

Morgan Stanley

Barclays Global Financial Services Conference

Eric Heaton, President of Morgan Stanley U.S. Banks

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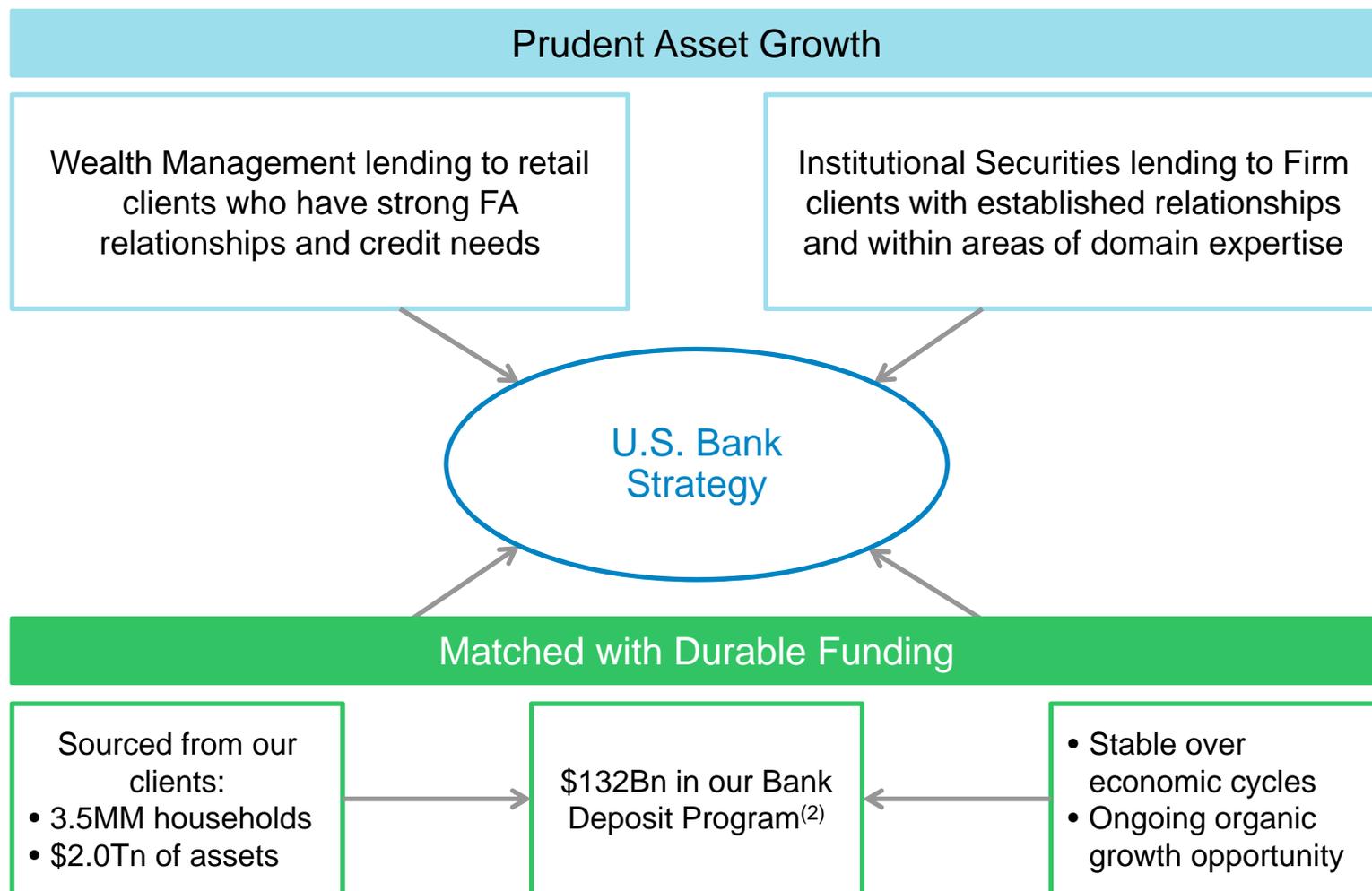
Please note this presentation is available at www.morganstanley.com.

