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# Morgan Stanley 4Q14 Fixed Income Investor Update

March 23, 2015

# 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, Definitive Proxy Statement, 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.

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 the Company's Annual Report on Form 10-K, the Company's Quarterly Reports on Form 10-Q and the Company's Current Reports on Form 8-K, as applicable, including any amendments thereto. This presentation is not an offer to buy or sell any security.

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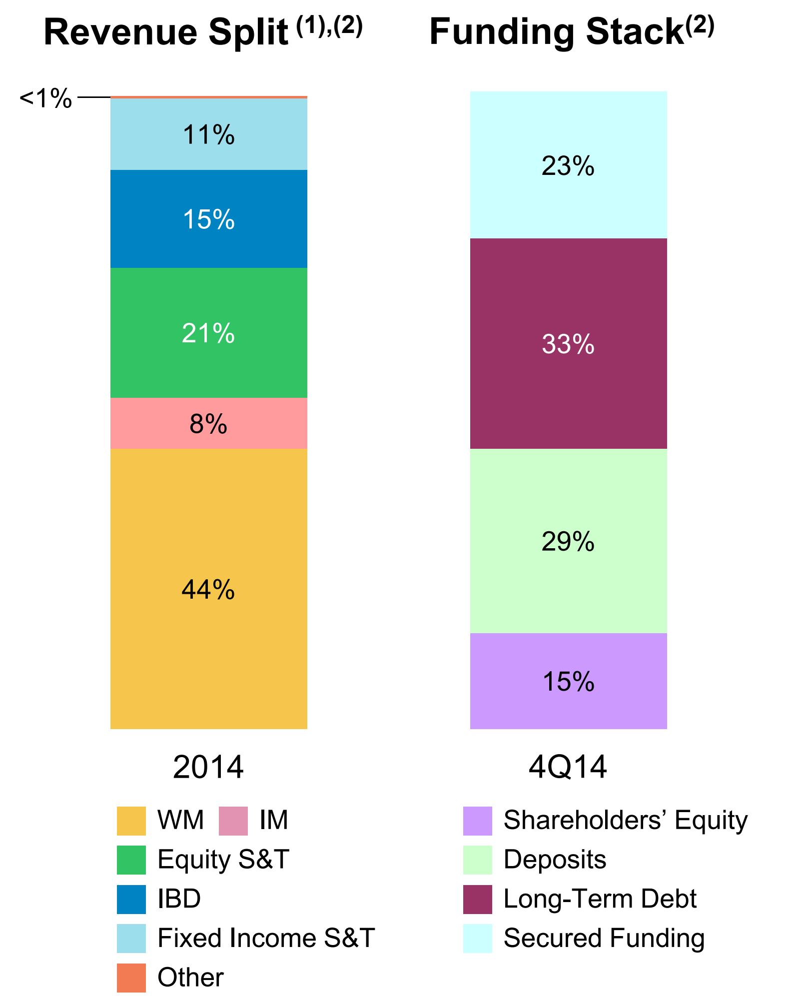
# Agenda

- **A** Business Update
- **B** Prudent Liability Management
- **C** Liquidity Management
- **D** Regulatory Topics
- **E** Capital Management

# Ⓐ Strategic Moves Enhance Business Outlook and Funding Profile




- **Repositioned Business Mix & Balance Sheet…**
  - Powerful set of businesses
  - Enhanced earnings consistency
  - Durable funding; strong balance sheet
- **…Result & Looking Forward**
  - Growth opportunities embedded in existing businesses, with increasing deposits and loan deployment
  - Upside from higher rates, more favorable trading market conditions



(1) Revenues exclude the positive impact of $651 million from DVA in the year ended December 31, 2014. Revenue ex-DVA is a non-GAAP measure the Company considers useful for investors to allow comparability of period to period operating performance.
(2) Figures may not sum due to rounding.

# 2014 Checklist: Mark to Market [1]

| | | |
|---|---|---|
| 1 | Continue to improve Wealth Management margins through cost discipline and revenue growth | **On Track** |
| 2 | Improve Fixed Income and Commodities ROE:<br>– Strategic solution for Commodities<br>– "Centrally managed" Fixed Income<br>– RWA reductions | **Resized, Reshaped and More Being Done** |
| 3 | Additional expense reductions and improvement in expense ratios | **On Track** |
| 4 | Progress regarding Morgan Stanley-specific growth opportunities: most notably, the U.S. Bank[2] | **On Track** |
| 5 | Steadily increase capital return to shareholders | **On Track** |
| 6 | Achieve returns that meet and exceed cost of capital | **On Track** |

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(1) Represents progress during the calendar year against the goals established at the beginning of 2014.
(2) Morgan Stanley Bank N.A. and Morgan Stanley Private Bank, National Association represent the Company's U.S. bank operating subsidiaries (collectively, "the U.S. Bank").

# 2015 Roll-Forward: Realizing Benefit of Strategic Initiatives

1. Ongoing Wealth Management upside through additional margin improvement
2. Continued execution of U.S. Bank strategy in Wealth Management and Institutional Securities
3. Progress in Fixed Income and Commodities ROE
4. Tailwind from lower funding costs
5. Maintaining focus on expense management
6. Steadily increase capital return to shareholders

**Achieve returns in excess of our cost of capital**

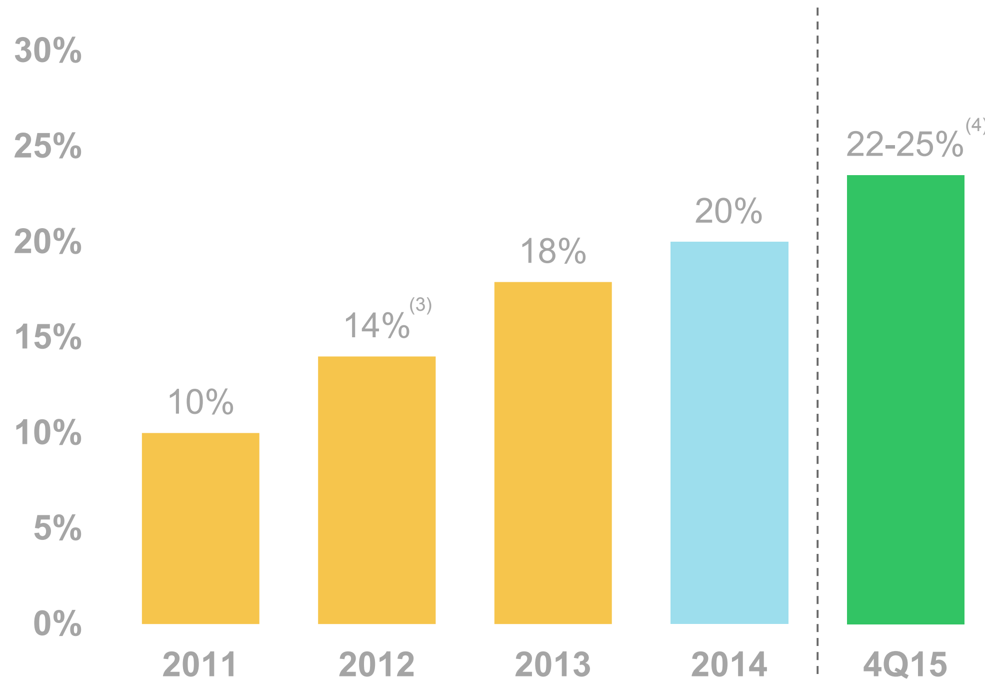
# 1 Ongoing Wealth Management Upside Through Additional Margin Improvement

**Pre-tax Margin Target**

Includes:
- Revenue and operating leverage from deposit deployment
- Continued investments in leading technology platform

Upside Beyond Target:
- Higher interest rates
- Greater equity market levels
- Secular trend toward fee-based managed accounts

**Wealth Management Pre-tax Margin**[(1),(2)]



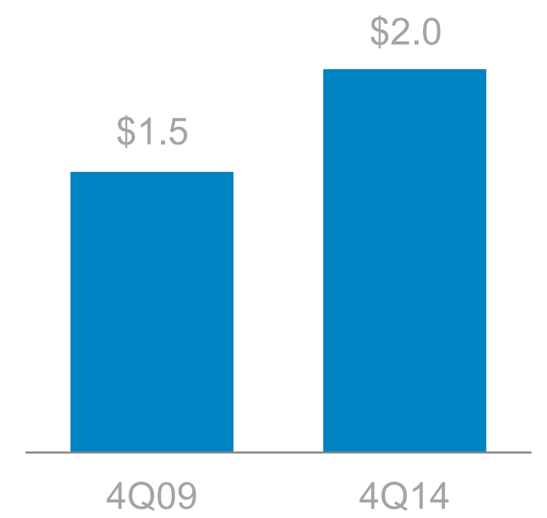

(1) Pre-tax margin is a non-GAAP financial measure that the Company considers useful for investors to assess operating performance. Pre-tax margin represents income (loss) from continuing operations before taxes, divided by net revenues.
(2) The periods 2011-2013 have been recast to exclude the International Wealth Management business, currently reported in the Institutional Securities business segment, and the Managed Futures business, currently reported in the Investment Management business segment.
(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.
(4) The attainment of these margins in 2015 may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

# Additional Drivers of Wealth Management Returns

- Benefitting from focus on high net worth and ultra-high net worth client segments
- These segments have the broadest, most complex financial planning and investing requirements – consistent with Morgan Stanley's strengths

**Meaningfully Increased Overall Assets Under Management at Morgan Stanley…**

**Client Assets ($Tn)**




**… With A Greater Percentage of Those Assets Being From Wealthiest Clients…**

**Assets by Client Segment ($Bn)**

| | 4Q09 | 4Q14 | % ∆ |
|---|---|---|---|
| $10MM or more | 410 | 746 | +82% |
| $1MM - $10MM | 613 | 827 | +35% |
| $100K - $1MM | 408 | 413 | +1% |
| <$100K | 51 | 39 | -24% |

**… And Upside To U.S. Bank Strategy Given Percentage of Client Deposits at Other Institutions**




(1) Illustrative; not to scale.

