



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>	 \$3,787	 \$2,988	 27%
 <b>Diluted EPS</b>	 \$3.45	 \$2.69	 28%
 <b>ROE</b>	 16.5%	 14.1%	

Note: (1) 2002 includes \$235 million restructuring charge

Source: Morgan Stanley 4Q03 Earnings Financial Supplement

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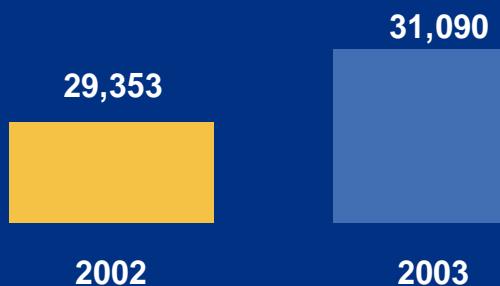
# Discover Financial Services

Morgan Stanley

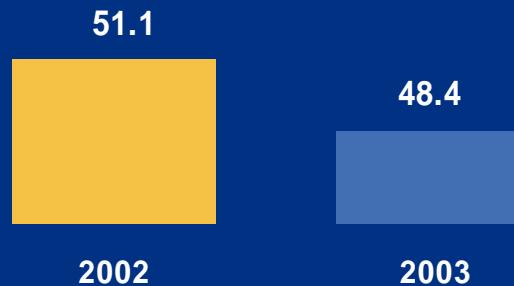
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# Discover – 2003 Developments

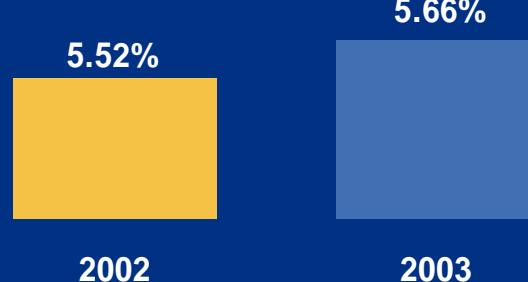
## Weekly Average Bankruptcies



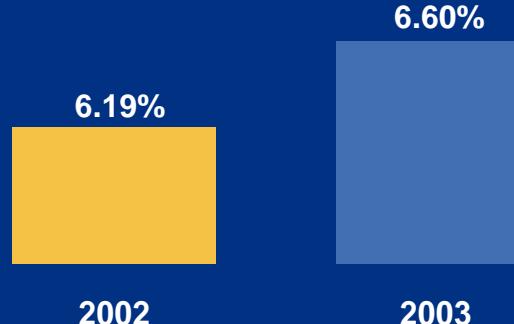
## Discover Loan Balances (\$Bn)



## 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

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# Credit Services Financial Performance

## Revenues (\$MM)

3,557



2002

3,427



2003

## Expenses (\$MM)

2,379



2002

2,334



2003

## Profit Before Tax (\$MM)

1,178



2002

1,093



2003

Source: Morgan Stanley 4Q03 Earnings Financial Supplement

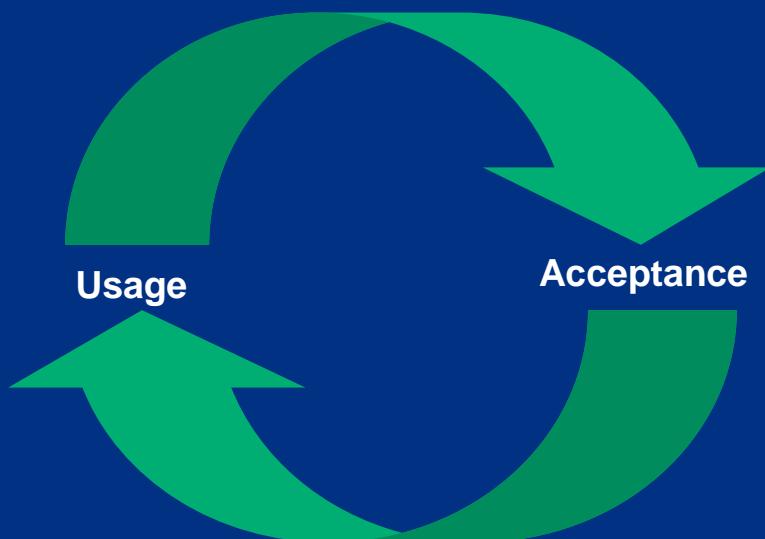
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# Credit Services 2003 Accomplishments

- Meaningful progress on credit quality
  - Decline in 30+ and 90+ day delinquency volumes over course of year
- 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



