



Stephen S. Crawford, CFO

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January 28, 2004

# Consolidated Financial Highlights

## SEC P/L View (\$MM)

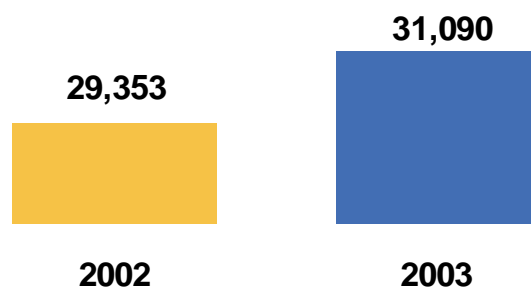
	Full Year		
	2003	2002	Variance
Net Revenues	\$20,857	\$19,120	9%
Compensation Expense	8,545	7,940	8%
Non-compensation Expense <sup>(1)</sup>	6,545	6,460	1%
PBT	5,767	4,720	22%
<b>Net Income</b>	<b>\$3,787</b>	<b>\$2,988</b>	<b>27%</b>
<b>Diluted EPS</b>	<b>\$3.45</b>	<b>\$2.69</b>	<b>28%</b>
<b>ROE</b>	<b>16.5%</b>	<b>14.1%</b>	

Note: (1) 2002 includes \$235 million restructuring charge  
Source: Morgan Stanley 4Q03 Earnings Financial Supplement

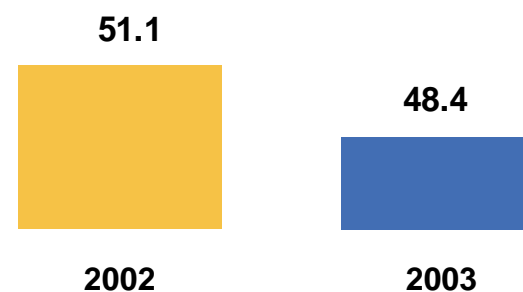
# Discover Financial Services

# Discover – 2003 Developments

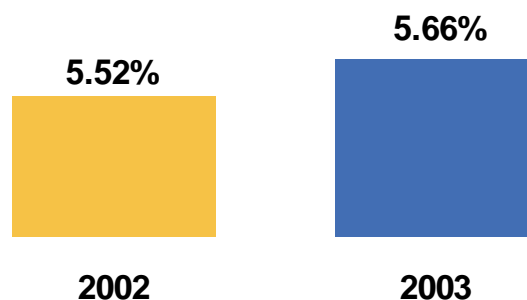
**Weekly Average Bankruptcies**



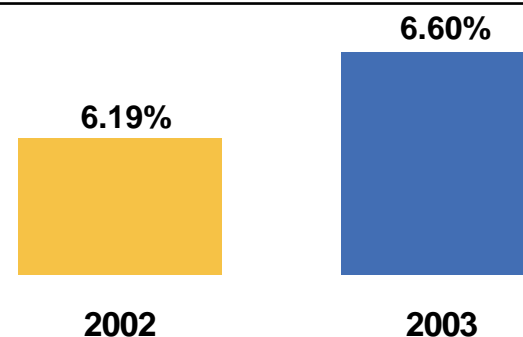
**Discover Loan Balances (\$Bn)**



**Peer Group Average Loss Rates<sup>(1)</sup>**



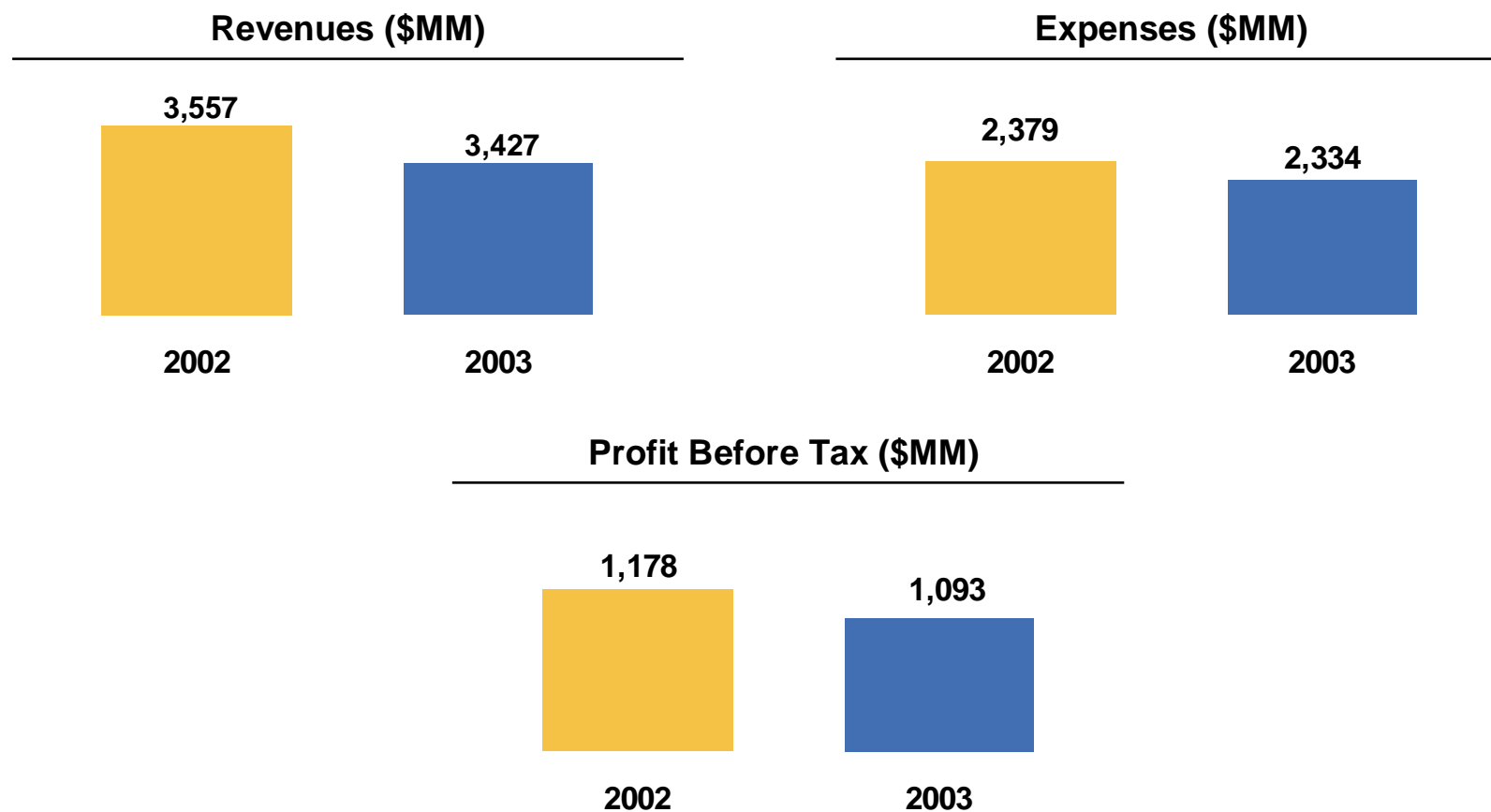
**Discover Loss Rates**



Note: (1) Peer Group is a Calendar year weighted average of 7 peers: Citigroup, MBNA, Bank One, Capital One, JPM Chase, AMEX and Bank of America

Sources: Morgan Stanley 4Q03 Earnings Financial Supplement, Company Filings and Morgan Stanley Equity Research

