

Morgan Stanley

Morgan Stanley
1Q17 Fixed Income Investor Update

May 5, 2017

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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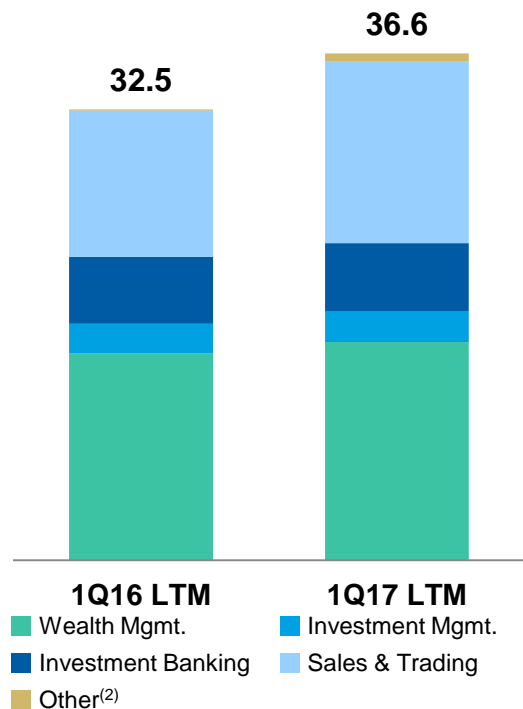
Agenda

Business Update	Section 1
Liability Management	Section 2
Capital Management	Section 3
Liquidity Management	Section 4

1 Business Summary Update

Last Twelve Month Net Revenues

Firm Revenues, ex-DVA (\$Bn)⁽¹⁾



Continued Execution of Strategic Plan

1Q17 Highlights

- Record Wealth Management revenues of \$4.1Bn, with a pre-tax margin of 24.0%⁽³⁾
- #1 globally in Equity Sales & Trading⁽⁴⁾
- Fixed Income Sales & Trading revenues in excess of \$1Bn
- Strong underwriting performance across both Equity and Fixed Income
- Investment Management saw stable asset management fees and better investment results
- Project Streamline cost savings and operating leverage resulted in a 1Q17 Firm Expense Efficiency Ratio of 71.2%⁽⁵⁾
- Non-objection to resubmitted 2016 capital plan

1. Last Twelve Month ("LTM") Net Revenues, ex-DVA is a non-GAAP financial measure the Company considers useful for investors to allow better comparability of period to period operating performance. 1Q17 LTM is defined as the sum of 1Q17 net revenues and the net revenues for each of the last three quarters of 2016. 1Q16 LTM is defined as the sum of 1Q16 net revenues and the net revenues for each of the last three quarters of 2015 and excludes the positive impact of \$0.5Bn from DVA. The quarterly results that make up each LTM measure can be found in the Company's annual report on Form 10-K, Quarterly reports on Form 10-Q and Current reports on Form 8-K for each corresponding period.

2. Includes Investments and Other Revenues within the Institutional Securities segment and Intersegment eliminations.

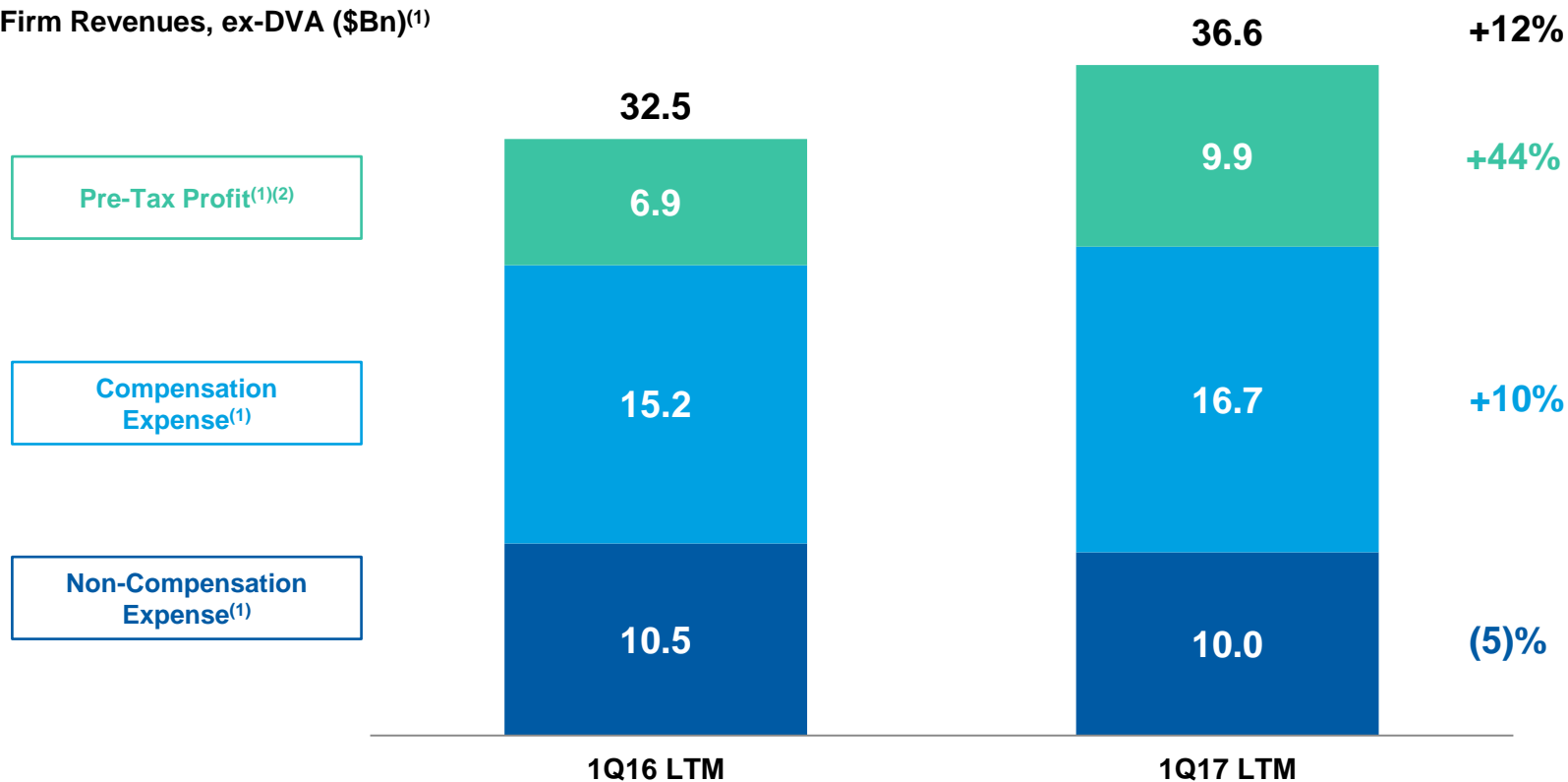
3. Pre-tax margin is a non-GAAP financial measure that the Company considers useful for investors to assess operating performance. Pre-tax margin represents income (loss) from continuing operations before taxes divided by Net Revenues.

