

Fourth Quarter 2019 Earnings Results

Quarterly Financial Supplement

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Consolidated Financial Summary

(unaudited, dollars in millions)

	Quarter Ended			Percentage Change From:		Twelve Months Ended		Percentage Change
	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	
Net revenues								
Institutional Securities	\$ 5,054	\$ 5,023	\$ 3,839	1%	32%	\$ 20,386	\$ 20,582	(1%)
Wealth Management	4,582	4,358	4,144	5%	11%	17,737	17,242	3%
Investment Management	1,356	764	684	77%	98%	3,763	2,746	37%
Intersegment Eliminations	(135)	(113)	(119)	(19%)	(13%)	(467)	(463)	(1%)
Net revenues	\$ 10,857	\$ 10,032	\$ 8,548	8%	27%	\$ 41,419	\$ 40,107	3%
Non-interest expenses								
Institutional Securities	\$ 3,929	\$ 3,716	\$ 3,059	6%	28%	\$ 14,896	\$ 14,322	4%
Wealth Management	3,419	3,120	3,134	10%	9%	12,905	12,721	1%
Investment Management	909	599	610	52%	49%	2,778	2,282	22%
Intersegment Eliminations	(133)	(113)	(112)	(18%)	(19%)	(461)	(455)	(1%)
Non-interest expenses⁽¹⁾	\$ 8,124	\$ 7,322	\$ 6,691	11%	21%	\$ 30,118	\$ 28,870	4%
Income (loss) before taxes								
Institutional Securities	\$ 1,125	\$ 1,307	\$ 780	(14%)	44%	\$ 5,490	\$ 6,260	(12%)
Wealth Management	1,163	1,238	1,010	(6%)	15%	4,832	4,521	7%
Investment Management	447	165	74	171%	*	985	464	112%
Intersegment Eliminations	(2)	0	(7)	*	71%	(6)	(8)	25%
Income (loss) before taxes	\$ 2,733	\$ 2,710	\$ 1,857	1%	47%	\$ 11,301	\$ 11,237	1%
Net Income (loss) applicable to Morgan Stanley								
Institutional Securities	\$ 1,034	\$ 1,073	\$ 702	(4%)	47%	\$ 4,599	\$ 4,906	(6%)
Wealth Management	889	962	769	(8%)	16%	3,728	3,472	7%
Investment Management	317	138	65	130%	*	719	376	91%
Intersegment Eliminations	(1)	0	(5)	*	80%	(4)	(6)	33%
Net Income (loss) applicable to Morgan Stanley	\$ 2,239	\$ 2,173	\$ 1,531	3%	46%	\$ 9,042	\$ 8,748	3%
Earnings (loss) applicable to Morgan Stanley common shareholders	\$ 2,085	\$ 2,060	\$ 1,361	1%	53%	\$ 8,512	\$ 8,222	4%

The End Notes are an integral part of this presentation. See pages 12 - 17 for Definition of U.S. GAAP to Non-GAAP Measures, Definition of Performance Metrics and Terms, Supplemental Quantitative Details and Calculations, and Legal Notice.

Consolidated Financial Metrics, Ratios and Statistical Data

(unaudited)

	Quarter Ended			Percentage Change From:		Twelve Months Ended		Percentage Change
	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	
Financial Metrics:								
Earnings per basic share	\$ 1.33	\$ 1.28	\$ 0.81	4%	64%	\$ 5.26	\$ 4.81	9%
Earnings per diluted share	\$ 1.30	\$ 1.27	\$ 0.80	2%	63%	\$ 5.19	\$ 4.73	10%
Return on average common equity	11.3%	11.2%	7.7%			11.7%	11.8%	
Return on average tangible common equity	13.0%	12.9%	8.8%			13.4%	13.5%	
Book value per common share	\$ 45.82	\$ 45.49	\$ 42.20			\$ 45.82	\$ 42.20	
Tangible book value per common share	\$ 40.01	\$ 39.73	\$ 36.99			\$ 40.01	\$ 36.99	
Excluding intermittent net discrete tax provision / benefit ⁽¹⁾⁽²⁾								
Adjusted earnings per diluted share	\$ 1.20	\$ 1.21	\$ 0.73	(1%)	64%	\$ 4.98	\$ 4.61	8%
Adjusted return on average common equity	10.5%	10.7%	7.1%			11.2%	11.5%	
Adjusted return on average tangible common equity	12.0%	12.3%	8.1%			12.9%	13.2%	

Financial Ratios:

Pre-tax profit margin	25%	27%	22%			27%	28%	
Compensation and benefits as a % of net revenues	48%	44%	44%			45%	44%	
Non-compensation expenses as a % of net revenues	27%	29%	34%			27%	28%	
Firm expense efficiency ratio	75%	73%	78%			73%	72%	
Effective tax rate from continuing operations ⁽¹⁾⁽²⁾	15.7%	18.2%	16.2%			18.3%	20.9%	