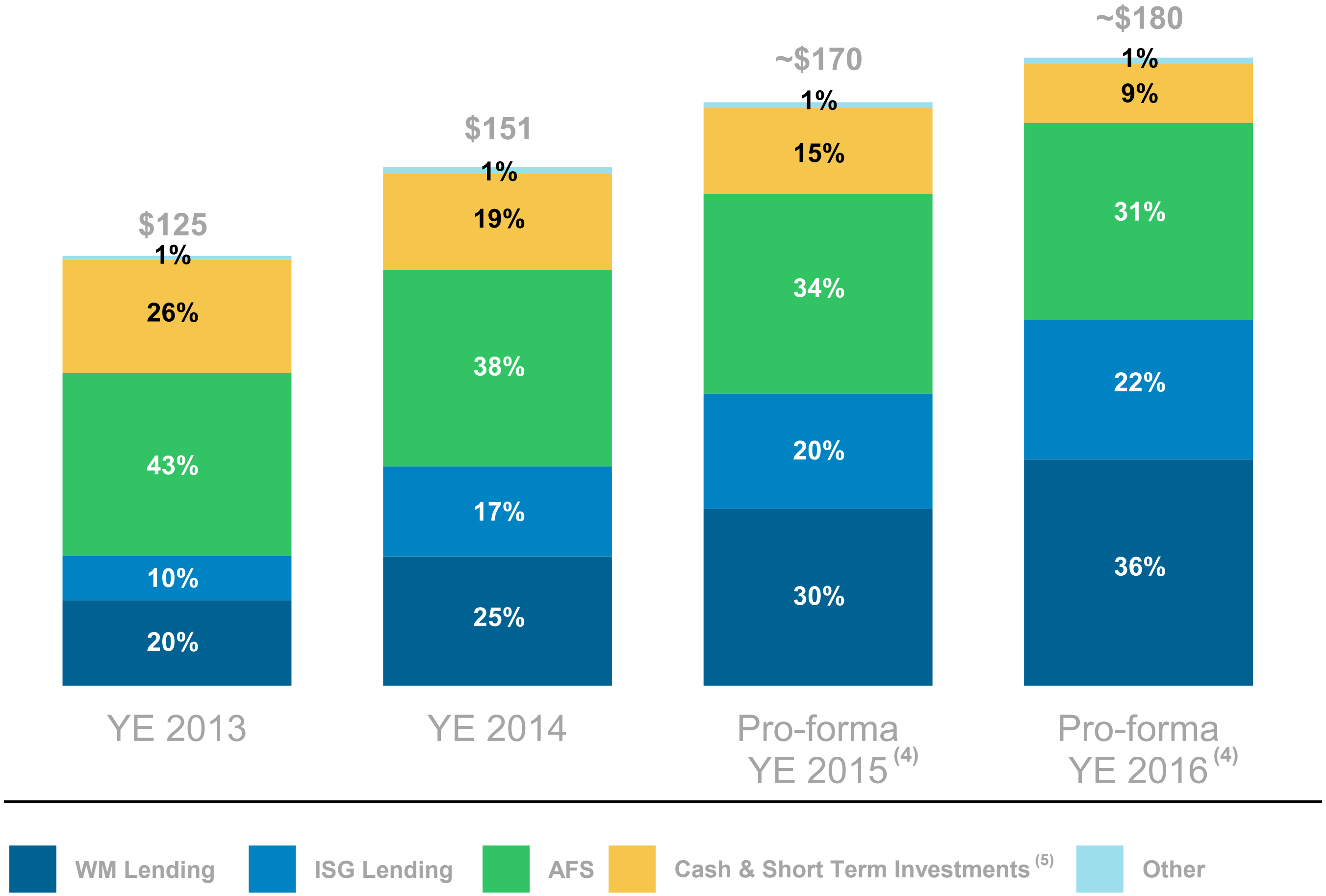
# NII Upside Driven by Ongoing Execution of U.S. Bank Strategy In Wealth Management & Institutional Securities

2

- **Sizable, underpenetrated and embedded client base supports balanced loan growth**
- **Higher interest rates (eventually) will drive additional upside to net interest income**

| | Current Yield | Future Yield Opportunities[3] |
|---|---|---|
| Cash & ST Investments[5] | ~0.3% | ~1.6% |
| AFS | ~1.1% | ~2.1% |
| Lending | ~2.8% | ~3.9% |

**Combined U.S. Bank Assets ($Bn) [1],[2]**

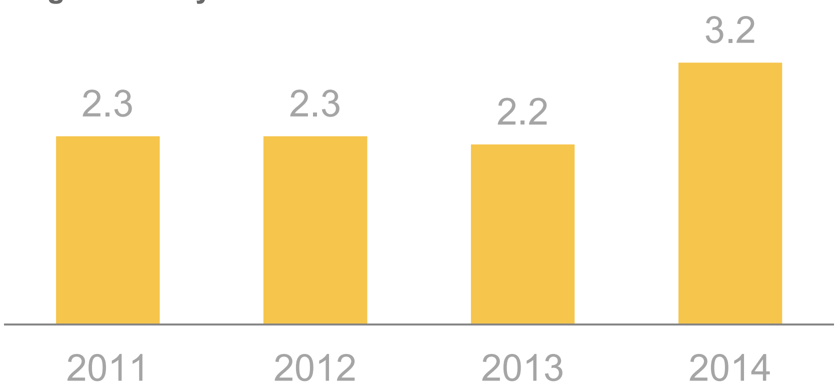



(1) Combined bank assets represent assets in the U.S. Bank.
(2) Figures may not sum due to rounding.
(3) "Future Yield Opportunities" are based off forward interest rate curves.
(4) The attainment of these pro-forma asset targets in 2015 and 2016 may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.
(5) Short term investments represent reverse repurchase agreements.

# Institutional Securities Positive Outlook, Benefitting From Leading Advisory and Equity Sales & Trading Franchises

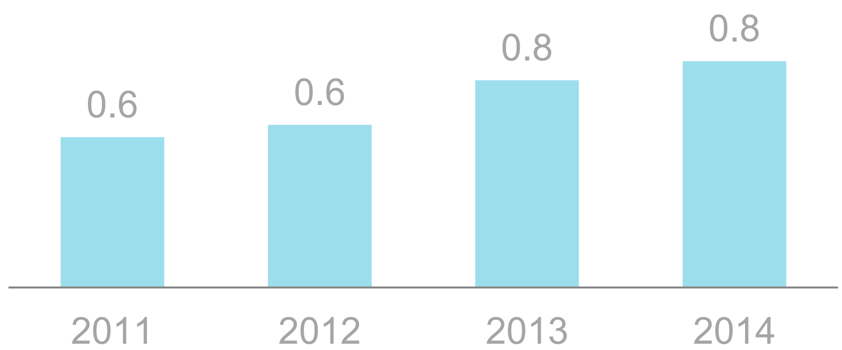
**Industry Announced M&A Volumes[1] ($Tn)**

**Morgan Stanley – #2 in Global Announced M&A in 2014**

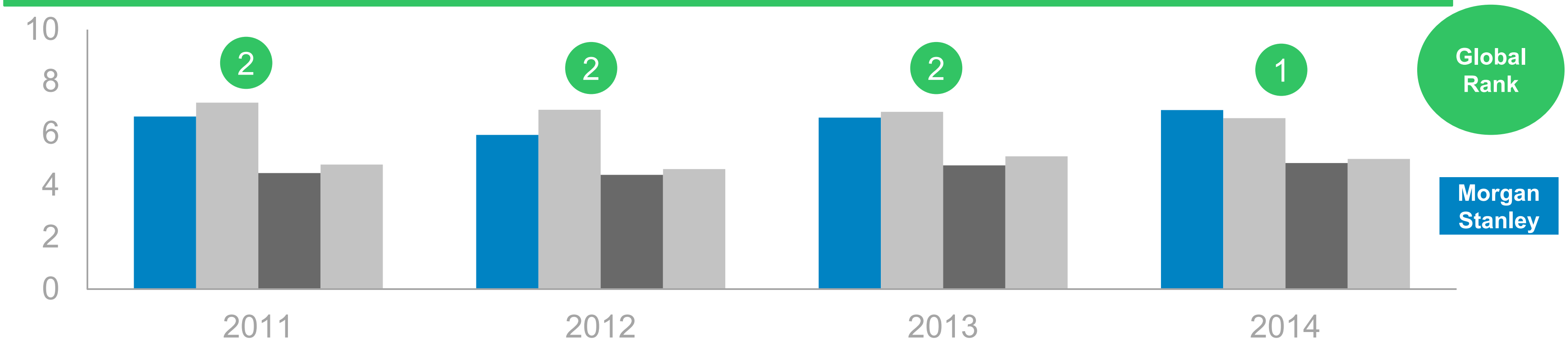



**Industry Equity Underwriting Volumes[1] ($Tn)**

**Morgan Stanley – #2 in Global Equity & Equity Linked in 2014**




**Total Equity Sales & Trading Revenues ex-DVA ($Bn)[2],[3],[4]**




(1) Industry volumes and league table rankings are for the fiscal year 2014 and are sourced from Thomson Reuters as of January 9, 2015.
(2) Revenues ex-DVA for fiscal years ending December 31st. Equity sales and trading revenues ex-DVA is a non-GAAP financial measure the Company considers useful for investors to allow comparability of peers operating performance from period to period.
(3) 2011-2013 Morgan Stanley equity sales and trading revenues ex-DVA have been recast to include the International Wealth Management business, previously reported in the Wealth Management business segment.
(4) Competitors listed include Goldman Sachs, JP Morgan and Credit Suisse. Data sourced from each company's published financial statements. Goldman Sachs revenues ex-DVA exclude Reinsurance revenues in all periods. Goldman Sachs results for 2012 exclude gains from the sale of a hedge fund administration business and for 2014 exclude revenues related to the extinguishment of certain of the firm's junior subordinated debt. Credit Suisse revenues ex-DVA were converted to USD using average exchange rates in each period.