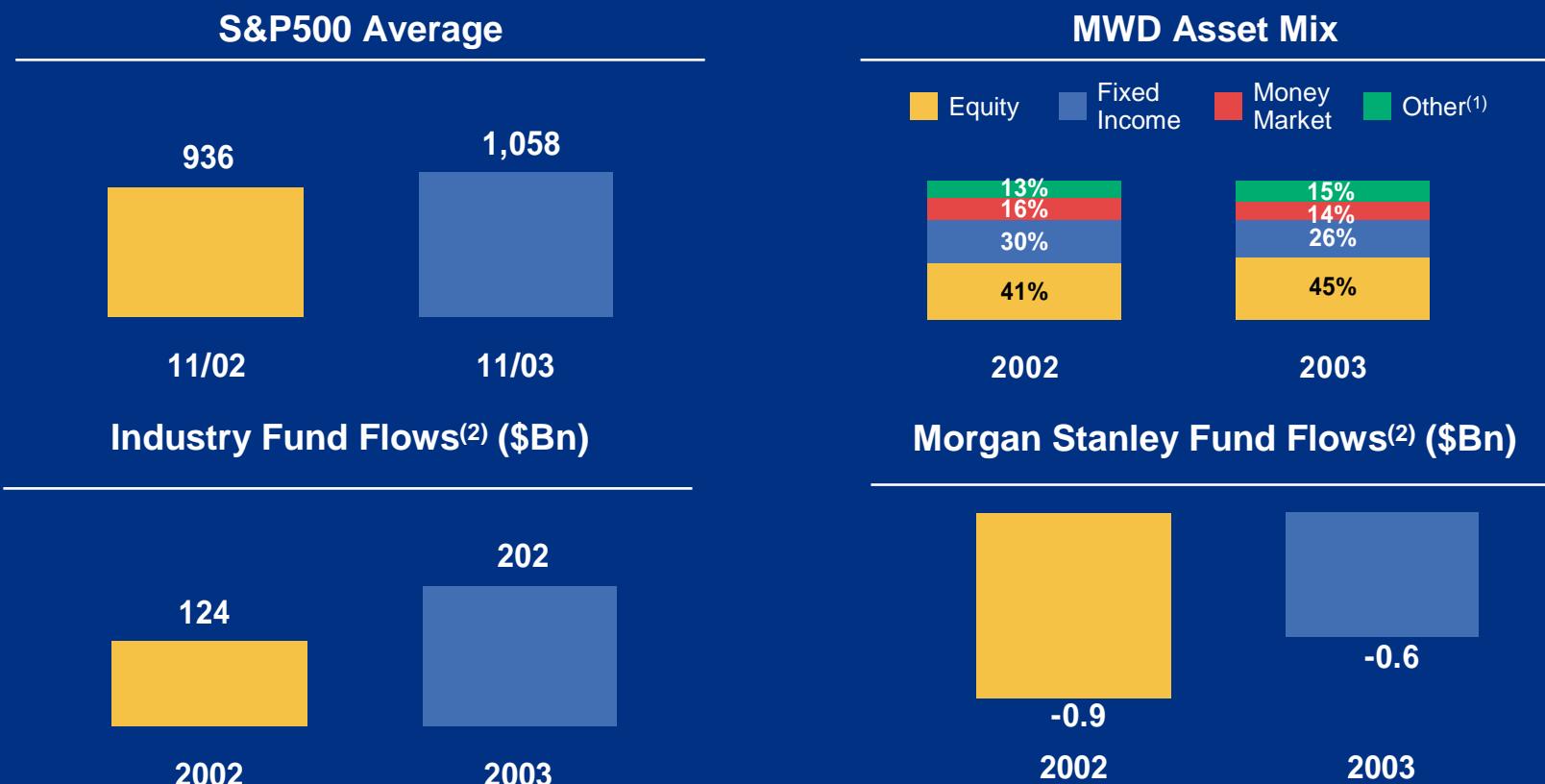
- Leverage Discover brand and CashBack Bonus to grow retail volume
- Significantly increase total and exclusive network acceptance
- Improve portfolio credit quality
- Achieve operating expense reductions
- Grow International and Mortgage businesses

# Investment Management

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# Investment Management 2003 Developments



Notes: (1) Includes Alternative Investments

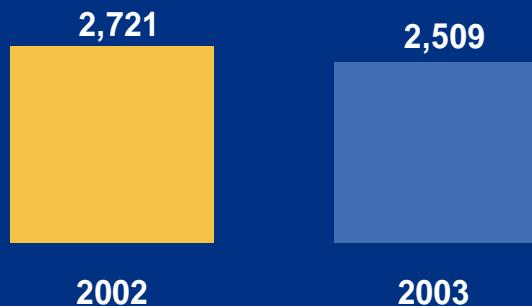
(2) Excludes Money Market Fund Flows

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

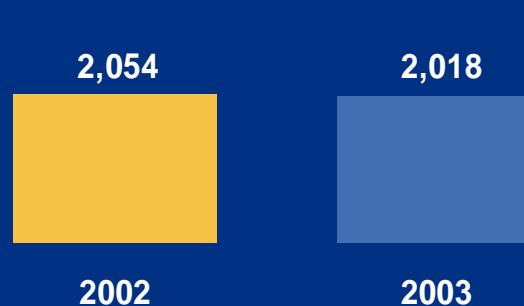
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# Investment Management Financial Performance