Statistical Data:

Period end common shares outstanding (millions)	1,594	1,624	1,700	(2%)	(6%)			
Average common shares outstanding (millions)								
Basic	1,573	1,604	1,674	(2%)	(6%)	1,617	1,708	(5%)
Diluted	1,602	1,627	1,705	(2%)	(6%)	1,640	1,738	(6%)
Worldwide employees	60,431	60,532	60,348	--	--			

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Consolidated Financial Information

(unaudited, dollars in millions)

	Quarter Ended			Percentage Change From:		Twelve Months Ended		Percentage Change
	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	
Regional revenues								
Americas	\$ 7,890	\$ 7,489	\$ 6,312	5%	25%	\$ 30,226	\$ 29,301	3%
EMEA (Europe, Middle East, Africa)	1,374	1,409	1,200	(2%)	15%	6,061	6,092	(1%)
Asia	1,593	1,134	1,036	40%	54%	5,132	4,714	9%
Consolidated net revenues	\$ 10,857	\$ 10,032	\$ 8,548	8%	27%	\$ 41,419	\$ 40,107	3%

Balance sheet

Deposits	\$ 190,356	\$ 180,738	\$ 187,820	5%	1%
Total assets	\$ 895,429	\$ 902,604	\$ 853,531	(1%)	5%
Global liquidity reserve	\$ 217,457	\$ 226,923	\$ 249,735	(4%)	(13%)
Long-term debt outstanding	\$ 190,060	\$ 192,362	\$ 188,117	(1%)	1%
Maturities of long-term debt outstanding (next 12 months)	\$ 20,402	\$ 23,498	\$ 24,694	(13%)	(17%)
Common equity	\$ 73,029	\$ 73,862	\$ 71,726	(1%)	2%
Less: Goodwill and intangible assets	(9,249)	(9,350)	(8,847)	(1%)	5%
Tangible common equity	\$ 63,780	\$ 64,512	\$ 62,879	(1%)	1%
Preferred equity	\$ 8,520	\$ 8,520	\$ 8,520	--	--

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Consolidated Average Common Equity and Regulatory Capital Information

(unaudited, dollars in billions)

	Quarter Ended			Percentage Change From:		Twelve Months Ended		Percentage Change
	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	
Average Common Equity								
Institutional Securities	\$ 40.4	\$ 40.4	\$ 40.8	--	(1%)	\$ 40.4	\$ 40.8	(1%)
Wealth Management	18.2	18.2	16.8	--	8%	18.2	16.8	8%
Investment Management	2.5	2.5	2.6	--	(4%)	2.5	2.6	(4%)
Parent	12.4	12.3	10.7	1%	16%	11.6	9.8	18%
Firm	\$ 73.5	\$ 73.4	\$ 70.9	--	4%	\$ 72.7	\$ 70.0	4%

Regulatory Capital

Common Equity Tier 1 capital	\$ 64.7	\$ 64.3	\$ 62.1	1%	4%
Tier 1 capital	\$ 73.3	\$ 72.9	\$ 70.6	1%	4%

Standardized Approach

Risk-weighted assets	\$ 394.3	\$ 394.9	\$ 367.3	--	7%
Common Equity Tier 1 capital ratio	16.4%	16.3%	16.9%		
Tier 1 capital ratio	18.6%	18.5%	19.2%		

Advanced Approach

Risk-weighted assets	\$ 381.5	\$ 387.4	\$ 363.1	(2%)	5%
Common Equity Tier 1 capital ratio	17.0%	16.6%	17.1%		
Tier 1 capital ratio	19.2%	18.8%	19.5%		

Leverage-based capital

Tier 1 leverage ratio	8.2%	8.2%	8.4%		
Supplementary Leverage Ratio	6.3%	6.3%	6.5%		

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Institutional Securities

Income Statement Information, Financial Metrics and Ratios

(unaudited, dollars in millions)

