

Morgan Stanley

# Credit Suisse Financial Services Conference

Colm Kelleher, Chief Financial Officer

February 5, 2009

# 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 Reports on Form 10-K and the Company's Current Reports on Form 8-K, including any amendments thereto, which are available on [www.morganstanley.com](http://www.morganstanley.com).

This presentation may contain forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made, which reflect management's current estimates, projections, expectations or beliefs and which are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of risks and uncertainties that may affect the future results of the Company, please see the Company's Annual Report on Form 10-K for the year ended November 30, 2008 and the Company's Current Reports on Form 8-K.

# Macro Environment

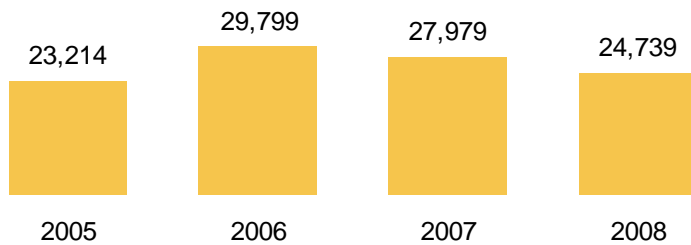
- Severe cyclical downturn, but global capital markets is a secular growth business
- Financial industry experiencing significant changes
- De-leveraging and capital infusions to continue
- Financing markets remain challenging
- Variety of funding and liquidity tools available via the Federal Reserve
- 2009 to be a year of transition

# Consolidated Financial Highlights

## Fiscal Year 2008

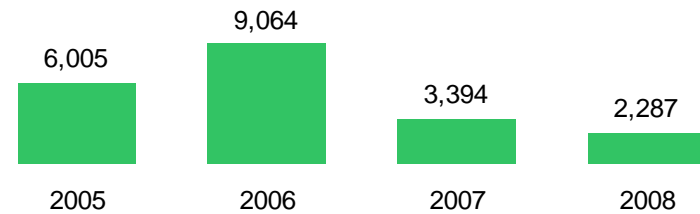
### Net Revenues

(\$MM)



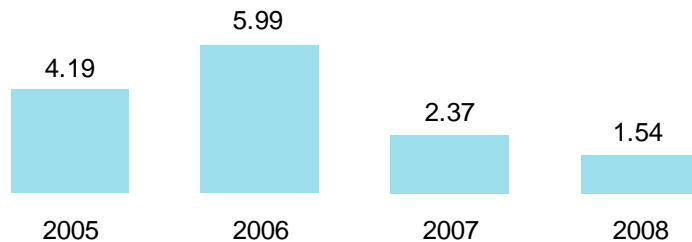
### Profit Before Taxes

(\$MM)



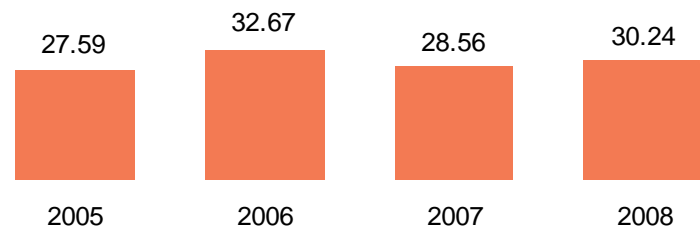
### Diluted EPS from Continuing Operations

(\$/Share)



### Book Value

(\$/Share)



