ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
November 04, 2011

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For November 4, 2011

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F ___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):_________

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):_________

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ___ No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-________

The following information was issued as a Company announcement in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

Highlights

The Royal Bank of Scotland Group plc (RBS) reports a third quarter operating profit(1) of £267 million and a year to date operating profit of £2,138 million, up 15%

RBS core operating profit of £1,264 million in the third quarter and £5,033 million year-to-date

Q3 attributable profit of £1,226 million after fair value of own debt credit of £2,357 million

Strong Core Tier 1 ratio increases to 11.3%; TNAV increases to 52.6p

Funding and liquidity metrics continue to strengthen; loan:deposit ratio 112%, liquidity pool of £170 billion

Key highlights

RBS successfully focused on maintaining a strong balance sheet during the volatile and uncertain macroeconomic environment experienced in the third quarter. Capital, funding and liquidity metrics improved and remain robust. The decline in Core operating performance reflects a challenging quarter in Global Banking & Markets (GBM), which maintained a cautious risk appetite in a very subdued operating environment. Retail & Commercial maintained income in the quarter, and year-to-date profits for these businesses were up 9%. RBS Insurance maintained and built on its recovery, and Non-Core made further progress. Non-Core is on course to meet its year-end target of £96 billion of funded assets, a reduction of over £40 billion during 2011. Core return on equity year-to-date is 12% despite continuing market, economic and regulatory headwinds.

- Income - Group income was £6,358 million in the third quarter, down 18% compared with the second quarter, driven by a decline in Non-Core income of over £900 million as valuation gains reported in the second quarter were not repeated. GBM income was down 29% at £1.1 billion in the third quarter, reflecting a cautious risk appetite and difficult market conditions.
- Expenses - Group third quarter operating expenses were £3,821 million, down 2% from the second quarter and down 6% year to date. The cost:income ratio was 62% in Core and 68% for the Group, reflecting the weaker revenue environment.
- Impairments - Impairments were £1,536 million in Q3 2011, down £728 million compared with Q2 2011 principally driven by lower provisions in Non-Core, which in Q2 2011 had recorded substantial provisions in respect of Irish development land values. Trends in most divisions remain broadly stable and comparable with the previous quarter.
- Balance sheet - The Group funded balance sheet fell by £16 billion during the quarter, with Non-Core down £8 billion and GBM down £20 billion. This was partially offset by an increase of £15 billion within Group Treasury due to a planned increase in the liquidity pool. The credit provision and coverage of risk elements in lending were maintained at Q2 levels.
- Funding and liquidity - The Group loan:deposit ratio (LDR) improved 200

basis points to 112%, with Core LDR at 95%. The Group has met its £23 billion 2011 term funding issuance target, and has increased its liquidity portfolio to £170 billion.

- Capital - Core Tier 1 ratio has improved further to 11.3%, with gross risk-weighted assets (RWAs) down by £17 billion in the quarter. The implementation of CRD 3 and Basel III is now expected to result in uplifts to RWAs some £20 billion lower than previous estimates, due to mitigation, restructuring and continuing risk reduction in both GBM and Non-Core. Tangible equity increased by over £2 billion to £58 billion and TNAV increased by 2.3p to 52.6p, primarily as a result of FVOD.

Note:

(1) Operating profit/(loss) before tax, movements in the fair value of own debt (FVOD), Asset Protection Scheme credit default swap - fair value changes, Payment Protection Insurance costs, sovereign debt impairment and related interest rate hedge adjustments, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax and RFS Holdings minority interest. Statutory operating profit before tax of £1,210 million for the nine months ended 30 September 2011.

Key financial data

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Core					
Total income (1)	6,312	6,789	7,047	20,648	22,560
Operating expenses (2)	(3,498)	(3,557)	(3,535)	(10,853)	(10,854)
Insurance net claims	(696)	(703)	(998)	(2,183)	(3,109)
Operating profit before impairment losses (3)	2,118	2,529	2,514	7,612	8,597
Impairment losses (4)	(854)	(853)	(782)	(2,579)	(2,850)
Core operating profit (3)	1,264	1,676	1,732	5,033	5,747
Non-Core operating loss (3)	(997)	(858)	(1,006)	(2,895)	(3,889)
Group operating profit (3)	267	818	726	2,138	1,858
Fair value of own debt	2,357	339	(858)	2,216	(408)
Asset Protection Scheme credit default swap - fair value changes	(60)	(168)	(825)	(697)	(825)
Payment Protection Insurance costs	-	(850)	-	(850)	-
Sovereign debt impairment	(142)	(733)	-	(875)	-
Other items (5)	(418)	(84)	(603)	(722)	(1,016)

Profit/(loss) before tax	2,004	(678)	(1,560)	1,210	(391)
Profit/(loss) attributable to ordinary and B shareholders	1,226	(897)	(1,146)	(199)	(1,137)
Memo: APS after tax cost (6)	(44)	(123)	(594)	(512)	(594)

	30 September 2011	30 June 2011	31 December 2010
Capital and balance sheet			
Total assets	£1,608bn	£1,446bn	£1,454bn
Funded balance sheet (7)	£1,035bn	£1,051bn	£1,026bn
Loan:deposit ratio (Group) (8)	112%	114%	117%
Loan:deposit ratio (Core) (8)	95%	96%	96%
Core Tier 1 ratio	11.3%	11.1%	10.7%
Tangible equity per ordinary and B share (9)	52.6p	50.3p	51.1p

Notes:

(1) Excluding movements in the fair value of own debt, Asset Protection Scheme credit default swap - fair value changes, gain on redemption of own debt, strategic disposals and RFS Holdings minority interest.

(2) Excluding Payment Protection Insurance costs, amortisation of purchased intangible assets, integration and restructuring costs, bonus tax and RFS Holdings minority interest.

(3) Operating profit/(loss) before tax, movements in the fair value of own debt, Asset Protection Scheme credit default swap - fair value changes, Payment Protection Insurance costs, sovereign debt impairment and other items (see Note 5 below).

(4) Excluding sovereign debt impairment and related interest rate hedge adjustments.

(5) Other items comprise amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, RFS Holdings minority interest and interest rate hedge adjustments on impaired available-for-sale government bonds. Refer to page 16 of the main announcement for further details.

(6) Asset Protection Scheme credit default swap - fair value changes, net of tax.

(7) Funded balance sheet is total assets less derivatives.

(8) Net of provisions.

(9) Tangible equity per ordinary and B share is total tangible equity divided by number of ordinary and B shares in issue.

Comment

Stephen Hester, Group Chief Executive, commented:

"RBS's third quarter results show the improved strength and resilience we have built up since 2008. They also highlight the external pressures facing banks, and economies more broadly, which are making the road to recovery

longer and bumpier than hoped for.