	Quarter Ended			Percentage Change From:		Twelve Months Ended		Percentage Change
	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	
Revenues:								
Advisory	\$ 654	\$ 550	\$ 734	19%	(11%)	\$ 2,116	\$ 2,436	(13%)
Equity	422	401	323	5%	31%	1,708	1,726	(1%)
Fixed income	500	584	360	(14%)	39%	1,910	1,926	(1%)
Underwriting	922	985	683	(6%)	35%	3,618	3,652	(1%)
Investment Banking	1,576	1,535	1,417	3%	11%	5,734	6,088	(6%)
Equity	1,920	1,991	1,929	(4%)	--	8,056	8,976	(10%)
Fixed Income	1,273	1,430	564	(11%)	126%	5,546	5,005	11%
Other	1	34	(6)	(97%)	*	93	(204)	*
Sales & Trading	3,194	3,455	2,487	(8%)	28%	13,695	13,777	(1%)
Investments	68	(18)	(52)	*	*	325	182	79%
Other	216	51	(13)	*	*	632	535	18%
Net revenues	5,054	5,023	3,839	1%	32%	20,386	20,582	(1%)
Compensation and benefits	2,057	1,768	1,179	16%	74%	7,433	6,958	7%
Non-compensation expenses	1,872	1,948	1,880	(4%)	--	7,463	7,364	1%
Total non-interest expenses	3,929	3,716	3,059	6%	28%	14,896	14,322	4%
Income (loss) before taxes	1,125	1,307	780	(14%)	44%	5,490	6,260	(12%)
Net income (loss) applicable to Morgan Stanley ⁽¹⁾	\$ 1,034	\$ 1,073	\$ 702	(4%)	47%	\$ 4,599	\$ 4,906	(6%)
Pre-tax profit margin	22%	26%	20%			27%	30%	
Compensation and benefits as a % of net revenues	41%	35%	31%			36%	34%	
Non-compensation expenses as a % of net revenues	37%	39%	49%			37%	36%	
Return on Average Common Equity	9%	10%	6%			10%	11%	
Return on Average Tangible Common Equity ⁽²⁾	9%	10%	6%			10%	11%	
Trading VaR (Average Daily 95% / One-Day VaR) ⁽³⁾	\$ 39	\$ 42	\$ 49					

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Wealth Management

Income Statement Information, Financial Metrics and Ratios

(unaudited, dollars in millions)

	Quarter Ended			Percentage Change From:		Twelve Months Ended		Percentage Change
	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	
Revenues:								
Asset management	2,655	2,639	2,576	1%	3%	10,199	10,158	--
Transactional	829	595	422	39%	96%	2,969	2,558	16%
Net interest income	1,033	1,043	1,095	(1%)	(6%)	4,222	4,277	(1%)
Other	65	81	51	(20%)	27%	347	249	39%
Net revenues	4,582	4,358	4,144	5%	11%	17,737	17,242	3%
Compensation and benefits	2,590	2,340	2,286	11%	13%	9,774	9,507	3%
Non-compensation expenses	829	780	848	6%	(2%)	3,131	3,214	(3%)
Total non-interest expenses	3,419	3,120	3,134	10%	9%	12,905	12,721	1%
Income (loss) before taxes	1,163	1,238	1,010	(6%)	15%	4,832	4,521	7%
Net income (loss) applicable to Morgan Stanley ⁽¹⁾	\$ 889	\$ 962	\$ 769	(8%)	16%	\$ 3,728	\$ 3,472	7%
Pre-tax profit margin	25%	28%	24%			27%	26%	
Compensation and benefits as a % of net revenues	57%	54%	55%			55%	55%	
Non-compensation expenses as a % of net revenues	18%	18%	20%			18%	19%	
Return on Average Common Equity	19%	21%	17%			20%	20%	
Return on Average Tangible Common Equity ⁽²⁾	34%	37%	32%			36%	37%	

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Wealth Management

Financial Information and Statistical Data

(unaudited)

	Quarter Ended			Percentage Change From:	
	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018
Wealth Management Metrics					
Wealth Management representatives	15,468	15,553	15,694	(1%)	(1%)
Annualized revenue per representative (000's)	\$ 1,182	\$ 1,118	\$ 1,058	6%	12%
Client assets (billions)	\$ 2,700	\$ 2,565	\$ 2,303	5%	17%
Client assets per representative (millions)	\$ 175	\$ 165	\$ 147	6%	19%
Client liabilities (billions)	\$ 90	\$ 86	\$ 83	5%	8%
Fee-based client assets (billions)	\$ 1,267	\$ 1,186	\$ 1,046	7%	21%
Fee-based asset flows (billions)	\$ 24.9	\$ 15.5	\$ 16.2	61%	54%
Fee-based assets as a % of client assets	47%	46%	45%		
Retail locations	592	590	591	--	--

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Investment Management

Income Statement Information, Financial Metrics and Ratios

(unaudited, dollars in millions)

