

Morgan Stanley

Morgan Stanley 1Q15 Fixed Income Investor
Conference Call

April 30, 2015

Notice

The information provided herein may include certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures are included in the Company's Annual Report on Form 10-K, Definitive Proxy Statement, Quarterly Reports on Form 10-Q and the Company's Current Reports on Form 8-K, as applicable, including any amendments thereto, which are available on www.morganstanley.com.

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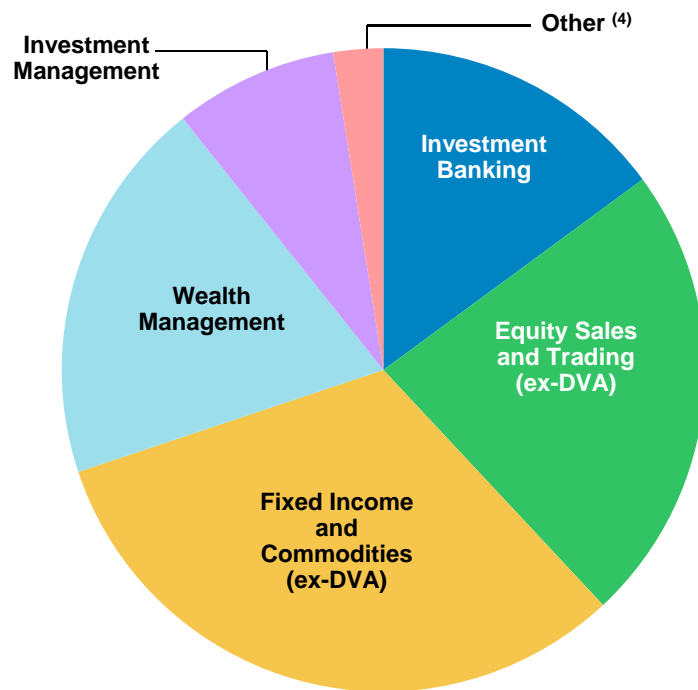
Agenda

- A** Business Update
- B** Prudent Liability Management
- C** Regulatory Topics
- D** Capital Management
- E** Liquidity Management

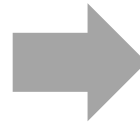
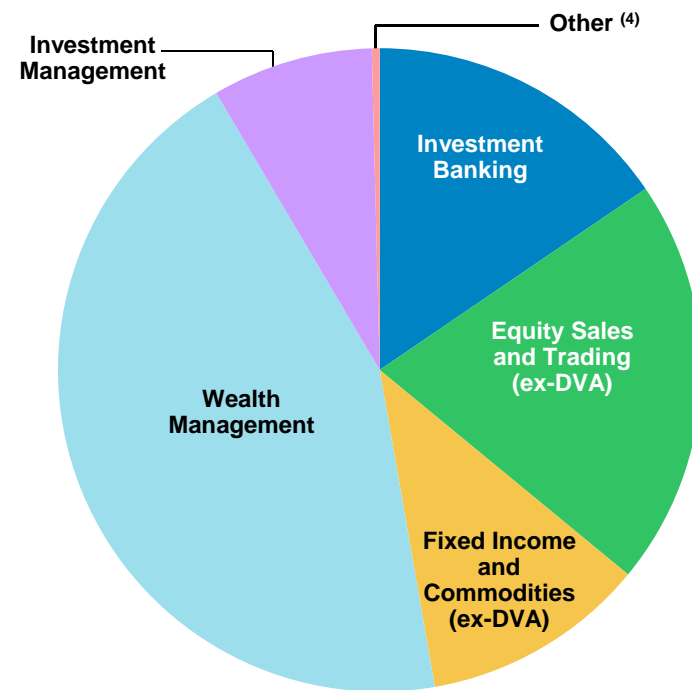
A Morgan Stanley: Looking Forward

- Multi-year transformation of business mix has led to earnings consistency and balance sheet strength
- Notable topics today: Upside from U.S. Bank⁽¹⁾; funding cost optimization; and return of capital subject to regulatory approval

Full Year 2006 Net Revenues⁽²⁾



Full Year 2014 Net Revenues^{(2),(3)}



(1) U.S. Bank refers to the Firm's U.S. bank operating subsidiaries Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, National Association.
 (2) Revenues for 2006 represent results for fiscal year ending November 30th. Revenues for 2014 represent results for fiscal year ending December 31st.
 (3) Full Year 2014 Net Revenues exclude the positive impact of \$651 million from DVA. Net Revenue ex-DVA is a non-GAAP measure the Company considers useful for investors to allow comparability of period to period operating performance.
 (4) 'Other' includes Other Sales & Trading, Investments, Other Revenue and Intersegment eliminations.

2015 Roll-Forward: Realizing Benefit of Strategic Initiatives

1

Ongoing Wealth Management upside through additional margin improvement

2

Continued execution of U.S. Bank strategy in Wealth Management and Institutional Securities

3

Progress in Fixed Income and Commodities ROE

4

Tailwind from lower funding costs

5

Maintaining focus on expense management

6

Steadily increase capital return to shareholders



Achieve returns in excess of our cost of capital

1

Ongoing Wealth Management Upside Through Additional Margin Improvement

Pre-tax Margin Target

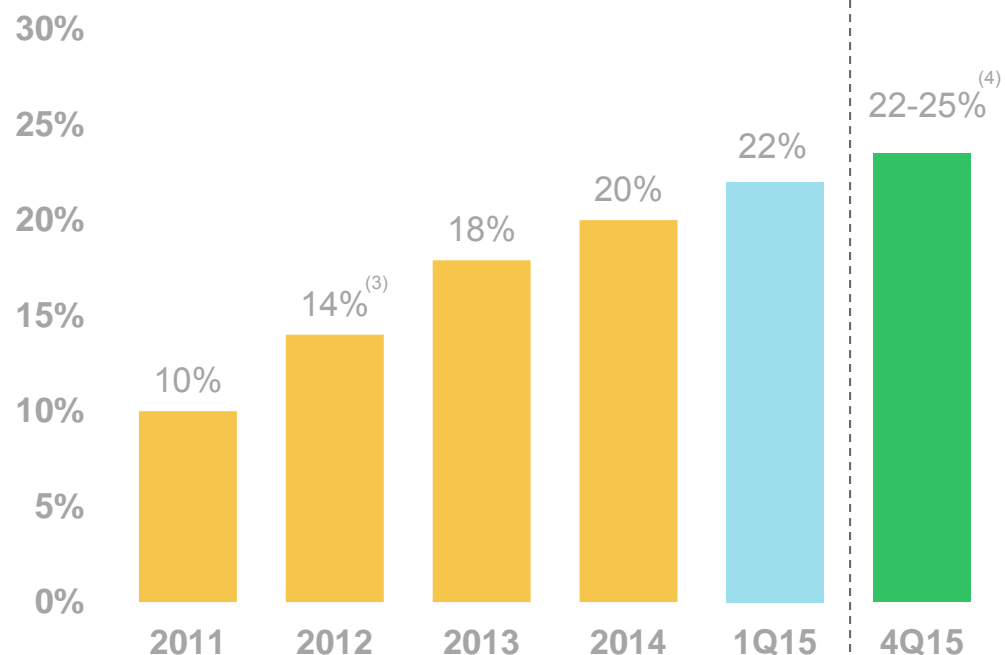
Includes:

- Revenue and operating leverage from deposit deployment
- Continued investments in leading technology platform

Upside Beyond Target:

- Higher interest rates
- Greater equity market levels
- Secular trend toward fee-based managed accounts

Wealth Management Pre-tax Margin^{(1),(2)}



(1) Pre-tax margin is a non-GAAP financial measure that the Company considers useful for investors to assess operating performance. Pre-tax margin represents income (loss) from continuing operations before taxes, divided by net revenues.

(2) The periods 2011-2013 have been recast to exclude the International Wealth Management business, currently reported in the Institutional Securities business segment, and the Managed Futures business, currently reported in the Investment Management business segment.

(3) Pre-tax margin for 2012 excludes \$193 million of non-recurring costs in 3Q12 associated with the Morgan Stanley Wealth Management integration and the purchase of an additional 14% stake in the joint venture.