# Credit Services Financial Performance

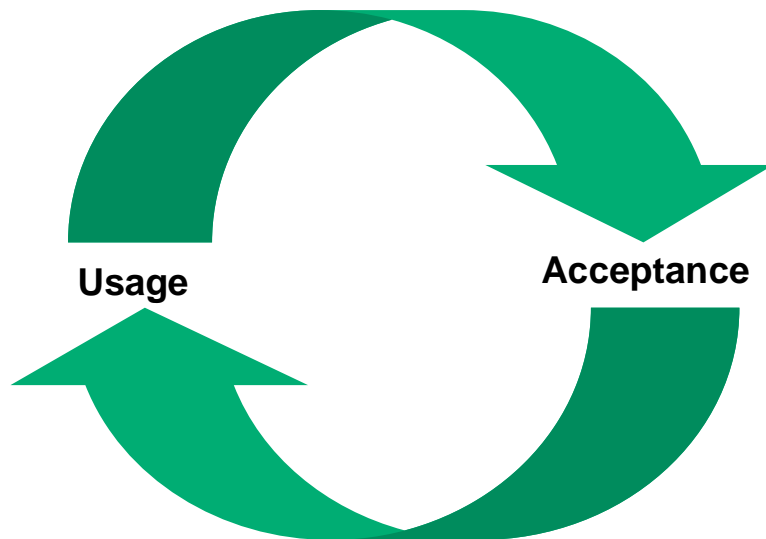


Source: Morgan Stanley 4Q03 Earnings Financial Supplement

# Credit Services 2003 Accomplishments

- Meaningful progress on credit quality
  - Decline in delinquency and net charge-off dollar volumes
- Signed 600,000 new merchants
  - McDonald's, Starbucks, AIG
- Added quality CashBack Bonus partners
  - Bed Bath & Beyond, Budget, Sprint
- Launched innovative new products
  - Gasoline Card with up to 10% back
  - Miles Card
  - CashBack Bonus Inverted Tier Card
- Growth in International cards and mortgage business

# Credit Services 2004 Initiatives



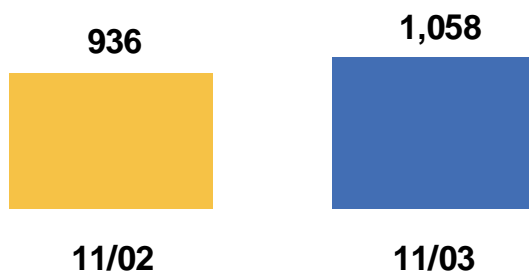
- Leverage Discover brand and CashBack Bonus to grow retail volume
- Significantly increase total and exclusive network acceptance
- Improve portfolio credit quality
- Achieve operating expense reductions
- Grow International and Mortgage businesses

# Investment Management

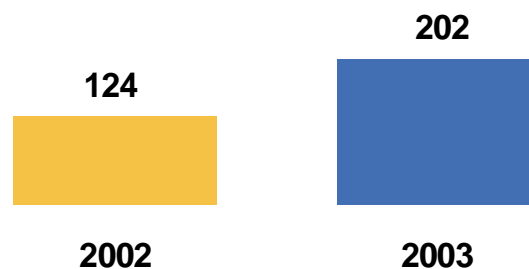


# Investment Management 2003 Developments

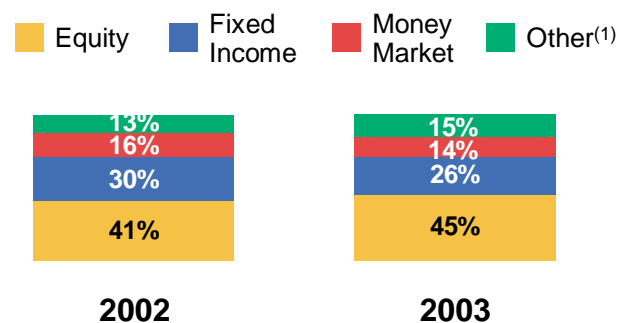
## S&P500 Average



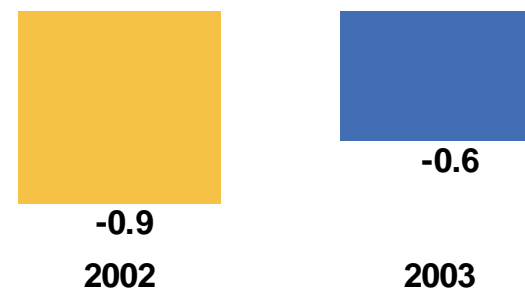
## Industry Fund Flows<sup>(2)</sup> (\$Bn)



## MWD Asset Mix



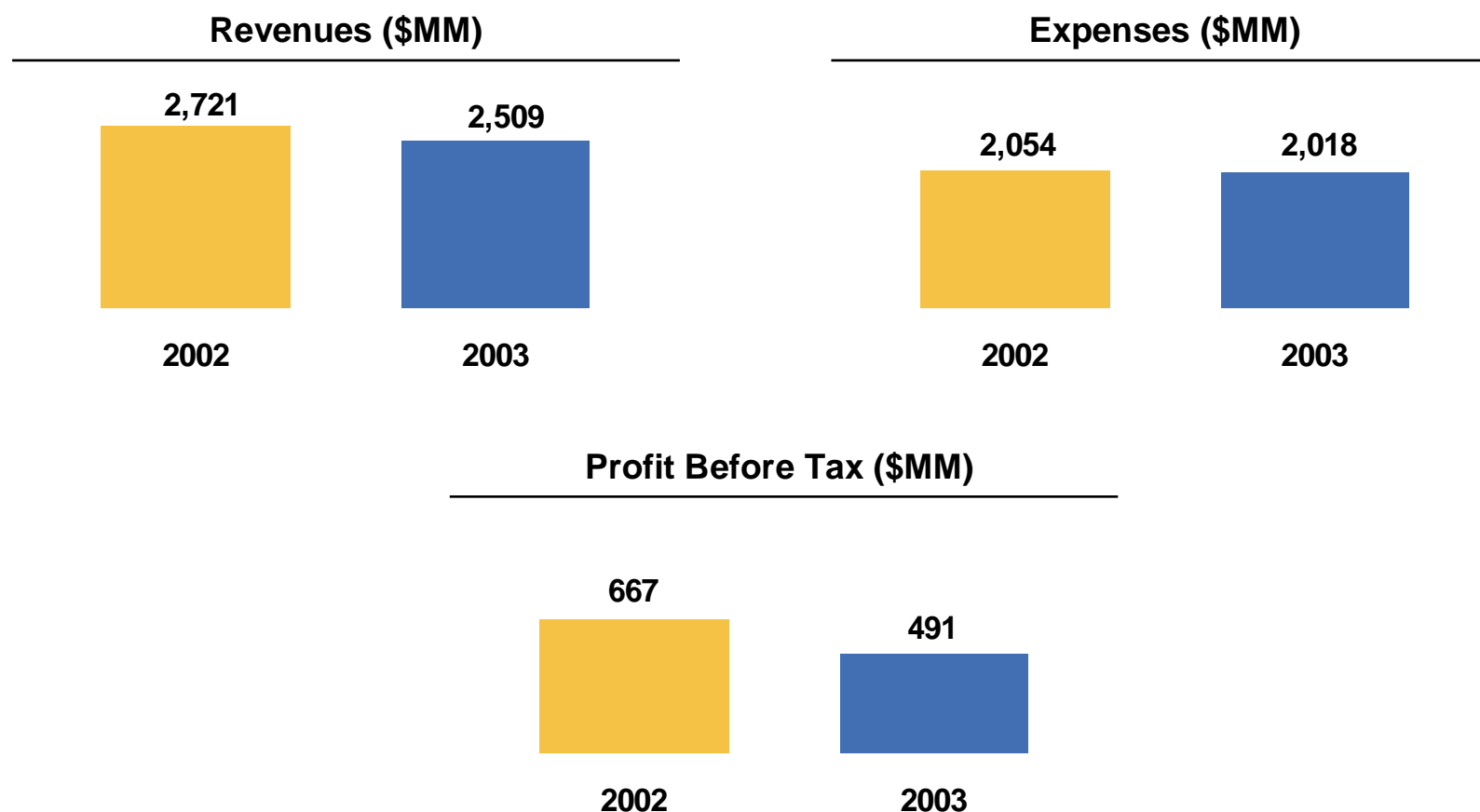
## Morgan Stanley Fund Flows<sup>(2)</sup> (\$Bn)