	Quarter Ended			Percentage Change From:		Twelve Months Ended		Percentage Change
	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	
Revenues:								
Asset management	\$ 736	\$ 664	\$ 628	11%	17%	\$ 2,629	\$ 2,468	7%
Investments ⁽¹⁾	670	105	82	*	*	1,213	254	*
Other	(50)	(5)	(26)	*	(92%)	(79)	24	*
Net revenues	1,356	764	684	77%	98%	3,763	2,746	37%
Compensation and benefits	581	319	322	82%	80%	1,630	1,167	40%
Non-compensation expenses	328	280	288	17%	14%	1,148	1,115	3%
Total non-interest expenses	909	599	610	52%	49%	2,778	2,282	22%
Income (loss) before taxes	447	165	74	171%	*	985	464	112%
Net income (loss) applicable to Morgan Stanley ⁽²⁾	\$ 317	\$ 138	\$ 65	130%	*	\$ 719	\$ 376	91%
Pre-tax profit margin	33%	22%	11%			26%	17%	
Compensation and benefits as a % of net revenues	43%	42%	47%			43%	42%	
Non-compensation expenses as a % of net revenues	24%	37%	42%			31%	41%	
Return on Average Common Equity	51%	22%	10%			29%	14%	
Return on Average Tangible Common Equity ⁽³⁾	82%	36%	15%			47%	22%	

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Investment Management

Financial Information and Statistical Data

(unaudited, dollars in billions)

	Quarter Ended			Percentage Change From:		Twelve Months Ended		Percentage Change
	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	
Assets under management or supervision (AUM)								
Net flows by asset class ⁽¹⁾								
Equity	\$ 2.4	\$ 2.1	\$ (0.9)	14%	*	\$ 7.3	\$ 6.0	22%
Fixed Income	3.4	2.3	(2.7)	48%	*	5.8	(2.6)	*
Alternative / Other	0.9	(0.2)	0.4	*	125%	2.3	1.4	64%
Long-Term Net Flows	6.7	4.2	(3.2)	60%	*	15.4	4.8	*
Liquidity	22.4	9.1	13.9	146%	61%	28.7	(13.8)	*
Total net flows	<u>\$ 29.1</u>	<u>\$ 13.3</u>	<u>\$ 10.7</u>	119%	172%	<u>\$ 44.1</u>	<u>\$ (9.0)</u>	*
Assets under management or supervision by asset class ⁽²⁾								
Equity	\$ 138	\$ 126	\$ 103	10%	34%			
Fixed Income	79	74	68	7%	16%			
Alternative / Other	139	135	128	3%	9%			
Long-Term Assets Under Management or Supervision	356	335	299	6%	19%			
Liquidity	196	172	164	14%	20%			
Total Assets Under Management or Supervision	<u>\$ 552</u>	<u>\$ 507</u>	<u>\$ 463</u>	9%	19%			
Share of minority stake assets	\$ 6	\$ 6	\$ 7	--	(14%)			

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Consolidated Loans and Lending Commitments

(unaudited, dollars in billions)

	Quarter Ended			Percentage Change From:	
	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018
Institutional Securities					
Loans:					
Corporate ⁽¹⁾	\$ 11.5	\$ 13.3	\$ 13.3	(14%)	(14%)
Secured lending facilities	29.6	27.7	21.3	7%	39%
Commercial & residential real estate	13.1	10.5	11.4	25%	15%
Securities-based lending and other	7.4	7.4	8.3	--	(11%)
Total Loans	<u>61.6</u>	<u>58.9</u>	<u>54.3</u>	5%	13%
Lending Commitments	106.9	108.6	95.0	(2%)	13%
Institutional Securities Loans and Lending Commitments ⁽²⁾	<u>\$ 168.5</u>	<u>\$ 167.5</u>	<u>\$ 149.3</u>	1%	13%
Wealth Management					
Loans:					
Securities-based lending and other	\$ 49.9	\$ 47.4	\$ 44.7	5%	12%
Residential real estate	30.2	29.2	27.5	3%	10%
Total Loans	<u>80.1</u>	<u>76.6</u>	<u>72.2</u>	5%	11%
Lending Commitments	13.1	11.7	10.7	12%	22%
Wealth Management Loans and Lending Commitments ⁽³⁾	<u>\$ 93.2</u>	<u>\$ 88.3</u>	<u>\$ 82.9</u>	6%	12%
Consolidated Loans and Lending Commitments ⁽⁴⁾	<u>\$ 261.7</u>	<u>\$ 255.8</u>	<u>\$ 232.2</u>	2%	13%

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U.S. Bank Supplemental Financial Information

(unaudited, dollars in billions)

