

Morgan Stanley

## Morgan Stanley 2013 U.S. Financials Conference

James P. Gorman, Chairman and Chief Executive Officer

June 12, 2013

# 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 this presentation and in the Company's Annual Report on Form 10-K, 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](http://www.morganstanley.com).

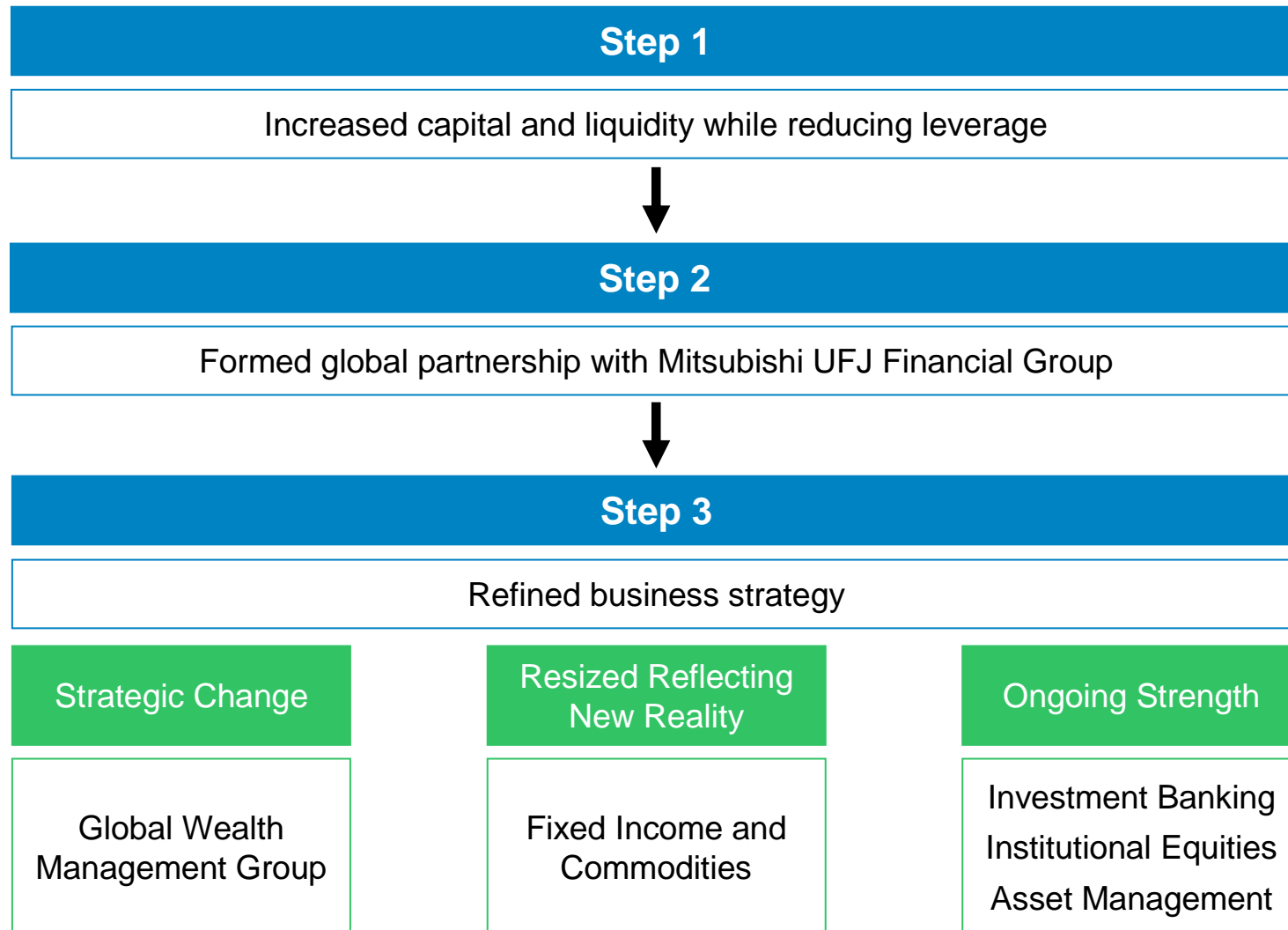
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# Agenda

- 1 Transformation of Morgan Stanley
- 2 Global Wealth Management Group Growth Opportunities
- 3 Fixed Income and Commodities Review

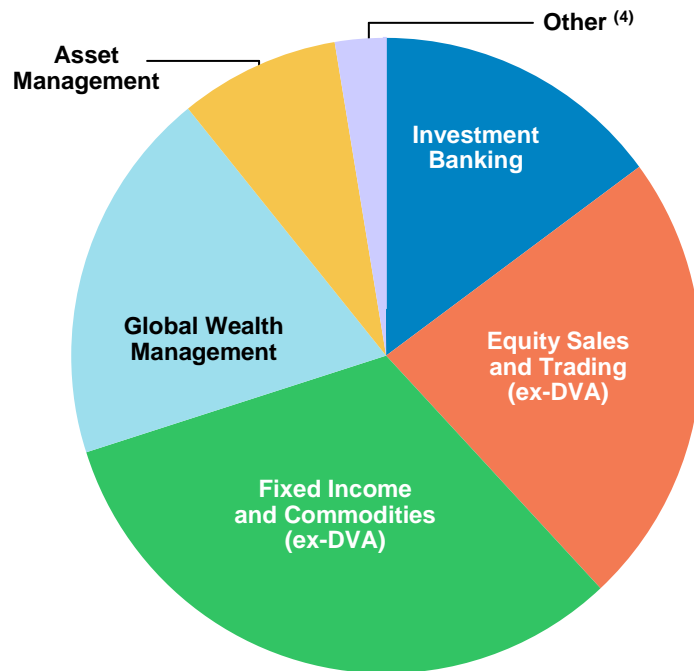
# Transformation of Morgan Stanley: Balancing Stability and Returns



