

# Morgan Stanley 1Q13 Fixed Income Investor Update

# 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 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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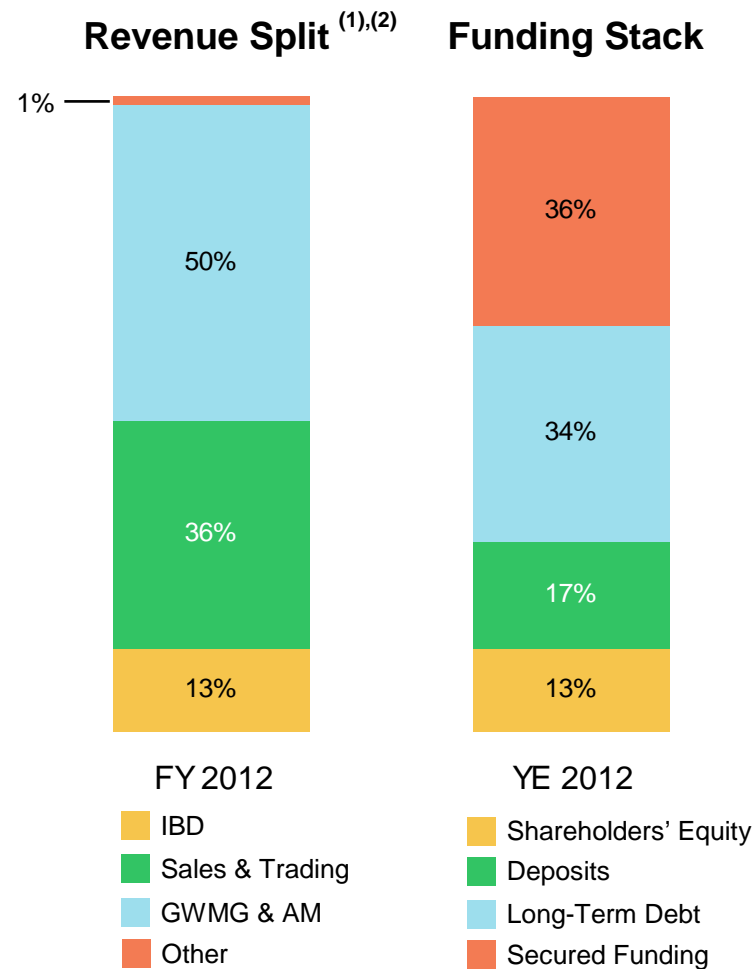
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# Agenda

- 1 Business strategy
- 2 Asset funding model
- 3 Long-term debt
- 4 Liquidity
- 5 Unsecured Funding Plan
- 6 Secured Funding
- 7 Topics on the Horizon

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# Strategic Moves Enhance Business Outlook and Funding Profile



## Key Drivers

- **ISG**
  - Cohesive set of products across divisions
  - Leadership position in Investment Banking
  - Balanced product and geographic mix in Equities
  - Continued focus on market share gains and capital management in Fixed Income and Commodities
    - Executing plan to reduce risk-weighted assets in Fixed Income and Commodities to <\$200Bn by YE 2016 from \$390Bn in 3Q11
- **GWMG**
  - Fully integrated, well positioned for growth
  - Revenue stability, growth in deposit funding
  - Expect to acquire final 35% stake of wealth management JV in 2013, subject to regulatory approvals
    - Contractual upside from owning 100% of JV
- **Strategic partnership with MUFG**
- **Durable funding and strong liquidity**

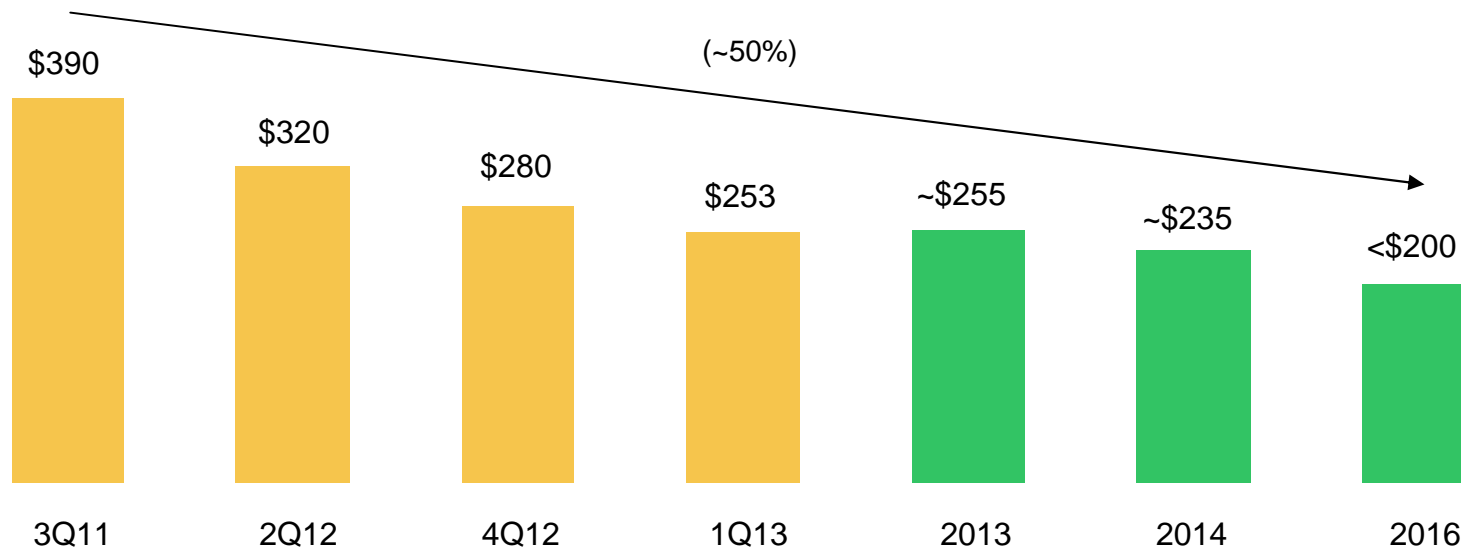
(1) Revenues exclude the negative impact of \$4,402 million from DVA in 2012. Revenue ex-DVA is a non-GAAP measure the Company considers useful for investors to allow comparability of period to period operating performance.