Agenda

- 1 U.S. Bank Overview – Lending Strategy
- 2 U.S. Bank Overview – Deposit Strategy
- 3 Organic Growth Opportunity

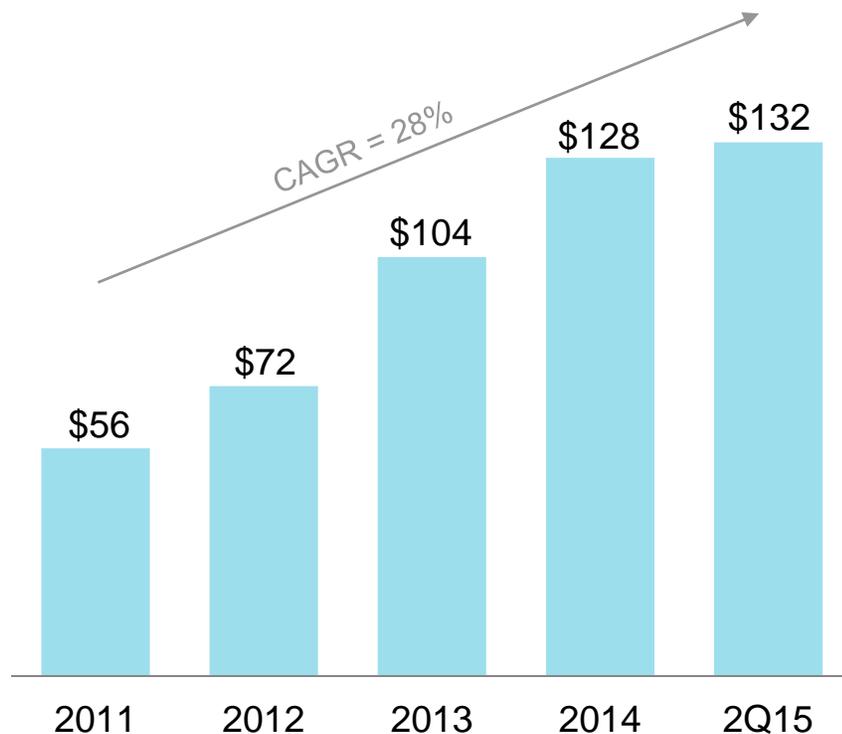
Our U.S. Bank⁽¹⁾ Strategy Was Developed With Our Clients' Needs and Our Core Strengths and Capabilities in Mind

- Asset and liability strategy built within our existing client footprint

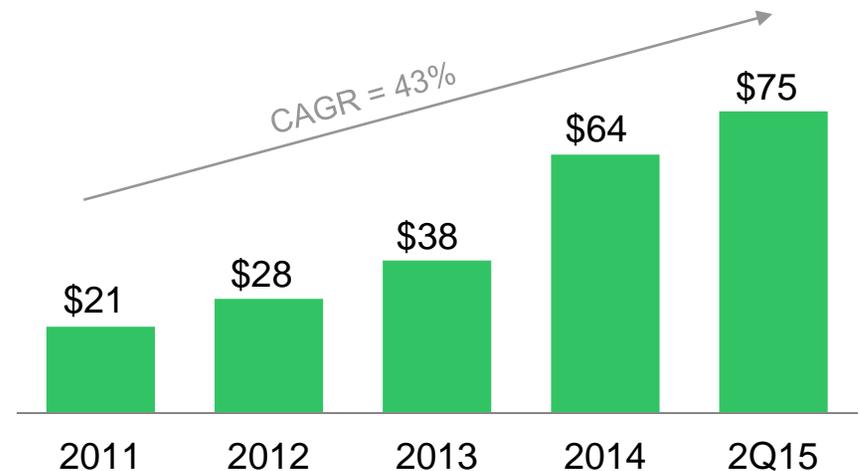


U.S. Bank Strategy – Prudent Lending Growth Aligned With Deposit Growth

Steady Growth in Bank Deposit Program⁽¹⁾ (\$Bn)



Embedded Client Base Supports Funded Loan Growth⁽¹⁾ (\$Bn)



1 U.S. Bank Overview – Lending Strategy

1 Wealth Management Lending Products Are Tailored to Our Client Base and Support Our Strategy

Residential Real Estate Lending

- Broad product offering and specialized underwriting for affluent clients
- High touch service offering for top FAs and Wealth Management clients
- Outstanding credit profile
- Strong client service scores

Securities-Based Lending and Tailored Lending

- Flexible terms, competitive pricing and efficient access to liquidity for many purposes
- Allows clients to maintain investment strategies while meeting liquidity needs
- Recently upgraded lending platform (Liquidity Access Line)
- Highly customized solutions for the sophisticated lending needs of our wealthiest clients
- Critical offering for the retention and acquisition of assets of our UHNW clients