Notes: (1) Includes Alternative Investments  
(2) Excludes Money Market Fund Flows

Sources: Factset, Investment Company Institute, Morgan Stanley 4Q03 Earnings Financial Supplement

# Investment Management Financial Performance



Source: Morgan Stanley 4Q03 Earnings Financial Supplement

# Investment Management 2003 Accomplishments

- New Products
  - Sterling & Euro Institutional Liquidity Funds
  - Traxis Partners
  - Alternative Investment Partners
- Expense Management
- Strong Van Kampen Sales

# Investment Management 2004 Initiatives

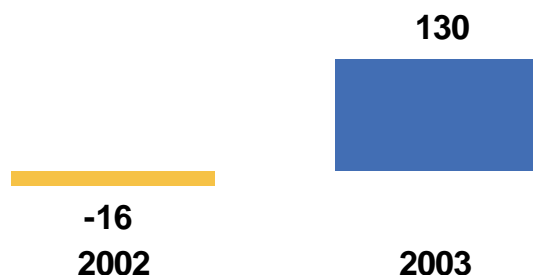
- Improve investment performance
- Achieve positive net sales
- Grow alternative investment products business

# Individual Investor Group

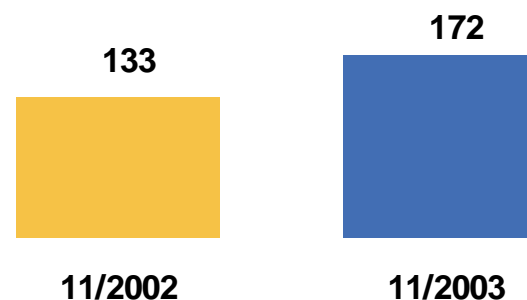
John Schaefer  
President & COO

# Individual Investor Group 2003 Developments

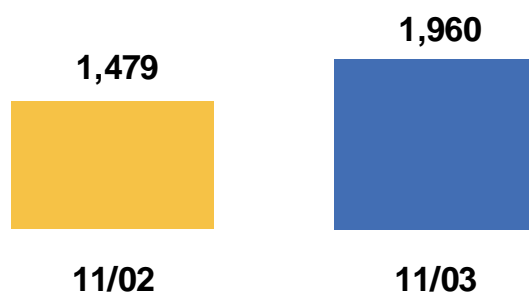
**Industry Equity Fund Flows (\$Bn)**



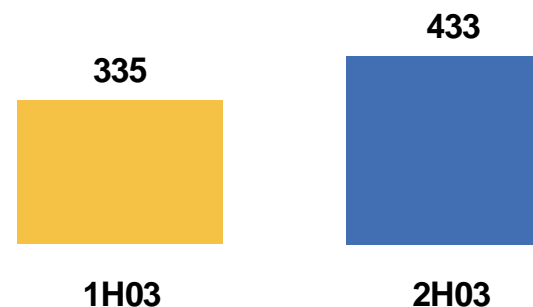
**Industry Margin Debits (\$Bn)**



**NASDAQ Index Level**



**Online Daily Average Revenue Trades<sup>(1)</sup> ('000s)**



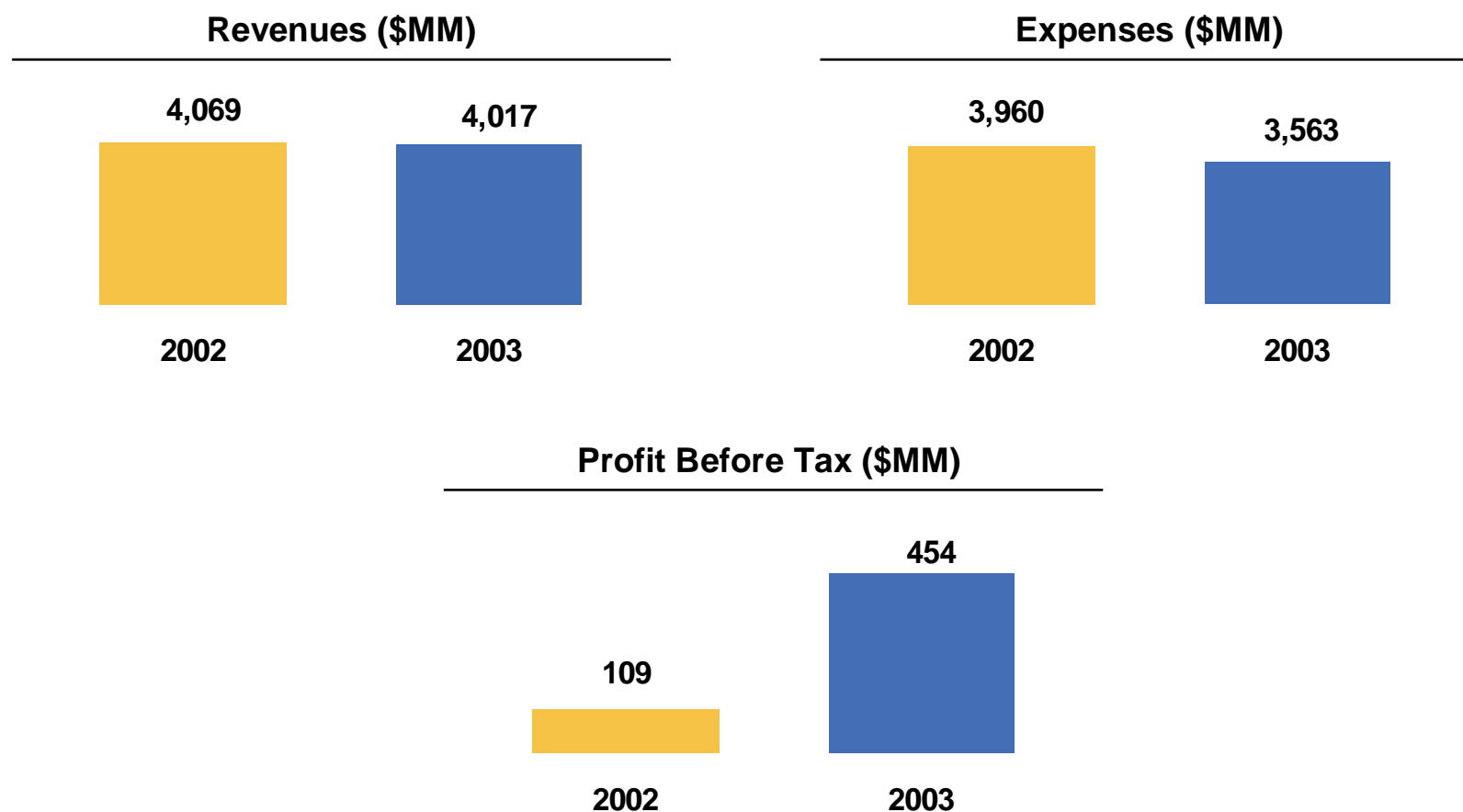
Note: (1) Average of Sum of Monthly Reported Data by Charles Schwab Corp, TD Waterhouse and Ameritrade Corp.

