

## FOR IMMEDIATE RELEASE

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## **E\*TRADE GROUP, INC. REPORTS SECOND QUARTER RESULTS AND RAISES EARNINGS GUIDANCE**

- *Earned \$0.03 Per Share on a GAAP Basis, or \$0.14 Per Share from Ongoing Operations<sup>(1)</sup> Consistent with First Call Estimates; GAAP and Ongoing Results Included a \$7 Million MJK Litigation Reserve in General and Administrative Expense*
- *Reported \$381 Million in Net Revenues in the Second Quarter, an 18 Percent Increase Over Last Quarter*
- *Ended Second Quarter with Cash & Equivalents of \$882 Million and Free Cash<sup>(2)</sup> Totaling \$452 Million, a \$50 Million Increase Over Last Quarter's Free Cash*
- *Experienced a 41 Percent Sequential Increase in Daily Average Transactions Supported by a 42 Percent Increase in Active Trader Volume and a 40 Percent Increase in Main Street Trader Volume*
- *Generated \$2.9 Billion in Direct Retail Mortgage Originations During the Quarter, a 16 Percent Increase Over Previous Quarter Volume*
- *Raised Guidance for 2003 to Between \$0.22-\$0.27 Per Share on a GAAP Basis or \$0.52-\$0.57 Per Share from Ongoing Operations*

**MENLO PARK, Calif., July 16, 2003** – E\*TRADE Group, Inc. (NYSE: ET) today announced results for its quarter ended June 30, 2003, reporting net income of \$13 million, or \$0.03 per diluted share, compared to net income of \$33 million, or \$0.09 per share, in the same quarter a year ago. This quarter's results include \$76 million in restructuring and other exit charges, as announced last quarter. Also included in net income is \$22 million in gain on investments primarily attributable to the Company's interest in E\*TRADE Japan as a result of its recent merger with Softbank Investment Corporation. The Company reported net revenue for its quarter ended June 30, 2003 of \$381 million, compared to \$316 million for the same period a year ago.

The Company reported net income from ongoing operations for the second quarter of \$50 million or \$0.14 per share, consistent with First Call estimates, compared to \$39 million or \$0.11 per share for the same period a year ago. Results for the quarter included a \$7 million MJK litigation reserve in general and administrative expense. In addition, the

Company raised its 2003 earnings guidance to between \$0.22-\$0.27 per share on a GAAP basis including restructuring charges, or \$0.52-\$0.57 per share from ongoing operations.

“E\*TRADE Group’s second quarter can be described in three words – validation, innovation and discipline,” said Mitchell H. Caplan, Chief Executive Officer, E\*TRADE Group, Inc. “The high-margin incremental revenue from increased trading activity we experienced this quarter, along with our cost discipline and product innovation, demonstrate our ability to deliver value to customers and shareholders. Further, this quarter’s solid operating results reinforce the strength, flexibility and operating leverage of our diversified model.”

Other highlights from the second quarter of 2003:

- E\*TRADE Securities experienced a 41 percent sequential increase in daily average transactions supported by a 42 percent increase in trading volume among its active customers and a 40 percent increase among its main street customers during the quarter.
- E\*TRADE Mortgage generated \$2.9 billion in direct retail mortgage originations, with another \$1.7 billion in the pipeline at quarter end, an increase of 42 percent over the pipeline at the end of the first quarter. The Company also generated \$1 billion in volume on the correspondent side of its mortgage business.
- E\*TRADE Bank’s net interest spread for the quarter equaled 144 basis points, an 8 basis point decline from the first quarter. The results of its spread widening initiatives were dampened by the effect of continued prepayments, which helped drive mortgage volume.
- The Company continued to successfully cross-sell products and services, with 26 percent of mortgage loan products and 36 percent of home equity loan products sold into its existing household base.

“We continue to focus on building additional operating leverage into our business and are ahead of schedule in the implementation of our restructuring plan,” said R. Jarrett Lilien, President and Chief Operating Officer, E\*TRADE Group, Inc. “Moving forward, we will remain diligent in our efforts to reduce operating costs and are confident that these actions will provide long-term benefits to shareholders.”

In the second quarter, the Company progressed on its previously introduced restructuring plan. The Company took a restructuring and other exit charge of \$76 million, and intends to take an additional charge of approximately \$45 million next quarter, consistent with April’s announcement. The second quarter charge includes:

- Closure of its New York Center;
- Elimination of unprofitable product offerings including stock baskets, E\*TRADE FINANCIAL Advisor, and Personal Money Management; and
- Closure of 43 E\*TRADE FINANCIAL Target Zones.

During the third quarter, the Company expects to complete its restructuring plan that will include:

- Closure of its banking operations in Denmark;

- Discontinuation of local market equity trading in Hong Kong; and
- Consolidation within its Menlo Park, Rancho Cordova and New York facilities.

Through these and additional steps, E\*TRADE Group expects to generate between \$45 and \$50 million in annual savings throughout the organization beginning in the second half of this year.

### **About E\*TRADE FINANCIAL**

E\*TRADE FINANCIAL brings together a personalized and fully integrated financial services solution that includes brokerage, banking and lending. The products, services, content and information at E\*TRADE FINANCIAL are available to retail, institutional and corporate customers through the Web, ATMs, Centers, Relationship Managers and Call Centers. Securities products and services are offered by E\*TRADE Securities LLC (member NASD/SIPC), bank products and services are offered by E\*TRADE Bank (member FDIC) and mortgages are offered by E\*TRADE Mortgage Corporation, an Equal Housing Lender.

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### **Important Notice**

E\*TRADE FINANCIAL and the E\*TRADE logo are registered trademarks of E\*TRADE Group, Inc. or its subsidiaries. The statements contained in this news release that are forward-looking are based on current expectations that are subject to a number of uncertainties and risks, and actual results may differ materially. The uncertainties and risks include, but are not limited to, changes in market activity, anticipated increases in the rate of new customer acquisition, the conversion of new visitors to the site to customers, seasonality, the development of new products and services, the enhancement of existing products and services, competitive pressures (including price competition), system failures, economic and political conditions, changes in consumer behavior, and the introduction of competing products having technological and/or other advantages. Further information about these risks and uncertainties can be found in the information included in the annual report filed by E\*TRADE Group, Inc. with the SEC on Form 10-K (including information under the caption "Risk Factors") and quarterly reports on Form 10-Q.

