



For Immediate Release

**Morgan Stanley Reports \$1.2 Billion  
In Second Quarter Earnings;  
Return on Equity of 18.4%**

NEW YORK, June 22, 2004 -- Morgan Stanley (NYSE: MWD) today reported net income of \$1,223 million for the quarter ended May 31, 2004 -- an increase of 104 percent from the second quarter of 2003 and virtually unchanged from the first quarter of 2004. Diluted earnings per share were \$1.10 compared with \$0.55 a year ago and \$1.11 in the first quarter. The annualized return on average common equity was 18.4 percent.

The quarter's results included a \$109 million pre-tax asset impairment charge related to the Company's aircraft financing business, which reduced net income by \$65 million, diluted earnings per share by \$0.06 and the annualized return on average common equity by 1.0 percent. Second quarter 2003 results included a \$287 million pre-tax aircraft impairment charge that reduced net income by \$172 million and diluted earnings per share by \$0.16.

Net revenues (total revenues less interest expense and the provision for loan losses) of \$6.7 billion were 32 percent higher than last year's second quarter and 7 percent ahead of this year's first quarter. Non-interest expenses of \$4.8 billion were 17 percent higher than a year ago and 12 percent higher than last quarter.

**Business Highlights**

- Morgan Stanley generated earnings of \$1.2 billion and a return on equity of 18 percent.

- Institutional Securities continued to produce impressive client-driven growth, market share gains and strong trading performance. Fixed Income achieved record quarterly revenues.
- Firmwide assets under management were \$500 billion.<sup>1</sup> Our investment management fund performance improved in the Lipper rankings.
- In early June, Morgan Stanley completed the acquisition of Barra, Inc., which expands the firm's capacity to provide global risk management services to clients.

Philip J. Purcell, chairman and CEO, said, "We had another excellent quarter, bringing first half earnings to \$2.4 billion. All of our businesses performed well, particularly Institutional Securities, which achieved near record revenues and continued gains in market share. We believe the breadth of our revenue streams and our client focused strategy put us in a very strong position for the long term."

For the first six months of 2004, net income was \$2,449 million, a 63 percent increase over \$1,504 million a year ago. Diluted earnings per share were \$2.21, up 61 percent from a year ago. Net revenues rose 23 percent from a year ago to \$12.9 billion and non-interest expenses increased 12 percent to \$9.2 billion. The annualized return on average common equity was 18.8 percent.

## **INSTITUTIONAL SECURITIES**

Institutional Securities posted income before taxes<sup>2</sup> of \$1,134 million, up 184 percent over the second quarter of 2003. Net revenues increased 47 percent to \$3.9 billion, driven by record revenues in the Company's fixed income business and strong results in both its equities and investment banking businesses.

- Fixed income sales and trading net revenues were \$1.8 billion, up 43 percent from the second quarter of 2003. Record revenues in interest rate & currency products, driven by foreign exchange and interest rate derivatives, reflected favorable trading conditions and increased customer flow activity. Commodities had its second best

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<sup>1</sup> The \$500 billion in assets under management is comprised of: Investment Management, \$384 billion; Individual Investor Group, \$103 billion; and Institutional Securities, \$13 billion.

<sup>2</sup> Represents income before losses from unconsolidated investees and taxes.

quarter ever, as tight supply and rising demand in energy markets drove prices and volatilities higher. Credit products revenues were down slightly, reflecting lower revenues from high yield and securitized products, partially offset by an increase in investment grade products.