Sources: Investment Company Institute, NASDAQ, NYSE, company filings

# 2003 Accomplishments

- Reorganized IIG around client segments
- Created single sales organization out of PWM and IAS
- Created 70 market complexes
- Combined investment strategy, products and marketing into Client Solutions
- Training FAs/IRs to improve advice model
  - Launched ClientOne pilots
  - Launched PWM Expertise Exchange
- Introduced client “tiered benefits”
  - Platinum, Gold, Blue
- Increased PBT and margins substantially

# Individual Investor Group Financial Performance



Source: Morgan Stanley 4Q03 Earnings Financial Supplement



# Individual Investor Group Mission Statement

Become the first choice for affluent and high net worth customers who will **value and pay for** what Morgan Stanley, **as a firm**, has to offer

# Transformation of Business Model

Distribution  
Business



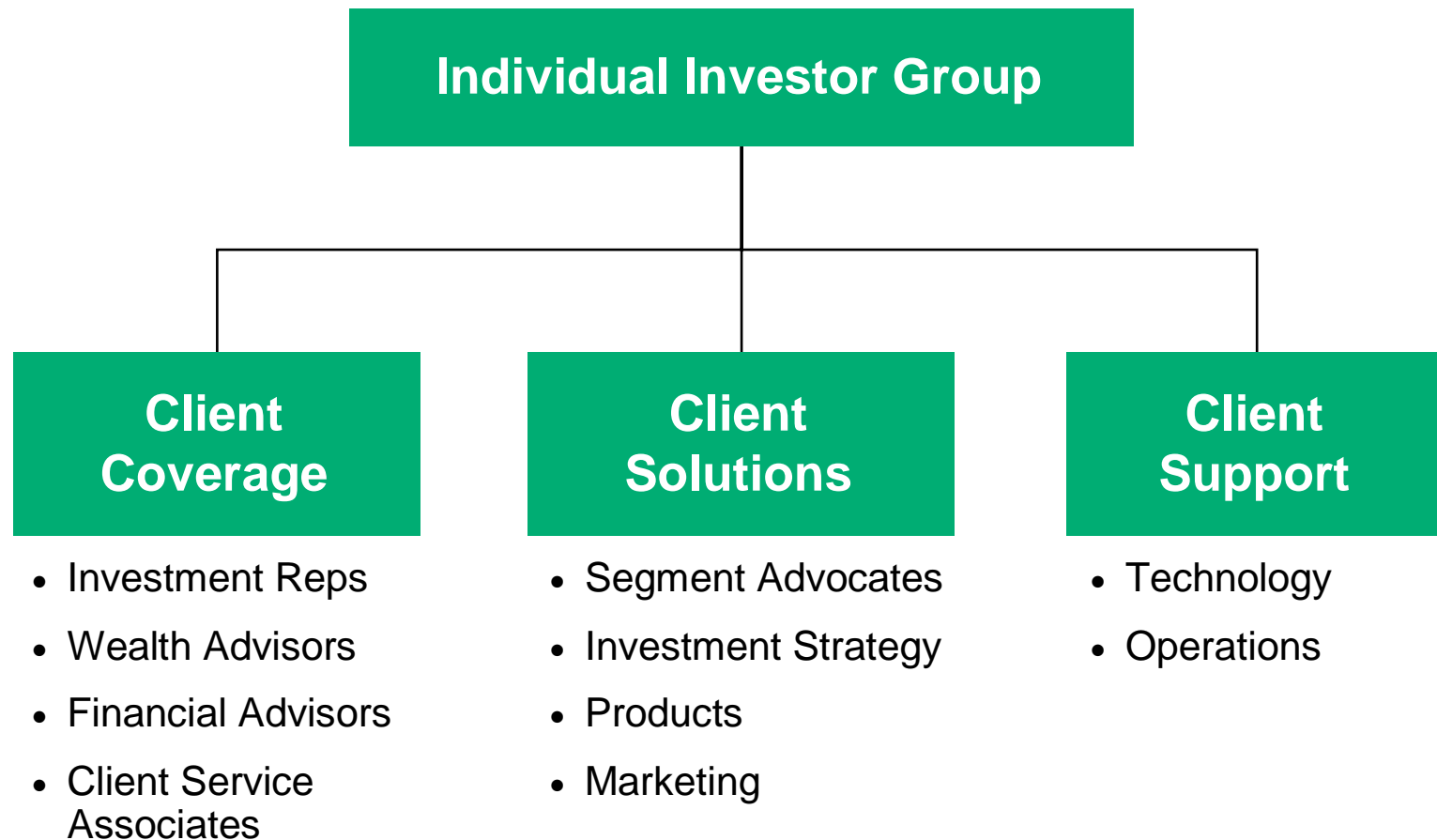
Client Relationship  
Business

Product  
Sales



Solving  
Client Needs

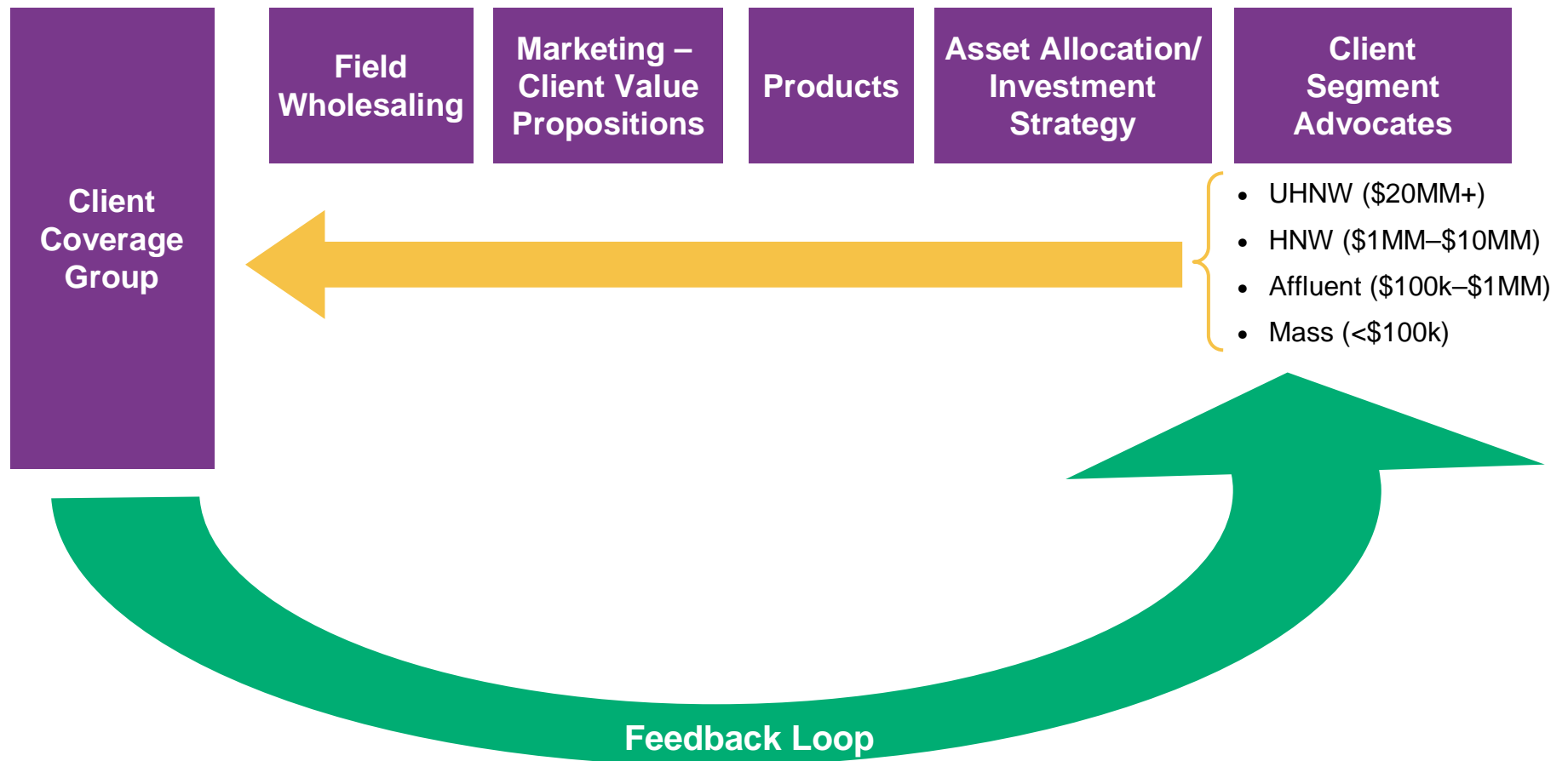
# We Have Organized Around Clients



# Segmented Client Coverage Model

Segment	Investable Assets	Coverage
UHNW	\$20MM+	Investment Representatives
UHNW/HNW Overlap	\$10MM–\$20MM	Investment Representatives/ Wealth Advisors
HNW	\$1MM–\$10MM	Wealth Advisors/ Financial Advisors
Affluent	\$100k–\$1MM	Financial Advisors
Mass Affluent	<\$100k	CSAs/Lower Cost Model

# Client Solutions Approach



# Individual Investor Group 2004 Initiatives

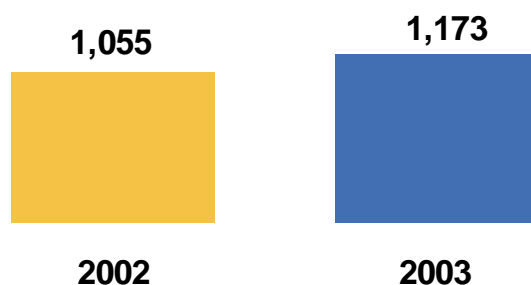
- Continue client focus
- Grow the business
  - Assets, particularly fee-based
  - FA trainees and recruits
  - Platinum and Gold Households
  - Margins and Earnings
- Continue execution of segmented strategy & organization
- Maintain strict expense control

# Institutional Securities

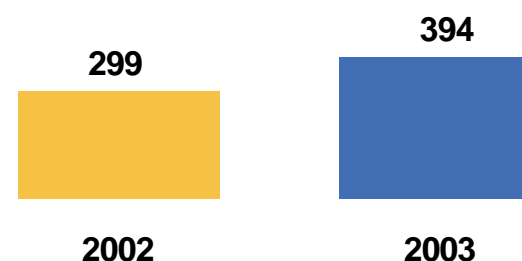
Vikram Pandit  
President & COO

# Institutional Securities 2003 Developments

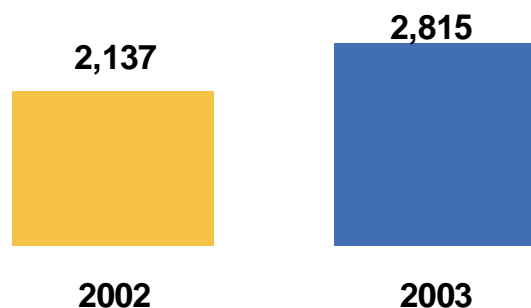
**Global Announced Merger & Acquisition (\$Bn)**