**Financial Statements**

**E\*TRADE GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**

(in thousands, except per share amounts)  
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Brokerage revenues:				
Commissions	\$ 85,780	\$ 71,352	\$ 146,668	\$ 153,879
Principal transactions	58,640	52,092	100,850	107,407
Other brokerage-related revenues	45,269	43,799	87,165	80,560
Brokerage interest income	34,868	50,975	69,188	104,026
Brokerage interest expense	(1,877)	(3,089)	(4,390)	(6,982)
Net brokerage revenues	<u>222,680</u>	<u>215,129</u>	<u>399,481</u>	<u>438,890</u>
Banking revenues:				
Gain on sales of originated loans	62,025	22,613	118,420	47,288
Gain on sale of loans held-for-sale and securities, net	21,238	17,054	36,453	38,676
Other banking-related revenues	19,333	12,077	37,372	22,461
Banking interest income	181,593	191,424	368,979	394,092
Banking interest expense	(117,954)	(137,852)	(239,287)	(286,703)
Provision for loan losses	(7,828)	(4,383)	(18,161)	(7,765)
Net banking revenues	<u>158,407</u>	<u>100,933</u>	<u>303,776</u>	<u>208,049</u>
Total net revenues	<u>381,087</u>	<u>316,062</u>	<u>703,257</u>	<u>646,939</u>
Cost of services	<u>161,266</u>	<u>133,795</u>	<u>309,841</u>	<u>274,547</u>
Operating expenses:				
Selling and marketing	46,752	49,014	90,166	117,978
Technology development	15,077	15,043	29,266	29,547
General and administrative	66,398	50,832	121,406	104,861
Amortization of other intangibles	8,110	7,557	13,048	14,281
Acquisition-related expenses	1,015	7,406	2,322	8,666
Restructuring and other exit charges	76,107	1,628	78,649	1,405
Executive agreement	-	(23,485)	-	(23,485)
Total operating expenses	<u>213,459</u>	<u>107,995</u>	<u>334,857</u>	<u>253,253</u>
Total cost of services and operating expenses	<u>374,725</u>	<u>241,790</u>	<u>644,698</u>	<u>527,800</u>
Operating income	<u>6,362</u>	<u>74,272</u>	<u>58,559</u>	<u>119,139</u>
Non-operating income (expense):				
Corporate interest income	1,875	3,569	3,485	7,149
Corporate interest expense	(11,422)	(11,803)	(22,855)	(24,199)
Gain (loss) on investments	22,335	(6,790)	21,592	(5,097)
Equity in income of investments	979	3,617	7,289	3,901
Unrealized losses on venture funds	(154)	(3,283)	(3,634)	(5,064)
Fair value adjustments of financial derivatives	(7,923)	769	(14,738)	(222)
Gain (loss) on early extinguishment of debt, net	-	(1,444)	-	5,346
Other	313	(405)	583	(1,359)
Total non-operating income (expense)	<u>6,003</u>	<u>(15,770)</u>	<u>(8,278)</u>	<u>(19,545)</u>
Pre-tax income	12,365	58,502	50,281	99,594
Income tax expense	5,318	25,532	21,244	42,999
Minority interest in subsidiaries	(5,640)	180	(5,132)	373
Income before cumulative effect of accounting change	<u>12,687</u>	<u>32,790</u>	<u>34,169</u>	<u>56,222</u>
Cumulative effect of accounting change	-	-	-	(293,669)
Net income (loss)	<u>\$ 12,687</u>	<u>\$ 32,790</u>	<u>\$ 34,169</u>	<u>\$ (237,447)</u>
Income before cumulative effect of accounting change per share:				
Basic	<u>\$ 0.04</u>	<u>\$ 0.09</u>	<u>\$ 0.10</u>	<u>\$ 0.16</u>
Diluted	<u>\$ 0.03</u>	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ 0.16</u>
Net income (loss) per share:				
Basic	<u>\$ 0.04</u>	<u>\$ 0.09</u>	<u>\$ 0.10</u>	<u>\$ (0.67)</u>
Diluted	<u>\$ 0.03</u>	<u>\$ 0.09</u>	<u>\$ 0.09</u>	<u>\$ (0.67)</u>
Shares used in computation of per share data:				
Basic	356,237	356,760	355,475	351,822
Diluted	363,697	362,498	361,072	359,829