4. Morgan Stanley Global Revenue Rank as of March 31, 2017, year-to-date. Peers include Bank of America, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan and UBS.

5. Expense Efficiency ratio is a non-GAAP financial measure the Company considers useful for investors to assess operating performance. Firm Expense Efficiency ratio represents total non-interest expenses as a percentage of Net Revenues.

Focused on Operating Leverage and Maintained Expense Discipline

Firm Revenues, ex-DVA (\$Bn)⁽¹⁾



Expense Efficiency Ratio, ex-DVA⁽¹⁾⁽³⁾: 1Q16 LTM: **78.8%** | 1Q17 LTM: **72.9%**

1. LTM Net Revenues, ex-DVA; LTM Pre-Tax Profit, ex-DVA; LTM Compensation Expense; LTM Non-compensation Expense and LTM Expense Efficiency Ratio, ex-DVA are non-GAAP financial measures the Company considers useful for investors to assess operating performance. 1Q17 LTM is defined as the sum of 1Q17 results and the results for each of the last three quarters of 2016. 1Q16 LTM is defined as the sum of 1Q16 results and the results for each of the last three quarters of 2015. The quarterly results that make up each LTM measure can be found in the Company's annual report on Form 10-K, Quarterly reports on Form 10-Q and Current reports on Form 8-K for each corresponding period.

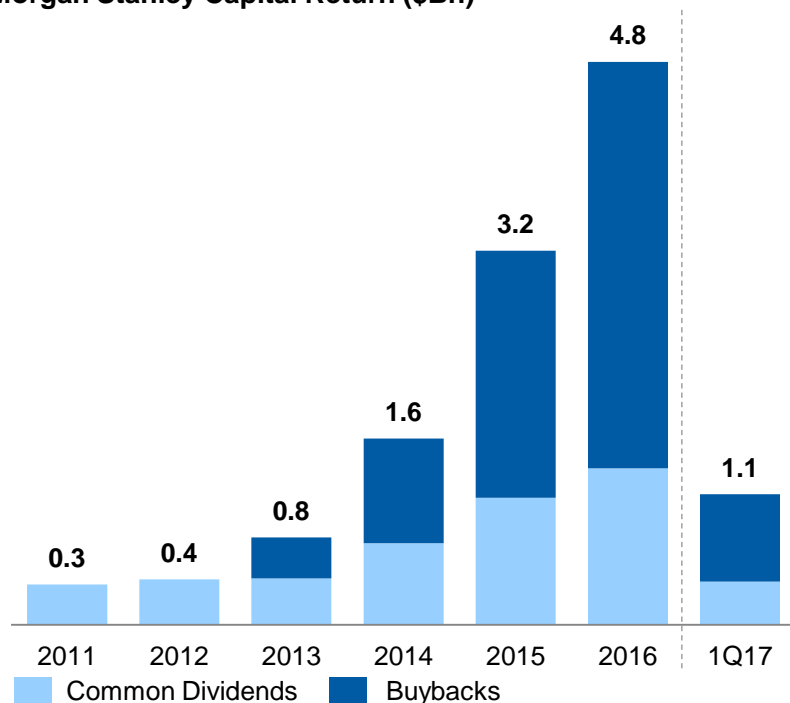
2. Pre-tax profit ("PBT") represents income (loss) from continuing operations before income taxes. PBT is a non-GAAP financial measure that we consider to be a useful measure for investors to assess operating performance. The growth in PBT is calculated as the percentage increase of 1Q17 LTM PBT (\$9.9Bn) over 1Q16 LTM PBT, ex DVA (\$6.9Bn, which excludes the positive impact of \$0.5Bn from DVA).

3. For 1Q16 LTM, the Expense Efficiency ratio was calculated as non-interest expenses of \$25.7Bn, divided by Net Revenues of \$32.5Bn, which excludes the positive impact of \$0.5Bn from DVA.