(2) Revenues have been recast to reflect the transfer of the International Wealth Management business from the Global Wealth Management business segment to the Institutional Securities business segment.

# We Will Continue to Reduce Our Fixed Income and Commodities RWAs

- 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

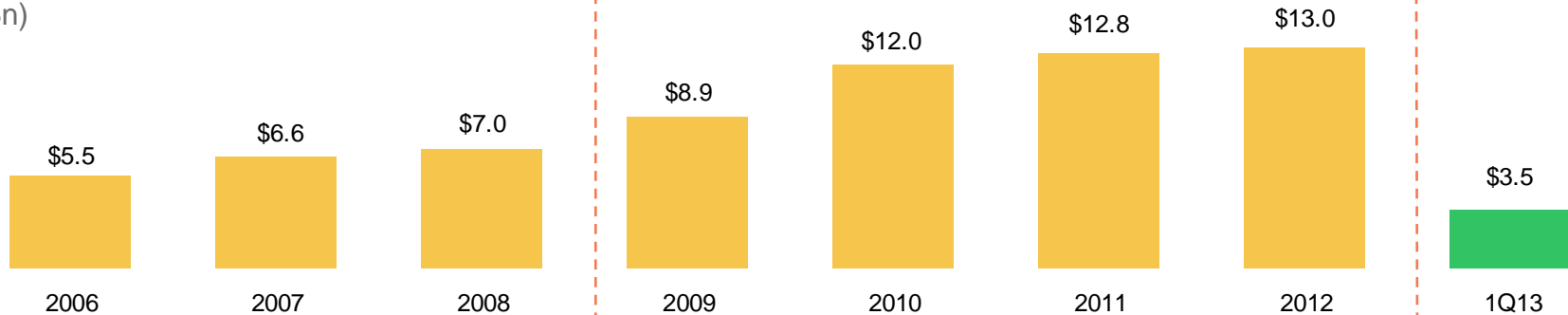
(1) The Company estimates its risk-weighted assets based on a preliminary analysis of the Basel III guidelines published to date and other factors. This is a preliminary estimate and may change.  
 (2) Assumes 9% Basel 3 Pro-Forma Tier 1 Common Capital ratio. The Basel 3 Tier 1 Common Capital ratio is 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.

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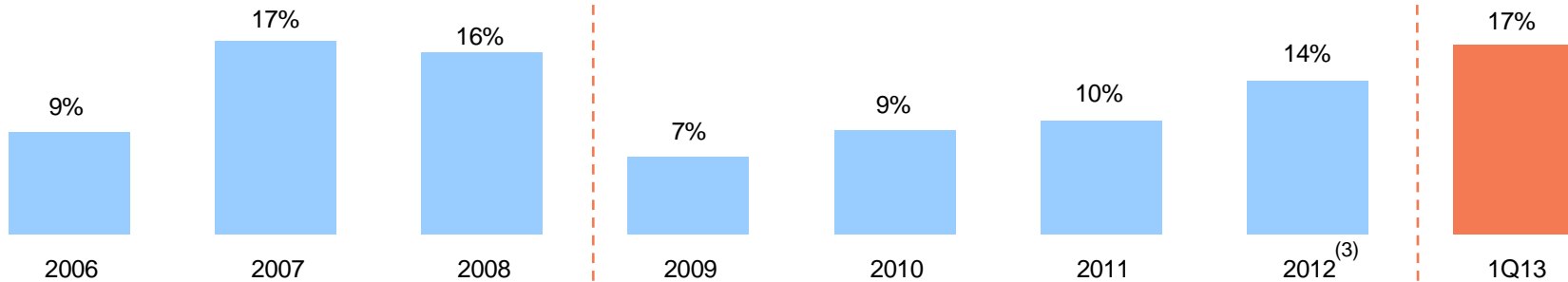
# Wealth Management: Stable Revenues and Growing Profitability

- Consistent improvement in wealth management margin through expense management
- Margin upside with revenue growth

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



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



Pre-MSSB Transaction

JV Integration Period

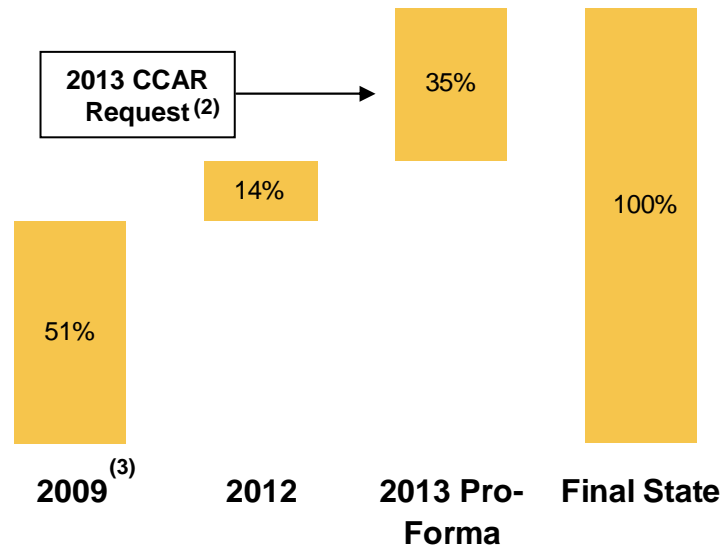
Post-Integration

- (1) Revenues and pre-tax margin for 2006-2008 represent results for fiscal years ending November 30<sup>th</sup>. Revenues for 2009-2012 represent results for fiscal years ending December 31<sup>st</sup>. Revenues and pre-tax margin for 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.

# Non-objection to CCAR Request

- Acquisition of final 35% stake of wealth management JV in 2013, awaiting final regulatory approvals

## Acquire 100% of Wealth Management JV Complete Staggered Acquisition



<b>Price</b>	\$1.9Bn <sup>(4)</sup>	\$4.7Bn <sup>(4)</sup>
<b>Incremental Capital</b>	~\$0.2Bn <sup>(5)</sup>	~\$0.4Bn <sup>(5)</sup>

## Incremental Benefits of 100% Ownership

- Year 1 incremental earnings<sup>(1)</sup> comparable to capital required to acquire remaining 35%, driven by NCI capture and contractual upside:
  - Greater order flow capture
  - Increased deposit funding (partial benefit in Year 1)
  - Elimination of JV structures, operational complexity, agreements and expenses
- Unique syndication/distribution capabilities
- More significant loan book growth opportunity

(1) Based on Company projections of NCI elimination, contractual upside and other actions for first twelve months of full ownership.