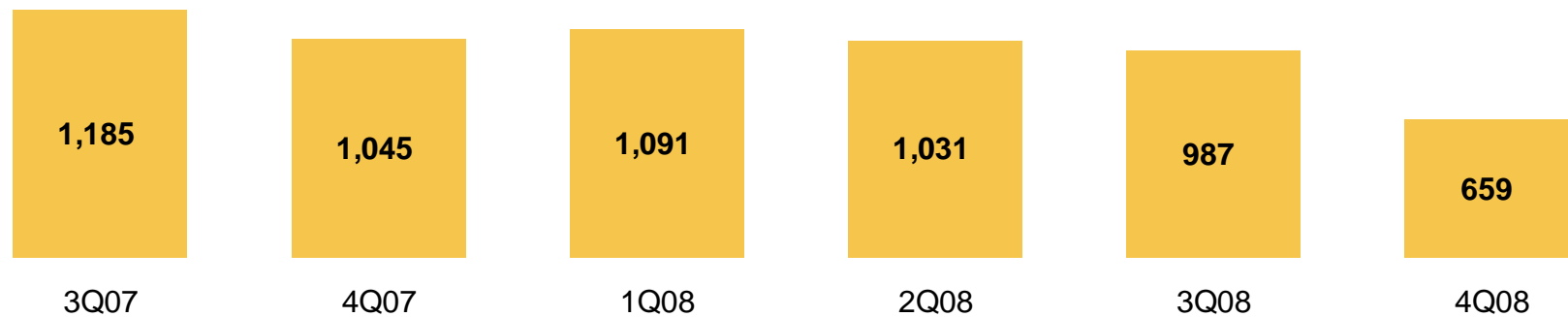
# Expense Management

- Committed to reducing costs in 2009
  - Lower compensation with \$1.2Bn in savings from headcount reductions of 5,400
  - 10% reduction in recurring non-compensation expenses ~ \$800MM
- Non-compensation expense categories targeted for reduction include
  - Marketing and Business Development
  - Professional Services
  - Brokerage and Clearing
- Cost efficiencies from recently announced Joint Venture are not included in 2009 targets

# Substantial Reduction in Leverage

## Total Assets

(\$Bn)