- Equity sales and trading net revenues increased 29 percent from last year to \$1.1 billion, reflecting higher revenues in the Company's derivative products and cash businesses. Derivative products benefited from increased customer trading activity, while the increase in the cash business was driven by higher global market volumes. Higher revenues in the Company's Prime Brokerage business also contributed to the increase in equity sales and trading revenues.
- Advisory revenues were \$324 million, a 130 percent increase from last year's second quarter, reflecting a near doubling of the Company's market share in completed M&A transactions. Industry-wide completed M&A activity rose 3 percent over the same period.<sup>3</sup>
- Underwriting revenues were \$567 million, an increase of 77 percent from last year's second quarter. Equity underwriting revenues more than doubled, reflecting the Company's participation in significantly higher levels of industry-wide equity underwriting activity. Fixed income underwriting revenues rose 51 percent, as the Company's global market share expanded from 7 percent a year ago to 8 percent in the current quarter.<sup>3</sup>
- For the calendar year-to-date, the Company ranked first in global equity and equity-linked issuances with a 14 percent market share, first in global IPOs with a 16 percent market share, third in announced global M&A with a 27 percent market share and third in global debt issuances with a 7 percent market share.<sup>4</sup>
- Principal transaction investment revenues were \$136 million, compared with \$44 million in last year's second quarter. The quarter's revenues were primarily associated with the Company's real estate and principal investment activities, as well as a gain on the sale of its interest in TradeWeb.
- Non-interest expenses rose 23 percent to \$2.8 billion, on increased compensation related to higher net revenues and increased brokerage & clearing and professional

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<sup>3</sup> Source: Thomson Financial -- for the periods: March 1, 2003 to May 31, 2003 and March 1, 2004 to May 31, 2004.

<sup>4</sup> Source: Thomson Financial -- for the period January 1, 2004 to May 31, 2004.

services costs driven by higher levels of business activity. These increases were partially offset by a lower aircraft impairment charge in the current quarter as compared with last year's second quarter.

## **INDIVIDUAL INVESTOR GROUP**

The Individual Investor Group reported pre-tax income of \$132 million, more than double the \$62 million reported in the second quarter of 2003.

- Total net revenues rose 21 percent from a year ago to \$1.2 billion. Asset management, distribution and administration fees increased 38 percent on higher asset levels, and commissions rose 18 percent on increased individual investor activity in equity products.
- Non-interest expenses were up 15 percent to \$1.1 billion, driven by higher compensation expenses and sub-advisory fees related to higher net revenues, and higher costs associated with legal and regulatory matters.
- Total client assets were \$579 billion, a 9 percent increase from last year's second quarter but 3 percent below this year's first quarter. Client assets in fee-based accounts rose 28 percent to \$145 billion over the past twelve months and increased as a percentage of total client assets to 25 percent from 21 percent over the same period.
- At quarter-end, the number of global financial advisors was 10,722 -- a decrease of 110 over the quarter and 922 over the past year.

## **INVESTMENT MANAGEMENT**

Investment Management pre-tax income rose 71 percent from last year's second quarter to \$209 million. Net revenues rose 24 percent to \$690 million, reflecting an increase in average assets under management and a more favorable asset mix due to improved equity markets, as well as higher investment gains. Non-interest expenses increased 10 percent to \$481 million, primarily reflecting higher compensation levels and higher sub-advisory fees.

- Assets under management within Investment Management were \$384 billion, up \$4 billion over the first quarter of this year and \$48 billion above the second quarter of last year. The increase over the quarter was due to positive net flows, partially

offset by market depreciation. The increase over the past year resulted from both market appreciation and positive net flows.

- Retail assets of \$195 billion declined \$5 billion from the end of the first quarter but were \$10 billion higher than a year ago. Institutional assets were \$189 billion, an increase of \$9 billion for the quarter and \$38 billion from last year. The launch of the Morgan Stanley Institutional Liquidity funds and the addition of significant mandates contributed to the growth of the institutional assets.
- Among full-service brokerage firms, the Company had the highest number of domestic funds (40) receiving one of Morningstar's two highest ratings.<sup>5</sup> In addition, the percent of the Company's fund assets performing in the top half of the Lipper rankings was 68 percent over one year, 65 percent over three years and 77 percent over five years.<sup>6</sup>
- Private Equity contributed \$60 million in investment gains compared with \$13 million in the second quarter of last year.

## **CREDIT SERVICES**

Credit Services posted pre-tax income of \$298 million compared with \$302 million in last year's second quarter. A lower provision for loan losses, reflecting improved credit quality, was offset by lower net interest income and a decline in merchant and cardmember fees.

- Managed credit card loans of \$46.8 billion at quarter end were 8 percent lower than a year ago, mainly due to a decline in balance transfer volume and an increase in payment rates. While managed net interest income decreased \$69 million, the interest rate spread widened 28 basis points to 9.06 percent from a year ago, as a lower cost of funds more than offset a lower yield.
- Managed merchant and cardmember fees were \$467 million, down 11 percent from a year ago, due to lower late and overlimit fees, and higher cardmember rewards. The decline in fees reflected sharply lower credit card delinquencies.
- Transaction volume increased 2 percent to \$24.4 billion, reflecting increased sales partially offset by lower balance transfer activity.

