, this is something that we watch pretty closely -- how are we doing. Theoretically we should be taking share from these guys and in fact, we are. So if you look at where we are gaining 50% more accounts from the bulge bracket firms and the large regional banks then we actually give up to them, and we are winning on average about $136,000 in assets when we win one of those accounts.

So International, we talked a lot about that. There is a graphical representation that kind of shows you where we currently are. You can see obviously we started with the U.S. and Canada. We have now expanded to Europe and Asia, and we think that is going to continue. One of the things that we are looking at will continue to expand probably in the not too distant future, in places like Italy we are very interested in; we are looking very closely at places like Spain to continue to leverage and expand our model and growth. And again international for us has been the single largest source of growth and the fastest-growing area of our company for the last two years. International daily average revenue trends again at this point, we only really offer a trading investing solution, internationally we don't offer banking solutions or cash management solutions yet, but we're going there. So you can see that over the past since Q1 of 2003 we have grown our international daily average revenue trades by 61% CAGR. So very nice sort of growth trends there. We are very excited about that.

The other thing that is kind of interesting is that even though we don't really have an international banking offering at this point, we -- our international customers without even trying have had -- we've been able to get $1 billion in cash from them by those customers that are trading internationally. So that has been another very nice benefit.

So one of the questions that I get a lot as CFO of the company is what are you going to do now that you are generating a 40% operating margin? What are you going to do with the cash? How are you going to deploy this? And the answer is that we are in the fortunate situation that we continue to have very significant growth opportunities. So the biggest single use of our cash going forward we think is going to be to just grow, and grow the balance sheet, deploy new regulatory capital that is required that supports that growth will be the single largest use of our cash that we generate. Obviously acquisitions is another potential use. Any of the areas that we talk about if you remember that circle chart at the very beginning that was the first slide, anyone that potentially can add strategic value to us in any of the investing, trading, cash management or lending areas is something that we would potentially look at. We have done pretty well I think in being disciplined around our acquisitions. That has not going to change I will assure you. We've created a tremendous amount of value for our shareholders by being very disciplined about how we do that, and yet we still believe there is a lot of value to be created out there.

If you look at that there are still too many firms in our sector; there don't need to be as many firms as there are. There is value that can be driven through consolidation, and we want to be a part of that. Obviously we have been an active repurchaser of stock over the last four or five years since 2001, and we bought about 70 million shares of stock back, mostly in the open market at an average price of about $7 a share compared to a stock price today in the $24 range. And obviously debt retirement is another one, as we get the Harris and the Brown acquisition debt was an important component of that. About how we financed those, and in fact we have continued to guide that we expect to drive our leverage down more into the 25 to 35% range if you look at the total holding company debt to equity ratio. That is something we will continue to do with the EBITDA that we generate, as well going forward.

So if we look at the acquisitions, besides I think it is important to kind of be accountable to how we're doing so far. We look at Harris Direct, which is the orange or gold or whatever color that is. You can see that from an accounting attrition standpoint we are down about, we've lost about 7.9% of the accounts that we had. Again, we went into this process modeling that we probably would be down about 10%. So we are well within our models. Attrition numbers and if you look at it, we call it economic attrition, that is how the underlying economics can be counted. But if you lose an account that has no assets in it you don't care, but if you lose an account that is trading a lot and has a lot of cash you care a lot so we look at that, the underlying economic drivers are even a little better. So we are losing well in general an average or less than average account from a profitability standpoint.

If you looked at Brown you can see that Brown is running significantly less than that. Although again I would highlight that these numbers as of March 31st and the integration process really was just completed last weekend. When you look at an integration like this there is really three points that are critical when you're integrating an acquisition; one when you announce the deal, two when you actually close the deal and three, when you cutover from their old website to your website those are the three points that can drive incremental attrition. Again, we are largely through the process now with Harris and Brown. We will give you an update in July but so far we really like what we have seen.

And finally I just wanted to end with kind of what I call our franchise proof point slides. I picked Q1 '06 versus Q1 '03 as a comparison because it was in Q1 '03 that our management team kind of took over from the prior regime. So Mitch Caplan became the CEO, and we were off and running as a new management team in Q1 of '03. You can see that since that time compounded annual growth rate basis, income has grown pretty significantly, 92%. Operating margin up from 14 to 41; total client assets $53 billion up to $192 billion as of the end of the quarter. Margins at just a little under $1 billion is now almost $7 billion. Enterprise spread, what we are earning on an enterprise basis was a little over 200, up to 286, options per customer up 45% on an annual growth rate basis. Revenue per customer was only at 17% since that time but we (inaudible) segment income for customer operating income is up 69%. There has been real discipline brought to the mix. There has been real discipline in terms of our operating expense and it has translated into value creation for our shareholders.