**E\*TRADE GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
(in thousands, except per share amounts)  
(unaudited)

	Three Months Ended		
	June 30, 2003	March 31, 2003	June 30, 2002
Brokerage revenues:			
Commissions	\$ 85,780	\$ 60,888	\$ 71,352
Principal transactions	58,640	42,210	52,092
Other brokerage-related revenues	45,269	41,896	43,799
Brokerage interest income	34,868	34,320	50,975
Brokerage interest expense	(1,877)	(2,513)	(3,089)
Net brokerage revenues	<u>222,680</u>	<u>176,801</u>	<u>215,129</u>
Banking revenues:			
Gain on sales of originated loans	62,025	56,395	22,613
Gain on sale of loans held-for-sale and securities, net	21,238	15,215	17,054
Other banking-related revenues	19,333	18,039	12,077
Banking interest income	181,593	187,386	191,424
Banking interest expense	(117,954)	(121,333)	(137,852)
Provision for loan losses	(7,828)	(10,333)	(4,383)
Net banking revenues	<u>158,407</u>	<u>145,369</u>	<u>100,933</u>
Total net revenues	<u>381,087</u>	<u>322,170</u>	<u>316,062</u>
Cost of services	<u>161,266</u>	<u>148,575</u>	<u>133,795</u>
Operating expenses:			
Selling and marketing	46,752	43,414	49,014
Technology development	15,077	14,189	15,043
General and administrative	66,398	55,008	50,832
Amortization of other intangibles	8,110	4,938	7,557
Acquisition-related expenses	1,015	1,307	7,406
Restructuring and other exit charges	76,107	2,542	1,628
Executive agreement	-	-	(23,485)
Total operating expenses	<u>213,459</u>	<u>121,398</u>	<u>107,995</u>
Total cost of services and operating expenses	<u>374,725</u>	<u>269,973</u>	<u>241,790</u>
Operating income	<u>6,362</u>	<u>52,197</u>	<u>74,272</u>
Non-operating income (expense):			
Corporate interest income	1,875	1,610	3,569
Corporate interest expense	(11,422)	(11,433)	(11,803)
Gain (loss) on investments	22,335	(743)	(6,790)
Equity in income of investments	979	6,310	3,617
Unrealized losses on venture funds	(154)	(3,480)	(3,283)
Fair value adjustments of financial derivatives	(7,923)	(6,815)	769
Loss on early extinguishment of debt, net	-	-	(1,444)
Other	313	270	(405)
Total non-operating income (expense)	<u>6,003</u>	<u>(14,281)</u>	<u>(15,770)</u>
Pre-tax income	12,365	37,916	58,502
Income tax expense	5,318	15,926	25,532
Minority interest in subsidiaries	(5,640)	508	180
Net income	<u>\$ 12,687</u>	<u>\$ 21,482</u>	<u>\$ 32,790</u>
Net income per share:			
Basic	<u>\$ 0.04</u>	<u>\$ 0.06</u>	<u>\$ 0.09</u>
Diluted	<u>\$ 0.03</u>	<u>\$ 0.06</u>	<u>\$ 0.09</u>
Shares used in computation of per share data:			
Basic	356,237	354,563	356,760
Diluted	363,697	358,441	362,498

**E\*TRADE GROUP, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**

(in thousands)  
(unaudited)

	June 30, 2003	March 31, 2003	December 31, 2002
<b>ASSETS</b>			
Cash and equivalents	\$ 882,236	\$ 974,958	\$ 773,605
Cash and investments required to be segregated under Federal or other regulations	2,073,583	1,589,715	1,449,062
Brokerage receivables, net	2,009,994	1,848,565	1,500,089
Mortgage-backed securities	6,612,239	6,416,835	6,932,394
Loans receivable, net	6,288,547	5,589,124	5,552,981
Loans held-for-sale, net	964,063	1,275,133	1,812,739
Investments	2,801,902	2,575,730	1,770,447
Property and equipment, net	304,314	353,391	370,944
Goodwill, net	405,453	400,121	385,144
Other intangible assets, net	165,828	155,816	157,892
Other assets	698,103	721,124	828,951
Total assets	<u>\$ 23,206,262</u>	<u>\$ 21,900,512</u>	<u>\$ 21,534,248</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Brokerage payables	\$ 3,934,887	\$ 3,332,355	\$ 2,792,010
Deposits	9,094,226	8,955,615	8,400,333
Borrowings by bank subsidiary	6,840,802	6,495,450	7,222,161
Accounts payable, accrued and other liabilities	832,214	706,489	775,260
Convertible subordinated notes	695,330	695,330	695,330
Total liabilities	<u>21,397,459</u>	<u>20,185,239</u>	<u>19,885,094</u>
Mandatorily redeemable preferred capital securities	<u>143,459</u>	<u>157,961</u>	<u>143,365</u>
Shareholders' equity:			
Preferred stock, shares authorized: 1,000,000; issued and outstanding: none at June 30, 2003, March 31, 2003 and December 31, 2002	-	-	-
Shares exchangeable into common stock, \$.01 par value, shares authorized: 10,644,223; issued and outstanding: 1,586,559 at June 30, 2003, 1,627,065 at March 31, 2003 and 1,627,265 at December 31, 2002	16	16	16
Common stock, \$.01 par value, shares authorized: 600,000,000; issued and outstanding: 360,258,111 at June 30, 2003, 356,008,174 at March 31, 2003 and 358,044,317 at December 31, 2002	3,603	3,560	3,580
Additional paid-in-capital	2,199,627	2,172,722	2,190,200
Deferred stock compensation	(13,426)	(1,494)	(23,058)
Accumulated deficit	(399,323)	(412,010)	(433,492)
Accumulated other comprehensive loss	(125,153)	(205,482)	(231,457)
Total shareholders' equity	<u>1,665,344</u>	<u>1,557,312</u>	<u>1,505,789</u>
Total liabilities and shareholders' equity	<u>\$ 23,206,262</u>	<u>\$ 21,900,512</u>	<u>\$ 21,534,248</u>