(4) The attainment of these margins in 2015 may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

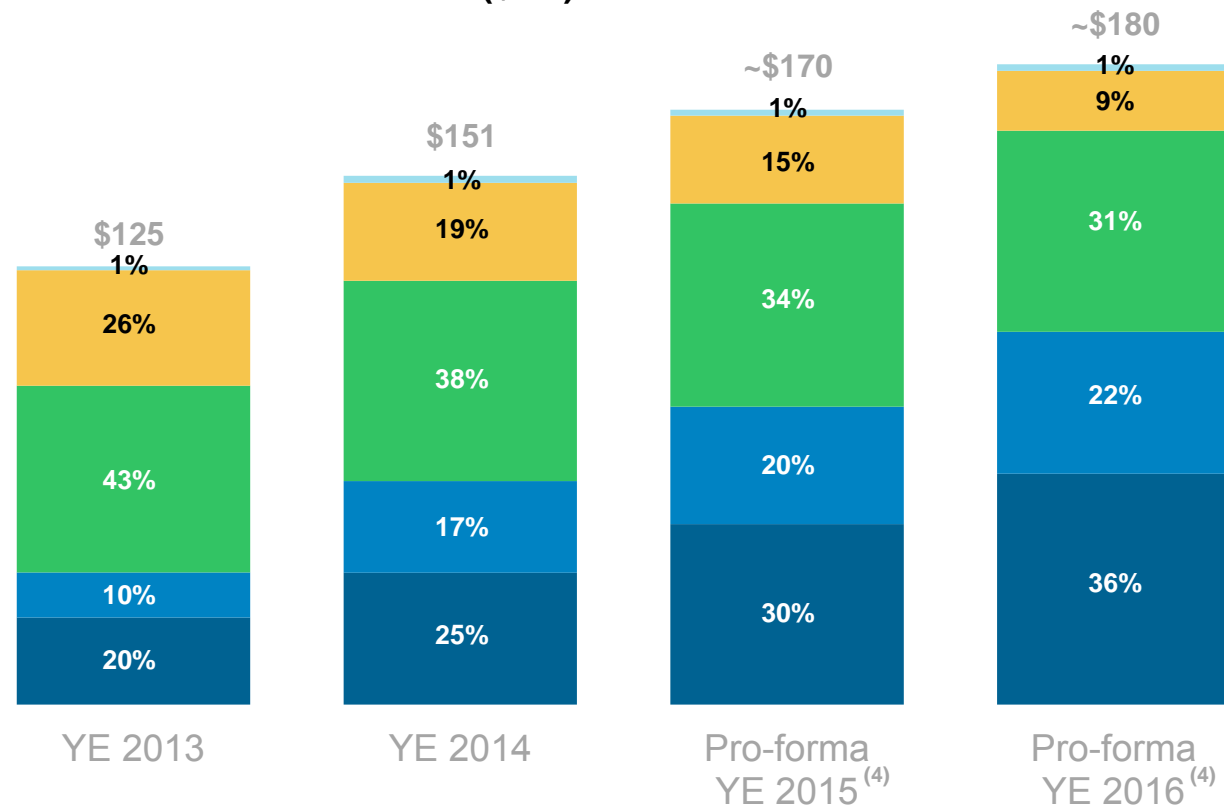
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NII Upside Driven by Ongoing Execution of U.S. Bank Strategy In Wealth Management & Institutional Securities

- Sizable, underpenetrated and embedded client base supports balanced loan growth
- Higher interest rates (eventually) will drive additional upside to net interest income

	Current Yield	Future Yield Opportunity ⁽³⁾
Cash & ST Investments ⁽⁵⁾	~0.3%	~1.6%
AFS	~1.1%	~2.1%
Lending	~2.8%	~3.9%

Combined U.S. Bank Assets (\$Bn)^{(1),(2)}



■ WM Lending
 ■ ISG Lending
 ■ AFS
 ■ Cash & Short Term Investments⁽⁵⁾
 ■ Other

(1) Combined bank assets represent assets in U.S. Bank.

(2) Figures may not sum due to rounding.

(3) "Future Yield Opportunities" are based off forward interest rate curves.

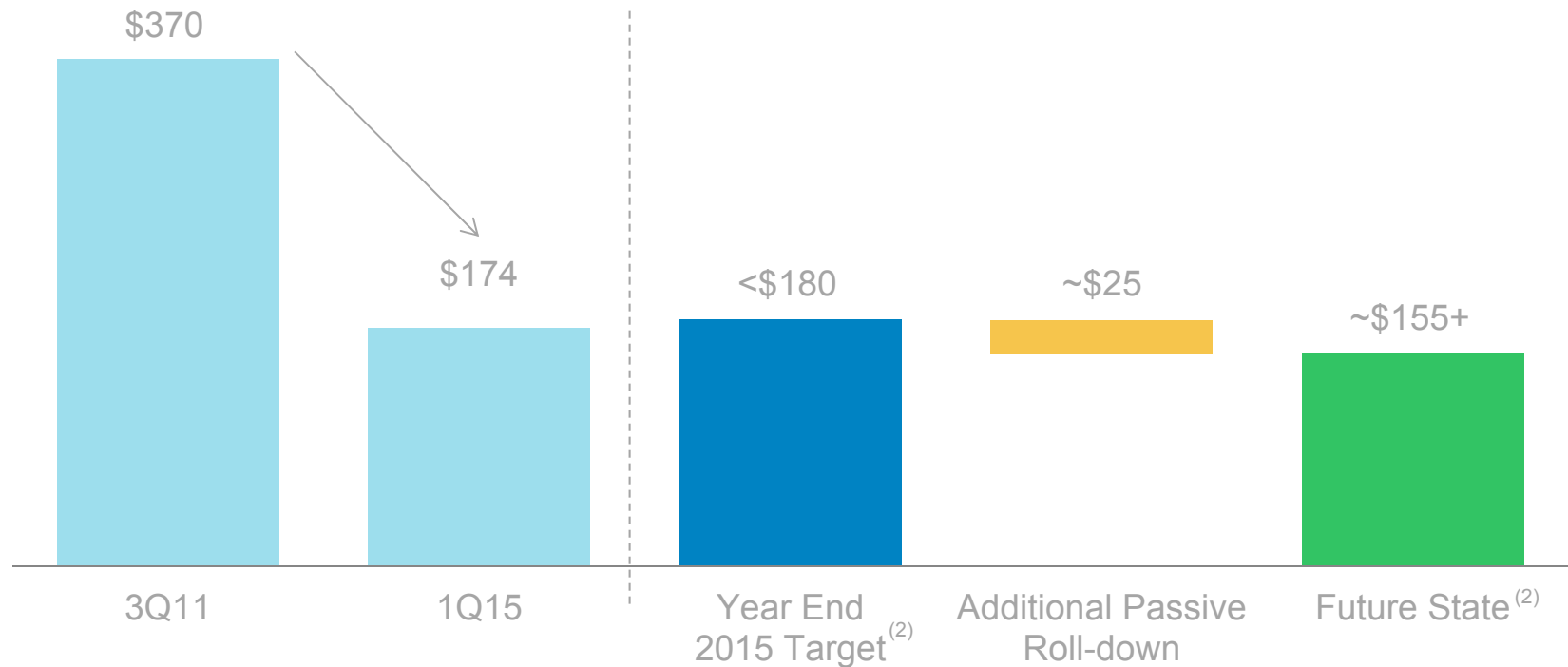
(4) The attainment of these pro-forma asset targets in 2015 and 2016 may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

(5) Short term investments represent reverse repurchase agreements.

3 Improve Fixed Income and Commodities Returns on Lower Risk-Weighted Assets

- RWAs meaningfully down to \$174Bn in 1Q15; retaining \$180Bn year-end 2015 target
- Optimize ~\$25Bn of RWAs beyond \$180Bn target, primarily passive roll-down
- RWAs to be redeployed to maximize returns, either within Fixed Income or across the broader Institutional Securities franchise