	Quarter Ended			Percentage Change From:	
	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018
U.S. Bank assets	\$ 219.6	\$ 211.0	\$ 216.9	4%	1%
Institutional Securities U.S. Bank loans					
Corporate ⁽¹⁾	\$ 5.6	\$ 6.9	\$ 7.4	(19%)	(24%)
Secured lending facilities	26.8	25.0	17.5	7%	53%
Commercial & residential real estate	12.0	9.8	10.5	22%	14%
Securities-based lending and other	5.4	5.7	6.0	(5%)	(10%)
Total loans	\$ 49.8	\$ 47.4	\$ 41.4	5%	20%
Wealth Management U.S. Bank loans					
Securities-based lending and other	\$ 49.9	\$ 47.4	\$ 44.7	5%	12%
Residential real estate	30.2	29.2	27.5	3%	10%
Total loans	\$ 80.1	\$ 76.6	\$ 72.2	5%	11%
U.S. Bank loans	\$ 129.9	\$ 124.0	\$ 113.6	5%	14%
U.S. Bank investment securities portfolio ⁽²⁾	\$ 68.5	\$ 70.7	\$ 69.2	(3%)	(1%)
U.S. Bank deposits	\$ 189.3	\$ 179.6	\$ 187.1	5%	1%

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Definition of U.S. GAAP to Non-GAAP Measures

- (a) The Firm prepares its Consolidated Financial Statements using accounting principles generally accepted in the United States (U.S. GAAP). From time to time, Morgan Stanley may disclose certain “non-GAAP financial measures” in the course of its earnings releases, earnings conference calls, financial presentations and otherwise. The Securities and Exchange Commission defines a “non-GAAP financial measure” as a numerical measure of historical or future financial performance, financial positions, or cash flows that is subject to adjustments that effectively exclude, or include amounts from the most directly comparable measure calculated and presented in accordance with U.S. GAAP. Non-GAAP financial measures disclosed by Morgan Stanley are provided as additional information to analysts, investors and other stakeholders in order to provide them with greater transparency about, or an alternative method for assessing, our financial condition, operating results, or prospective regulatory capital requirements. These measures are not in accordance with, or a substitute for U.S. GAAP, and may be different from or inconsistent with non-GAAP financial measures used by other companies. Whenever we refer to a non-GAAP financial measure, we will also generally define it or present the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, along with a reconciliation of the differences between the non-GAAP financial measure we reference and such comparable U.S. GAAP financial measure. In addition to the following notes, please also refer to the Firm's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019.
- (b) The following are considered non-GAAP financial measures that the Firm considers useful for analysts, investors and other stakeholders to allow better comparability of operating performance and capital adequacy. These measures are calculated as follows:
- Earnings per diluted share, excluding intermittent net discrete tax provision / benefit represents net income (loss) applicable to Morgan Stanley, adjusted for the impact of the intermittent net discrete tax provision / benefit, less preferred dividends divided by the average number of diluted shares outstanding.
 - The return on average common equity and return on average tangible common equity represents full year net income or annualized net income for the quarter applicable to Morgan Stanley less preferred dividends as a percentage of average common equity and average tangible common equity, respectively.
 - The return on average common equity and the return on average tangible common equity excluding intermittent net discrete tax provision / benefit are adjusted in both the numerator and the denominator to exclude the intermittent net discrete tax provision / benefit.
 - Segment return on average common equity and return on average tangible common equity represents full year net income or annualized net income for the quarter applicable to Morgan Stanley for each segment, less preferred dividend segment allocation, divided by average common equity and average tangible common equity for each respective segment. The segment adjustments to common equity to derive segment average tangible common equity are generally set at the beginning of the year, and will remain fixed throughout the year until the next annual reset unless a significant business change occurs (e.g., acquisition or disposition).
 - Tangible common equity represents common equity less goodwill and intangible assets net of allowable mortgage servicing rights deduction.
 - Tangible book value per common share represents tangible common equity divided by period end common shares outstanding.
 - Pre-tax profit margin percentages represent income before income taxes as percentages of net revenues.

Definition of Performance Metrics and Terms

Page 1:

- (a) Net income (loss) applicable to Morgan Stanley represents net income, less net income applicable to nonredeemable noncontrolling interests.
- (b) Earnings (loss) applicable to Morgan Stanley common shareholders represents net income (loss) applicable to Morgan Stanley, less preferred dividends.

Page 2:

- (a) Book value per common share represents common equity divided by period end common shares outstanding.
- (b) The Firm expense efficiency ratio represents total non-interest expenses as a percentage of net revenues.

Page 3:

- (a) Firmwide regional revenues reflect the Firm's consolidated net revenues on a managed basis. Further discussion regarding the geographic methodology for net revenues is disclosed in Note 21 to the consolidated financial statements included in the Firm's Annual Report on Form 10-K for the year ended December 31, 2018 (2018 Form 10-K).
- (b) The global liquidity reserve, which is held within the bank and non-bank operating subsidiaries, is comprised of highly liquid and diversified cash and cash equivalents and unencumbered securities. Eligible unencumbered securities include U.S. government securities, U.S. agency securities, U.S. agency mortgage-backed securities, non-U.S. government securities and other highly liquid investment grade securities.
- (c) The Firm's goodwill and intangible balances utilized in the calculation of tangible common equity are net of allowable mortgage servicing rights deduction.

