Morgan Stanley

Morgan Stanley
1Q16 Fixed Income Investor Call

May 5, 2016

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.

This presentation may contain forward-looking statements including the attainment of certain financial and other targets and goals. 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. The Company does not undertake to update the forward-looking statements to reflect the impact of circumstances or events that may arise after the date of forward-looking statements. For a discussion of risks and uncertainties that may affect the future results of the Company, please see the Company's most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as applicable, which are available on www.morganstanley.com. This presentation is not an offer to buy or sell any security.

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Agenda

1 Business Summary Update

Last Twelve Month Net Revenues (ex-DVA[1])

Accomplishments

- Maintained leading franchise in Equity Sales & Trading and Investment Banking
- Continued execution on Bank strategy resulting in Net Interest Income growth; Wealth Management margin improvement
- Progress on Fixed Income strategy
- Progress underway on Project Streamline expense reduction work

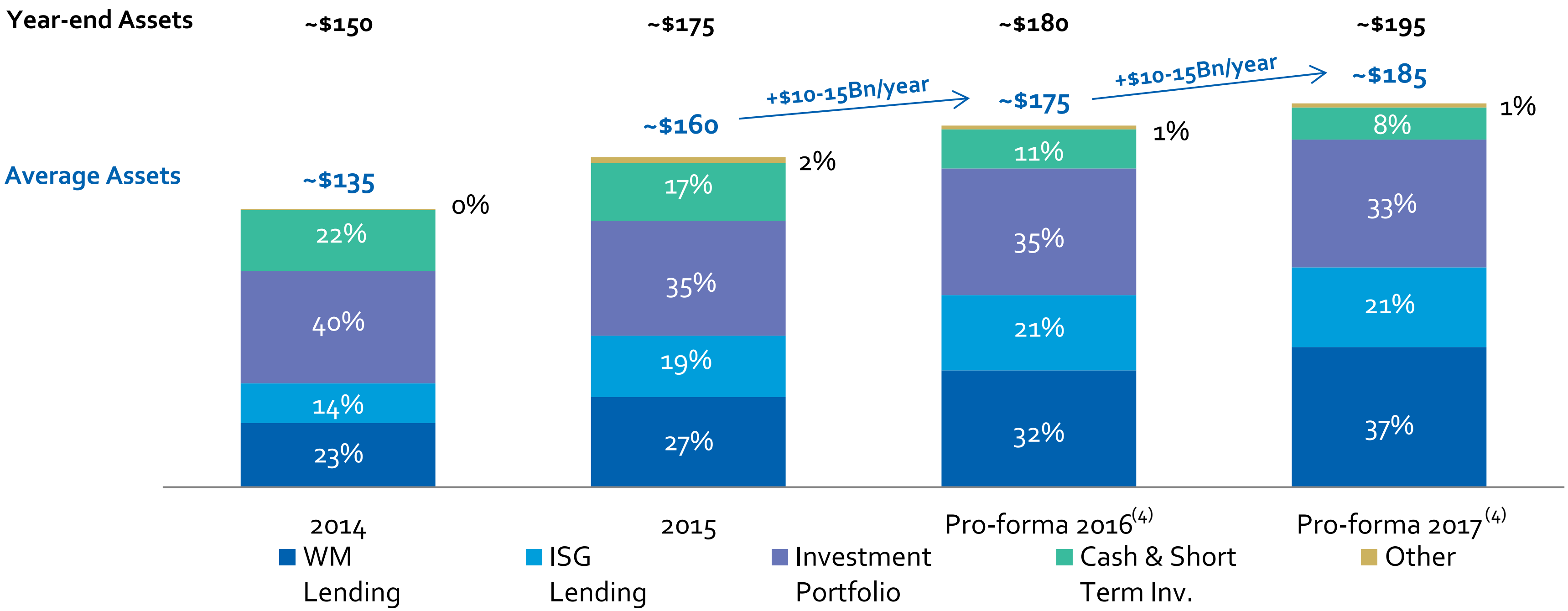
Headwinds

- Concerns about global growth, China, commodities and interest rates
- Divergent performance of global indices and mixed results across international markets
- Negative impact of continued low oil prices on energy complex
- Muted client activity

1. Effective January 1, 2016, the Firm early adopted the provision of new accounting guidance that required unrealized gains and losses from Morgan Stanley's DVA to be presented in Other Comprehensive Income as opposed to Net Revenues. Results for periods prior to 2016 were not restated pursuant to this guidance.
2. Last Twelve Month Net Revenues represent results for 2Q15-1Q16 and exclude the positive impact of $493 million from DVA for the periods 2Q15-4Q15. "Other" includes Other Sales & Trading, Investments, ISG Other Revenue, and Intersegment eliminations. Net Revenues ex-DVA are a non-GAAP measure the Company considers useful for investors to allow comparability of period to period operating performance.

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

Combined U.S. Bank Assets ($Bn)[1][2]



Average Yields[3]

	2014	2015
Cash & ST Investments	**~0.3%**	**~0.4%**
Investment Portfolio	**~1.0%**	**~1.3%**
Lending	**~2.8%**	**~2.8%**

+25bps increase in rates over 2 years[3]

Future Yield Opportunity[3]

Cash & ST Investments	**~0.5%**
Investment Portfolio	**~1.5%**
Lending	**~3.0%**

1. Combined bank assets represent assets in U.S. Bank Subsidiaries: Morgan Stanley Bank, N.A. (MSBNA) and Morgan Stanley Private Bank, National Association (MSPBNA).
2. Figures may not sum due to rounding.
3. "Average yields" for 2014 and 2015 are based on respective full year. Pro forma Future Yield Opportunity is based off forward interest rate curves.
4. The attainment of these pro forma asset targets and future yield opportunity in 2016 and 2017 may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