(2) Subject to regulatory approvals

(3) Joint venture formed in May 2009.

(4) Implied 100% valuation for the Wealth Management JV of \$13.5 billion, with no premium for deposit acquisition.

(5) Incremental capital in 2012 and 2013 reflects difference between the carrying value and the fixed purchase price of the noncontrolling interest in the joint venture.

# Bank Strategy Aligns with Growing Deposit Base

- Firmwide deposits of \$81Bn at March 31, 2013 would increase to approximately \$138Bn pro-forma with 100% ownership of wealth management JV<sup>(1),(2)</sup>
- Pro-forma deposit base represents significant opportunity in both GWMG and ISG to drive growth<sup>(2)</sup>
- Areas of growth consistent with existing risk management infrastructure

## Global Wealth Management Group

### Current State:

- Invested in infrastructure and footprint
  - Network of private bankers to support FAs in branches
  - Management team
- Systematic build-out of lending product suite with disciplined governance and risk management
  - Home loans and home financing products
  - Securities based lending
  - Tailored lending

### Further Opportunities:

- Increased penetration of lending activity
  - ~5% of clients have a Morgan Stanley lending product vs. ~10% average for peers

## Institutional Securities Group

### Current State:

- Realizing funding cost benefits for:
  - Relationship lending
  - Project finance
  - Foreign-exchange derivatives

### Further Opportunities:

- Achieve additional funding cost benefits
- Drive growth through ROE accretive business opportunities:
  - Incremental foreign-exchange derivatives
  - Interest rate derivatives<sup>(2)</sup>
  - Additional commercial lending products<sup>(2)</sup>

(1) Deposits of \$138Bn pro-forma for 100% ownership include values for all combined deposits in the Bank Deposit Program (\$126Bn) plus those deposits outside of the wealth management joint venture as of March 31, 2013.

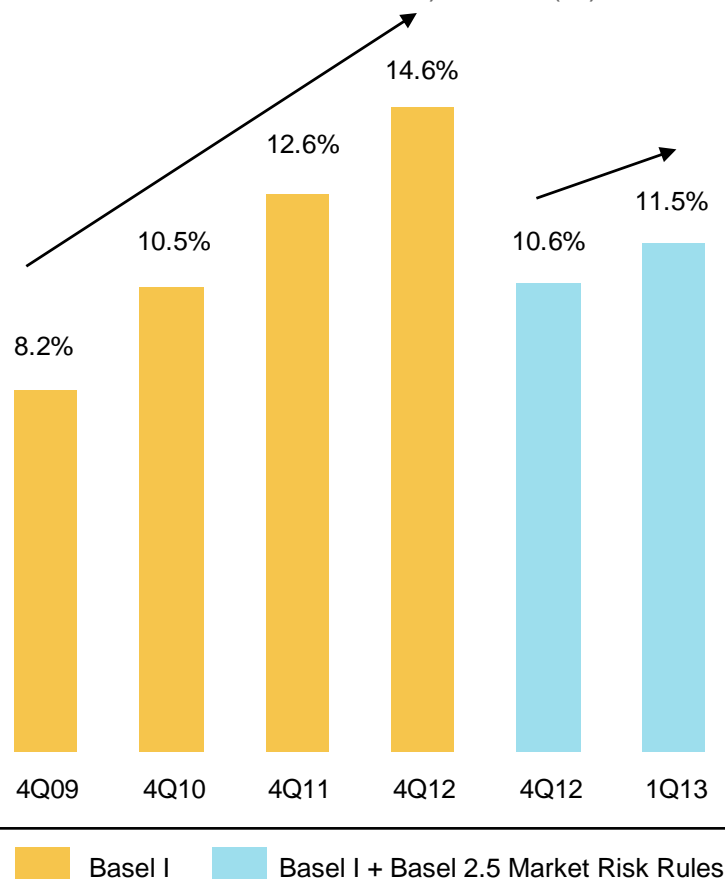
(2) Subject to regulatory approvals



# Strong Capital Under Basel 1 and Basel 3 Regimes

## Basel I Tier 1 Common Ratio

(Common Less Tier 1 Deductions) / RWA (%)