And finally products for customer which is our measure of engagement; how good a job are we doing in getting customers that may have come to us for a single product to view other products from us. And you can see we have gone from 1.4 products per customer to 2.1 -- we think we still have a lot of opportunity to expand that. But we are pleased with the interim success that we've had. So with that, I am happy to take some questions.

QUESTIONS AND ANSWERS

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Rob Simmons - *E*TRADE Financial Corp - CFO*

I think we're very early in that business. I'll admit when I was coming out of college I thought man, if I can only be cool enough and successful enough to someday have a Goldman Sachs account I will have arrived. They don't want me now, but maybe someday. It's like, I think the model is changing. It is really not about some strange ethereal concept of prestige anymore. Its about who is adding the most value. And the bulge brackets do add tremendous value for their very high net worth individuals. The problem is we have abandoned the middle segment. And that is where we think we can play in a very important role and drive a lot of value. Because that bulge bracket model can't possibly serve us at 200,000 or $100,000 account with their model. And so it has to be an electronic model. It has got to be a way that they add value. So people are increasingly coming to us and realizing, there is a lot of stuff I can do here at E*TRADE Financial that is better than I am getting anywhere else.

And it is easy. I don't need a lot of help. But we are also to the point where when you come to that kind of moment -- there is maybe 95% of the time you're going to be very comfortable doing everything you need to do on the website, never talking to someone -- you don't need to. But 5% of the time maybe it is again to talk about long-term financial planning, or whatever you want to -- you want to sit down and talk with someone. We want to be there for them too, and we want to be able to grow with them in an appropriate way. So it's not frustrating because we are winning.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Rob Simmons - *E*TRADE Financial Corp - CFO*

No, we continue to consistently win new accounts from those guys, which we love. Just like you think it would happen.

Unidentified Audience Member

The long-term model you (inaudible) did you a certain spread assumption you had the chart on the spread. You said asset lives diligently underlies the spread (inaudible -- microphone inaccessible) where we are today? Have you looked at that spread in context of your long-term business model?

Rob Simmons - *E*TRADE Financial Corp - CFO*

You know, the one thing that we are not in a position to do, and I don't think we will ever do it is compromise on credit. So the easy way that we can widen the spread today would be to compromise on credit, right, go downstream in terms of asset classes in terms of underlying FICO. We could do that. But when most banks do, I mean we are way on the high-end if you look at our whole loan portfolio and the underlying FICO, we are way on the high-end. We are also way on the low-end in terms of loan losses, which correspond. So the easiest way for me to answer your question would be to say look we are not going to change from a credit standpoint, but spread widening -- (indiscernible) achieving it again, we think that we are pretty pleased with where we are. We think that between here and 300 is probably a good long-term place for us to play. But continue the ability to do that is going to depend on the continued ability to generate new cash from customers. Because we continually can fund our balance sheet with cheaper sources of liability, than that is what really is the spread driver. It's not the asset side of the balance sheet; in other words it is the liability side of the balance sheet that we're very bullish about.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Rob Simmons - *E*TRADE Financial Corp - CFO*

Basically we all started in the same place, and then in 2000 E*TRADE strategically made the decision we want to get into banking. We wanted to diversify away for just a complete reliance on trading revenue because there is so much volatility inherent in that piece that you want to diversify away from that and be able to drive value in different ways. Well, again, as I think imitation is the sincerest form of flattery. A couple years ago Schwab decided to get into banking; now the (technical difficulty) and Ameritrade has got a banking offering. People are getting it so the online space I think is starting to get it. We are just -- we have a really big head start. Again, we have over 40 billion in interest-earning assets as of the end of March. We have the expertise we've worked with, again our bank has been in existence for 20 plus years now. It is very hard to start from scratch and get to where we are. We've got that, and just in terms of your overall risk management infrastructure at the bank, the ability to hedge your duration is nice. The ability to measure your overall interest rate risk position at any given point in time, those are expertise's that are pretty tricky. So if you look at some of our competitors they are starting to offer products, which banking product that it is not a significant source of profitability yet again because of that. So.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Rob Simmons - *E*TRADE Financial Corp - CFO*

