

DEAR FELLOW SHAREHOLDERS,

2015 was a mixed year for Morgan Stanley, marked by dramatically different halves. We started the year with a strong performance delivered in constructive markets, but the market environment in the second half of the year was more difficult. Furthermore, global economic and market instability has led to a decline in our stock along with other financial services firms since last summer. Notwithstanding this near-term volatility, we made significant progress against our strategic goals, and took important steps to address areas of underperformance and position the Firm for long-term success.

Over the last six years, we have led a major transformation of our business mix, reshaping Morgan Stanley for the operating and regulatory environments of today. Our diversified business model combines a world-class institutional franchise — our investment banking and institutional sales and trading businesses — with a leading wealth management organization and a strong investment management business. This balanced set of businesses complements each other through business cycles and serves a wide-ranging set of clients including governments, institutions and individuals. Supported by our fortified balance sheet and strong capital levels, we have built a model that can deliver consistent earnings and higher shareholder returns while being aligned with the evolving regulatory framework.

Our success will be driven by a continued rigorous focus on clients, culture and talent. This past year, we put significant effort into all three of these priorities — creating a greater focus on collaboration and delivering the whole Firm to our clients, reaffirming the core values that shape our culture and way of doing business, and further developing the talent and leadership guiding this Firm.

LARRY LETTERA / CAMERA 1



JAMES P. GORMAN
CHAIRMAN & CEO

EXECUTING OUR STRATEGIC PRIORITIES AND THE PATH TO HIGHER RETURNS

On an annual basis, the Board of Directors and executive management evaluate our strategic path and lay out goals and priorities. These goals allow our shareholders to measure our performance and hold us accountable as we work toward achieving sustained higher returns. Let me review our performance against these goals and the strategic priorities going forward.

In our Wealth Management business, we see further upside through additional profit margin improvement. In 2015, the full-year profit margin increased to a record 22% from 20% in the prior year. We have the potential to achieve a profit margin of 23%–25% by 2017 through lending growth, expense discipline and organic business growth, assuming stable markets. Our focus remains on continued high-quality lending from our U.S. subsidiary banks to existing clients to drive net interest income growth, which grew 46% over the course of 2015 in a flat-rate environment. In parallel, we are offering a robust suite of cash management products to attract a greater share of client deposits. We are also focused on the technology investments required to drive productivity and growth so that our financial advisors and clients have access to the digital tools they need to manage their assets and wealth. Finally, we expect ongoing organic business growth, as the secular shift to fee-based managed accounts plays to our advisory strength and our ability to offer complex financial planning and advice.

Our world-class Investment Banking franchise consistently ranks in the top three of the global league tables in advising on mergers and acquisitions and underwriting initial public offerings, and 2015 was no exception. Equity Sales & Trading continued to demonstrate its leadership, finishing the year at No. 1 in revenue market share globally for the second year in a row, and offers our clients expertise across a broad range of products in markets all over the world. In both of these businesses, we have built on the momentum of recent years, and our leadership and broad footprint position us well for continued strength.

We have been reshaping our Fixed Income and Commodities Sales & Trading business for several years, recognizing the regulatory changes that have impacted the industry structurally, and have reduced the capital required to support this business accordingly. However, the continued shrinking industry revenue pool, coupled with the steady increase in capital requirements, led us to significantly restructure this business at the end of 2015. These actions will better align the capital and resources committed with the opportunity

OUR STRATEGY

WHAT WE DO

Advise, originate, trade, manage and distribute capital for governments, institutions and individuals, and always do so with a standard of excellence.

HOW WE DO IT

Execute in a way that is consistent with our values and, whenever possible, deliver more than one part of the Firm.