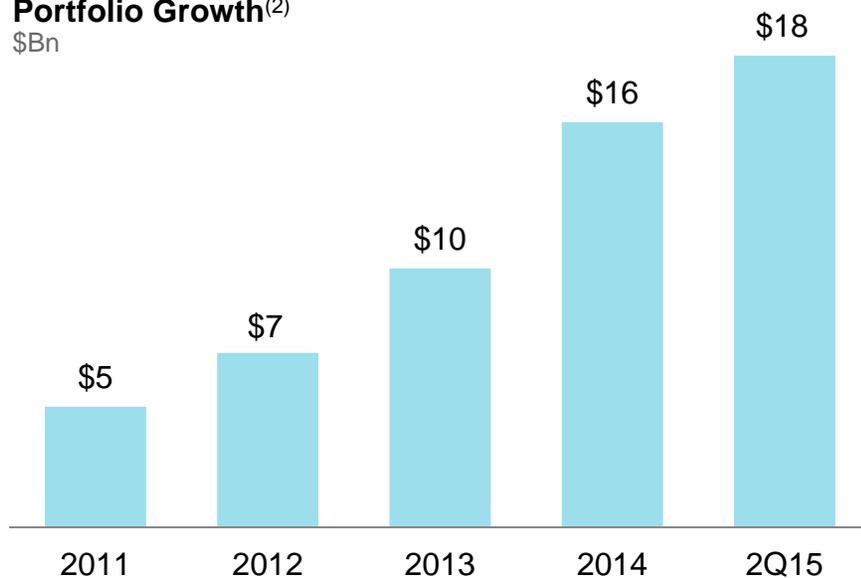
- ❖ **Supports 22% - 25% Wealth Management targeted PBT margin**
- ❖ **Strengthens client relationship and supports asset retention and growth**

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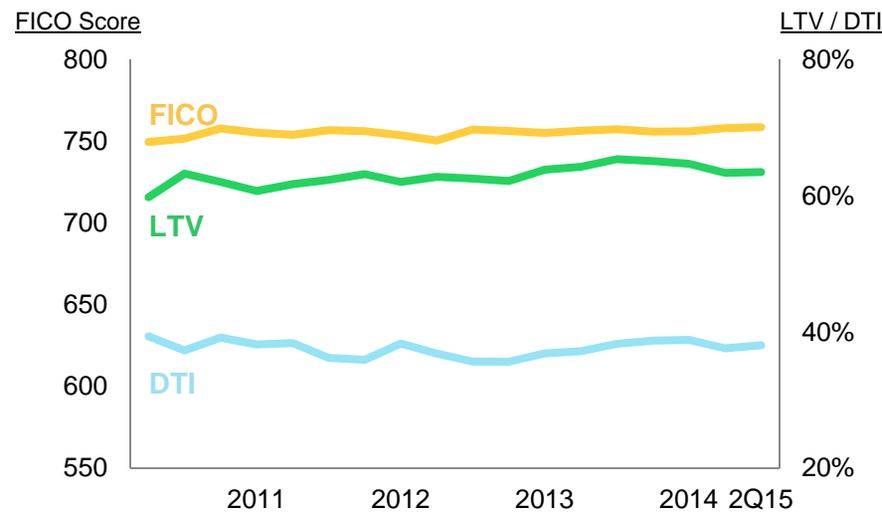
Residential Mortgage Credit Profile Remains Consistently Strong

- Average debt-to-income (DTI) of ~38%⁽¹⁾
- Average FICO score >750⁽¹⁾
- Average loan-to-value (LTV) of ~63%⁽¹⁾
- Nominal delinquency rate since 2011⁽¹⁾
- 99.7% of residential mortgage loans were current as of June 30, 2015⁽¹⁾
- Majority of mortgage portfolio is comprised of shorter duration hybrid ARMs⁽¹⁾