# 3 Drive ROE > 10% in Fixed Income & Commodities

## Fixed Income

- Implemented centralized management of resources across Fixed Income
  - Reduced balance sheet
  - Reduced risk-weighted assets
  - Reduced non-compensation expenses
- Maintained normalized[(1)] ROEs of >10% in our areas of strength in 2014
  - Securitized Products
  - Credit Corporates
- In progress: Optimization of Interest Rates returns and roll-down of Structured Credit RWAs

## Commodities

- Sold / Divested
  - TransMontaigne Inc.
  - CanTerm Canadian Terminals Inc.
- Committed to selling
  - Global Oil Merchanting
- Integrating remaining businesses into Sales and Trading
  - North American Power & Gas
  - Oil Facilitation
  - Metals

## Capital[(2),(3)]

- Capital efficiency with ongoing RWA reductions: $210Bn at YE 2013, $188Bn at YE 2014, $180Bn target for YE 2015
- Additional capital opportunity through passive roll-down of $25Bn of RWAs by year-end 2018

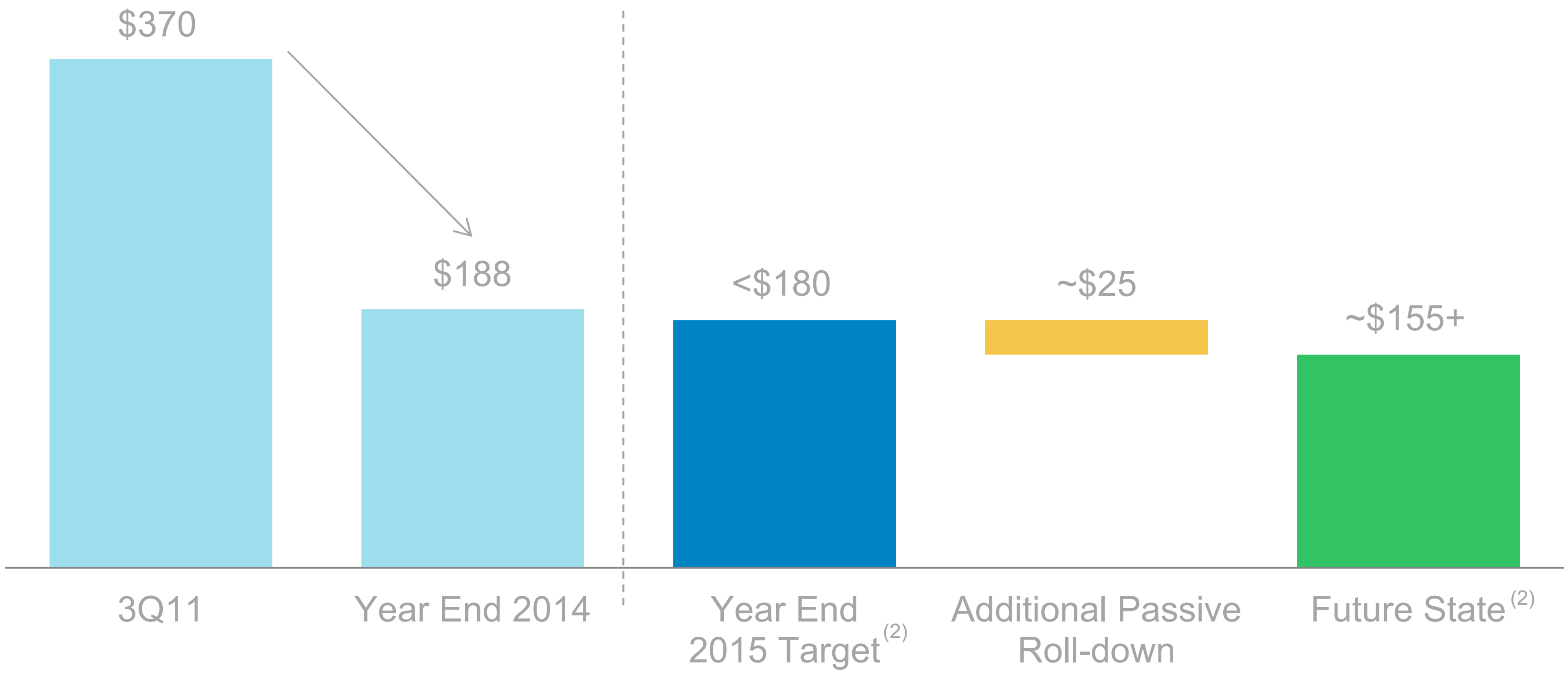
(1) "Normalized" ROEs are a non-GAAP measure that the company considers useful for investors to assess operating performance. Normalized ROEs are based on the Firm's internal managed view of revenues, expenses and allocated equity by segment and business area. Normalized ROE reflects the impact of RWA mitigation, and excludes the impact of changes in the fair value of net derivative contracts attributable to movements in the Company's credit default swap spreads, severance and legal expenses for legacy residential mortgage and credit crisis related matters. Fixed Income normalized ROEs include a portion of underwriting revenues which are externally reported in Investment Banking.
(2) The Company calculated its risk-weighted assets under the U.S. Basel III Advanced Approach final rules. This estimate is as of 4Q14 and may change.
(3) The attainment of the 2015 target and 2018 estimate may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

# Reduction and Optimization of Risk-Weighted Assets in Fixed Income and Commodities

3

- On track to achieve year end 2015 target of <$180Bn
- Optimize ~$25Bn of RWAs beyond $180Bn target, primarily passive roll-down
- RWAs to be redeployed to maximize returns, either within Fixed Income or across the broader Institutional Securities franchise

**Fixed Income and Commodities Basel III Risk-Weighted Assets ($Bn)[1]**

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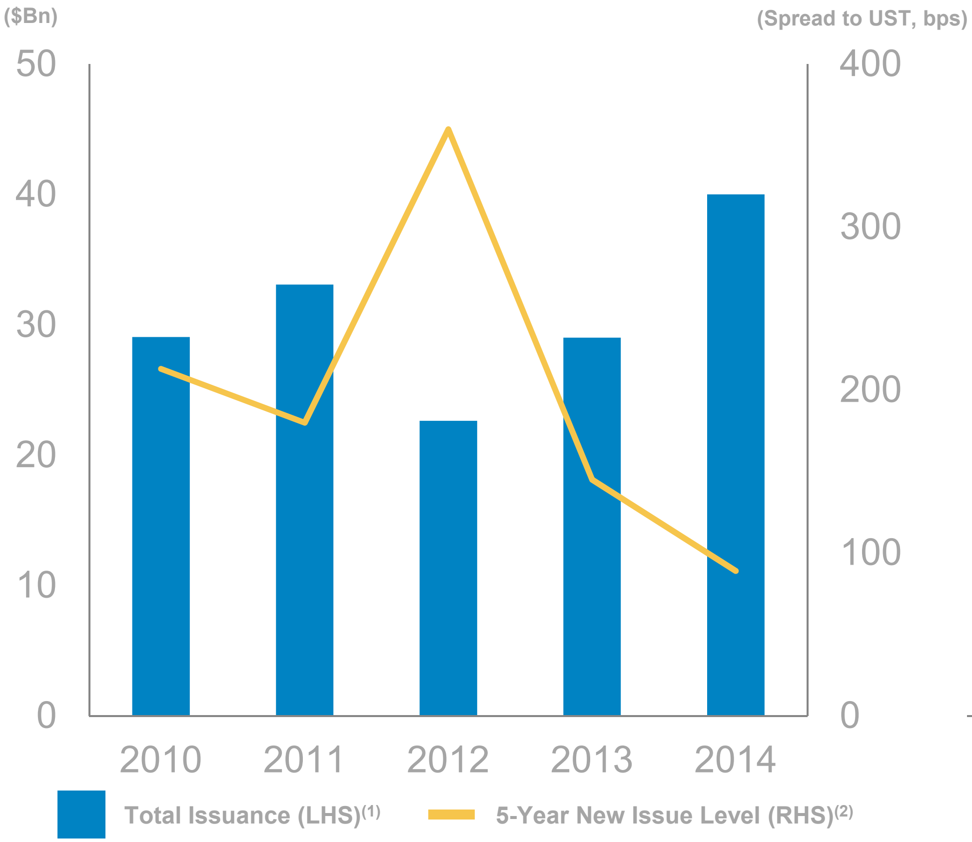
(1) The Company calculated its risk-weighted assets under the U.S. Basel III Advanced Approach final rules. This estimate is as of 4Q14 and may change.
(2) The attainment of the 2015 target and 2018 future state may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