**Reconciliation of Reported Results to Results from Ongoing Operations and Ongoing Operating Margin<sup>(1)(3)</sup>**

	Three Months Ended		
	6/30/2003	3/31/2003	6/30/2002
	(dollars in millions, except per share amounts)		
<u>Summary of GAAP Financial Information</u>			
Income as reported:			
Pre-tax income	\$ 12.4	\$ 37.9	\$ 58.5
Net income	\$ 12.7	\$ 21.5	\$ 32.8
Diluted earnings per share	\$ 0.03	\$ 0.06	\$ 0.09
<u>Reconciliation of GAAP Income to Income from Ongoing Operations</u>			
Pre-tax income per GAAP	\$ 12.4	\$ 37.9	\$ 58.5
Amortization of other intangibles	8.1	4.9	7.6
Acquisition-related expenses	1.0	1.3	7.4
Restructuring and other exit charges	76.1	2.5	1.6
Executive agreement	-	-	(23.5)
Unrealized losses on venture funds	0.2	3.5	3.3
(Gain) loss on investments	(22.3)	0.7	6.8
Fair value adjustments of financial derivatives	7.9	6.8	(0.8)
Loss on early extinguishment of debt	-	-	1.4
Pre-tax income from ongoing operations	\$ 83.3	\$ 57.7	\$ 62.4
Income from ongoing operations - after tax	\$ 50.8	\$ 34.9	\$ 39.0
Minority interest per GAAP	\$ 5.6	\$ (0.5)	\$ (0.2)
Adjustment to minority interest for the consolidating impact of E*TRADE FINANCIAL Advisor on restructuring and other exit charges and tax expense	\$ (6.7)	\$ -	\$ -
Income from ongoing after-tax and minority interest	\$ 49.7	\$ 34.4	\$ 38.8
EPS from ongoing operations on a diluted basis	\$ 0.14	\$ 0.10	\$ 0.11
<u>Reconciliation of Ongoing Operating Margin</u>			
Operating income	\$ 6.4	\$ 52.2	\$ 74.3
Amortization of other intangibles	8.1	4.9	7.6
Acquisition-related expenses	1.0	1.3	7.4
Restructuring and other exit charges	76.1	2.5	1.6
Executive agreement	-	-	(23.5)
Ongoing operating margin	\$ 91.6	\$ 61.0	\$ 67.4
Ongoing operating margin as a percentage of net revenues	24%	19%	21%

## Segment Reporting

	Three Months Ended June 30, 2003		
	Brokerage	Banking	Total
		(in thousands)	
Commissions	\$ 85,780	\$ -	\$ 85,780
Principal transactions	58,640	-	58,640
Interest income	34,868	181,593	216,461
Interest expense	(1,877)	(117,954)	(119,831)
Gain on sales of originated loans	-	62,025	62,025
Gain on sale of loans held-for-sale and securities, net	-	21,238	21,238
Provision for loan losses	-	(7,828)	(7,828)
Other revenues	45,269	19,333	64,602
Net revenues	222,680	158,407	381,087
Cost of services	104,255	57,011	161,266
Selling and marketing	29,919	16,833	46,752
Technology development	11,982	3,095	15,077
General and administrative <sup>(4)</sup>	38,329	28,069	66,398
Amortization of other intangibles	4,970	3,140	8,110
Acquisition-related expenses	787	228	1,015
Restructuring and other exit charges	68,378	7,729	76,107
Total operating expenses	258,620	116,105	374,725
<b>Operating income (loss)</b>	<b>\$ (35,940)</b>	<b>\$ 42,302</b>	<b>\$ 6,362</b>

  

	Three Months Ended March 31, 2003		
	Brokerage	Banking	Total
		(in thousands)	
Commissions	\$ 60,888	\$ -	\$ 60,888
Principal transactions	42,210	-	42,210
Interest income	34,320	187,386	221,706
Interest expense	(2,513)	(121,333)	(123,846)
Gain on sales of originated loans	-	56,395	56,395
Gain on sale of loans held-for-sale and securities, net	-	15,215	15,215
Provision for loan losses	-	(10,333)	(10,333)
Other revenues	41,896	18,039	59,935
Net revenues	176,801	145,369	322,170
Cost of services	94,415	54,160	148,575
Selling and marketing	29,502	13,912	43,414
Technology development	11,585	2,604	14,189
General and administrative	26,904	28,104	55,008
Amortization of other intangibles	4,888	50	4,938
Acquisition-related expenses	472	835	1,307
Restructuring and other exit charges	853	1,689	2,542
Total operating expenses	168,619	101,354	269,973
<b>Operating income</b>	<b>\$ 8,182</b>	<b>\$ 44,015</b>	<b>\$ 52,197</b>

  

	Three Months Ended June 30, 2002		
	Brokerage	Banking	Total
		(in thousands)	
Commissions	\$ 71,352	\$ -	\$ 71,352
Principal transactions	52,092	-	52,092
Interest income	50,975	191,424	242,399
Interest expense	(3,089)	(137,852)	(140,941)
Gain on sales of originated loans	-	22,613	22,613
Gain on sale of loans held-for-sale and securities, net	-	17,054	17,054
Provision for loan losses	-	(4,383)	(4,383)
Other revenues	43,799	12,077	55,876
Net revenues	215,129	100,933	316,062
Cost of services	95,377	38,418	133,795
Selling and marketing	42,217	6,797	49,014
Technology development	12,196	2,847	15,043
General and administrative	31,607	19,225	50,832
Amortization of other intangibles	4,780	2,777	7,557
Acquisition-related expenses	7,406	-	7,406
Restructuring and other exit charges	1,798	(170)	1,628
Executive agreement	(16,561)	(6,924)	(23,485)
Total operating expenses	178,820	62,970	241,790
<b>Operating income</b>	<b>\$ 36,309</b>	<b>\$ 37,963</b>	<b>\$ 74,272</b>