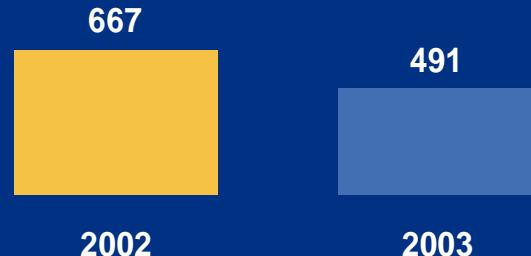
## Revenues (\$MM)



## Expenses (\$MM)



## Profit Before Tax (\$MM)



Source: Morgan Stanley 4Q03 Earnings Financial Supplement

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# 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

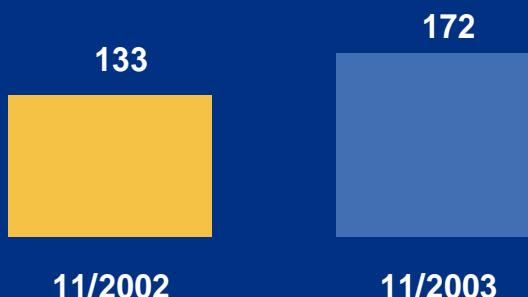
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# Individual Investor Group 2003 Developments

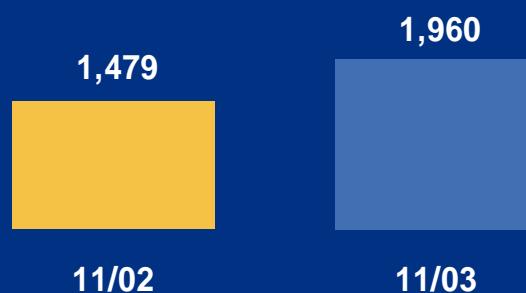
## Industry Equity Fund Flows (\$Bn)



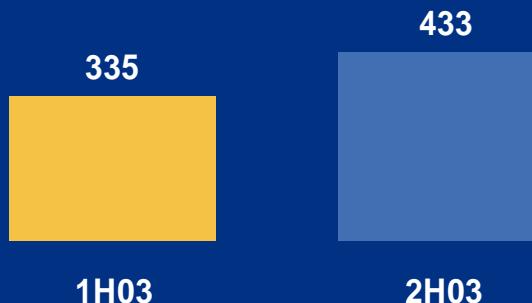
## Industry Margin Debits (\$Bn)



## 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

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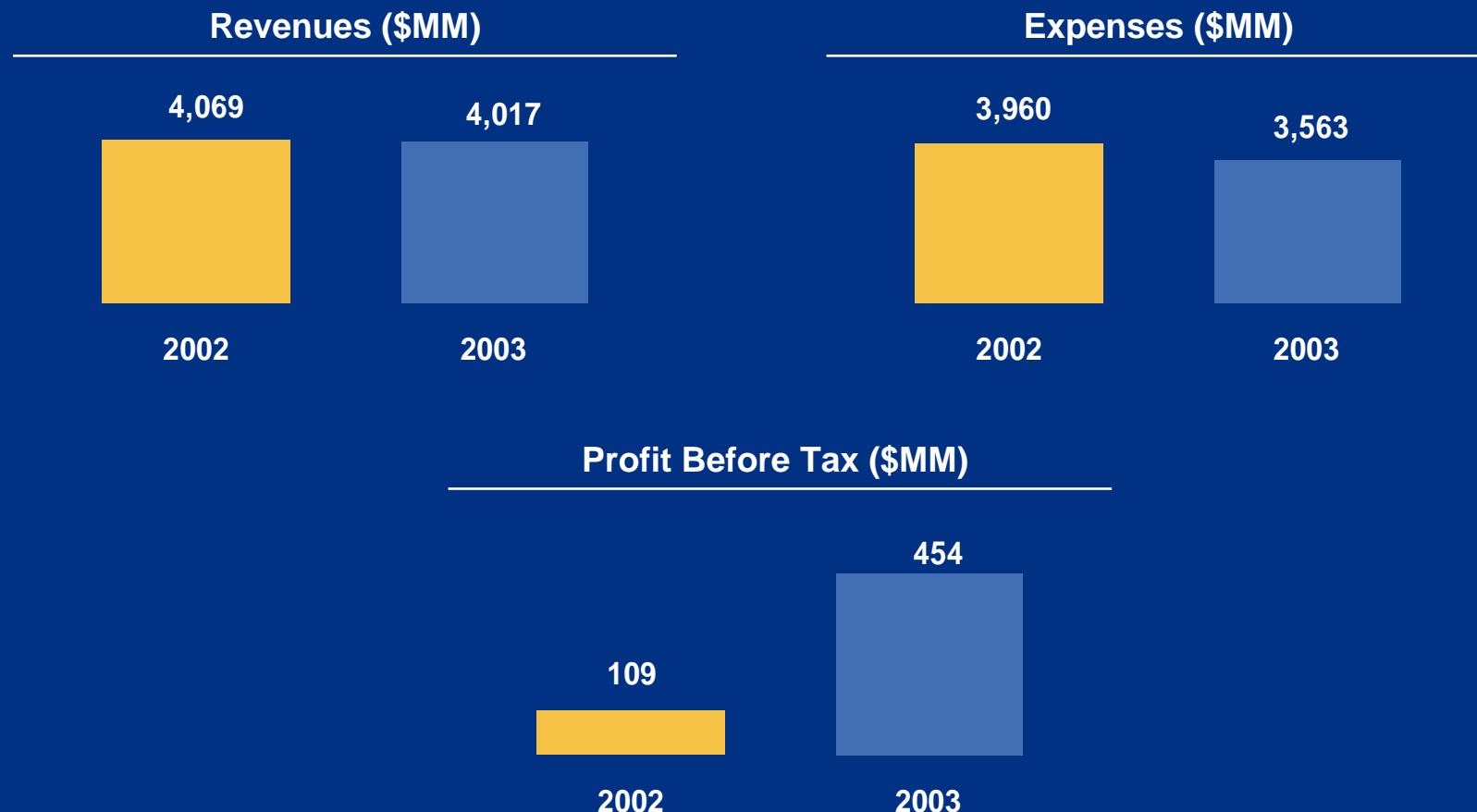
# 2003 Accomplishments