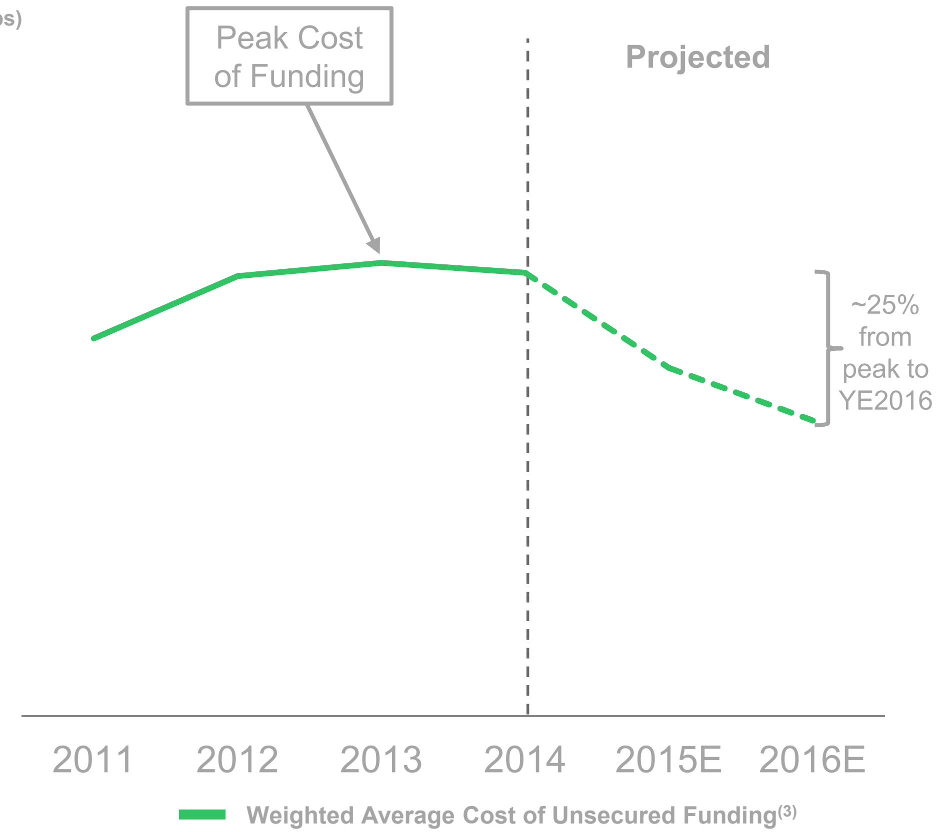
# 4 Tailwind from Lower Funding Costs

- **Meaningful reduction in funding costs due to spread tightening and roll-off of older more expensive debt**

**Issuance and New Issue Levels**




**Weighted Average Cost of Unsecured Funding**

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(1) Total issuance includes senior and subordinated unsecured debt issuance based on notional (USD).
(2) Morgan Stanley New Issue Level is the weighted average spread to Treasuries on completed 5-Year benchmark USD fixed rate transactions.
(3) For illustrative purposes only - not to scale. The attainment of the funding cost reduction may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

# 5 Ongoing Focus on Expense Management, Resulting in Greater Efficiency

## Compensation Expenses

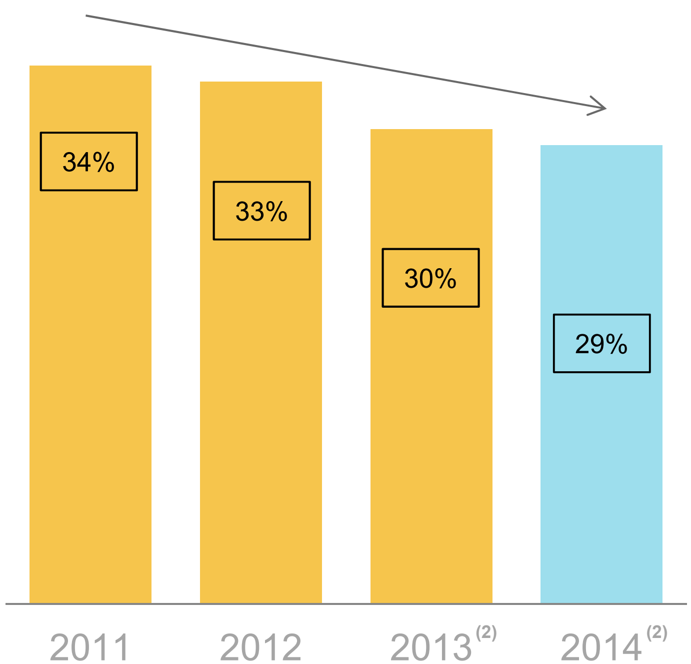
Recent change to compensation structure:

- Reflects the stability of the franchise
- Reduces the overhang of prior year deferrals
- Thus, provides operating leverage in an improved revenue environment and a reduced liability in a lower revenue environment

- Target Compensation/Net Revenue ratios[3]:
  - Institutional Securities ≤ 39% in 2015
    - In a flat revenue environment
  - Wealth Management ≤ 55% over time
    - In a flat interest rate environment
  - Investment Management ≤ 40% over time

## Non-Compensation Expenses

Non-Compensation Efficiency Ratio[1]




2013 and 2014 exclude elevated legal expenses vs. 2012 baseline

(1) Non-compensation efficiency ratio is calculated as non-compensation expenses, or adjusted non-compensation expenses, divided by net revenues excluding DVA. Non-compensation efficiency ratio, adjusted non-compensation expenses and net revenues excluding DVA are all non-GAAP financial measures the Company considers useful for investors to allow comparability of period to period operating performance.
(2) Adjusted non-compensation expenses are calculated as non-compensation expenses less certain legal and other expenses. For 2013, adjusted non-compensation expenses exclude $1.6Bn of elevated legal expenses versus 2012 levels and investments/impairments/write-offs of $313MM, and for 2014 adjusted non-compensation expenses exclude $3.0Bn of elevated legal expenses versus 2012 levels.
(3) The attainment of these targets may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.

# B Prudent Liability Management: Centralized Structure and Strict Governance

## Prudent Liability Management & Funding Durability – Setting the Stage

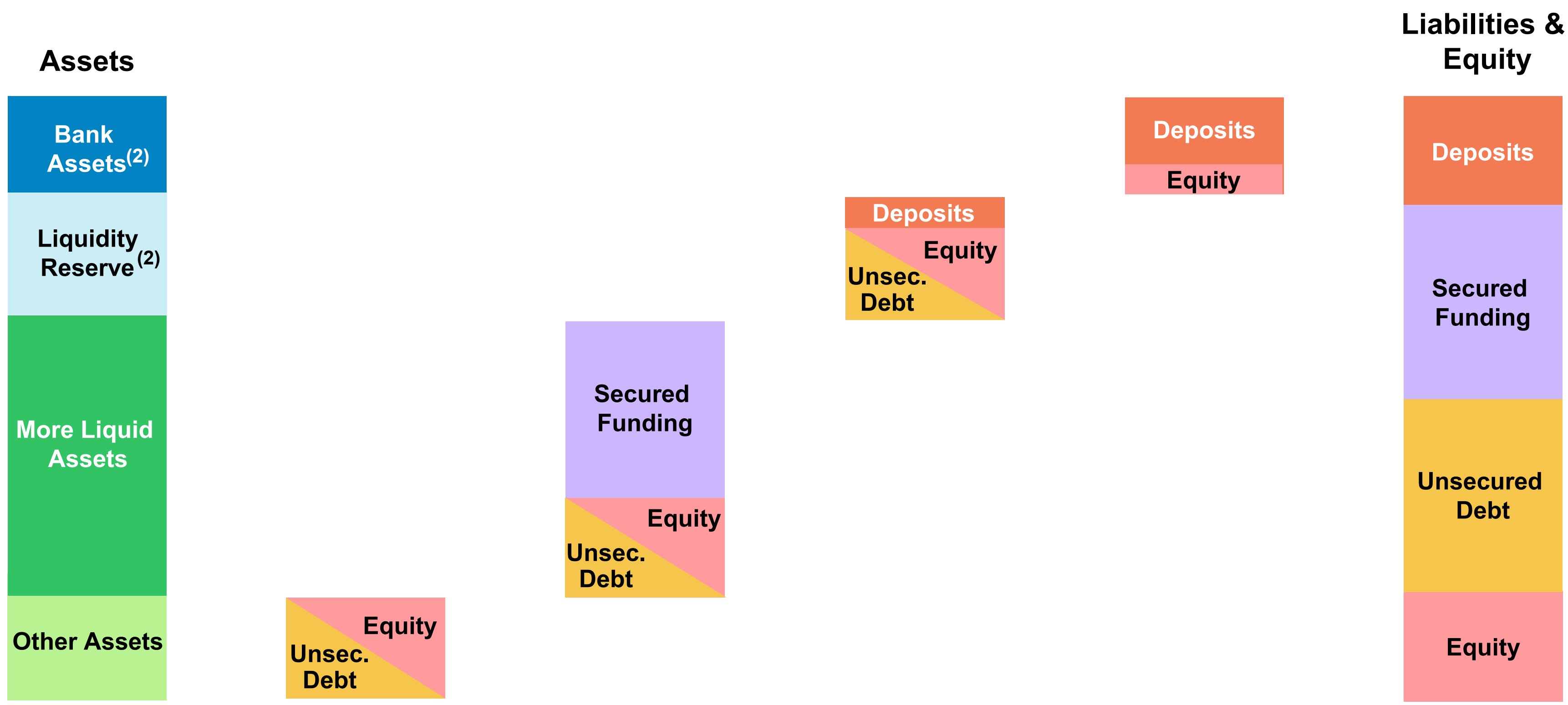
- A prudent liability management framework supported by centralized, strong governance ensuring funding durability, providing critical stability in all environments

## Defining Durability of Funding Sources

- Liabilities should be considered across a range from most durable to least durable due to their nature and based on governance
  - Long-Term Debt: Contractually durable and most appropriate to fund longer duration, less liquid assets
  - Deposits: Durable when insured
  - Wholesale (Secured) Funding: Durable when managed to match / exceed asset liquidity horizon
  - Commercial Paper: Not sufficiently durable for banks

# Prudent Liability Management: Illustrative Asset-Liability Funding Model[1]

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




Less liquid assets are funded by unsecured debt and equity.