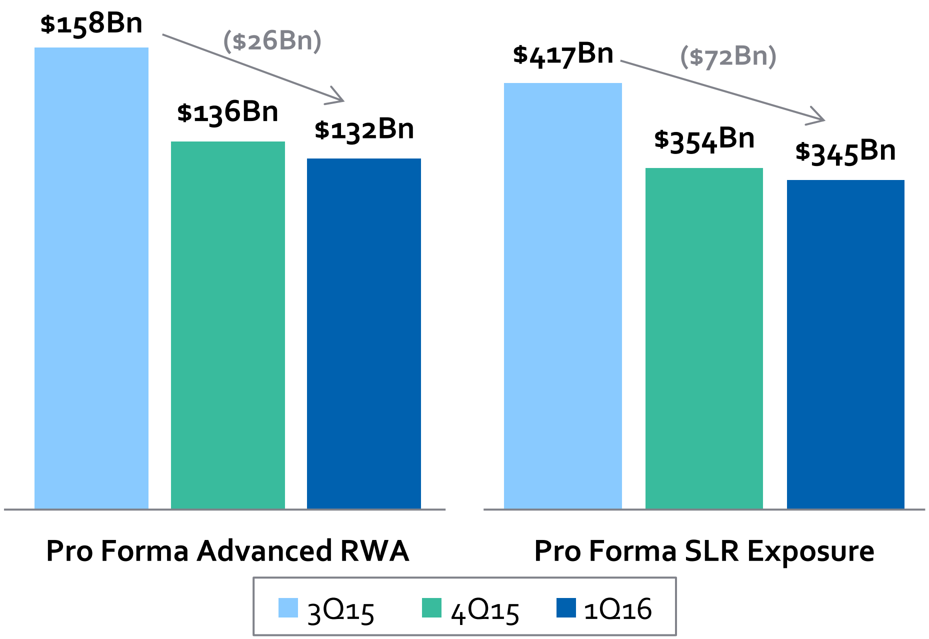
Next Phase of Expense Reduction: Project Streamline 2016 – 2017

ONGOING FOCUS ON STRUCTURALLY SIMPLIFYING THE ORGANIZATION	• Ongoing area of focus and execution with benefit over the medium term
LOCATION STRATEGY	• Acceleration of ongoing efforts to further optimize location strategy in first half of 2016; achievable given existing centers of excellence
LEVERAGE TECHNOLOGY TO RATIONALIZE INFRASTRUCTURE	• High level of near term focus • Opportunity for meaningful cost savings while investing over medium term through cross asset-class and cross-business technology conversion • Outsource to vendors and industry consortia
CONSOLIDATE PROCESSES	• Multiple initiatives underway in business and support levels
FURTHER OUTSOURCING	• Currently re-examining additional processes suitable for outsourcing • Execution to occur over medium term

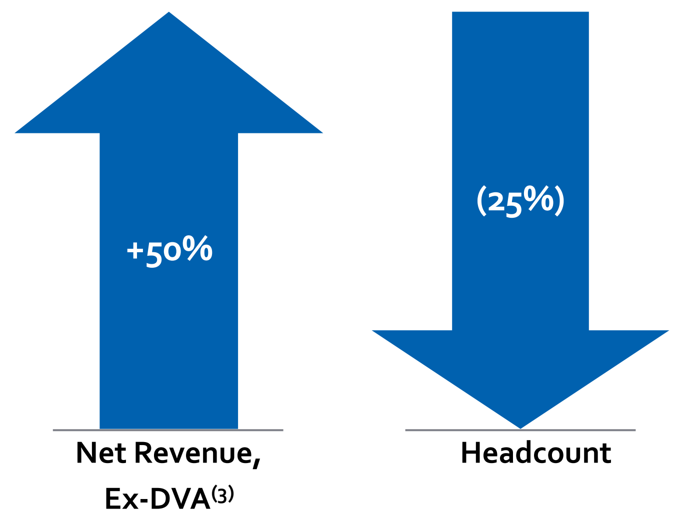
Fixed Income and Commodities Progress

- In January we set new targets of <$110Bn RWA and <$250Bn SLR exposure
- Over time, FIC will require $5Bn to $8Bn less capital

Fixed Income and Commodities (excluding Lending)[1][2]



Fixed Income and Commodities: 1Q16 vs. 3Q15



1. All figures presented exclude risk-weighted assets ("RWAs") and leverage exposure associated with lending.
2. The Company estimates its pro forma fully phased-in Advanced RWAs and pro forma fully phased-in Supplementary Leverage ("SLR") exposure 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, which may be subject to change as the Company receives additional clarification and guidance from the Federal Reserve. These pro forma calculations 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.
3. Net revenues ex-DVA are a non-GAAP measure the Company considers useful for investors to allow comparability of period to period operating performance. Effective January 1, 2016, the Firm early adopted the provision of new accounting guidance that required unrealized gains and losses from Morgan Stanley's DVA to be presented in Other comprehensive income as opposed to net revenues. Results for periods prior to 2016 were not restated pursuant to this guidance.

Changes to Firm's Required Capital Framework

Required Capital Framework

- Firm's internal capital adequacy framework used to assess capital at a point-in-time
- New method calculated under fully phased-in regulatory capital vs. transitional basis
- Risk-based and leverage use-of-capital under both business as usual as well as stressed scenarios
- Segment allocated common equity calculated annually
  - Parent common equity will fluctuate based on the Firm's financial performance and return of capital

Average Common Equity[1][2]

Division	1Q16 New Method	4Q15 Prior Method
Institutional Securities	43.2	32.3
Wealth Management	15.3	12.0
Investment Management	2.8	2.0
Parent	6.9	21.4
Total	**68.2**	**67.7**

1. Effective January 1, 2016, the common equity allocated to the business segments will be set at the beginning of the each year, and will remain fixed throughout the year, until the next annual reset. Differences between available and Required Capital will be reflected in Parent equity during the year.
2. Average common equity is a non-GAAP financial measure that the Company and investors consider to be useful to assess capital adequacy.