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<sup>5</sup> Full service brokerage firms include: Merrill Lynch, Citigroup and Prudential. As of May 31, 2004.

<sup>6</sup> For the one, three and five year periods ending May 31, 2004.

- The managed credit card net charge-off rate for the second quarter was 6.48 percent, 2 basis points lower than a year ago but 17 basis points higher than the first quarter. The decrease in the charge-off rate from a year ago was due to lower net charge-off dollars, partially offset by a \$4.2 billion decline in average credit card managed loans. The increase in the rate from the first quarter also reflected lower average managed credit card loans and a seasonal increase in U.S. personal bankruptcy filings.
- The managed over-30-day delinquency rate was 4.88 percent, a decrease of 133 basis points from the second quarter of 2003 and 92 basis points from the first quarter. The over-90-day delinquency rate was 2.40 percent, 61 basis points lower than a year ago and 46 basis points below last quarter.
- During the quarter, Discover enrolled 294,000 new merchants, a new quarterly record.

As of May 31, 2004, the Company had repurchased approximately 3 million shares of its common stock since the end of fiscal 2003. The Company also announced that its Board of Directors declared a \$0.25 quarterly dividend per common share. The dividend is payable on July 30, 2004, to common shareholders of record on July 9, 2004.

Total capital at May 31, 2004 was \$100.1 billion, including \$29.9 billion of common shareholders' equity and junior subordinated debt issued to capital trusts. Book value per common share was \$24.59, based on 1.1 billion shares outstanding.

Morgan Stanley is a global financial services firm and a market leader in securities, investment management and credit services. With more than 600 offices in 27 countries, Morgan Stanley connects people, ideas and capital to help clients achieve their financial aspirations.

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(See Attached Schedules)

This release may contain forward-looking statements. These statements reflect management's beliefs and expectations, and are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect the Company's future results, please see "Forward-Looking Statements" immediately preceding Part I, Item 1, "Certain Factors Affecting Results of Operations" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and "Competition" and "Regulation" in Part I, Item 1 of the Company's 2003 Annual Report on Form 10-K and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in the Company's Quarterly Reports on Form 10-Q for fiscal 2004.

**MORGAN STANLEY**  
**Financial Summary**  
(unaudited, dollars in millions)

	Quarter Ended			Percentage Change From:		Six Months Ended		Percentage Change
	May 31, 2004	May 31, 2003	Feb 29, 2004	May 31, 2003	Feb 29, 2004	May 31, 2004	May 31, 2003	
<b>Net revenues</b>								
Institutional Securities	\$ 3,948	\$ 2,679	\$ 3,504	47%	13%	\$ 7,452	\$ 5,814	28%
Individual Investor Group	1,209	1,002	1,211	21%	--	2,420	1,987	22%
Investment Management	690	558	642	24%	7%	1,332	1,083	23%
Credit Services	879	884	958	(1%)	(8%)	1,837	1,782	3%
Intersegment Eliminations	(75)	(78)	(74)	4%	(1%)	(149)	(147)	(1%)
Consolidated net revenues	<u>\$ 6,651</u>	<u>\$ 5,045</u>	<u>\$ 6,241</u>	32%	7%	<u>\$ 12,892</u>	<u>\$ 10,519</u>	23%
<b>Income before taxes <sup>(1)</sup></b>								
Institutional Securities	\$ 1,134	\$ 400	\$ 1,186	*	(4%)	\$ 2,320	\$ 1,342	73%
Individual Investor Group	132	62	166	113%	(20%)	298	123	142%
Investment Management	209	122	170	71%	23%	379	222	71%
Credit Services	298	302	365	(1%)	(18%)	663	592	12%
Intersegment Eliminations	29	29	29	--	--	58	62	(6%)
Consolidated income before taxes	<u>\$ 1,802</u>	<u>\$ 915</u>	<u>\$ 1,916</u>	97%	(6%)	<u>\$ 3,718</u>	<u>\$ 2,341</u>	59%
<b>Basic earnings per common share</b>	\$ 1.13	\$ 0.56	\$ 1.14	102%	(1%)	\$ 2.27	\$ 1.40	62%
<b>Diluted earnings per common share</b>	\$ 1.10	\$ 0.55	\$ 1.11	100%	(1%)	\$ 2.21	\$ 1.37	61%
<b>Average common shares outstanding</b>								
Basic	1,082,211,511	1,077,386,468	1,078,718,046			1,080,776,922	1,077,413,715	
Diluted	1,110,357,415	1,097,478,351	1,106,000,596			1,108,270,257	1,097,824,226	
<b>Period end common shares outstanding</b>	1,098,127,106	1,086,735,086	1,097,652,112			1,098,127,106	1,086,735,086	
Return on common equity	18.4%	10.6%	19.2%			18.8%	13.4%	