- 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



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# Individual Investor Group Financial Performance



Source: Morgan Stanley 4Q03 Earnings Financial Supplement

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# 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



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# Transformation of Business Model

Distribution  
Business



Client Relationship  
Business

Product  
Sales



Solving  
Client Needs

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# We Have Organized Around Clients

## Individual Investor Group

### Client Coverage

- Investment Reps
- Wealth Advisors
- Financial Advisors
- Client Service Associates

### Client Solutions

- Segment Advocates
- Investment Strategy
- Products
- Marketing

### Client Support

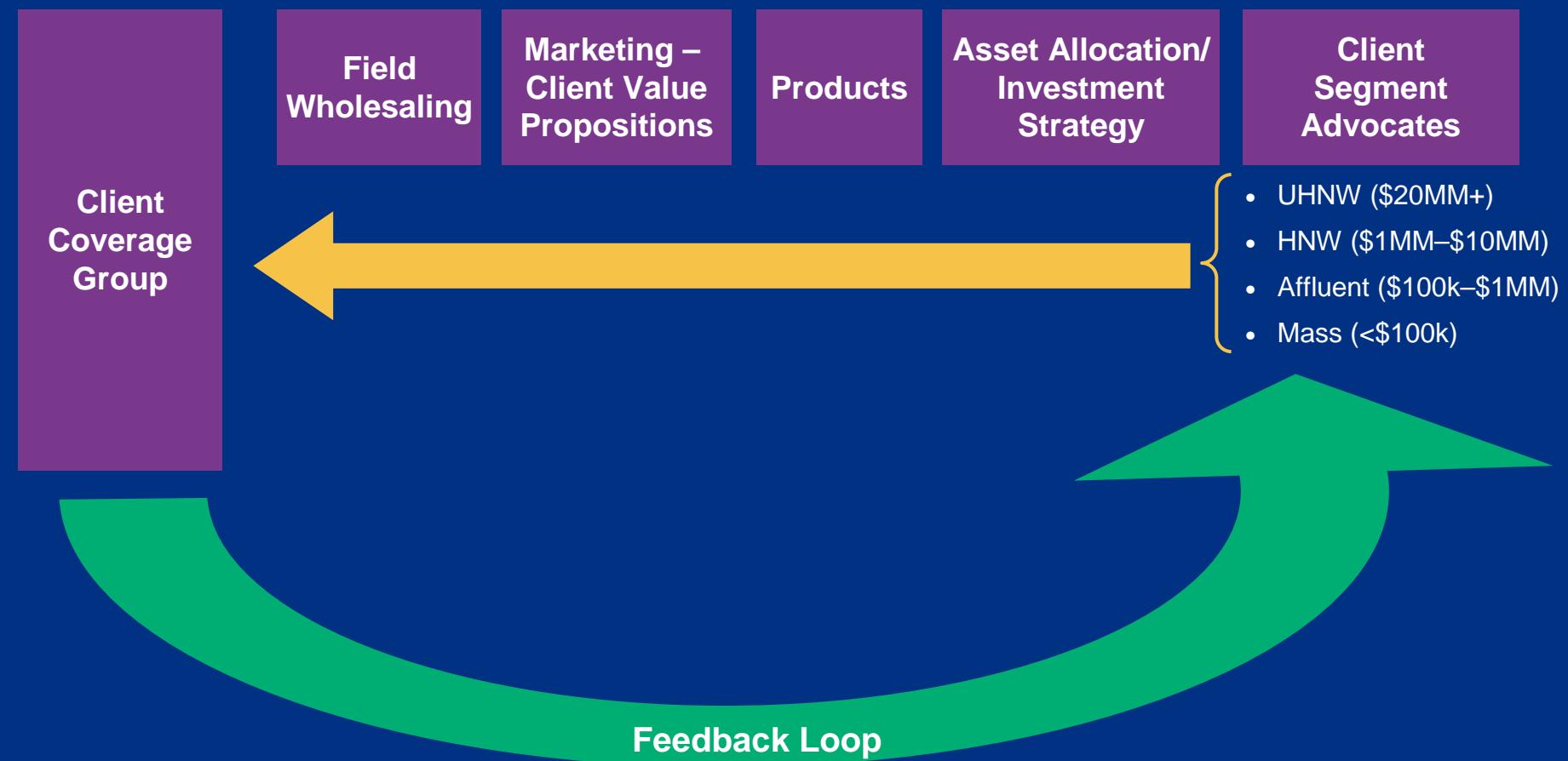
- Technology
- Operations

# 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

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# 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

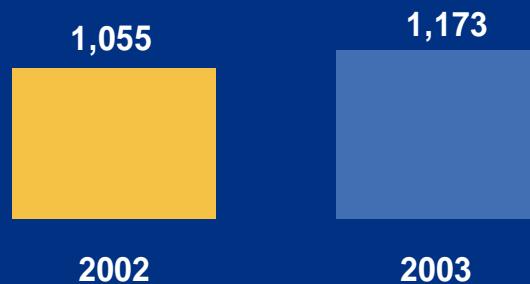
Vikram Pandit  
President & COO

Morgan Stanley

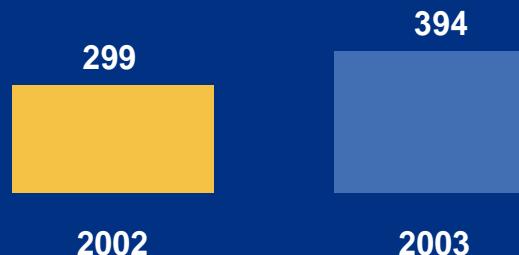
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# Institutional Securities 2003 Developments

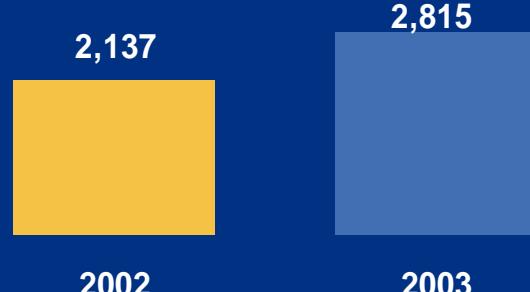
## Global Announced Merger & Acquisition (\$Bn)



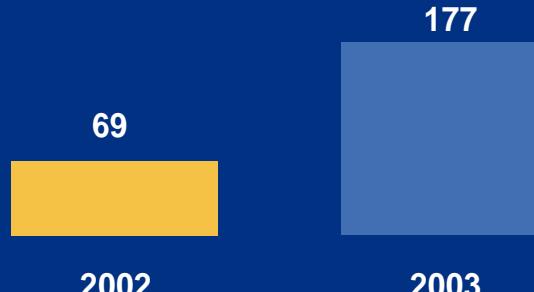
## Global Equity Underwriting (\$Bn)



## Global Investment Grade Debt (\$Bn)



## Global High Yield Debt (\$Bn)



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

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# Institutional Securities 2003 Developments

