

DEAR FELLOW SHAREHOLDERS,

We have been on a multi-year journey at Morgan Stanley. Beginning with the financial and economic upheavals of the preceding decade, this journey has involved a thorough reassessment of our mission – and subsequent actions to put our Firm on a path to more consistent, sustainable profitability.

During 2012, we passed several important milestones along this journey, arriving at what we have described as a pivot point: With a sharpened business strategy, a fortified balance sheet and strong capital levels, we are poised to do a better job than ever of serving our clients and delivering attractive returns to you, our shareholders.

Along the way, we have continually returned to the principles that guided this Firm during its 77-year history – and most recently, we revisited three fundamental questions: What do we do? How do we do it? With what result? We asked Firm leaders around the world to reflect on these questions, and the result was a fresh articulation of both our long-term strategy and our core values. The people of Morgan Stanley have embraced this process with their customary creativity and intelligence, and it has energized our company.



BEN BAKER / REDUX

JAMES P. GORMAN
CHAIRMAN & CEO

OUR STRATEGY

Organizations that last over time — in Morgan Stanley’s case, nearly 78 years — have an essence that gets them through the inevitable and sometimes violent cycles of our markets. Growing organically from our origins during the Great Depression of the 1930s, we underwrote stock and bond offerings for companies that would help lead the world out of economic stagnation.

During 2012, we took the time to rearticulate our strategy and to lay the groundwork for continued success in a world that is rife with change. Today, Morgan Stanley advises, originates, trades, manages and distributes capital for clients, adhering to a standard of excellence that is evidenced by the leading positions that our businesses hold in the global marketplace. We do this in a manner that is consistent with our values and whenever possible, we draw from the capabilities that reside across our organization to deliver to our clients more than just one part of the Firm. We know that if we execute consistently on this strategy, we will create value for our shareholders and continue to attract and retain the best people in the industry.

INVESTING IN OUR BUSINESSES

To support this strategy, we must continuously invest in our businesses. Surveying the last few years, I am proud of the work we have done to lay a strong foundation for Morgan Stanley's future.

Our Investment Banking franchise perennially ranks at or near the top of the global league tables in advising on mergers and acquisitions, and underwriting equity and initial public offerings — and 2012 was no exception. One area of particular note was our debt underwriting practice, where investments we made over several years led to higher market share and wallet share over the full year. More broadly, we advise governments in every region of the world, and we have assisted a number of European nations to manage

the challenges of the euro currency crisis by raising capital and otherwise helping them restructure their sovereign debt obligations.

WINNING IN THE MARKETPLACE 2012 HIGHLIGHTS

- NO. 1 Underwriter of global initial public offerings¹
In *Barron's* Top 100 Financial Advisors, with 30 listings
In managed accounts, with more than \$500 billion in assets²
- NO. 2 Advisor on global announced mergers and acquisitions³
Underwriter of global equity offerings⁴
- NO. 4 Underwriter of US dollar investment grade debt offerings⁵
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Equity Sales and Trading remains one of the top franchises of its kind in the industry, offering our clients expertise across a broad range of products, in markets all over the world. Within Fixed Income and Commodities Sales and Trading, we are concentrating our efforts on areas of growth, including interest rate and foreign exchange products. We have built a leading electronic trading platform, where we witnessed significant growth in volumes during 2012. As regulations pertaining to derivatives and other parts of our sales and trading business unfold over the next 12 to

18 months, we expect trading markets to be more client-centric, less dependent on balance sheets, and heavily electronic. We have planned and invested with these outcomes in mind, and we are confident that our businesses will lead the way.

In Global Wealth Management, we are utilizing a growing deposit base to build out banking and lending services that are tailored to our affluent clients. We also seek to enhance, expand and improve the client experience in other key areas: our advisory business, where we have been the industry leader in managed accounts for 40 years; our capital markets group, which provides unparalleled access to products and content; and our technology platform, the foundation of our financial advisors' efforts to deliver superior advice and service.

With the Smith Barney integration completed, we look forward to strong and growing profit margins in this business.

Over the past several years, Morgan Stanley Investment Management has set its sights on improving its distribution capabilities, and this effort has helped drive steady inflows from investors around the world.

MSIM increased assets under management by 18 percent in 2012, and delivered strong investment performance across a broad range of asset classes — access to which is essential for meeting the diversification needs of institutional and individual investors alike.

PROGRESS IN 2012 AND BEYOND

In 2012 specifically, we achieved clarity around the cost and timetable for acquiring full ownership of our wealth management joint venture, now doing business as Morgan Stanley Wealth Management. This would increase the percentage of profits that our shareholders realize from this business — one of the largest of its kind in the world — and deepen the opportunities we have throughout the Firm to collaborate on behalf of clients.