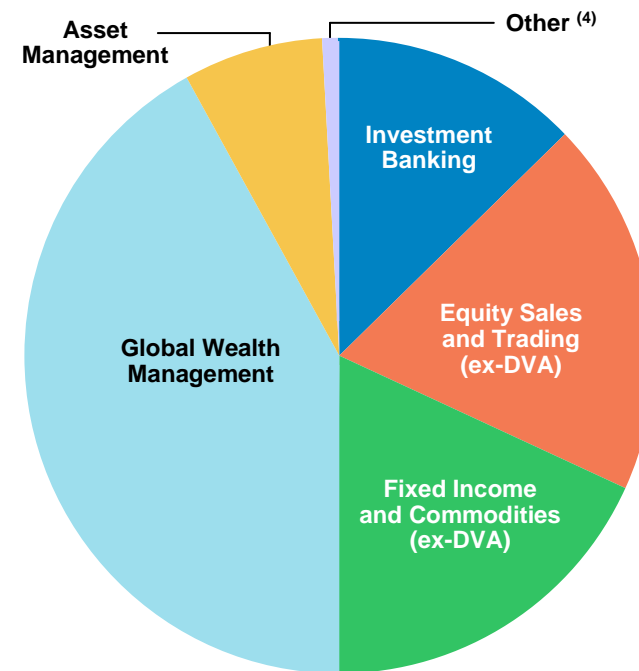
# Morgan Stanley: A More Balanced Firm

- Morgan Stanley today is more balanced than it was several years ago

Full Year 2006 Net Revenues <sup>(1)</sup>



Full Year 2012 Net Revenues <sup>(1),(2),(3)</sup>



- (1) Revenues for 2006 represent results for fiscal years ending November 30<sup>th</sup>. Revenues for 2012 represent results for fiscal years ending December 31<sup>st</sup>.
- (2) Full Year 2012 Net Revenues exclude the negative impact of \$4,402MM from DVA. Revenue (ex-DVA) is a non-GAAP measure the Company considers useful for investors to allow comparability of period to period operating performance.
- (3) Revenues have been recast to reflect the transfer of the International Wealth Management business from the Global Wealth Management business segment to the Equity Sales and Trading business.
- (4) 'Other' includes Other Sales & Trading, Investments and Other and Intersegment eliminations. 'Other' represents a modest positive revenue amount for 2006 and a modest negative amount for 2012.

# Ongoing Strength: Investment Banking

## Ongoing Strength in Core, Success with Recent Investments

### Franchise Strength

- Leading Global Investment Banking franchise
- Leading M&A and Equity Underwriting franchises
  - #2 in Announced M&A and #1 in IPOs in 2012 <sup>(1)</sup>
  - #1 in Announced M&A in EMEA, Asia Pacific and Japan <sup>(2)</sup>
  - #1 in Announced Cross-Border Advisory transactions <sup>(2)</sup>
  - #2 in Completed M&A transactions <sup>(2)</sup>
- Record performance in Debt Underwriting in last two reported quarters
- Morgan Stanley transaction volumes up Y-o-Y in M&A, Equity, IG Debt and High Yield <sup>(3)</sup>

### Landmark Transactions

- Mergers & Acquisitions
  - Severn Trent – Defense vs. \$14Bn unsolicited bid by LongRiver Partners
  - Elan - \$8Bn unsolicited bid by Royalty Pharma
- Equity Underwriting
  - Zoetis - \$2.6Bn IPO
  - GM - \$1.7Bn Index Inclusion Follow-On
- Debt Underwriting
  - Petrobras - \$11Bn Senior Unsecured
  - Shuanghui International - Financing for \$7.1Bn acquisition of Smithfield Foods <sup>(4)</sup>

### Growth Opportunities

- Leveraging partnership with MUFG around the world
- Building synergies and opportunities with GWMG
- Enhancing collaboration across Investment Banking and Sales & Trading
- Market activity improving
  - Financing markets remain strong
  - Resurging financial sponsor activity
  - Strategic dialogues increasing

## Morgan Stanley Specific Growth Opportunities

(1) Thomson Reuters as of December 31, 2012 for FY2012.

(2) Thomson Reuters as of June 7, 2013 for 2013YTD.

(3) Completed M&A, Equity & Equity-Linked, Investment Grade Debt, High Yield Debt volumes per Thomson Reuters as of June 7, 2013 for 2013YTD.

(4) Morgan Stanley served as sole M&A advisor to Shuanghui International on acquisition of Smithfield Foods; acquisition pending.

# Ongoing Strength: Equity Sales and Trading

- Top 2 Equity Sales and Trading global franchise based on wallet share <sup>(1)</sup>, with strength across all regions and products

## A Market-Leader in Scale, Efficiency and Returns <sup>(2)</sup>

### Cash

- Leader in Cash Equities
- Hybrid voice and electronic model
  - Client-centric, market-leading electronic offering, more than doubled share in key markets over three years
  - Integrated client coverage
- Market-leading content / insights, technology-enabled customized delivery

### Derivatives

- Strong position in Derivatives
- Breadth of institutional reach, combined with partnerships across the rest of the Firm (IBD, GWMG, MUFG)
- Continued expansion in footprint, including Listed Derivatives

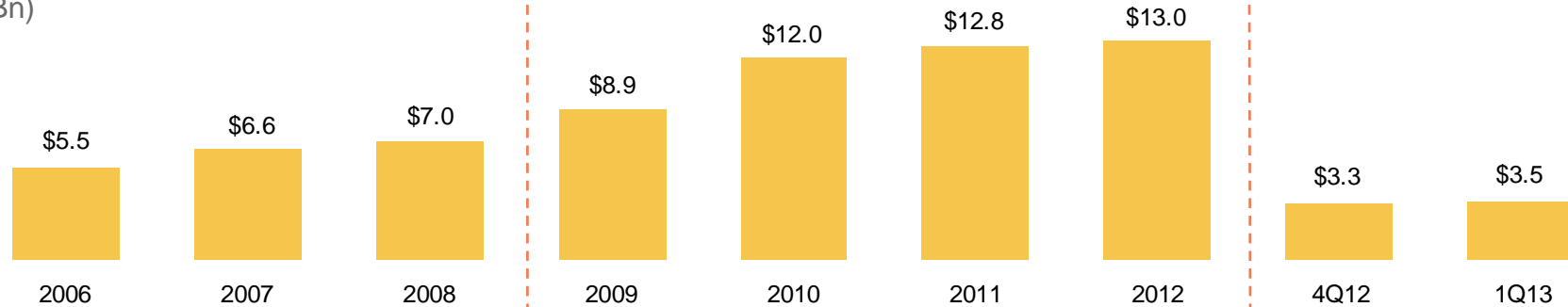
### Financing

- Leading player in Equity Financing across prime and synthetic prime
- Market access, service excellence and innovative solutions
- Mandate relationships across products drive return on assets