Returning Excess Capital, While Maintaining Financial Strength

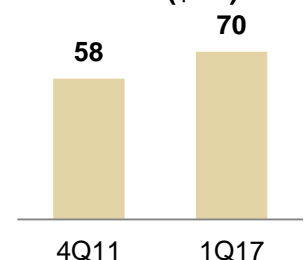
Increased Capital Return to Shareholders...

Morgan Stanley Capital Return (\$Bn)

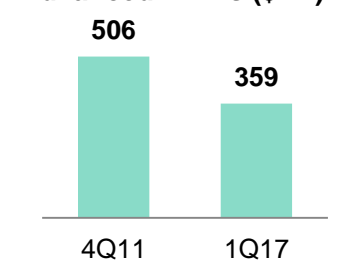


...while Maintaining Strong Capital Position and Conservative Risk Profile

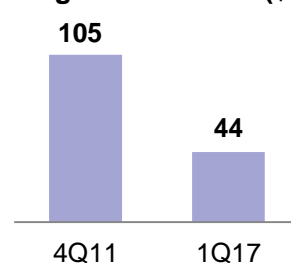
Avg. Common Equity, ex-DVA (\$Bn)⁽¹⁾



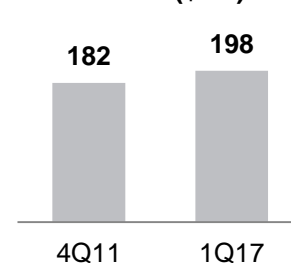
Fully Phased-in Advanced RWAs (\$Bn)⁽²⁾



Avg. Daily 95% / One Day Trading Value-at-Risk (\$MM)



Global Liquidity Reserve (\$Bn)⁽³⁾




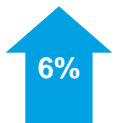





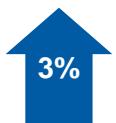
1. Average Common Equity, ex-DVA is adjusted for inception-to-date DVA. Average Common Equity, ex-DVA is a non-GAAP financial measure that the Firm considers useful for investors to assess capital adequacy. 4Q11 excludes \$2.2Bn of positive DVA impact. 1Q17 excludes \$0.6Bn of negative DVA impact.

2. The pro forma estimate of Fully Phased-in Advanced Risk Weighted Assets ("RWAs") for 2011 is reported under the then proposed Federal Reserve guidelines. RWAs for 1Q17 are based on the Company's current understanding of U.S. Basel III and other factors, which may be subject to change as the Company receives additional clarification and implementation guidance from the Federal Reserve. The pro forma estimate of Fully Phased-in Advanced RWAs is a non-GAAP financial measure that the Company considers to be useful measure for evaluating compliance with new regulatory capital requirements that have not yet become effective.

3. The global liquidity reserve, which is held within the bank and non-bank operating subsidiaries, is comprised of highly liquid and diversified cash and cash equivalents and unencumbered securities. Eligible unencumbered securities include U.S. government securities, U.S. agency securities, U.S. agency mortgage-backed securities, non-U.S. government securities and other highly liquid investment grade securities.

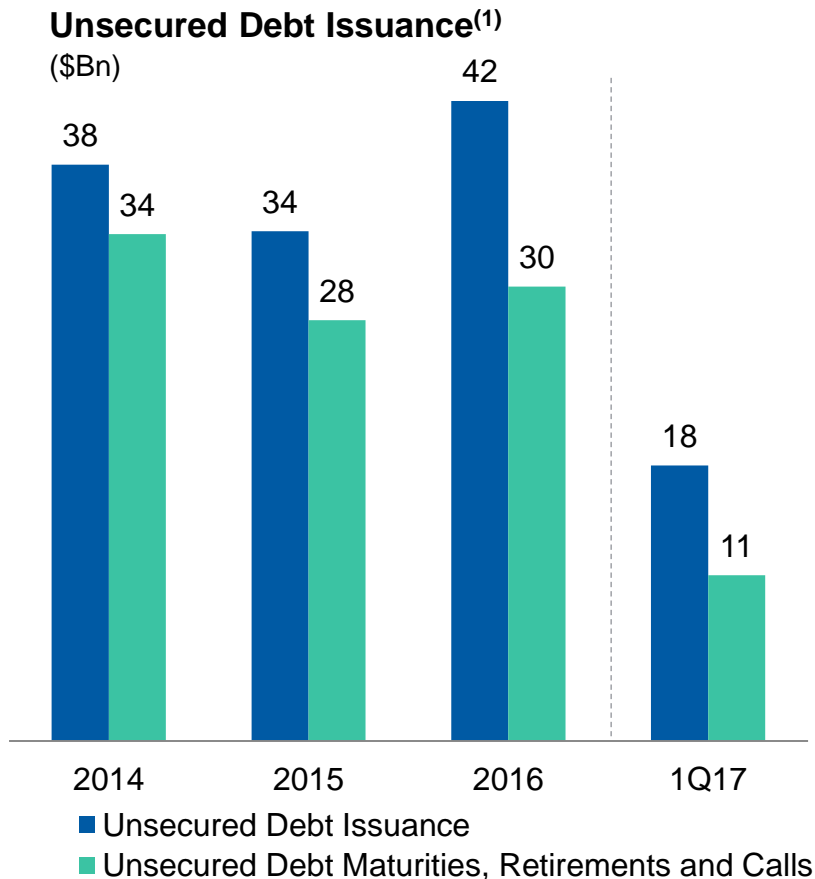
2 Liability Management: Continued Shift in Funding Mix to More Durable Sources