Portfolio Growth⁽²⁾
\$Bn



Origination Metrics Remain Consistently Strong⁽¹⁾

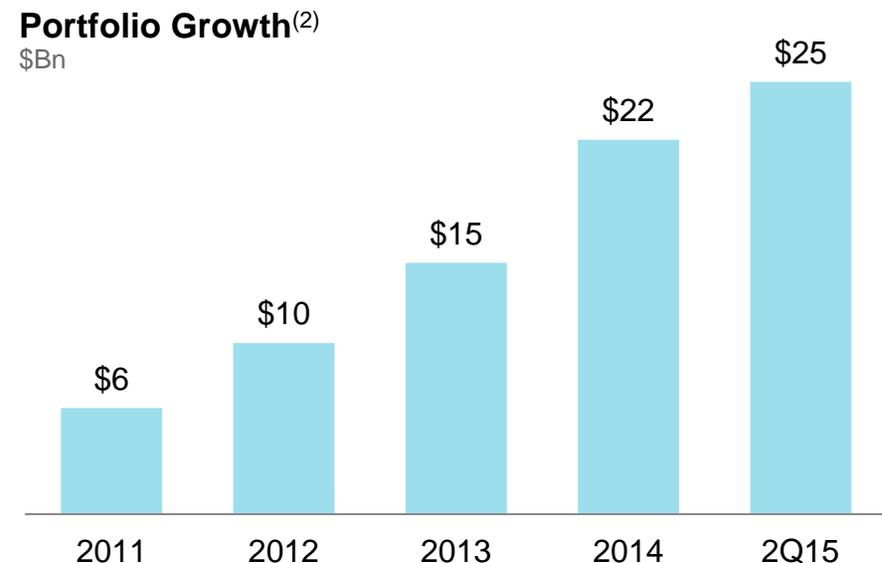
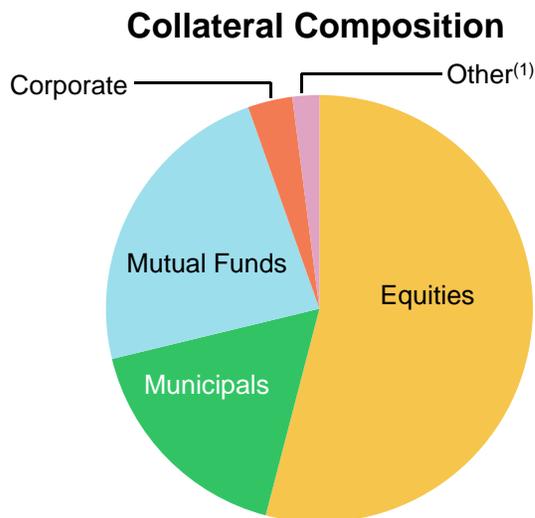


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(1) Data sourced from Morgan Stanley internal data based on client credit metrics and loan statistics.
 (2) Data sourced from Company earnings releases and regulatory filings.

1 Securities-Based & Other Lending to Broad, Affluent Client Base with Robust Risk Management

- Flexible platform for brokerage clients to access liquidity against assets held in their Morgan Stanley brokerage accounts
- Demand-based facilities with conservative advance rates and daily margining helps limit Bank's credit risk
- Highly collateralized
- Broad and diverse loan portfolio spread across >75,000 accounts with average funded balance of \$300K
- Robust stress testing of portfolio for market and concentrated stock shock