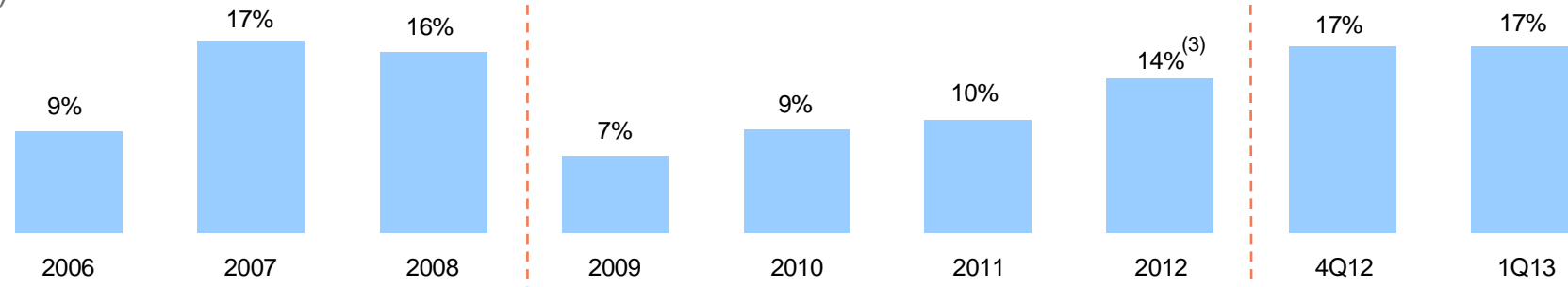
## Morgan Stanley Specific Growth Opportunities

# GWMG Performance Over Time

**GWMG Revenues** <sup>(1)</sup>  
(\$Bn)



**GWMG Pre-Tax Margin** <sup>(1),(2)</sup>  
(%)



Pre-MSSB Transaction

JV Integration Period

Post-Integration

- (1) Revenues and pre-tax margin for 2006-2008 represent results for fiscal years ending November 30<sup>th</sup>. Revenues and pre-tax margin for 2009-2012 represent results for fiscal years ending December 31<sup>st</sup>. The periods 2009-2013 have been recast to exclude the International Wealth Management business, currently reported in the Institutional Securities business segment.
- (2) 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.
- (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.



# What Will Be Different About GWMG When We Own 100% of the Joint Venture?

## Integration

- Streamlined branches and de-layered management
- Retired legacy software to reduce redundant technology
- Consolidated functions to central service centers
- Kept FA attrition low, maintained top two quintiles
- Reduced non-FA headcount

## Acquisition

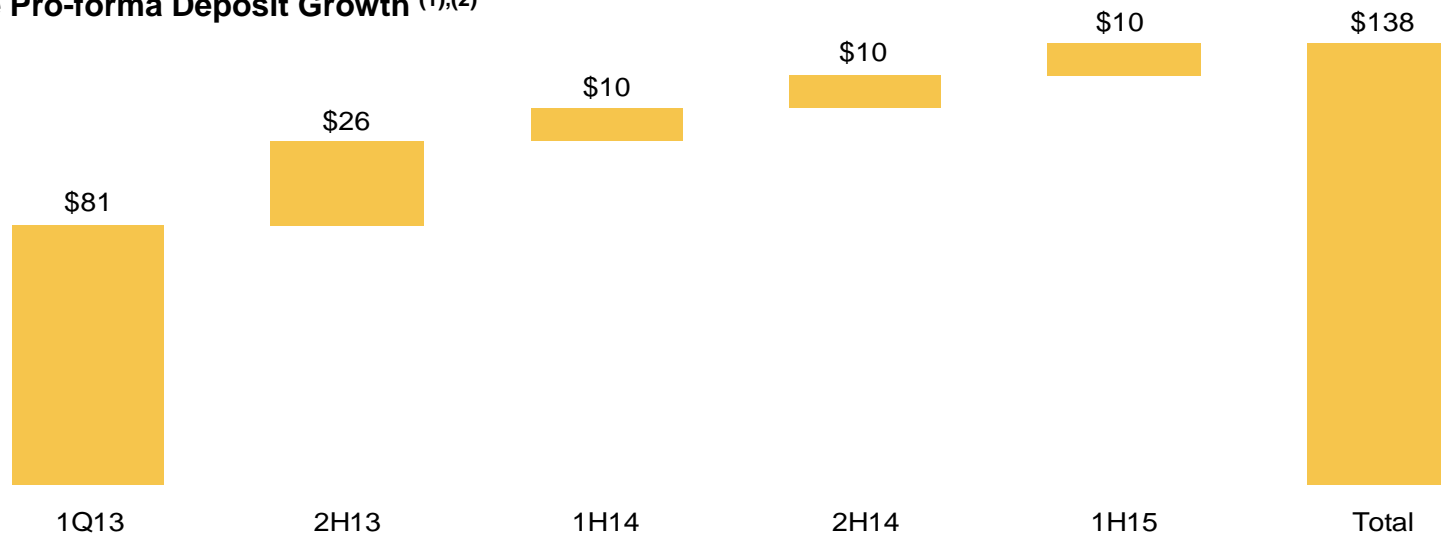
- September 2012:
  - Negotiated fixed price for 49% minority stake, including no premium for deposits
  - Purchased 14% to bring ownership to 65%
- Current:
  - Awaiting approval for remaining 35% stake

## Growth

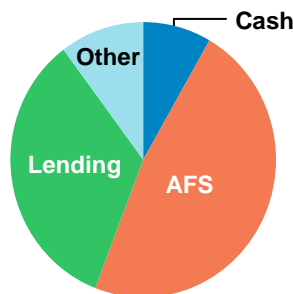
- Contractual upside
  - Elimination of NCI
  - Order Flow Agreement
  - Deposits
- Continued build-out of our banking and lending capabilities
- Secular shift into managed accounts
- Expense management
- Potential tailwind from rising rates and asset prices