Service to customers remains at the top of RBS's agenda. We care about our customers and the communities we serve and are part of. Across our businesses we have both the means and the will to meet creditworthy demand with lending and other support. We provided £28.5 billion of new lending in Q3 across both UK businesses and personal mortgages, again exceeding our natural customer market shares in each segment.

In the face of eurozone turmoil and economic slowdown RBS has sustained its restructuring momentum. Our Core Tier 1 capital ratio is strong. Our loan:deposit ratio improved again, as did our liquidity position. Non-Core run-down is on-track for year end targets. Impairment charges fell, especially in Ireland.

In common with other banks, the picture on profitability is mixed. Our Retail & Commercial businesses are holding up well with 16% return on equity for the quarter, excluding Ulster Bank. Forward momentum will be challenging, however, until the economies we serve see stronger growth. Our investment bank was only modestly profitable in the third quarter, performing in line with competitors. While we have been pleased with GBM's risk management in volatile markets, we expect difficult conditions to continue in Q4. Losses in Non-Core are coming down year by year but will remain significant and volatile for a while longer.

RBS will take clear action to adjust strategy where needed in the light of new economic and regulatory realities. The foundation established since 2009 helps us immeasurably. The path ahead is navigable, and we are committed to delivering the best of RBS for customers and shareholders."

Highlights

Third quarter results summary

The Royal Bank of Scotland Group (RBS or the Group) reported an operating profit(1) of £267 million in the third quarter of 2011. Operating profit for the first nine months of 2011 was £2,138 million, compared with £1,858 million in the same period of 2010.

The result reflects a challenging and uncertain economic environment, with the Group adopting a cautious approach by reducing its risk appetite and ensuring a strong and liquid balance sheet. The Group liquidity buffer was expanded from £155 billion to £170 billion and deposit growth remained a key strategic target, with the Group loan:deposit ratio improving to 112%, compared with 126% at 30 September 2010. Total funded assets were down £16 billion from Q2 and £44 billion from Q3 2010. Average value-at-risk in the Group's Core businesses was £58.3 million in Q3 2011 compared with £123.8 million in Q3 2010.

Retail & Commercial profitability was impacted by increased funding costs and impairments remaining high, particularly in Ulster Bank. Year-to-date return on equity was 17% excluding Ulster Bank, compared with 13% in the same period of 2010. In GBM, however, the subdued operating environment and lower risk appetite led to a year-to-date return on equity of 11%, compared with 19% in the prior year. Total Core return on equity in the first nine months was 12%, compared with 14% for the comparable period of 2010.

Non-Core kept up good progress, reducing its funded balance sheet by £8 billion during Q3 2011 to £105 billion. The division remains on course to meet its year-end asset target of £96 billion.

Significant non-operating items during Q3 2011 included a gain of £2,357 million on movements in the fair value of own debt, as the volatile market conditions led to a significant widening in the Group's credit spreads during the

quarter. This compared with a gain of £339 million in Q2 2011 and a charge of £858 million in Q3 2010. An additional impairment of £142 million was booked against the Group's holdings of Greek sovereign bonds, which were marked at 37% of par value as at 30 September 2011. A further charge of £60 million (compared with £168 million in Q2 2011) was recorded in respect of the Asset Protection Scheme (APS), which is accounted for as a derivative, with changes in fair value booked each quarter. The cumulative APS charge now stands at £2.2 billion.

After these and other charges RBS recorded a pre-tax profit of £2,004 million, compared with a loss of £678 million in Q2 2011. Profit before tax for the first nine months of 2011 was £1,210 million, compared with a loss of £391 million in the prior year.

Net of tax and minority interests, Q3 2011 attributable profit was £1,226 million, compared with an attributable loss of £897 million in the second quarter.

Income

Group income totalled £6,358 million in Q3 2011, down 18% from the second quarter, driven primarily by a decline in Non-Core income as valuation gains booked in Q2 2011 were not repeated. Retail & Commercial income was flat at £4,171 million, with growth in US Retail & Commercial, Global Transaction Services and Ulster Bank offset by declines in UK Retail and UK Corporate. GBM income was 29% lower at £1,099 million, reflecting a cautious risk appetite in view of the difficult market conditions.

(1) As defined on page i.

Highlights (continued)

Third quarter results summary (continued)

Income (continued)

Net interest income was 5% lower at £3,078 million with lower loan balances (reflecting in particular Non-Core run-off) and Group net interest margin (NIM) narrowing to 1.84% from 1.97% in the second quarter. Group margin was negatively affected by the cost of carrying higher liquidity reserves and central bank balances, along with lower yield on Non-Core assets due to run-off of high earning assets and lack of interest recoveries in the quarter. Retail & Commercial NIM was resilient, falling just 3 basis points to 3.19%, principally reflecting the impact of lower rates on current account balances, as well as competitive deposit pricing.

Non-interest income declined by 28% to £3,280 million, principally reflecting lower trading income in Non-Core, where valuation gains booked in the second quarter were not repeated, and where fair value losses were incurred on some portfolios as a result of the volatile market conditions. In addition, GBM non-interest income was 33% lower at £925 million, reflecting depressed primary market volumes and limited opportunities in the secondary market.

Expenses

Group expenses totalled £3,821 million in Q3 2011, down 2% from Q2 and 7% from Q3 2010. The reduction in expenses was largely driven by reduced compensation accruals in GBM. Retail & Commercial costs were flat in the third quarter and down 2% compared with Q3 2010.

The Group cost:income ratio was 68% and the Core cost:income ratio 62%, reflecting the subdued operating environment. Retail & Commercial held its cost:income ratio stable.

Given the economic outlook and difficult trading environment, we are actively working on further cost initiatives across the Group.

Impairments

Impairments fell by 32% from the prior quarter, principally due to reduced charges in Non-Core, which had recorded substantial additional provisions relating to development land values in its Irish portfolios during Q2 2011. Core impairments of 0.8% of loans and advances to customers were flat with Q2 2011. Across the Group, Irish impairments fell sequentially from £1,251 million in Q2 2011 to £610 million in Q3 2011, paced by lower Non-Core impairments. Core Ulster Bank impairments remained high reflecting the difficult economic environment in Ireland with elevated default levels across both mortgage and other corporate portfolios.

Balance sheet

The Group funded balance sheet fell by £16 billion during the quarter to £1,035 billion, with Non-Core down £8 billion to £105 billion and GBM down £20 billion to £399 billion. This was partially offset by an increase of £15 billion in cash balances at central banks held by Group Treasury for liquidity purposes. Loan growth in Core Retail & Commercial businesses was limited, with customer credit demand remaining subdued in the face of an uncertain economic outlook.