WITH WHAT RESULT

Deliver strong returns for our shareholders, build long-term value for our clients and offer highly attractive career opportunities for our employees.

we see in a changed marketplace. Specifically, we reduced headcount by 25%, set a new long-term target for Fixed Income and Commodities risk-weighted assets of less than \$110 billion and set a fully phased-in Supplementary Leverage Ratio exposure target of less than \$250 billion. As a result, we are confident this business will require at least \$5 billion less capital—capital that can be redeployed to higher returning businesses or returned to shareholders over time. Together, these actions will result in a credibly sized Fixed Income and Commodities business that can support our Sales & Trading, Investment Banking and Wealth Management clients.

While 2015 was a weaker year for Investment Management given the dislocations in the public and private equity markets in Asia, we continue to view this business as a long-term growth opportunity

and aim to capture a larger share of professionally managed investable assets. We are committed to growing assets under management and supervision by expanding product offerings, improving distribution capabilities and maintaining strong investment performance, all of which should drive inflows from global investors and better results for the business.

Across each of our businesses, we continue to build the scope of our capital market solutions to help clients meet their sustainable investing goals. Two years ago, we launched the Morgan Stanley Institute of Sustainable Investing, to integrate these efforts across our businesses, as we respond to clients—individual, corporate and institutional—who increasingly seek investment tools that both meet their financial needs and address social

and environmental issues facing the world. We are raising and investing capital across a range of sustainable projects, like clean energy and affordable housing, via a variety of products and solutions like green bonds and our Investing with Impact platform.

Firmwide, we have announced the next phase of expense reduction spanning 2016 and 2017, called Project Streamline. After beating our expense efficiency ratio target* of 79% by two percentage points in 2015, our intent is to further lower the expense base by \$1 billion to bring the expense efficiency ratio to 74% in 2017 (assuming a flat revenue environment). We will implement significant infrastructure savings by structurally

simplifying the organization, consolidating processes, leveraging technology further, and optimizing our location and outsourcing strategies. We will also continue to maintain strong compensation expense discipline and have set explicit compensation ratio targets across each of our business segments.

The final piece in our plan is to return excess capital to shareholders. Last year, we increased our common dividend by 50% and increased our share repurchase program from \$1 billion to \$3.1 billion over five quarters, or \$2.5 billion annually. Given our current strong capital position, we intend to further increase the amount of capital returned to shareholders in the years ahead, subject to regulatory approval. We believe that these priorities will set the stage for improving returns on equity and have set a 2017 ROE target* of 9% to 11%.

EXECUTING OUR STRATEGY

2015 HIGHLIGHTS

- 22% pre-tax margin¹ in Wealth Management
- \$2.0 trillion in Wealth Management client assets
- 15% increase in combined U.S. bank subsidiary assets to \$174 billion
- 28% reduction in fixed income and commodities risk-weighted assets²
- 77% firmwide expense efficiency ratio³

FORTIFYING CAPITAL AND

ENHANCING LIQUIDITY

2015 HIGHLIGHTS

- Common equity tier 1 capital ratio advanced (transitional) of 15.5% as of 4Q 2015, with \$68 billion in common equity
 - \$203 billion global liquidity reserve as of 4Q 2015
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* EXPENSE EFFICIENCY RATIO AND ROE TARGETS EXCLUDE THE IMPACT OF DVA

1. NON-GAAP FINANCIAL MEASURE 2. RWAS CALCULATED UNDER BASEL III ADVANCED APPROACH FINAL RULES

3. TOTAL NON-INTEREST EXPENSE AS A PERCENTAGE OF NET REVENUES, EXCLUDING DVA

CULTURE, LEADERSHIP AND TALENT

Our strategic path forward will be governed by the strong talent and leadership at this Firm and by the culture and values we bring to work every day. In 2015, we made several changes in our senior executive ranks to develop the next generation of leaders. We appointed Colm Kelleher as President of Morgan Stanley, leading both Institutional Securities and Wealth Management. He is uniquely equipped to take on this responsibility given his experience, leadership and commitment to our culture. His appointment will help advance collaboration across all of our businesses, and he will work closely with me to further develop the group of strong executives who serve at the most senior levels of our Firm.