# When We Own 100% of Wealth Management JV – Significant Increase in Deposits

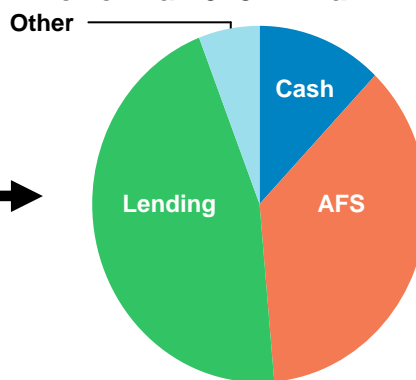
**Firmwide Pro-forma Deposit Growth (1),(2)**  
(\$Bn)



**Current State Bank Assets<sup>(3)</sup>**



**Pro-forma 2015YE Bank Assets<sup>(3)</sup>**



**Indicative Yield Opportunity<sup>(4)</sup>**

- Cash = ~0.25%
- AFS = ~1.0%
- Lending = ~3.0%

(1) Assumes, for illustrative purposes, a July 1, 2013 closing date.  
 (2) Firmwide pro-forma deposit growth reflects the contractual transfer of deposits from Citi to Morgan Stanley after the closing of the acquisition. Organic account balance growth is assumed to be flat. Figures may not sum due to rounding.  
 (3) Bank Assets include assets in MSBNA and MSPBNA.  
 (4) Indicative yield opportunities are based on current market rate environment.  
 (5) Global Wealth Management Group net interest income also includes margin lending and other products that are not currently held in the banks.

# When We Own 100% of Wealth Management JV – Pro-forma Top 10 US-Based Depository Institution

## Top US Based Depositories (1),(2)

(\$Bn)

1. JP Morgan Chase & Co.	\$1,203
2. Bank of America Corporation	1,095
3. Wells Fargo & Company	1,011
4. Citigroup Inc.	934
5. U.S. Bancorp	248
6. Bank of New York Mellon Corporation	240
7. Capital One Financial Corporation	212
8. PNC Financial Services Group, Inc.	212
9. State Street Corporation	155
<b>10. Pro-forma Morgan Stanley (3)</b>	<b>138</b>
10. BB&T Corporation	131
11. SunTrust Banks, Inc.	130
12. Regions Financial Corporation	94
13. Fifth Third Bancorp	92
14. Charles Schwab Corporation	82
15. Morgan Stanley	81
16. Northern Trust Corporation	76
17. Goldman Sachs Group, Inc.	73
18. M&T Bank Corporation	65
19. KeyCorp	65
20. Comerica Incorporated	52
21. Huntington Bancshares Incorporated	47
22. Zions Bancorporation	44
23. Discover Financial Services	42
24. American Express Company	41
25. First Niagara Financial Group, Inc.	28

(1) Excludes U.S. subsidiaries of foreign based banks.

(2) Source: SNL Financial as of 1Q13; Data is based on company's SEC Filings.

(3) Firmwide pro-forma deposit growth reflects the contractual transfer of deposits from Citi to Morgan Stanley after the closing of the acquisition. Organic account balance growth is assumed to be flat.

# When We Own 100% of Wealth Management JV – Order Flow Agreement / NCI / Other Considerations

## 1 Elimination of Order Flow Agreement: Unlock Additional Value

- Through collaboration of GWMG and ISG, Firm will realize the value of additional trade flows that currently go to JV partner; high incremental margin

## 2 Elimination of Order Flow Agreement: Improve Client and Financial Advisor Experience, Reduce Complexity and Operational Risk

- Enhance MSWM ability to deliver optimal product suite, improving overall Financial Advisor efficiency
- Simplify implementation and time-to-market of additional features and enhancements
- Eliminate redundant regulatory reporting

## 3 Elimination of NCI (i.e. greater retention of earnings)

- Elimination of JV partner's share of non-controlling interest - will retain greater share of wealth management earnings
- Without NCI leakage, would have retained \$121MM (pre-tax earnings) in 1Q13

## 4 Other Considerations: Referral Fees / FDIC Fees <sup>(1)</sup>

- Overall, deposits are accretive in the near-term, with upside through deployment / loan growth
- Net interest income increase partially offset by lower referral fee revenues from JV partner as deposits are transitioned to Morgan Stanley, but there will also be a proportional decline in FDIC fees due to the nature of assets in our banks

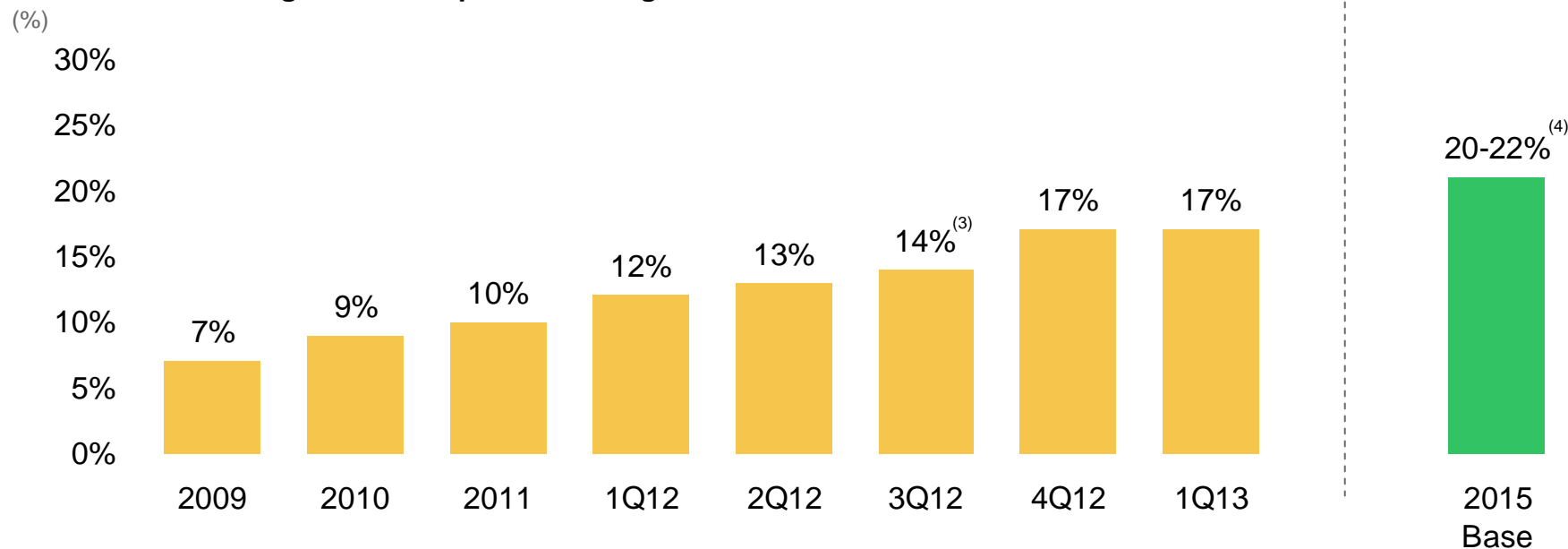
## 5 One-Time Income Statement Impact

- When we close the acquisition, earnings per share will include a one-time negative adjustment reflecting the capital utilized for the purchase of the additional 35% stake (redemption of NCI reflected similarly to a preferred stock dividend)