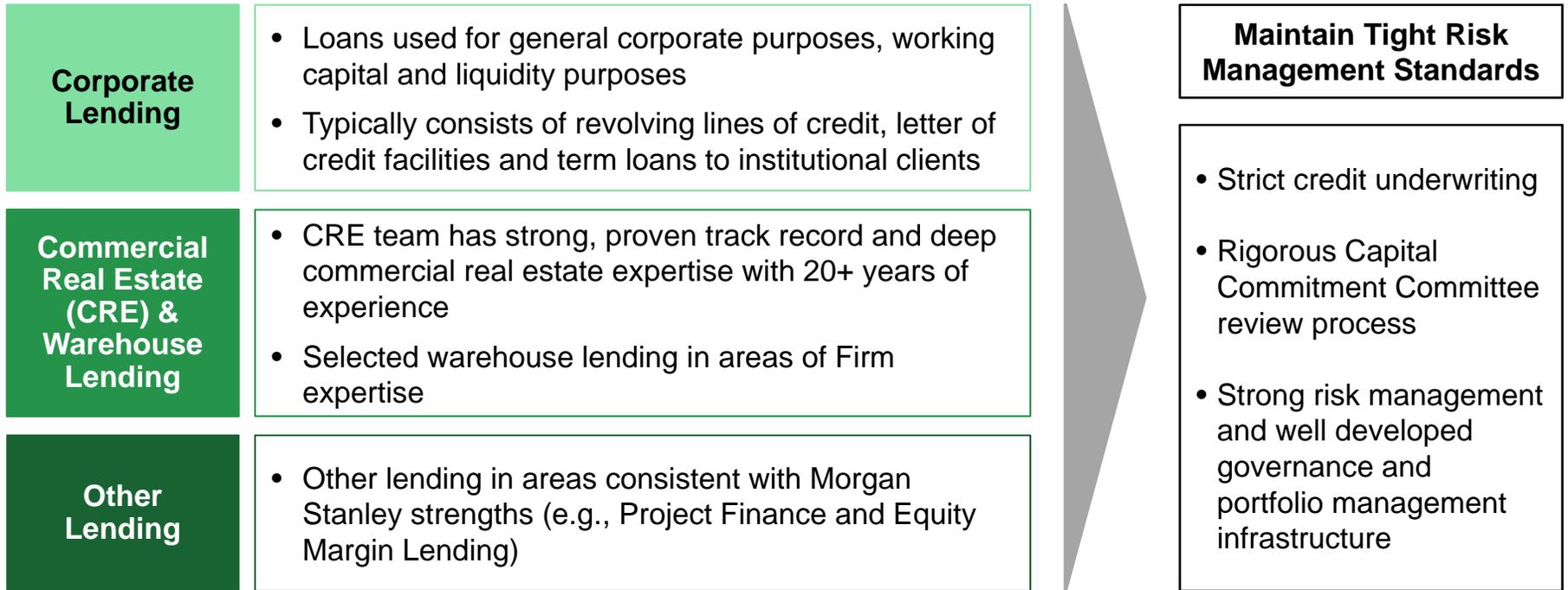
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(1) 'Other' includes cash and cash equivalents, mortgage backed securities and hedge fund investments.
(2) Data sourced from Company earnings releases and regulatory filings.

1

Institutional Securities U.S. Bank Lending is Within Our Existing Footprint & Consistent With Our Core Strategies

- Focus on areas with strong franchise and domain expertise



- ❖ **Further strengthens client relationships**
- ❖ **Delivers accretive returns consistent with the Firm's risk profile**

1 NII Continues to Grow – Includes Benefit of Deposit Deployment and Realization of the Forward Curve

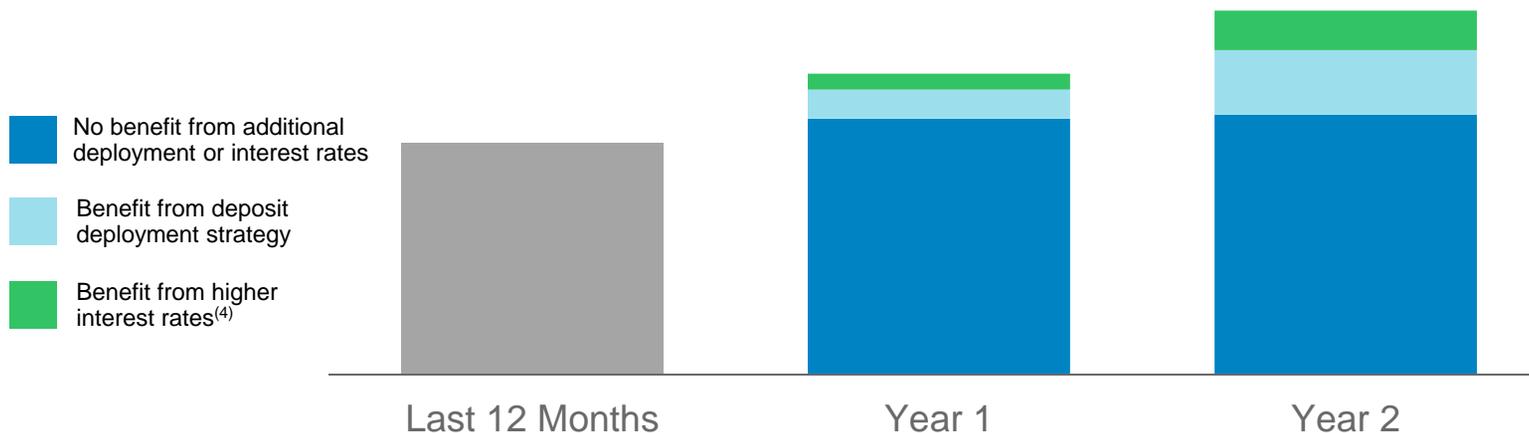
Deposit Deployment

- U.S. Bank remains in an excess liquidity position
- Current loan to deposit ratio is ~55% (~75% including contingent liquidity)⁽¹⁾
- As cash is deployed into lending, Firm benefits from higher yields

