

Morgan Stanley

Merrill Lynch Banking & Financial Services Investor Conference

Zoe Cruz, Co-President

Colm Kelleher, Chief Financial Officer

November 13, 2007

# 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 Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on 8-K, including any amendments thereto, which are available on [www.morganstanley.com](http://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. For a discussion of risks and uncertainties that may affect the future results of the Company, please see "Forward-Looking Statements" immediately preceding Part I, Item 1, "Competition" and "Regulation" in Part I, Item 1, "Risk Factors" in Part I, Item 1A, "Legal Proceedings" in Part I, Item 3, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2006, "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Risk Factors" and "Quantitative and Qualitative Disclosures About Market Risk" in the Company's 2007 Quarterly Reports on Form 10-Q and other items throughout the Form 10-K and the Company's 2007 Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Morgan Stanley

Zoe Cruz  
Co-President

# Key Strategic Principles

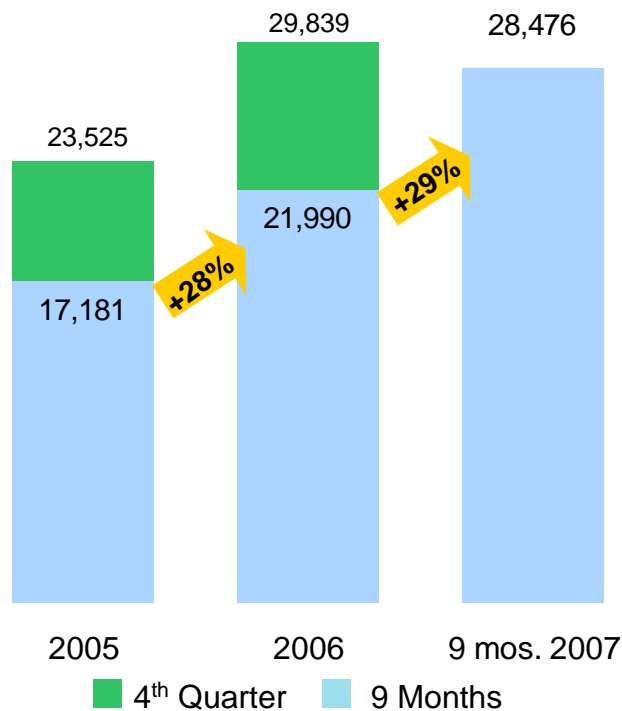
## **Diversified, Global Firm Focused on Improving Profit Margins, Growth, and ROE**

- Leverage global scale, franchise and integration across businesses
- Strike a better balance between principal and customer activity
- Invest to optimize growth opportunities and achieve best-in-class status in all businesses
- Aggressively pursue new opportunities including bolt-on acquisitions
- Create cohesive “One-Firm” culture with the right leadership