## Leverage Ratio <sup>(1)</sup>



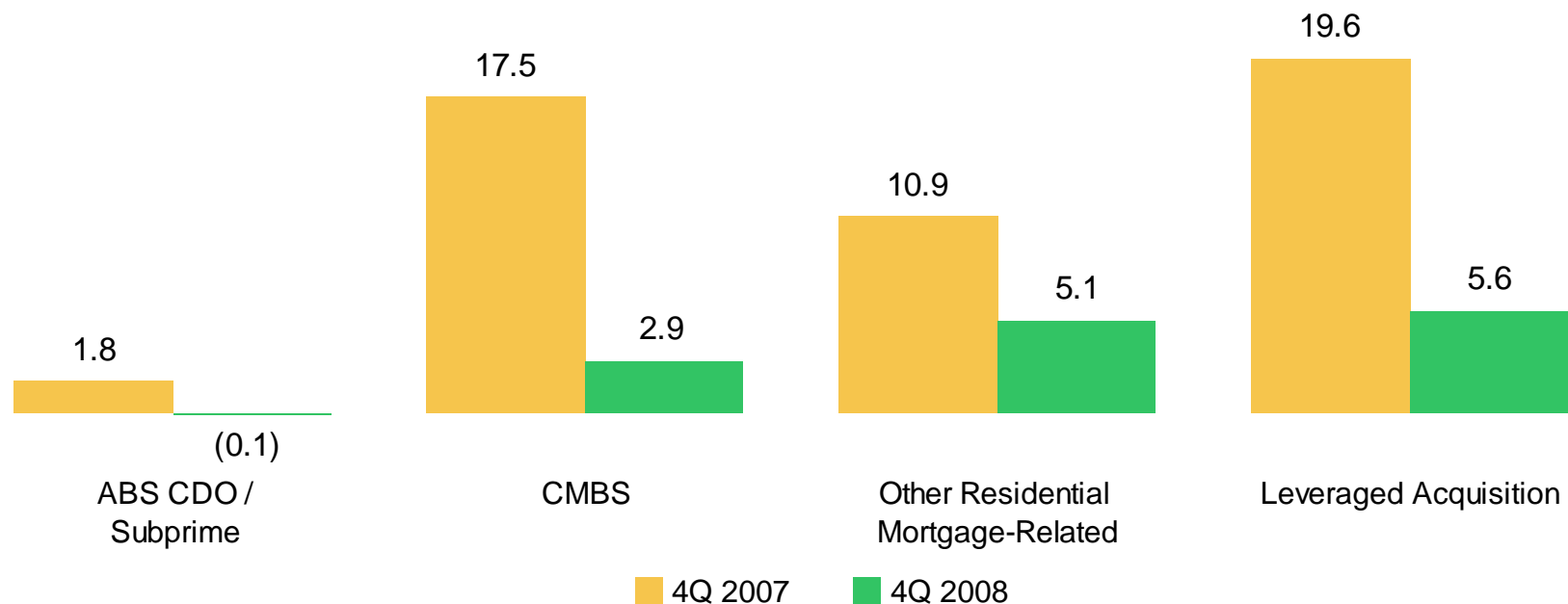
Source: Morgan Stanley SEC Filings

(1) Leverage ratio equals period-end total assets divided by tangible shareholders' equity

# Reduction in Risk Positions

## Net Exposure <sup>(1)</sup>

(\$Bn)

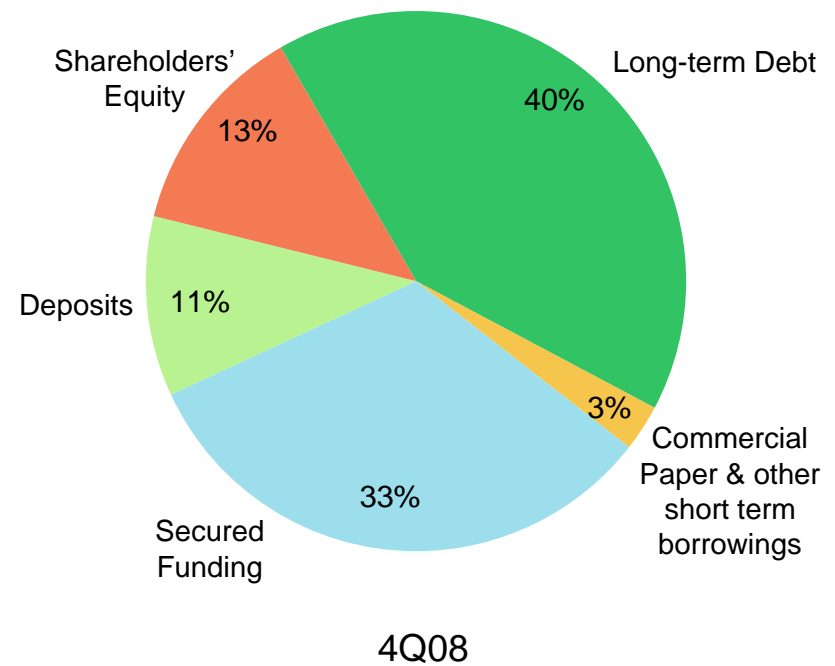
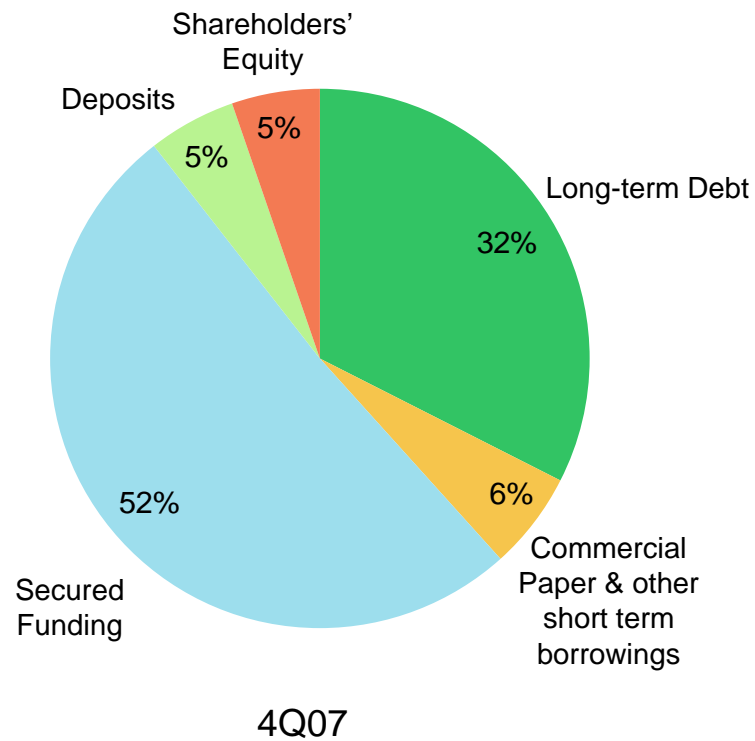