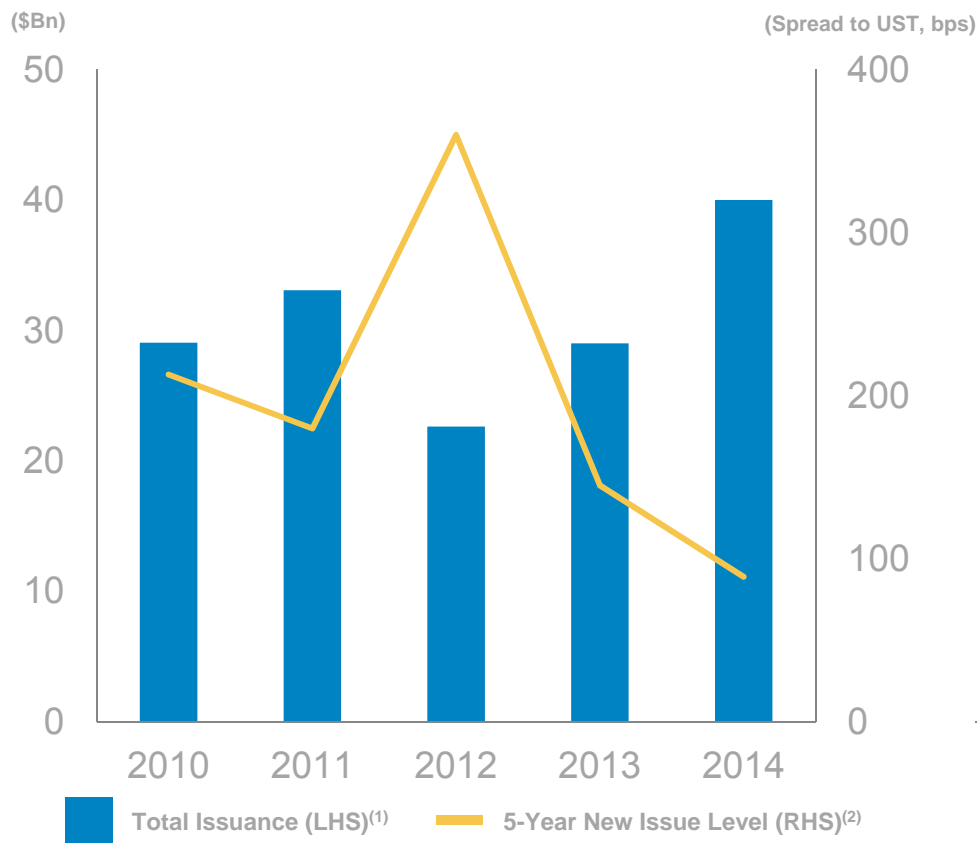
Fixed Income and Commodities Basel III Risk-Weighted Assets (\$Bn)⁽¹⁾



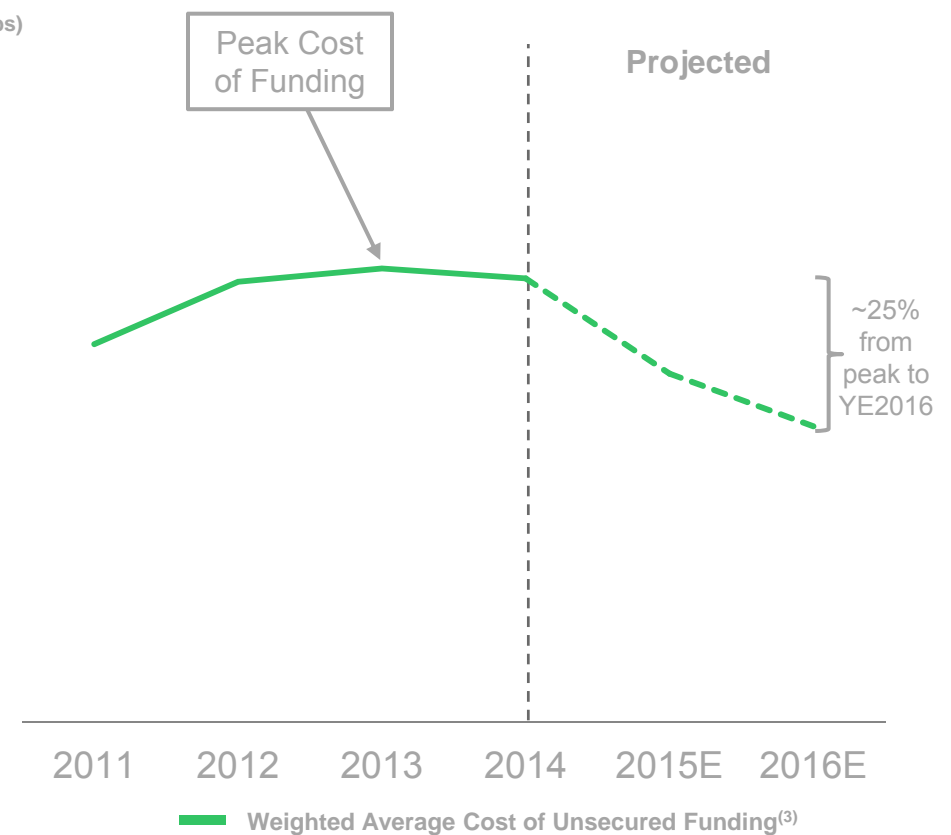
4 Tailwind from Lower Funding Costs

- Meaningful reduction in funding costs due to spread tightening and roll-off of older more expensive debt

Issuance and New Issue Levels



Weighted Average Cost of Unsecured Funding



5

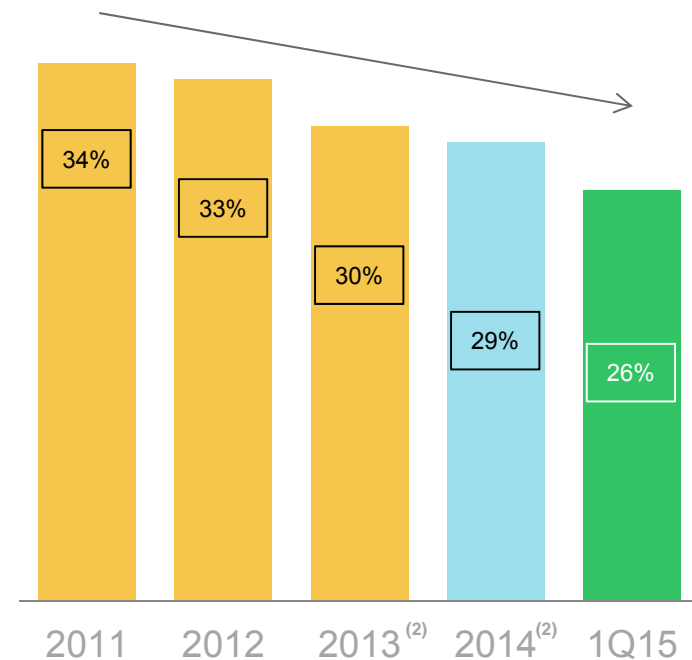
Ongoing Focus on Expense Management, Resulting in Greater Efficiency

Compensation Expenses and Targets⁽³⁾

- 4Q14 change in compensation structure enabled meaningful reduction in Institutional Securities compensation/net revenue ratio
 - Target: 39% or lower; achieved 38% in 1Q15 vs. 41% in 1Q14 (excluding DVA)
- Wealth Management target compensation ratio of $\leq 55\%$ over time
 - 58% in 1Q15 vs. 60% in 1Q14
- Investment Management target compensation ratio of $\leq 40\%$ over time