Great, great question. One of the things we look at from an interest rate risk management standpoint is we shop our model. We look at rate shops going up and rate shops going down, and we look at equity at risk and earnings at risk and make sure that we understand kind of the implications of that. For us it is almost less important though the direction that short-term rates take as -- what is the shape of the yield curve. The thing is tough in a banking environment is the incredibly flat yield curve that we've had over the last year. That is what's tricky because you get no extension when you don't get paid for any extension risk that you want to take at that point. So what is nice is that we've seen in recent weeks obviously if you look at the 210 spread which is one of the metrics that we monitor in the treasury world, you've gone from a short period of time where it was actually inverted just a couple months ago to now I think it is running 16, 18 basis points now. So the yield curve speaking of it is still not nearly as steep as historically. It is running -- it was 80, 90 basis points not that long ago. So it is less what happens with short-term rates, its what happens to the yield curve that we get. And in general for us a steeper yield curve is better.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Rob Simmons - *E*TRADE Financial Corp - CFO*

Growth and cash. So again, we are not doing anything different on the asset side. We are no smarter than anybody else necessarily on that other than we've got a very defined risk parameters in terms of credit risk that we're willing to take. And we operate within that. On the liability side though the more successful that we can be in attracting new deposits, that is where you get the spread expansion. So if you look at us vis-a-vis almost any other bank over the last six or so quarters, it has been very difficult. Most banks have experienced some sort of spread compression because of their model and because of the flatness of the yield curve. We've actually been able as you saw -- we have been able to actually continue to widen our spread driven almost entirely by the liability side of the balance sheet. And by that growth in cash that $3 plus billion of cash that we've been able to attract just in the last three quarters alone. This is organic. This is not including acquisitions.

Unidentified Audience Member

Can you talk a little bit about the real estate (indiscernible) portfolio, fixed risk arms, over the last few years (inaudible -- microphone inaccessible)

Rob Simmons - *E*TRADE Financial Corp - CFO*

Obviously when we look at our portfolio we look at it on an all in kind of swap basis, right. So we do own some fixed-rate mortgages, and if we do we'll look at it in context of our overall duration position and use the derivative strategy to shorten the duration of those assets if appropriate. I think we've been recently running probably 70/30 variable versus fixed. But again it is less important the composition of that as to look at it on an all in swap basis. So if you look at where we are in terms of duration mismatch, which I encourage people to kind of watch for us, you can think of us typically the overall duration of our asset portfolio is somewhere in the neighborhood of maybe 3.5 to 3.7 years; the duration of our liabilities is probably 2.5, 2.7. So we've got an, we are running an unhedged or a prehedge duration mismatch of about 100 basis points, which is pretty consistent with the industry. We then will take that and through a combination of shortening duration on the asset side and lengthening duration on the liability side. What will typically keep that duration mismatch within that three-month range plus or minus.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Rob Simmons - *E*TRADE Financial Corp - CFO*

So we have over the past year some, grown our whole loan portfolio by basically swapping out some of the MBS. You can see that as a percentage our MBS holdings have declined. Our whole loan holdings have increased. There is better spread in that.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Rob Simmons - *E*TRADE Financial Corp - CFO*

I'm not sure what normal is. When we are talking about options, we are talking about people using options primarily as a hedging instrument, which we love. They are not using them as a speculative instrument like they may have done in the '90s or so. But the tools are now so much better. Industry wide we about a year and a half ago rolled out a massive new upgrade to our options functionality to allow people to look at it more holistic. I got this portfolio. It has certain risk characteristics to it. How can I use options in a way to kind of hedge some of that risk? And so what we are seeing is that more and more people are engaging with options as a hedge instrument, which is great. I think it speaks very nicely for the health of the overall market. Not as a speculative instrument, that super turbocharged leverage, speculative instrument. And so wit has been great for us that the investment that we made in technology to help people understand and education. We actually have a dedicated desk in Chicago that does nothing all day long but pick up the phone and help people talk through option strategies right now. It should pay off. It has gone from 5% of our daily average revenue trades; if you look at all of our equity trades in total to about 12% as of the end of the last quarter. And that is good for us because on average option trades carry the higher average commission than just a vanilla equity trade.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

Rob Simmons - *E*TRADE Financial Corp - CFO*

I actually think it is the other way around. I think they are now going to try to copy what we're doing. Because they are trying to do a lot of other things now, as well. Options Express has been great, and their technology has been good. And a lot of people in the industry have been playing catch-up with them. But if you look at the underlying growth that we've had the last couple quarters in our options business, it actually exceeded theirs. So you can't always just rely on the headlines to understand what's going on. There is a lot of nice success that has been going on. Even though we don't have it as a separate business it is just kind of within our overall business, but our overall growth in options business has been just as strong as theirs.

Okay. Thanks everybody.