**Volatility Index (VIX)**

27.5



11/2002

16.3



11/2003

**10 Year BBB Credit Spread**

214



11/2002

139



11/2003

**Euro/USD Exchange Rate**

0.99



11/2002

1.20



11/2003

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

26.89



2002

30.41



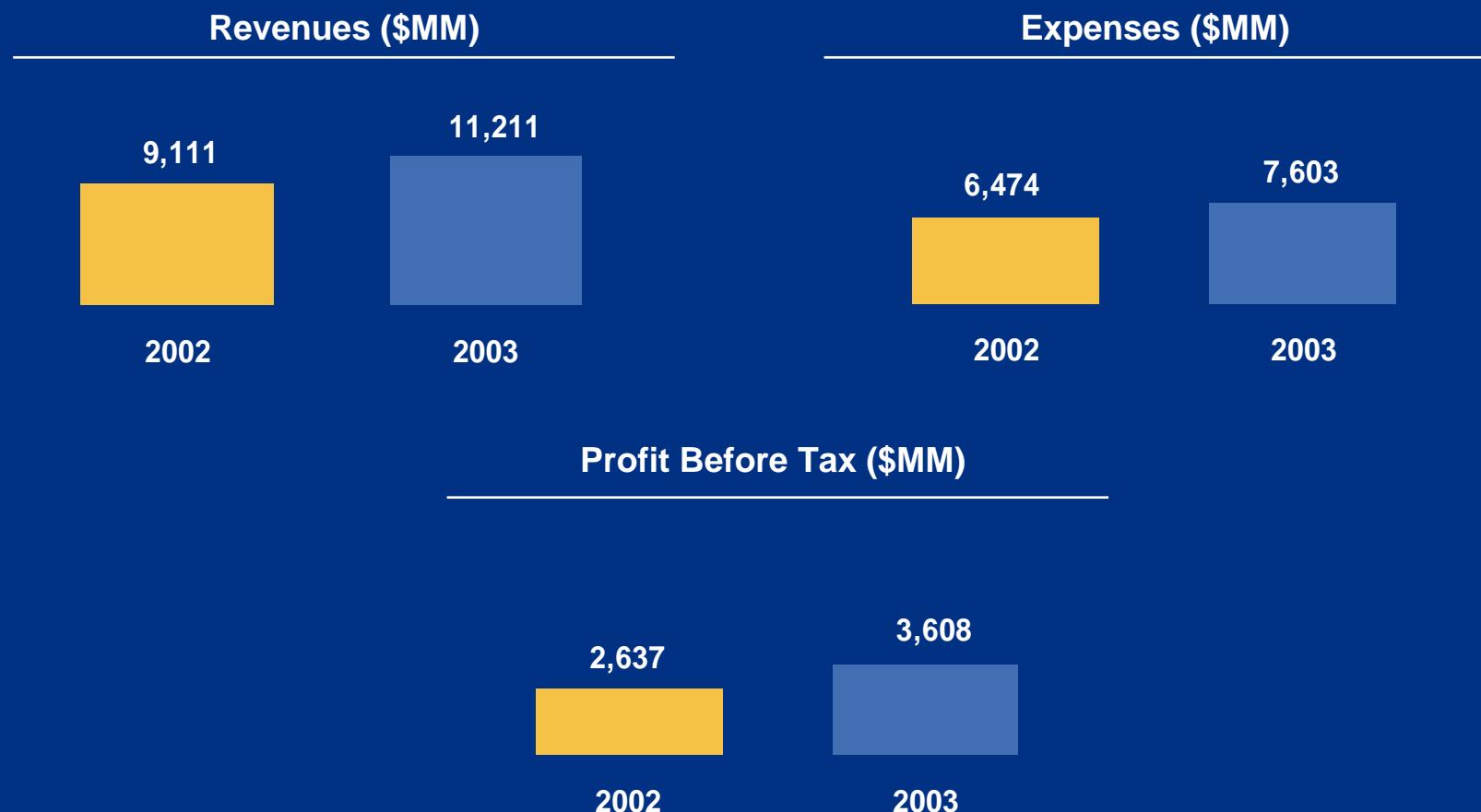
2003