Liquid assets are funded through the secured channel. Haircuts are funded by unsecured debt and equity.

Liquidity reserve funded by unsecured debt, equity, and deposits.

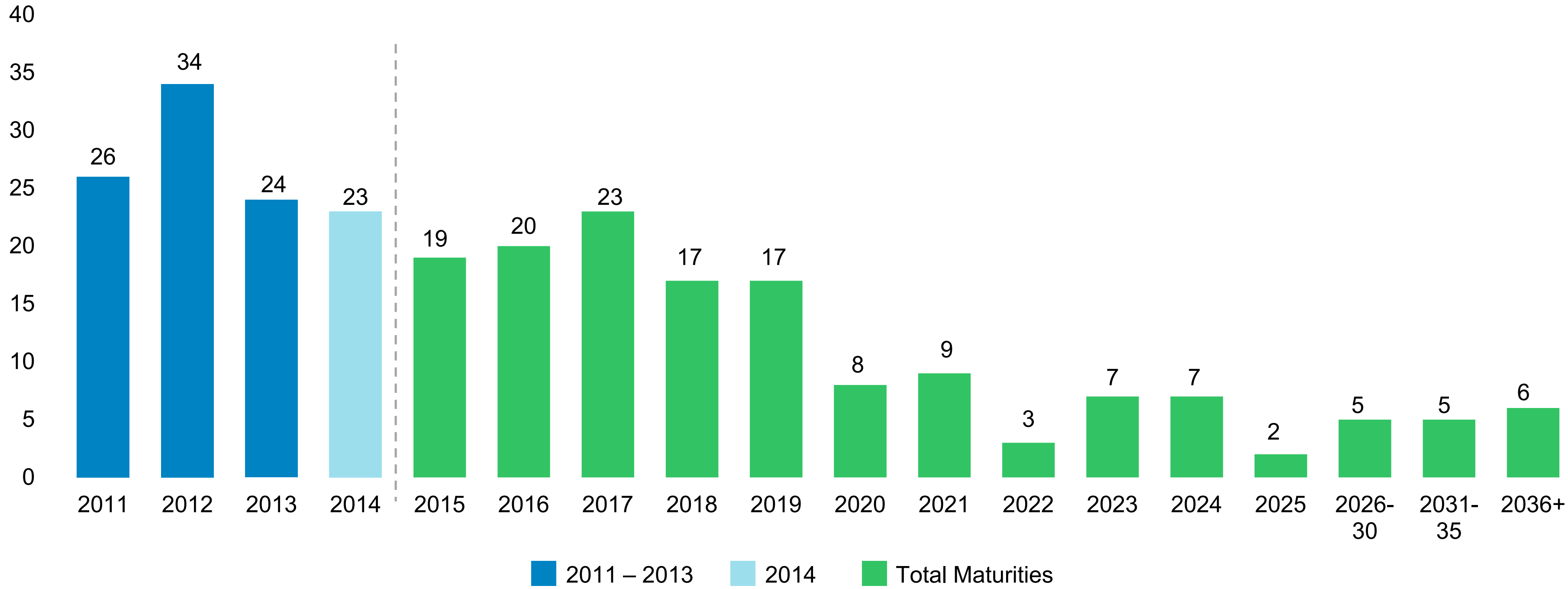
Loans and bank assets funded by deposits and equity.

(1) Illustrative; not to scale.
(2) AFS portfolio is a component of both U.S. Bank Assets and Liquidity Reserve.

# Prudent Liability Management: Maturity Profile of Long-Term Debt

**Total Short-Term and Long-Term Maturities[(1),(2),(3)]**

($Bn)




(1) As of December 31, 2014.
(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.

# Four Pillars of Secured Funding Ensure Durability and Stability

## 1 Significant Weighted Average Maturity

- Enhances durability

## 2 Maturity Limit Structure

- Reduces roll-over risk

## 3 Investor Limit Structure

- Minimizes concentration with any single investor, in aggregate and in any given month

## 4 Spare Capacity

- Valuable additional funding for managing through both favorable and stressed markets

# Strict Governance Framework Ensures Appropriate Term Consistent with Asset Fundability

## 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 (Convertible Bonds, Emerging Market Sovereigns)**
- **Illiquid (Sub-Investment Grade ABS, 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 Portfolio [1] |
|---|---|---|---|---|---|---|---|
| Super Green | ✓ | ✓ | ✓ | < 10% | > 50 | 100% | 45% |
| Green | | | | <= 15% | >= 15 | >= 95% | 51% |
| Amber | | | | > 15% | >= 10 | >= 60% | 2% |
| Red | | | | > 20% | < 10 | < 60% | 2% |

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(1) As of December 31, 2014.

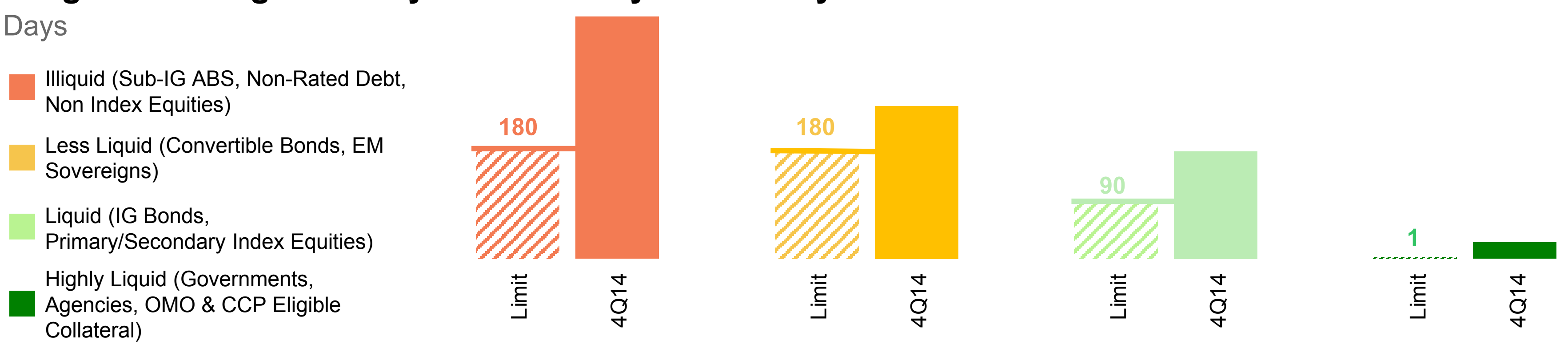
# Secured Funding Pillar 1: Longer WAM Provides Appropriate Flexibility

## …Fundability Category Determines Required Weighted Average Maturity: >120 Days[(1)]

- Criteria-based model sources 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

- Durability and transparency are at the core of Morgan Stanley's secured funding model
  - In 2009, began WAM extension efforts by terming out the Firm's secured funding profile for less-liquid assets (non-Super Green)
  - In 2011, a leader in disclosing WAM for less-liquid assets, with a target of >120 days

**Weighted Average Maturity and Limits by Fundability Bucket[(2)]**

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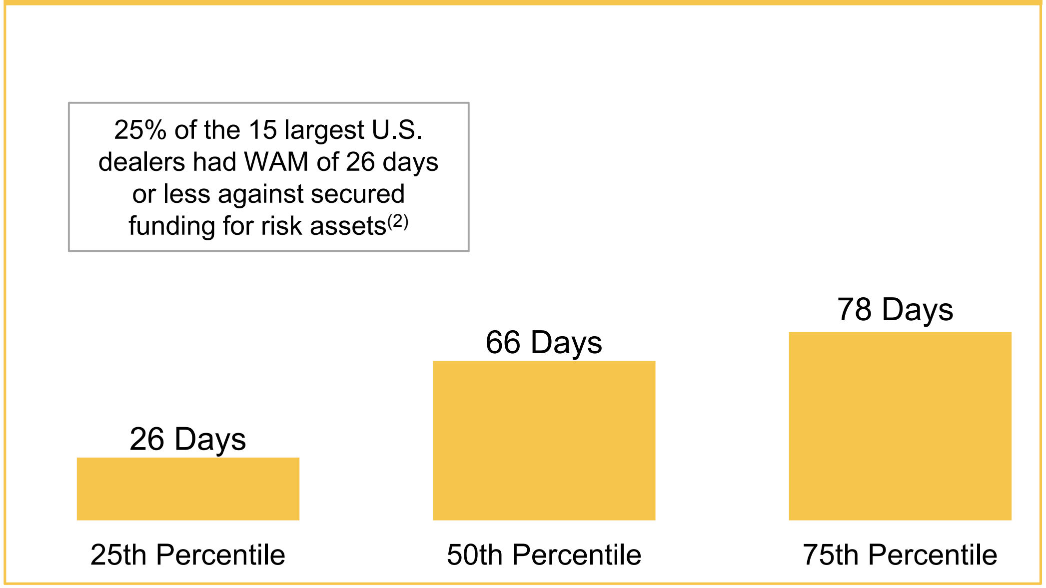
(1) As of December 31, 2014, the weighted average maturity of secured financing, excluding Super Green assets, was greater than 120 days.
(2) Illustrative; not to scale.

