MORGAN STANLEY
Form 10-Q
November 02, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

Commission File Number 1-11758

(Exact Name of Registrant as specified in its charter)

Delaware	**1585 Broadway**	**36-3145972**	**(212) 761-4000**
(State or other jurisdiction of incorporation or organization)	**New York, NY 10036** (Address of principal executive offices, including zip code)	(I.R.S. Employer Identification No.)	(Registrant s telephone number including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer ¨
Non-Accelerated Filer ¨	Smaller reporting company ¨
(Do not check if a smaller reporting company)	

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 31, 2016, there were 1,872,821,289 shares of the Registrant s Common Stock, par value $0.01 per share, outstanding.

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QUARTERLY REPORT ON FORM 10-Q

For the quarter ended September 30, 2016

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Part II Other Information

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Available Information

We file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (the SEC). You may read and copy any document we file with the SEC at the SEC s public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including us) file electronically with the SEC. Our electronic SEC filings are available to the public at the SEC s internet site, *www.sec.gov*.

Our internet site is *www.morganstanley.com*. You can access our Investor Relations webpage at *www.morganstanley.com/about-us-ir*. We make available free of charge, on or through our Investor Relations webpage, our proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. We also make available, through our Investor Relations webpage, via a link to the SEC s internet site, statements of beneficial ownership of our equity securities filed by our directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

You can access information about our corporate governance at *www.morganstanley.com/about-us-governance*. Our Corporate Governance webpage includes:

- Amended and Restated Certificate of Incorporation;
- Amended and Restated Bylaws;
- Charters for its Audit Committee, Compensation, Management Development and Succession Committee, Nominating and Governance Committee, Operations and Technology Committee, and Risk Committee;
- Corporate Governance Policies;
- Policy Regarding Communication with the Board of Directors;
- Policy Regarding Director Candidates Recommended by Shareholders;
- Policy Regarding Corporate Political Activities;
- Policy Regarding Shareholder Rights Plan;
- Equity Ownership Commitment;
- Code of Ethics and Business Conduct;
- Code of Conduct; and
- Integrity Hotline Information.

Morgan Stanley s Code of Ethics and Business Conduct applies to all directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer and Deputy Chief Financial Officer. We will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange LLC (NYSE) on our internet site. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, 1585 Broadway, New York, NY 10036 (212-761-4000). The information on our internet site is not incorporated by reference into this report.

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Part I Financial Information

Item 1. Financial Statements
Consolidated Statements of Income

(Unaudited)

in millions, except per share data	Three Months Ended September 30, **2016**	Three Months Ended September 30, 2015	Nine Months Ended September 30, **2016**	Nine Months Ended September 30, 2015
Revenues				
Investment banking	**$ 1,225**	$ 1,313	**$ 3,556**	$ 4,284
Trading	**2,609**	2,026	**7,420**	8,649
Investments	**87**	(119)	**179**	408
Commissions and fees	**991**	1,115	**3,066**	3,459
Asset management, distribution and administration fees	**2,686**	2,732	**7,943**	8,155
Other	**308**	(62)	**631**	406
Total non-interest revenues	**7,906**	7,005	**22,795**	25,361
Interest income	**1,734**	1,451	**5,148**	4,321
Interest expense	**731**	689	**2,333**	2,265
Net interest	**1,003**	762	**2,815**	2,056
Net revenues	**8,909**	7,767	**25,610**	27,417
Non-interest expenses				
Compensation and benefits	**4,097**	3,437	**11,795**	12,366
Occupancy and equipment	**339**	341	**997**	1,034
Brokerage, clearing and exchange fees	**491**	485	**1,440**	1,435
Information processing and communications	**456**	447	**1,327**	1,300
Marketing and business development	**130**	158	**418**	487
Professional services	**489**	576	**1,550**	1,660
Other	**526**	849	**1,481**	2,079
Total non-interest expenses	**6,528**	6,293	**19,008**	20,361
Income from continuing operations before income taxes	**2,381**	1,474	**6,602**	7,056
Provision for income taxes	**749**	423	**2,160**	1,704
Income from continuing operations	**1,632**	1,051	**4,442**	5,352
Income (loss) from discontinued operations, net of income taxes	**8**	(2)	**1**	(9)
Net income	**$ 1,640**	$ 1,049	**$ 4,443**	$ 5,343
Net income applicable to noncontrolling interests	**43**	31	**130**	124
Net income applicable to Morgan Stanley	**$ 1,597**	$ 1,018	**$ 4,313**	$ 5,219
Preferred stock dividends and other	**79**	79	**314**	301
Earnings applicable to Morgan Stanley common shareholders	**$ 1,518**	$ 939	**$ 3,999**	$ 4,918
Earnings per basic common share				
Income from continuing operations	**$ 0.82**	$ 0.49	**$ 2.15**	$ 2.57