Realization of the Forward Curve

- Duration of the U.S. Bank asset portfolio is ~1.5 years⁽¹⁾
- As assets mature, Firm will reinvest at higher market implied rates
- Deposit beta assumes approximately 45 basis points for first 100 basis point rate increase⁽²⁾

Illustrative U.S. Bank Net Interest Income Base Case⁽³⁾



- (1) Data is sourced from Morgan Stanley internal data based on the size and composition of the asset portfolio.
- (2) Approximate deposit beta is based on internal Company models and is subject to change. The deposit beta is an estimate and may be impacted by external factors that cannot be predicted at this time, including macroeconomic and market conditions and future regulations.
- (3) Illustrative; not to scale. The attainment of this net interest income may be impacted by external factors that cannot be predicted at this time including macroeconomic and market conditions and future regulations.
- (4) "Benefit from higher interest rates" is based off of the forward curve.

2 U.S. Bank Strategy – Deposit Strategy

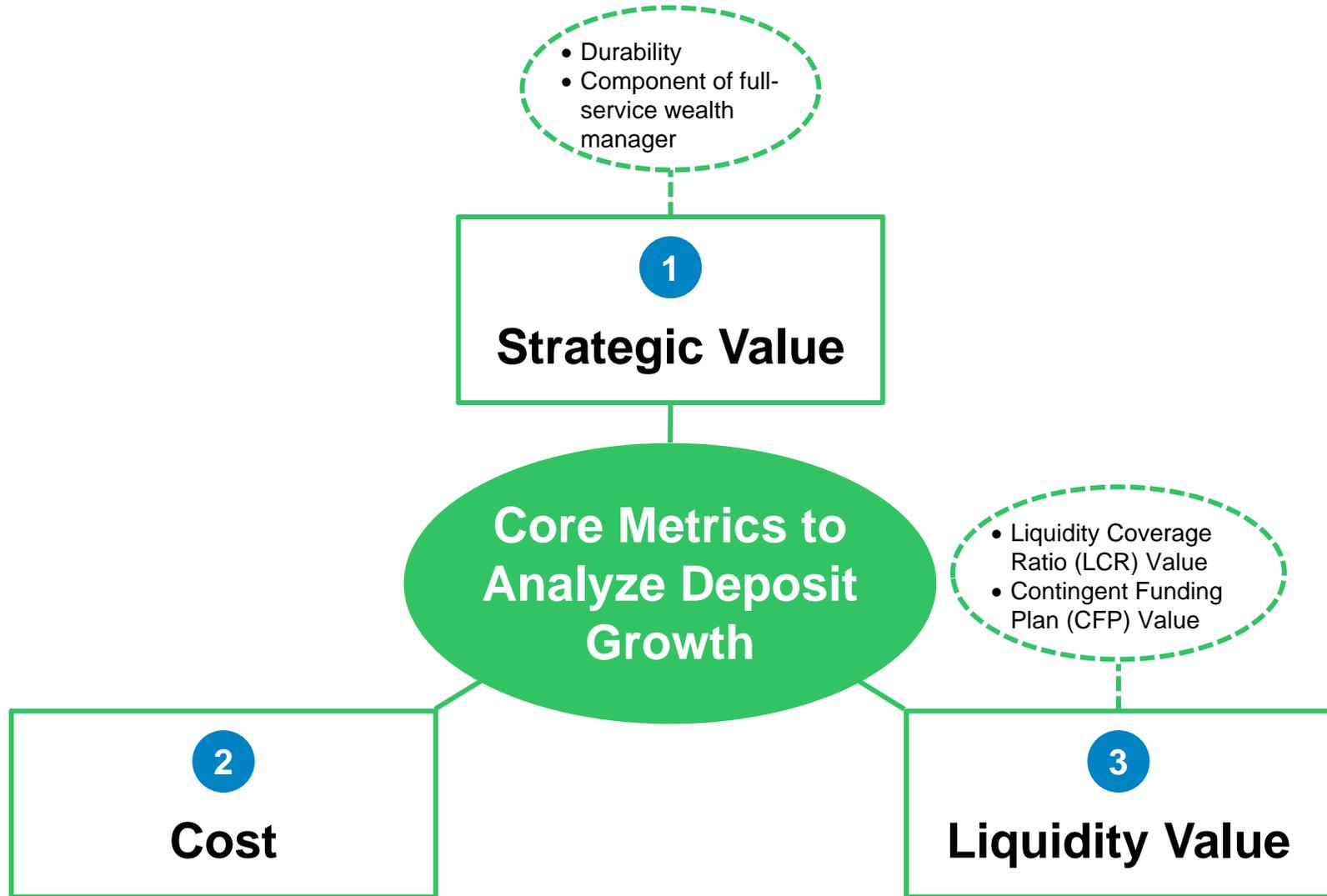
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Continued Prudent Loan Growth is Aligned with Deposit Strategy