# Morgan Stanley Financial Objectives in 2005

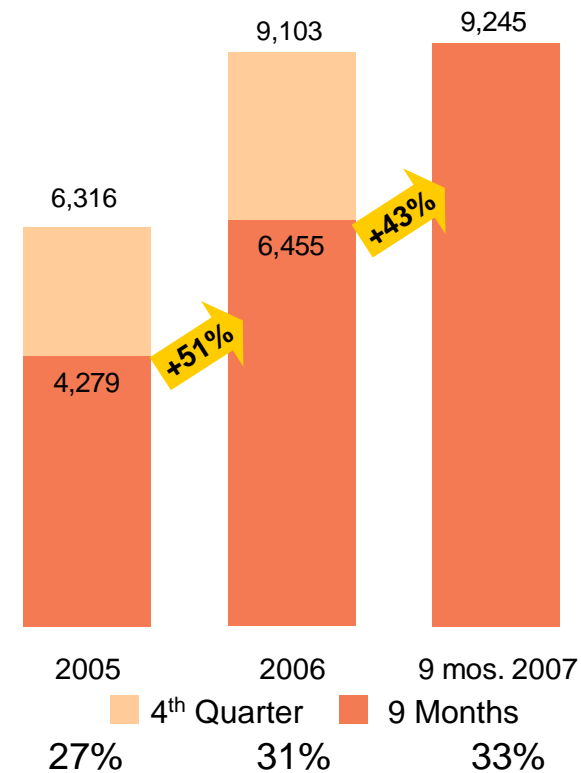
## Net Revenues

\$MM



## Profit Before Tax <sup>(1)</sup>

\$MM



PBT Margin

27%

31%

33%

**Double Pre-Tax Profit by 2010**

**Source:** Morgan Stanley SEC filings and 3Q07 Financial Supplement

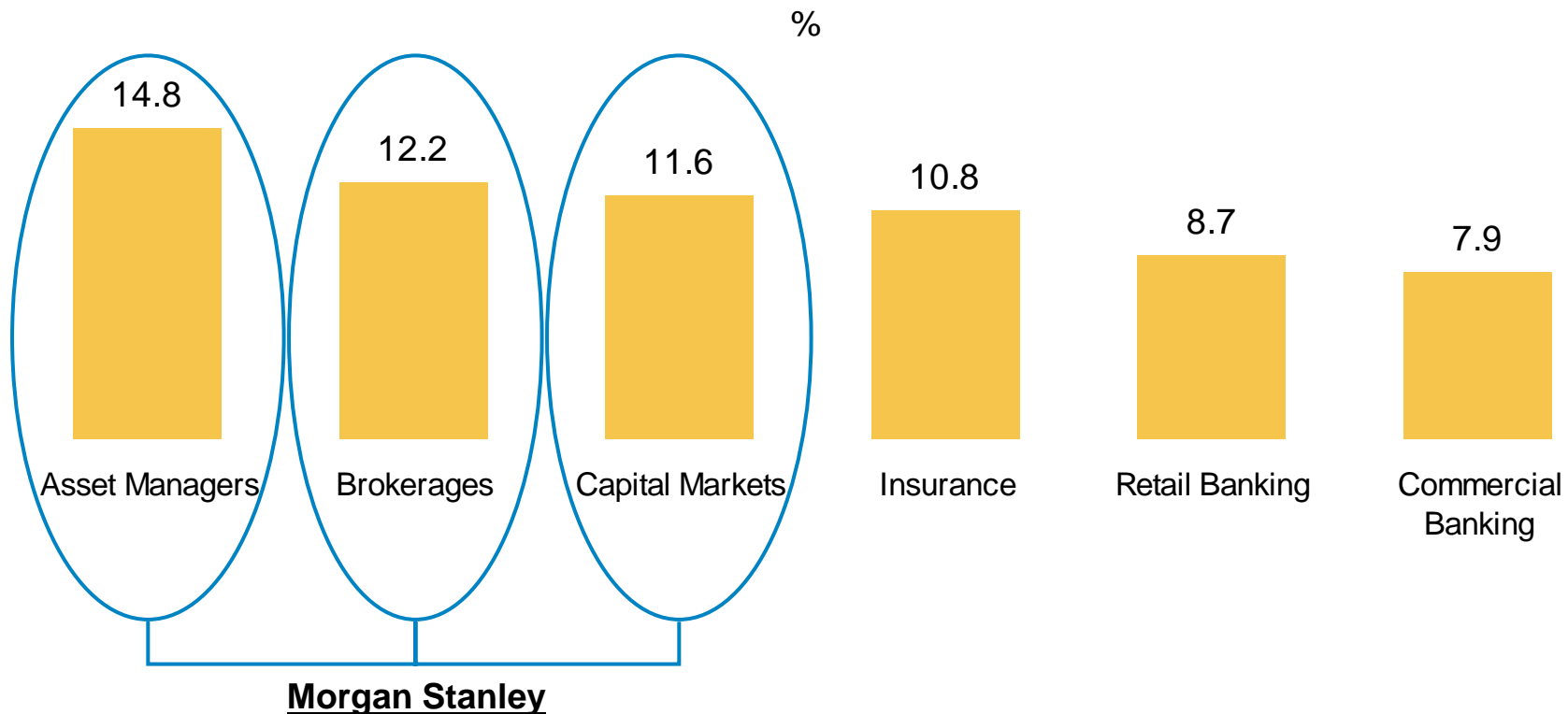
(1) Income from continuing operations before losses from unconsolidated investees, taxes and cumulative effect of accounting change.

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# Growth Focus of Business Mix

## Estimated Long-Term Growth Rates <sup>(1)</sup>



Source: FactSet, IBES

Note: (1) Average of IBES median EPS long term growth estimates for firms in each category. Capital Markets: Lehman, Goldman Sachs and Bear Stearns. Commercial Banking: JP Morgan Chase, Citigroup and Deutsche Bank. Retail Banking: Wells Fargo, U.S. Bancorp, Fifth Third Bancorp and Wachovia. Insurance: Allstate, Progressive, Safeco, AIG, ACE and XL Capital. Asset Managers: Federated Investors, Nuveen, Janus, Franklin Resources and T. Rowe Price. Brokerages: Raymond James Financial, Legg Mason and Jefferies Group. Estimates as of 11/06/07.