(1) Represents consolidated income before losses from unconsolidated investees, taxes and dividends on preferred securities subject to mandatory redemption.

Note: Certain reclassifications have been made to prior period amounts to conform to the current presentation.

**MORGAN STANLEY**  
**Consolidated Income Statement Information**  
**(unaudited, dollars in millions)**

	Quarter Ended			Percentage Change From:		Six Months Ended		Percentage Change
	May 31, 2004	May 31, 2003	Feb 29, 2004	May 31, 2003	Feb 29, 2004	May 31, 2004	May 31, 2003	
Investment banking	\$ 983	\$ 536	\$ 829	83%	19%	\$ 1,812	\$ 1,125	61%
Principal transactions:								
Trading	2,064	1,670	1,832	24%	13%	3,896	3,382	15%
Investments	191	59	29	*	*	220	37	*
Commissions	877	709	901	24%	(3%)	1,778	1,382	29%
Fees:								
Asset mgmt., distribution and administration	1,113	881	1,072	26%	4%	2,185	1,777	23%
Merchant and cardmember	306	338	337	(9%)	(9%)	643	702	(8%)
Servicing	485	503	572	(4%)	(15%)	1,057	1,070	(1%)
Interest and dividends	3,663	3,449	3,782	6%	(3%)	7,445	7,238	3%
Other	120	113	123	6%	(2%)	243	199	22%
Total revenues	<u>9,802</u>	<u>8,258</u>	<u>9,477</u>	19%	3%	<u>19,279</u>	<u>16,912</u>	14%
Interest expense	2,951	2,904	2,974	2%	(1%)	5,925	5,748	3%
Provision for consumer loan losses	200	309	262	(35%)	(24%)	462	645	(28%)
Net revenues	<u>6,651</u>	<u>5,045</u>	<u>6,241</u>	32%	7%	<u>12,892</u>	<u>10,519</u>	23%
Compensation and benefits	2,923	2,274	2,712	29%	8%	5,635	4,823	17%
Occupancy and equipment	206	195	200	6%	3%	406	391	4%
Brokerage, clearing and exchange fees	237	202	224	17%	6%	461	393	17%
Information processing and communications	318	315	320	1%	(1%)	638	630	1%
Marketing and business development	263	251	254	5%	4%	517	514	1%
Professional services	356	259	318	37%	12%	674	484	39%
Other	546	634	297	(14%)	84%	843	943	(11%)
Total non-interest expenses	<u>4,849</u>	<u>4,130</u>	<u>4,325</u>	17%	12%	<u>9,174</u>	<u>8,178</u>	12%
Income before losses from unconsolidated investees, taxes and dividends on preferred securities subject to mandatory redemption	1,802	915	1,916	97%	(6%)	3,718	2,341	59%
Losses from unconsolidated investees	81	36	93	125%	(13%)	174	70	149%
Income tax expense	498	240	552	108%	(10%)	1,050	705	49%
Div. on pref. sec. subject to mandatory redemption (1)	0	40	45	*	*	45	62	(27%)
Net income	<u>\$ 1,223</u>	<u>\$ 599</u>	<u>\$ 1,226</u>	104%	--	<u>\$ 2,449</u>	<u>\$ 1,504</u>	63%
Compensation and benefits as a % of net revenues	44%	45%	44%			44%	46%	

(1) At February 29, 2004, preferred securities subject to mandatory redemption were reclassified to junior subordinated debt issued to capital trusts (a component of long-term debt) pursuant to the adoption of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities". Dividends on junior subordinated debt issued to capital trusts are included in interest expense from February 29, 2004 forward.