2 Liability Management: Centralized Structure and Strong Governance

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

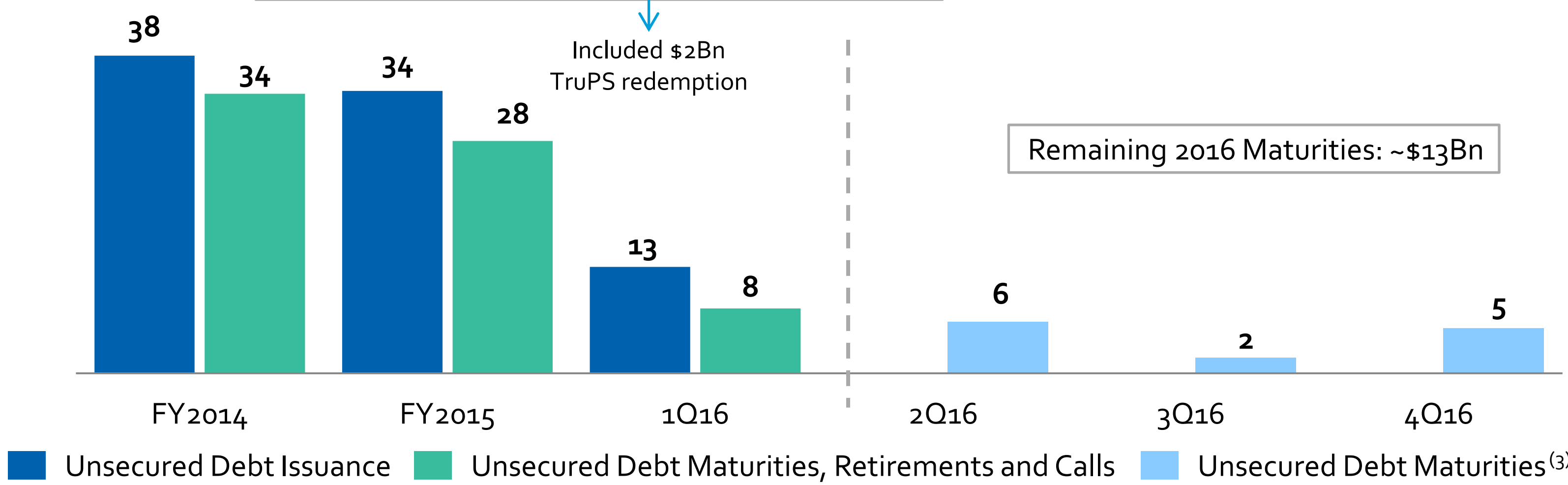
PRIMARY SOURCES OF FUNDING		% OF FUNDING SINCE 3Q13
Long-Term Debt	Weighted average maturity of ~6 years; Morgan Stanley issues predominantly from the holding company	↑
Deposits	Primarily sweep deposits sourced from Wealth Management clients	↑
Secured Funding	Duration of liabilities greater than duration of assets; weighted average maturity in excess of 120 days	↓

Unsecured Borrowings: Key Source of Funding

- In 2015, we issued ~$34Bn of unsecured debt, which includes:
  - ~$32Bn of senior unsecured debt
  - $2Bn of subordinated debt
- Exceeded 1Q16 maturities with ~$13Bn of unsecured debt issuance across tenors, currencies, and channels
  - Continue to issue majority of unsecured debt from the Parent while optimizing issuance on other entities
- Long-term unsecured debt outstanding at March 31, 2016 was $163Bn, up $9Bn vs. December 31, 2015 (1)

Unsecured Debt Issuance ($Bn)

($Bn)	FY2014 (2)	FY2015	1Q16 (2)	2Q-4Q16
Maturities	23	19	6	13
Retirements / Calls	10	9	1	-



