DEAR FELLOW SHAREHOLDERS,

The close of 2014 marked five years for this management team and is an excellent opportunity to reflect on where we have been and where we are headed. These five years have seen significant progress in reshaping Morgan Stanley for the operating and regulatory environments we live in today. We have put the difficulties of the financial crisis largely behind us, and completed a multi-year transformation of our business mix that has led to improved earnings consistency and balance sheet strength.

Rather than take the approach of a typical annual letter to shareholders and simply recount the preceding year, I would like to use this letter to focus on our strategy for the next five years. 2014 demonstrated that the strategic decisions we made are beginning to bear fruit. The next five years will be about enabling this Firm to operate at its historical best-in-class level through a rigorous focus on clients, culture and talent.

REALIZING THE BENEFITS OF STRATEGIC INITIATIVES
AND THE PATH TO HIGHER RETURNS

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 complement each other through business cycles, and serve a wide-ranging set of clients including governments, institutions and individuals. With a strong culture, an enhanced risk management framework, and a fortified balance sheet with durable capital levels, we have built a model that can deliver consistent earnings and higher shareholder returns and is fully aligned with the new regulatory framework.
2014 demonstrated progress on that path, and looking forward, we see a number of opportunities and areas of focus that will lead to returns in excess of our cost of capital. As we do at the beginning of each year, we have laid out specific milestones for 2015, so that investors can measure us and hold us accountable as we work toward sustained and higher returns.

In our Wealth Management business, we see ongoing upside through additional margin improvement. In 2014, the full-year profit margin increased to 20% from 18% in the prior year. We have targeted further growth in 2015 and have a clear path to achieve a profit margin of 22% to 25% by the end of the year. Last year, we reached $2 trillion in client assets and saw a continued trend toward fee-based managed accounts. This trend plays to the strength of our advisory-based model and generally translates into deeper client relationships and even more stable revenues.

Over the longer term, we will benefit from our focus on high net worth and ultra high net worth clients who have the broadest and most complex financial planning and investing requirements — consistent with Morgan Stanley’s strengths.

**2015 STRATEGIC PLAN**

1. Ongoing Wealth Management upside through additional margin improvement
3. Progress in Fixed Income and Commodities ROE
4. Tailwind from lower funding costs
5. Maintaining focus on expense management
6. Steadily increase capital return to shareholders
Another key driver of higher returns will be the continued execution of our US bank strategy in both our Wealth Management and Institutional Securities businesses. Combined across both of these businesses, we are targeting US bank assets of up to $180 billion by the end of 2016 from $151 billion at the end of 2014, driven by the deployment of our growing deposit base.

In Institutional Securities, the deposit base enables us to support clients through expanded corporate lending via relationship and event loans. Within Wealth Management, we have a significant opportunity to continue balanced loan growth given our sizable, underpenetrated client base. With no bricks and mortar, an embedded client base and the required infrastructure investments behind us, the incremental margin on lending products is particularly high.

Furthermore, we are developing a broader suite of cash management solutions, which will help us attract more of our clients’ deposits. Given the magnitude of the client base, even a modest increase in our share of client deposits holds significant upside and positions us well to fund continued, prudent loan growth. These opportunities from our US bank strategy should yield accelerating results over the next several years.

Our world-class 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 2014 was no exception. Equity Sales & Trading had the highest revenue wallet share globally this year and offers our clients expertise across a broad range of products in markets all over the world. Our leadership and footprint position us well to benefit from a strengthening economy and to increase our market shares.

Over the past few years, we have fundamentally resized and reshaped our Fixed Income and Commodities Sales and Trading business recognizing regulatory changes that have impacted the industry structurally. At the same time, cyclical challenges continued to impact performance across the financial sector this past year. The question we needed to answer was: How do we size a fixed income business to serve our clients while using capital efficiently and profitably? To that end, we are continuing to implement a three-fold plan to drive returns to greater than our cost of equity in this business, while offering a suite of products and services to our clients.