**Key Performance Metrics <sup>(3)</sup>**

	Qtr ended 6/30/03	Qtr ended 3/31/03	Qtr ended 6/30/03 vs. 3/31/03	Qtr ended 6/30/02	Qtr ended 6/30/03 vs. 6/30/02
<b><u>Corporate Metrics</u></b>					
Gross margin %	58 %	54 %	4 %	58 %	0 %
Operating margin %	2 %	16 %	(14)%	23 %	(21)%
Ongoing operating margin % <sup>(1)</sup>	24 %	19 %	5 %	21 %	3 %
Employees	3,546	3,605	(2)%	3,351	6 %
Consultants and other <sup>(5)</sup>	454	223	104 %	128	255 %
Total headcount <sup>(5)</sup>	4,000	3,828	4 %	3,479	15 %
Revenue per headcount <sup>(5)</sup>	\$ 95,272	\$ 84,161	13 %	\$ 90,849	5 %
Compensation and benefits (\$MM) <sup>(5)</sup>	\$ 96.1	\$ 89.6	7 %	\$ 69.4	38 %
Revenue per compensation and benefits dollar <sup>(5)</sup>	\$ 3.97	\$ 3.59	10 %	\$ 4.55	(13)%
Book value per share	\$ 4.60	\$ 4.35	6 %	\$ 4.05	14 %
Tangible book value per share	\$ 3.02	\$ 2.80	8 %	\$ 2.72	11 %
Cash & equivalents (\$MM)	\$ 882.2	\$ 975.0	(10)%	\$ 1,016.0	(13)%
Free cash (\$MM) <sup>(2)</sup>	\$ 452.0	\$ 402.0	12 %	\$ 335.0	35 %
<b><u>Earnings before interest, taxes, depreciation &amp; amortization (EBITDA) (\$MM) <sup>(2)</sup></u></b>					
Net income	\$ 12.7	\$ 21.5	(41)%	\$ 32.8	(61)%
Tax expense	\$ 5.3	\$ 15.9	(67)%	\$ 25.5	(79)%
Depreciation & amortization	\$ 31.6	\$ 30.3	4 %	\$ 31.5	0 %
Corporate interest expense	\$ 11.4	\$ 11.4	0 %	\$ 11.8	(3)%
EBITDA	\$ 61.0	\$ 79.1	(23)%	\$ 101.6	(40)%
Interest coverage <sup>(2)</sup>	5.4	6.9	(23)%	8.6	(38)%
Active retail brokerage accounts <sup>(6)</sup>	2,870,685	3,721,017	(23)%	3,648,234	(21)%
Active banking accounts <sup>(6)</sup>	673,308	577,532	17 %	503,830	34 %
Total active accounts end of period	3,543,993	4,298,549	(18)%	4,152,064	(15)%
Total customer households end of period	2,609,736	3,185,714	(18)%	3,063,534	(15)%
Gross new accounts <sup>(5)</sup>	262,745	234,832	12 %	194,849	35 %
Inactive accounts <sup>(5) (6)</sup>	(958,843)	(81,855)	unfav	(100,838)	unfav
Customer closed accounts <sup>(6)</sup>	(58,458)	(56,642)	(3)%	(59,317)	1 %
Net new accounts	(754,556)	96,335	unfav	34,694	unfav
Net new households	(575,978)	53,690	unfav	(21,487)	unfav
Total client assets in investing accounts (\$B) <sup>(5)</sup>	\$ 56.7	\$ 44.8	27 %	\$ 44.0	29 %
Total deposits in banking accounts (\$B)	\$ 9.1	\$ 9.0	1 %	\$ 8.3	10 %
Total assets / deposits in customer accounts (\$B) <sup>(5)</sup>	\$ 65.8	\$ 53.8	22 %	\$ 52.3	26 %
Average assets per household	\$ 25,194	\$ 16,893	49 %	\$ 17,070	48 %
Acquisition marketing costs (\$MM)	\$ 18.3	\$ 16.9	8 %	\$ 17.2	6 %

**Key Performance Metrics continued**

	Qtr ended 6/30/03	Qtr ended 3/31/03	Qtr ended 6/30/03 vs. Qtr ended 3/31/03	Qtr ended 6/30/02	Qtr ended 6/30/03 vs. Qtr ended 6/30/02
<b><u>Brokerage Metrics</u></b>					
Trading days	63	61	3 %	64	(2)%
<b><u>Daily Average Transactions</u></b>					
US <sup>(7)</sup>	109,640	77,500	41 %	79,098	39 %
International	6,900	5,232	32 %	3,692	87 %
Total daily average transactions <sup>(7)</sup>	116,540	82,732	41 %	82,790	41 %
Total transactions (MM) <sup>(7)</sup>	7.3	5.0	45 %	5.3	39 %
<b><u>Daily Average Revenue Trades (DARTs) <sup>(5)</sup></u></b>					
US	69,263	49,977	39 %	61,005	14 %
International	6,900	5,232	32 %	3,692	87 %
Professional	40,500	31,507	29 %	17,519	131 %
Total DARTs	116,663	86,716	35 %	82,216	42 %
Total revenue trades (MM) <sup>(5)</sup>	7.3	5.3	39 %	5.3	40 %
Average commission per transaction <sup>(7)</sup>	\$ 11.08	\$ 11.25	(2)%	\$ 13.14	(16)%
Average commission per revenue trade <sup>(5)</sup>	\$ 11.67	\$ 11.51	1 %	\$ 13.56	(14)%
<b><u>Market Making <sup>(5)</sup></u></b>					
Equity shares traded (MM)	13,598	10,823	26 %	12,988	5 %
Average revenue capture per 1,000 equity shares	\$ 1,558	\$ 1,374	13 %	\$ 1,691	(8)%
% of Bulletin Board equity shares to total equity shares	67.8%	73.7%	(6)%	79.7%	(12)%
End of period margin debt (\$B) <sup>(5)</sup>	\$ 1.18	\$ 0.90	32 %	\$ 1.29	(8)%
Average margin debt (\$B)	\$ 1.03	\$ 0.96	7 %	\$ 1.45	(29)%
Active retail brokerage accounts	2,870,685	3,721,017	(23)%	3,648,234	(21)%
Gross new brokerage accounts <sup>(5)</sup>	144,190	117,757	22 %	170,268	(15)%
Inactive accounts <sup>(5) (6)</sup>	(980,677)	(72,625)	unfav	(100,838)	unfav
Customer closed accounts <sup>(6)</sup>	(13,845)	(15,031)	8 %	(19,412)	29 %
Net new brokerage accounts	(850,332)	30,101	unfav	50,018	unfav
New client assets (\$MM)	\$ 4,214	\$ 2,922	44 %	n/a	n/a
Client asset outflow from closed accounts	\$ (581)	\$ (178)	unfav	n/a	n/a
Net new client assets	\$ 3,633	\$ 2,744	32 %	n/a	n/a
<b><u>Total Client Assets (\$B) <sup>(5)</sup></u></b>					
Security holdings	\$ 34.2	\$ 27.2	26 %	\$ 29.0	18 %
Cash (including money market funds)	\$ 9.9	\$ 9.4	5 %	\$ 9.1	9 %
Unexercised options (vested)	\$ 12.6	\$ 8.3	52 %	\$ 5.9	114 %
Total client assets in investing accounts	\$ 56.7	\$ 44.9	26 %	\$ 44.0	29 %
Total client assets per active account <sup>(6)</sup>	\$ 19,751	\$ 12,067	64 %	\$ 12,061	64 %
Unexercised options (unvested) (\$B) <sup>(5)</sup>	\$ 8.3	\$ 4.0	106 %	\$ 3.3	152 %