PRIMARY SOURCES OF FUNDING

		% OF FUNDING MIX ⁽¹⁾	PERCENTAGE POINT FUNDING MIX CHANGE SINCE YE 2013 ⁽¹⁾
Long-Term Debt	Weighted average maturity of 6.4 years; Morgan Stanley issues predominantly from the holding company	 35%	 6%
Deposits	Primarily sweep deposits sourced from Wealth Management clients	 31%	 10%
Secured Funding	Duration of liabilities greater than duration of assets; weighted average maturity against less liquid assets in excess of 120 days	 18%	 19%
Shareholders' Equity	Grew common equity while reducing RWAs; issued over \$5Bn of additional preferred stock to optimize capital composition	 16%	 3%

1. As of March 31, 2017. Figures may not sum due to rounding.

Unsecured Borrowings: Key Source of Funding



Q1'17 Highlights

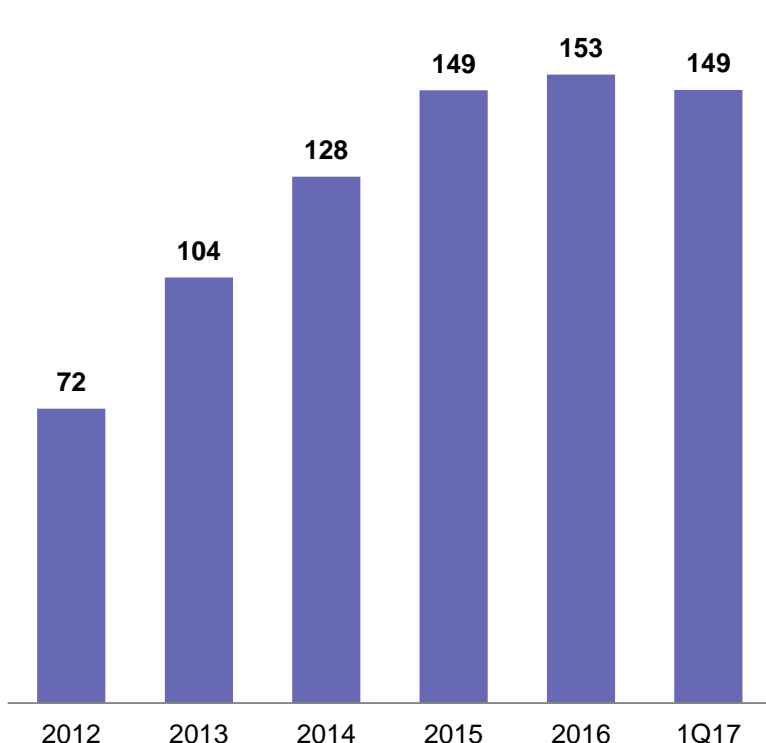
- Issued \$18Bn in Q1
- Net positive issuance
 - Continue to issue majority of unsecured debt from the Parent
 - Diversified across tenors, currencies and channels
- Long-term unsecured debt outstanding at March 31, 2017 was \$173Bn
 - Weighted average maturity 6.4 years

1. Includes Plain Vanilla (Senior Unsecured Debt and Subordinated Debt) and Structured Notes.

Bank Deposits Provide Durable Funding Source

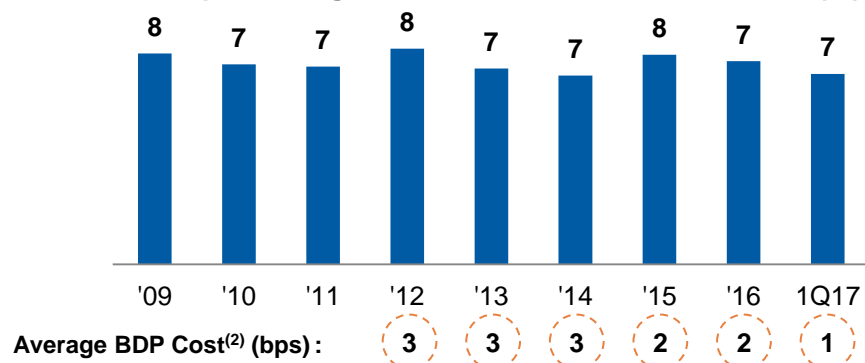
Bank Deposit Program Growth

Bank Deposit Program Balances (\$Bn)



Attractive Deposit Characteristics

Bank Deposit Program Balance / Total Client Assets (%)⁽¹⁾



- ✓ **Strategic value** – critical component of full service Wealth Management offering
- ✓ **Liquidity value** – durable source of funding for loan growth
- ✓ **Cost** – attractive funding cost
 - Expected deposit beta of ~50%⁽³⁾

1. Bank Deposit Program (“BDP”) Balance / Total Client Assets represents balances in the bank deposit program divided by client assets in the Wealth Management segment. For periods prior to 2016, the balances in the BDP included deposits held by the Firm’s U.S. Bank Subsidiaries (MSBNA and MSPBNA) as well as those held at Citigroup Inc. affiliated FDIC-insured depositories, which were contractually scheduled to be transferred to Morgan Stanley Smith Barney. BDP / Total Client Assets is a non-GAAP financial measure that the Firm considers useful for investors to assess the deposit funding gathering by our Wealth Management operations.