Sources: Factset, MSCI, Bloomberg

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# Institutional Securities Financial Performance



Source: Morgan Stanley 4Q03 Earnings Financial Supplement

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## Institutional Securities

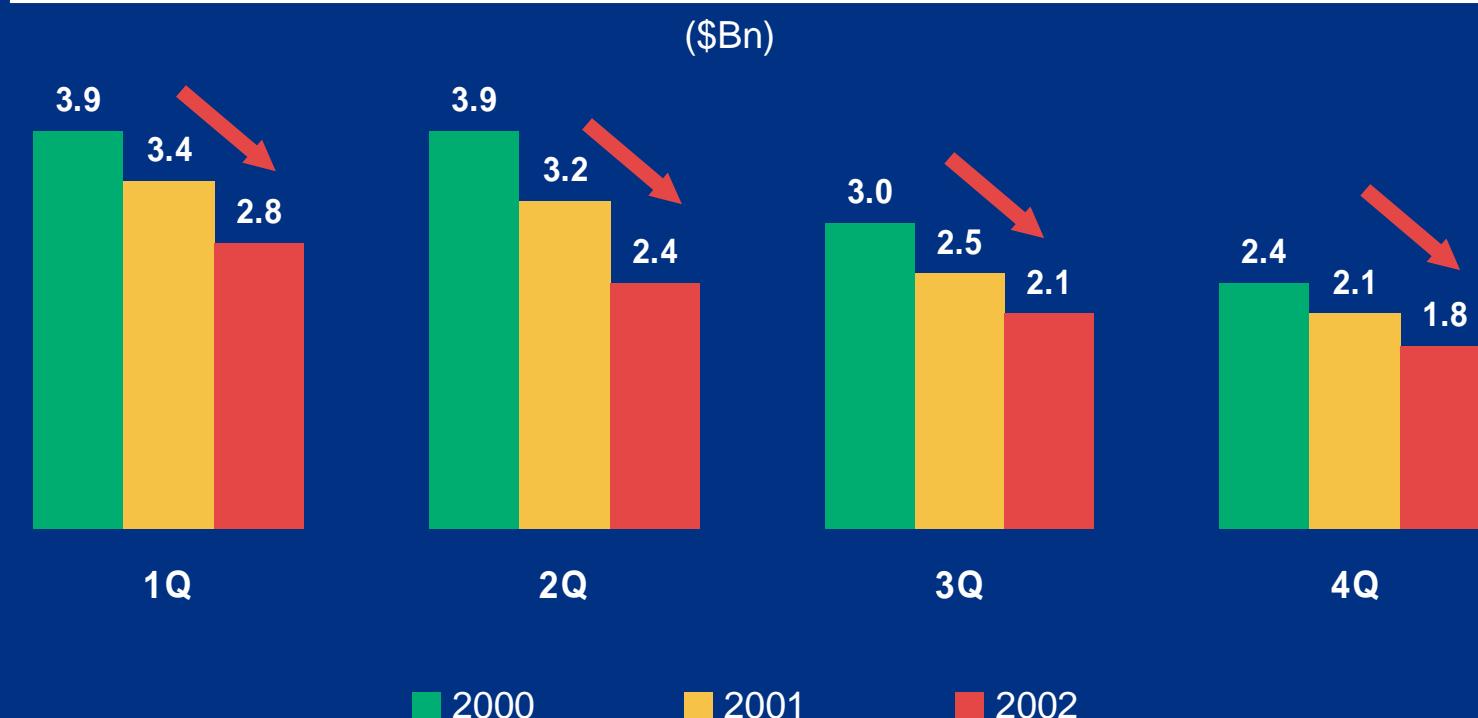
Advisory Revenues (\$)