Note: Certain reclassifications have been made to prior period amounts to conform to the current presentation.

**MORGAN STANLEY**  
**Institutional Securities Income Statement Information**  
**(unaudited, dollars in millions)**

	Quarter Ended			Percentage Change From:		Six Months Ended		Percentage Change
	May 31, 2004	May 31, 2003	Feb 29, 2004	May 31, 2003	Feb 29, 2004	May 31, 2004	May 31, 2003	
Investment banking	\$ 891	\$ 461	\$ 739	93%	21%	\$ 1,630	\$ 962	69%
Principal transactions:								
Trading	1,923	1,503	1,691	28%	14%	3,614	3,061	18%
Investments	136	44	16	*	*	152	34	*
Commissions	527	423	505	25%	4%	1,032	838	23%
Asset mgmt., distribution and administration fees	32	22	34	45%	(6%)	66	45	47%
Interest and dividends	3,151	2,831	3,225	11%	(2%)	6,376	6,025	6%
Other	59	76	77	(22%)	(23%)	136	138	(1%)
Total revenues	<u>6,719</u>	<u>5,360</u>	<u>6,287</u>	25%	7%	13,006	11,103	17%
Interest expense	<u>2,771</u>	<u>2,681</u>	<u>2,783</u>	3%	--	<u>5,554</u>	<u>5,289</u>	5%
Net revenues	<u>3,948</u>	<u>2,679</u>	<u>3,504</u>	47%	13%	<u>7,452</u>	<u>5,814</u>	28%
Total non-interest expenses	<u>2,814</u>	<u>2,279</u>	<u>2,318</u>	23%	21%	<u>5,132</u>	<u>4,472</u>	15%
Income before losses from unconsolidated investees and dividends on preferred securities subject to mandatory redemption	1,134	400	1,186	*	(4%)	2,320	1,342	73%
Losses from unconsolidated investees	81	36	93	125%	(13%)	174	70	149%
Div. on pref. sec. subject to mandatory redemption (1)	0	40	45	*	*	45	62	(27%)
Income before taxes	<u>\$ 1,053</u>	<u>\$ 324</u>	<u>\$ 1,048</u>	*	--	<u>\$ 2,101</u>	<u>\$ 1,210</u>	74%
Pre-tax profit margin (2)	29%	13%	33%			31%	22%	

(1) At February 29, 2004, preferred securities subject to mandatory redemption were reclassified to junior subordinated debt issued to capital trusts (a component of long-term debt) pursuant to the adoption of FIN 46. Dividends on junior subordinated debt issued to capital trusts are included in interest expense from February 29, 2004 forward.

(2) Income before taxes, excluding losses from unconsolidated investees, as a % of net revenues.

Note: Certain reclassifications have been made to prior period amounts to conform to the current presentation.

**MORGAN STANLEY**  
**Individual Investor Group Income Statement Information**  
**(unaudited, dollars in millions)**

	Quarter Ended			Percentage Change From:		Six Months Ended		Percentage Change
	May 31, 2004	May 31, 2003	Feb 29, 2004	May 31, 2003	Feb 29, 2004	May 31, 2004	May 31, 2003	
Investment banking	\$ 82	\$ 66	\$ 77	24%	6%	\$ 159	\$ 146	9%
Principal transactions:								
Trading	141	167	141	(16%)	--	282	321	(12%)
Investments	(4)	1	4	*	*	0	7	*
Commissions	367	310	417	18%	(12%)	784	590	33%
Asset mgmt., distribution and administration fees	511	370	472	38%	8%	983	756	30%
Interest and dividends	95	92	93	3%	2%	188	181	4%
Other	52	35	40	49%	30%	92	63	46%
Total revenues	<u>1,244</u>	<u>1,041</u>	<u>1,244</u>	20%	--	<u>2,488</u>	<u>2,064</u>	21%
Interest expense	35	39	33	(10%)	6%	68	77	(12%)
Net revenues	<u>1,209</u>	<u>1,002</u>	<u>1,211</u>	21%	--	<u>2,420</u>	<u>1,987</u>	22%
Total non-interest expenses	<u>1,077</u>	<u>940</u>	<u>1,045</u>	15%	3%	<u>2,122</u>	<u>1,864</u>	14%
Income before taxes	<u>\$ 132</u>	<u>\$ 62</u>	<u>\$ 166</u>	113%	(20%)	<u>\$ 298</u>	<u>\$ 123</u>	142%
Pre-tax profit margin (1)	11%	6%	14%			12%	6%	

(1) Income before taxes as a % of net revenues.