The first part is to optimize the commodities business by reducing our exposure to physical oil commodities, and as such, we are committed to selling our global oil merchanting business, having already sold TransMontaigne last year. The second is to centralize the management of resources across all the fixed income businesses so that there is strategic resource allocation across the division for expenses, technology, capital and balance sheet. The third is the continued reduction of risk-weighted assets (RWAs), and we are on track to achieve our 2015 year-end target of less than $180 billion. These RWAs, excluding lending, have come down nearly 50% from $370 billion in 2011 to $188 billion at the end of 2014. The resulting client-focused business should become more capital efficient and earn returns in excess of its cost of capital, while being consistent with the regulatory environment.

In Investment Management we want to take advantage of the long-term growth trend in professionally managed investable assets. Assets under management and supervision grew 7% last year, and we are concentrating on growing them further 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.

**EXECUTING OUR STRATEGY**

2014 HIGHLIGHTS

- 20% pre-tax margin<sup>4</sup> in Wealth Management during 2014
- 6% growth in Wealth Management client assets, to $2.0 trillion
- 21% increase in combined US bank assets to $151 billion
- 49% reduction in fixed income risk-weighted assets<sup>5</sup> between 3Q 2011 and 4Q 2014

4. NON-GAAP FINANCIAL MEASURE  5. RWAS CALCULATED UNDER BASEL II ADVANCED APPROACH FINAL RULES
Besides growing the top line across all of our businesses, we will also benefit from a lower expense base. Reflecting the stability of the franchise, in 2014 we made strategic changes to our deferred compensation structure that include reducing the overhang of prior year deferrals. This will provide operating leverage in a higher revenue environment and a reduced liability in a lower revenue environment. We have set explicit compensation ratio targets across each of our business segments, and have laid out an overall target expense ratio for the Firm. Further, as the market has recognized the improvements to our business mix and balance sheet, our bond spreads have contracted dramatically over the past few years. This reduces our funding costs as we refinance older, more expensive debt, providing a tailwind for the future.

Last year, we doubled our share repurchase program and dividend. Last month, we received approval from the Federal Reserve Bank for a $3.1 billion share buyback and the ability to increase our dividend. We will continue to prudently increase our return of capital to shareholders over time, subject to regulatory approval, increasing both our share repurchase program and our dividend, with greater returns of capital supported by the increased proportion of our revenue and earnings coming from more stable businesses. The key drivers of increased returns to shareholders over time will be our increasingly consistent earnings, our strong capital ratios, and finally, a strategy that is consistent with today’s regulatory framework.

**LOOKING AHEAD**

The quantum of regulatory change in the industry during the last five years has been greater than in the preceding fifty. Adjusting to these changes has been enormously time consuming and resource intensive.

**FORTIFYING CAPITAL AND ENHANCING LIQUIDITY**

2014 HIGHLIGHTS

- Common equity tier 1 capital ratio advanced (transitional) of 12.6% as of 4Q 2014, with $65 billion in common equity
- $193 billion global liquidity reserve as of 4Q 2014
Having adapted our business to this new regulatory framework, we are well positioned for the future. We are now focused on building market share, increasing earnings and improving returns. 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.

With the proper business model in place, Morgan Stanley’s success is in the hands of our people. We have a highly talented workforce, and a strong culture that continually reinforces our focus on serving our clients and taking the right kind of risk. The strength of our culture carried us through the difficult periods of the last five years — ensuring our people stayed focused on delivering the best of the Firm to clients, even as we were working through a significant reshaping of our businesses. Going forward, a priority for the Firm will be to continue evidencing our culture in everything we do. We believe a strong, cohesive culture focused on putting clients first and rigorous evaluation of risk is a critical component of ongoing success of the business. Taking risk is a core element of our business. We take risk when we make markets, act as intermediaries, advise on capital raisings and manage money. Our culture must complement and reinforce our systems for ensuring that the risks we take are sensible, controlled and sized properly.

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 pledged to do 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.

Our culture drives our employees, and our values inform everything they do: We have a commitment to putting clients first, leading with exceptional ideas, doing the right thing and giving back. These values honor both our history and our aspirations for the future. I am proud of each of our nearly 56,000 global employees for their hard work and commitment, who live these values every day as individuals and honor our tradition of excellence.

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

JAMES P. GORMAN
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
APRIL 2, 2015