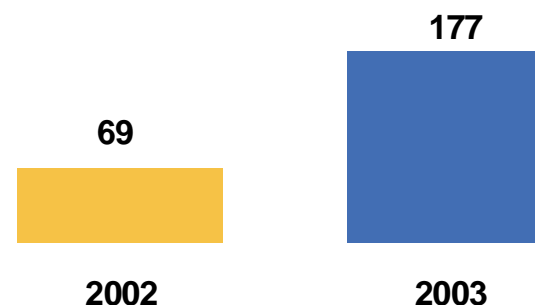
**Global Equity Underwriting (\$Bn)**



**Global Investment Grade Debt (\$Bn)**



**Global High Yield Debt (\$Bn)**

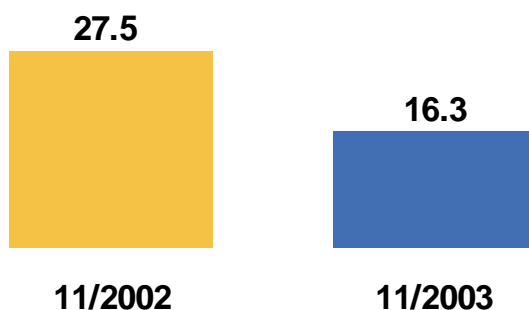


Source: Thomson Financial – Calendar YTD January 1 - December 31

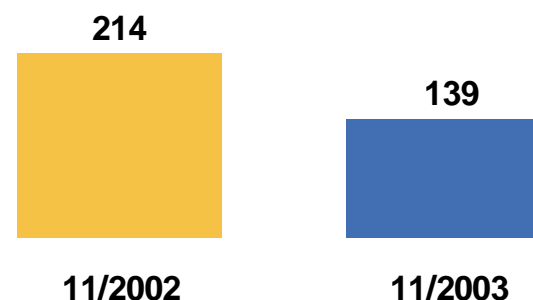


# Institutional Securities 2003 Developments

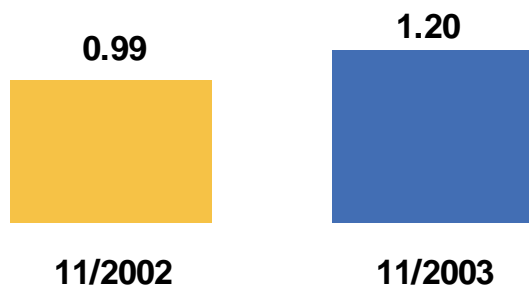
**Volatility Index (VIX)**



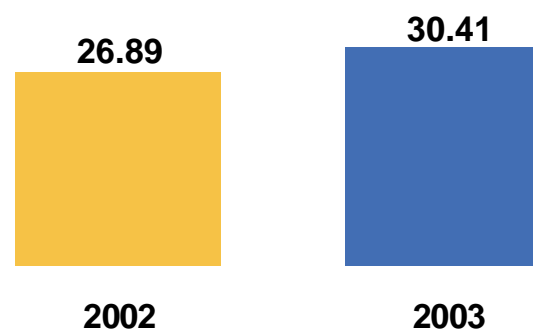
**10 Year BBB Credit Spread**



**Euro/USD Exchange Rate**

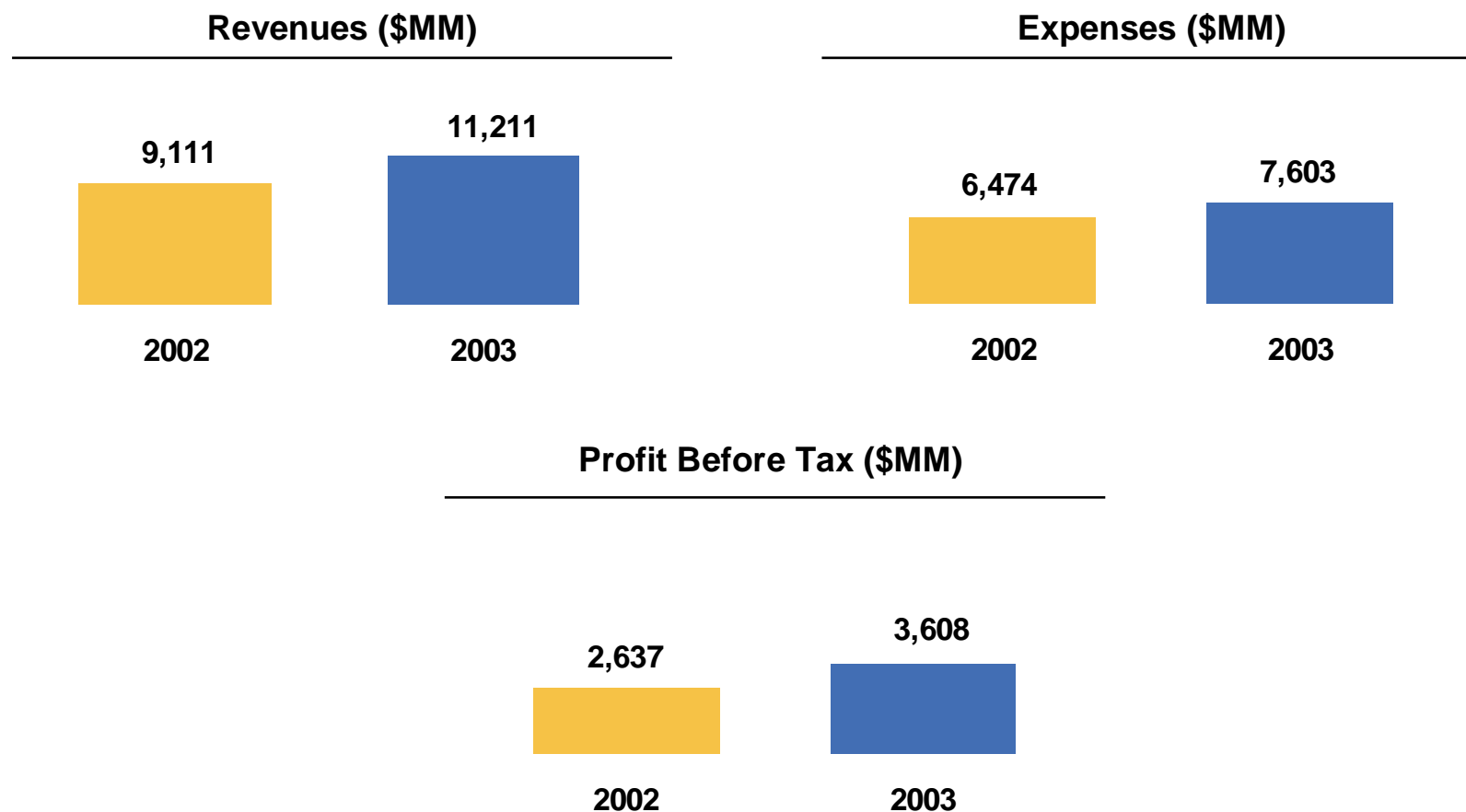


**WTI 1-Month (\$/Barrel)**



Sources: FactSet, MSCI, Bloomberg

# Institutional Securities Financial Performance



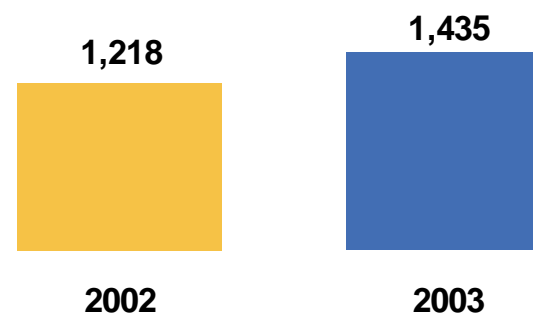
Source: Morgan Stanley 4Q03 Earnings Financial Supplement