Non-Compensation Expenses

Non-Compensation Efficiency Ratio⁽¹⁾



2013 and 2014 exclude elevated legal expenses vs. 2012 baseline

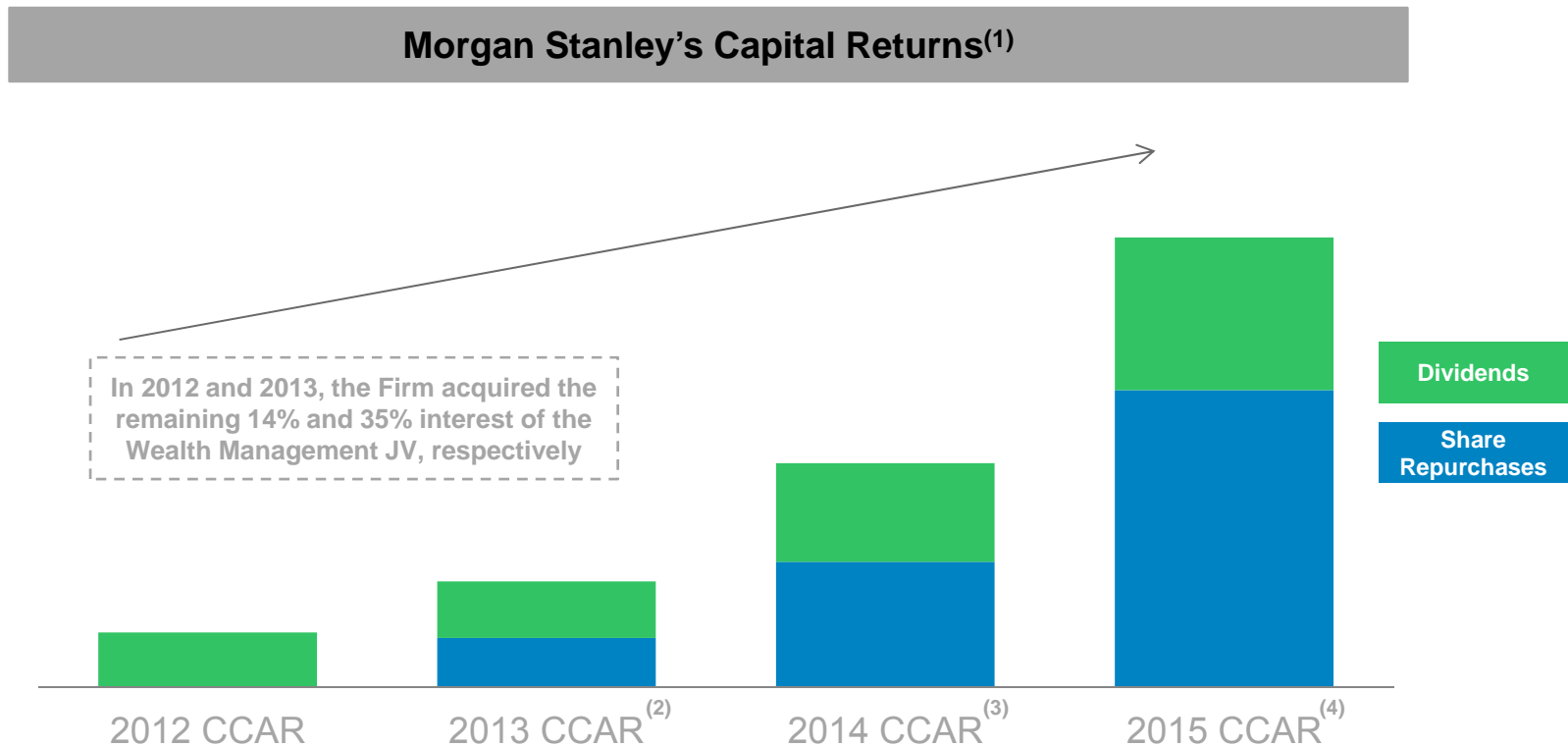
(1) Non-compensation efficiency ratio is calculated as non-compensation expenses, or adjusted non-compensation expenses, divided by net revenues excluding DVA. Non-compensation efficiency ratio, adjusted non-compensation expenses and net revenues excluding DVA are all non-GAAP financial measures the Company considers useful for investors to allow comparability of period to period operating performance.

(2) Adjusted non-compensation expenses are calculated as non-compensation expenses less certain legal and other expenses. For 2013, adjusted non-compensation expenses exclude \$1.6Bn of elevated legal expenses versus 2012 levels and investments/impairments/write-offs of \$313MM, and for 2014 adjusted non-compensation expenses exclude \$3.0Bn of elevated legal expenses versus 2012 levels.

(3) The attainment of these targets may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

6 Returning Capital – Our Philosophy

- We intend to continue to increase our capital return to shareholders over time, subject to regulatory approval
- Qualitative process benefits from our Continuous Improvement Program (CIP)



(1) In 2012, 2013, 2014, and 2015 the Firm received a "non-objection" from the Federal Reserve for each respective year's CCAR submission.

(2) In 2013, the Firm received a non-objection to repurchase up to \$500MM of common stock beginning in 3Q13 through 1Q14 under rules permitting annual capital distributions.

(3) In 2014, the Firm received a non-objection to repurchase up to \$1Bn of common stock beginning in 2Q14 through 1Q15 and to increase the Firm's quarterly common stock dividend to \$0.10 per share from \$0.05 per share beginning with the dividend declared in 2Q14.

(4) In 2015, the Firm received a non-objection to repurchase up to \$3.1Bn of common stock beginning in 2Q15 through 2Q16 and to increase the Firm's quarterly common stock dividend to \$0.15 per share from \$0.10 per share beginning with the dividend declared in 2Q15.

B Prudent Liability Management: Centralized Structure and Strict Governance

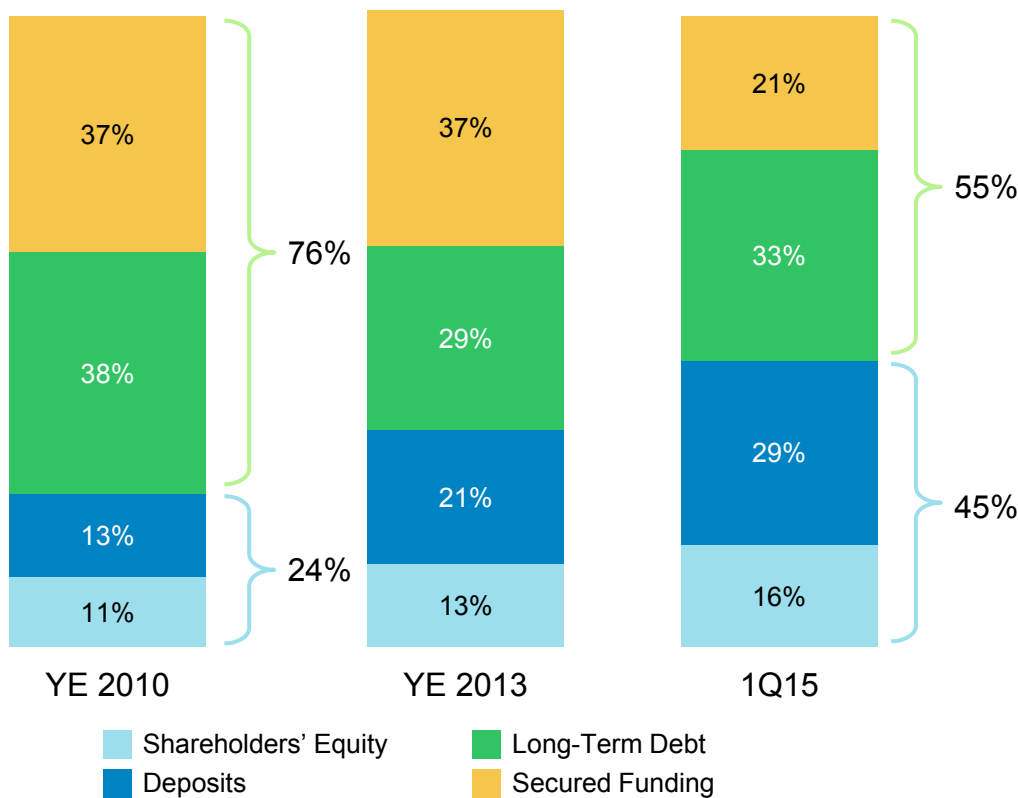
Liability management framework supported by centralized, strong governance ensuring funding durability, providing stability in all environments

Durability of Funding Sources

- Liabilities should be considered across a range from most durable to least durable due to their nature and based on governance
 - Long-Term Debt
 - Contractually durable and most appropriate to fund longer duration, less liquid assets
 - Deposits
 - Durable when insured
 - Wholesale (Secured) Funding
 - Durable when managed to match / exceed asset liquidity horizon
 - Commercial Paper
 - Not sufficiently durable for banks

Continue to Optimize Funding Stack

Funding Stack⁽¹⁾
(%)



