DEAR FELLOW SHAREHOLDERS,

2013 was a year of tremendous progress at Morgan Stanley. We reached important milestones in implementing our strategy for more consistent and sustained profitability in a permanently redefined regulatory and industry environment.

Today, Morgan Stanley advises, originates, trades, manages and distributes capital for clients, adhering to a standard of excellence that is evidenced by the leading positions that our businesses hold in the global marketplace. We do this in a manner that is consistent with our values and whenever possible, we draw from the capabilities that reside across our organization to deliver to our clients more than just one part of the Firm.

Our diversified business model combines a world-class institutional franchise – our investment banking and institutional sales and trading businesses – with a leading wealth management organization and a strong and growing investment management business. This is a balanced set of businesses that not only complement each other through business cycles, but also provide a broad array of financial services to a wide-ranging set of clients including governments, institutions and individuals. Along with a fortified balance sheet and strong capital levels, the model we have built is proving itself by delivering more consistent revenues and higher shareholder returns.
PROGRESS IN 2013

At the beginning of the year, we laid out a six-point strategic plan to drive returns higher and we achieved or advanced on each measure.

Specifically, we acquired the remaining 35% of our wealth management joint venture and are now sole owner of one of the largest wealth management businesses globally. As we have said before, the benefits to Morgan Stanley of owning a wealth management business of scale are unmistakable: sizeable and stable revenues, a substantial deposit base and low relative capital usage, amidst a growing demand for professional advice. Moreover, we drove higher profitability and margins in this business over the course of the year. From 12% in the prior year, we increased the margin to 18% through a combination of revenue growth and expense management, and have targeted further growth in 2014 and beyond.

We also continued to shape our Fixed Income and Commodities Sales and Trading business in light of regulatory changes, and to make sure that it continues to complement our other institutional businesses while using capital efficiently and profitably to serve our clients. To that end, we made a strategic decision to sell part of our physical commodities businesses, a transaction we expect to close in the second half of 2014, so that the resulting client-focused business becomes more capital efficient and consistent with the regulatory environment. Within Equity Sales and Trading, we increased our revenue wallet share. This business is one of the top franchises of its kind in the industry, offering our clients expertise across a broad range of products in markets all over the world.

An important part of our effort to shape the Fixed Income and Commodities Sales & Trading business was the reduction in risk-weighted assets, or RWAs, on our balance
These RWAs have come down nearly 50 percent from $390 billion in 2011, and we exceeded both our 2013 and 2014 targets. We will reduce our RWAs to less than $180 billion by the end of 2015. Reducing inefficient assets frees up capital that either can be deployed elsewhere in the business to earn better returns or ultimately be returned to shareholders. Either way, it allows us to improve returns in this business without impairing revenues.

Our Investment Banking franchise consistently ranks in the top three of the global league tables in advising on mergers and acquisitions and underwriting initial public offerings, and 2013 was no exception. One area of particular note last year was our high-grade debt underwriting practice, where continued investments and focus led to an all time high in market share and league table rankings. More broadly, we continued to advise corporations and governments worldwide in every region and to raise capital for them through both the equity and debt markets.

The Investment Management business had a particularly strong year as investments made over the last several years are beginning to pay off. In addition to the highest level of revenues and income from continuing operations since the financial crisis, the business had strong performance metrics.

We committed to reduce our expense base and drive expenses lower in 2013 and 2014, and we made significant progress against that goal, adjusting for higher legal expenses and higher transaction costs associated with greater business volumes. Our expense management program is on track, with further savings expected this year and in 2015. We have laid out a target expense ratio that plots further improvement while accounting for higher activity-related expenses on higher revenues.

On the capital front, we commenced a $500 million share repurchase, our first since

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2008. This is a first step in what will be a prudent and measured return of capital to shareholders over time, subject of course to regulatory approval.

Finally, we took significant steps in 2013 to address the remaining legal issues from the financial crisis.

Together, these concrete demonstrations of progress fueled a significant advance in our stock price, with a total shareholder return of 65% and a narrowing of our credit spreads to their lowest since before the financial crisis – a broad acknowledgment of our long-term strategy and our overall financial strength.

**EXECUTING OUR STRATEGY AND THE PATH TO HIGHER RETURNS**

Over the past several years, we have continuously invested in our businesses and laid the groundwork for the execution of our strategy. While we made substantial progress in 2013, there remains work to be done.