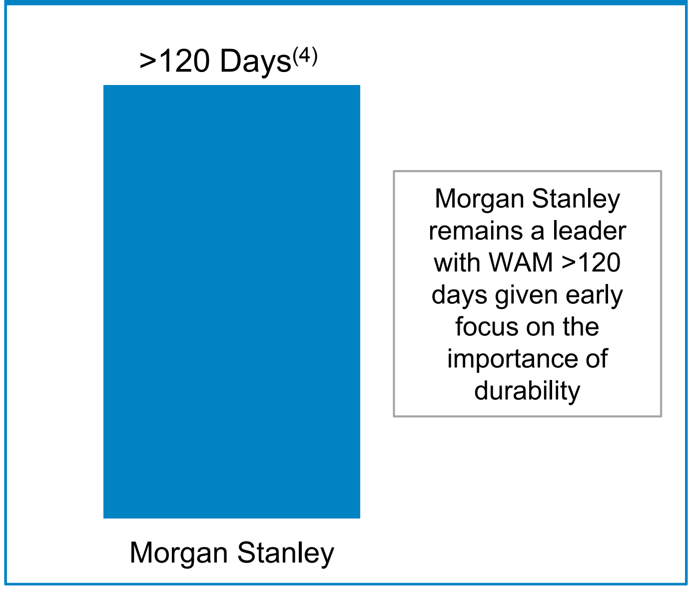
# Weighted Average Maturity: Importance of Durability – Morgan Stanley Early Leader

- The Federal Reserve Bank of New York published a study[1] in June 2014 on weighted average maturity (WAM) of risk assets[2] within the U.S. tri-party repo market
- The study concluded that while the maturity in tri-party repos collateralized by risk assets[2] has lengthened, "progress varies considerably across firms"

**June 2014 Federal Reserve Study: Weighted Average Maturity of Risk Assets Secured Funding[1],[2]**




**Morgan Stanley's Weighted Average Maturity[3]**

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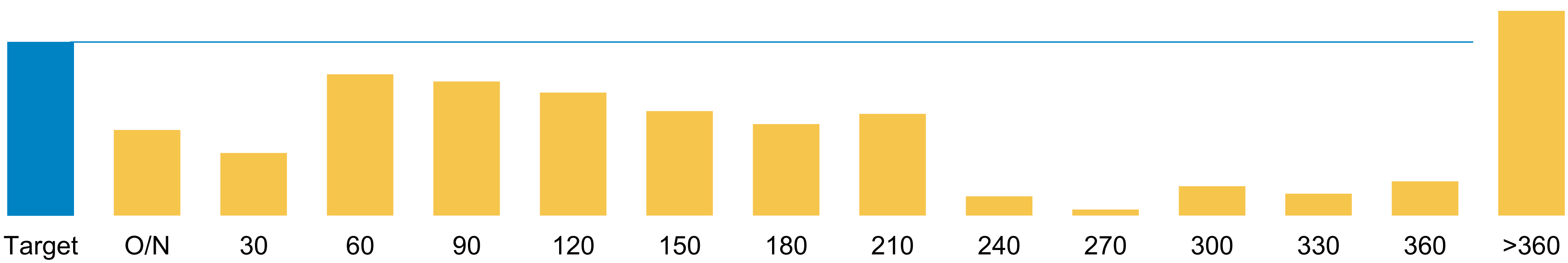
(1) Source: Liberty Street Economics, "What's Your WAM? Taking Stock of Dealers' Funding Durability", June 9, 2014, Federal Reserve Bank of New York.
(2) Risk assets represent repo trades collateralized by assets other than government and agency securities.
(3) Illustrative; not to scale.
(4) As of December 31, 2014.

# Secured Funding Pillar 2: Monthly Maturity Target
# Secured Funding Pillar 3: Investor Concentration Target

- **Monthly Maturity Target**: Target less than 15% of non-Super Green liabilities maturing in any given month
- **Investor Concentration Target**: Maximum total exposure per investor of 15% of non-Super Green book
  - Sub-Target: Maximum monthly investor concentration of 25% of the maturities allowed in any given month

**Illustrative Non-Super Green Maturity Profile** (1),(2),(3)




| Top Investor by Maturity Bucket as % of Monthly Maturity Target | 30 | 60 | 90 | 120 | 150 | 180 | 210 | 240 | 270 | 300 | 330 | 360 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **5%** | **25%** | **15%** | **18%** | **23%** | **21%** | **19%** | **3%** | **1%** | **14%** | **8%** | **7%** |

## Diversified Global Investor Base – Non-Super Green

| | 2009 | 2014(1) |
|---|---|---|
| # of Term Investors >30 days(4) | 15 | 139 |

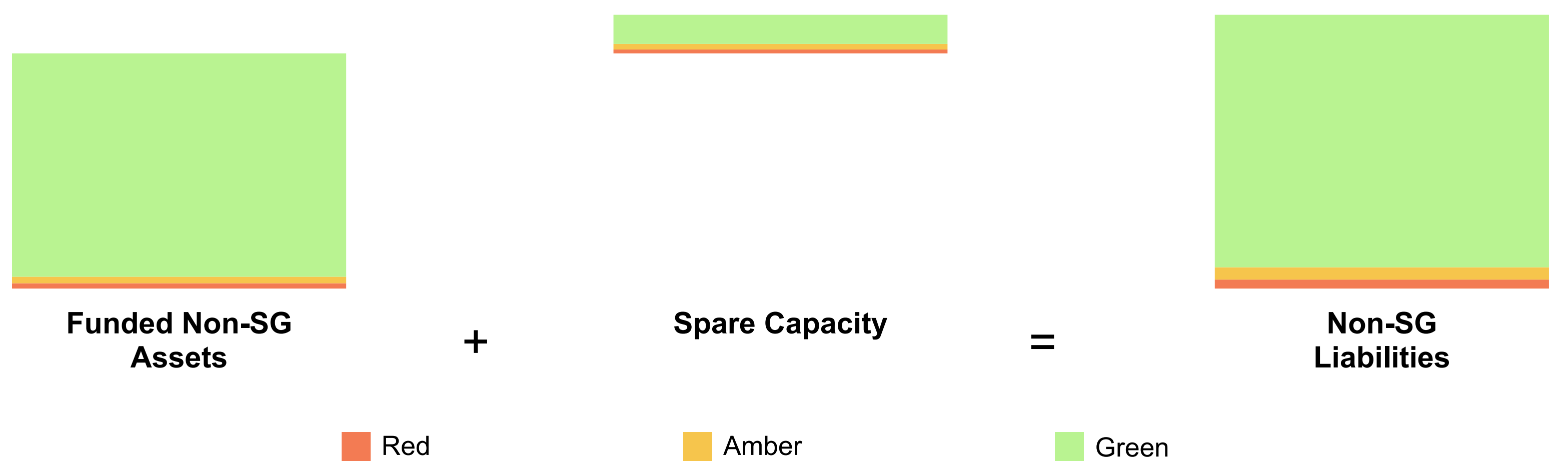
| | 2009 | 2014(1) |
|---|---|---|
| Americas | <10 | >50 |
| Europe | <10 | >80 |
| Asia | <5 | >30 |

(1) As of December 31, 2014.
(2) Represents secured funding balance maturing in 30-day increments.
(3) Illustrative; not to scale.
(4) Represents unique investors; geographic breakdown includes some overlap across regions.