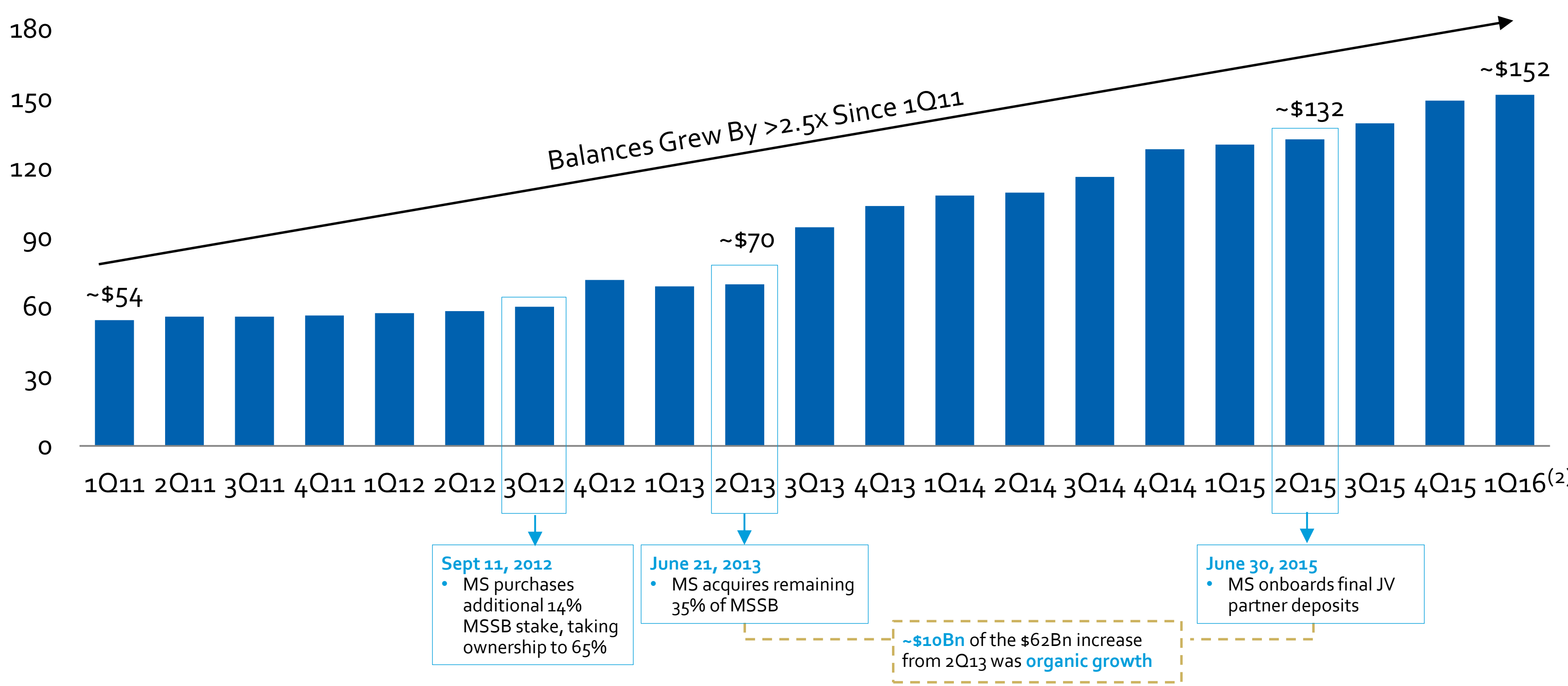
1. Includes positive net issuance, and changes related to FX, interest rates, or movements in the reference price or index for structured notes
2. Figures may not sum due to rounding
3. Based on contractual maturity date

Deposits Have Grown Steadily Due to Transfers from Former JV Partner and Organic Growth

Clients Remain Risk-Off Due to Volatile Market Environment, Higher Deposit Balances

Morgan Stanley's Bank Deposit Program (BDP) Balances [1]

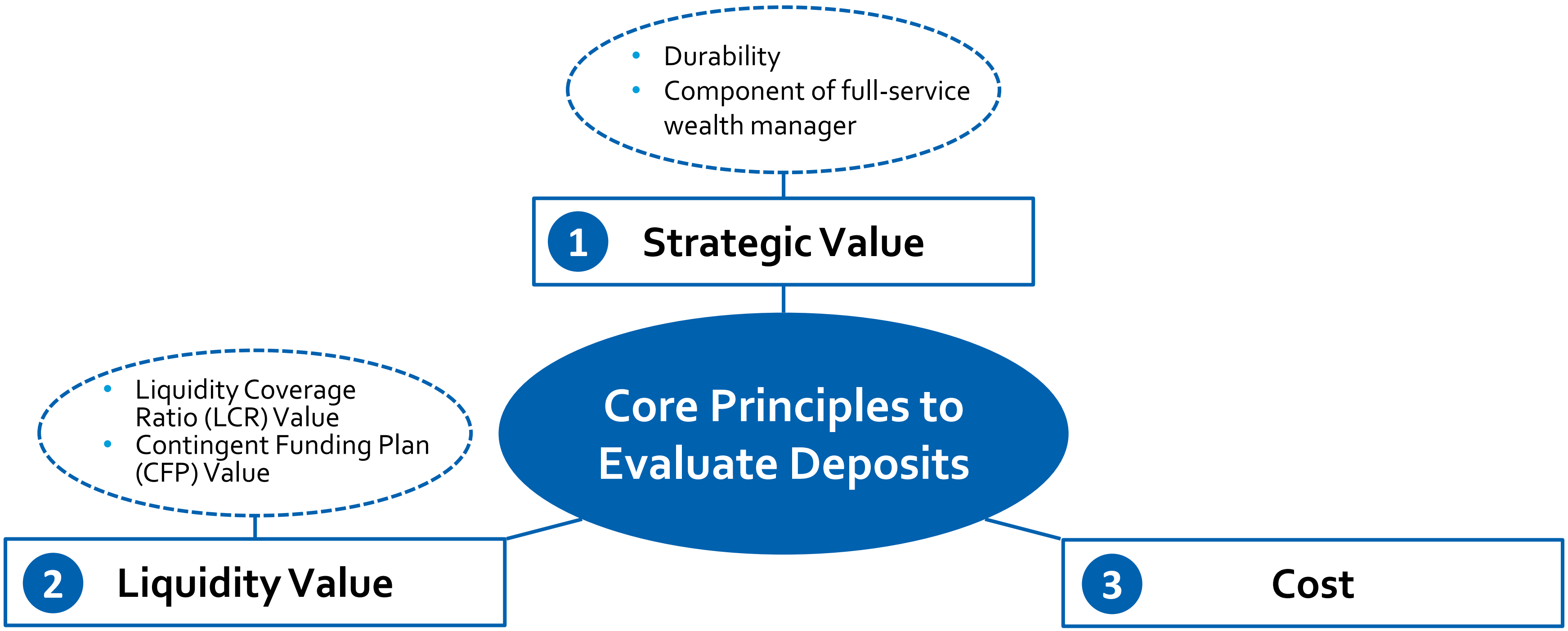
($Bn)



1. Balances in the bank deposit program held by the Firm's U.S. Bank Subsidiaries
2. The Firm's total deposits are ~$158Bn as of 1Q16, including BDP as well as deposits from non-U.S. banks and other deposits