2. Average BDP Cost represents interest paid on BDP balances divided by the average BDP balance for each period.

3. Deposit beta measures deposit rate changes relative to market rate changes. Approximate deposit beta noted is based on internal Company modeling and is subject to change. The deposit beta is an estimate and 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

Underlying Principles of the Four Pillars of Secured Funding

1 SIGNIFICANT WEIGHTED AVERAGE MATURITY (“WAM”)

- Criteria-based model sources term funding consistent with liquidity profile of underlying assets
- Durability and transparency are at the core of Morgan Stanley’s secured funding model
 - WAM for less-liquid assets in excess of 120 days

2 MATURITY LIMIT STRUCTURE

- Reduces roll-over risk
- Less than 15% of non-Super Green⁽¹⁾ liabilities mature in any given month
- At least 25% of non-Super Green liabilities mature in more than 180 days

3 INVESTOR LIMIT STRUCTURE

- Minimizes concentration with any single investor, in aggregate, and in any given month
- Top investor may not provide more than 15% of total non-Super Green⁽¹⁾ liabilities
- Top three investors may not provide more than 30% of total non-Super Green liabilities
- Maximum monthly investor concentration is the greater of 25% of the maturities allowed in any given month or \$3Bn

4 SPARE CAPACITY

- Sourcing non-Super Green⁽¹⁾ liabilities in excess of non-Super Green inventory
- Valuable additional funding for managing through both favorable and stressed markets
- In favorable markets, supports business growth
- In stressed markets, 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. See page 11 for a definition of Super Green and non-Super Green.





Well-Established Governance Framework Ensures Stability

Consistent with Asset Profile

Rules-based Criteria Determine Asset Fundability

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	
• In addition, consider HQLA regulatory definitions	

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%	58%
 GREEN				<= 15%	>= 15	>= 95%	36%
 AMBER				> 15%	>= 10	>= 60%	4%
 RED				> 20%	< 10	< 60%	3%

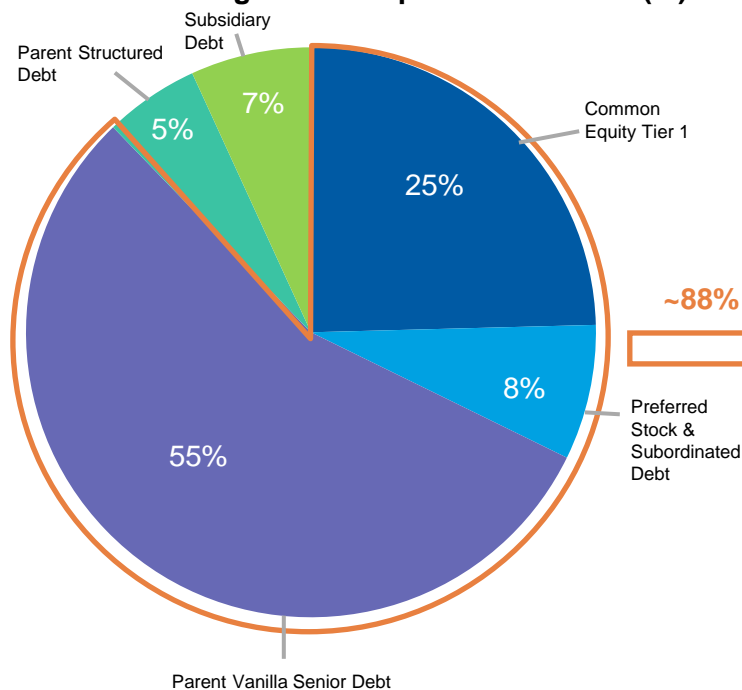
<p> Highly Liquid</p> <ul style="list-style-type: none"> – Governments – Agencies – Open Market Operations and Central Clearing Counterparty eligible collateral 	<p> Less Liquid</p> <ul style="list-style-type: none"> – Convertible Bonds – Emerging Market Sovereigns
<p> Liquid</p> <ul style="list-style-type: none"> – Investment Grade Debt – Primary/Secondary Index Equities 	<p> Illiquid</p> <ul style="list-style-type: none"> – Sub-Investment Grade ABS – Non Index Equities – Non-Rated Debt

1. As of March 31, 2017. Figures may not sum due to rounding.

3 Well Positioned For Upcoming TLAC Requirements

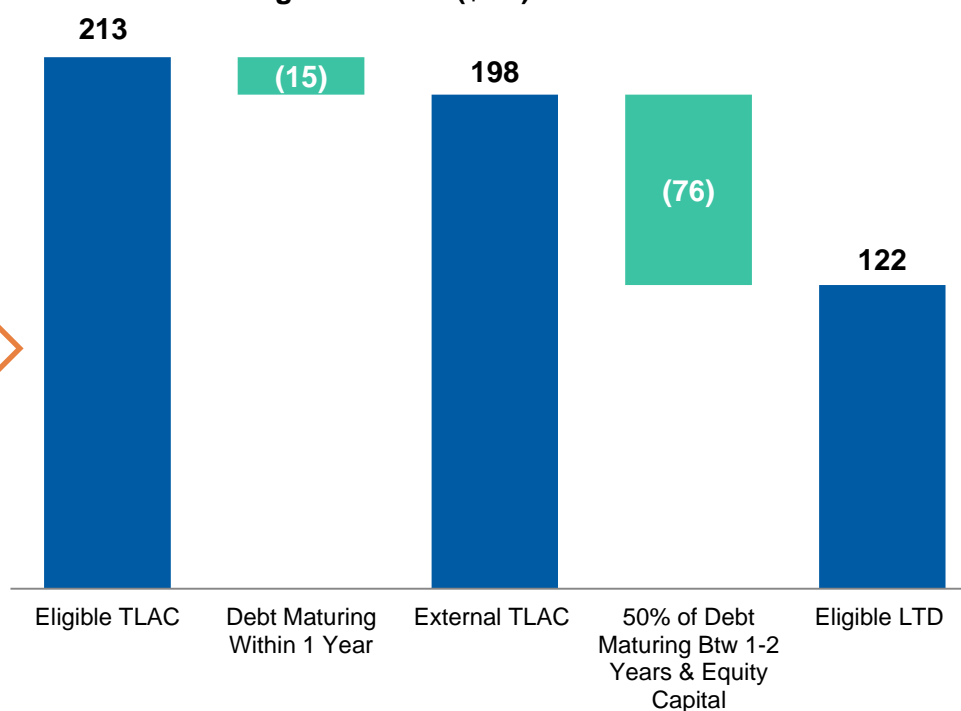
Based on Final U.S. TLAC Rule Released on December 15, 2016⁽¹⁾⁽²⁾⁽³⁾