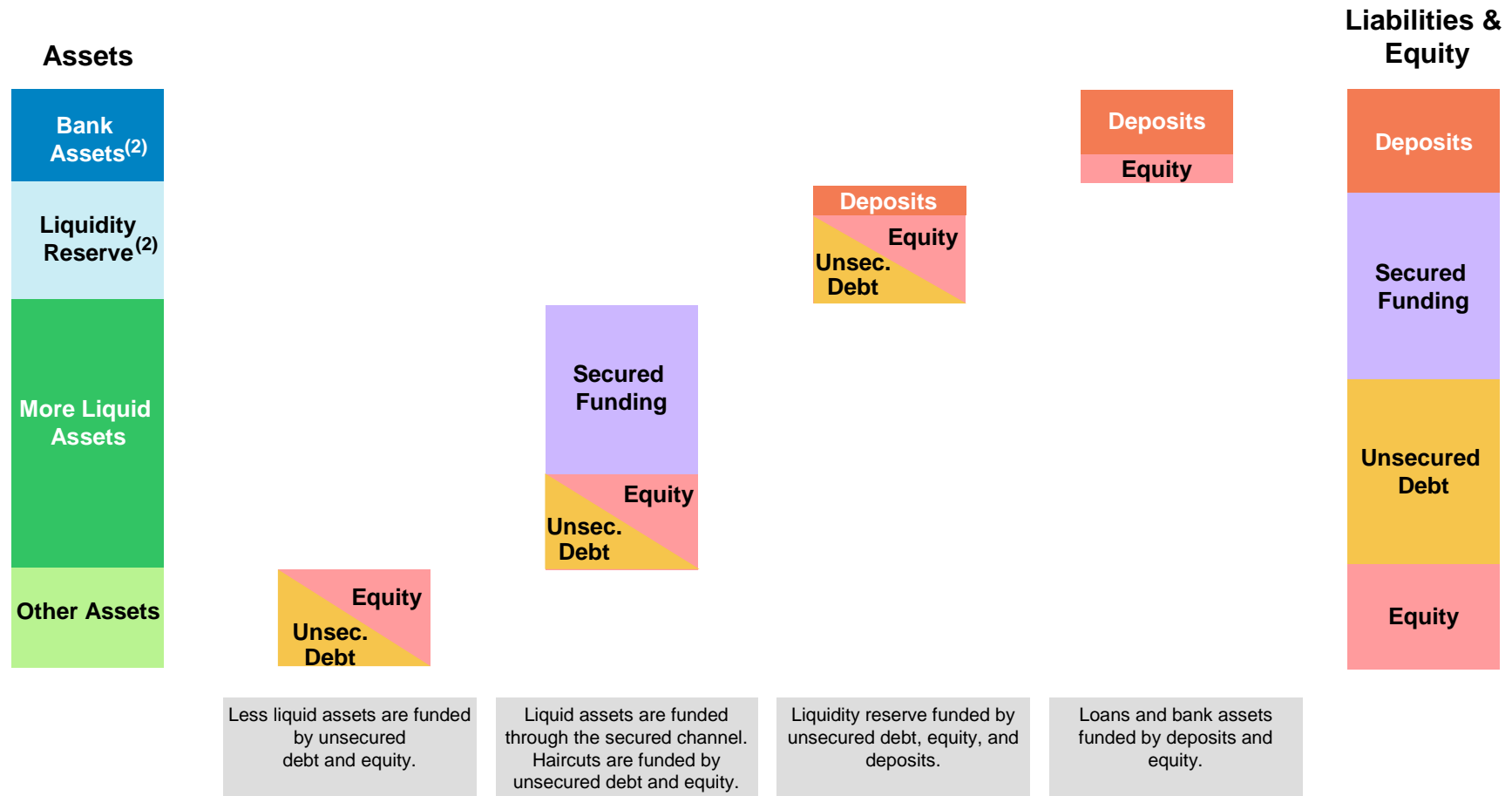


- On January 1, 2013, the rules to implement the Basel Committee's market risk capital framework (i.e., Basel 2.5) became effective.
- Under Basel I, inclusive of the Basel 2.5 framework, Tier 1 Common ratio is 11.5% (versus pro-forma 10.6% at 4Q12).
  - Tier 1 Capital ratio is 13.9%
- Subject to final rulemaking, but incorporating the Basel 2.5 framework and our best assessment of the Basel 3 NPR
  - March 31, 2013 spot pro-forma Basel III Tier 1 Common ratio was 9.7%<sup>(1),(2)</sup>

(1) Basel III pro-forma 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 current and estimated future regulatory capital requirements.  
(2) The Company estimates Basel III capital and risk-weighted assets based on a preliminary assessment of the Basel III guidelines published to date and other factors, including the Company's expectations and interpretations of the proposed requirements. This is a preliminary estimate and may change.

## 2 Illustrative Asset-Liability Funding Model<sup>(1)</sup>

- Funding governance requires alignment of more liquid assets with shorter-term liabilities and less liquid assets with longer-term liabilities and equity

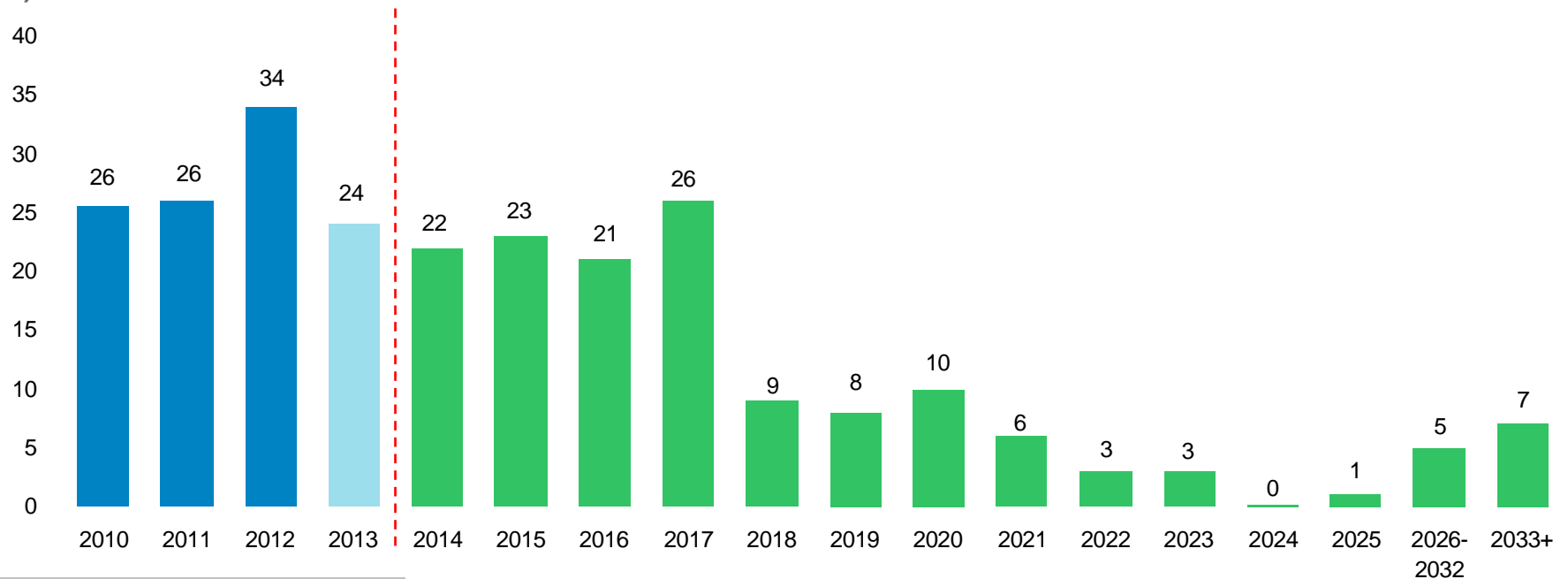


# 3 Debt Maturity Profile: Significant Reduction

- Reduced long-term debt outstanding by ~\$27 billion since year-end 2010
- At March 31, 2013, weighted average maturity of long-term debt of ~5.3 years; excluding the current portion of long-term debt, ~6.1 years