The reduction in Non-Core assets was driven by £4 billion of run-off and £3 billion of disposals, with another £1 billion of deals signed but not yet completed at the end of the quarter. The division remains on target to reduce third party assets to about £96 billion by the end of 2011.

Highlights (continued)

Third quarter results summary (continued)

Balance sheet (continued)

The Group continues to be vigilant, and carefully monitors and controls country risk and exposures. Eurozone peripheral sovereign exposures have been substantially reduced and are at modest levels. Total exposures to central and local governments in Portugal, Greece, Italy, Spain and the Republic of Ireland have been reduced in 2011 from £4.6 billion to £1.1 billion (see pages 132 to 140). Our exposure to the Republic of Ireland is substantially funded domestically and is domiciled primarily in Ulster Bank, an in-market bank which has been established 175 years.

Funding and liquidity

The Group's prudent approach during the third quarter's uncertain market conditions was reflected in its strong funding and liquidity metrics. The Group loan:deposit ratio (LDR) improved again from 114% to 112%. The Core LDR also improved on the second quarter to 95%, principally reflecting a £5 billion increase in deposits.

Short-term wholesale funding levels remained stable and the Group continues to access the markets as required, although consistent with the overall market, tenors are shorter. RBS has completed its £23 billion term funding issuance target for 2011, successfully issuing in the secured and private markets during the third quarter and October despite difficult market conditions. We will look to access the term markets opportunistically over the remainder of the year.

The Group decided to increase its liquidity portfolio from £155 billion to £170 billion in view of the uncertain market environment. This portfolio substantially exceeds short-term wholesale funding, excluding derivatives collateral, of £141 billion.

Capital
The Core Tier 1 ratio remained strong at 11.3%. While gross risk-weighted assets (which excludes the benefit provided by APS) fell by £17 billion to £512 billion, this impact was partially offset by the attributable loss of £593 million, excluding FVOD.

The Group's TNAV increased from 50.3p to 52.6p during the quarter reflecting the reported attributable profit as well as positive movements in the available-for-sale (AFS) and cash flow hedging reserves, reflecting the decline in long-term interest rates.

Strategy
2011 marks the halfway point of the Group's five year recovery plan, adopted in 2009. Our plan's three primary goals are to restore RBS to financial strength and stability; to support customers well (and better) across the Group's core businesses; and to rebuild value for shareholders from the nadir reached in January 2009.

RBS's structural approach to these tasks has worked well. The identification of Core businesses to drive the Group's recovery has been validated; the customer franchises have shown their strength. The Non-Core bank as the primary vehicle of risk reduction and reduction in strategic scope has also paid off.

Highlights (continued)

Third quarter results summary (continued)

Strategy (continued)
The RBS Strategic Plan has met or exceeded all material targets to date. Over £600 billion of assets have come off the balance sheet. Capital and funding ratios have been transformed. £32 billion of pre-impairment profits have been generated by the Core businesses since the Plan's inception. These have been necessary to absorb the loan losses and restructuring costs incurred in dealing with the Bank's legacy risk positions, a task that is well advanced but by no means finished.

At the same time, customer support has been uninterrupted and is improving in key areas. UK customer satisfaction has risen and is at the top end of competitor ratings, though further improvement remains important. Lending has been made available to meet demand, with RBS increasing market share in UK mortgages. In SME lending, the latest figures show RBS exceeding 40% of UK lending despite a much lower "natural" share of customer relationships (in the 20-30% range). We remain the only UK bank to guarantee the price and availability of SME overdraft facilities.

Our Strategic Plan has anticipated many of the challenges in our operating environment and has proved resilient. However, two important developments require additional strategic response.

Now that the Independent Commission on Banking (ICB) has published its final report, the future shape of UK banking regulation has become clearer. The Government's formal response to the ICB is expected in December, but it has already indicated that it intends to implement the ICB's recommendations, including the creation of a ring fence between different banking activities, and RBS is preparing for that outcome.

Clearly, extensive engagement will be needed between Government, regulators and industry to sort out the myriad of operational details that are inherent in proposals on this scale and then to implement them. We anticipate that it will take most of the scheduled adjustment period to complete this.

At the same time, the outlook for economic growth has been downgraded. Interest rates are likely to remain low for longer than originally forecast and markets appear likely to remain volatile for some time. We expect that unsecured wholesale funding availability for banks generally will remain scarcer and more expensive than in the past even when current uncertainties subside. The impact of these challenges will be felt by all banks.

Taken together, the impact of the ICB's ring-fencing proposals and changes in market and economic outlook will result in a further shift in the balance of RBS towards its retail and commercial businesses. It will drive a further shift in the Bank's funding model to even greater deposit focus. We will pursue additional cost cutting to reduce the impact on customers and shareholders of the regulatory and market developments. We do expect that the higher equity capital requirements and other changes to funding structure that the ICB measures entail will be met organically during the adjustment period.

RBS anticipates that it may take some years for the full implications of the ICB to be clear. It will also take time for the path of economic recovery to be more positive. This will mean RBS's own restructuring is likely to take longer to produce the targeted results and those results will be impacted by these external events.

Highlights (continued)

Third quarter results summary (continued)

Strategy (continued)
RBS remains on course to meet or exceed its extant targets for capital, risk and balance sheet, and committed to the goal of all its businesses being capable of generating returns in excess of their cost of equity. Achievement of return on equity consistent with this goal and the related cost:income ratio is likely to take longer than the 2013 date originally envisaged.

Key Measures	Worst point	YTD 2010	YTD 2011	2013 Target
Value drivers		Core	Core	Core
· Return on equity (1)	(31%)(2)	14%	12%	>15%
· Cost:income ratio (3)	97%(4)	56%	59%	<50%
Risk measures		Group	Group	Group

Contingent Income Auto-Callable Securities due January 21, 2022

Based on the Performance of the Common Stock of Colgate-Palmolive Company

Principal at Risk Securities

Colgate-Palmolive Company Overview

Colgate-Palmolive Company is a consumer products company. The underlying stock is registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Information provided to or filed with the Securities and Exchange Commission by Colgate-Palmolive Company pursuant to the Exchange Act can be located by reference to the Securities and Exchange Commission file number 001-00644 through the Securities and Exchange Commission's website at .www.sec.gov. In addition, information regarding Colgate-Palmolive Company may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents. **Neither the issuer nor the agent makes any representation that such publicly available documents or any other publicly available information regarding the issuer of the underlying stock is accurate or complete.**

Information as of market close on January 10, 2019:

Bloomberg Ticker Symbol:	CL
Exchange:	NYSE
Current Stock Price:	$61.82
52 Weeks Ago:	$74.82
52 Week High (on 1/19/2018):	$77.50
52 Week Low (on 10/29/2018):	$57.88
Current Dividend Yield:	2.71%

Common Stock of Colgate-Palmolive Company (CUSIP 194162103)	High ($)	Low ($)	Dividends ($)
2016			
First Quarter	70.72	62.45	0.38
Second Quarter	73.20	68.96	0.39
Third Quarter	75.27	70.86	0.39
Fourth Quarter	73.62	64.63	0.39
2017			
First Quarter	74.44	64.53	0.39
Second Quarter	77.23	70.76	0.40
Third Quarter	73.94	70.78	0.40
Fourth Quarter	75.99	69.20	0.40
2018			
First Quarter	77.50	68.19	0.40
Second Quarter	72.44	61.65	0.42
Third Quarter	69.09	64.58	0.42
Fourth Quarter	67.39	57.88	0.42
2019			
First Quarter (through January 10, 2019)	61.82	58.97	0.42

The following table sets forth the published high and low closing prices of, as well as dividends on, the underlying stock for each quarter from January 1, 2016 through January 10, 2019. The closing price of the underlying stock on January 10, 2019 was $61.82. The associated graph shows the closing prices of the underlying stock for each day from January 1, 2014 through January 10, 2019. We obtained the information in the table and graph below from Bloomberg

Financial Markets, without independent verification. The historical performance of the underlying stock should not be taken as an indication of its future performance, and no assurance can be given as to the price of the underlying stock at any time, including on the determination dates.

We make no representation as to the amount of dividends, if any, that Colgate-Palmolive Company may pay in the future. In any event, as an investor in the Contingent Income Auto-Callable Securities, you will not be entitled to receive dividends, if any, that may be payable on the common stock of Colgate-Palmolive Company.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due January 21, 2022

Based on the Performance of the Common Stock of Colgate-Palmolive Company

Principal at Risk Securities

Common Stock of Colgate-Palmolive Company – Daily Closing Prices

January 1, 2014 to January 10, 2019

*The red solid line indicates the hypothetical downside threshold price, assuming the closing price of the underlying stock on January 10, 2019 were the initial share price.

This document relates only to the securities offered hereby and does not relate to the underlying stock or other securities of Colgate-Palmolive Company. We have derived all disclosures contained in this document regarding Colgate-Palmolive Company stock from the publicly available documents described above. In connection with the offering of the securities, neither we nor the agent has participated in the preparation of such documents or made any due diligence inquiry with respect to Colgate-Palmolive Company. Neither we nor the agent makes any representation that such publicly available documents or any other publicly available information regarding Colgate-Palmolive Company is accurate or complete. Furthermore, we cannot give any assurance that all events occurring prior to the date hereof (including events that would affect the accuracy or completeness of the publicly available documents described above) that would affect the trading price of the underlying stock (and therefore the price of the underlying stock at the time we price the securities) have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of or failure to disclose material future events concerning Colgate-Palmolive Company could affect the value received with respect to the securities and therefore the value of the securities.

Neither the issuer nor any of its affiliates makes any representation to you as to the performance of the underlying stock.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due January 21, 2022

Based on the Performance of the Common Stock of Colgate-Palmolive Company

Principal at Risk Securities

Additional Terms of the Securities

Please read this information in conjunction with the summary terms on the front cover of this document.

Additional Terms:

If the terms described herein are inconsistent with those described in the accompanying product supplement or prospectus, the terms described herein shall control.

Interest period:	The quarterly period from and including the original issue date (in the case of the first interest period) or the previous scheduled contingent payment date, as applicable, to but excluding the following scheduled contingent payment date, with no adjustment for any postponement thereof.
Day count convention:	Interest will be computed on the basis of a 360-day year of twelve 30-day months.
Record date:	The record date for each contingent payment date shall be the date one business day prior to such scheduled contingent payment date; provided, however, that any contingent quarterly coupon payable at maturity or upon redemption shall be payable to the person to whom the payment at maturity or early redemption payment, as the case may be, shall be payable.
Underlying stock:	The accompanying product supplement refers to the underlying stock as the “underlying shares.”
Underlying stock issuer:	Colgate-Palmolive Company. The accompanying product supplement refers to the underlying stock issuer as the “underlying company.”
Downside threshold price:	The accompanying product supplement refers to the downside threshold price as the “trigger level.”
Postponement of maturity date:	If the scheduled final determination date is not a trading day or if a market disruption event occurs on that day so that the final determination date is postponed and falls less than two business days prior to the scheduled maturity date, the maturity date of the securities will be postponed to the second business day following that final determination date as postponed.
Postponement of contingent payment dates:	If a contingent payment date (including the maturity date) is postponed as a result of the postponement of the relevant determination date, no adjustment shall be made to any contingent quarterly coupon paid on that postponed date.
Antidilution adjustments:	*The following replaces in its entirety the portion of the section entitled “Antidilution Adjustments” in the accompanying product supplement for auto-callable securities from the start of paragraph 5 to the end of such section.*

5. If (i) there occurs any reclassification or change of the underlying stock, including, without limitation, as a result of the issuance of any tracking stock by the underlying stock issuer, (ii) the underlying stock issuer or any surviving entity or subsequent surviving entity of the underlying stock issuer (the "successor corporation") has been subject to a merger, combination or consolidation and is not the surviving entity, (iii) any statutory exchange of securities of the underlying stock issuer or any successor corporation with another corporation occurs (other than pursuant to clause (ii) above), (iv) the underlying stock issuer is liquidated, (v) the underlying stock issuer issues to all of its shareholders equity securities of an issuer other than the underlying stock issuer (other than in a transaction described in clause (ii), (iii) or (iv) above) (a "spin-off event") or (vi) a tender or exchange offer or going-private transaction is consummated for all the outstanding shares of the underlying stock (any such event in clauses (i) through (vi), a "reorganization event"), the method of determining whether an early redemption has occurred and the amount payable upon an early redemption date or at maturity for each security will be as follows:

· Upon any determination date following the effective date of a reorganization event and prior to the final determination date: If the exchange property value (as defined below) is greater than or equal to the initial share price, the securities will be automatically redeemed for an early redemption payment.

· Upon the final determination date, if the securities have not previously been automatically redeemed: You will receive for each security that you hold a payment at maturity equal to:

Ø If the exchange property value on the final determination date is greater than or equal to the downside threshold price: *(i) the stated principal amount plus (ii) the contingent quarterly coupon with respect to the final determination date*

Ø If the exchange property value on the final determination date is less than the downside threshold price: *(i) the stated principal amount multiplied by (ii) the share performance factor. For purposes of calculating the share performance factor, the "final share price" will be deemed to equal the exchange property value on the final determination date.*

Following the effective date of a reorganization event, the contingent quarterly coupon will be payable for each determination date on which the exchange property value is greater than or equal to the downside threshold price.