1Q17 Outstanding Debt & Capital Instruments (%)



Total Outstanding: \$242Bn

External TLAC & Long-Term Debt (\$Bn)



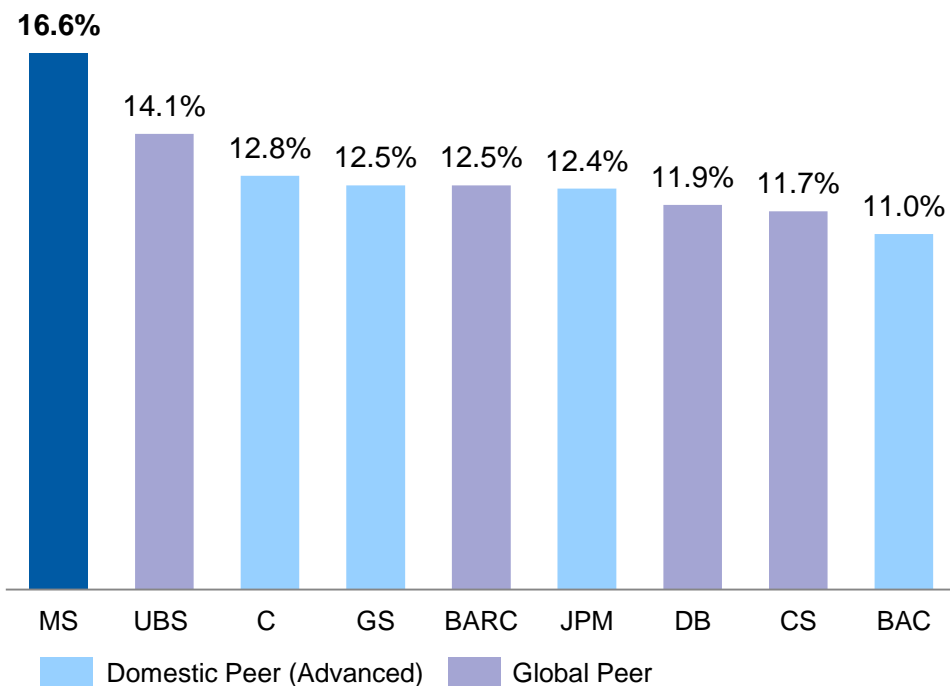
Estimated Current / 2019 Required Ratios

% RWAs ⁽⁴⁾	~55% / 21.5%	~33% / 9.0%
% Leverage	~18% / 9.5%	~11% / 4.5%

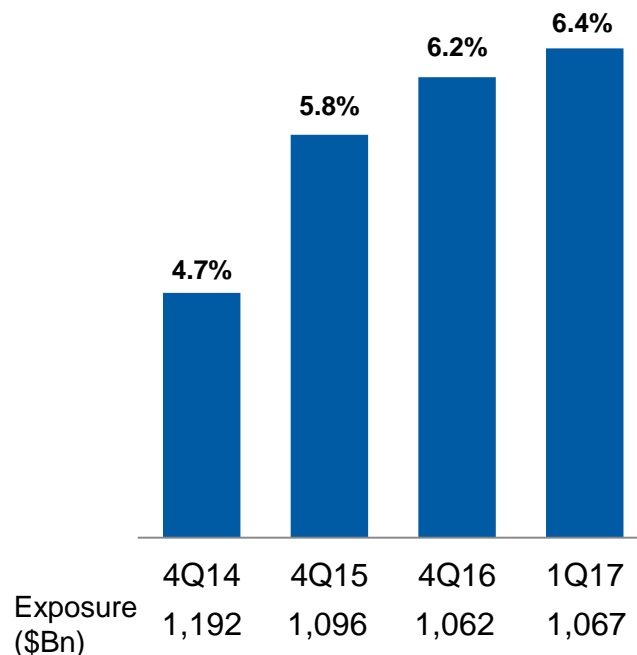
1. The Company estimates its pro forma External Total Loss Absorbing Capacity ("TLAC") and pro forma TLAC eligible Long Term Debt ("LTD") based on the Final TLAC Rule released on December 15, 2016. These pro forma calculations are non-GAAP financial measures that the Company consider to be useful measures to the Company and investors to evaluate compliance with future regulatory capital requirements.
 2. Debt securities reported at outstanding notional value.
 3. Capital ratios and components calculated on a U.S. Basel III fully phased-in basis. These estimates 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.
 4. January 1, 2019, risk-based requirements assume Method 1 and Method 2 G-SIB capital surcharges of 1.0% and 3.0% respectively.