# What it Adds Up to Assuming Current Rate Environment and No Change in Equity Market Levels

- 2015 pro-forma margin reflects revenue upside from when we own 100% of the JV (NCI, deposits, OFA, FDIC/referral fees, etc.) using 1Q13 run-rate as starting point
- Reflects continued investment in the business
- No change to market levels, interest rates, or potential further efficiencies

## Global Wealth Management Group Pre-tax Margin<sup>(1),(2)</sup>



(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) Pre-tax margin for 2009-2013 have been recast to exclude the International Wealth Management business, currently reported in the Institutional Securities business segment.

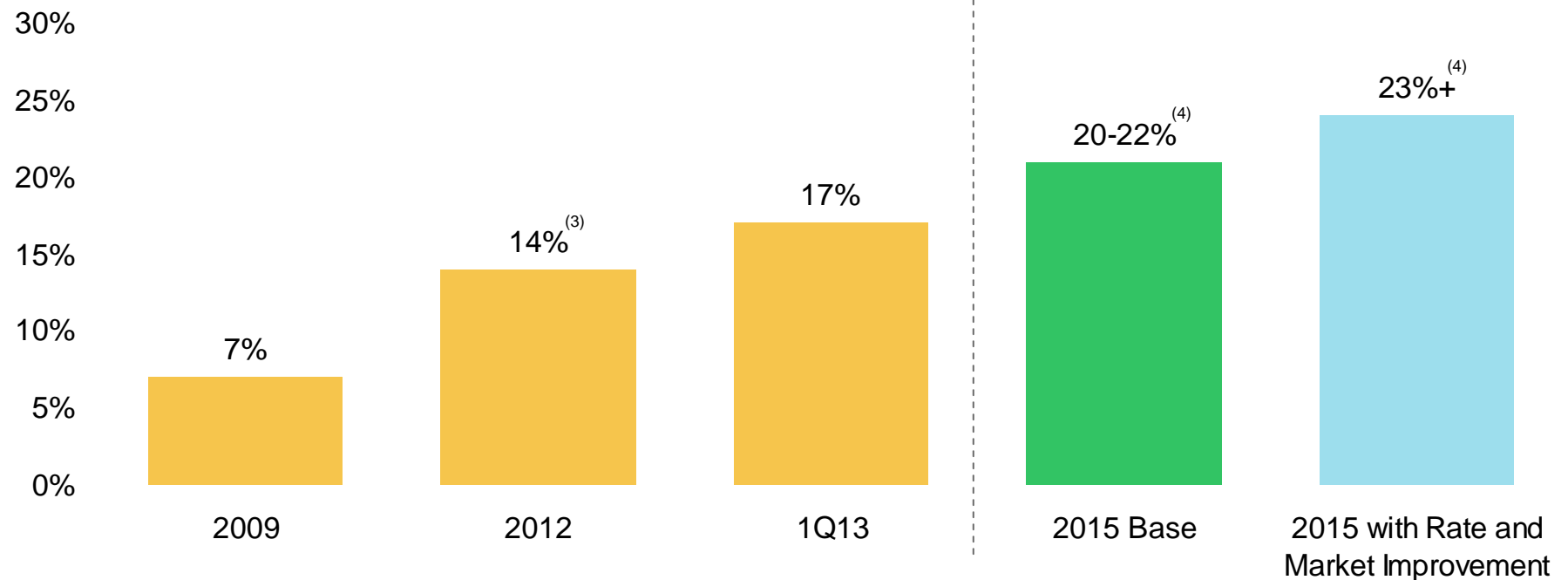
(3) Pre-tax margin for 3Q12 excludes \$193 million of non-recurring costs associated with the Morgan Stanley Wealth Management integration and the purchase of an additional 14% stake in the joint venture.

(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.

# ... And Additional Upside with Market and Rate Improvements

- Higher rates and S&P levels could drive additional upside

**Global Wealth Management Group Pre-tax Margin**<sup>(1),(2)</sup>  
(%)

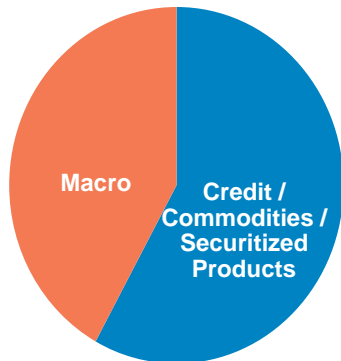


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# Fixed Income and Commodities: Significant Progress Already, with Strategy in Place to Increase Returns

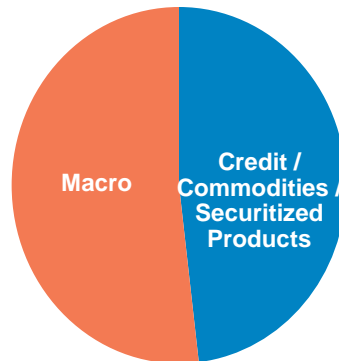
## Why We Needed to Reposition Fixed Income and Commodities

**Morgan Stanley (2007)** <sup>(1),(2)</sup>



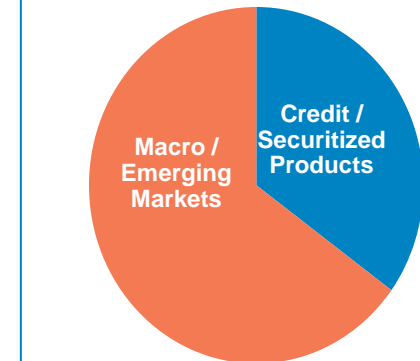
**Franchise Weighted  
Toward Less Liquid  
Businesses**

**Morgan Stanley (2012)** <sup>(1),(2)</sup>



**Repositioned  
Towards More Flow**

**Industry Wallet (2012)** <sup>(3)</sup>



## Why Morgan Stanley Can Successfully Reposition Fixed Income Business

- Existing strong equities and investment banking businesses
  - Leverage technology platform and our client relationships
- We have been successfully building and investing in our clearing businesses
- Three additional sources of alpha
  - Global Wealth Management Group
    - When we own 100% of wealth management, we will be more important to our Institutional Securities clients
  - Mitsubishi UFJ Financial Group (MUFG)
  - Cross-selling across Institutional Securities and Global Wealth Management
    - Origination, distribution and unique product

(1) Represents mix of revenues for corporate credit, foreign exchange, rates, securitized products, and commodities businesses.