**Key Performance Metrics continued**

	Qtr ended 6/30/03	Qtr ended 3/31/03	Qtr ended 6/30/03 vs. 3/31/03	Qtr ended 6/30/02	Qtr ended 6/30/03 vs. 6/30/02
<b><u>Banking Metrics</u></b>					
Gross new banking accounts <sup>(5)</sup>	118,555	117,075	1 %	24,581	382 %
Inactive accounts <sup>(5) (6)</sup>	21,834	(9,230)	337 %	-	fav
Customer closed accounts <sup>(6)</sup>	(44,613)	(41,611)	(7)%	(39,905)	(12)%
Net new banking accounts	95,776	66,234	45 %	(15,324)	725 %
Direct mortgage originations (\$B)	\$ 2.9	\$ 2.5	16 %	\$ 1.2	146 %
Correspondent mortgage originations (\$B)	\$ 1.0	\$ 1.2	(14)%	\$ 1.0	3 %
Consumer loan originations, incl HELOCs (\$B) <sup>(5)</sup>	\$ 0.6	\$ 0.6	16 %	\$ 0.1	1032 %
Acquired consumer loans (\$B) <sup>(5)</sup>	\$ 0.5	\$ -	fav	\$ 0.7	(31)%
Mortgage pipeline (end of period) (\$B) <sup>(5)</sup>	\$ 1.7	\$ 1.2	42 %	\$ 0.6	183 %
Automated teller machines (ATMs)	14,819	15,053	(2)%	11,375	30 %
<b><u>Bank Asset Portfolio Detail (\$MM)</u></b>					
Cash & equivalents	\$ 287	\$ 398	(28)%	\$ 500	(43)%
Trading securities	\$ 449	\$ 480	(6)%	\$ 270	67 %
Investment securities, available-for-sale	\$ 2,092	\$ 1,973	6 %	\$ 771	171 %
Mortgage securities, available-for-sale	\$ 6,612	\$ 6,417	3 %	\$ 4,754	39 %
Loans receivable, net including loans held-for-sale:					
- Mortgage and home equity loans, net	\$ 2,889	\$ 3,152	(8)%	\$ 5,655	(49)%
- Consumer loans, net	\$ 4,362	\$ 3,710	18 %	\$ 2,105	107 %
- Other	\$ 2	\$ 2	0 %	\$ 5	(57)%
Other assets	\$ 847	\$ 788	7 %	\$ 568	49 %
Total assets	\$ 17,540	\$ 16,920	4 %	\$ 14,628	20 %
<b><u>Bank Deposit Portfolio Detail (\$MM)</u></b>					
Transaction accounts	\$ 4,699	\$ 4,597	2 %	\$ 4,149	13 %
CDs	\$ 4,396	\$ 4,359	1 %	\$ 4,185	5 %
Total	\$ 9,094	\$ 8,956	2 %	\$ 8,335	9 %
Bank interest rate spread (basis points)	144	152	(5)%	144	0 %
<b><u>Credit Quality and Reserve Metrics <sup>(5)</sup></u></b>					
Net charge-offs as a % of average held-for-investment loans, net (annualized)	0.49 %	0.65 %	(0.16)%	0.34 %	0.15 %
Provision as a % of average held-for-investment loans, net (annualized)	0.55 %	0.76 %	(0.21)%	0.28 %	0.27 %
Allowance as a % of total ending gross held-for-investment loans	0.52 %	0.52 %	0.00 %	0.22 %	0.30 %
Total non-performing loans, net, as a % of total gross held-for-investment loans	0.37 %	0.44 %	(0.07)%	0.33 %	0.04 %
Total loan loss allowance as a % of total non-performing loans, net	140 %	119 %	21 %	66 %	73 %
Tier 1 Capital Ratio <sup>(8)</sup>	5.94 %	5.90 %	0.04 %	6.15 %	(0.21)%
Risk Weighted Capital Ratio <sup>(8)</sup>	11.80 %	12.20 %	(0.40)%	12.55 %	(0.75)%

**Activity in Allowance for Loan Losses**

Three Months Ending June 30, 2003	Mortgage	Consumer	Total
	(in thousands)		
Allowance for loan losses, beginning 3/31/03	\$4,186	\$25,008	\$29,194
Provision for loan losses	(1,211)	9,039	7,828
Charge-offs, net	(78)	(6,878)	(6,956)
Purchased reserve	-	2,606	2,606
Allowance for loan losses, ending 6/30/03	<u>\$2,897</u>	<u>\$29,775</u>	<u>\$32,672</u>

