

Financial Analysis: MS - 2025 FY summary

Executive Summary

Executive Summary: 2025 Quarterly Performance Review

Morgan Stanley demonstrated robust financial performance throughout 2025, marked by significant revenue growth and strategic adjustments in headcount and risk management. The firm achieved record revenues in two quarters, reflecting strong underlying business activity, while navigating dynamic macroeconomic conditions that influenced credit provisions and operational staffing.

Revenue Trend:

The year commenced with a record **Q1 revenue of \$17.7 billion**, driven by strong performance in Institutional Securities and Wealth Management. Revenues moderated slightly in **Q2 to \$16.8 billion**, though still representing year-over-year growth, with some sequential deceleration in net income. **Q3 saw a new record revenue of \$18.224 billion**, propelled by broad-based strength across all segments, including a rebound in Investment Banking. The year concluded strongly with **Q4 revenues at \$17.89 billion**, showcasing continued momentum, particularly in Investment Banking and Wealth Management, despite some sequential declines in fixed income and overall trading revenues. The overall trend indicates consistent top-line growth, with strategic diversification mitigating segment-specific headwinds.

Headcount Changes:

Headcount experienced an initial reduction in the first half of the year, decreasing from **81,023 in Q1** (which included severance costs for approximately 2% of the global workforce) to **80,393 in Q2**. This trend reversed in the latter half, with headcount increasing to **82,398 in Q3** and further to **82,992 by Q4**, indicating strategic hiring and expansion following earlier efficiency measures. The initial reduction appears to have been a targeted action, followed by a period of growth to support business expansion.

Write-offs and Risk Management:

Credit risk management saw fluctuating provisions throughout the year, largely influenced by macroeconomic forecasts. **Q1 and Q2 recorded provisions of \$135 million and \$196 million respectively**, driven by growth in lending portfolios and a cautious macroeconomic outlook. This trend reversed sharply in **Q3, with zero credit loss provisions** attributed to an improved macroeconomic scenario. However, **Q4 introduced a notable \$87 million in actual write-offs**, primarily from a single commercial real estate loan, alongside \$18 million in new provisions. While the Q4 write-off was largely provisioned for in prior periods, it underscores the ongoing need for vigilance in specific credit portfolios, particularly within commercial real estate, despite an overall favorable credit environment in Q3.

In summary, Morgan Stanley delivered a strong year with record revenues and effective capital management. While headcount adjustments and fluctuating credit provisions reflect dynamic market conditions and strategic responses, the firm's ability to achieve record revenues and manage capital effectively positions it well for continued growth, albeit with ongoing attention to specific credit exposures and market segment performance.

Quarterly Metrics

Metric	Q1	Q2	Q3	Q4
Quarterly Revenue Bn	17.7	16.8	18.224	17.89
Eps	2.6	2.13	2.8	2.68
Net Interest Income Millions	2353	2347	2491	2855
Dividend Per Share	0.925	1.0	1.0	1.0
Assets Under Supervision Bn	7700.0	8200.0	8900.0	1895.0
Total Headcount	81023	80393	82398	82992
Write Offs Millions	0.0	0.0	0.0	87.0
Credit Loss Provisions Millions	135.0	196	0.0	18.0
Operating Expenses Bn	12.06	11.974	12.196	12.112
Return On Equity Bn	17.4	0.139	0.0	0.0
Return On Equity Tier1 Capital Bn	23.0	0.182	0.0	0.0
Net Profit Growth Percentage	26.0	15.05	45.0	18.0
Liquidity Coverage Ratio Percentage	0.0	0.0	0.0	0.0
Risk Weighted Assets Bn	0.0	0.0	0.0	0.0

Qualitative Insights

Key Highlights

[Q1]: Morgan Stanley reported a very strong first quarter for 2025, achieving record net revenues of \$17.7 billion, a significant increase from \$15.1 billion a year ago. Earnings per diluted share (EPS) also saw a substantial rise to \$2.60, up from \$2.02 in the prior year's quarter. The firm's Return on Tangible Common Equity (ROTCE) stood at an impressive 23.0%, reflecting robust profitability.

The Institutional Securities segment delivered strong performance, particularly in its Markets business, with Equity revenues reaching a record \$4.1 billion. Wealth Management and Investment Management segments also contributed positively, with total client assets reaching \$7.7 trillion, supported by \$94 billion in net new assets. The firm maintained an efficient operation, evidenced by an expense efficiency ratio of 68%.

Furthermore, Morgan Stanley strengthened its capital position, accreting \$1.9 billion of Common Equity Tier 1 capital and ending the quarter with a Standardized Common Equity Tier 1 capital ratio of 15.3%. Wealth Management achieved a pre-tax margin of 26.6%, while Investment Management reported net revenues of \$1.6 billion and positive long-term net flows of \$5.4 billion, underscoring the consistent execution of the firm's strategy for durable growth.