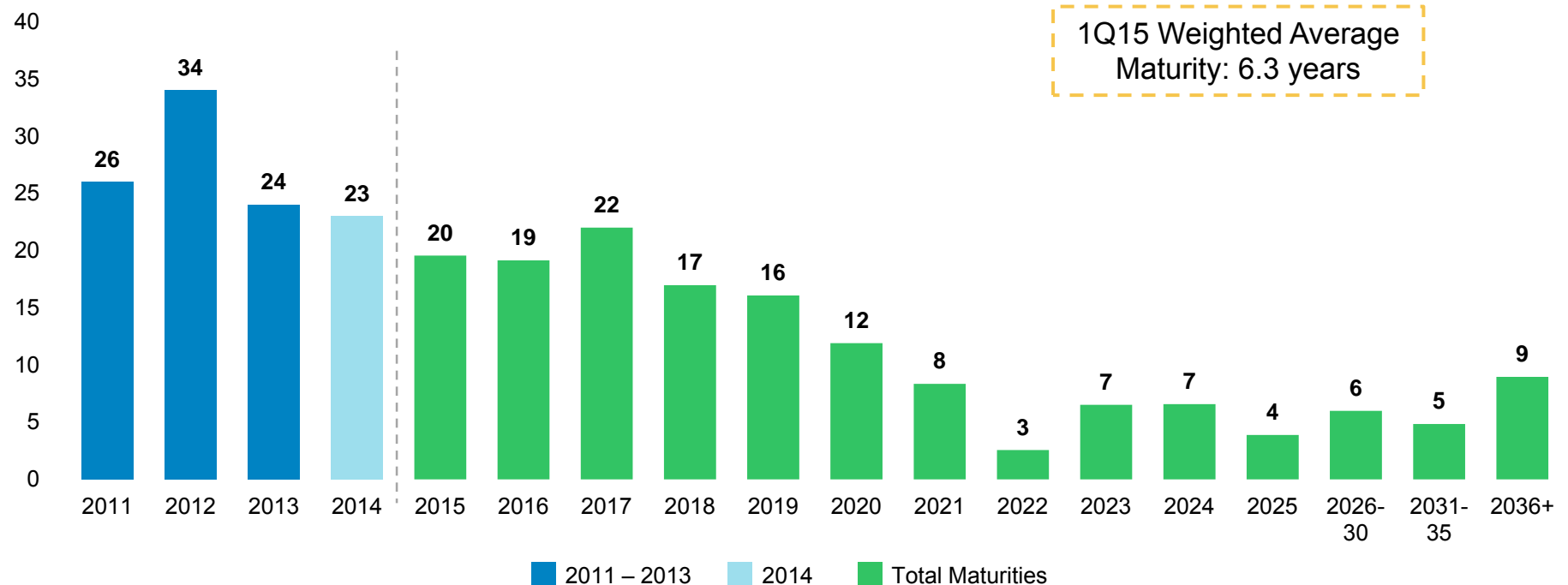
- We continue to enhance our funding profile by shifting to more durable sources
- **YE 2010 – YE 2013**
 - Significantly increased shareholders' equity
 - Materially grew deposit base
 - Meaningfully extended the WAM of secured funding
- **YE 2013 – present**
 - Continue to increase WAM of secured funding
 - Extending WAM of unsecured funding
 - Shift in secured vs. unsecured mix benefits regulatory ratios

Prudent Liability Management: Extending Maturity Profile of Long-Term Debt

- Since the end of 2013, issued debt at a weighted average cost below the weighted average cost of debt maturing, while also extending our weighted average maturity by approximately one year

Total Short-Term and Long-Term Maturities^{(1),(2),(3)}

(\$Bn)



(1) As of March 31, 2015.

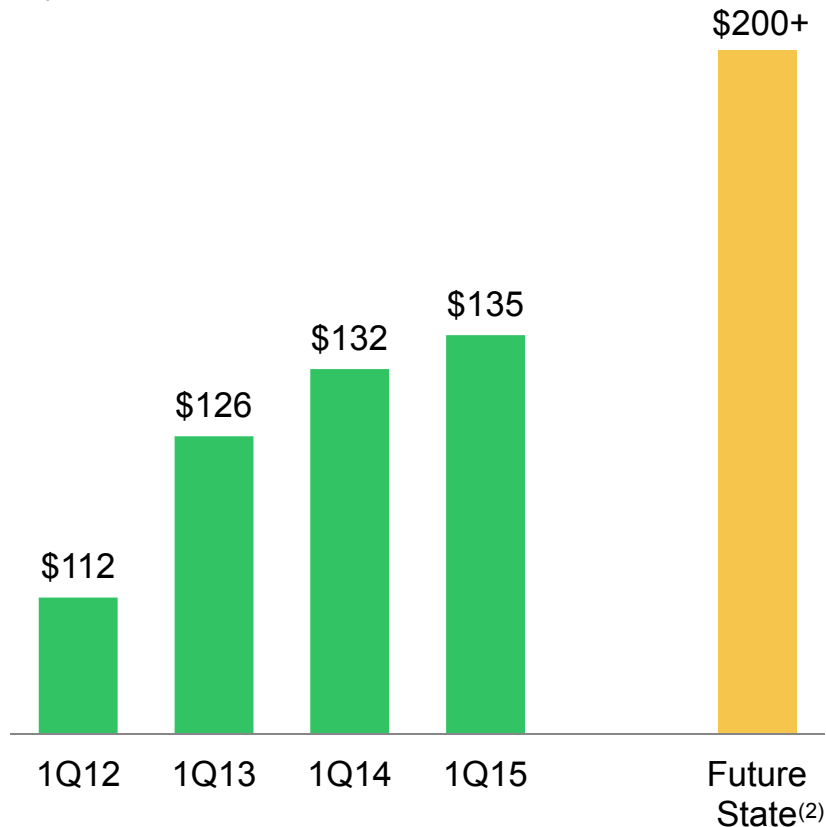
(2) Total short-term and long-term maturities include Plain Vanilla (Senior Unsecured Debt, Subordinated Debt, Trust Preferred Securities), Structured Notes and Commercial Paper. Structured Notes maturities are based on contractual maturities.

(3) Excludes assumptions for secondary buyback activity.

Further Upside To Deposit Growth

- Since the beginning of 2012, we increased our deposit base through onboarding deposits from former JV partner, Citi
- Prospectively, given the scale of our Wealth Management client base, we have opportunity to grow deposits to the extent it is consistent with prudent loan growth

U.S. Bank Deposit Potential⁽¹⁾ (\$Bn)



Deposit Upside Driven By New Product Offerings

- CDs
- Structured CDs
- Enhanced Savings
- Other

Increasing Wallet Share By Expanded Client Access to Cash Management Solutions

- Advisor-centric model, along with Wealth Management integration drive:
 - Suite of cash management solutions
 - Customized digital offerings

(1) Illustrative; not to scale.

(2) The potential growth opportunity includes core organic growth, which is estimated based on historic deposit growth, projected inflation rates and gross domestic product growth, and incremental organic growth. The attainment of this potential growth opportunity may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

Four Pillars of Secured Funding Ensure Durability and Stability

1 Significant Weighted Average Maturity

- Enhances durability

2 Maturity Limit Structure

- Reduces roll-over risk

3 Investor Limit Structure

- Minimizes concentration with any single investor, in aggregate and in any given month

4 Spare Capacity

- Valuable additional funding for managing through both favorable and stressed markets

Strict Governance Framework Ensures Appropriate Term Consistent with Asset Fundability

Rules-Based Criteria Determine Asset Fundability...

- **Highly Liquid (Governments, Agencies, Open Market Operations and Central Clearing Counterparty eligible collateral)**
- **Liquid (Investment Grade Debt and Primary/Secondary Index Equities)**
- **Less Liquid (Convertible Bonds, Emerging Market Sovereigns)**
- **Illiquid (Sub-Investment Grade ABS, Non Index Equities, Non-Rated Debt)**

Fundability Criteria

- Eligible for financing through Open Market Operations (OMO) and/or 23A Exempt and Fed Discount Window eligible
- Central Counterparty Clearing (CCP) eligible
- Government securities or other securities with full faith and credit of the Government
- Market haircuts
- Investor depth (number of investors who accept the asset class)
- Capacity in secured financing market, consistent with term limits

Fundability Definition

Fundability	OMO Eligible and / Or 23A Exempt and Fed DW Eligible	CCP Eligible	Govt. Sec / Govt. Full Faith and Credit	Market Haircut	Investor Depth	Secured Financing Capacity	% of Book ⁽¹⁾
Super Green	✓	✓	✓	< 10%	> 50	100%	50%
Green				<= 15%	>= 15	>= 95%	47%
Amber				> 15%	>= 10	>= 60%	1%
Red				> 20%	< 10	< 60%	2%

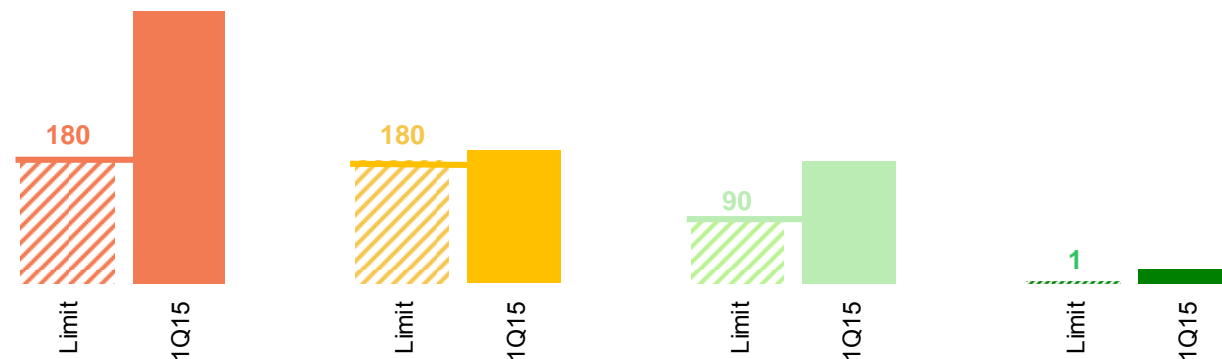
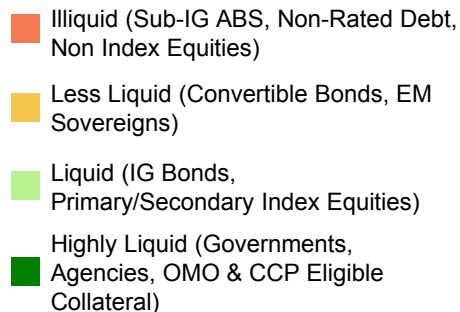
Secured Funding Pillar 1: Longer WAM Provides Appropriate Flexibility