Strong Risk-Based and Strengthening Leverage Ratios

1Q17 Pro Forma Fully Phased-In Common Equity Tier 1 Ratio vs. Peers (%)⁽¹⁾



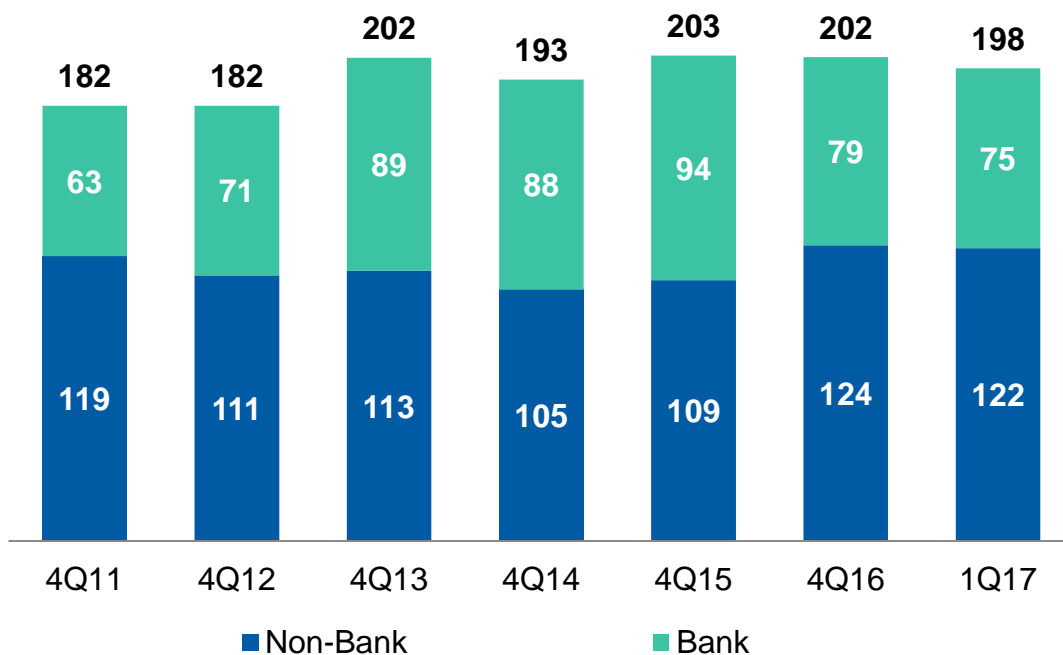
Pro Forma Fully Phased-In U.S. Supplementary Leverage Ratio (%)⁽¹⁾



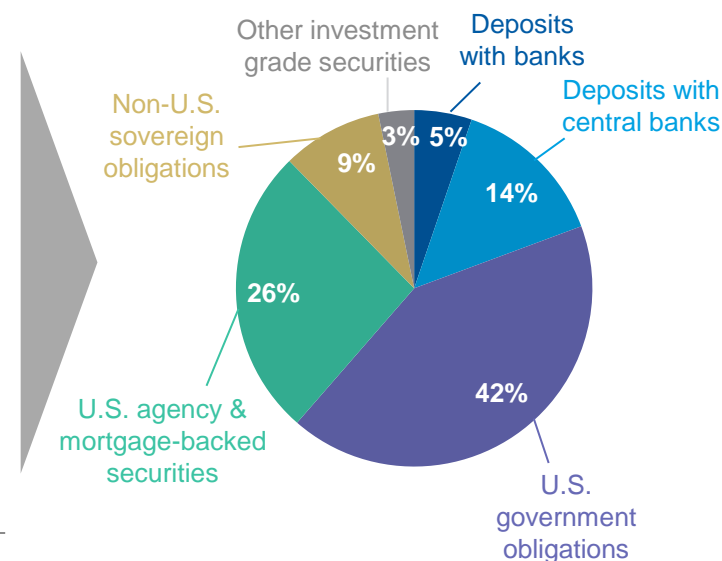
1. The Company estimates pro forma fully phased-in Common Equity Tier 1 ratio and pro forma fully phased-in Supplementary Leverage ratio and Exposure based on the Company's current assessment of the Basel III final rules and other factors, including the Company's expectations and interpretations of the proposed requirements. These estimates may be subject to change as the Company receives additional clarification and guidance from the Federal Reserve. These estimates 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.

4 Significant Global Liquidity Position

Period End Global Liquidity Reserve (“GLR”) (\$Bn)



1Q17 GLR Composition



Pro Forma Liquidity Coverage Ratio: The Company is compliant with the U.S. LCR requirements⁽¹⁾

1. The Company calculates its pro forma Liquidity Coverage Ratio (“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.