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# Morgan Stanley's Three Premier Franchises

## Institutional Securities

### Investment Banking

- #1 Completed Global M&A
- #1 Completed U.S. M&A
- #1 U.S. IPOs
- #1 U.S. Equity Underwriting
- Euromoney 2007 Global Investment Bank of the Year

### Sales & Trading

- #1 Overall in 2007 *Global Investor* FX Survey
- Best in class commodities and securitization business
- Best in class prime brokerage
  - In March 2007, *Global Custodian's* award for Best Global Prime Broker

## Global Wealth Management

- \$734Bn total client assets (as of 3Q07), 29% fee based assets
- 6<sup>th</sup> consecutive quarter of client inflows
- 71% of total client asset base in \$1MM-plus households
- Improved FA productivity:
  - Record \$817,000 in 3Q07 annualized revenue per FA (ranking #1 among peers) vs. \$502,000 per FA in 2005
  - \$88MM in client assets per FA as of 3Q07 vs. \$65MM at the end of 2005

## Asset Management

- \$577Bn AUM (as of 3Q07) up from \$455Bn in the first quarter of 2006
- 4 consecutive quarters of net positive flows
- \$34.6Bn net inflows through 9 mos. 2007 vs. \$14.3Bn net outflows in 9 mos. 2006

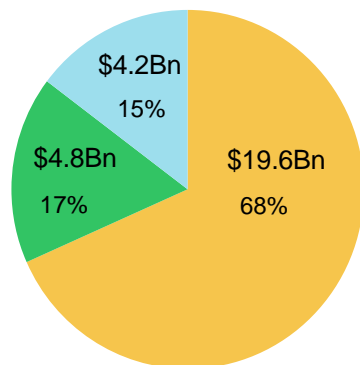
**Source:** Investment Banking: Thomson Financial data as of November 9, 2007  
Global Wealth Management and Asset Management: Morgan Stanley SEC filings

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# Segment Contributions – 9 mos. 2007

## Net Revenues of \$28.5Bn <sup>(1)</sup>

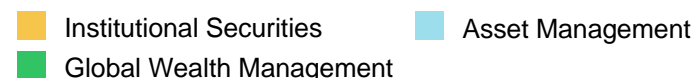
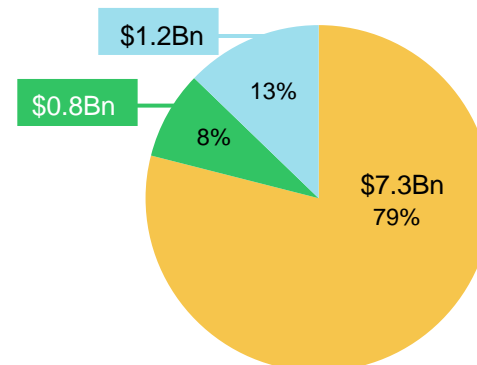


## Pre-tax Profit Margin

(%)

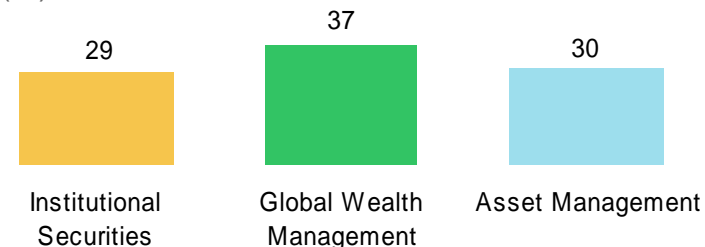


## Profit Before Taxes of \$9.2Bn <sup>(2,3)</sup>



## Return on Average Common Equity <sup>(4)</sup>

(%)



**Source:** Morgan Stanley SEC Filings

(1) Including intersegment eliminations of (\$175MM).

(2) Including intersegment eliminations of (\$1MM).