Deposit Strategy Supported By Three Core Principles

- **Key near-term focus is to optimize existing deposit levels to support loan growth**



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

Underlying Principles of the Four Pillars of Secured Funding

Four Pillars of Secured Funding

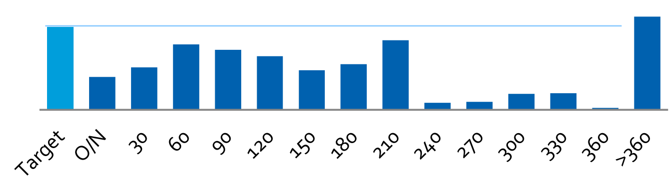
1 SIGNIFICANT WEIGHTED AVERAGE MATURITY (WAM)

- Criteria-based model sources appropriate term funding consistent with liquidity profile of underlying assets
- Durability and transparency are at the core of Morgan Stanley's secured funding model
  - In 2009, began WAM extension
  - Became a leader in 2011 in disclosing WAM for less-liquid assets, with **a target of >120 days** (1)

2 MATURITY LIMIT STRUCTURE

- Target less than 15% of non-Super Green(2) liabilities maturing in any given month

Illustrative Non-Super Green Maturity Profile (3)(4)

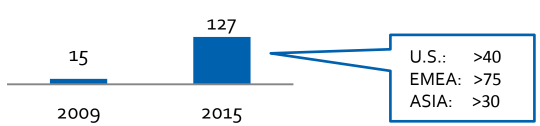


3 INVESTOR LIMIT STRUCTURE

- Maximum total exposure per investor across all maturities of 15% of non-Super Green(2) book
- Maximum monthly investor concentration of 25% of the maturities allowed in any given month

Diversified Global Investor Base

Number of Term Investors (3)(5)



4 SPARE CAPACITY

- Sourcing non-Super Green(2) liabilities in excess of non-Super Green inventory
- In favorable markets, Spare Capacity supports business growth
- In stressed markets, Spare Capacity serves as a first line of defense against reduced roll rates
  - Eliminates liquidity outflows for first 30 days of a stress event that impairs secured markets, and reduces the need thereafter

1. As of March 31, 2016 the weighted average maturity of secured financing, excluding Super Green assets, was greater than 120 days.
2. See slide 15 for a definition of super green and non-super green.
3. As of March 31, 2016.
4. Represents secured funding balance maturing in 30-day increments. Illustrative; not to scale.
5. Represents unique investors providing term financing >30 days for non-Super Green assets; geographic breakdown includes some overlap across regions.

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 (CCP) clearing eligible
- Government securities or other securities with full faith and credit of the Government
- Market haircuts
- Investor depth (number of investors that accept the asset class)
- Capacity in secured financing market, consistent with term limits

Fundability Definition

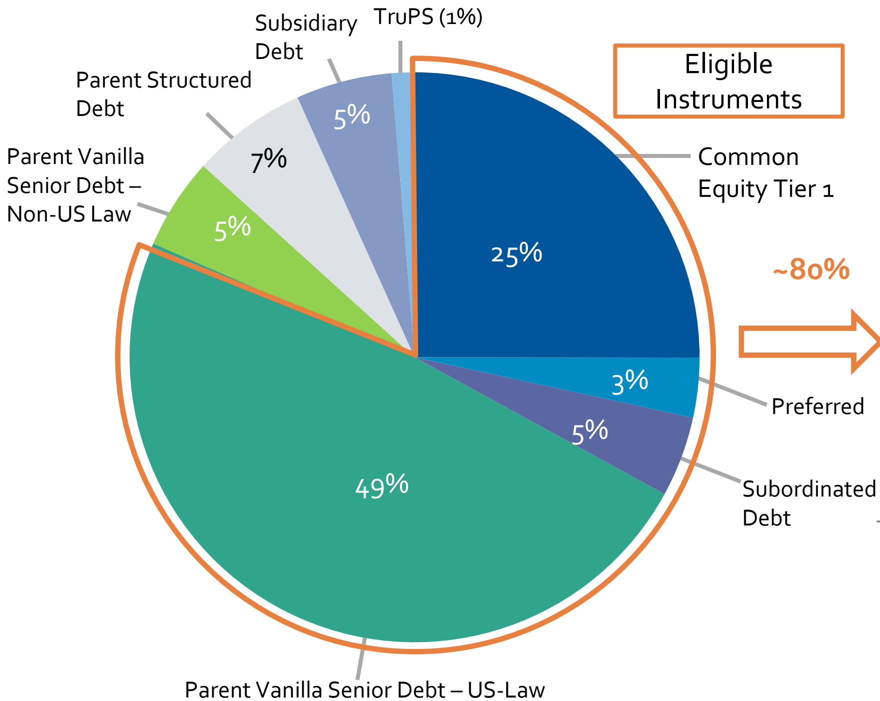
FUNDABILITY	OMO ELIGIBLE AND / OR 23A EXEMPT AND FED DW ELIGIBLE	CCP ELIGIBLE	GOVT. SEC / GOVT. FULL FAITH AND CREDIT	MARKET HAIRCUT	INVESTOR DEPTH	SECURED FINANCING CAPACITY	% OF BOOK [1]
SUPER GREEN	✓	✓	✓	< 10%	> 50	100%	61%
GREEN				<= 15%	>= 15	>= 95%	37%
AMBER				> 15%	>= 10	>= 60%	1%
RED				> 20%	< 10	< 60%	1%