Note: Certain reclassifications have been made to prior period amounts to conform to the current presentation.

**MORGAN STANLEY**  
**Investment Management Income Statement Information**  
(unaudited, dollars in millions)

	Quarter Ended			Percentage Change From:		Six Months Ended		Percentage Change
	May 31, 2004	May 31, 2003	Feb 29, 2004	May 31, 2003	Feb 29, 2004	May 31, 2004	May 31, 2003	
Investment banking	\$ 10	\$ 9	\$ 13	11%	(23%)	\$ 23	\$ 17	35%
Principal transactions:								
Investments	59	14	9	*	*	68	(4)	*
Commissions	8	3	8	*	--	16	7	129%
Asset mgmt., distribution and administration fees	607	528	603	15%	1%	1,210	1,051	15%
Interest and dividends	1	0	2	*	(50%)	3	2	50%
Other	6	8	9	(25%)	(33%)	15	15	--
Total revenues	<u>691</u>	<u>562</u>	<u>644</u>	23%	7%	<u>1,335</u>	<u>1,088</u>	23%
Interest expense	<u>1</u>	<u>4</u>	<u>2</u>	(75%)	(50%)	<u>3</u>	<u>5</u>	(40%)
Net revenues	<u>690</u>	<u>558</u>	<u>642</u>	24%	7%	<u>1,332</u>	<u>1,083</u>	23%
Total non-interest expenses	<u>481</u>	<u>436</u>	<u>472</u>	10%	2%	<u>953</u>	<u>861</u>	11%
Income before taxes	<u>\$ 209</u>	<u>\$ 122</u>	<u>\$ 170</u>	71%	23%	<u>\$ 379</u>	<u>\$ 222</u>	71%
Pre-tax profit margin (1)	30%	22%	27%			29%	21%	

(1) Income before taxes as a % of net revenues.

Note: Certain reclassifications have been made to prior period amounts to conform to the current presentation.

**MORGAN STANLEY**  
**Credit Services Income Statement Information**  
(unaudited, dollars in millions)

	Quarter Ended			Percentage Change From:		Six Months Ended		Percentage Change
	May 31, 2004	May 31, 2003	Feb 29, 2004	May 31, 2003	Feb 29, 2004	May 31, 2004	May 31, 2003	
Fees:								
Merchant and cardmember Servicing	\$ 306	\$ 338	\$ 337	(9%)	(9%)	\$ 643	\$ 702	(8%)
Other	485	503	572	(4%)	(15%)	1,057	1,070	(1%)
Total non-interest revenues	<u>16</u>	<u>6</u>	<u>5</u>	*	*	<u>21</u>	<u>2</u>	*
Interest revenue	807	847	914	(5%)	(12%)	1,721	1,774	(3%)
Interest expense	435	543	480	(20%)	(9%)	915	1,089	(16%)
Net interest income	<u>163</u>	<u>197</u>	<u>174</u>	(17%)	(6%)	<u>337</u>	<u>436</u>	(23%)
Provision for consumer loan losses	272	346	306	(21%)	(11%)	578	653	(11%)
Net credit income	<u>200</u>	<u>309</u>	<u>262</u>	(35%)	(24%)	<u>462</u>	<u>645</u>	(28%)
Net revenues	<u>72</u>	<u>37</u>	<u>44</u>	95%	64%	<u>116</u>	<u>8</u>	*
Total non-interest expenses	<u>879</u>	<u>884</u>	<u>958</u>	(1%)	(8%)	<u>1,837</u>	<u>1,782</u>	3%
Income before taxes	581	582	593	--	(2%)	1,174	1,190	(1%)
Pre-tax profit margin (1)	<u>\$ 298</u>	<u>\$ 302</u>	<u>\$ 365</u>	(1%)	(18%)	<u>\$ 663</u>	<u>\$ 592</u>	12%
	34%	34%	38%			36%	33%	

(1) Income before taxes as a % of net revenues.