Page 4:

- (a) The Firm's attribution of average common equity to the business segments is based on the Required Capital framework, an internal capital adequacy measure. This framework is a risk-based and leverage use-of-capital measure, which is compared with the Firm's regulatory capital to ensure that the Firm maintains an amount of going concern capital after absorbing potential losses from stress events, where applicable, at a point in time. The Required Capital framework is based on the Firm's regulatory capital requirements. The Firm defines the difference between its total average common equity and the sum of the average common equity amounts allocated to its business segments as Parent common equity. The amount of capital allocated to the business segments is generally set at the beginning of the year, and will remain fixed throughout the year until the next annual reset unless a significant business change occurs (e.g., acquisition or disposition). The Required Capital framework is expected to evolve over time in response to changes in the business and regulatory environment, for example, to incorporate changes in stress testing or enhancements to modeling techniques. For further discussion of the framework, refer to Part II, Item 7 "Liquidity and Capital Resources—Regulatory Requirements" in the Firm's Annual Report on Form 10-K for the year ended December 31, 2018 and Part I, Item 2 "Liquidity and Capital Resources—Regulatory Requirements" in the Firm's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019.
- (b) The Firm's risk-based capital ratios for purposes of determining regulatory compliance are the lower of the capital ratios computed under the (i) standardized approaches for calculating credit risk and market risk risk-weighted assets (RWAs) (the "Standardized Approach"); and (ii) applicable advanced approaches for calculating credit risk, market risk and operational risk RWAs (the "Advanced Approach"). At December 31, 2019 and December 31, 2018, the Firm's ratios are based on the Standardized Approach. For information on the calculation of regulatory capital and ratios for prior periods, please refer to Part II, Item 7 "Liquidity and Capital Resources—Regulatory Requirements" in the Firm's 2018 Form 10-K and Part I, Item 2 "Liquidity and Capital Resources—Regulatory Requirements" in the Firm's 10-Q for the quarter ended September 30, 2019.
- (c) Supplementary leverage ratio represents Tier 1 capital divided by the total supplementary leverage exposure.

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- (a) Institutional Securities Sales & Trading net revenues includes trading, net interest income (interest income less interest expense), asset management, commissions and fees revenues.
- (b) VaR represents the loss amount that one would not expect to exceed, on average, more than five times every one hundred trading days in the Firm's trading positions if the portfolio were held constant for a one-day period. Effective for the quarter ended September 30, 2019, the Firm changed its VaR model primarily in preparation for updates to regulatory rules and we believe the resulting VaR continues to accurately measure our market risk. The previous model used four years of historical data with a volatility adjustment to reflect current market conditions, the new model uses one year of unadjusted historical data. Prior periods VaR amounts have not been recast to reflect the new model. Further discussion of the calculation of VaR and the limitations of the Firm's VaR methodology, is disclosed in Part II, Item 7A "Quantitative and Qualitative Disclosures about Risk" included in the Firm's 2018 Form 10-K.

Definition of Performance Metrics and Terms

Page 6:

- (a) Transactional revenues for the Wealth Management segment includes investment banking, trading, and commissions and fee revenues.
- (b) Net interest income represents interest income less interest expense.
- (c) Other revenues for the Wealth Management segment includes investments and other revenues.

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- (a) The average annualized revenue per representative metric represents annualized net revenues divided by average representative headcount.
- (b) Client assets per representative represents total client assets divided by period end representative headcount.
- (c) Client liabilities reflect U.S. Bank lending and broker dealer margin activity.
- (d) Fee-based client assets represent the amount of assets in client accounts where the basis of payment for services is a fee calculated on those assets.
- (e) Fee-based asset flows include net new fee-based assets, net account transfers, dividends, interest, and client fees and exclude institutional cash management related activity.

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- (a) Other revenues for the Investment Management segment includes investment banking, trading, net interest and other revenues.

Page 9:

- (a) Investment Management Alternative/Other asset class includes products in Fund of Funds, Real Estate, Private Equity and Credit strategies, as well as Multi-Asset portfolios.
- (b) Investment Management net flows include new commitments, investments or reinvestments, net of client redemptions, returns of capital post-fund investment period and dividends not reinvested and excludes the impact of the transition of funds from their commitment period to the invested capital period.
- (c) The share of minority stake assets represents Investment Management's proportional share of assets managed by entities in which it owns a minority stake.

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- (a) Corporate loans include relationship and event-driven loans and typically consist of revolving lines of credit, term loans and bridge loans.
- (b) Secured lending facilities include loans provided to clients to warehouse loans secured by underlying real estate or other assets.
- (c) The Institutional Securities business segment engages in securities-based and other lending activity, which includes corporate loans purchased in the secondary market, financing extended to commodities customers, and loans to municipalities.
- (d) Institutional Securities Lending Commitments principally include Corporate lending activity.