[Q2]: Morgan Stanley reported strong Q2 2025 earnings with net revenues reaching \$16.8 billion, a significant increase from \$15.0 billion a year ago. Diluted EPS stood at \$2.13, up from \$1.82 in the prior year. The firm achieved an impressive Return on Tangible Common Equity (ROTCE) of 18.2% for the quarter.

Wealth Management demonstrated robust performance, attracting \$59 billion in net new assets and \$43 billion in fee-based flows, contributing to total client assets across Wealth and Investment Management reaching \$8.2 trillion. Institutional Securities also showed strength, particularly in its Markets businesses, driven by higher client activity and strong Equity performance.

In a move reflecting confidence, the Board of Directors announced an increase in the quarterly common stock dividend to \$1.00 per share. The firm also repurchased \$1.0 billion of its common stock during the quarter and reauthorized a new multi-year share repurchase program of up to \$20 billion.

[Q3]: Morgan Stanley reported an outstanding third quarter in 2025, achieving record net revenues of \$18.2 billion, a significant increase from \$15.4 billion a year ago. Earnings per diluted share (EPS) rose to \$2.80, up from \$1.88 in the prior year, reflecting a robust 45% growth in net income applicable to Morgan Stanley. The firm also delivered a strong Return on Tangible Common Equity (ROTCE) of 23.5%.

Performance was strong across all business segments. Wealth Management recorded a 30.3% pre-tax margin and attracted \$81 billion in net new assets, with total client assets across Wealth and Investment Management reaching an impressive \$8.9 trillion. Institutional Securities saw robust performance in Equity and a notable rebound in Investment Banking activity, contributing to net revenues of \$8.5 billion. Investment Management also reported increased net revenues of \$1.7 billion, driven by higher average Assets Under Management (AUM).

The firm demonstrated operating leverage with an expense efficiency ratio of 67% for the quarter. Capital strength

remained solid, with a Standardized Common Equity Tier 1 capital ratio of 15.2%. Furthermore, the provision for credit losses was \$0 for the quarter, indicating a favorable credit environment.

[Q4]: Morgan Stanley reported strong fourth-quarter 2025 results, with net revenues reaching \$17.9 billion, a notable increase from \$16.2 billion in the prior year. Net income applicable to Morgan Stanley also saw significant growth, rising to \$4.4 billion, or \$2.68 per diluted share, up from \$3.7 billion and \$2.22 per diluted share respectively. The firm's Return on Tangible Common Equity (ROTCE) stood at an impressive 21.8% for the quarter.

The Institutional Securities segment demonstrated robust performance, with net revenues of \$7.9 billion, driven by a substantial 47% increase in Investment Banking net revenues and a 10% rise in Equity net revenues. Wealth Management continued its strong trajectory, delivering \$8.4 billion in net revenues, supported by elevated assets and strong fee-based flows. Investment Management also contributed positively, reporting \$1.7 billion in net revenues on higher average Assets Under Management (AUM), which reached \$1,895 billion.

The firm's expense efficiency ratio improved to 68%, reflecting effective cost management. Total client assets in Wealth and Investment Management grew to \$9.3 trillion, with over \$350 billion in net new assets, highlighting strong client engagement and asset gathering capabilities. The Board of Directors also declared a quarterly dividend of \$1.00 per share, underscoring confidence in the firm's financial health and commitment to shareholder returns.

Critical View

[Q1]: While the report highlights record revenues and strong performance, several items warrant a critical look. The firm incurred \$144 million in severance costs during the quarter due to an employee action impacting approximately 2% of its global workforce, which, despite being mentioned, could be seen as a significant one-time expense impacting compensation. Furthermore, the provision for credit losses increased to \$135 million from a release of \$(6) million a year ago, driven by growth in secured lending and corporate loan portfolios, and a "weakening macroeconomic forecast," suggesting potential headwinds in credit quality.

Within Institutional Securities, Equity underwriting revenues decreased year-over-year due to market uncertainty, and Fixed Income net revenues were partially offset by lower results in credit products. In Wealth Management, the increase in transactional revenues was reported as 13% *excluding* the impact of mark-to-market on investments associated with deferred cash-based compensation plans (DCP), which might present a less favorable picture if the full impact were included. Additionally, Wealth Management's provision for credit losses increased from a *release* in the prior year, attributed to higher individual assessments, including residential mortgages related to California wildfires, indicating specific localized credit risks.

Finally, while net interest income was up significantly year-over-year, it experienced an 8% sequential decline from the previous quarter (Q4 2024), which could signal pressure on interest-earning assets or liabilities. The report also contains standard forward-looking statements disclaimers, reminding readers of inherent risks and uncertainties that could cause actual results to differ materially from projections.

[Q2]: While overall revenues and net income increased year-over-year, there are areas that warrant a critical look. The provision for credit losses saw a substantial increase to \$196 million in Q2 2025 from \$76 million a year ago, attributed

to corporate loan portfolio growth, secured lending facilities, and a moderately weaker macroeconomic outlook, suggesting potential future credit quality concerns.