Income (loss) from discontinued operations	**0.01**			
Earnings per basic common share	**$ 0.83**	$ 0.49	**$ 2.15**	$ 2.57
Earnings per diluted common share				
Income from continuing operations	**$ 0.80**	$ 0.48	**$ 2.11**	$ 2.52
Income (loss) from discontinued operations	**0.01**			(0.01)
Earnings per diluted common share	**$ 0.81**	$ 0.48	**$ 2.11**	$ 2.51
Dividends declared per common share	**$ 0.20**	$ 0.15	**$ 0.50**	$ 0.40
Average common shares outstanding				
Basic	**1,838**	1,904	**1,863**	1,916
Diluted	**1,879**	1,949	**1,898**	1,958

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Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in millions	**2016**	2015	**2016**	2015
Net income	**$ 1,640**	$ 1,049	**$ 4,443**	$ 5,343
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments[1]	**$ 43**	$ (61)	**$ 360**	$ (249)
Change in net unrealized gains (losses) on available for sale securities[2]	**(99)**	100	**439**	72
Pension, postretirement and other	**(1)**	4	**(5)**	3
Change in net debt valuation adjustments[3]	**(93)**		**255**	
Total other comprehensive income (loss)	**$ (150)**	$ 43	**$ 1,049**	$ (174)
Comprehensive income	**$ 1,490**	$ 1,092	**$ 5,492**	$ 5,169
Net income applicable to noncontrolling interests	**43**	31	**130**	124
Other comprehensive income (loss) applicable to noncontrolling interests	**15**	15	**151**	(3)
Comprehensive income applicable to Morgan Stanley	**$ 1,432**	$ 1,046	**$ 5,211**	$ 5,048

1. Amounts include Provision for (benefit from) income taxes of **$(30) million** and $30 million in the quarter ended September 30, 2016 (current quarter) and the quarter ended September 30, 2015 (prior year quarter), respectively, and **$(204) million** and $150 million in the nine months ended September 30, 2016 (current year period) and the nine months ended September 30, 2015 (prior year period), respectively.
2. Amounts include Provision for (benefit from) income taxes of **$(58) million** and $57 million in the current quarter and prior year quarter, respectively, and **$256 million** and $41 million in the current year period and prior year period, respectively.
3. Debt valuation adjustments (DVA) represent the change in the fair value resulting from fluctuations in the Firm s credit spreads and other credit factors related to liabilities carried at fair value, primarily related to certain Long-term and Short-term borrowings. Amounts include Provision for (benefit from) income taxes of **$(50) million** and **$150 million** in the current quarter and current year period, respectively. See Notes 2 and 14 for further information.

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Consolidated Balance Sheets
(Unaudited)

$ in millions, except share data		At September 30, 2016		At December 31, 2015
Assets				
Cash and due from banks	**$**	**26,899**	$	19,827
Interest bearing deposits with banks		**15,653**		34,256
Trading assets, at fair value (**$156,351** and $127,627 were pledged to various parties)		**273,151**		239,505
Investment securities (includes **$65,732** and $66,759 at fair value)		**78,956**		71,983
Securities purchased under agreements to resell (includes **$554** and $806 at fair value)		**90,579**		87,657
Securities borrowed		**126,280**		142,416
Customer and other receivables		**51,411**		45,407
Loans:				
Held for investment (net of allowance of **$287** and $225)		**80,400**		72,559
Held for sale		**12,108**		13,200
Goodwill		**6,584**		6,584
Intangible assets (net of accumulated amortization of **$2,354** and $2,130)		**2,747**		2,984
Other assets		**49,123**		51,087
Total assets	**$**	**813,891**	$	787,465
Liabilities				
Deposits (includes **$60** and $125 at fair value)	**$**	**151,843**	$	156,034
Short-term borrowings (includes **$408** and $1,648 at fair value)		**914**		2,173
Trading liabilities, at fair value		**136,299**		128,455
Securities sold under agreements to repurchase (includes **$745** and $683 at fair value)		**46,936**		36,692
Securities loaned		**16,515**		19,358
Other secured financings (includes **$3,746** and $2,854 at fair value)		**9,812**		9,464
Customer and other payables		**194,007**		186,626
Other liabilities and accrued expenses		**15,176**		18,711
Long-term borrowings (includes **$38,747** and $33,045 at fair value)		**163,927**		153,768
Total liabilities		**735,429**		711,281
Commitments and contingent liabilities (see Note 11)				
Equity				
Morgan Stanley shareholders equity:				
Preferred stock (see Note 14)		**7,520**		7,520
Common stock, $0.01 par value:				
		20		20