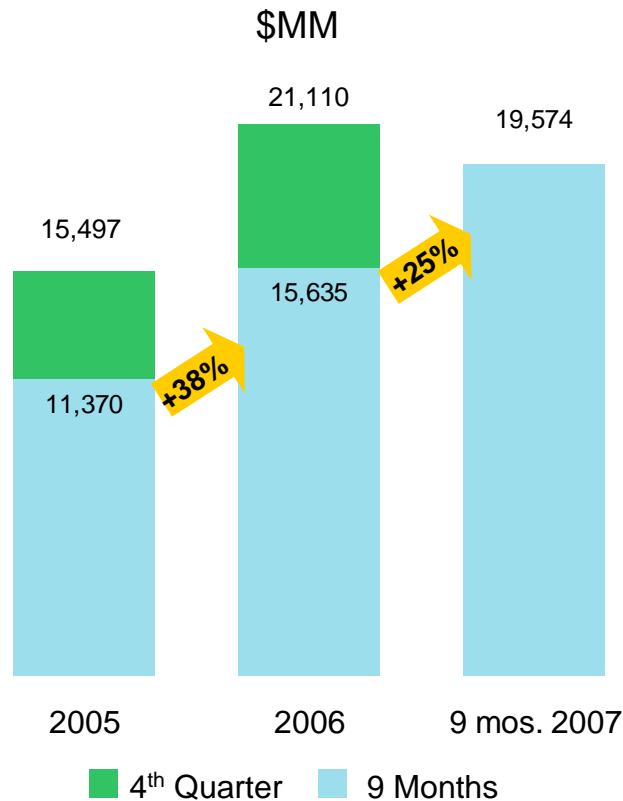
(3) Income from continuing operations before losses from unconsolidated investees, taxes and cumulative effect of accounting change.

(4) The computation of average common equity for each segment is based upon an economic capital model that the Company uses to determine the amount of equity capital needed to support the risk of its business activities and to ensure that the Company remains adequately capitalized.

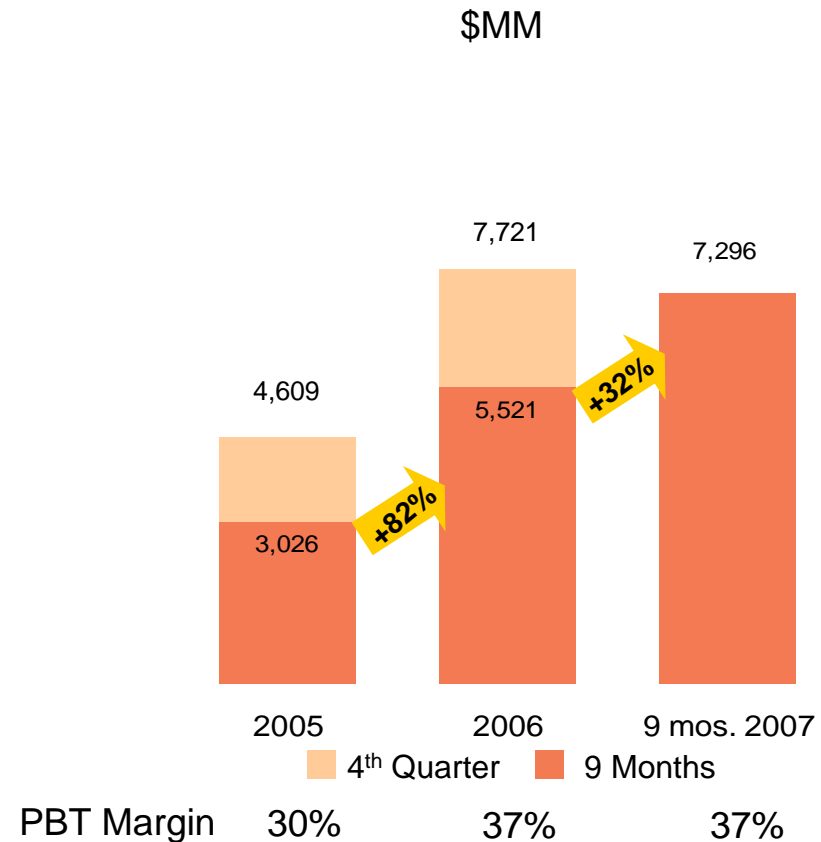


# Institutional Securities

## Net Revenues



## Profit Before Tax <sup>(1)</sup>



**Source:** Morgan Stanley SEC filings and 3Q07 Financial Supplement

(1) Income from continuing operations before losses from unconsolidated investees, taxes and cumulative effect of accounting change.