Over the past two years, we have cross-pollinated key leaders across our major businesses to further knit our culture while enhancing our ability to deliver the entire Firm for the benefit of our clients. This ensures that we regularly bring new energy and intensity to our businesses and find new ways to manage our resources. While we will continue this work, I believe we now have in place a leadership team that can drive our success over the next several years.

At Morgan Stanley, our culture guides our employees, and our values inform everything they do: we have a commitment to putting clients first, leading with exceptional ideas, doing the right thing and giving back. These values honor both our history and our aspirations for the future. It is important to have the right set of values and culture because, amid the inevitable short-term swings of the market, it is culture that drives enduring performance. This year, we reaffirmed our core values by engaging our employees in a discussion on ethics, risk, and the importance of having a culture of open dialogue, where ideas can be openly discussed and risks honestly identified and weighed.

We were gratified to know that our employees believe that our values are important to the future success of the Firm, that transparency and honesty with clients are essential, and that our culture and work environment foster these qualities. I am proud of our 56,000 global employees. They live our values every day, and make the right decisions on behalf of our clients and the Firm. Their hard work and commitment ultimately drive our success.

Morgan Stanley's culture has served it well — not just in difficult years, but throughout its history. The strength and vision of previous leaders guided the growth and durability of Morgan Stanley over 80 years, and the next generation of leaders is responsible to drive this forward. Two former leaders of Morgan Stanley died this past year — Bob Baldwin and Parker Gilbert. Bob Baldwin was President of Morgan Stanley from 1973 to 1982 and Chairman from 1979 to 1983. He led the Firm during a period of sweeping, transformational change, expanding our scope of business from pure advisory and underwriting to securities sales and trading, research, mergers and acquisitions, and money management. Parker Gilbert was Chairman of Morgan Stanley from 1984 to 1990. Under his leadership, Morgan Stanley transitioned from a private partnership to a publicly listed company in 1986, thus growing our capital base and providing the foundation for the rapid growth we experienced over the subsequent decades.

Both Bob and Parker embodied the ideals that have become our core values: putting clients first, giving back to the community, and acting with absolute integrity — comprising a culture which conducts “first-class business in a first-class way.” Each of these leaders confronted the market challenges of their times and shaped this Firm to meet them. They and others established a culture and values that our current and future leadership will carry forward over the next decades in our Firm's history.

OUR CORE VALUES

Since our founding in 1935, Morgan Stanley has consistently delivered first-class business in a first-class way. Underpinning all that we do are four core values:

PUTTING CLIENTS FIRST

Always keep the client's interest first. Work with colleagues to deliver the best of the Firm to every client. Listen to what the client is saying and needs.

DOING THE RIGHT THING

Act with integrity. Think like an owner to create long-term shareholder value. Value and reward honesty, collegiality and character.

LEADING WITH EXCEPTIONAL IDEAS

Win by breaking new ground. Let the facts and different points of view broaden your perspective. Be vigilant about what we can do better.

GIVING BACK

Be generous with your expertise, your time and your money. Invest in the future of our communities and our Firm. Mentor our next generation.

LOOKING AHEAD

Our businesses are more aligned than ever to better advise and transact for our clients, and we see a clear path to success in a world where financial institutions are highly regulated. With the regulatory agenda nearly completed, we are now focused on building market share, increasing earnings and improving returns.

We have the right business model in place and the proper leadership team to guide us forward. We have a talented workforce and a culture that focuses on our clients. We will continue to make the investments required to be competitive in the marketplace so that we generate consistent and sustainable growth.

Thank you for your continued confidence and investment in Morgan Stanley. I am optimistic about our future and confident in our ability to deliver lasting value to our shareholders.

A handwritten signature in black ink that reads "James P. Gorman". The signature is written in a cursive style with a large, sweeping initial "J".

JAMES P. GORMAN

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

APRIL 1, 2016