Investment Banking revenues experienced a 5% decrease year-over-year, primarily due to lower Advisory revenues from fewer completed M&A transactions and a decline in Fixed Income underwriting revenues from lower non-investment grade issuances. This indicates a challenging environment in certain capital markets activities.

Total non-interest expenses rose by 10% year-over-year to \$11.974 billion, driven by higher compensation expenses related to deferred compensation and increased non-compensation expenses from execution-related costs. Furthermore, net income applicable to Morgan Stanley, despite being up year-over-year, saw an 18% sequential decrease from Q1 2025, which could signal a deceleration in profitability compared to the immediate prior quarter.

[Q3]: While the report highlights strong overall performance, a closer look reveals a few areas that could be viewed critically. The \$0 provision for credit losses, while positive, is attributed primarily to the "greater benefit of improved macroeconomic scenario," suggesting that this favorable condition might be subject to change and not necessarily indicative of a fundamental, structural improvement in credit risk management independent of external factors.

Additionally, "Other revenues" within Institutional Securities decreased year-over-year, driven by lower net interest income and fees following the sale of corporate loans held-for-sale, and "modestly higher mark-to-market losses on corporate loans." This indicates some revenue headwinds in specific areas, partially offset by stronger performance elsewhere. The increase in compensation and non-compensation expenses, while outpaced by revenue growth, still represents rising operational costs that warrant continuous monitoring for efficiency.

[Q4]: Despite overall strong results, a critical review reveals several areas of concern or underperformance in the fourth quarter. Fixed Income net revenues experienced a 9% decrease year-over-year, primarily attributed to lower results in commodities due to fewer structured transactions and reduced volatility in foreign exchange markets. This indicates a potential vulnerability in certain trading segments.

Furthermore, the "Other" revenues within Institutional Securities decreased, driven by higher mark-to-market losses on corporate loans and reduced net interest income following the sale of corporate loans held-for-sale. On a consolidated level, trading revenues saw a significant sequential decline of 27% from the third quarter of 2025 and a 3% decrease year-over-year, while investment revenues were down 41% sequentially.

The provision for credit losses, while modest at \$18 million, was influenced by a build in individual assessments and portfolio growth, alongside a notable \$87 million in charge-offs primarily related to a single commercial real estate loan. Although largely provisioned for in prior quarters, this highlights ongoing credit quality risks in specific portfolios. Additionally, Investment Management's performance-based income decreased due to lower accrued carried interest in infrastructure funds, suggesting variability in alternative investment returns.

Regulatory & Legal

[Q1]: The Q1 report does not detail any specific new regulatory or legal developments for Morgan Stanley. It provides an update on the firm's capital ratios, including a Standardized Common Equity Tier 1 capital ratio of 15.3% and a Tier 1

leverage ratio of 6.9%, indicating compliance with existing regulatory capital requirements. However, for comprehensive information on "Supervision and Regulation" and "Legal Proceedings," the report directs readers to the firm's Annual Report on Form 10-K for the year ended December 31, 2024, and other periodic filings. This suggests that no new material regulatory or legal events occurred or were disclosed within this specific quarterly earnings release.

[Q2]: The report provides estimated capital ratios for Q2 2025, including a Standardized Common Equity Tier 1 (CET1) capital ratio of 15.0% and a Tier 1 leverage ratio of 6.8%. These figures indicate the firm's compliance with regulatory capital requirements.

Regarding capital allocation, the Board of Directors reauthorized a multi-year common equity share repurchase program of up to \$20 billion, effective from Q3 2025, demonstrating ongoing capital management strategies. No specific new regulatory mandates, legal proceedings, or significant changes in the regulatory landscape were detailed in the provided text beyond these capital-related disclosures.

[Q3]: A significant regulatory development for Morgan Stanley in Q3 2025 was the Federal Reserve's decision to reduce the firm's Stress Capital Buffer (SCB) from 5.1% to 4.3%, effective October 1, 2025. This reduction came after the firm sought reconsideration of its preliminary SCB announced earlier in June. This positive adjustment to the SCB is expected to provide the firm with greater capital flexibility.

The report also noted that, in conjunction with other regulatory capital framework features, this revised SCB results in an aggregate U.S. Basel III Standardized Approach Common Equity Tier 1 ratio of 11.8%. The firm's reported Standardized Common Equity Tier 1 capital ratio for the quarter was 15.2%, indicating a strong capital position well above regulatory minimums.

[Q4]: The report does not provide specific details or summaries of new regulatory or legal developments impacting Morgan Stanley during the fourth quarter of 2025. Instead, it refers readers to the firm's Annual Report on Form 10-K for the year ended December 31, 2024, and other SEC filings for discussions on "Supervision and Regulation" and "Legal Proceedings." This indicates that while such information is available in other public disclosures, it is not a focus of this particular quarterly earnings release. Therefore, no new or summarized regulatory/legal developments are presented within this report.