## Financial Performance

Underwriting Revenues (\$)

# Revenue Trends

## Institutional Securities Revenues

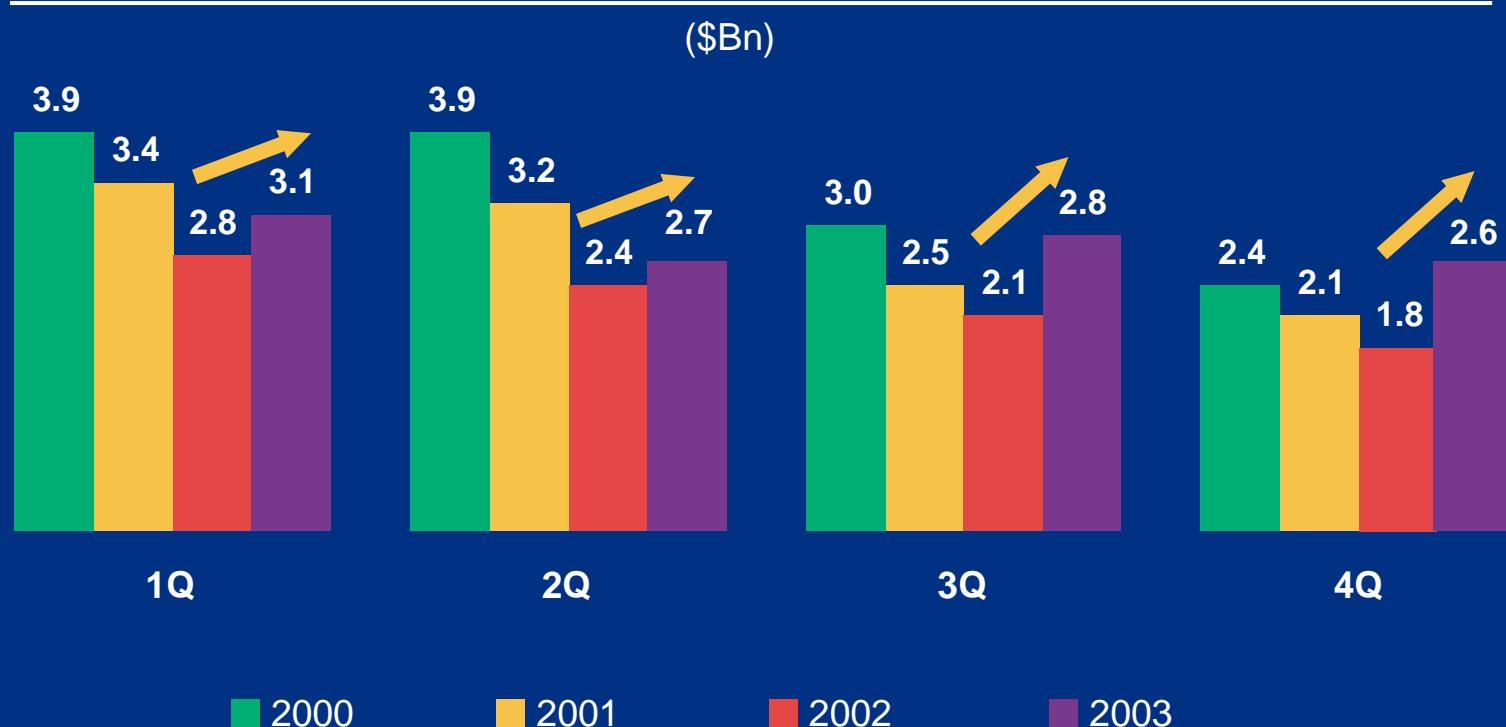


Source: Morgan Stanley SEC filings

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# Revenue Trends

## Institutional Securities Revenues



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# Institutional Securities 2003 Accomplishments