In the event exchange property consists of securities, those securities will, in turn, be subject to the antidilution adjustments set forth in paragraphs 1 through 5.

For purposes of determining whether or not the exchange property value is less than the initial share price or less than the downside threshold price, "exchange property value" means (x) for any cash received in any reorganization event, the value, as determined by the Calculation Agent, as of the date of receipt, of such cash received for one share of the underlying stock, as adjusted by the adjustment factor at the time of such reorganization event, (y) for any property other than cash or securities received in any such reorganization event, the market value, as determined by the Calculation Agent in its sole discretion, as of the date of receipt, of such exchange property received for one share of the underlying stock, as adjusted by the adjustment factor at the time of such reorganization event and (z) for any security received in any such reorganization event, an amount equal to the closing price, as of the day on which the exchange property value is determined, per share of such security multiplied by the quantity of such security received for each share of the underlying stock, as adjusted by the adjustment factor at the time of such reorganization event.

For purposes of paragraph 5 above, in the case of a consummated tender or exchange offer or going-private transaction involving consideration of particular types, exchange property shall be deemed to include the amount of cash or other property delivered by the offeror in the tender or exchange offer (in an amount determined on the basis of the rate of exchange in such tender or exchange offer or going-private transaction). In the event of a tender or exchange offer or a going-private transaction with respect to exchange property in which an offeree may elect to receive cash or other property, exchange property shall be deemed to include the kind and amount of cash and other property received by offerees who elect to receive cash.

Following the occurrence of any reorganization event referred to in paragraph 5 above, all references in this offering document and in the related product supplement with respect to the securities to "the underlying stock" shall be deemed to refer to the exchange property and references to a "share" or "shares" of the underlying stock shall be deemed to refer to the applicable unit or units of such exchange property, unless the context otherwise requires.

No adjustment to the adjustment factor will be required unless such adjustment would require a change of at least 0.1% in the adjustment factor then in effect. The adjustment factor resulting from any of the adjustments specified above will be rounded to the nearest one hundred-thousandth, with five one-millionths rounded upward. Adjustments to the adjustment factor will be made up to the close of business on the final determination date.

No adjustments to the adjustment factor or method of calculating the adjustment factor will be required other than those specified above. The adjustments specified above do not cover all events that could affect the determination closing price or the final share price of the underlying stock, including, without limitation, a partial tender or exchange offer for the underlying stock.

The Calculation Agent shall be solely responsible for the determination and calculation of any adjustments to the adjustment factor or method of calculating the adjustment factor and of any related determinations and calculations with respect to any distributions of stock, other securities or other property or assets (including cash) in connection with any corporate event described in paragraphs 1 through 5 above, and its determinations and calculations with respect thereto shall be conclusive in the absence of manifest error.

The Calculation Agent will provide information as to any adjustments to the adjustment factor or to the method of calculating the amount payable at maturity of the securities made pursuant to paragraph 5 above upon written request by any investor in the securities.

Trustee:	The Bank of New York Mellon
Calculation agent:	MS & Co.
Issuer notices to registered security holders, the trustee and the depositary:	In the event that the maturity date is postponed due to postponement of the final determination date, the issuer shall give notice of such postponement and, once it has been determined, of the date to which the maturity date has been rescheduled (i) to each registered holder of the securities by mailing notice of such postponement by first class mail, postage prepaid, to such registered holder's last address as it shall appear upon the registry books, (ii) to the trustee by facsimile, confirmed by mailing such notice to the trustee by first class mail, postage prepaid, at its New York office and (iii) to The Depository Trust Company (the "depositary") by telephone or facsimile confirmed by mailing such notice to the depositary by first class mail, postage prepaid. Any notice that is mailed to a registered holder of the securities in the manner herein provided shall be conclusively presumed to have been duly given to such registered holder, whether or not such registered holder receives the notice. The issuer shall give such notice as promptly as possible, and in no case later than (i) with respect to notice of postponement of the maturity date, the business day immediately preceding the scheduled maturity date and (ii) with respect to notice of the date to which the maturity date has been rescheduled, the business day immediately following the final determination date as postponed.

In the event that the securities are subject to early redemption, the issuer shall, (i) on the business day following the applicable determination date, give notice of the early redemption and the early redemption payment, including specifying the payment date of the amount due upon the early redemption, (x) to each registered holder of the securities by mailing notice of such early redemption

by first class mail, postage prepaid, to such registered holder's last address as it shall appear upon the registry books, (y) to the trustee by facsimile confirmed by mailing such notice to the trustee by first class mail, postage prepaid, at its New York office and (z) to the depositary by telephone or facsimile confirmed by mailing such notice to the depositary by first class mail, postage prepaid, and (ii) on or prior to the early redemption date, deliver the aggregate cash amount due with

respect to the securities to the trustee for delivery to the depositary, as holder of the securities. Any notice that is mailed to a registered holder of the securities in the manner herein provided shall be conclusively presumed to have been duly given to such registered holder, whether or not such registered holder receives the notice. This notice shall be given by the issuer or, at the issuer's request, by the trustee in the name and at the expense of the issuer, with any such request to be accompanied by a copy of the notice to be given.

The issuer shall, or shall cause the calculation agent to, (i) provide written notice to the trustee, on which notice the trustee may conclusively rely, and to the depositary of the amount of cash to be delivered as contingent quarterly coupon, if any, with respect to each security on or prior to 10:30 a.m. (New York City time) on the business day preceding each contingent payment date, and (ii) deliver the aggregate cash amount due, if any, with respect to the contingent quarterly coupon to the trustee for delivery to the depositary, as holder of the securities, on the applicable contingent payment date.

The issuer shall, or shall cause the calculation agent to, (i) provide written notice to the trustee, on which notice the trustee may conclusively rely, and to the depositary of the amount of cash, if any, to be delivered with respect to the securities, on or prior to 10:30 a.m. (New York City time) on the business day preceding the maturity date, and (ii) deliver the aggregate cash amount due with respect to the securities, if any, to the trustee for delivery to the depositary, as holder of the securities, on the maturity date.