- Further growth in deposits will be aligned with lending strategy and Firm priorities

- Our deposit base has increased significantly since 2011 through onboarding deposits from our former Wealth Management joint venture partner
- With the completion of the deposit transfers, the bank strategy is shifting from a deposit-deployment strategy to an asset-optimization strategy
- We have numerous opportunities to increase the share of client liquidity
 - Broadening the range of cash management product suite
 - Ongoing investment in digital platform
- The three core metrics we will use to evaluate deposit growth:
 - Strategic value
 - Cost
 - Liquidity value

2 Prospective Deposit Growth Supported By Three Core Metrics



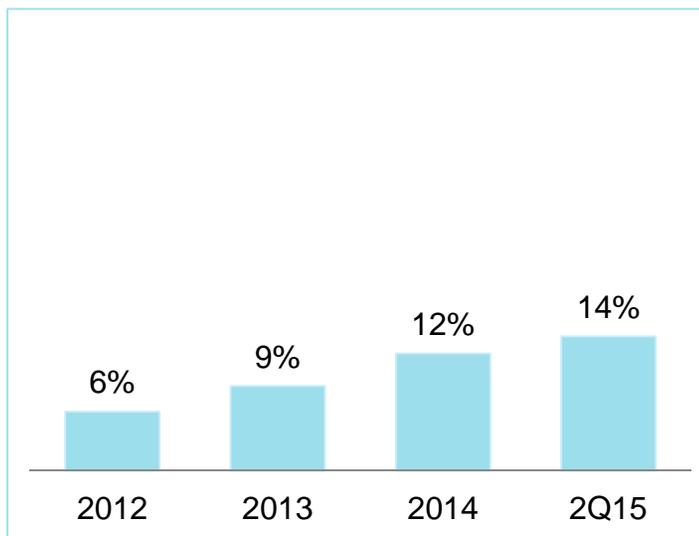
3 Organic Growth Opportunity

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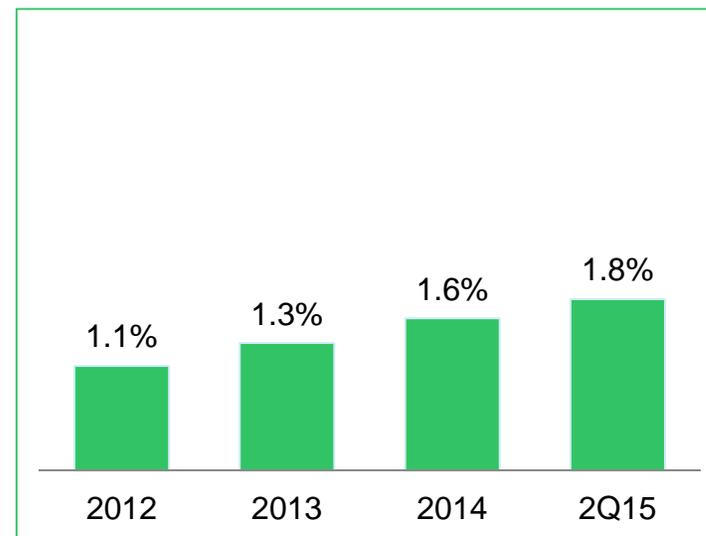
We Continue to Have a Significant Growth Opportunity as We Serve More of Our Clients' Credit and Liquidity Needs

Percentage of Morgan Stanley Wealth Management Clients...