Source: Morgan Stanley SEC Filings

(1) Net Exposure is defined as potential loss to the Firm in an event of 100% default, assuming zero recovery, over a period of time. The value of these positions remains subject to mark-to-market volatility. Positive amounts indicate potential loss (long position) in a default scenario. Negative amounts indicate potential gain (short position) in a default scenario

# Funding Diversification

## Composition of Funding Liabilities and Equity

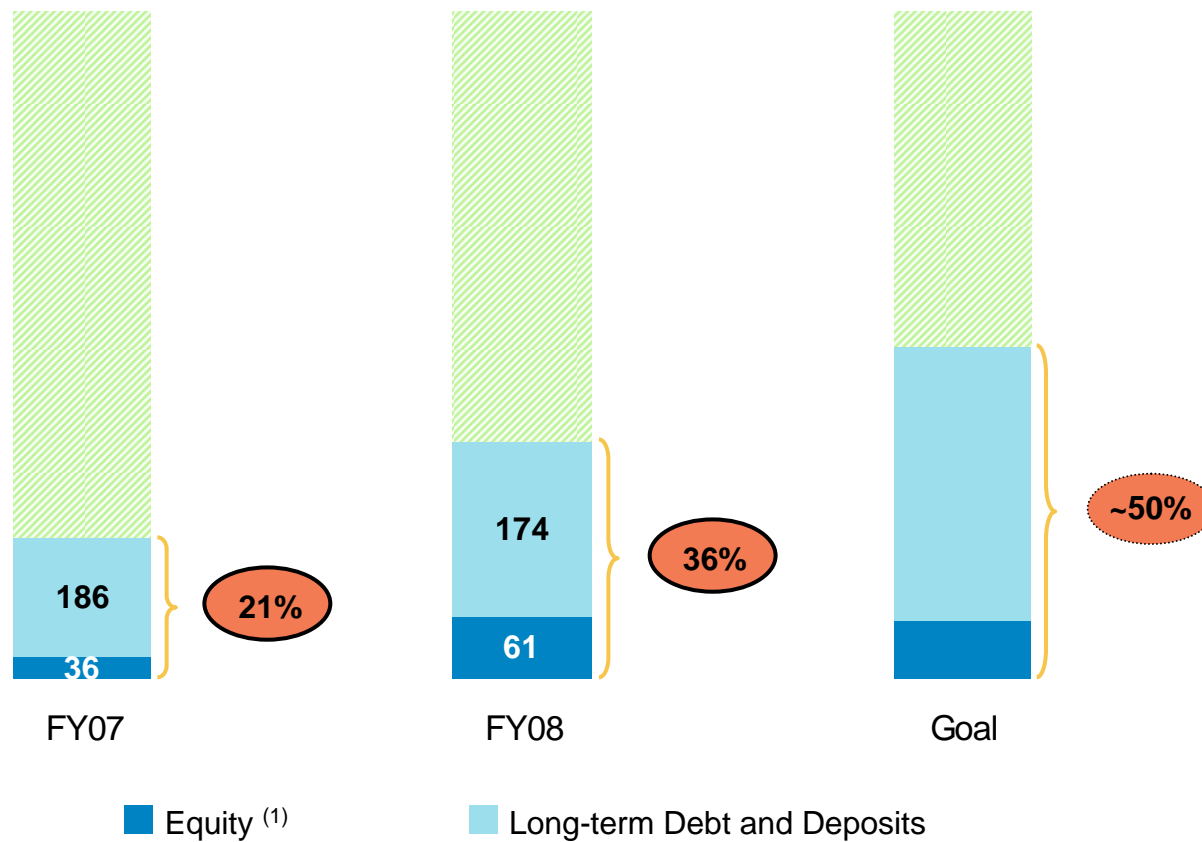




# Increasing Share of Stable Funding

## Stable Funding as a Percent of Total Assets

(\$Bn)



