Barclays Global Financial Services Conference

Eric Heaton, President of Morgan Stanley U.S. Banks

September 18, 2015
The information provided herein may include certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures are included in this presentation and in the Company’s most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as applicable, which are available on www.morganstanley.com.

This presentation may contain forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made, which reflect management’s current estimates, projections, expectations or beliefs and which are subject to risks and uncertainties that may cause actual results to differ materially. The Company does not undertake to update the forward-looking statements to reflect the impact of circumstances or events that may arise after the date of forward-looking statements. For a discussion of risks and uncertainties that may affect the future results of the Company, please see the Company’s most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as applicable, which are available on www.morganstanley.com. This presentation is not an offer to buy or sell any security.

Please note this presentation is available at www.morganstanley.com.
Agenda

1. U.S. Bank Overview – Lending Strategy
2. U.S. Bank Overview – Deposit Strategy
3. Organic Growth Opportunity
Our U.S. Bank\(^{(1)}\) Strategy Was Developed With Our Clients’ Needs and Our Core Strengths and Capabilities in Mind

- Asset and liability strategy built within our existing client footprint

---

**Prudent Asset Growth**

- Wealth Management lending to retail clients who have strong FA relationships and credit needs
- Institutional Securities lending to Firm clients with established relationships and within areas of domain expertise

---

**Matched with Durable Funding**

- Sourced from our clients:
  - 3.5MM households
  - $2.0Tn of assets
- $132Bn in our Bank Deposit Program\(^{(2)}\)
- Stable over economic cycles
- Ongoing organic growth opportunity

---


\(^{(2)}\) Bank Deposit Program (“BDP”) represents the Firm’s U.S. Bank Deposit Program. The data shown is as of 2015.
U.S. Bank Strategy – Prudent Lending Growth Aligned With Deposit Growth

Steady Growth in Bank Deposit Program\(^{(1)}\) ($Bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth ($Bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$56</td>
</tr>
<tr>
<td>2012</td>
<td>$72</td>
</tr>
<tr>
<td>2013</td>
<td>$104</td>
</tr>
<tr>
<td>2014</td>
<td>$128</td>
</tr>
<tr>
<td>2Q15</td>
<td>$132</td>
</tr>
</tbody>
</table>

CAGR = 28%

Embedded Client Base Supports Funded Loan Growth\(^{(1)}\) ($Bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth ($Bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$21</td>
</tr>
<tr>
<td>2012</td>
<td>$28</td>
</tr>
<tr>
<td>2013</td>
<td>$38</td>
</tr>
<tr>
<td>2014</td>
<td>$64</td>
</tr>
<tr>
<td>2Q15</td>
<td>$75</td>
</tr>
</tbody>
</table>

CAGR = 43%

\(^{(1)}\) Data sourced from Company earnings releases and regulatory filings.
U.S. Bank Overview – Lending Strategy

Morgan Stanley
Wealth Management Lending Products Are Tailored to Our Client Base and Support Our Strategy

<table>
<thead>
<tr>
<th>Residential Real Estate Lending</th>
<th>Securities-Based Lending and Tailored Lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Broad product offering and specialized underwriting for affluent clients</td>
<td></td>
</tr>
<tr>
<td>• High touch service offering for top FAs and Wealth Management clients</td>
<td></td>
</tr>
<tr>
<td>• Outstanding credit profile</td>
<td></td>
</tr>
<tr>
<td>• Strong client service scores</td>
<td></td>
</tr>
<tr>
<td>• Flexible terms, competitive pricing and efficient access to liquidity for many purposes</td>
<td></td>
</tr>
<tr>
<td>• Allows clients to maintain investment strategies while meeting liquidity needs</td>
<td></td>
</tr>
<tr>
<td>• Recently upgraded lending platform (Liquidity Access Line)</td>
<td></td>
</tr>
<tr>
<td>• Highly customized solutions for the sophisticated lending needs of our wealthiest clients</td>
<td></td>
</tr>
<tr>
<td>• Critical offering for the retention and acquisition of assets of our UHNW clients</td>
<td></td>
</tr>
</tbody>
</table>