...Fundability Category Determines Required Weighted Average Maturity: >120 Days⁽¹⁾

- Criteria-based model sources appropriate term funding consistent with liquidity profile of underlying assets
 - Assets tiered by fundability
 - Maturity limits set for each tier
 - Dynamic measurement of asset composition
 - Cost to fund assets allocated to corresponding desks
- Durability and transparency are at the core of Morgan Stanley's secured funding model
 - In 2009, began WAM extension efforts by terming out the Firm's secured funding profile for less-liquid assets (non-Super Green)
 - In 2011, a leader in disclosing WAM for less-liquid assets, with a target of >120 days

Weighted Average Maturity and Limits by Fundability Bucket⁽²⁾

Days

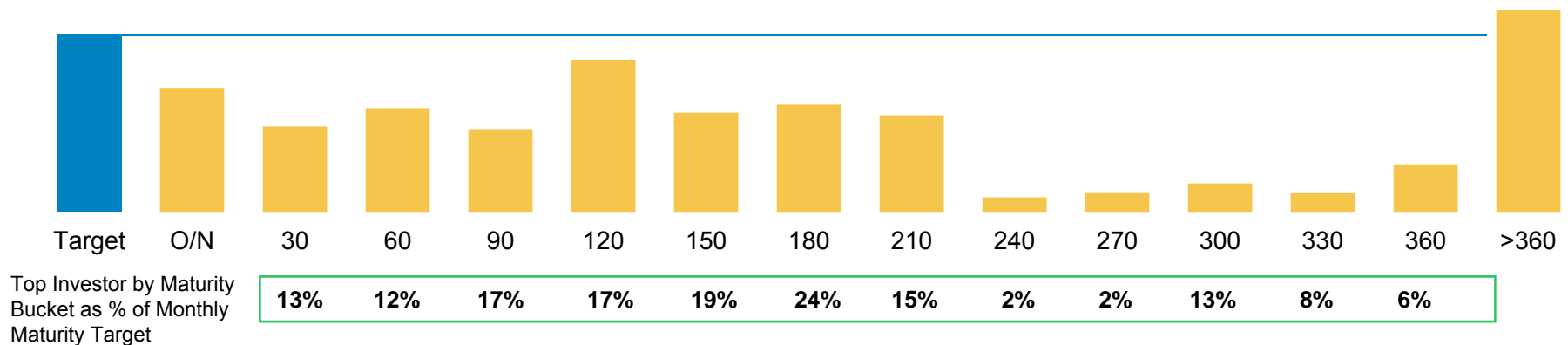


Secured Funding Pillar 2: Monthly Maturity Target

Secured Funding Pillar 3: Investor Concentration Target

- **Monthly Maturity Target:** Target less than 15% of non-Super Green liabilities maturing in any given month
- **Investor Concentration Target:** Maximum total exposure per investor of 15% of non-Super Green book
 - Sub-Target: Maximum monthly investor concentration of 25% of the maturities allowed in any given month

Illustrative Non-Super Green Maturity Profile ^{(1),(2),(3)}



Diversified Global Investor Base – Non-Super Green

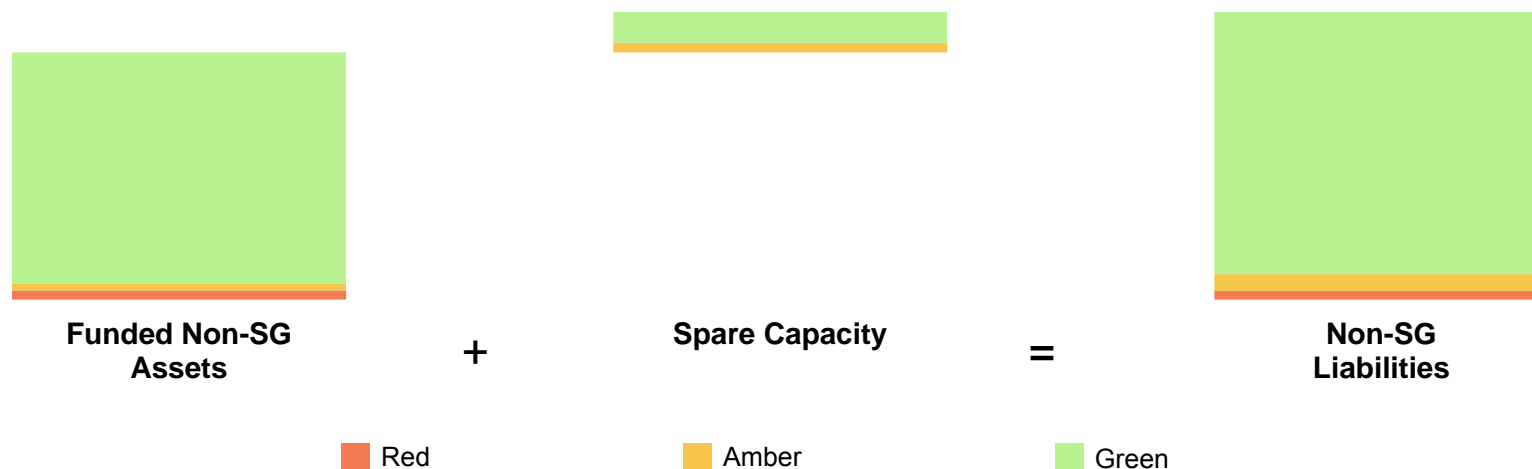
	2009	2015 ⁽¹⁾	2009	2015 ⁽¹⁾
# of Term Investors >30 days ⁽⁴⁾	15	144	Americas	<10
			Europe	<10
			Asia	<5

(1) As of March 31, 2015.
 (2) Represents secured funding balance maturing in 30-day increments.
 (3) Illustrative; not to scale.
 (4) Represents unique investors; geographic breakdown includes some overlap across regions.

Secured Funding Pillar 4: Spare Capacity Provides Flexibility in Both Favorable and Stressed Markets

- Spare Capacity is equivalent to total non-Super Green liabilities in excess of non-Super Green inventory
- Spare Capacity has created excess contractual term-funding, which provides valuable flexibility to accommodate both favorable and stressed market environments
- Combined with the other pillars of our secured funding governance, Spare Capacity is the first line of defense during market stress events, prior to use of Global Liquidity Reserve
 - Eliminates need to access markets for first 30 days of stress event; reduces needs for 60 days thereafter
- In favorable markets, spare capacity serves as additional on-hand funding to support increased client demand

Non-Super Green Spare Capacity⁽¹⁾



Discipline Around Central Clearing and Compression Important Driver of Reaching SLR Target of 5%

Our Achievements

- Central clearing and compression of OTC derivatives were key levers to reaching our SLR target
- Since year-end 2013, we reduced our OTC derivative notionals outstanding by over 25%, which exceeded our initial expectations

What Are We Seeing Now?