(2) Macro represents foreign exchange and rates.

(3) Industry wallet data provided by Oliver Wyman. Revenue mix represents rates, foreign exchange, emerging markets, credit and securitized products and excludes commodities.

# Fixed Income and Commodities: One Strategy, Three Phases of Transformation

## Morgan Stanley Fixed Income and Commodities Franchise

- Client model characterized by strong connectivity and distribution capabilities – reinforced with strength in origination
- Strategy designed to reflect new capital regime
- Sized appropriately for our franchise and client base
- Core clients: Top institutional investors globally

### Phase 1 (2009 – 2010)

- Rebuilt our client coverage footprint in macro products (Interest Rates and Foreign Exchange)
- Redesigned our approach to focus more on flow products

### Phase 2 (2011 – 2013)

- Aggressively reduced capital
  - Reduced RWAs from ~\$400Bn in 2011 to \$253Bn at 1Q13
- Regained credibility with clients
  - Significant improvement in rankings with most important clients
- Developed better analytics to evaluate individual businesses and enhance decision-making

### Phase 3 (2013 – Future)

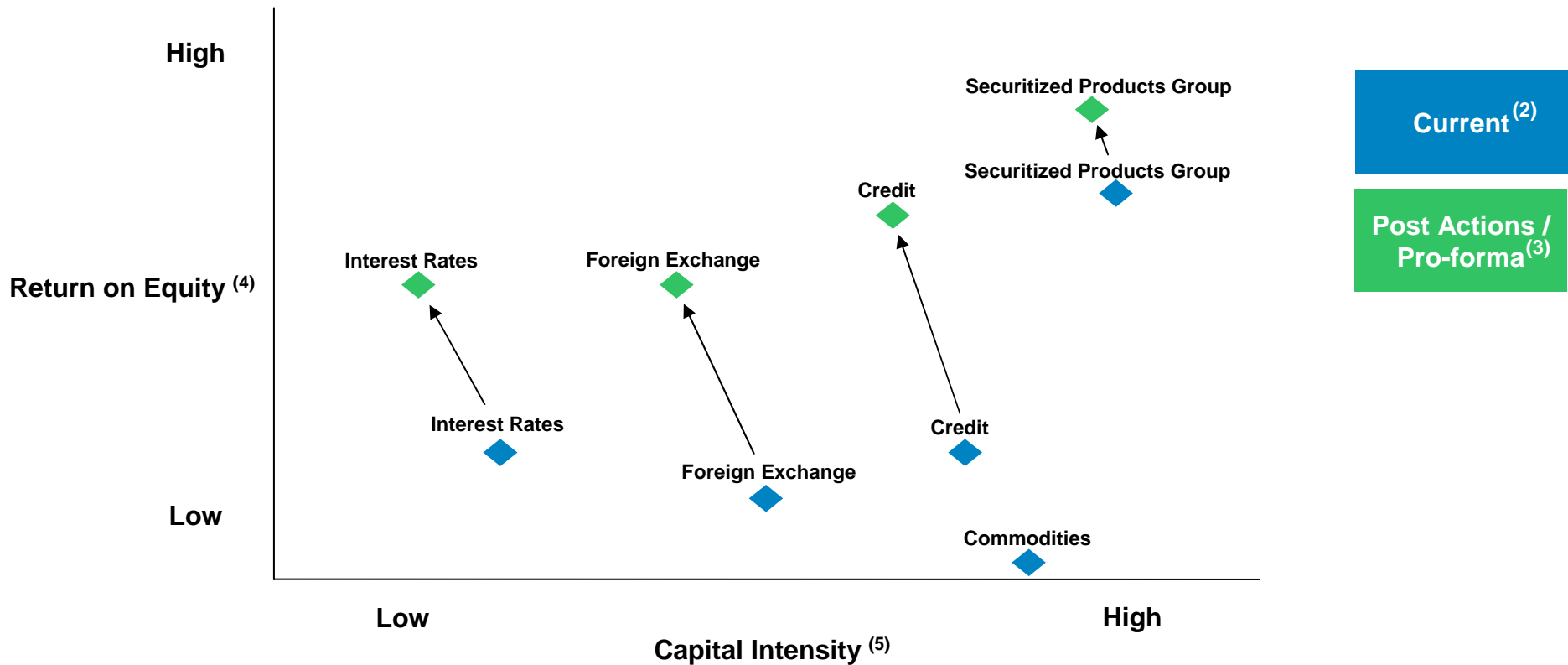
- Deliver efficiency, greater consistency of results and higher ROE
  - Continue to execute RWA reduction plan
  - Reduce cost base
  - Leverage other areas of the Firm (e.g. Equities and GWMG)
  - Electronification

Defined Plan in Place to Drive ROE > COE for Fixed Income & Commodities



# Fixed Income and Commodities: Driving Returns in Core Businesses

- Reducing capital in businesses while remaining focused on increasing returns



**Defined Plan to Drive ROE > COE for Fixed Income & Commodities**

(1) Illustrative; Not to scale.  
 (2) Current data is based on 2012 revenues, expenses and allocated equity and excludes DVA.  
 (3) Post Actions / Pro-forma data reflects RWA reductions per pre-defined targets and CVA adjustment; does not include benefit of increased revenue or announced cost programs.  
 (4) ROEs based on the Firm's internal managed view of revenues, expenses and allocated equity by segment and business area. Includes a portion of underwriting revenues which are externally reported in Investment Banking.  
 (5) Capital Intensity is a relative metric used internally by Morgan Stanley to assess the capital usage of each business. Capital Intensity is measured as a ratio of RWA to total assets for each business. It does not necessarily reflect capital standards for all banks and/or correlate to peers.