- Supports 22% - 25% Wealth Management targeted PBT margin
- Strengthens client relationship and supports asset retention and growth
Residential Mortgage Credit Profile Remains Consistently Strong

- Average debt-to-income (DTI) of ~38\%(1)
- Average FICO score >750\(1\)
- Average loan-to-value (LTV) of ~63\%(1)
- Nominal delinquency rate since 2011\(1\)
- 99.7\% of residential mortgage loans were current as of June 30, 2015\(1\)
- Majority of mortgage portfolio is comprised of shorter duration hybrid ARMs\(1\)

**Portfolio Growth\(2\)**

$Bn

<table>
<thead>
<tr>
<th>Year</th>
<th>$5</th>
<th>$7</th>
<th>$10</th>
<th>$16</th>
<th>$18</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2Q15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Origination Metrics Remain Consistently Strong\(1\)**

**FICO Score**

- 2011: ~750
- 2012: ~760
- 2013: ~760
- 2014: ~760
- 2Q15: ~760

**LTV / DTI**

- 2011: ~20\%
- 2012: ~30\%
- 2013: ~30\%
- 2014: ~30\%
- 2Q15: ~30\%

---

\(1\) Data sourced from Morgan Stanley internal data based on client credit metrics and loan statistics.

\(2\) Data sourced from Company earnings releases and regulatory filings.
- Flexible platform for brokerage clients to access liquidity against assets held in their Morgan Stanley brokerage accounts
- Demand-based facilities with conservative advance rates and daily margining helps limit Bank’s credit risk
- Highly collateralized
- Broad and diverse loan portfolio spread across >75,000 accounts with average funded balance of $300K
- Robust stress testing of portfolio for market and concentrated stock shock

Collateral Composition

- Equities
- Mutual Funds
- Corporate
- Other (1)

Portfolio Growth (2)

<table>
<thead>
<tr>
<th>Year</th>
<th>$Bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$6</td>
</tr>
<tr>
<td>2012</td>
<td>$10</td>
</tr>
<tr>
<td>2013</td>
<td>$15</td>
</tr>
<tr>
<td>2014</td>
<td>$22</td>
</tr>
<tr>
<td>2Q15</td>
<td>$25</td>
</tr>
</tbody>
</table>

(1) ‘Other’ includes cash and cash equivalents, mortgage backed securities and hedge fund investments.
(2) Data sourced from Company earnings releases and regulatory filings.
Institutional Securities U.S. Bank Lending is Within Our Existing Footprint & Consistent With Our Core Strategies

• Focus on areas with strong franchise and domain expertise

Corporate Lending
- Loans used for general corporate purposes, working capital and liquidity purposes
- Typically consists of revolving lines of credit, letter of credit facilities and term loans to institutional clients

Commercial Real Estate (CRE) & Warehouse Lending
- CRE team has strong, proven track record and deep commercial real estate expertise with 20+ years of experience
- Selected warehouse lending in areas of Firm expertise

Other Lending
- Other lending in areas consistent with Morgan Stanley strengths (e.g., Project Finance and Equity Margin Lending)

Maintain Tight Risk Management Standards

- Strict credit underwriting
- Rigorous Capital Commitment Committee review process
- Strong risk management and well developed governance and portfolio management infrastructure

➢ Further strengthens client relationships
➢ Delivers accretive returns consistent with the Firm’s risk profile
Deposit Deployment

- U.S. Bank remains in an excess liquidity position.
- Current loan to deposit ratio is ~55% (~75% including contingent liquidity)(1)
- As cash is deployed into lending, Firm benefits from higher yields.