## Total Short-Term and Long-Term Maturities <sup>(1),(2),(3)</sup>

(\$Bn)



<b>Issuance:</b>	<b>\$30</b>	<b>\$33</b>	<b>\$23</b>	<b>\$10<sup>(1)</sup></b>
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■ 2010 – 2012    ■ 2013    ■ Total Maturities

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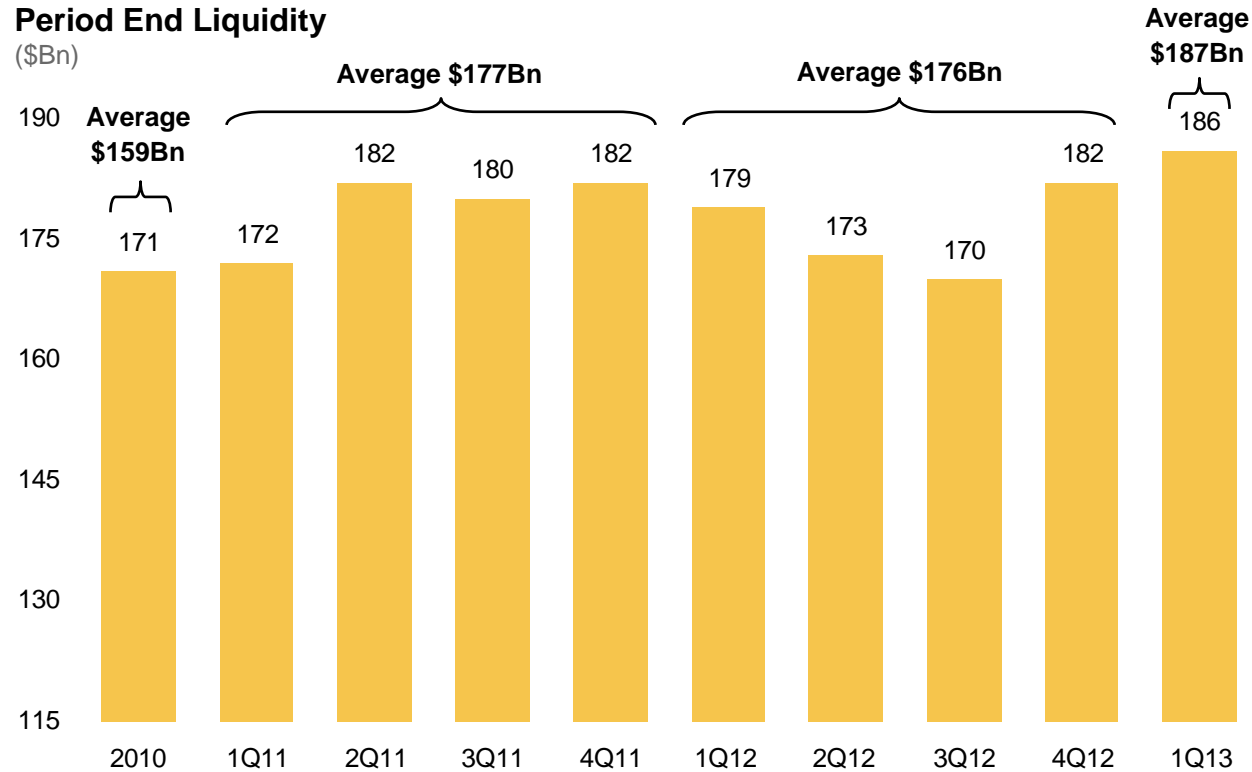
(1) As of March 31, 2013  
 (2) Total short-term and long-term maturities include Plain Vanilla (Senior Unsecured Debt, Subordinated Debt, Trust Preferred Securities), Structured Notes and Commercial Paper. Structured Notes maturities are based on contractual maturities.  
 (3) Excludes assumptions for secondary buyback activity

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# 4 Global Liquidity Reserve

## Highly Liquid and Unencumbered

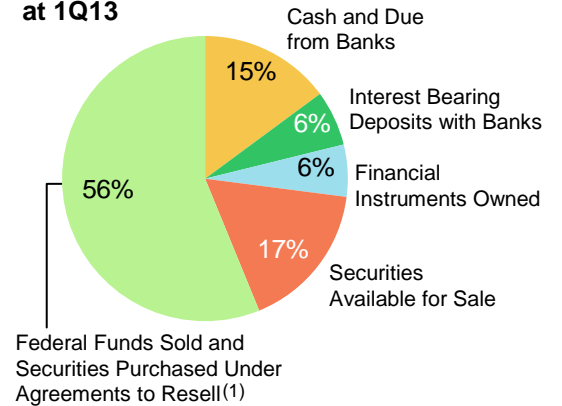
### Period End Liquidity (\$Bn)



### Composition of the Liquidity Reserve at 1Q13

Type of Investment	(\$Bn)
Cash / Cash Equivalents	\$38
Unencumbered Liquid Securities	148
<b>Total</b>	<b>\$186</b>