**Bank Average Balance Data**

	Three Months Ended June 30, 2003			Three Months Ended June 30, 2002		
	Average Balance	Interest Income/ Expense	Average Annualized Yield/Cost	Average Balance	Interest Income/ Expense	Average Annualized Yield/Cost
	(dollars in thousands)					
Interest-earning banking assets:						
Loans receivable, net	\$7,161,143	\$92,084	5.14%	\$7,112,457	\$112,890	6.35%
Interest-bearing deposits	156,776	1,014	2.59%	160,498	996	2.49%
Mortgage-backed and related available-for-sale securities	6,610,007	61,784	3.74%	4,733,777	63,324	5.35%
Available-for-sale investment securities	2,119,655	22,907	4.32%	939,294	12,137	5.21%
Investment in FHLB stock	79,401	759	3.83%	80,482	704	3.51%
Trading securities	385,972	3,611	3.74%	158,716	1,373	3.46%
Total interest-earning banking assets <sup>(9)</sup>	<u>16,512,954</u>	<u>\$182,159</u>	4.41%	<u>13,185,224</u>	<u>\$191,424</u>	5.81%
Non-interest earning banking assets	<u>863,412</u>			<u>569,239</u>		
Total banking assets	<u>\$17,376,366</u>			<u>\$13,754,463</u>		
Interest-bearing banking liabilities:						
Retail deposits	\$8,473,951	\$68,542	3.21%	\$8,570,648	\$86,517	4.05%
Brokered certificates of deposit	425,849	2,976	2.80%	83,801	633	3.03%
FHLB advances	956,300	11,194	4.63%	856,476	13,804	6.38%
Other borrowings	6,061,342	35,242	2.30%	3,133,854	36,898	4.66%
Total interest-bearing banking liabilities	<u>15,917,442</u>	<u>\$117,954</u>	2.97%	<u>12,644,779</u>	<u>\$137,852</u>	4.37%
Non-interest bearing banking liabilities	<u>603,413</u>			<u>349,805</u>		
Total banking liabilities	<u>16,520,855</u>			<u>12,994,584</u>		
Total banking shareholder's equity	<u>855,511</u>			<u>759,879</u>		
Total banking liabilities and shareholder's equity	<u>\$17,376,366</u>			<u>\$13,754,463</u>		
Excess of interest-earning banking assets over interest-bearing banking liabilities/net interest income	<u>\$595,512</u>	<u>\$64,205</u>		<u>\$540,445</u>	<u>\$53,572</u>	
Net interest spread			<u>1.44%</u>			<u>1.44%</u>

**Six Quarter History - New Disclosure Items**

	Qtr ended 6/30/03	Qtr ended 3/31/03	Qtr ended 12/31/02	Qtr ended 9/30/02	Qtr ended 6/30/02	Qtr ended 3/31/02
<b><u>Corporate Metrics</u></b>						
Employees	3,546	3,605	3,478	3,286	3,351	3,300
Consultants and other	454	223	279	193	128	160
Total headcount	4,000	3,828	3,757	3,479	3,479	3,460
Revenue per headcount	\$ 95,272	\$ 84,161	\$ 92,978	\$ 94,741	\$ 90,849	\$ 95,629
Compensation and benefits (\$MM)	\$ 96.1	\$ 89.6	\$ 82.0	\$ 81.0	\$ 69.4	\$ 82.7
Revenue per compensation and benefits dollar	\$ 3.97	\$ 3.59	\$ 4.26	\$ 4.07	\$ 4.55	\$ 4.00
Gross new accounts	262,745	234,832	204,796	136,701	194,849	247,641
Inactive accounts	(958,843)	(81,855)	(119,283)	(58,791)	(100,838)	(62,664)
Customer closed accounts	(58,458)	(56,642)	(53,626)	(59,647)	(59,317)	(70,461)
Net new accounts	(754,556)	96,335	31,887	18,263	34,694	114,516
Total client assets in investing accounts (\$B)	\$ 56.7	\$ 44.8	\$ 41.6	\$ 37.4	\$ 44.0	\$ 51.5
Total deposits in banking accounts (\$B)	\$ 9.1	\$ 9.0	\$ 8.4	\$ 8.2	\$ 8.3	\$ 9.0
Total assets / deposits in customer accounts (\$B)	\$ 65.8	\$ 53.8	\$ 50.0	\$ 45.6	\$ 52.3	\$ 60.5
<b><u>Brokerage Metrics</u></b>						
<b><u>Daily Average Revenue Trades (DARTs)</u></b>						
US	69,263	49,977	56,745	52,773	61,005	77,275
International	6,900	5,232	5,238	4,083	3,692	4,404
Professional	40,500	31,507	32,684	31,344	17,519	-
Total DARTs	116,663	86,716	94,667	88,200	82,216	81,679
Total revenue trades (MM)	7.3	5.3	6.1	5.6	5.3	4.9
Average commission per revenue trade	\$ 11.67	\$ 11.51	\$ 12.07	\$ 12.00	\$ 13.56	\$ 16.84
<b><u>Market Making</u></b>						
Equity shares traded (MM)	13,598	10,823	8,477	12,587	12,988	12,525
Average revenue capture per 1,000 equity shares	\$ 1.558	\$ 1.374	\$ 2.650	\$ 1.928	\$ 1.691	\$ 1.925
% of Bulletin Board equity shares to total equity shares	67.8%	73.7%	60.0%	72.9%	79.7%	79.5%
End of period margin debt (\$B)	\$ 1.18	\$ 0.90	\$ 0.97	\$ 1.02	\$ 1.29	\$ 1.53
Gross new brokerage accounts	144,190	117,757	162,885	90,500	170,268	167,327
Inactive accounts	(980,677)	(72,625)	(115,820)	(58,791)	(100,838)	(62,664)
Customer closed accounts	(13,845)	(15,031)	(15,777)	(20,315)	(19,412)	(18,388)
Net new brokerage accounts	(850,332)	30,101	31,288	11,394	50,018	86,275
<b><u>Total Client Assets (\$B)</u></b>						
Security holdings	\$ 34.2	\$ 27.2	\$ 26.2	\$ 24.2	\$ 29.0	\$ 34.6
Cash (including money market funds)	\$ 9.9	\$ 9.4	\$ 8.9	\$ 8.8	\$ 9.1	\$ 10.0
Unexercised options (vested)	\$ 12.6	\$ 8.3	\$ 6.5	\$ 4.4	\$ 5.9	\$ 6.9
Total client assets in investing accounts	\$ 56.7	\$ 44.9	\$ 41.6	\$ 37.4	\$ 44.0	\$ 51.5
Unexercised options (unvested) (\$B)	\$ 8.3	\$ 4.0	\$ 3.0	\$ 1.9	\$ 3.3	\$ 4.5
<b><u>Brokerage Revenues (\$000)</u></b>						
Commissions <sup>(10)</sup>	\$ 85,780	\$ 60,888	\$ 73,152	\$ 67,760	no change	no change
Principal transactions <sup>(10)</sup>	\$ 58,640	\$ 42,210	\$ 59,662	\$ 56,462		
Other brokerage related	\$ 45,269	\$ 41,896	\$ 48,590	\$ 45,113		
Brokerage interest income	\$ 34,868	\$ 34,320	\$ 35,335	\$ 42,742		
Brokerage interest expense	\$ (1,877)	\$ (2,513)	\$ (2,852)	\$ (2,681)		
Net brokerage revenue	\$ 222,680	\$ 176,801	\$ 213,887	\$ 209,396		
<b><u>Banking Metrics</u></b>						
Gross new banking accounts	118,555	117,075	41,911	46,201	24,581	80,314
Inactive accounts	21,834	(9,230)	(3,463)	-	-	-
Customer closed accounts	(44,613)	(41,611)	(37,849)	(39,332)	(39,905)	(52,073)
Net new banking accounts	95,776	66,234	599	6,869	(15,324)	28,241
Consumer loan originations, incl HELOCs (\$B)	\$ 0.6	\$ 0.6	\$ 0.1	\$ 0.1	\$ 0.1	\$ -
Acquired consumer loans (\$B)	\$ 0.5	\$ -	\$ 1.8	\$ 0.0	\$ 0.7	\$ 0.1
Mortgage pipeline (end of period) (\$B)	\$ 1.7	\$ 1.2	\$ 1.1	\$ 1.2	\$ 0.6	\$ 0.4
<b><u>Credit Quality and Reserve Metrics</u></b>						
Net charge-offs as a % of average held-for-investment loans, net (annualized)	0.49%	0.65%	0.51%	0.24%	0.34%	0.42%
Provision as a % of average held-for-investment loans, net (annualized)	0.55%	0.76%	0.27%	0.24%	0.28%	0.21%
Allowance as a % of total ending gross held-for-investment loans	0.52%	0.52%	0.50%	0.37%	0.22%	0.27%
Total non-performing loans, net, as a % of total gross held-for-investment loans	0.37%	0.44%	0.47%	0.49%	0.33%	0.38%
Total loan loss allowance as a % of total non-performing loans, net	140%	119%	104%	75%	66%	71%