Realization of the Forward Curve

- Duration of the U.S. Bank asset portfolio is ~1.5 years(1)
- As assets mature, Firm will reinvest at higher market implied rates.
- Deposit beta assumes approximately 45 basis points for first 100 basis point rate increase(2)

Illustrative U.S. Bank Net Interest Income Base Case(3)

<table>
<thead>
<tr>
<th>Last 12 Months</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>No benefit from additional deployment or interest rates</td>
<td>Benefit from deposit deployment strategy</td>
<td>Benefit from higher interest rates(4)</td>
</tr>
</tbody>
</table>

(1) Data is sourced from Morgan Stanley internal data based on the size and composition of the asset portfolio.
(2) Approximate deposit beta is based on internal Company models and is subject to change. The deposit beta is an estimate and may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.
(3) Illustrative; not to scale. The attainment of this net interest income may be impacted by external factors that cannot be predicted at this time including macroeconomic and market conditions and future regulations.
(4) “Benefit from higher interest rates” is based off of the forward curve.
2 U.S. Bank Strategy – Deposit Strategy

Morgan Stanley
Our deposit base has increased significantly since 2011 through onboarding deposits from our former Wealth Management joint venture partner.

With the completion of the deposit transfers, the bank strategy is shifting from a deposit-deployment strategy to an asset-optimization strategy.

We have numerous opportunities to increase the share of client liquidity:
- Broadening the range of cash management product suite
- Ongoing investment in digital platform

The three core metrics we will use to evaluate deposit growth:
- Strategic value
- Cost
- Liquidity value

Continued Prudent Loan Growth is Aligned with Deposit Strategy

- Further growth in deposits will be aligned with lending strategy and Firm priorities
Prospective Deposit Growth Supported By Three Core Metrics

1. Strategic Value
   - Durability
   - Component of full-service wealth manager

2. Cost

3. Liquidity Value
   - Liquidity Coverage Ratio (LCR) Value
   - Contingent Funding Plan (CFP) Value
Organic Growth Opportunity
We Continue to Have a Significant Growth Opportunity as We Serve More of Our Clients’ Credit and Liquidity Needs

Percentage of Morgan Stanley Wealth Management Clients…

… Who Have a Securities-Based Loan or a Tailored Loan with Morgan Stanley(1)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2Q15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6%</td>
<td>9%</td>
<td>12%</td>
<td>14%</td>
</tr>
</tbody>
</table>

… Who Have a Home Loan with Morgan Stanley(1)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2Q15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.1%</td>
<td>1.3%</td>
<td>1.6%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

(1) ‘Percentage of Morgan Stanley Wealth Management clients who have a Securities-Based Loan or a Tailored loan or a home loan’ is a Morgan Stanley internal designation referring to the percentage of clients or eligible clients who have one of these lending products with Morgan Stanley.
Further Growth is Facilitated by the Increasing Level of Advisor Engagement

A Significant Percentage of our FAs Have Engaged With at Least One New Lending Solution...

...And an Increasing Number Have Initiated Four or More New Lending Products

(1) 2Q15 FA/Client Lending product data based on the trailing 12-months.
(2) 'Percentage of FA' use is a Morgan Stanley internal designation referring to the number of FAs who used a lending solution with their clients in the prior 12 month period.
Building Competitive Suite of Digital Capabilities and Cash Management Solutions

- Integrated, Advisor-Centric Value Proposition
- Leading Mobile Cash Management
  - Corporate Insights rates MS Mobile “A”
- Enhanced Morgan Stanley Online
  - Consolidated view of assets and liabilities
  - Integrated bill pay and cash management
- Integrated Payment Features
  - Morgan Stanley EMV Debit Card
  - Morgan Stanley branded American Express cards
  - ApplePay™
- Access to New Deposit Products
  - Savings and term deposits

Morgan Stanley

(1) Morgan Stanley Smith Barney LLC (MSSB), member of SIPC, is a registered broker-dealer, not a bank. Where appropriate, MSSB has entered into arrangements with banks, including the U.S. Bank, and other third parties in offering certain banking and lending related products and services.
Agenda

1. U.S. Bank Overview – Lending Strategy
2. U.S. Bank Overview – Deposit Strategy
3. Organic Growth Opportunity
Barclays Global Financial Services Conference
Eric Heaton, President of Morgan Stanley U.S. Banks
September 18, 2015