# Institutional Securities Financial Performance

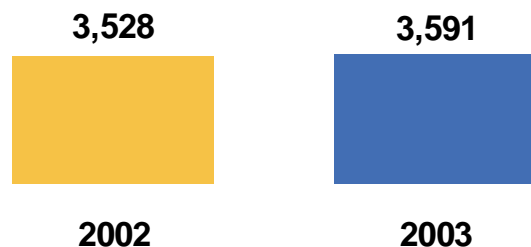
**Advisory Revenues (\$MM)**



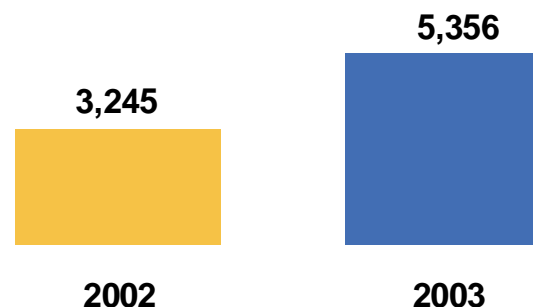
**Underwriting Revenues (\$MM)**



**Equity Sales & Trading Net Revenues (\$MM)**



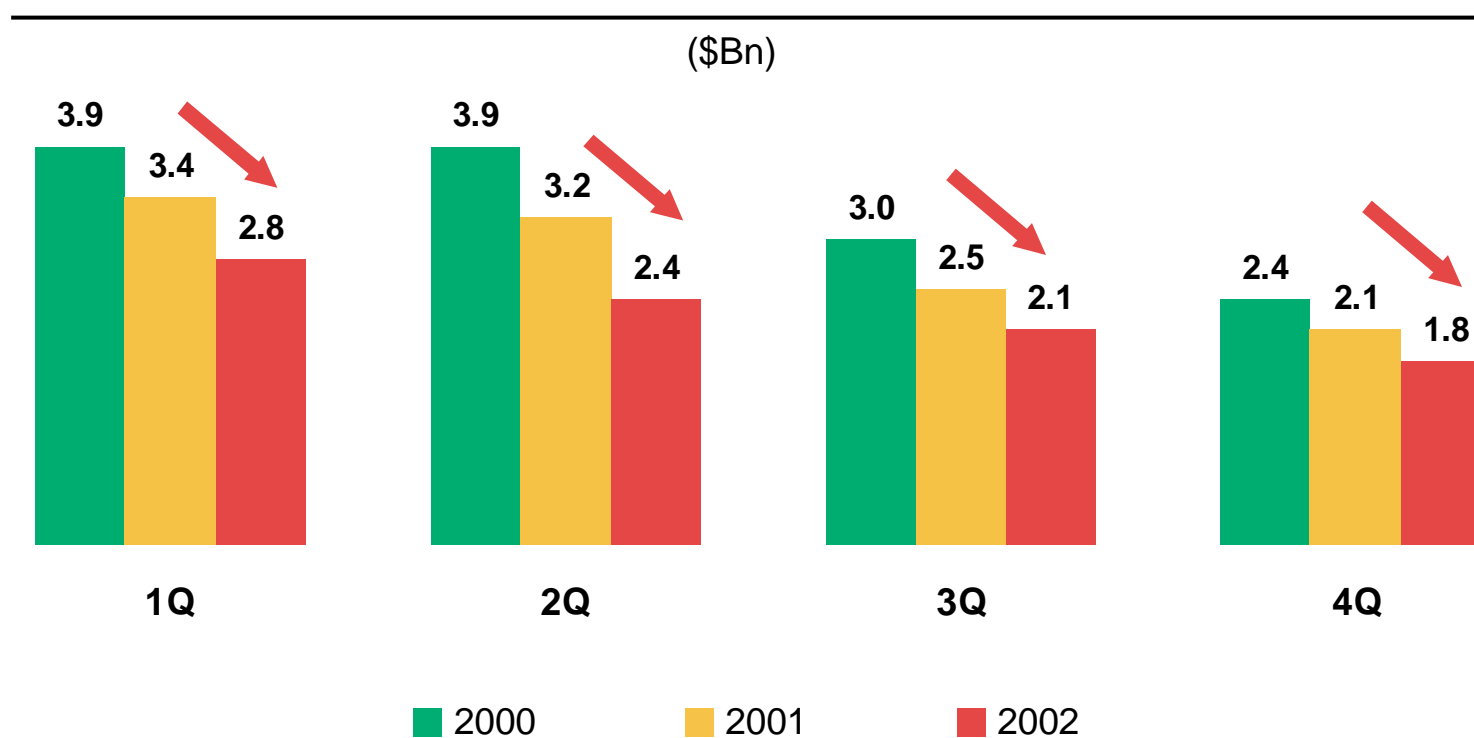
**Fixed Income Sales & Trading Net Revenues (\$MM)**