# Secured Funding Pillar 4: Spare Capacity Provides Flexibility in Both Favorable and Stressed Markets

- 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 provides valuable flexibility to accommodate both favorable and stressed market environments
- Combined with the other pillars of our secured funding governance, Spare Capacity is the first line of defense during market stress events, prior to use of Global Liquidity Reserve
  - Eliminates need to access markets for first 30 days of stress event; reduces needs for 60 days thereafter
- In favorable markets, spare capacity serves as additional on-hand funding to support increased client demand

**Non-Super Green Spare Capacity[1]**





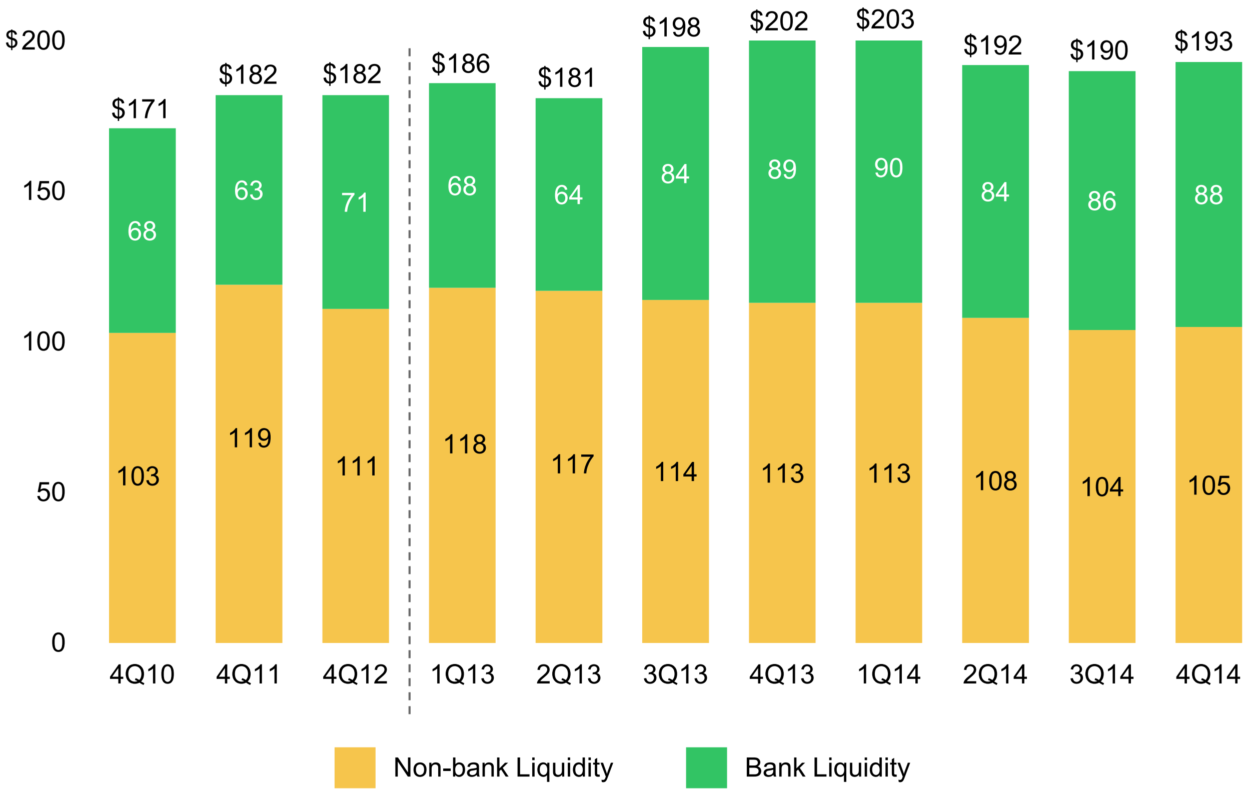

(1) Illustrative; not to scale.

# More Durable Liquidity: Significant Global Liquidity Position

## Highly Liquid and Unencumbered

- Changes in bank liquidity levels reflect execution of U.S. Bank strategy

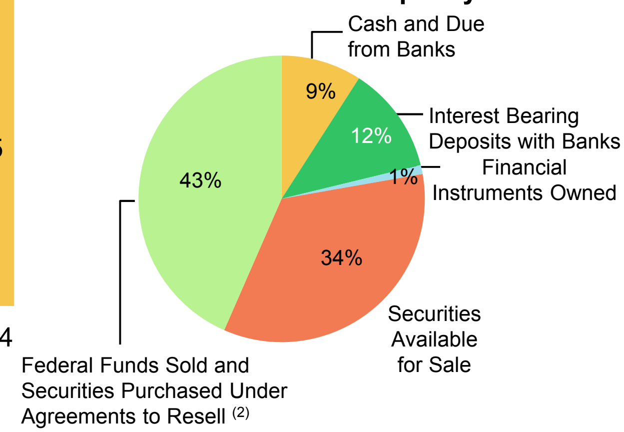
**Period End Liquidity**
($Bn)




**Composition of the Liquidity Reserve at 4Q14**

| Type of Investment | ($Bn) |
|---|---|
| Cash / Cash Equivalents | $42 |
| Unencumbered Liquid Securities | 151 |
| **Total** | **$193** |

**Detailed Breakdown of Liquidity Reserve[1]**

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(1) Figures may not sum due to rounding.
(2) Primarily overnight reverse repurchase agreements that unwind to cash.

# More Durable Liquidity: Build and Stress Test Liquidity on a Legal Entity Basis

- 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

| **Liquidity** (% of Total)[(1),(2)] | |
|---|---|
| Parent | 28% |
| Non-Bank Subsidiaries: | |
| Domestic | 8% |
| Foreign | 18% |
| Total Non-Bank Subsidiaries | 26% |
| **Total Parent & Non-Bank Subsidiaries** | **54%** |
| Bank Subsidiaries: | |
| Domestic | 43% |
| Foreign | 3% |
| **Total Bank Subsidiaries** | **46%** |

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(1) Represents entity liquidity as a percentage of the Global Liquidity Reserve as of December 31, 2014.
(2) Figures may not sum due to rounding.

# D Estimated LCR Reflects Benefits of Funding Governance & Liquidity Risk Management

## Liquidity Coverage Ratio (LCR)[1]

- **Morgan Stanley's Position:** LCR based on the final Federal Reserve Bank rule is >100%

- **Key Drivers:**
  - Proactive management of the Firm's secured vs. unsecured funding mix
  - Extension of weighted average maturity of secured funding
  - Size and durability of the liquidity reserve
  - Virtually no reliance on commercial paper and short duration commercial deposits
  - Size and composition of unfunded lending portfolio

- **Objective:** To promote the short-term resilience in 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

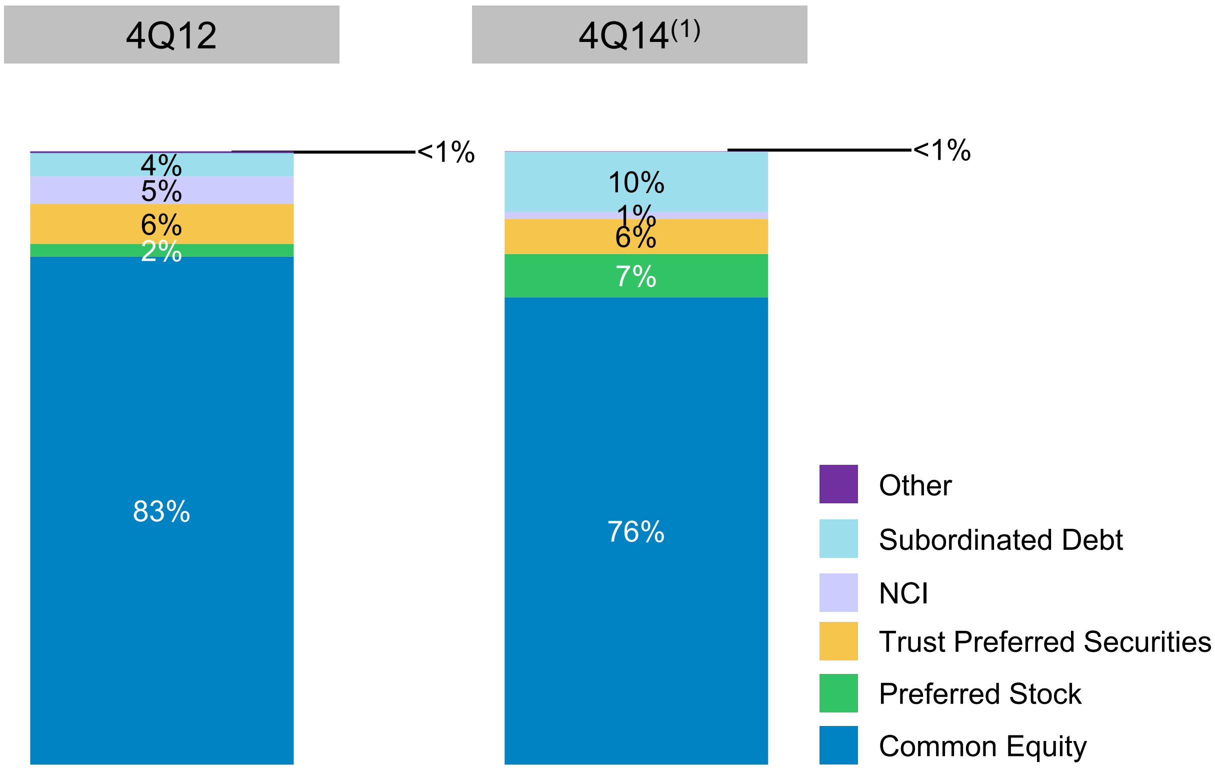


(1) The Company calculates its LCR based on the final Federal Reserve Bank rule published in September 2014. The LCR is a non-GAAP financial measure that the Company considers to be a useful measure to the Company and investors to gauge future regulatory requirements.

# Capital Management: Optimizing Capital Stack Under Basel III

E

**Morgan Stanley Total Capital**




- Issued ~$1.7Bn of preferred stock in 2013 and ~$2.8Bn in 2014
- TruPS qualify as either Tier 1 or Tier 2 capital in 2014; TruPS phase-out of capital over time
- Subordinated debt is valuable Tier 2 capital; issued $4Bn in 2013 and ~$2.3Bn in 2014

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(1) Capital metrics as of 4Q14 are reported under a transitional advanced approach U.S. Basel III numerator.