Note: Certain reclassifications have been made to prior period amounts to conform to the current presentation.

**MORGAN STANLEY**  
**Credit Services Income Statement Information**  
**(unaudited, dollars in millions)**  
**(Managed loan basis)**

	Quarter Ended			Percentage Change From:		Six Months Ended		Percentage Change
	May 31, 2004	May 31, 2003	Feb 29, 2004	May 31, 2003	Feb 29, 2004	May 31, 2004	May 31, 2003	
Fees:								
Merchant and cardmember Servicing	\$ 467	\$ 523	\$ 519	(11%)	(10%)	\$ 986	\$ 1,071	(8%)
Other	0	0	0	--	--	0	0	--
Other	16	36	35	(56%)	(54%)	51	89	(43%)
Total non-interest revenues	<u>483</u>	<u>559</u>	<u>554</u>	(14%)	(13%)	<u>1,037</u>	<u>1,160</u>	(11%)
Interest revenue	1,450	1,592	1,524	(9%)	(5%)	2,974	3,172	(6%)
Interest expense	<u>337</u>	<u>410</u>	<u>350</u>	(18%)	(4%)	<u>687</u>	<u>851</u>	(19%)
Net interest income	1,113	1,182	1,174	(6%)	(5%)	2,287	2,321	(1%)
Provision for consumer loan losses	<u>717</u>	<u>857</u>	<u>770</u>	(16%)	(7%)	<u>1,487</u>	<u>1,699</u>	(12%)
Net credit income	396	325	404	22%	(2%)	800	622	29%
Net revenues	<u>879</u>	<u>884</u>	<u>958</u>	(1%)	(8%)	<u>1,837</u>	<u>1,782</u>	3%
Total non-interest expenses	<u>581</u>	<u>582</u>	<u>593</u>	--	(2%)	<u>1,174</u>	<u>1,190</u>	(1%)
Income before taxes	<u>\$ 298</u>	<u>\$ 302</u>	<u>\$ 365</u>	(1%)	(18%)	<u>\$ 663</u>	<u>\$ 592</u>	12%
Pre-tax profit margin (1)	34%	34%	38%			36%	33%	

(1) Income before taxes as a % of net revenues.

Note: Certain reclassifications have been made to prior period amounts to conform to the current presentation.

**MORGAN STANLEY**  
**Intersegment Eliminations**  
(unaudited, dollars in millions)

	Quarter Ended			Percentage Change From:		Six Months Ended		Percentage Change
	May 31, 2004	May 31, 2003	Feb 29, 2004	May 31, 2003	Feb 29, 2004	May 31, 2004	May 31, 2003	
Investment banking	\$ 0	\$ 0	\$ 0	--	--	\$ 0	\$ 0	--
Principal transactions:								
Trading	0	0	0	--	--	0	0	--
Investments	0	0	0	--	--	0	0	--
Commissions	(25)	(27)	(29)	7%	14%	(54)	(53)	(2%)
Asset mgmt., distribution and administration fees	(37)	(39)	(37)	5%	--	(74)	(75)	1%
Interest and dividends	(19)	(17)	(18)	(12%)	(6%)	(37)	(59)	37%
Other	(13)	(12)	(8)	(8%)	(63%)	(21)	(19)	(11%)
Total revenues	(94)	(95)	(92)	1%	(2%)	(186)	(206)	10%
Interest expense	(19)	(17)	(18)	(12%)	(6%)	(37)	(59)	37%
Net revenues	(75)	(78)	(74)	4%	(1%)	(149)	(147)	(1%)
Total non-interest expenses	(104)	(107)	(103)	3%	(1%)	(207)	(209)	1%
Income before taxes	<u>\$ 29</u>	<u>\$ 29</u>	<u>\$ 29</u>	--	--	<u>\$ 58</u>	<u>\$ 62</u>	(6%)

Note: Certain reclassifications have been made to prior period amounts to conform to the current presentation.



