# Current Environment Presents Both Risks and Opportunities

## Risks

- Credit market shifts
- Potential contagion
- De-leveraging cycle
- Booming energy and commodity prices
- Mixed macro picture
  - Stagflation possible in mature economies
  - Decoupled emerging economies
- Rising liquidity and risk premia
- Changes in capital markets distribution model

## Opportunities

- Capital flows continue to globalize
- New wealth and new markets
- M&A, Equity, Derivatives
- Clean-up of credit dislocation
- Success will depend on
  - Forward looking resource allocation
  - Adaptive risk management practice
  - Effective retention / remuneration of talent

**MS Goal: Grow Successfully Through Challenging Environment**

# Shared Growth Priorities

## Investment Priorities

|  | IBD | S&T | GWM | AM |
|--|-----|-----|-----|----|
| Alternatives                             | ✓   | ✓   | ✓   | ✓  |
| Derivatives                              | ✓   | ✓   |     |    |
| Private Equity & Principal Opportunities | ✓   | ✓   | ✓   | ✓  |
| Leveraged Finance                        | ✓   | ✓   |     |    |
| Multi-Asset Class Prime Brokerage        | ✓   | ✓   |     | ✓  |
| Global Wealth Management Products        |     | ✓   | ✓   | ✓  |
| Environment                              | ✓   | ✓   | ✓   | ✓  |
| Geographic Diversification               | ✓   | ✓   | ✓   | ✓  |
| Focus on Core Asset Management           |     | ✓   | ✓   | ✓  |

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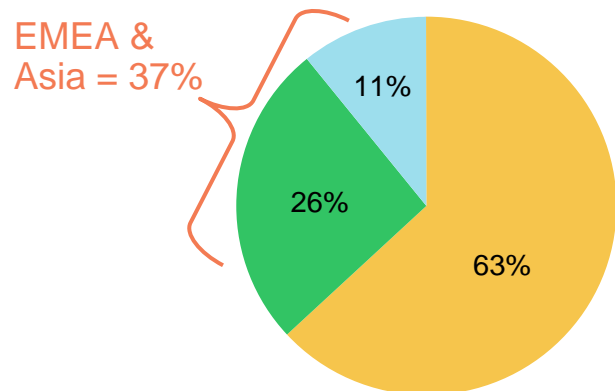
Colm Kelleher  
Chief Financial Officer

# Action Steps for Future Success

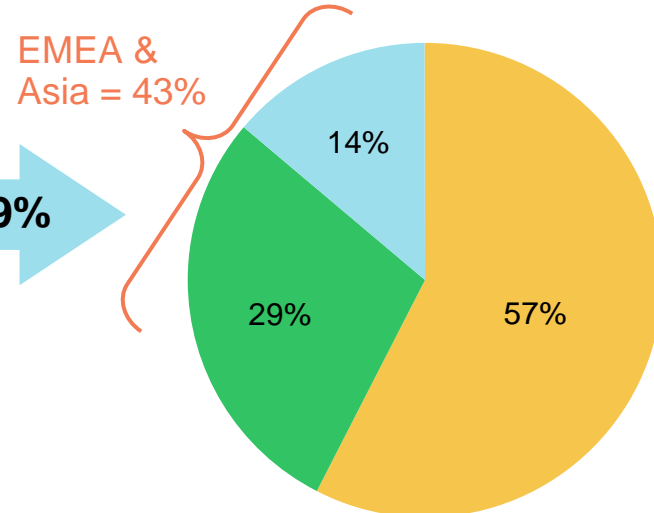
- Geographic Diversification
  - Optimize Existing Footprint and Expand into Emerging Markets
- Self-Fund Growth Opportunities
- Leveraging our Capital
- Active Capital Management
- Near-term Outlook

# Geographic Diversification

9 mos. 2006 Net Revenues<sup>(1)</sup> = \$22.0Bn

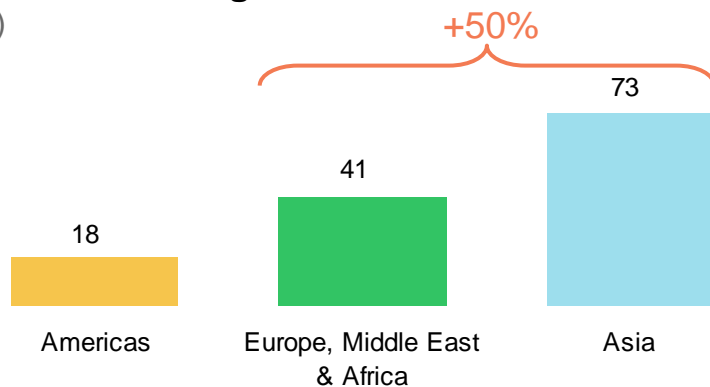


9 mos. 2007 Net Revenues<sup>(1)</sup> = \$28.5Bn



Total Revs +29%

9 mos. 2007 Regional Revenue Growth<sup>(1)</sup>  
(%)