# Strong Risk-Based And Leverage Capital Ratios

## Risk-Based & Leverage Capital Ratios[1]

### 4Q14 Basel III CET1 Under Advanced Approach

– Fully Phased-in (Pro-forma): 10.7%[2]
– Transitional: 12.6%

### 4Q14 Basel III CET1 Under Standardized Approach

– Fully Phased-in (Pro-forma): 10.9%[2]
– Transitional: 14.7%

### 4Q14 Pro-Forma U.S. Supplementary Leverage Ratio[3]

– U.S. SLR: 4.7%

(1) Pro-forma Basel III Common Equity Tier 1 Common ratios and pro-forma U.S. supplementary leverage ratio are non-GAAP financial measures that the Company consider to be useful measures to the Company and investors to evaluate compliance with future regulatory capital requirements.
(2) The Company estimates fully phased-in Basel III common equity tier 1 capital and risk-weighted assets based on the Company's current assessment of the Basel III final rules and other factors, including the Company's expectations and interpretations of the proposed requirements. These estimates may be subject to change as the Company receives additional clarification and guidance from the Federal Reserve.
(3) Pro-forma U.S. Supplementary Leverage Ratio is based on preliminary analysis of the U.S. final rules from September 2014 and estimated as of December 31, 2014. These estimates are preliminary and are subject to change.

# Appendix

# Pro-Forma Top 10 U.S.-Based Depository Institution With Remaining Deposits

## Top U.S.-Based Depositories as of 4Q14[(1),(2)]

($Bn)

| | | |
|---|---|---|
| 1. | JPMorgan Chase & Co. | $1,363 |
| 2. | Wells Fargo & Company | 1,168 |
| 3. | Bank of America Corporation | 1,119 |
| 4. | Citigroup Inc. | 899 |
| 5. | U.S. Bancorp | 283 |
| 6. | Bank of New York Mellon Corporation | 266 |
| 7. | PNC Financial Services Group, Inc. | 232 |
| 8. | State Street Corporation | 209 |
| 9. | Capital One Financial Corporation | 206 |
| 10. | Morgan Stanley Pro Forma | ~$143 |
| 10. | SunTrust Banks, Inc. | 141 |
| 11. | Morgan Stanley | 134 |
| 12. | BB&T Corporation | 129 |
| 13. | Charles Schwab Corporation | 103 |
| 14. | Fifth Third Bancorp | 102 |
| 15. | Citizens Financial Group, Inc. | 96 |
| 16. | Regions Financial Corporation | 94 |
| 17. | Northern Trust Corporation | 91 |
| 18. | Goldman Sachs Group, Inc. | 83 |
| 19. | M&T Bank Corporation | 74 |
| 20. | KeyCorp | 72 |
| 21. | Comerica Incorporated | 57 |
| 22. | Huntington Bancshares Incorporated | 52 |
| 23. | Zions Bancorporation | 48 |
| 24. | First Republic Bank | 37 |
| 25. | SVB Financial Group | 34 |

(1) Excludes U.S. subsidiaries of foreign based banks.
(2) Source: SNL Financial as of 4Q14. Based on company SEC Filings as of 4Q14.
(3) Firmwide pro-forma deposit growth reflects the contractual transfer of deposits from Citi to Morgan Stanley after the closing of the acquisition. Organic account balance growth is assumed to be flat.

# Investment Securities

| | At December 31, 2014 ($MM) | | | | |
|---|---|---|---|---|---|
| | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Other-than-Temporary Impairment** | **Fair Value** |
| Available for Sale Debt Securities | | | | | |
| Total U.S. Government and Agency Securities | $53,885 | $119 | $139 | – | $53,865 |
| Corporate and Other Debt | | | | | |
| Commercial mortgage-backed securities | | | | | |
| Agency | 2,288 | 1 | 76 | – | 2,213 |
| Non-Agency | 1,820 | 11 | 6 | – | 1,825 |
| Auto Loan Asset-Backed Securities | 2,433 | – | 5 | – | 2,428 |
| Corporate Bonds | 3,640 | 10 | 22 | – | 3,628 |
| Collateralized loan obligations | 1,087 | – | 20 | – | 1,067 |
| FFELP Student Loan Asset-backed Securities (1) | 4,169 | 18 | 8 | – | 4,179 |
| Total Corporate and Other Debt | $15,437 | $40 | $137 | – | $15,340 |
| Available for Sale Equity Securities | $15 | – | $4 | – | $11 |
| Held to Maturity Securities | $100 | – | – | – | $100 |
| **Total ($MM)** | **$69,437** | **$159** | **$280** | – | **$69,316** |

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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.

# Loans and Lending Commitments

| | Quarter Ended | | | Percentage Change From: | |
|---|---|---|---|---|---|
| | Dec 31, 2014 | Sept 30, 2014 | Dec 31, 2013 | Sept 30, 2014 | Dec 31, 2013 |
| **Institutional Securities** | | | | | |
| Corporate Funded Loans | | | | | |
| Loans held for investment, net of allowance | $ 8.0 | $ 8.2 | $ 7.8 | (2%) | 3% |
| Loans held for sale | 7.8 | 5.9 | 6.2 | 32% | 26% |
| Loans held at fair value (1) | 0.5 | 0.7 | 2.9 | (29%) | (83%) |
| **Total corporate funded loans** | $ 16.3 | $ 14.8 | $ 16.9 | 10% | (4%) |
| Corporate Lending Commitments | | | | | |
| Loans held for investment | $ 62.3 | $ 62.2 | $ 61.4 | -- | 1% |
| Loans held for sale | 15.7 | 16.3 | 8.1 | (4%) | 94% |
| Loans held at fair value (2) | 3.3 | 4.1 | 9.1 | (20%) | (64%) |
| **Total corporate lending commitments** | $ 81.3 | $ 82.6 | $ 78.6 | (2%) | 3% |
| **Corporate Loans and Lending Commitments (3)** | $ 97.6 | $ 97.4 | $ 95.5 | -- | 2% |
| Other Funded Loans | | | | | |
| Loans held for investment, net of allowance | $ 11.4 | $ 8.7 | $ 3.8 | 31% | 200% |
| Loans held for sale | 1.6 | 0.7 | 0.1 | 129% | * |
| Loans held at fair value | 11.5 | 13.3 | 9.7 | (14%) | 19% |
| **Total other funded loans** | $ 24.5 | $ 22.7 | $ 13.6 | 8% | 80% |
| Other Lending Commitments | | | | | |
| Loans held for investment | $ 2.3 | $ 1.9 | $ 1.3 | 21% | 77% |
| Loans held for sale | 0.8 | 0.1 | 0.0 | * | * |
| Loans held at fair value | 2.1 | 2.1 | 0.8 | -- | 163% |
| **Total other lending commitments** | $ 5.2 | $ 4.1 | $ 2.1 | 27% | 148% |
| **Total Other Loans and Lending Commitments (4)** | $ 29.7 | $ 26.8 | $ 15.7 | 11% | 89% |
| **Institutional Securities Loans and Lending Commitments (5)** | $ 127.3 | $ 124.2 | $ 111.2 | 2% | 14% |
| **Wealth Management** | | | | | |
| Funded Loans | | | | | |
| Loans held for investment, net of allowance | $ 37.7 | $ 34.6 | $ 24.9 | 9% | 51% |
| Loans held for sale | 0.1 | 0.1 | 0.1 | -- | -- |
| **Total funded loans** | $ 37.8 | $ 34.7 | $ 25.0 | 9% | 51% |
| Lending Commitments | | | | | |
| Loans held for investment | $ 4.9 | $ 4.6 | $ 4.5 | 7% | 9% |
| Loans held for sale | 0.0 | 0.0 | 0.0 | -- | -- |
| **Total lending commitments** | $ 4.9 | $ 4.6 | $ 4.5 | 7% | 9% |
| **Wealth Management Loans and Lending Commitments (6)** | $ 42.7 | $ 39.3 | $ 29.5 | 9% | 45% |
| **Firm Loans and Lending Commitments** | $ 170.0 | $ 163.5 | $ 140.7 | 4% | 21% |

(1) For the quarters ended December 31, 2014, September 30, 2014 and December 31, 2013, the percentage of Institutional Securities corporate funded loans held at fair value by credit rating was as follows: % investment grade: 7%, 11% and 50% / % non-investment grade: 93%, 89% and 50%

(2) For the quarters ended December 31, 2014, September 30, 2014 and December 31, 2013, the percentage of Institutional Securities corporate lending commitments held at fair value by credit rating was as follows: % investment grade: 69%, 67% and 71% / % non-investment grade: 31%, 33% and 29%

(3) On December 31, 2014, September 30, 2014 and December 31, 2013, the "event-driven" portfolio of pipeline commitments and closed deals to non-investment grade borrowers were $10.5 billion, $10.7 billion and $7.3 billion, respectively.

(4) In addition to primary corporate lending activity, the Institutional Securities business segment engages in other lending activity. These loans include corporate loans purchased in the secondary market, commercial and residential mortgage loans, asset-backed loans and financing extended to equities and commodities customers.

(5) For the quarters ended December 31, 2014, September 30, 2014 and December 31, 2013, Institutional Securities recorded a provision for credit losses (release) of $12.3 million, $1.2 million and $(10.8) million, respectively, related to funded loans and $8.7 million, $(15.7) million and $4.3 million related to unfunded commitments, respectively.

(6) For the quarters ended December 31, 2014, September 30, 2014 and December 31, 2013, Wealth Management recorded a provision for credit losses of $1.0 million, $1.0 million and $1.2 million, respectively, related to funded loans and there was no material provision recorded related to the unfunded commitments for each of the quarterly periods presented.

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# Morgan Stanley 4Q14 Fixed Income Investor Update

March 23, 2015