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due January 21, 2022

Based on the Performance of the Common Stock of Colgate-Palmolive Company

Principal at Risk Securities

Additional Information About the Securities

Additional Information:	
Listing:	The securities will not be listed on any securities exchange.
Minimum ticketing size:	$1,000 / 100 securities
Tax considerations:	**Prospective investors should note that the discussion under the section called "United States Federal Taxation" in the accompanying product supplement does not apply to the securities issued under this document and is superseded by the following discussion.**

The following is a general discussion of the material U.S. federal income tax consequences and certain estate tax consequences of the ownership and disposition of the securities. This discussion applies only to investors in the securities who:

· purchase the securities in the original offering; and

· hold the securities as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code").

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of the holder's particular circumstances or to holders subject to special rules, such as:

· certain financial institutions;

· insurance companies;

- certain dealers and traders in securities or commodities;
- investors holding the securities as part of a "straddle," wash sale, conversion transaction, integrated transaction or constructive sale transaction;
- U.S. Holders (as defined below) whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- regulated investment companies;
- real estate investment trusts; or
- tax-exempt entities, including "individual retirement accounts" or "Roth IRAs" as defined in Section 408 or 408A of the Code, respectively.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the securities, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partnership holding the securities or a partner in such a partnership, you should consult your tax adviser as to the particular U.S. federal tax consequences of holding and disposing of the securities to you.

As the law applicable to the U.S. federal income taxation of instruments such as the securities is technical and complex, the discussion below necessarily represents only a general summary. The effect of any applicable state, local or non-U.S. tax laws is not discussed, nor are any alternative minimum tax consequences or consequences resulting from the Medicare tax on investment income. Moreover, the discussion below does not address the consequences to taxpayers subject to special tax accounting rules under Section 451(b) of the Code.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof, changes to any of which subsequent to the date hereof may affect the tax consequences described herein. Persons considering the purchase of the securities should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

General

Due to the absence of statutory, judicial or administrative authorities that directly address the treatment of the securities or instruments that are similar to the securities for U.S. federal income tax purposes, no assurance can be given that the IRS or a court will agree with the tax treatment

described herein. We intend to treat a security for U.S. federal income tax purposes as a single financial contract that provides for a coupon that will be treated as gross income to you at the time received or accrued in accordance with your regular method of tax accounting. In the opinion of our counsel, Davis Polk & Wardwell LLP, this treatment of the securities is reasonable under current law; however, our counsel has advised us that it is unable to conclude affirmatively that this treatment is more likely than not to be upheld, and that alternative treatments are possible.

You should consult your tax adviser regarding all aspects of the U.S. federal tax consequences of an investment in the securities (including possible alternative treatments of the securities). Unless otherwise stated, the following discussion is based on the treatment of each security as described in the

previous paragraph.

Tax Consequences to U.S. Holders

This section applies to you only if you are a U.S. Holder. As used herein, the term "U.S. Holder" means a beneficial owner of a security that is, for U.S. federal income tax purposes:

· a citizen or individual resident of the United States;

· a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; or

· an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Tax Treatment of the Securities

Assuming the treatment of the securities as set forth above is respected, the following U.S. federal income tax consequences should result.

Tax Basis. A U.S. Holder's tax basis in the securities should equal the amount paid by the U.S. Holder to acquire the securities.

Tax Treatment of Coupon Payments. Any coupon payment on the securities should be taxable as ordinary income to a U.S. Holder at the time received or accrued, in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

Sale, Exchange or Settlement of the Securities. Upon a sale, exchange or settlement of the securities, a U.S. Holder should recognize gain or loss equal to the difference between the amount realized on the sale, exchange or settlement and the U.S. Holder's tax basis in the securities sold, exchanged or settled. For this purpose, the amount realized does not include any coupon paid at settlement and may not include sale proceeds attributable to an accrued coupon, which may be treated as a coupon payment. Any such gain or loss recognized should be long-term capital gain or loss if the U.S. Holder has held the securities for more than one year at the time of the sale, exchange or settlement, and should be short-term capital gain or loss otherwise. The ordinary income treatment of the coupon payments, in conjunction with the capital loss treatment of any loss recognized upon the sale, exchange or settlement of the securities, could result in adverse tax consequences to holders of the securities because the deductibility of capital losses is subject to limitations.

Possible Alternative Tax Treatments of an Investment in the Securities

Due to the absence of authorities that directly address the proper tax treatment of the securities, no assurance can be given that the IRS will accept, or that a court will uphold, the treatment described above. In particular, the IRS could seek to analyze the U.S. federal income tax consequences of owning the securities under Treasury regulations governing contingent payment debt instruments (the "Contingent Debt Regulations"). If the IRS were successful in asserting that the Contingent Debt Regulations applied to the securities, the timing and character of income thereon would be significantly affected. Among other things, a U.S. Holder would be required to accrue into income original issue discount on the securities every year at a "comparable yield" determined at the time of their issuance, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the securities. Furthermore, any gain realized by a U.S. Holder at maturity or upon a sale, exchange or other disposition of the securities would be treated as ordinary income, and any loss realized would be treated as ordinary loss to the extent of the U.S. Holder's prior accruals of original issue discount and as capital loss thereafter. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the securities, would be recharacterized as debt is greater than the risk of recharacterization for comparable financial instruments that do not have such features.

Other alternative federal income tax treatments of the securities are possible, which, if applied, could significantly affect the timing and character of the income or loss with respect to the securities. In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses on whether to require holders of "prepaid forward contracts" and similar instruments to accrue income over the term of their investment. It also asks for comments on a

number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange–traded status of the instruments and the nature of the underlying property to which the instruments are linked; whether these instruments are or should be subject to the “constructive ownership” rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge; and appropriate transition rules and effective dates. While it is not clear whether instruments such as the securities would be viewed as similar to the prepaid forward contracts described in the notice, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect. U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the securities, including possible alternative treatments and the issues presented by this notice.

Backup Withholding and Information Reporting

Backup withholding may apply in respect of payments on the securities and the payment of proceeds from a sale, exchange or other disposition of the securities, unless a U.S. Holder provides proof of an applicable exemption or a correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. The amounts withheld under the backup withholding rules are not an additional tax and may be refunded, or credited against the U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. In addition, information returns will be filed with the IRS in connection with payments on the securities and the payment of proceeds from a sale, exchange or other disposition of the securities, unless the U.S. Holder provides proof of an applicable exemption from the information reporting rules.

Tax Consequences to Non-U.S. Holders

This section applies to you only if you are a Non-U.S. Holder. As used herein, the term "Non-U.S. Holder" means a beneficial owner of a security that is for U.S. federal income tax purposes:

- an individual who is classified as a nonresident alien;
- a foreign corporation; or
- a foreign estate or trust.

