DEAR FELLOW SHAREHOLDERS,

2017 capped Morgan Stanley’s journey through a multi-decade period of challenges and recovery. By transforming our business mix and risk profile, and embracing the culture and values on which the Firm was founded, we have positioned Morgan Stanley to perform through market cycles. Today, we have the strategy, stability and scale to grow the business by supporting our clients as they create economic activity, fuel innovation, and secure economic futures for people around the world. Going forward, our continued success in executing our strategy will be driven by ongoing investment in our people, culture and technology.

EXECUTING OUR MEDIUM-TERM STRATEGIC PRIORITIES

On an annual basis, the Board of Directors and executive management team evaluate our strategy and refine our goals and priorities to ensure we are working for the long-term benefit of our shareholders. We update and articulate this strategy at the beginning of each year and report our progress against it so that our shareholders can hold us accountable. Let me review our priorities that will guide us over the medium term.

Our financial performance in 2017 improved significantly over the previous year, achieving the strategic objectives outlined over two years ago. With growth in each of our business segments, Firmwide net revenues increased 10% and pre-tax profit rose 18%, demonstrating the operating leverage built into our business model.

With a solid strategy in place, our management team will continue to work toward generating sustained higher returns by investing for growth while maintaining fiscal
vigilance and capital sufficiency. The Firm has a mix of businesses that provides earnings stability, with complementary franchises in Institutional Securities, Wealth Management and Investment Management. We are focused on the execution opportunities ahead of us in the medium term for organic growth and further operational improvement.

Wealth Management will continue to benefit from scale and secular trends such as the shift to fee-based assets. We are managing $2.4 trillion in client assets—a demonstration of the trust placed in us. Our profit margin* target for that business is 26% to 28% over the next two years. We intend to deepen our lending footprint across our Wealth Management and Institutional Securities franchises. In Institutional Securities, there are opportunities to continue pressing our advantage in traditional areas of strength like Investment Banking and Equity Sales and Trading, while maintaining a credible and critically-sized Fixed Income Sales and Trading business. Our clients continue to turn to us to execute their most complex transactions globally. Growing Investment Management is a priority, leveraging our attractive business mix, global client footprint and top-tier performing strategies. Additionally, our partnership with MUFG continues to differentiate us by combining our global reach and expertise with MUFG’s strong lending capabilities and client footprint in Japan.

Over the last two years we exceeded our expense efficiency ratio† target, and our goal is to continue to drive savings across the businesses and maintain the expense efficiency ratio at or below 73%.

We are sufficiently capitalized for our business mix, size and risk profile, and will continue to return capital to shareholders, subject to regulatory approval. By combining disciplined execution with an attractive capital return profile, we feel confident in our ability to deliver

* NON-GAAP FINANCIAL MEASURE; PROFIT BEFORE TAX AS A PERCENTAGE OF NET REVENUES
† NON-GAAP FINANCIAL MEASURE; TOTAL NON-INTEREST EXPENSES AS A PERCENTAGE OF NET REVENUES
sustained and increasing shareholder returns. We expect to drive our return on equity‡ to the 10% to 13% range and our return on tangible common equity‡ to the 11.5% to 14.5% range in the medium term.

Beyond the execution of our strategy, our long-term success lies in making the appropriate investments in our people and culture to serve our clients, and harnessing current and emerging technologies to our competitive advantage.

**WINNING IN THE MARKETPLACE**

**2017 HIGHLIGHTS**

- No. 1 in Equity Sales & Trading revenue
  wallet share
- No. 2 Advisor on global announced and completed mergers and acquisitions
- No. 1 Underwriter of global equity offerings
- No. 1 Underwriter of global initial public offerings
- No. 1 in managed accounts, with $1,044.6 billion in assets
- No. 1 in Barron’s Top 100 Financial Advisors, with 38 listings
- Lipper’s Fixed Income Group of the Year (Large Company) and Best Global Multi-Cap Growth Fund (3- and 5-year periods)
- Over 80% of mutual fund assets in 4- and 5-star Morningstar rated funds

**PEOPLE AND CULTURE ARE KEY TO OUR SUCCESS**

The driving force behind our future success will be the depth of talent and leadership across our Firm, as it is our employees who sustain our culture and execute our strategy. We have a strong and experienced management team and our businesses have a deep bench of talent.

We are committed to investing in our employees’ skills and capabilities so that we can continue to build strong, cohesive and diverse teams to drive fresh ideas for our clients and support the strategic goals of the Firm. It will take all of us executing together and serving our clients to realize the growth potential of the Firm over the coming decade.

At Morgan Stanley, our culture guides our employees, and our values inform everything we 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. By living these values, we engender the trust and confidence of our clients— from

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‡ NON-GAAP FINANCIAL MEASURE; RETURN ON EQUITY AND RETURN ON TANGIBLE COMMON EQUITY REPRESENT NET INCOME APPLICABLE TO MORGAN STANLEY LESS PREFERRED DIVIDENDS AS A PERCENTAGE OF AVERAGE COMMON EQUITY AND AS A PERCENTAGE OF AVERAGE TANGIBLE COMMON EQUITY, RESPECTIVELY.
1 SOURCE: COMPETITOR EARNINGS REPORTS
2 SOURCE: THOMSON REUTERS AS OF JANUARY 18, 2018
3 SOURCE: CERULLI ASSOCIATES AS OF MARCH 28, 2018
our wealth management clients who trust us to manage their investments and plan for their financial future to our corporate clients who seek our advice when facing the most complex financial transactions. The work we do for our clients not only builds long-term value for our shareholders, but also creates long-term value for society. We play a critical role in connecting the providers and users of capital to promote economic growth and creativity. It takes capital to create lasting, positive change—from breakthrough research to growing companies to building retirement security. A strong and cohesive culture that focuses on our clients and evaluates and manages risk is critical to ensuring we deliver for our shareholders, our clients and our communities.