Americas  
Europe, Middle East & Africa  
Asia

Source: Morgan Stanley SEC Filings

(1) Reflects the regional view of Company's consolidated net revenues, on a managed basis, based on the following methodology:

Institutional Securities: investment banking – client location, equity capital markets – client location, debt capital markets – revenue recording location, sales & trading – desk locations; Global Wealth Management – financial advisor location; Asset Management – client location except for the real estate investing business, which is based on asset location.

# Geographic Optimization

- **Institutional Securities**

- Grow equity derivatives, corporate derivatives, and retail structured products
- Capitalize on changes in the insurance and pension markets in Europe and the US
- Obtained Broker-Dealer license in Mexico
- Further build out MSREF business in Brazil and Mexico and expand in China/Japan
- Aggressive localization and growth of Asian offices
  - Building out the China platform: Morgan Stanley Bank International (China)
  - Focus on local licenses in Korea and Taiwan (Integrated Securities House License) - fixed income sales, capital markets, investment banking and institutional equities
  - Agreement to acquire a stake in PetroVietnam Finance Corporation (PVFC)
  - Prime brokerage team in Singapore
- Build investment banking and other businesses in Australia

# Geographic Optimization

- **Global Wealth Management**

- Refocused on ultra-high net worth market segment
- Private Bank expansion
- Focused on growth strategy – investing in talent for growth
- Centers in Hong Kong and Singapore
- Leverage the brand in China, Taiwan and India
- Build out High Net Worth Platform in Latin America

- **Asset Management**

- Continue to expand global distribution and product platforms via organic growth and possible acquisitions (Europe, Latin America and Asia)
- Build private equity platform globally
- Investing in talent

- **Cross-Divisional Initiatives**

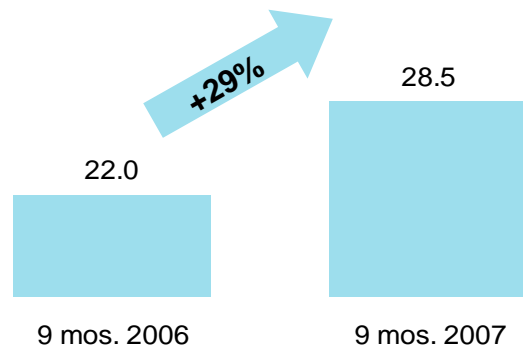
- Further build out Emerging Markets footprint (Turkey, Dubai, Qatar, Saudi JV, Kazakhstan, Central Europe)
- Expand client footprint (middle market)
- Build strength in Japan, maintain CMBS strength, reinvest in investment banking, and institutional equities evaluate GWM opportunities
- Full ownership, full service institutional securities platform in India and full scale business expansion with Brazil



# Self-Fund Growth Opportunities

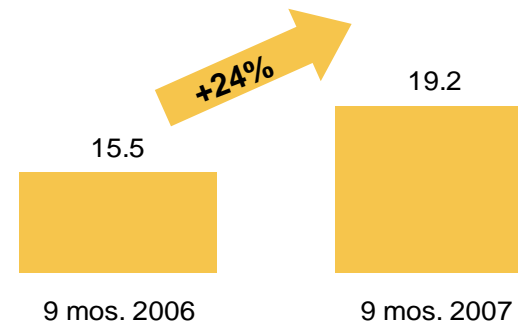
## Net Revenue Growth

(\$Bn)



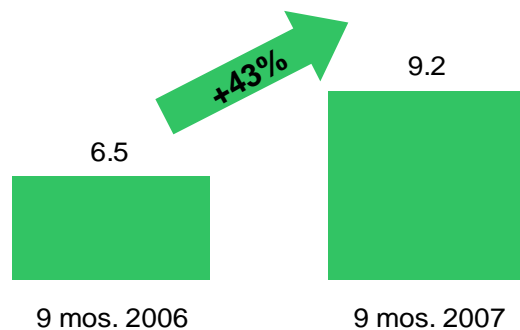
## Expense Growth

(\$Bn)