The term "Non-U.S. Holder" does not include any of the following holders:

- a holder who is an individual present in the United States for 183 days or more in the taxable year of disposition and who is not otherwise a resident of the United States for U.S. federal income tax purposes;

· certain former citizens or residents of the United States; or

· a holder for whom income or gain in respect of the securities is effectively connected with the conduct of a trade or business in the United States.

Such holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the securities.

Although significant aspects of the tax treatment of each security are uncertain, we intend to withhold on any coupon paid to a Non-U.S. Holder generally at a rate of 30% or at a reduced rate specified by an applicable income tax treaty under an "other income" or similar provision. We will not be required to pay any additional amounts with respect to amounts withheld. In order to claim an exemption from, or a reduction in, the 30% withholding tax, a Non-U.S. Holder of the securities must comply with certification requirements to establish that it is not a U.S. person and is eligible for such an exemption or reduction under an applicable tax treaty. If you are a Non-U.S. Holder, you should consult your tax adviser regarding the tax treatment of the securities, including the possibility of obtaining a refund of any withholding tax and the certification requirement described above.

Section 871(m) Withholding Tax on Dividend Equivalents

Section 871(m) of the Code and Treasury regulations promulgated thereunder ("Section 871(m)") generally impose a 30% (or a lower applicable treaty rate) withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities (each, an "Underlying Security"). Subject to certain exceptions, Section 871(m) generally applies to securities that substantially replicate the economic performance of one or more Underlying Securities, as determined based on tests set forth in the applicable Treasury regulations (a "Specified Security"). However, pursuant to an IRS notice, Section 871(m) will not apply to securities issued before January 1, 2021 that do not have a delta of one with respect to any Underlying Security. Based on our determination that the securities do not have a delta of one with respect to any Underlying Security, our counsel is of the opinion that the securities should not be Specified Securities and, therefore, should not be subject to Section 871(m).

Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. If Section 871(m) withholding is required, we will not be required to pay any additional amounts with respect to the amounts so withheld. You should consult your tax adviser regarding the potential application of Section 871(m) to the securities.

U.S. Federal Estate Tax

Individual Non-U.S. Holders and entities the property of which is potentially includible in such an individual's gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers) should note that, absent an applicable treaty exemption, the securities may be treated as U.S.-situs property subject to U.S. federal estate tax. Prospective investors that are non-U.S. individuals, or are entities of the type described above, should consult their tax advisers regarding the U.S. federal estate tax consequences of an investment in the securities.

Backup Withholding and Information Reporting

Information returns will be filed with the IRS in connection with any coupon payment and may be filed with the IRS in connection with the payment at maturity on the securities and the payment of proceeds from a sale, exchange or other disposition. A Non-U.S. Holder may be subject to backup withholding in respect of amounts paid to the Non-U.S. Holder, unless such Non-U.S. Holder complies with certification procedures to establish that it is not a U.S. person for U.S. federal income tax purposes or otherwise establishes an exemption. The amount of any backup withholding from a payment to a Non-U.S. Holder will be allowed as a credit against the Non-U.S. Holder's U.S. federal income tax liability and may entitle the Non-U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

FATCA

Legislation commonly referred to as "FATCA" generally imposes a withholding tax of 30% on payments to certain non-U.S. entities (including financial intermediaries) with respect to certain financial instruments, unless various U.S. information reporting and due diligence requirements have been satisfied. An intergovernmental agreement between the United States and the non-U.S. entity's jurisdiction may modify these requirements. FATCA generally applies to certain financial instruments that are treated as paying U.S.-source interest or other U.S.-source "fixed or determinable annual or periodical" income ("FDAP income"). Withholding (if applicable) applies to payments of U.S.-source FDAP income and to payments of gross proceeds of the disposition (including upon retirement) of certain financial instruments treated as providing for U.S.-source interest or dividends. Under recently proposed regulations (the preamble to which specifies that taxpayers are permitted to rely on them pending finalization), no withholding will apply on payments of gross proceeds. While the treatment of the securities is unclear, you should assume that any coupon payment with respect to the securities will be subject to the FATCA rules. If withholding applies to the securities, we will not be required to pay any additional amounts with respect to amounts withheld. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the potential application of FATCA to the securities.

The discussion in the preceding paragraphs, insofar as it purports to describe provisions of U.S. federal income tax laws or legal conclusions with respect thereto, constitutes the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of an investment in the securities.

The proceeds from the sale of the securities will be used by us for general corporate purposes. We will receive, in aggregate, $10 per security issued, because, when we enter into hedging transactions in order to meet our obligations under the securities, our hedging counterparty will reimburse the cost of the agent's commissions. The costs of the securities borne by you and described beginning on page 2 above comprise the agent's commissions and the cost of issuing, structuring and hedging the securities.

Use of proceeds and hedging:

On or prior to the pricing date, we expect to hedge our anticipated exposure in connection with the securities by entering into hedging transactions with our affiliates and/or third party dealers. We expect our hedging counterparties to take positions in the underlying stock, in futures and/or options contracts on the underlying stock, or positions in any other available securities or instruments that they may wish to use in connection with such hedging. Such purchase activity could potentially increase the initial share price, and, as a result, the downside threshold price, which is the price at or above which the underlying stock must close on each determination date in order for you to earn a contingent quarterly coupon, and, if the securities are not redeemed prior to maturity, in order for you to avoid being exposed to the negative price performance of the underlying stock at maturity. In addition, through our affiliates, we are likely to modify our hedge position throughout the term of the securities, including on the determination dates, by purchasing and selling the underlying stock, options contracts relating to the underlying stock or any other available securities or instruments that we may wish to use in connection with such hedging activities, including by purchasing or selling any such securities or instruments on one or more determination dates. As a result, these entities may be unwinding or adjusting hedge positions during the term of the securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the final determination date approaches. We cannot give any assurance that our hedging activities will not affect the value of the underlying stock, and, therefore, adversely affect the value of the securities or the payment you will receive at maturity, if any. For further information on our use of proceeds and hedging, see "Use of Proceeds and Hedging" in the accompanying product supplement for auto-callable securities.

Benefit plan investor considerations:

Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the securities. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, we and certain of our affiliates, including MS & Co., may each be considered a "party in interest" within the meaning of ERISA, or a "disqualified person" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (such accounts and plans, together with other plans, accounts and arrangements subject to Section 4975 of the Code, also "Plans"). ERISA Section 406 and Code Section 4975 generally prohibit transactions between Plans and parties in interest or disqualified persons. Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the securities are acquired by or with the assets of a Plan with respect to which

MS & Co. or any of its affiliates is a service provider or other party in interest, unless the securities are acquired pursuant to an exemption from the “prohibited transaction” rules. A

violation of these "prohibited transaction" rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

The U.S. Department of Labor has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the securities. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers). In addition, ERISA Section 408(b)(17) and Code Section 4975(d)(20) provide an exemption for the purchase and sale of securities and the related lending transactions, provided that neither the issuer of the securities nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the Plan involved in the transaction and provided further that the Plan pays no more, and receives no less, than "adequate consideration" in connection with the transaction (the so-called "service provider" exemption). There can be no assurance that any of these class or statutory exemptions will be available with respect to transactions involving the securities.