Source: Morgan Stanley 4Q03 Earnings Financial Supplement

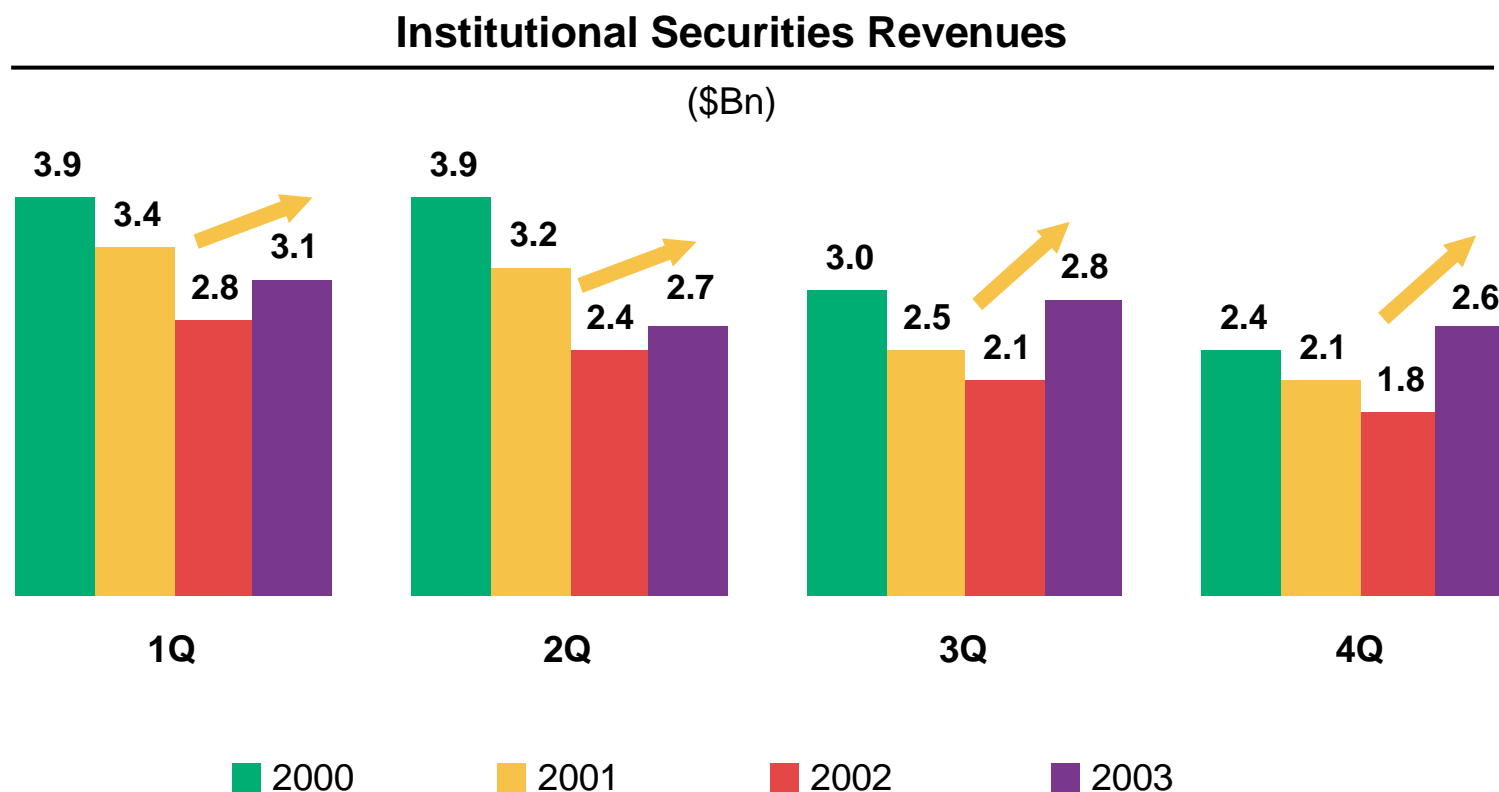
# Revenue Trends

## Institutional Securities Revenues



Source: Morgan Stanley SEC filings

# Revenue Trends



Source: Morgan Stanley SEC filings

# Institutional Securities 2003 Accomplishments

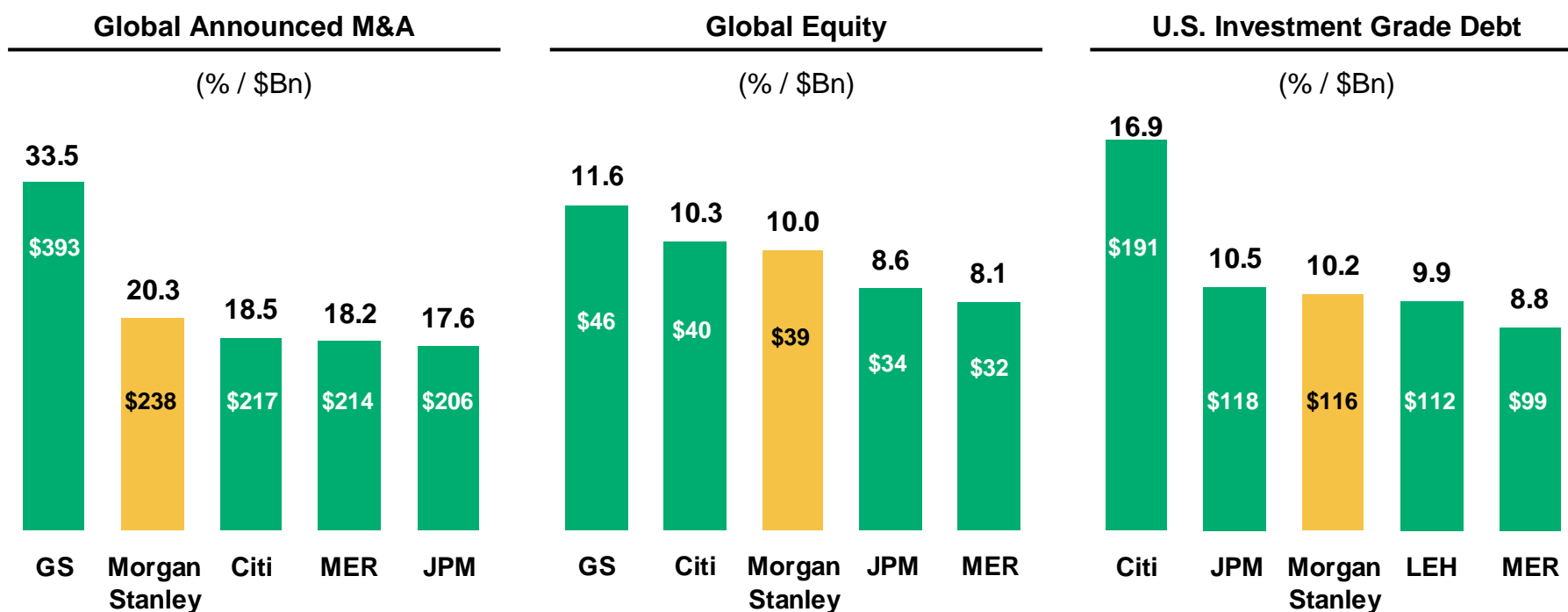
- Increased Client Share: Executing on Differentiation
- Capitalized on Market-Making Opportunities
- Efficiency Enhancements

# Increased Client Share: Executing on Differentiation

- Achieved market share goals
- Strengthened client relationships
- Solved complex client problems with an integrated approach

# 2003 Market Share Results

## Primary Market Share Performance



Source: Thomson Financial. Calendar year data January 1 – December 31, 2003



# Capitalized on Market-Making Opportunities

- Active in making markets
- Focused on opportunities in commodities and distressed assets
- Maintained strong risk management