Source: Morgan Stanley SEC Filings

(1) Includes junior subordinated debt issued to trusts and total shareholders' equity

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# Morgan Stanley Smith Barney Joint Venture

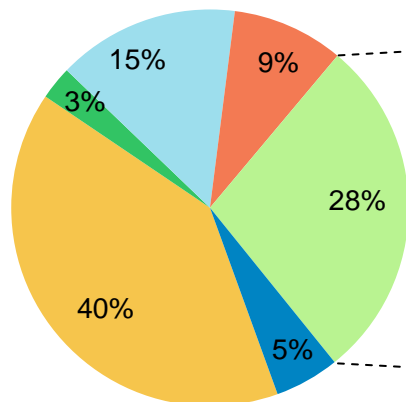
- Morgan Stanley and Citi combining retail brokerage forces to create an industry-leading global wealth manager
  - Morgan Stanley will own 51% and Citi will own 49% of the Joint Venture
- Deal structure designed to give Morgan Stanley the opportunity to increase share and Citi the ability to realize the potential upside in future valuation
- Brand name will be Morgan Stanley Smith Barney
- Combination creates an industry-leading global wealth manager with a best-in-class product and superior distribution platform
  - Over 1,000 domestic branches and significant international presence
- Expands distribution for capital markets and asset management products
- Morgan Stanley and Citi will retain their deposits accumulated prior to close
- Achieves scale economies and cost synergies

# Evolves Morgan Stanley's Strategy

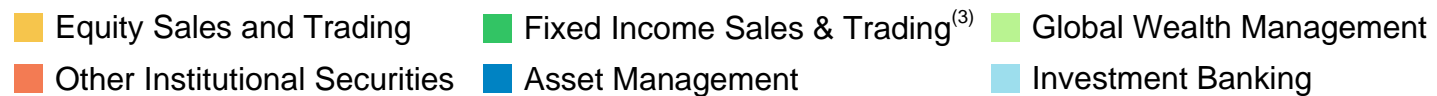
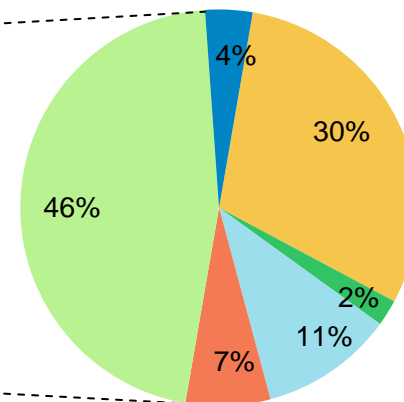
- Further diversifies overall business mix
- Improves ROE and margins
- Gives substantial scale and opportunity to realize revenue synergies
- Leverages ongoing momentum in Global Wealth Management
- Broadens international footprint
- Complements Retail Banking strategy via substantive FA and client network
- Accretive to EPS in 2010

# Enhances Diverse Revenue Mix

FY 2008 Revenues of \$24.7Bn<sup>(1)</sup>



FY 2008 Pro Forma Revenues of \$33.0Bn<sup>(1,2)</sup>



Source: Morgan Stanley Earnings Releases

(1) Excludes intersegment eliminations of (\$194) million

(2) Includes \$8.3bn from Smith Barney for FY 2008

(3) Represents combined revenues from Fixed Income Sales and Trading and Other Sales and Trading

# Closing Remarks

- 2009 to be a year of transition
- ROE to be lower but still healthy 12%-15% over this cycle
- Opportunities amidst turbulence and market uncertainty
- Focused on improving operating performance
  - Reducing recurring non-compensation expenses by 10%
  - Reducing legacy assets as market conditions allow
  - Allocating capital on a risk adjusted basis
  - Closing and integrating Morgan Stanley Smith Barney Joint Venture
  - Returning Asset Management to profitability
  - Maximizing our relationship with Mitsubishi UFJ

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