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- (a) U.S. Bank refers to the Firm's U.S. Bank operating subsidiaries Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, National Association and excludes balances between Bank subsidiaries, as well as deposits from the Parent and affiliates.
- (b) Corporate loans include relationship and event-driven loans and typically consist of revolving lines of credit, term loans and bridge loans.
- (c) Secured lending facilities include loans provided to clients to warehouse loans secured by underlying real estate or other assets.
- (d) The Institutional Securities business segment engages in securities-based and other lending activity, which includes corporate loans purchased in the secondary market, financing extended to commodities customers, and loans to municipalities.

Page 1:

(1) The Firm non-interest expenses by category are as follows:

	<u>4Q19</u>	<u>3Q19</u>	<u>4Q18</u>	<u>4Q19 YTD</u>	<u>4Q18 YTD</u>
Compensation and benefits ^(a)	\$ 5,228	\$ 4,427	\$ 3,787	\$ 18,837	\$ 17,632
Non-compensation expenses:					
Occupancy and equipment	375	353	358	1,428	1,391
Brokerage, clearing and exchange fees	633	637	598	2,493	2,393
Information processing and communications	567	557	529	2,194	2,016
Marketing and business development	200	157	220	660	691
Professional services	555	531	605	2,137	2,265
Other	566	660	594	2,369	2,482
Total non-compensation expenses	<u>2,896</u>	<u>2,895</u>	<u>2,904</u>	<u>11,281</u>	<u>11,238</u>
Total non-interest expenses	<u>\$ 8,124</u>	<u>\$ 7,322</u>	<u>\$ 6,691</u>	<u>\$ 30,118</u>	<u>\$ 28,870</u>

(a) The Firm recorded severance costs of \$172 million in the fourth quarter of 2019, associated with a business unit and infrastructure December employee action, which were reported in the business segments' results as follows: Institutional Securities \$124 million, Wealth Management \$37 million and Investment Management \$11 million.

Page 2:

(1) The fourth quarter and full year ended December 31, 2019 included intermittent net discrete tax benefits of \$158 million and \$348 million, respectively, primarily associated with remeasurement of reserves as a result of new information pertaining to the resolution of multi-jurisdiction tax examinations and other tax matters. The third quarter ended September 30, 2019 included intermittent net discrete tax benefits of \$89 million primarily associated with the filing of the 2018 federal tax return and remeasurement of reserves as a result of new information pertaining to multi-jurisdiction tax examinations. The fourth quarter and full year ended December 31, 2018 included intermittent net discrete tax benefits of \$111 million and \$203 million, respectively, primarily associated with remeasurement of reserves as a result of new information pertaining to the resolution of multi-jurisdiction tax examinations.

The following sets forth the impact of the intermittent net discrete tax items to earnings per diluted share, return on average common equity and return on average tangible common equity (which are excluded):

	<u>4Q19</u>	<u>3Q19</u>	<u>4Q18</u>	<u>4Q19 YTD</u>	<u>4Q18 YTD</u>
Earnings per diluted share impact	\$ 0.10	\$ 0.06	\$ 0.07	\$ 0.21	\$ 0.12
Return on average common equity impact	0.8 %	0.5 %	0.6 %	0.5 %	0.3 %
Return on average tangible common equity impact	1.0 %	0.6 %	0.7 %	0.5 %	0.3 %

(2) The income tax consequences related to employee share-based payments, which are recurring-type tax items, are recognized in Provision for income taxes in the consolidated income statement, and may be either a benefit or a provision. Conversion of employee share-based awards to Firm shares will primarily occur in the first quarter of each year. The impacts of recognizing excess tax benefits upon conversion of awards, in the applicable quarter and year-to-date amounts, are as follows: 4Q18: \$1 million, 4Q19 YTD: \$127 million and 4Q18 YTD: \$165 million. The impact of intermittent net discrete tax provisions and benefits reflected above do not include the recurring-type discrete tax benefits related to employee share-based payments as we anticipate conversion activity each year.

Page 5:

(1) For the fourth quarter and full year ended December 31, 2019, the Institutional Securities segment net income applicable to Morgan Stanley included intermittent net discrete tax benefits of \$149 million and \$317 million, respectively, primarily associated with remeasurement of reserves as a result of new information pertaining to the resolution of multi-jurisdiction tax examinations and other tax matters. The third quarter ended September 30, 2019 included intermittent net discrete tax benefits of \$67 million primarily associated with the filing of the 2018 federal tax return and remeasurement of reserves as a result of new information pertaining to the resolution of multi-jurisdiction tax examinations. The fourth quarter and full year ended December 31, 2018 included intermittent net discrete tax benefits of \$94 million and \$182 million, respectively, primarily associated with the remeasurement of reserves as result of new information pertaining to the resolution of multi-jurisdiction tax examinations and tax other matters.