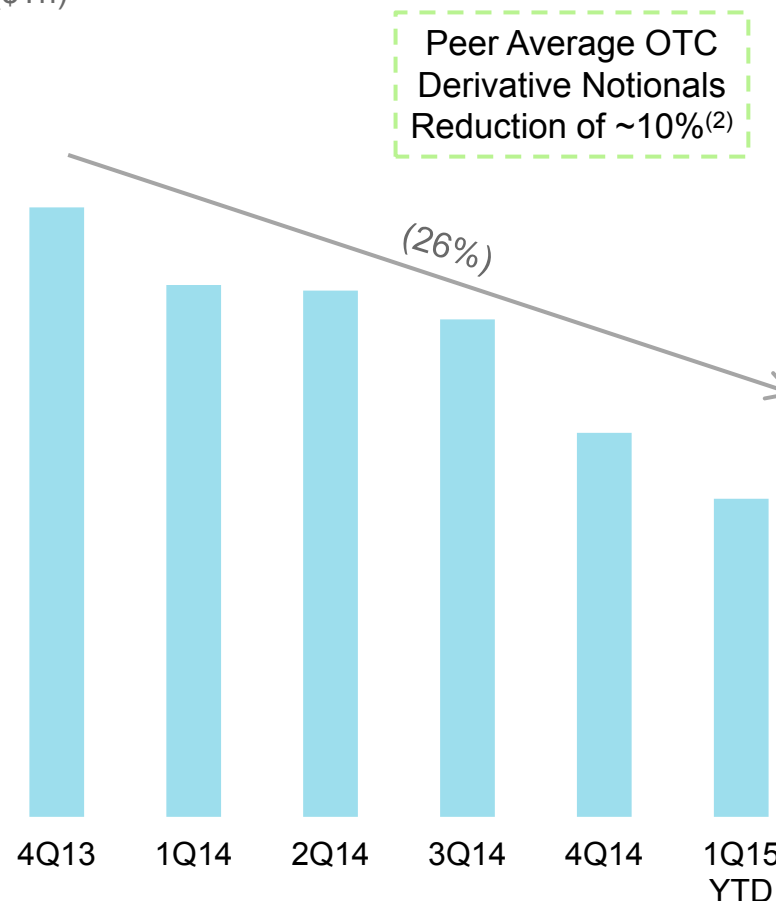
- We have seen an increase in take-up among competitors and counterparties, which offers an opportunity to further increase balance sheet capacity for our businesses through additional compression

Additional Opportunities

- The next phase of clearing may be realized by the clearing of securities financing transactions (SFTs)
 - Morgan Stanley has taken a leadership position to reduce bilateral counterparty exposures, which will increase capacity for our clients and / or decrease balance sheet usage

Morgan Stanley Backloading & Compression: OTC Derivative Notionals⁽¹⁾

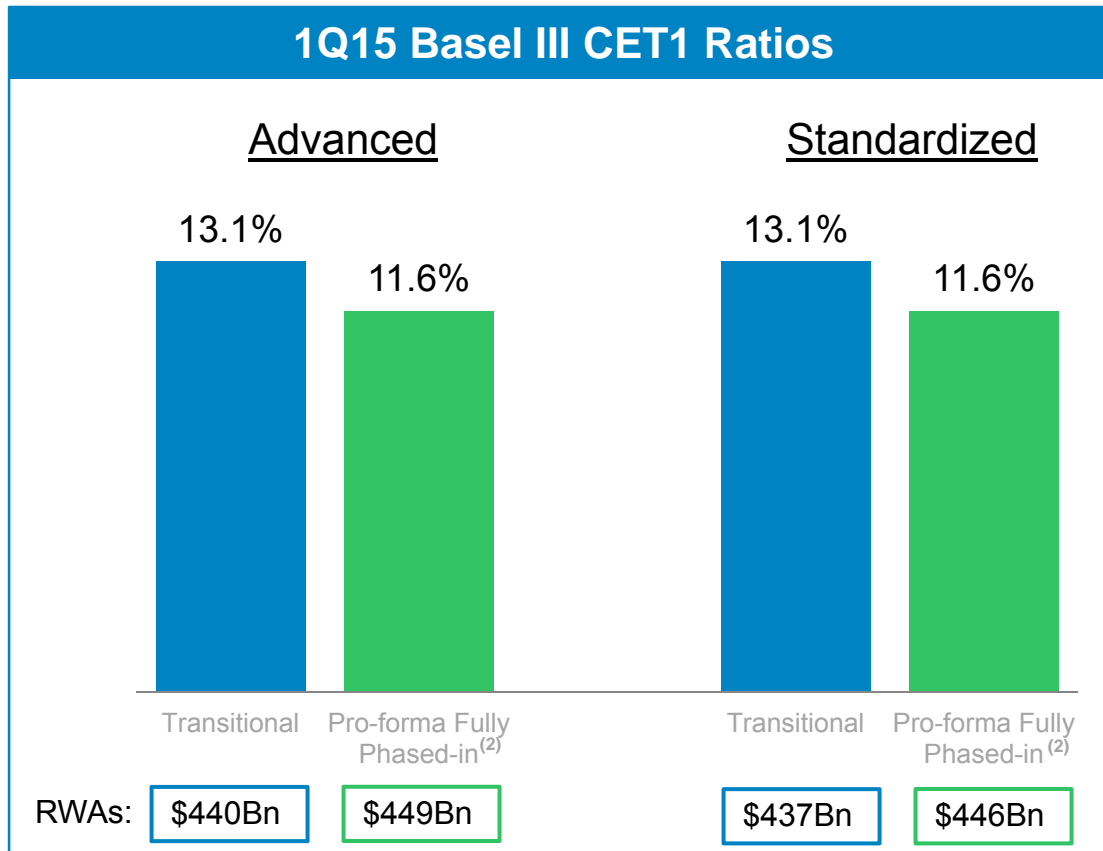
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(1) As of February 28, 2015.

(2) From YE2013 to YE2014. Source: FY Y-9C filings and annual reports.

C Strong Risk-Based Capital Ratios, Leverage Ratios, Liquidity Ratios and Stress Test Outcome⁽¹⁾



U.S. Supplementary Leverage Ratio⁽³⁾

– Pro-forma 1Q15: 5.1%

Liquidity Coverage Ratio⁽⁴⁾

– Pro-forma 1Q15: > 100%

2015 CCAR Results

- Non-objection to:
 - \$3.1Bn share repurchase program over a five quarter period
 - Increase in quarterly dividend to \$0.15 per share from \$0.10 per share, effective as of 2Q15

(1) Pro-forma Basel III Common Equity Tier 1 Common ratios, pro-forma U.S. Supplementary Leverage Ratio, and pro-forma Liquidity Coverage Ratio are non-GAAP financial measures that the Company consider to be useful measures to the Company and investors to evaluate compliance with future regulatory capital requirements.

(2) The Company estimates fully phased-in Basel III Common Equity Tier 1 Capital and risk-weighted assets based on the Company's current assessment of the Basel III final rules and other factors, including the Company's expectations and interpretations of the proposed requirements. These estimates may be subject to change as the Company receives additional clarification and guidance from the Federal Reserve.

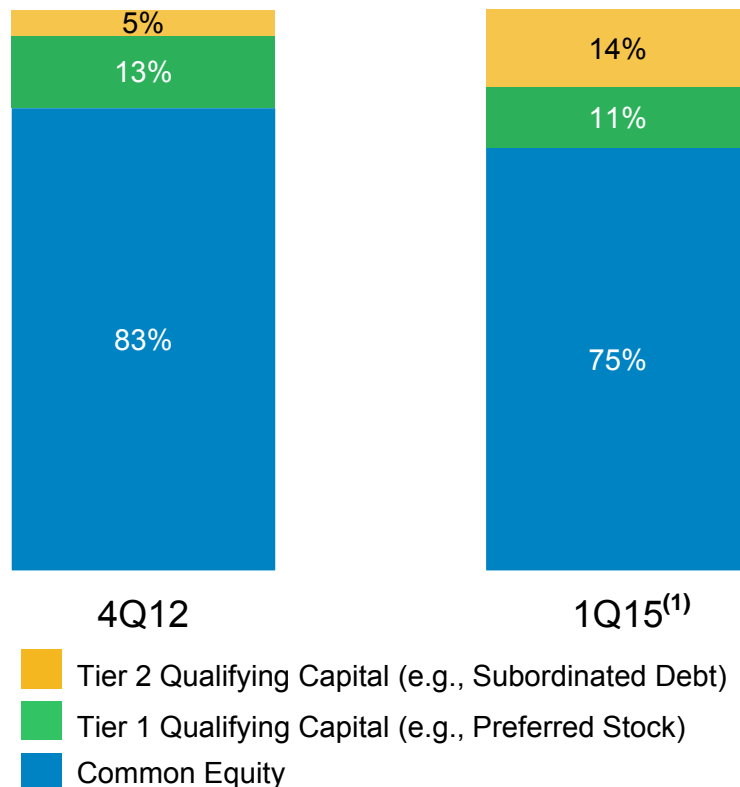
(3) Pro-forma U.S. Supplementary Leverage Ratio is based on preliminary analysis of the U.S. final rules from September 2014 and estimated as of March 31, 2015. These estimates are preliminary and are subject to change.

(4) The Company calculates its LCR based on the final Federal Reserve Bank rule published in September 2014.