Because we may be considered a party in interest with respect to many Plans, the securities may not be purchased, held or disposed of by any Plan, any entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity (a "Plan Asset Entity") or any person investing "plan assets" of any Plan, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCEs 96-23, 95-60, 91-38, 90-1, 84-14 or the service provider exemption or such purchase, holding or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the securities will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the securities that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such securities on behalf of or with "plan assets" of any Plan or with any assets of a governmental, non-U.S. or church plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("Similar Law") or (b) its purchase, holding and disposition of these securities will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violate any Similar Law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the securities on behalf of or with "plan assets" of any Plan consult with their counsel regarding the availability of exemptive relief.

The securities are contractual financial instruments. The financial exposure provided by the securities is not a substitute or proxy for, and is not intended as a substitute or proxy for, individualized investment management or advice for the benefit of any purchaser or holder of the securities. The securities have not been designed and will not be administered in a manner intended to reflect the individualized needs and objectives of any purchaser or holder of the securities.

Each purchaser or holder of any securities acknowledges and agrees that:

(i) the purchaser or holder or its fiduciary has made and shall make all investment decisions for the purchaser or holder and the purchaser or holder has not relied and shall not rely in any way upon us or our affiliates to act as a fiduciary or adviser of the purchaser or holder with respect to (A) the design and terms of the securities, (B) the purchaser or holder's investment in the securities, or (C) the exercise of or failure to exercise any rights we have under or with respect to the securities;

(ii) we and our affiliates have acted and will act solely for our own account in connection with (A) all transactions relating to the securities and (B) all hedging transactions in connection with our obligations under the securities;

(iii) any and all assets and positions relating to hedging transactions by us or our affiliates are assets and positions of those entities and are not assets and positions held for the benefit of the purchaser or holder;

(iv) our interests are adverse to the interests of the purchaser or holder; and

(v) neither we nor any of our affiliates is a fiduciary or adviser of the purchaser or holder in connection with any such assets, positions or transactions, and any information that we or any of our affiliates may provide is not intended to be impartial investment advice.

Each purchaser and holder of the securities has exclusive responsibility for ensuring that its purchase, holding and disposition of the securities do not violate the prohibited transaction rules of ERISA or the Code or any Similar Law. The sale of any securities to any Plan or plan subject to Similar Law is in no respect a

representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by plans generally or any particular plan, or that such an investment is appropriate for plans generally or any particular plan. In this regard, neither this discussion nor anything provided in this document is or is intended to be investment advice directed at any potential Plan purchaser or at Plan purchasers generally and such purchasers of these securities should consult and rely on their own counsel and advisers as to whether an investment in these securities is suitable.

However, individual retirement accounts, individual retirement annuities and Keogh plans, as well as employee benefit plans that permit participants to direct the investment of their accounts, will not be permitted to purchase or hold the securities if the account, plan or annuity is for the benefit of an employee of Morgan Stanley or

Morgan Stanley Finance LLC

Contingent Income Auto-Callable Securities due January 21, 2022

Based on the Performance of the Common Stock of Colgate-Palmolive Company

Principal at Risk Securities

Additional considerations:	Morgan Stanley Wealth Management or a family member and the employee receives any compensation (such as, for example, an addition to bonus) based on the purchase of the securities by the account, plan or annuity. Client accounts over which Morgan Stanley, Morgan Stanley Wealth Management or any of their respective subsidiaries have investment discretion are not permitted to purchase the securities, either directly or indirectly. The agent may distribute the securities through Morgan Stanley Smith Barney LLC ("Morgan Stanley Wealth Management"), as selected dealer, or other dealers, which may include Morgan Stanley & Co. International plc ("MSIP") and Bank Morgan Stanley AG. Morgan Stanley Wealth Management, MSIP and Bank Morgan Stanley AG are affiliates of ours. Selected dealers, including Morgan Stanley Wealth Management, and their financial advisors will collectively receive from the agent, Morgan Stanley & Co. LLC, a fixed sales commission of $0.20 for each security they sell. In addition, Morgan Stanley Wealth Management will receive a structuring fee of $0.05 for each security.
Supplemental information regarding plan of distribution; conflicts of interest:	MS & Co. is an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley, and it and other affiliates of ours expect to make a profit by selling, structuring and, when applicable, hedging the securities. When MS & Co. prices this offering of securities, it will determine the economic terms of the securities such that for each security the estimated value on the pricing date will be no lower than the minimum level described in "Investment Summary" beginning on page 2.
Contact:	MS & Co. will conduct this offering in compliance with the requirements of FINRA Rule 5121 of the Financial Industry Regulatory Authority, Inc., which is commonly referred to as FINRA, regarding a FINRA member firm's distribution of the securities of an affiliate and related conflicts of interest. MS & Co. or any of our other affiliates may not make sales in this offering to any discretionary account. See "Plan of Distribution (Conflicts of Interest)" and "Use of Proceeds and Hedging" in the accompanying product supplement for auto-callable securities. Morgan Stanley Wealth Management clients may contact their local Morgan Stanley branch office or our principal executive offices at 1585 Broadway, New York, New York 10036 (telephone number (866) 477-4776). All other clients may contact their local brokerage representative. Third-party distributors may contact Morgan Stanley Structured Investment Sales at (800) 233-1087.

Where you can find more information:	Morgan Stanley and MSFL have filed a registration statement (including a prospectus, as supplemented by the product supplement for auto-callable securities) with the Securities and Exchange Commission, or SEC, for the offering to which this communication relates. You should read the prospectus in that registration statement, the product supplement for auto-callable securities and any other documents relating to this offering that Morgan Stanley and MSFL have filed with the SEC for more complete information about Morgan Stanley, MSFL and this offering. You may get these documents without cost by visiting EDGAR on the SEC web site at.www.sec.gov. Alternatively, Morgan Stanley, MSFL, any underwriter or any dealer participating in the offering will arrange to send you the product supplement for auto-callable securities and prospectus if you so request by calling toll-free 1-(800)-584-6837.

You may access these documents on the SEC web site at.www.sec.gov as follows:

Product Supplement for Auto-Callable Securities dated November 16, 2017

Prospectus dated November 16, 2017

Terms used but not defined in this document are defined in the product supplement for auto-callable securities or in the prospectus.