### Detailed Breakdown of Liquidity Reserve at 1Q13



(1) Primarily overnight reverse repurchase agreements that unwind to cash

# Liquidity Reserve by Legal Entity

## Liquidity Reserve is Sized, Stress Tested and Managed at Legal Entity Levels

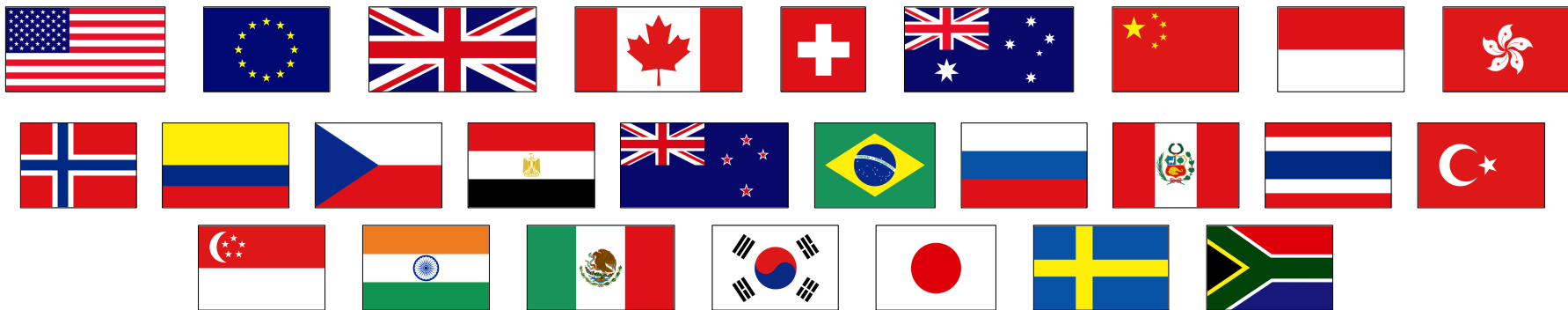
- Stress testing sizes contingency outflow requirements at a legal entity level
  - Contingent cash outflows are measured independently from the inflows resulting from mitigating actions
- Parent stress test model represents the sum of all legal entities
  - Does not assume diversification benefit across legal entities
- Stress tests assume the subsidiaries will initially use their own liquidity before drawing from the parent
  - Reflects local regulations regarding parent support
- Parent does not have access to the subsidiaries' excess liquidity reserves due to regulatory, legal or tax constraints

Liquidity (% of Total) <sup>(1)</sup>	
Parent	35%
Non-Bank Subsidiaries:	
Domestic	10%
Foreign	18%
Total Non-Bank Subsidiaries	28%
<b>Total Parent &amp; Non-Bank Subsidiaries</b>	<b>63%</b>
Bank Subsidiaries:	
Domestic	34%
Foreign	3%
<b>Total Bank Subsidiaries</b>	<b>37%</b>

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# Funding Plan Provides Significant Flexibility; Diversified, Global Investor Base

2011 – 2013 YTD <sup>(1)</sup>



## Issuance Benefits from Multiple Funding Channels

- **USD plain vanilla:** Access institutional markets across a variety of tenors
- **Non-USD plain vanilla:** Broad access to diverse investor base, driven by global footprint
- **Uridashi:** Collaboration with strategic partner, MUFG
- **Structured notes:** Broad distribution capability provides consistent access to market

## Examples of Other Funding Sources

- **Deposit funding:** Sourced from wealth management clients
- **Balance sheet composition:** More liquid products, fewer cash-intensive assets
- **Continued refinement of business model:** Sales of non-strategic assets (e.g. Quilter, Saxon)

# 6 Strict Governance Around Secured Funding

## Rules-Based Criteria Determine Asset Fundability...

- **Highly Liquid (Governments, Agencies, Open Market Operations and Central Clearing Counterparty eligible collateral)**
- **Liquid (Investment Grade Debt and Primary/Secondary Index Equities)**
- **Less Liquid (Sub-Investment Grade Debt, Investment Grade Convertibles, Emerging Market Sovereigns)**
- **Illiquid (Sub-Investment Grade ABS, Unrated and Sub-Investment Grade Convertible Bonds, Non Index Equities, Non-Rated Debt)**

### Fundability Criteria

- Eligible for financing through Open Market Operations (OMO) and/or 23A Exempt and Fed Discount Window eligible
- Central Counterparty Clearing (CCP) eligible
- Government securities or other securities with full faith and credit of the Government
- Market haircuts
- Investor depth (number of investors who accept the asset class)
- Capacity in secured financing market, consistent with term limits

### Fundability Definition

Fundability	OMO Eligible and / Or 23A Exempt and Fed DW Eligible	CCP Eligible	Govt. Sec / Govt. Full Faith and Credit	Market Haircut	Investor Depth	Secured Financing Capacity	% of Book
Super Green	✓	✓	✓	< 10%	> 50	100%	48%
Green				<= 15%	>= 15	>= 95%	41%
Amber				> 15%	>= 7	>= 60%	6%
Red				> 20%	< 7	< 60%	5%

# Durable Secured Funding

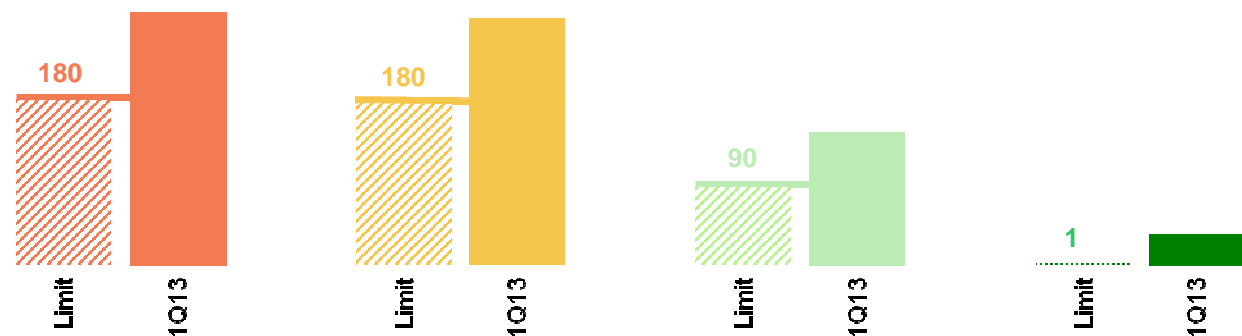
## ...Fundability Category Determines Required Weighted Average Maturity: >120 Days<sup>(1)</sup>

- Established criteria-based model to obtain appropriate term funding consistent with liquidity profile of underlying assets
  - Assets tiered by fundability
  - Maturity limits set for each tier
  - Dynamic measurement of asset composition
  - Cost to fund assets allocated to corresponding desks
- Execution
  - 2010:** Extended WAM significantly across fundability buckets
  - 2011:** Achieved investor and maturity diversification, further strengthening liquidity durability
    - Limited the amount of non-SG liabilities maturing in any given month to 15% of all non-Super Green liabilities
    - Established a maximum investor concentration of 25% of the maturities allowed in any given month
  - 2012 / 2013:** Maintained WAM above limits and increased the durability of WAM