D Capital Management: Efficient Capital Stack

Optimizing capital with issuance of non-common capital since 2013

Morgan Stanley Qualifying Capital



- Issued \$2Bn of Tier 2 subordinated debt in 2Q15 and ~\$6.3Bn in 2013 and 2014
- TruPS phase-out of capital over time⁽²⁾
- Issued \$1.5Bn of preferred stock in 1Q15 and ~\$4.5Bn in 2013 and 2014
- Reinstated share repurchase program in 2013 and have been increasing the common dividend

(1) Capital metrics as of 1Q15 are reported under a transitional advanced approach U.S. Basel III numerator.

(2) In 2015 25% of TruPS qualify for Tier 1 and the remaining 75% qualify for Tier 2. In 2016 TruPS no longer qualify for Tier 1 and 60% qualify for Tier 2. TruPS phase-out of Tier 2 through 2022.

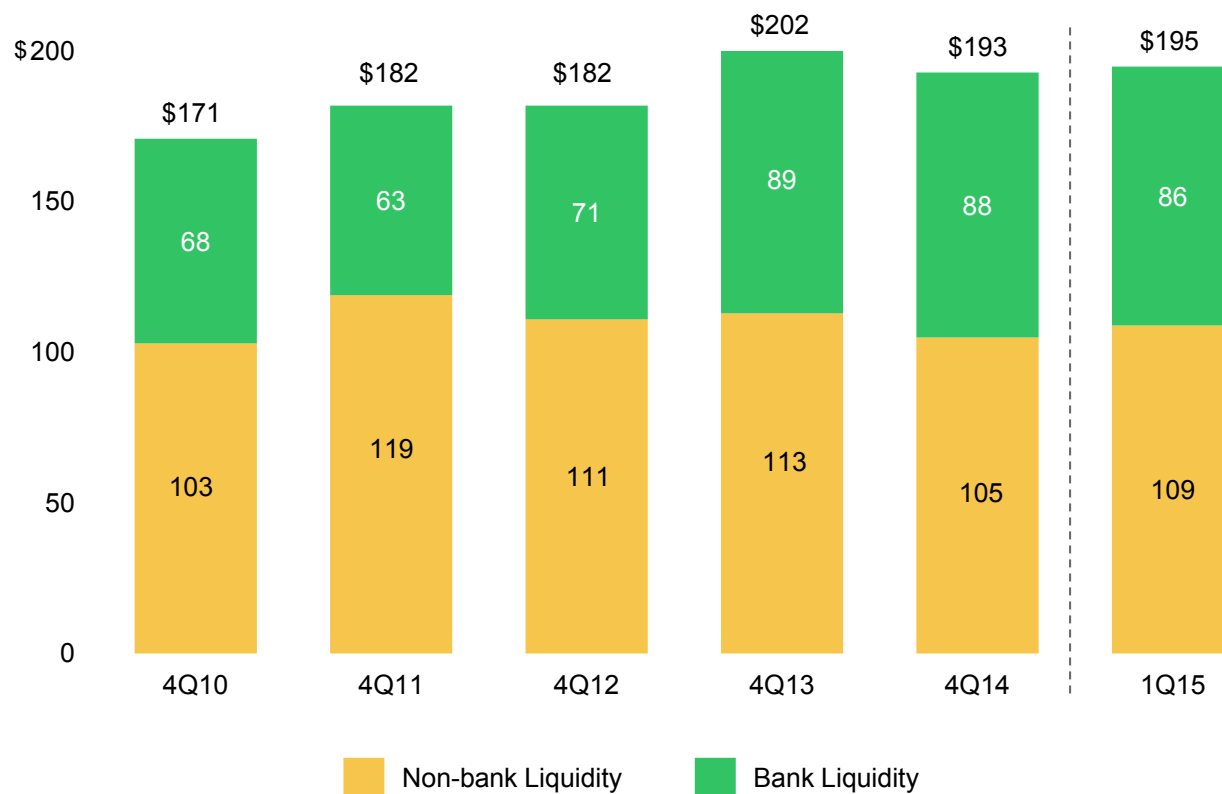
E Significant Global Liquidity Position

Highly Liquid and Unencumbered

- Changes in bank liquidity levels reflect execution of U.S. Bank strategy

Period End Liquidity

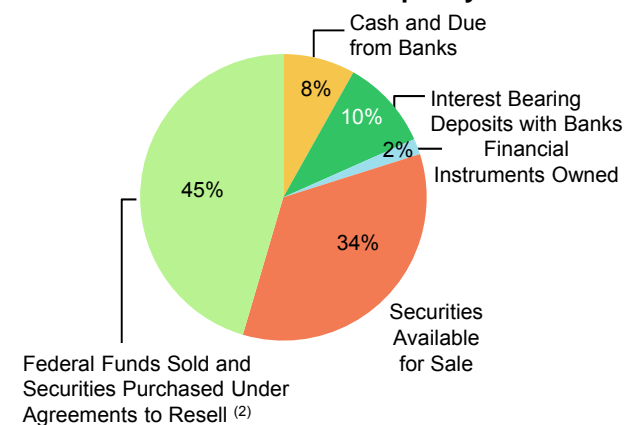
(\$Bn)



Composition of the Liquidity Reserve at 1Q15

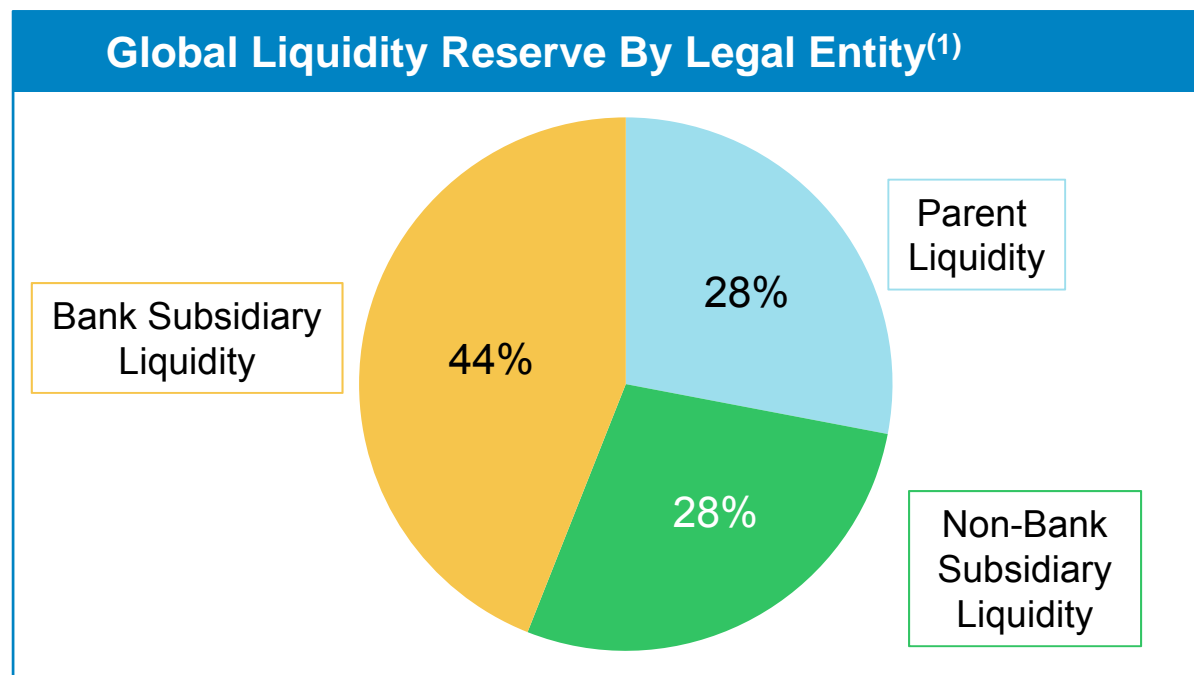
Type of Investment	(\$Bn)
Cash / Cash Equivalents	\$36
Unencumbered Liquid Securities	159
Total	\$195

Detailed Breakdown of Liquidity Reserve⁽¹⁾



Build and Stress Test Liquidity on a Legal Entity Basis

- Stress testing sizes contingency outflow requirements at a legal entity level
 - Contingent cash outflows are measured independently from the inflows resulting from mitigating actions
- Parent stress test model represents the sum of all legal entities
 - Does not assume diversification benefit across legal entities
- Stress tests assume the subsidiaries will initially use their own liquidity before drawing from the Parent
 - Reflects local regulations regarding Parent support
- Parent does not have access to the subsidiaries' excess liquidity reserves



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