# Efficiency Enhancements

- Progress on reducing fixed costs in trading
  - Prosecuted volumes up significantly
  - Yet cost per trade down nearly proportionately
- Improved operating efficiencies in IT and Operations areas
- Achieved cost savings in manageable areas

# Institutional Securities 2004 Initiatives

- Continue Momentum in Client Share
- Develop “Smarter” Capital Usage
- Establish Lower-Cost Processing Platform

# Conclusion

Stephen S. Crawford

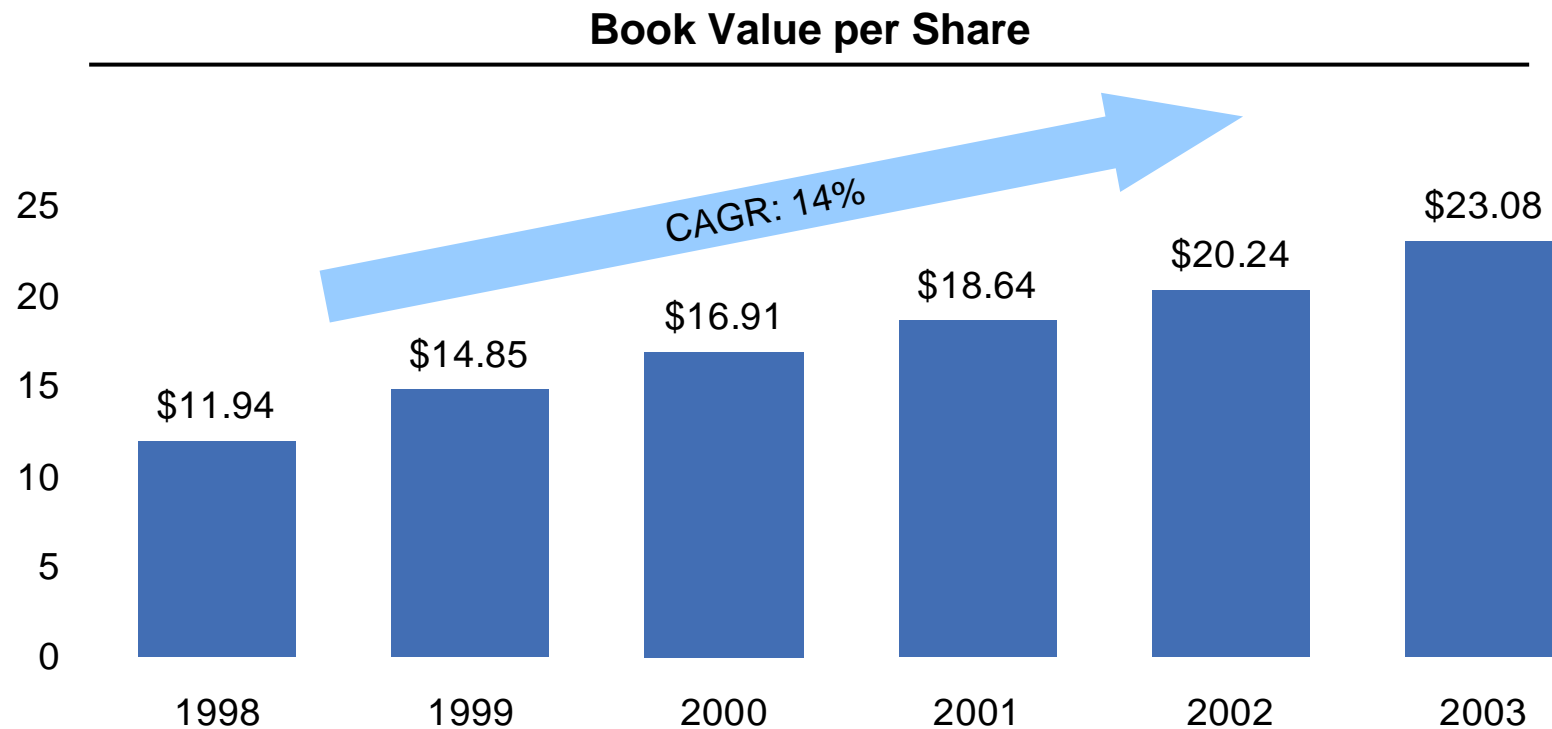
# Return on Equity

	<u>2003 ROE</u>	<u>Avg. ROE 1998-2003</u>
Morgan Stanley	16.5%	22.9%
MER	16.1%	15.3%
LEH	18.2%	18.0%
GS <sup>(1)</sup>	15.0%	19.5%

Source: Company filings

Notes: (1) GS Avg. 1999-2003 only. For 1999, ROE is estimated based on company filings.

# Growth in Morgan Stanley Book Value



Source: Morgan Stanley SEC filings

# Firmwide 2004 Initiatives

- Client focus
- Cost discipline
- Capital strength



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