# Fixed Income and Commodities: Credit Products<sup>(1)</sup> with a Focus on Credit Corporates

	Capital Intensity <sup>(2)</sup>	Credit Products ROE <sup>(3),(4)</sup>	Credit Corporates ROE <sup>(3),(4)</sup>
Current	High	>5%	>20%
Post Actions / Pro-forma <sup>(5)</sup>	High	~15%	>20%

- Origination – Symbiotic relationship between banking and Corporate Credit...to be a leading originator, need to have a successful sales and trading franchise

- Client Connectivity – Strong institutional relationships and wealth management distribution

- Capital – Have been aggressively reducing the most capital intensive, lowest return areas like structured credit

- Operating Scale – Leading player / Leverage strength in debt underwriting

**Assessment of Credit Products: Good business anchored by strong Credit Corporates with returns in excess of 15% / Reduce structured credit RWAs**

(1) Credit products refer to all credit businesses including credit corporates, credit derivative products, municipal securities, and FXEM credit.  
 (2) Capital Intensity is a relative metric used internally by Morgan Stanley to assess the capital usage of each business and is measured as a ratio of RWA to total assets for each business.  
 (3) ROEs based on the Firm's managed view of revenues, expenses and allocated equity by segment and business area. Includes a portion of underwriting revenues which are externally reported in Investment Banking. See appendix on slide 26.  
 (4) Credit Products and Credit Corporates ROEs also include results from lending activities and investments, which are externally reported in the Other Sales & Trading and Investments revenue lines within Institutional Securities.  
 (5) Post Actions / Pro-forma data reflects RWA reductions per pre-defined targets and CVA adjustment; results may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

# Fixed Income and Commodities: Securitized Products Group

	Capital Intensity <sup>(1)</sup>	ROE <sup>(2),(3)</sup>
Current	High	>15%
Post Actions / Pro-forma <sup>(4)</sup>	High	>15%

- Client Connectivity – Strong institutional relationships

- Capital – Use opportunistically with high ROE hurdle

- Operating Scale – Not a significant factor; key drivers of success are content and execution

**SPG Assessment: Significantly reshaped the business by reducing capital and liquidity usage while increasing revenues and improving the client franchise / Maintain risk management discipline**

(1) Capital Intensity is a relative metric used internally by Morgan Stanley to assess the capital usage of each business and is measured as a ratio of RWA to total assets for each business.  
 (2) ROEs based on the Firm's managed view of revenues, expenses and allocated equity by segment and business area. See also Appendix on slide 26.  
 (3) Securitized Products ROEs include residential distressed loan liquidation results which are externally reported in Other Revenues/Expenses lines.  
 (4) Post Actions / Pro-forma data reflects RWA reductions per pre-defined targets and CVA adjustment; results may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

# Fixed Income and Commodities: Interest Rates

	Capital Intensity <sup>(1)</sup>	ROE <sup>(2)</sup>
Current	Low	>5%
Post Actions / Pro-forma <sup>(3)</sup>	Low	>10%

- Client Connectivity – Strong institutional relationships, wealth management distribution, and clearing investments

- Capital – Less important as business shifts to exchanges and clearing

- Operating Scale – Leverage cross Institutional Securities technology platforms to achieve cost efficiencies

**Interest Rates Assessment: Right-sized for opportunity and balancing both risk and leverage-based capital levels / Continue to reduce RWAs by reducing legacy counterparty exposures / Improve consistency of performance**

(1) Capital Intensity is a relative metric used internally by Morgan Stanley to assess the capital usage of each business and is measured as a ratio of RWA to total assets for each business.  
 (2) ROEs based on the Firm's managed view of revenues, expenses and allocated equity by segment and business area. See also Appendix on slide 26.  
 (3) Post Actions / Pro-forma data reflects RWA reductions per pre-defined targets and CVA adjustment; results may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

# Fixed Income and Commodities: Foreign Exchange

	Capital Intensity <sup>(1)</sup>	ROE <sup>(2)</sup>
Current	Medium	>5%
Post Actions / Pro-forma <sup>(3)</sup>	Medium	>10%

- Client Connectivity – Offshore strategy; strong institutional relationships, market leadership in Prime Brokerage, and clearing investments

- Capital – At equilibrium for the size of our business

- Operating Scale – Leverage cross Institutional Securities technology platforms to achieve cost efficiencies

**Foreign Exchange Assessment: Maintain recent market share gains / Achieve cost efficiencies**

# Fixed Income and Commodities: Commodities

	<b>Capital Intensity<sup>(1)</sup></b>	<b>ROE<sup>(2)</sup></b>
<b>Current</b>	Medium	<5%

- Context – Volumes at cyclical lows, historical average ROE >10%<sup>(3)</sup>

- Client Connectivity – Differentiated positioning with physical assets (storage and transmission capabilities)