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



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# Increased Client Share: Executing on Differentiation

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



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# 2003 Market Share Results

## Primary Market Share Performance



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

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# 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



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# Conclusion

Stephen S. Crawford

# Return on Equity

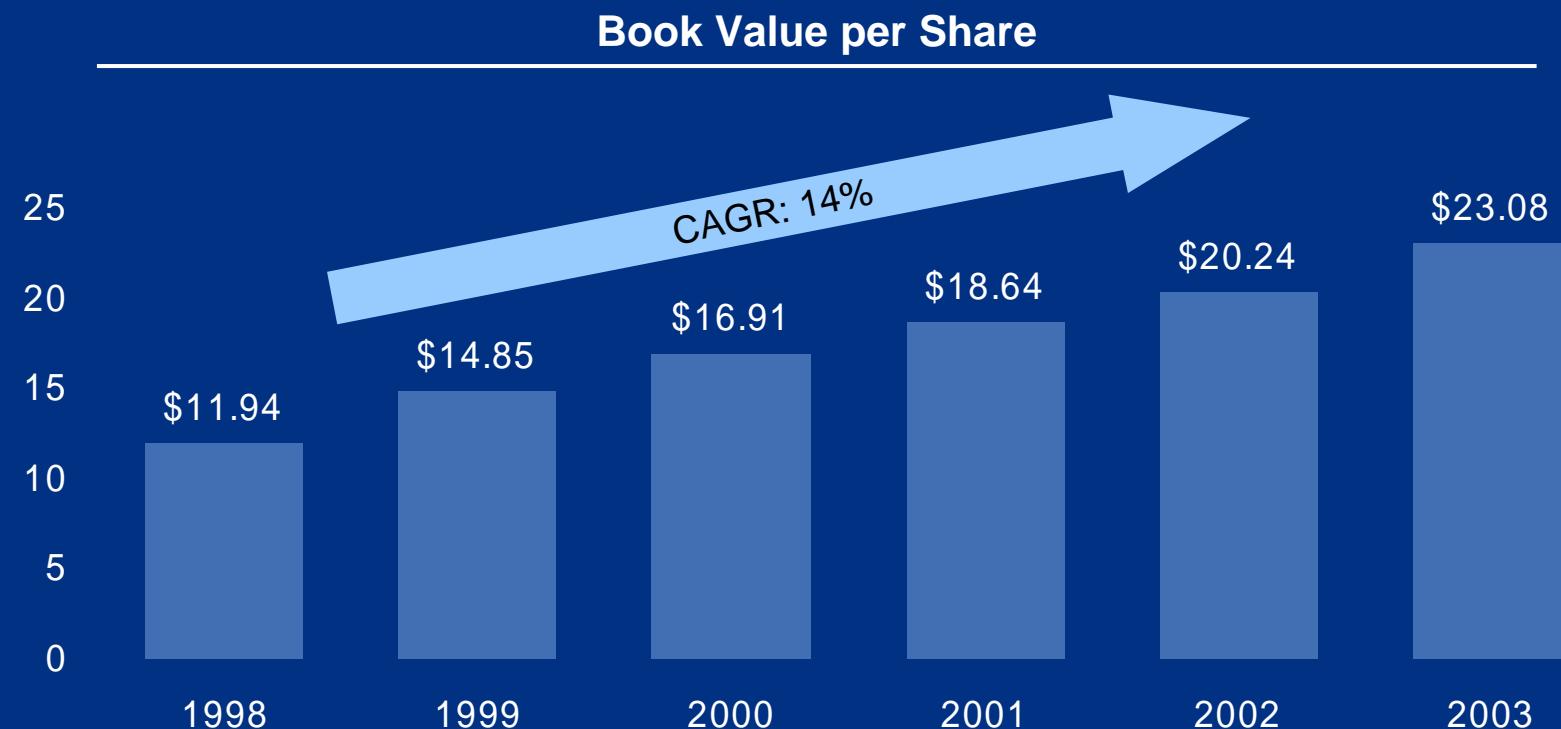
	<u>2003 ROE</u>	<u>Avg. ROE 1998-2003</u>
Morgan Stanley	16.5%	22.8%
MER	16.1%	15.3%
LEH	18.2%	18.0%
GS <sup>(1)</sup>	15.0%	19.5%

Source: Company filings

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

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# Growth in Morgan Stanley Book Value



Source: Morgan Stanley SEC filings

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# Firmwide 2004 Initiatives

- Client focus
- Cost discipline
- Capital strength



Stephen S. Crawford, CFO

John H. Schaefer, Individual Investor Group President & COO

Vikram S. Pandit, Institutional Securities President & COO

January 28, 2004