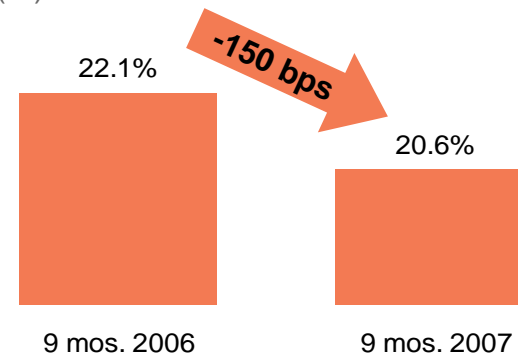
## Profit Before Tax<sup>(1)</sup> Growth

(\$Bn)



## Non-Compensation Expense Ratio

(%)



**Source:** Morgan Stanley SEC filings and 3Q07 Financial Supplement

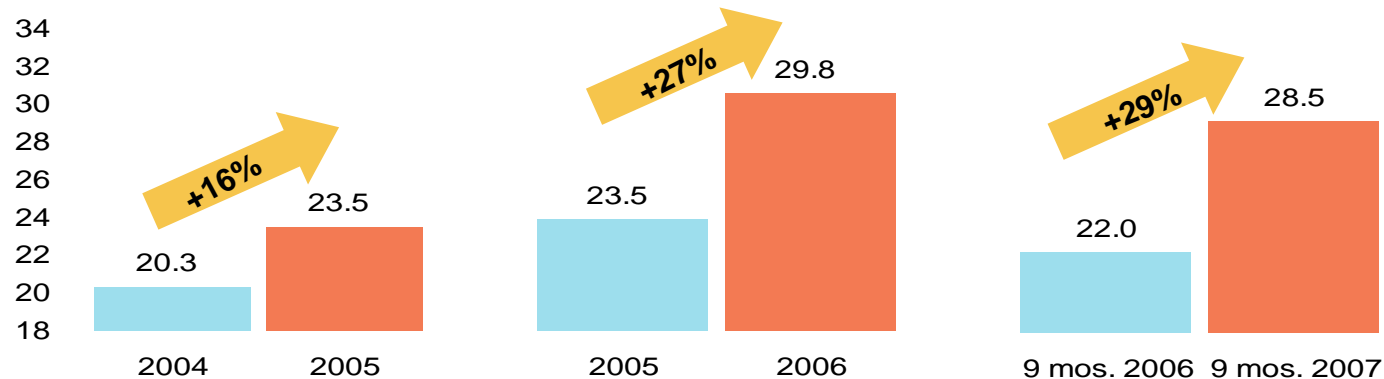
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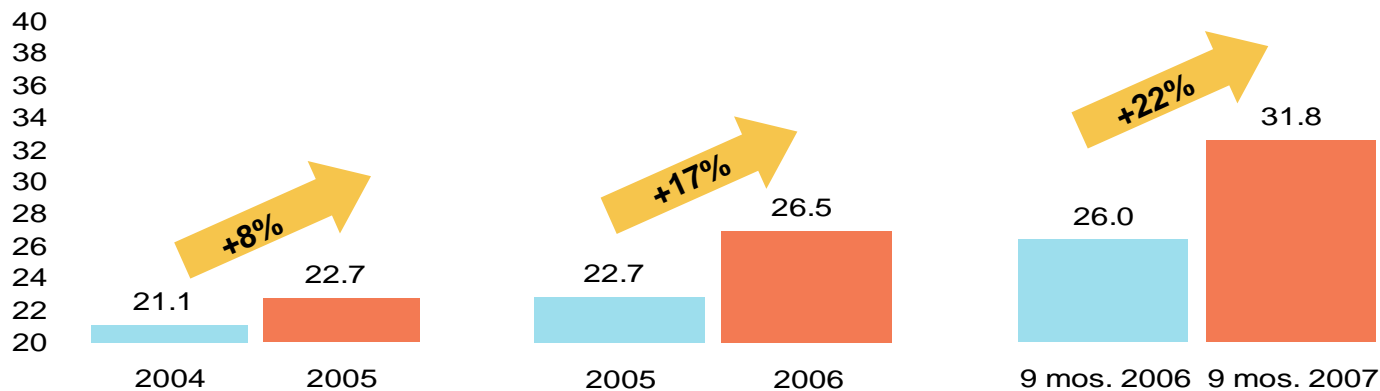
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# Leveraging Our Capital