## Weighted Average Maturity and Limits by Fundability Bucket<sup>(2)</sup>

Days

- Illiquid (Sub-IG ABS, Unrated Sub-IG Converts, Non-Rated Debt, Non Index Equities)
- Less Liquid (Sub-IG Bonds, IG Converts, EM Sovereigns)
- Liquid (IG Bonds, Primary/Secondary Index Equities)
- Highly Liquid (Governments, Agencies, OMO & CCP Eligible Collateral)

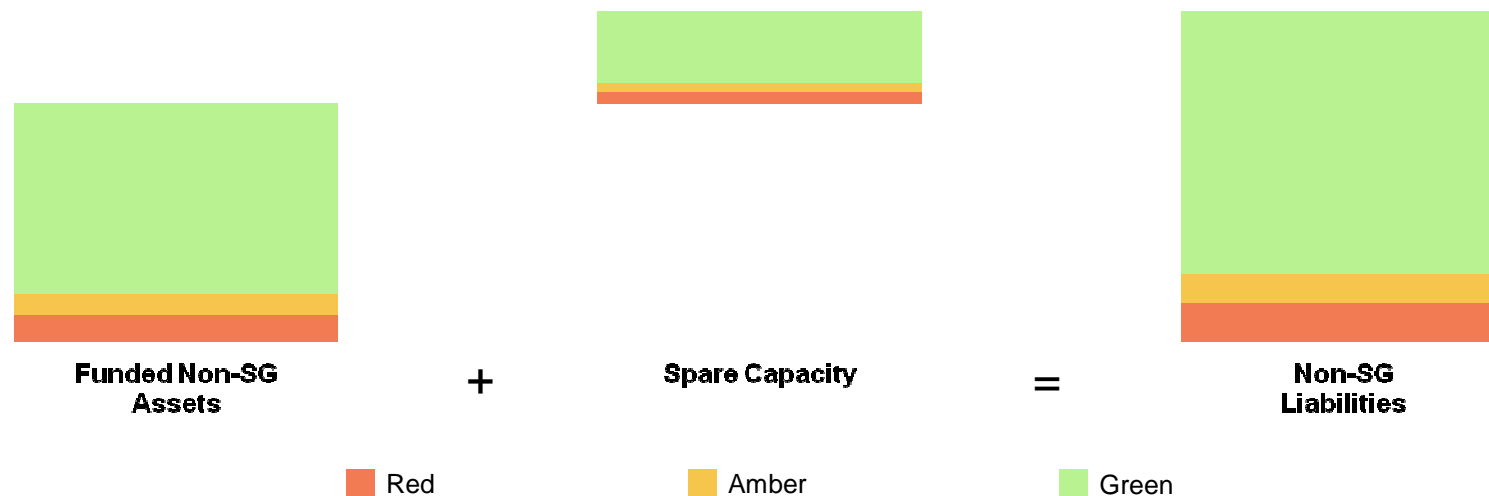




# Durability Further Strengthened by Ongoing Governance Enhancements: “Spare Capacity”

- Spare Capacity is equivalent to total non-Super Green liabilities in excess of non-Super Green inventory
- Spare Capacity has created excess contractual term-funding, which serves as an additional risk mitigant to accommodate various market environments
- Combined with other risk mitigants in secured funding governance, Spare Capacity is the first line of durability against market stress events, prior to use of Global Liquidity Reserve

## Non-Super Green Spare Capacity <sup>(1)</sup>



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# On the Horizon: Liquidity Coverage Ratio Estimate Shows Funding Diversification and Stability

## Basel III Liquidity Coverage Ratio (LCR) Proposal

- Objective: to promote the short-term resilience of the liquidity risk profile of banks and bank holding companies
  - Specifically, to ensure banks have sufficient high-quality liquid assets to cover net outflows arising from significant stress lasting 30 calendar days
- The standard requires that the LCR be no lower than 100%
  - LCR rules are currently under regulatory review and will be introduced on January 1, 2015
- Basel Committee released revised guidance in January 2013
  - Guidance refines Net Outflow calculation and broadens definition of High Quality Liquid Assets

## Morgan Stanley's Position<sup>(1)</sup>

- Current pro-forma LCR estimate remains well in excess of 100%
  - We believe that our stress test scenarios incorporate and build on the current Basel requirements
- Key drivers of Morgan Stanley's LCR ratio:
  - Extension of weighted average maturity of secured funding
  - Size of liquidity reserve
  - Virtually no reliance on commercial paper and short duration commercial deposits
  - Size and composition of unfunded lending portfolio

(1) The Company estimates its pro-forma LCR based on a preliminary analysis of the Basel III guidelines published to date and other factors. This is a preliminary estimate and may change based on final rules to be issued by the Federal Reserve. The LCR is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to gauge future regulatory requirements.

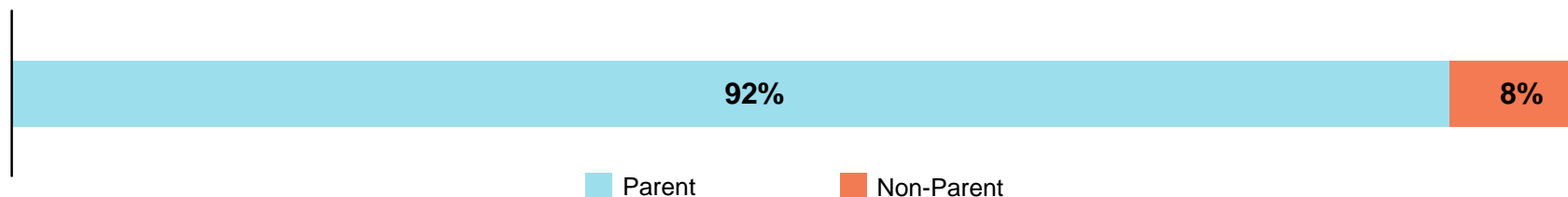
# On the Horizon: Orderly Liquidation Authority