1. As of March 31, 2016.

3 Positioned For Upcoming TLAC Regulation

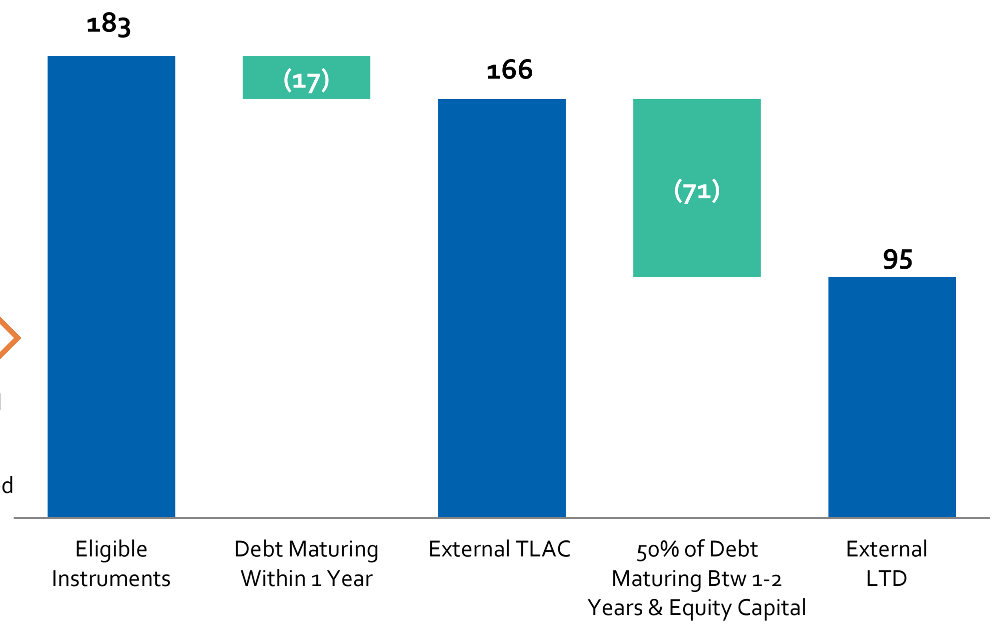
Based on Morgan Stanley's Interpretation of U.S. NPR Released on October 30, 2015[(1)(2)(3)(4)]

1Q16 Outstanding Debt & Capital Instruments (%)



Total Outstanding: $224Bn

Eligible External TLAC & Long-Term Debt Requirements ($Bn)

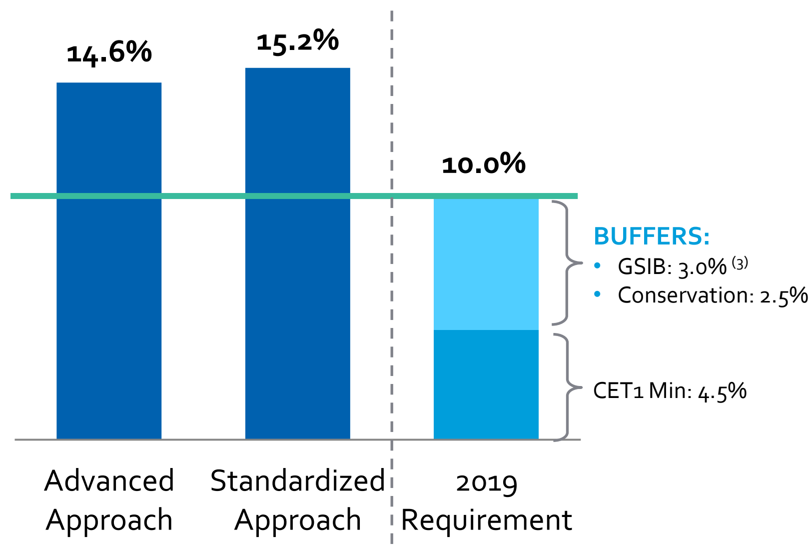


% RWAs	~43%	~24%
% Leverage	~15%	~8%

1. The Company estimates its pro forma External Total Loss Absorbing Capacity ("TLAC") and pro forma External Long Term Debt ("LTD") requirements based on the Company's current assessment of the notice of proposed rule making ("NPR") released on October 30, 2015. Our interpretation of the NPR includes the Company's expectations of the proposed requirements, which may be subject to change as the Company receives additional clarification and guidance. These pro forma calculations 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. Eligible instruments include debt with acceleration clauses for reasons other than insolvency or payment default
3. Debt securities reported at outstanding notional value
4. Capital ratios and components calculated on a U.S. Basel III fully phased-in basis

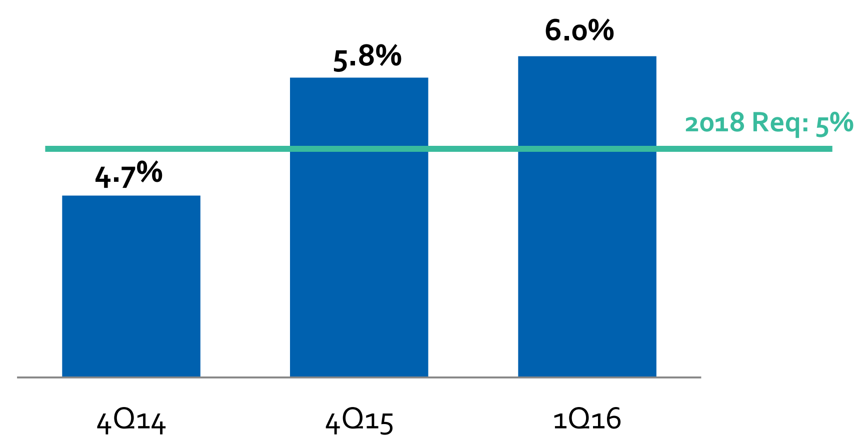
Common Equity Tier 1 and Supplementary Leverage Ratios Above Fully Phased-in Requirements[1]

1Q16 Pro Forma Fully Phased-In Common Equity Tier 1 Ratio (%) [2]