The deployment of our growing deposit base represents a significant opportunity for higher returns in 2014 and beyond. This contractual growth in deposits and the optimization of the asset base of our U.S. banks will drive significant lending growth in both Wealth Management and Institutional Securities. For wealth management clients, we are prudently and gradually building out our banking and lending capabilities tailored to their unique needs, with an emphasis on securities based lending and mortgages. In Institutional Securities, the deposit base enables us to benefit clients through expanded relationship, event and other types of corporate lending. These opportunities are unique to Morgan Stanley and should yield accelerating results over the next several years.

In Fixed Income and Commodities Sales and Trading, we have a plan to achieve returns at or above our cost of capital in each of our product areas. While some products are already returning their cost of capital, others like rates and commodities are not, and we will be focused on them in the coming year. Opportunities for growth include our leading electronic trading platform, which positions us well as regulations pertaining to deriva-
tives and other fixed income markets drive the industry to become more client-centric, less dependent on balance sheets, and heavily electronic.

In Equities Sales and Trading, and in Investment Banking, we are well positioned to leverage our global leadership to drive higher market share.

In Investment Management, we are concentrating on growing assets under management by expanding product offerings, improving distribution capabilities, and maintaining strong investment performance, all of which should drive steady inflows from global investors and higher returns on equity for the business.

All of this has laid the groundwork to meet and then exceed our cost of capital. Another key factor in generating higher returns is the steady and prudent increase in capital return to shareholders over time. Our approach is two-pronged – we will work with our regulators to increase both our share repurchase program and our dividend as we continue to generate stable and growing revenues and earnings.

Underpinning our commitment to capital return is the knowledge that the key drivers of increased returns to shareholders over time are our increasingly consistent earnings, our strong capital ratios, and finally, a strategy that is consistent with evolving regulatory requirements. We are highly confident in our ability to execute on this plan.

**LOOKING AHEAD**

We are operating with confidence about our mission within the global capital markets, and conviction in the strategy we have built to carry it out. Our businesses are more aligned than ever to better advise and transact for our clients, and we see a clear path to success in a world where financial institutions are highly regulated.
Morgan Stanley will be successful by focusing on clients, managing risk effectively, using capital efficiently, maintaining an expense discipline, and building share where we have market leading positions, while closing the gap in others. Unexpected challenges will come, but we have addressed the variables within our control and built our resilience. We are determined to show our clients a transformed financial services firm that demonstrates consistency and delivers to them seamlessly, in a manner that reflects our values and our 78-year heritage. We are a business driven by strong talent and a tradition of excellence, and we can do all this because of the hard work and commitment of our nearly 56,000 global employees.

A final word about the values that inform everything we do: We have a commitment to putting clients first, leading with exceptional ideas, doing the right thing and giving back. This commitment honors both our history and our aspirations for the future. We expect our employees to live these values every day as individuals. And collectively, we have a responsibility as a company to do what we can to make the world a better place. That is why we have launched the Morgan Stanley Institute for Sustainable Investing, an initiative to apply capital markets solutions to some of the most difficult societal and environmental problems we face.

FORTIFYING CAPITAL AND ENHANCING LIQUIDITY 2013 HIGHLIGHTS

- Basel 1 Tier 1 Common ratio of 12.8% as of 4Q 2013, with $63 billion in common equity
- $202 billion global liquidity reserve as of 4Q 2013

OUR STRATEGY

WHAT WE DO:
Advise, originate, trade, manage and distribute capital for governments, institutions and individuals, and always do so with a standard of excellence.

HOW WE DO IT:
Execute in a way that is consistent with our values and, whenever possible, deliver more than one part of the Firm.

WITH WHAT RESULT:
Deliver strong returns for our shareholders, build long-term value for our clients and offer highly attractive career opportunities for our employees.
OUR CORE VALUES

Since our founding in 1935, Morgan Stanley has consistently delivered first-class business in a first-class way. Underpinning all that we do are four core values.

PUTTING CLIENTS FIRST
Always keep the client’s interest first. Work with colleagues to deliver the best of the Firm to every client. Listen to what the client is saying and needs.

LEADING WITH EXCEPTIONAL IDEAS
Win by breaking new ground. Let the facts and different points of view broaden your perspective. Be vigilant about what we can do better.

DOING THE RIGHT THING
Act with integrity. Think like an owner to create long-term shareholder value. Value and reward honesty, collegiality and character.

GIVING BACK
Be generous with your expertise, your time and your money. Invest in the future of our communities and our Firm. Mentor our next generation.

We know that if we execute consistently on our strategy and adhere to our long-standing principles, we will deliver strong returns for our shareholders, create long-term value for our clients and continue to attract and retain the best people in the industry.

Thank you for your investment in Morgan Stanley. I am excited about our future and confident in our ability to deliver lasting value to our shareholders.

James P. Gorman
Chairman and Chief Executive Officer
March 28, 2014