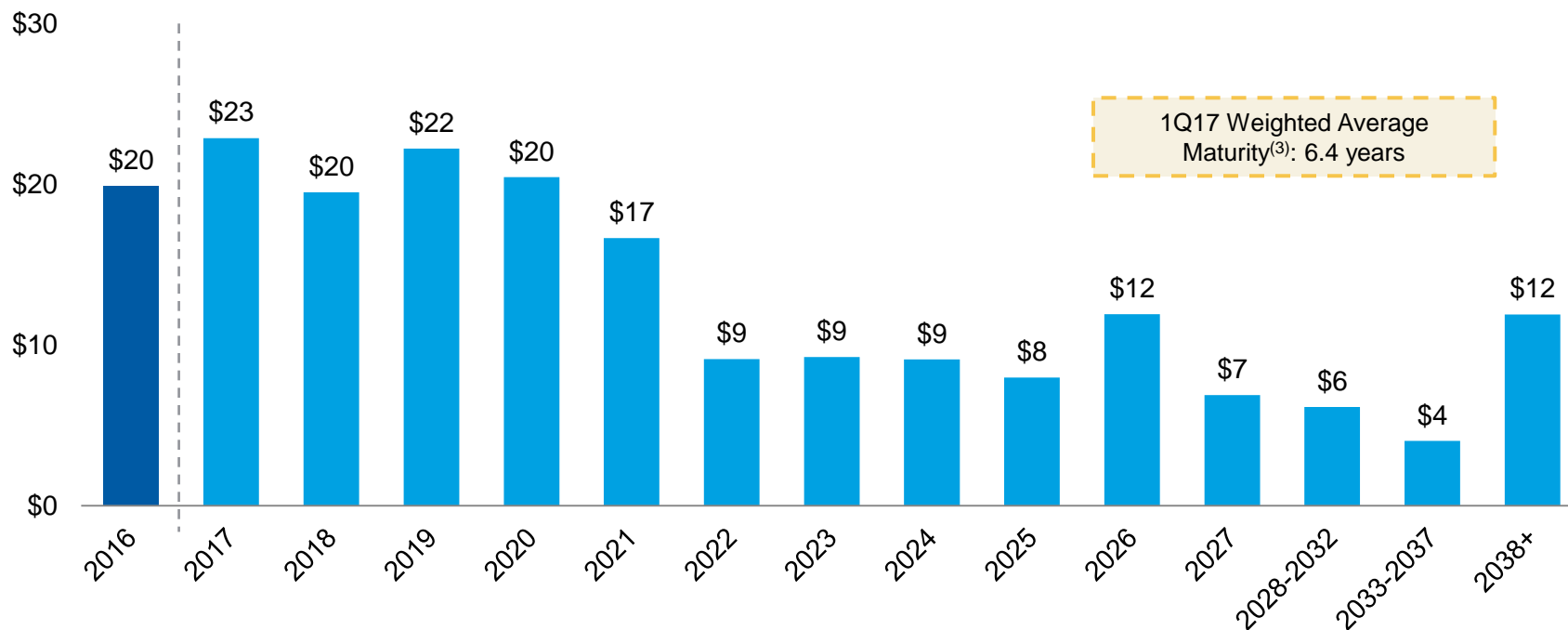
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Appendix

Maturity Profile of Unsecured Borrowings

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

(\$Bn)



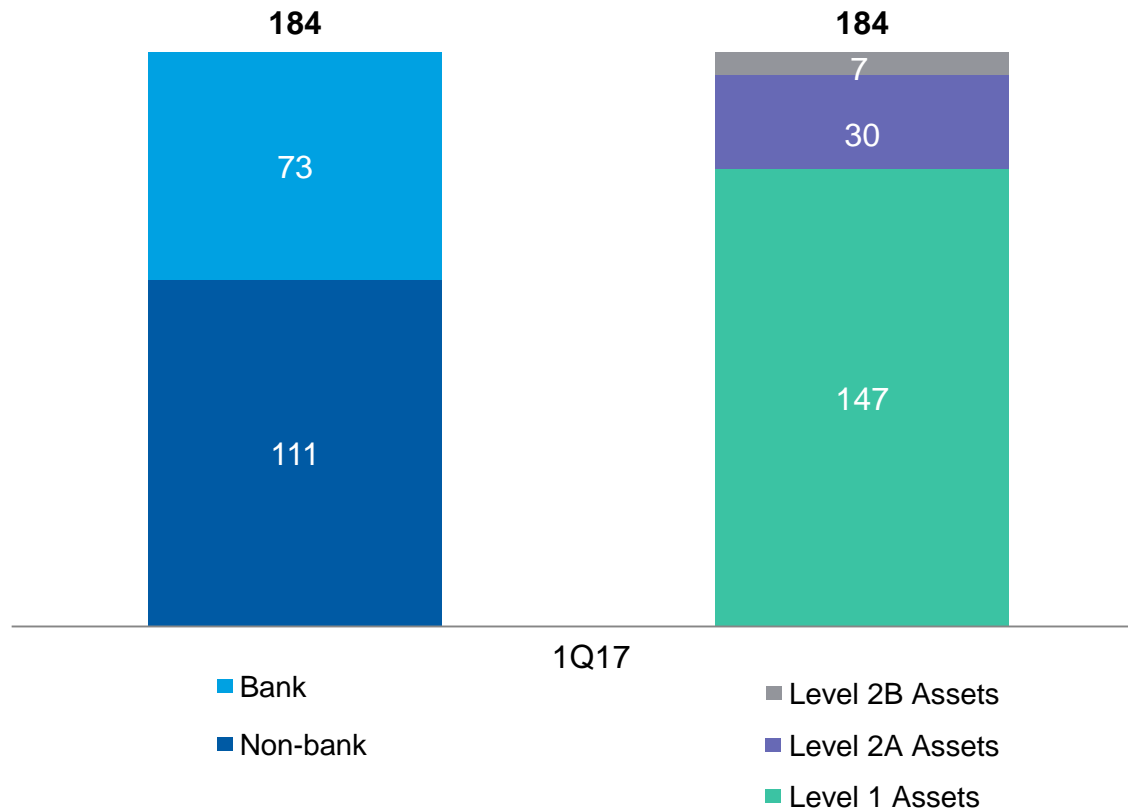
1. As of March 31, 2017.

2. Total short-term and long-term maturities include Plain Vanilla (Senior Unsecured Debt and Subordinated Debt) and Structured Notes. Maturities are based on contractual maturities.

3. Weighted average maturity of long-term borrowings.

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, 2017. 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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