	Advanced Approach	Standardized Approach
Transitional Ratio (%)	15.6%	16.3%

Pro Forma Fully Phased-In U.S. Supplementary Leverage Ratio (%) [2]



	4Q14	4Q15	1Q16
Exposure ($Bn)	1,192	1,096	1,066

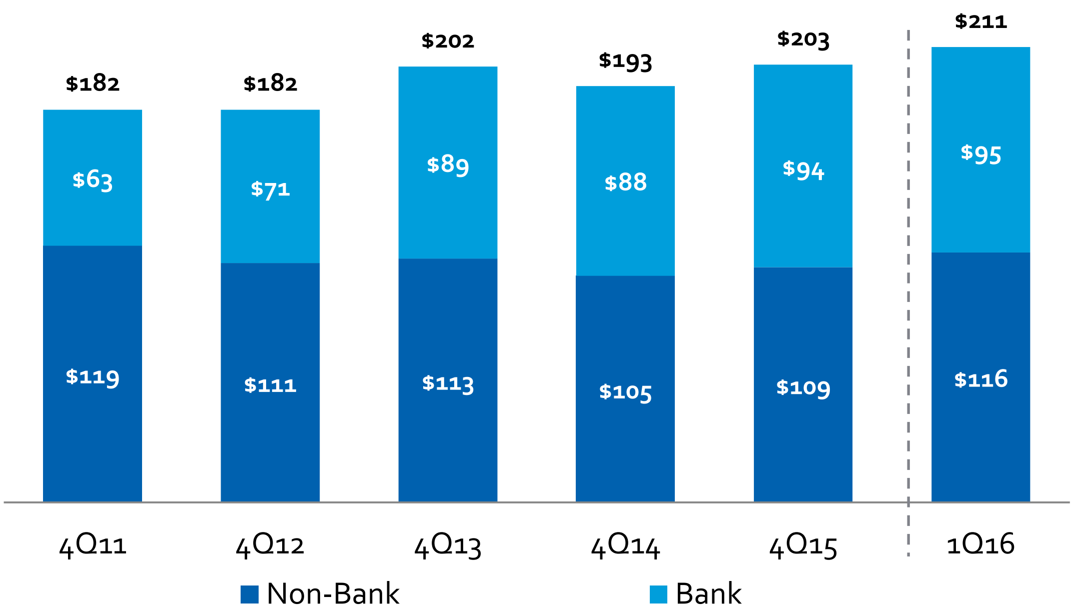
1. Pro forma Basel III Common Equity Tier 1 ratio and pro forma Supplementary Leverage ratio are non-GAAP financial measures that the Company considers to be useful measures to the Company and investors to evaluate compliance with future regulatory capital requirements.
2. The Company estimates pro forma fully phased-in Common Equity Tier 1 ratio and pro forma fully phased-in Supplementary Leverage ratio 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. GSIB buffer calculated under the July 20, 2015, FRB final rule for determining a global systemically important bank's GSIB surcharge.

4 Significant Global Liquidity Position

Pro Forma Liquidity Coverage Ratio [1]

- The Company is compliant with the U.S. LCR requirements

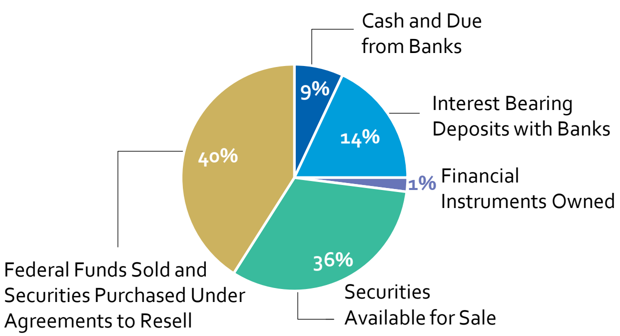
Period End Liquidity ($Bn)



Composition of the Liquidity Reserve at 1Q16

TYPE OF INVESTMENT	($Bn)
CASH / CASH EQUIVALENTS	48
UNENCUMBERED LIQUID SECURITIES	163
TOTAL	211

Detailed Breakdown of Liquidity Reserve [2]



1. The Company calculates its pro forma LCR based on its current interpretation of the final Federal Reserve Bank rule published in September 2014. Pro forma LCR is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to evaluate compliance with future regulatory capital requirements.