(2) Institutional Securities average tangible common equity represents average common equity adjusted to exclude goodwill and intangible assets net of allowable mortgage servicing rights deduction. The adjustments are as follows: 4Q19: \$536mm; 3Q19: \$536mm; 4Q19 YTD: \$536mm; 4Q18: \$641mm; 4Q18 YTD: \$641mm

(3) Effective for the quarter ended September 30, 2019, the Firm changed its VaR model primarily in preparation for updates to regulatory rules and we believe the resulting VaR continues to accurately measure our market risk. The previous model used four years of historical data with a volatility adjustment to reflect current market conditions, the new model uses one year of unadjusted historical data. Prior periods VaR amounts have not been recast to reflect the new model. The difference in Trading VaR for 3Q19 between the new model (\$42 million) and old model (\$43 million) was not significant.

Page 6:

- (1) For the full year ended December 31, 2019, the Wealth Management segment net income applicable to Morgan Stanley included intermittent net discrete tax benefits of \$13 million. Additionally, the quarter ended September 30, 2019 included intermittent net discrete tax benefits of \$13 million.
- (2) Wealth Management average tangible common equity represents average common equity adjusted to exclude goodwill and intangible assets net of allowable mortgage servicing rights deduction. The adjustments are as follows: 4Q19: \$8,088mm; 3Q19: \$8,088mm; 4Q19 YTD: \$8,088mm; 4Q18: \$7,604mm; 4Q18 YTD: \$7,604mm

Page 8:

- (1) Includes investment gains or losses for certain funds included in the Firm's consolidated financial statements for which the limited partnership interests in these gains or losses were reported in net income (loss) applicable to nonredeemable noncontrolling interests.
- (2) For the fourth quarter and full year ended December 31, 2019, the Investment Management segment net income applicable to Morgan Stanley included intermittent net discrete tax benefits of \$9 million and \$18 million, respectively. The fourth quarter and full year ended December 31, 2018 included intermittent discrete tax benefits of \$20 million and \$21 million, respectively.
- (3) Investment Management average tangible common equity represents average common equity adjusted to exclude goodwill and intangible assets net of allowable mortgage servicing rights deduction. The adjustments are as follows: 4Q19: \$940mm; 3Q19: \$940mm; 4Q19 YTD: \$940mm; 4Q18: \$950mm; 4Q18 YTD: \$950mm

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- (1) Net Flows by region for the quarters ended December 31, 2019, September 30, 2019 and December 31, 2018 were:
North America: \$19.4 billion, \$6.4 billion and \$3.1 billion
International: \$9.7 billion, \$6.9 billion and \$7.6 billion
- (2) Assets under management or supervision by region for the quarters ended December 31, 2019, September 30, 2019 and December 31, 2018 were:
North America: \$307 billion, \$282 billion and \$260 billion
International: \$245 billion, \$225 billion and \$203 billion

Page 10:

- (1) Corporate loans in the Institutional Securities segment represents relationship and event lending.
- (2) For the quarters ended December 31, 2019, September 30, 2019 and December 31, 2018, Institutional Securities recorded a provision for credit losses of \$47 million, \$31 million and \$7 million, respectively, related to loans, and a provision for credit losses of \$5 million, \$18 million and \$3 million, respectively, related to lending commitments.
- (3) For the quarters ended December 31, 2019, September 30, 2019 and December 31, 2018, Wealth Management recorded a provision for credit losses of \$4 million, \$3 million and \$2 million, respectively, related to loans. For the quarters ended December 31, 2019, September 30, 2019 and December 31, 2018, there was no material provision recorded by Wealth Management related to lending commitments.
- (4) For the quarters ended December 31, 2019, September 30, 2019 and December 31, 2018, Investment Management reflected loan balances of \$256 million, \$43 million and \$26 million, respectively, and lending commitments of \$21 million for the quarter ended December 31, 2019, which are not included in the Consolidated Loans and Lending Commitments balance.

Page 11:

- (1) Corporate loans in the Institutional Securities segment represents relationship and event lending.
- (2) For the quarters ended December 31, 2019, September 30, 2019 and December 31, 2018, the U.S. Bank investment securities portfolio included held to maturity investment securities of \$26.1 billion, \$26.7 billion and \$23.7 billion, respectively.

This Financial Supplement contains financial, statistical and business-related information, as well as business and segment trends. The information should be read in conjunction with the Firm's fourth quarter earnings press release issued January 16, 2020.