- Well positioned for “minimum bail-in capacity” rules
- Long-term debt issued at Parent was approximately 20% of total consolidated assets and 40% of consolidated Basel 2.5 risk-weighted assets as of March 31, 2013

## Long-Term Borrowings (% of Total) <sup>(1),(2)</sup>

<b>Senior debt</b>	94%
<b>Subordinated debt</b>	4%
<b>Junior subordinated debentures</b>	3%

## Legal Entity Issuance of Long-Term Borrowings <sup>(1)</sup>



(1) As of March 31, 2013

(2) Figures may not sum due to rounding

# Appendix

# Securities Available for Sale

	At March 31, 2013 (\$MM)				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other-than-Temporary Impairment	Fair Value
Debt Securities Available for Sale					
Total U.S. Government and Agency Securities	\$29,137	\$204	\$12	–	\$29,329
Corporate and Other Debt					
Commercial mortgage-backed securities	2,829	4	16	–	2,817
Auto Loan Asset-Backed Securities	2,171	3	1	–	2,173
Corporate Bonds	3,530	15	3	–	3,542
Collateralized debt and loan obligations	677	–	–	–	677
FFELP Student Loan Asset-backed Securities <sup>(1)</sup>	2,884	25	1	–	2,908
Total Corporate and Other Debt	\$12,091	\$47	\$21	–	\$12,117
Equity Securities Available for Sale	\$15	–	\$7	–	\$8
<b>Total (\$MM)</b>	<b>\$41,243</b>	<b>\$251</b>	<b>\$40</b>	<b>–</b>	<b>\$41,454</b>

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(1) Amounts are backed by a guarantee from the U.S. Department of Education of at least 95% of the principal balance and interest on such loans.

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# European Peripherals and France

## Country Risk Exposure <sup>(1)</sup> – European Peripherals and France

March 31, 2013 – (Unaudited, Dollars in Millions)

(\$)	Net Inventory <sup>(2)</sup>	Net Counterparty Exposure <sup>(3)</sup>	Funded Lending	Unfunded Commitments	CDS Adjustment <sup>(4)</sup>	Exposure Before Hedges	Hedges <sup>(5)</sup>	Net Exposure
<b>Greece</b>								
Sovereigns	46	42	–	–	–	88	–	88
Non-Sovereigns	40	6	–	–	–	46	(25)	21
<b>Sub-Total</b>	<b>86</b>	<b>48</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>134</b>	<b>(25)</b>	<b>109</b>
<b>Ireland</b>								
Sovereigns	100	–	–	–	5	105	5	110
Non-Sovereigns	248	52	–	–	18	318	(8)	310
<b>Sub-Total</b>	<b>348</b>	<b>52</b>	<b>–</b>	<b>–</b>	<b>23</b>	<b>423</b>	<b>(3)</b>	<b>420</b>
<b>Italy</b>								
Sovereigns	(151)	322	–	–	445	616	(208)	408
Non-Sovereigns	667	652	370	802	107	2,598	(350)	2,248
<b>Sub-Total</b>	<b>516</b>	<b>974</b>	<b>370</b>	<b>802</b>	<b>552</b>	<b>3,214</b>	<b>(558)</b>	<b>2,656</b>
<b>Spain</b>								
Sovereigns	(424)	1	–	–	467	44	11	55
Non-Sovereigns	330	512	102	916	192	2,052	(454)	1,598
<b>Sub-Total</b>	<b>(94)</b>	<b>513</b>	<b>102</b>	<b>916</b>	<b>659</b>	<b>2,096</b>	<b>(443)</b>	<b>1,653</b>
<b>Portugal</b>								
Sovereigns	(109)	(2)	–	–	31	(80)	(63)	(143)
Non-Sovereigns	89	7	95	96	50	337	(22)	315
<b>Sub-Total</b>	<b>(20)</b>	<b>5</b>	<b>95</b>	<b>96</b>	<b>81</b>	<b>257</b>	<b>(85)</b>	<b>172</b>
<b>Total Euro Peripherals <sup>(6)</sup></b>								
Sovereigns	(538)	363	–	–	948	773	(255)	518
Non-Sovereigns	1,374	1,229	567	1,814	367	5,351	(859)	4,492
<b>Sub-Total</b>	<b>836</b>	<b>1,592</b>	<b>567</b>	<b>1,814</b>	<b>1,315</b>	<b>6,124</b>	<b>(1,114)</b>	<b>5,010</b>
<b>France <sup>(6)</sup></b>								
Sovereigns	(1,292)	15	–	–	32	(1,245)	(246)	(1,491)
Non-Sovereigns	(55)	2,296	255	1,877	228	4,601	(814)	3,787
<b>Sub-Total</b>	<b>(1,347)</b>	<b>2,311</b>	<b>255</b>	<b>1,877</b>	<b>260</b>	<b>3,356</b>	<b>(1,060)</b>	<b>2,296</b>

(1) Country risk exposure is measured in accordance with the Firm's internal risk management standards and includes obligations from sovereign and non-sovereigns, which includes governments, corporations, clearinghouses and financial institutions.

(2) Net inventory representing exposure to both long and short single name and index positions (i.e., bonds and equities at fair value and CDS based on notional amount assuming zero recovery adjusted for any fair value receivable or payable).

(3) Net counterparty exposure (i.e., repurchase transactions, securities lending and OTC derivatives) taking into consideration legally enforceable master netting agreements and collateral.

(4) CDS adjustment represents credit protection purchased from European peripheral banks on European peripheral sovereign and financial institution risk, or French banks on French sovereign and financial institution risk. Based on CDS notional amount assuming recovery adjusted for any fair value receivable or payable.

(5) Represents CDS hedges on net counterparty exposure and funded lending. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.

(6) In addition, at March 31, 2013, the Firm had European Peripherals and French exposure for overnight deposits with banks for approximately \$115 million and \$21 million, respectively.

(7) At March 29, 2013, the benefit of collateral received against counterparty credit exposure was \$4.3 billion in the European Peripherals, with 98% of such collateral consisting of cash and German government obligations, and \$7.8 billion in France with nearly all collateral consisting of cash and US government obligations. These amounts do not include collateral received on secured financing transactions.

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