The benefits to Morgan Stanley of owning a wealth management business of scale are unmistakable: sizeable and stable revenues, a substantial deposit base, low relative capital usage, and a growing demand for professional advice. With the Smith Barney integration completed, we look forward to strong and growing profit margins in this business.

Another important accomplishment, where we have moved ahead of schedule, has been a reduction in risk-weighted assets, or RWAs, on our balance sheet. These RWAs, which primarily support our Fixed Income and Commodities businesses, have come down more than 40 percent from a peak of approximately \$500 billion, and we ended 2012 a year ahead on targeted reductions. We will reduce these further in 2013 and beyond.

Why is this important? By reducing RWAs, we are freeing up capital that can earn more attractive returns elsewhere in our business or ultimately be returned to shareholders. And we are doing this in a way that does not sacrifice our vision for an appropriately

EXECUTING OUR STRATEGY
2012 HIGHLIGHTS

- 17% pre-tax margin in Global Wealth Management in 4Q 2012 (12% for the full year), highest since the inception of the joint venture
 - 8% growth in Wealth Management client assets, to \$1.8 trillion
 - 18% growth in Investment Management's assets under management, to \$338 billion
 - 28% reduction in Fixed Income risk-weighted assets between 3Q 2011 and 4Q 2012
-

sized Fixed Income business — one that makes efficient and profitable use of capital as it serves our clients. Our Fixed Income platform is an essential complement to our other institutional franchises, Investment Banking and Equity Sales and Trading, and as such, it is an important part of our future.

Equally critical has been our resolve to reduce expenses. Net of investments we have made in our businesses, expenses declined by \$500 million in 2012, and we intend to achieve further reductions this year and next. After

reducing our headcount by more than 6,000 since the end of 2011, we believe our Firm is sized appropriately for the operating and regulatory environment as we currently see it.

While we sometimes wish that markets were faster to recognize our progress, we are pleased that equity investors appear to have taken notice of our momentum, particularly in the second half of 2012. Our credit spreads have also tightened dramatically with broader acknowledgment of our long-term strategy and our overall financial strength. We are operating with confidence about our mission within the global capital markets, and conviction in the strategy we have built to carry it out.

OUR PLAN TO DRIVE HIGHER RETURNS

As successful as our businesses have been, we are just scratching the surface of the opportunity we have to align them more closely, benefiting our clients and growing revenues in the process. We have more than 35 initiatives underway to increase collabo-

FORTIFYING OUR CAPITAL, ENHANCING LIQUIDITY, CONTROLLING EXPENSES 2012 HIGHLIGHTS

- Basel 1 Tier 1 common ratio of 14.6% as of 4Q 2012, up from 12.6% in 4Q 2011
 - Unencumbered global liquidity reserve, totaling \$182 billion as of 4Q 2012
 - \$500 million of expense reductions in 2012
-

ration between our institutional and wealth management businesses. These opportunities are unique to Morgan Stanley and should yield accelerating results over the next several years. One major focus is a more coordinated and systematized approach to senior relationship management, as existing and potential business partners of wealth management are often top clients of our institutional businesses.

Looking forward, we are doing a number of things to drive returns higher. We have articulated a clear and detailed plan for meeting and exceeding our cost of capital. It includes the aforementioned acquisition of 100 percent of the wealth management business and continued reductions of RWAs; achieving wealth management profit margin targets

OUR CORE VALUES

Since our founding in 1935, Morgan Stanley has pledged to do 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.

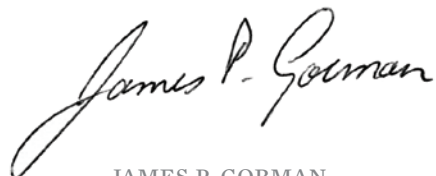
GIVING BACK

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

through expense management, and exceeding them through revenue growth; controlling expenses across the Firm in 2013, 2014 and beyond; and growing earnings through collaborative opportunities that are specific to Morgan Stanley. We are highly confident in our ability to execute on this plan.

A final word about the values that inform everything we do: We have a commitment to putting clients first, leading with exceptional ideas, doing the right thing and giving back. This commitment honors both our history and our aspirations for the future. Every day, in all of our offices across the world, we expect our 57,000 employees to live these values. That is what great organizations do.

Thank you for your investment in Morgan Stanley. I am excited 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, flowing style.

JAMES P. GORMAN

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

MARCH 21, 2013

Morgan Stanley

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