## Annual Revenue Growth (\$Bn)



## Average Common Equity Growth<sup>(1)</sup> (\$Bn)

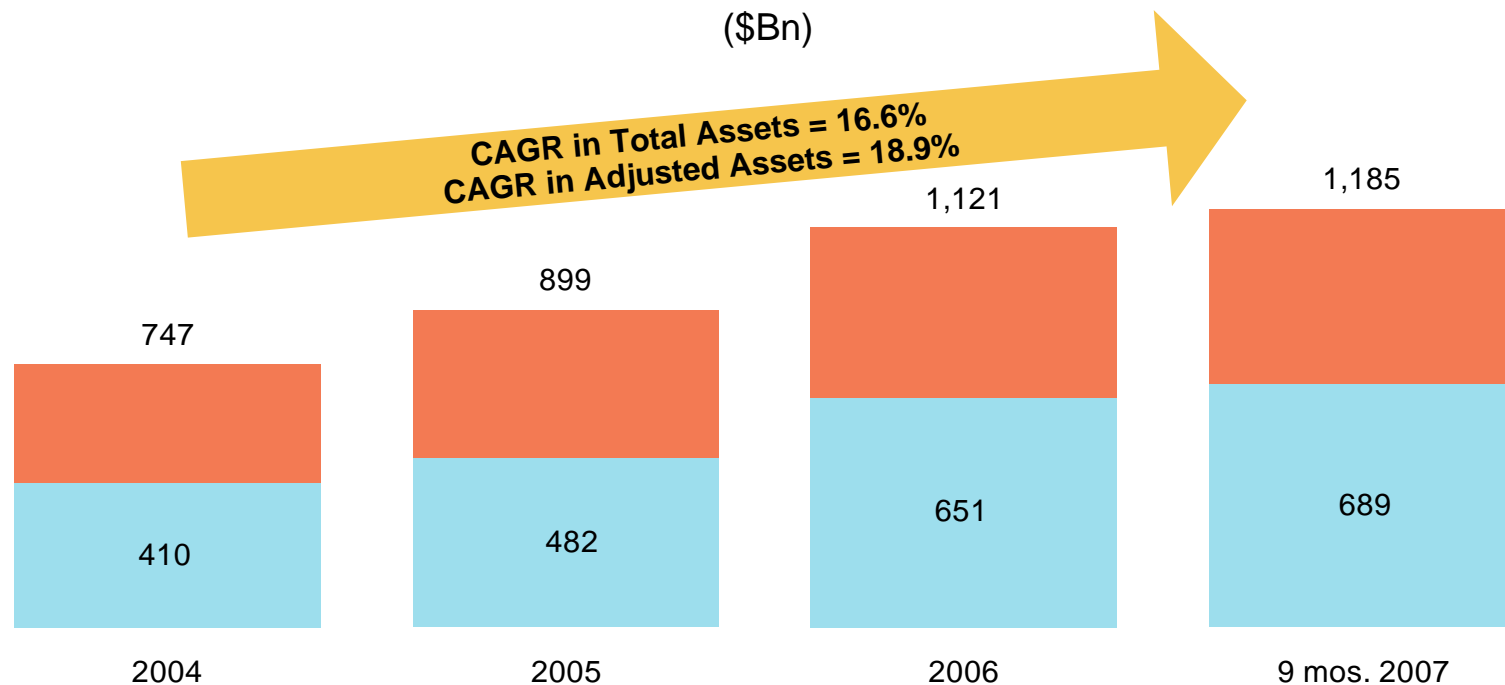


Source: Morgan Stanley SEC Filings

(1) Average Common Equity is from continuing operations.

# Active Capital Management

## Total and Adjusted Assets



Gross Leverage Ratio<sup>(1)</sup>:

25.9x

30.5x

30.4x

32.3x

Adjusted Leverage Ratio<sup>(2)</sup>:

14.2x

16.4x

17.6x

18.8x

Source: Morgan Stanley SEC filings

(1) Gross leverage ratio equals total assets divided by tangible shareholders' equity.

(2) Adjusted leverage ratio equals adjusted total assets divided by tangible shareholders' equity.

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# Near-Term Outlook

- Continued market deterioration since August reduces fair value of Morgan Stanley's subprime exposure by \$3.7Bn in the company's trading portfolio as of October 31, 2007
- The markets will take several quarters to return to more normal operating levels
- Investment Banking, Equities, Global Wealth Management and Asset Management continue strong through October 31<sup>st</sup>
  - Investment banking pipelines continue to be healthy
  - Equities seeing robust customer flows with strength across products and regions
  - Global Wealth Management client activity remains robust, and
  - Asset Management positive long term net flows and AUM growth continue in spite of difficult markets

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