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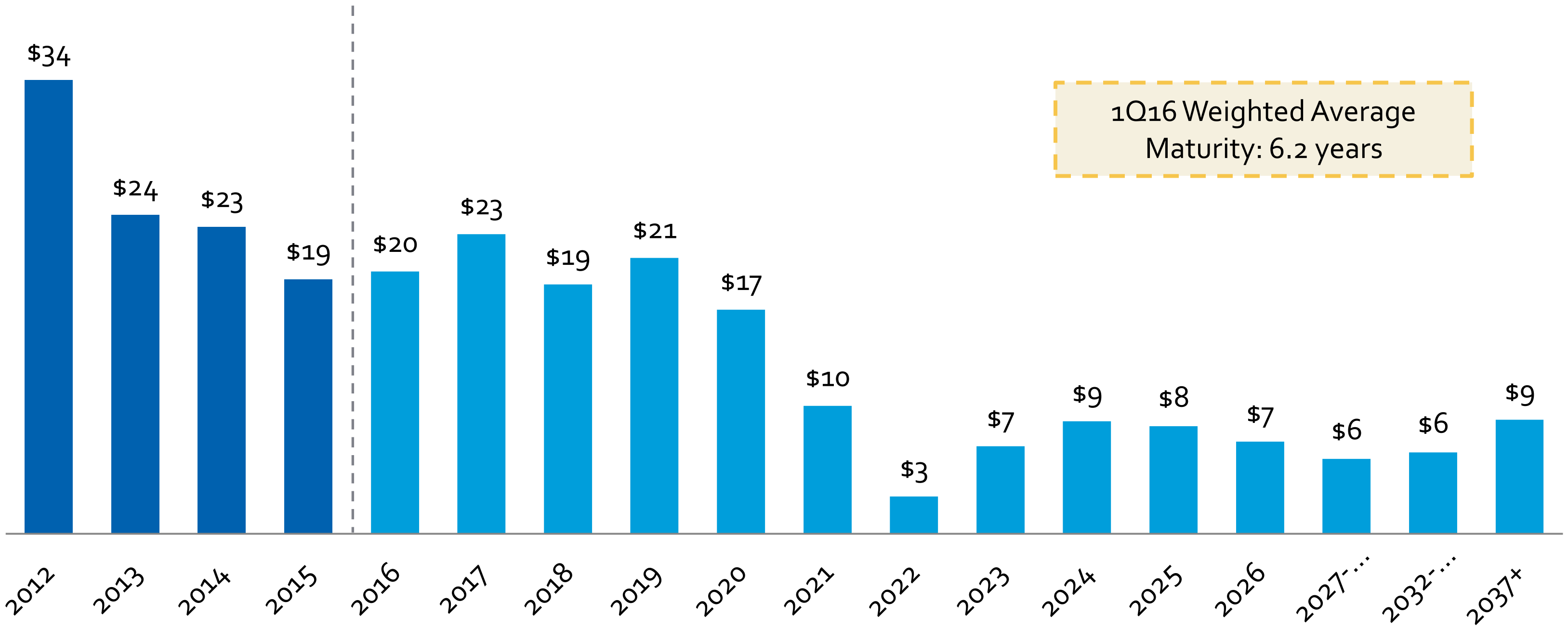
Appendix

Extending Maturity Profile of Unsecured Borrowings

Total Short-Term and Long-Term Maturities (1)(2)(3)

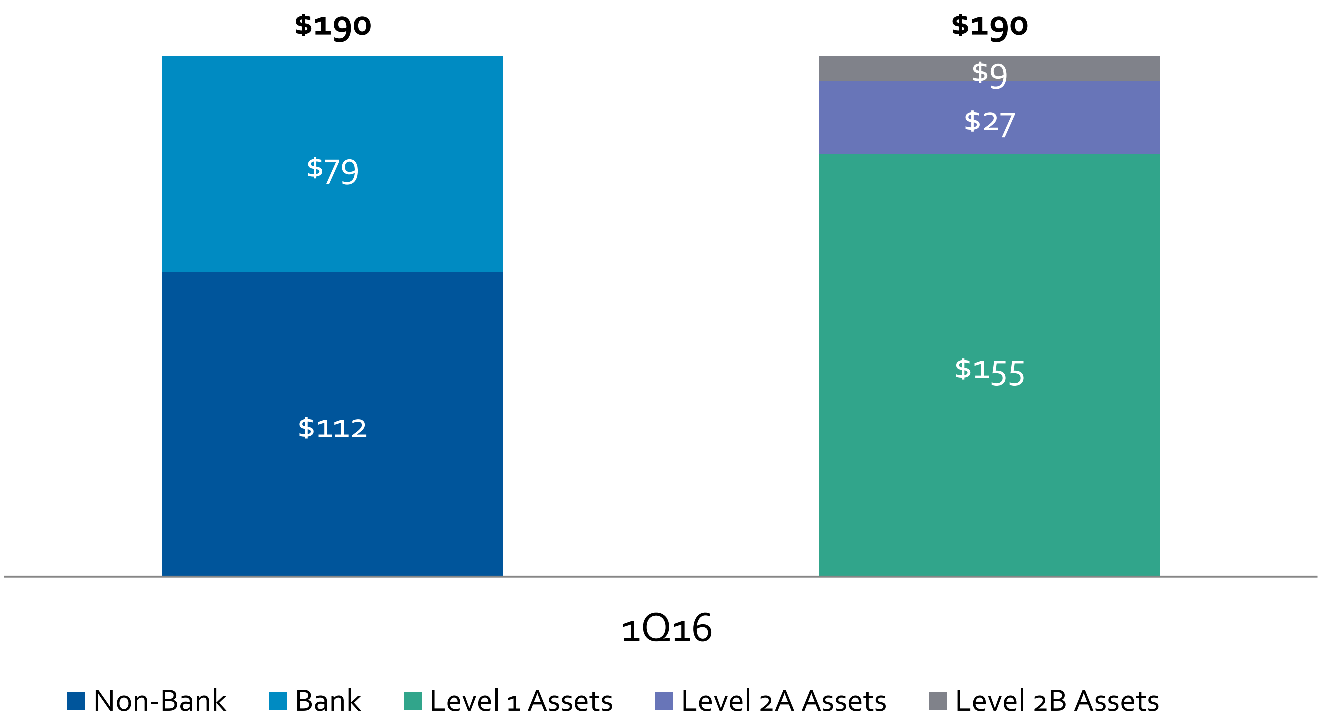
($Bn)



1. As of March 31, 2016
2. Total short-term and long-term maturities include Plain Vanilla (Senior Unsecured Debt, Subordinated Debt, Trust Preferred Securities), Structured Notes and Commercial Paper. Maturities are based on contractual maturities.
3. Excludes assumptions for secondary buyback activity.

High Quality Liquid Assets (HQLA)

Pro Forma High Quality Liquidity Assets ($Bn)[1]



1. Pro forma High Quality Liquid Assets is based on the current interpretation of the final Federal Reserve Bank LCR rule published in September 2014 and estimated as of March 31, 2016. These estimates are preliminary and are subject to change. Pro forma HQLA is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to evaluate compliance with future regulatory capital requirements.

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