## **SUPPLEMENTAL INFORMATION AND ENDNOTES**

### ***Explanation of Non-GAAP Measures and Certain Metrics***

In order to better assess the Company's financial operating results, management believes results from ongoing operations, ongoing operating margin, free cash, EBITDA and interest coverage are appropriate measures of evaluating the operating and liquidity performance of the Company.

#### ***<sup>(1)</sup> Results From Ongoing Operations, Ongoing Operating Margin***

Results from ongoing operations exclude gain or loss on early extinguishment of debt, amortization of other intangibles, acquisition-related expenses, the gain or loss on investments, unrealized losses on venture funds, the fair value adjustments of financial derivatives related to the impact of Statement of Financial Accounting Standards (SFAS) No. 133, executive agreement, restructuring and other exit charges, the cumulative effect of accounting changes and the adjustment to minority interest for the consolidating impact of E\*TRADE FINANCIAL Advisor on restructuring and other exit charges and tax expense. Ongoing operating margin excludes, in addition to the above, corporate interest income, corporate interest expense, equity in income of investments and other non-operating items. Management believes this measure to be appropriate in determining the operating performance of the Company's core business on an ongoing basis and represents the measure used by analysts and the investment community historically to evaluate company performance. With respect to 2003 guidance, the difference between earnings per share from ongoing operations and reported earnings estimates is based on the historical relationship between the two measures. The Company has determined that the use of historical relationships will likely provide the most accurate estimate of reported earnings rather than forecasting each of the components not included in calculating earnings from ongoing operations. These components are subject largely to changes in external events, a number of which are beyond the control of management, and are therefore difficult to predict with appropriate accuracy.

#### ***<sup>(2)</sup> Free Cash, EBITDA, Interest Coverage***

Free cash as defined by the Company represents cash held at the parent and excess regulatory capital at bank and brokerage, and is a metric used by management to measure business performance and liquidity.

Additionally, management utilizes EBITDA and interest coverage to measure business performance. EBITDA is defined as net income (loss) before corporate interest expense, taxes, depreciation & amortization, and cumulative effect of accounting changes. Interest coverage is defined as EBITDA divided by corporate interest expense.

It is important to note these metrics and non-GAAP measures should be considered in addition to, not as a substitute for, or superior to, net income, operating margin, consolidated statements of cash flows, or other measures of financial performance prepared in accordance with GAAP.

(3) Amounts and percentages may not calculate due to rounding.

(4) Included in general and administrative for the three months ended June 30, 2003 is a \$7 million MJK litigation reserve.

(5) See Six Quarter History Table for new metrics and/or prior period reclassifications to conform to current period classifications.

(6) Effective June 30, 2003, brokerage accounts are considered active if the account has a positive asset balance of at least \$25 at the end of the quarter, as compared to prior periods in which an active account was defined as an account with a positive balance, or if a trade has been made in the account in the past six months or if the account was opened in connection with a corporate employee stock benefit program. Q203 inactive account figures include those accounts no longer included in the definition of active accounts as revised in the quarter ended June 30, 2003. Prior periods were not restated to reflect the change in definition. Customers may have separate or multiple accounts for each relationship they maintain with us, including separate or multiple brokerage and banking accounts. Bank deposit accounts are considered active if a customer account was initially funded and the account is not considered abandoned or dormant under applicable Federal and State laws, or the account has not been closed. Bank loan accounts are considered active if the Company holds the underlying obligations. Credit card accounts included in active banking accounts are considered active if the account has incurred a debit or credit in the prior month.

(7) Excludes transactions related to Professional Trading.

(8) Q2'03 estimate

(9) Amount includes a taxable equivalent increase in interest income of \$566,000 for the three months ended June 30, 2003, and none for the three months ended June 30, 2002.

(10) Certain prior period amounts have been reclassified to conform to the current presentation.