... Who Have a Securities-Based Loan or a Tailored Loan with Morgan Stanley⁽¹⁾



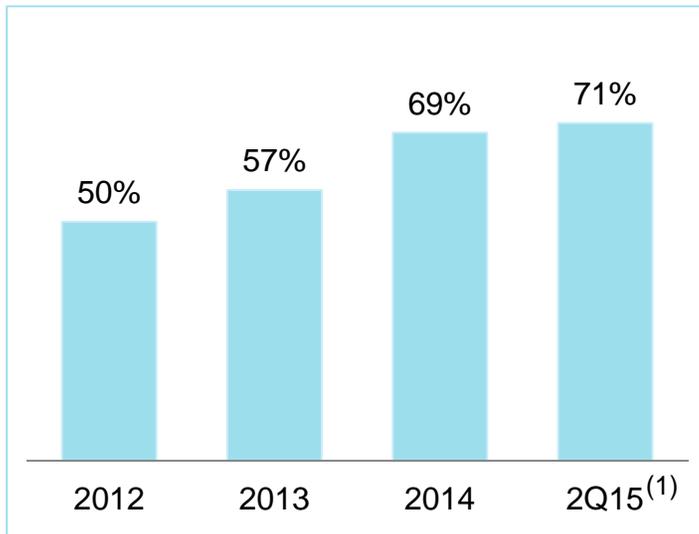
... Who Have a Home Loan with Morgan Stanley⁽¹⁾



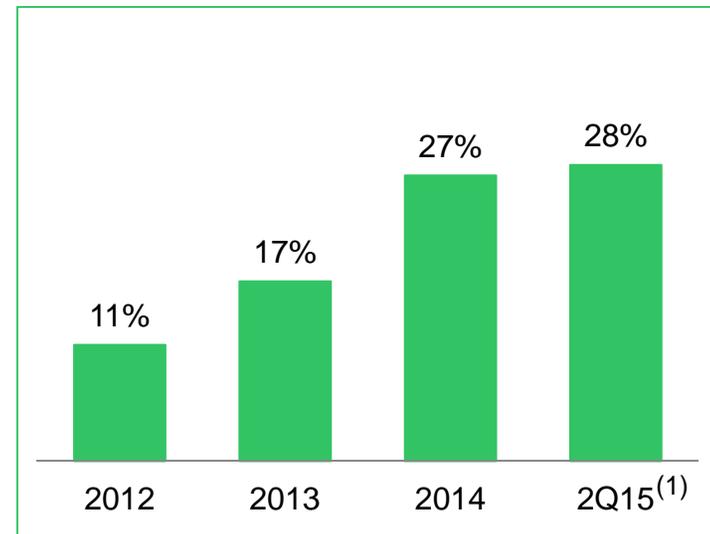
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Further Growth is Facilitated by the Increasing Level of Advisor Engagement

A Significant Percentage of our FAs Have Engaged With at Least One New Lending Solution...



...And an Increasing Number Have Initiated Four or More New Lending Products



(1) 2Q15 FA/Client Lending product data based on the trailing 12-months.

(2) 'Percentage of FA' use is a Morgan Stanley internal designation referring to the number of FAs who used a lending solution with their clients in the prior 12 month period.

3 Building Competitive Suite of Digital Capabilities and Cash Management Solutions

- Integrated, Advisor-Centric Value Proposition
- Leading Mobile Cash Management
 - Corporate Insights rates MS Mobile “A”
- Enhanced Morgan Stanley Online
 - Consolidated view of assets and liabilities
 - Integrated bill pay and cash management
- Integrated Payment Features
 - Morgan Stanley EMV Debit Card
 - Morgan Stanley branded American Express cards
 - ApplePay™
- Access to New Deposit Products
 - Savings and term deposits

Morgan Stanley Mobile App Receives The Only "A" Grade For Cash Management Capabilities.¹

With industry-leading cash management capabilities on the Morgan Stanley Mobile App, you have the freedom to conduct your everyday cash management needs when and where you want.²

Experience it now. Visit www.morganstanley.com/app

Capabilities include:

- Cutting-edge image technology to scan and deposit checks.³
- Easy to find cash management transaction functions.
- Options for recurring bill payment and funds transfer.

The Morgan Stanley Mobile App is available for download from the App Store™ for iPhone® and iPad®. Android support will follow.

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¹Mobile Member Report 2014 by Corporate Insight. "Money on the Move: Transfers, Payments & Deposits."
²Subject to cell phone connectivity. Standard messaging and data rates from your provider may apply.
³Subject to certain terms and conditions. Checks must be drawn on a U.S. bank.
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