Looking ahead, one of our biggest challenges and a source of great opportunity will be the technological advances that are disrupting, shaping and transforming industries globally. The financial industry is not immune to these changes and technology will reshape it in important ways over the coming decade.

This is not the first time that our industry has faced technological change. Through waves of change, we have adapted and harnessed technology to improve productivity and service levels and increase customer choice. With the growth of the internet in the 1990s, brokerages began offering stock trades over an electronic network and the online brokerage was born. This enabled individual investors to directly trade securities without a stockbroker. Electronic trading systems proliferated in the early 2000s using faster systems and complex algorithms—and are ubiquitous today.
Throughout this rapid evolution, we have integrated new technologies to strengthen our businesses. For example, as the equities market evolved over time, we built a platform that offers global electronic trading tools including a broad suite of algorithms, smart order routing and direct market access. By combining a traditional high-touch model involving human interaction with a then evolving low-touch electronic model that is now market leading, we were able to offer our clients unparalleled execution. And today our world-class electronic trading platform is an important ingredient in our No.1 position in Equities globally. Across our businesses, a key factor in our current success is that we continuously incorporate new technology to improve service and execution, and to protect our clients.

Today there are rapid changes in areas ranging from cybersecurity to digital and mobile to artificial intelligence, and from emerging areas like blockchain technologies. Technological advances will fundamentally alter the cost structure of our industry if adopted and used effectively.

Cybersecurity is one of the foremost challenges facing the financial services industry. At Morgan Stanley, we have strengthened and continue to strengthen our systems to protect our data and our client assets. In addition to investing in our own protections, we are working with the rest of the industry and government bodies to continually upgrade defenses. Over the past few years our investments in cyber technologies have grown multifold, significantly ramping up our defenses in this area.

In our Wealth Management business, we are enhancing the client experience using state-of-the-art digital and mobile technologies. We are also investing to make our Financial Advisors more effective and efficient so they can spend more of their time advising clients and less time processing documents or client journals. In effect, the traditional branch system and operations is in the process of being digitized. This will reap huge benefits in the coming years both through cost and efficiency gains and by arming our Advisors with tools to meet the demands and expectations of a new generation of investors.

### FORTIFYING CAPITAL AND ENHANCING LIQUIDITY

#### 2017 HIGHLIGHTS

- Common equity tier 1 capital ratio advanced (transitional) of 17.5% as of 4Q 2017, with $68.9 billion in common equity
- $192.7 billion global liquidity reserve as of 4Q 2017

In our Wealth Management business, we are enhancing the client experience using state-of-the-art digital and mobile technologies.
Over the medium term, artificial intelligence and machine learning have the potential to touch every part of our business, including in ways none of us have yet imagined. Already, we see it incorporated in a range of applications—from investment algorithms to virtual assistants, from delivering personalized insights to detecting and preventing fraud, from organizing and analyzing reams of big data to driving better decision-making. For Morgan Stanley, artificial intelligence and machine learning are opportunities that we will continue to leverage across the Firm.

Over the next decade, these and other technological changes will have enormous implications for our industry. Long-term winners will be those able to adapt and use technology to their competitive benefit, and we are deeply focused on these efforts.

LOOKING AHEAD

Morgan Stanley is strong today and positioned to do well going forward. The external environment is also conducive to growth. The global economy has strengthened over the last year, and we are witnessing a period of broad synchronized global growth. In the U.S., the enactment of significant corporate tax reform will boost economic activity, a key driver for financial services. Rising interest rates in the U.S., to the extent that they are driven by a strong economy, provide a positive backdrop for the industry. And while there has not

<table>
<thead>
<tr>
<th>OUR STRATEGY</th>
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<tr>
<td>WHAT WE DO</td>
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<tr>
<td>Advise, originate, trade, manage and distribute capital for governments, institutions and individuals, and always do so with a standard of excellence.</td>
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<tr>
<td>HOW WE DO IT</td>
</tr>
<tr>
<td>Execute in a way that is consistent with our values and, whenever possible, deliver more than one part of the Firm.</td>
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<td>WITH WHAT RESULT</td>
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<tr>
<td>Deliver strong returns for our shareholders, build long-term value for our clients and offer highly attractive career opportunities for our employees.</td>
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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.

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

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.

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.

yet been significant revision in the financial services regulatory framework, we expect to see common-sense recalibrations over the next few years. Though geopolitical risks remain, we are optimistic about growth over the long term.

I have great confidence in our senior leaders, and we are excited about the future. And I am proud of our nearly 58,000 employees around the globe who deliver for our clients each and every day.

Thank you for your continued confidence and 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 6, 2018