- Capital – Quantifiable use of capital, but liquidity intensive

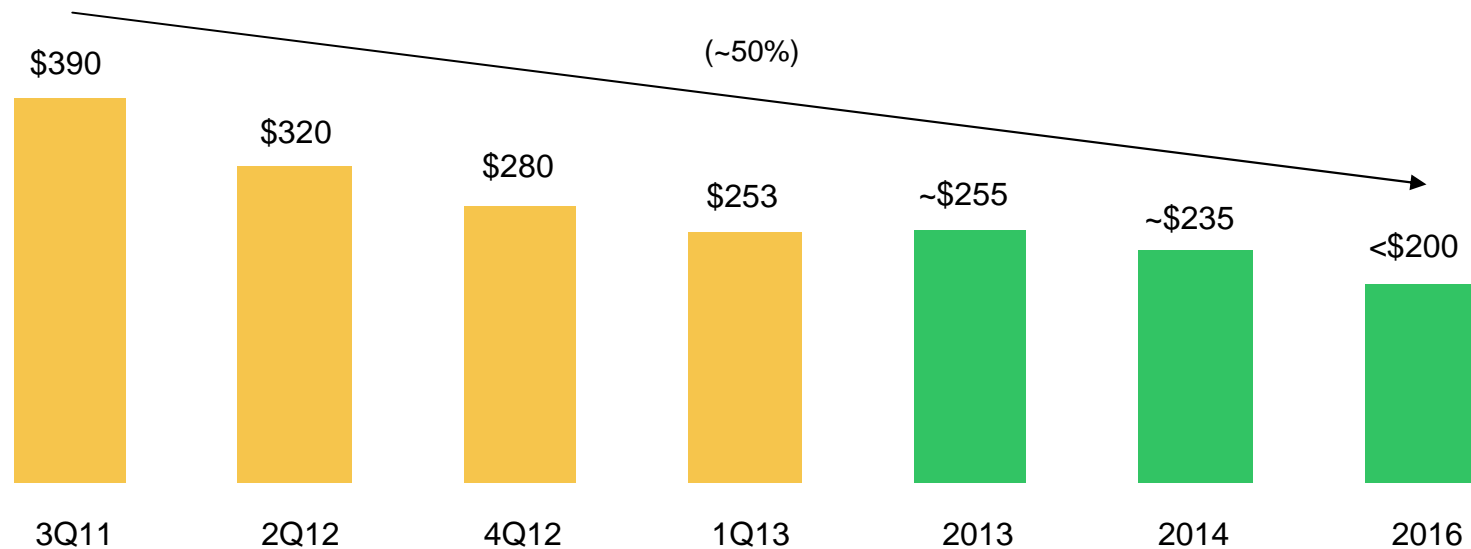
- Operating Scale – Top 3 player

**Commodities Assessment: With cyclical recovery, performance should improve /  
Actions to be determined with regulatory clarity**

# Continue to Target <\$200Bn of RWAs by 2016

- 2016 figures represent expected “end-state” risk-weighted assets (RWAs)
- Can achieve RWA reduction without impairing revenue or client franchise

## Fixed Income and Commodities Basel III Risk-Weighted Assets <sup>(1)</sup> (\$Bn)

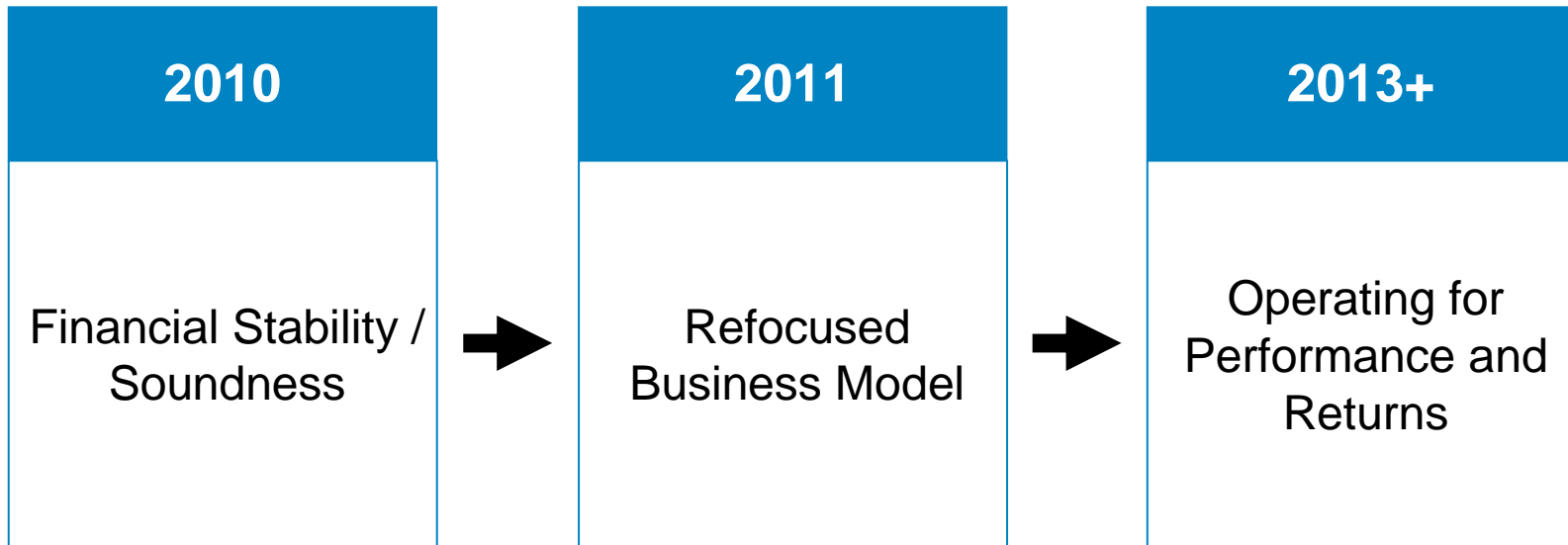


Required Basel 3 Tier 1 Common Capital <sup>(2)</sup>						
\$35Bn	\$29Bn	\$25Bn	\$23Bn	~\$23Bn	~\$21Bn	<\$18Bn

(1) The Company estimates its risk-weighted assets based on a preliminary analysis of the Basel III guidelines published to date and other factors. This is a preliminary estimate and may change.

(2) Assumes 9% Basel 3 Pro-Forma Tier 1 Common Capital ratio. The Basel 3 Tier 1 Common Capital ratio is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to gauge future regulatory capital requirements.

# Conclusion





# Appendix

Morgan Stanley

# Fixed Income and Commodities Managed View Definitions

- Capital Intensity is a relative metric used internally by Morgan Stanley to assess the capital usage of each business. Capital Intensity is measured as a ratio of RWA to total assets for each business. It does not necessarily reflect capital standards for all banks and/or correlate to peers.
- Return on Equity is based on the Firm's managed view of revenues, expenses and allocated equity by segment and business area. ROE based on a managed view is a non-GAAP financial measure that management utilizes to assess individual segment and business area financial performance and the Company considers useful to investors for assessing relative returns. The Firm's managed view includes certain revenues, expenses and equity that are presented differently for GAAP reporting purposes:
  - ROEs for each Fixed Income business include a portion of underwriting revenues which are externally reported in Investment Banking.
  - Credit Corporates and Credit Products ROEs include revenues from lending activities and investments, which are externally reported in the Other Sales & Trading and Investments revenue lines within the Institutional Securities segment. Credit Corporates and Credit Products ROEs also include a small amount of revenues which are externally reported in Other Revenues.
  - Securitized Products ROEs include Residential Distressed loan liquidation revenues and expenses which are externally reported in Other Revenues/Expenses.

Morgan Stanley

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James P. Gorman, Chairman and Chief Executive Officer

June 12, 2013