Shares authorized: **3,500,000,000**; Shares issued: **2,038,893,979**; Shares outstanding: **1,876,466,446** and 1,920,024,027		
Additional paid-in capital	**22,995**	24,153
Retained earnings	**52,545**	49,204
Employee stock trusts	**2,839**	2,409
Accumulated other comprehensive income (loss)	**(1,070)**	(1,656)
Common stock held in treasury, at cost, $0.01 par value (**162,427,533** and 118,869,952 shares)	**(4,861)**	(4,059)
Common stock issued to employee stock trusts	**(2,839)**	(2,409)
Total Morgan Stanley shareholders equity	**77,149**	75,182
Noncontrolling interests	**1,313**	1,002
Total equity	**78,462**	76,184
Total liabilities and equity	**$ 813,891**	$ 787,465

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Consolidated Statements of Changes in Total Equity
Nine Months Ended September 30, 2016 and 2015

(Unaudited)

$ in millions	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Employee Stock Trusts	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Stock Trusts	Non-controlling Interests	Total Equity
Balance at December 31, 2015	$ 7,520	$ 20	$ 24,153	$ 49,204	$ 2,409	$ (1,656)	$ (4,059)	$ (2,409)	$ 1,002	$ 76,184
Cumulative adjustment for accounting change related to DVA[1]				**312**		**(312)**				
Net adjustment for accounting change related to consolidation[2]									**106**	**106**
Net income applicable to Morgan Stanley				**4,313**						**4,313**
Net income applicable to noncontrolling interests									**130**	**130**
Dividends				**(1,284)**						**(1,284)**
Shares issued under employee plans and related tax effects			**(1,168)**		**430**		**2,106**	**(430)**		**938**
Repurchases of common stock and employee							**(2,908)**			**(2,908)**

tax withholdings										
Net change in Accumulated other comprehensive income (loss)						**898**			**151**	**1,049**
Other net increase (decreases)			**10**						**(76)**	**(66)**
Balance at September 30, 2016	**$ 7,520**	**$ 20**	**$ 22,995**	**$ 52,545**	**$ 2,839**	**$ (1,070)**	**$ (4,861)**	**$ (2,839)**	**$ 1,313**	**$ 78,462**
Balance at December 31, 2014	$ 6,020	$ 20	$ 24,249	$ 44,625	$ 2,127	$ (1,248)	$ (2,766)	$ (2,127)	$ 1,204	$ 72,104
Net income applicable to Morgan Stanley				5,219						5,219
Net income applicable to noncontrolling interests									124	124
Dividends				(1,098)						(1,098)
Shares issued under employee plans and related tax effects			(356)		272		1,445	(272)		1,089
Repurchases of common stock and employee tax withholdings							(2,135)			(2,135)
Net change in Accumulated other comprehensive income (loss)						(171)			(3)	(174)
Issuance of preferred stock	1,500		(7)							1,493
Deconsolidation of certain legal entities associated with a real estate fund									(191)	(191)
Other net decreases			(10)						(1)	(11)
	$ 7,520	$ 20	$ 23,876	$ 48,746	$ 2,399	$ (1,419)	$ (3,456)	$ (2,399)	$ 1,133	$ 76,420

Balance at
September 30,
2015

1. In accordance with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, a cumulative catch up adjustment was recorded as of January 1, 2016 to move the cumulative DVA amount, net of noncontrolling interest and tax, related to outstanding liabilities under the fair value option election from Retained earnings into Accumulated other comprehensive income (loss) (AOCI). See Notes 2 and 14 for further information.
2. In accordance with the accounting update *Amendments to the Consolidation Analysis*, a net adjustment was recorded as of January 1, 2016 to consolidate or deconsolidate certain entities under the new guidance. See Note 2 for further information.

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Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
$ in millions	**2016**	2015
Cash flows from operating activities		
Net income	**$ 4,443**	$ 5,343
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
(Income) loss from equity method investments	**39**	(118)
Compensation payable in common stock and options	**794**	836
Depreciation and amortization	**1,357**	1,023
Net gain on sale of available for sale securities	**(127)**	(74)
Impairment charges	**102**	91
Provision for credit losses on lending activities	**138**	47
Other operating adjustments	**(36)**	264
Changes in assets and liabilities:		
Trading assets, net of Trading liabilities	**(20,509)**	39,775
Securities borrowed	**16,136**	(11,537)
Securities loaned	**(2,843)**	(4,575)
Customer and other receivables and other assets	**(2,800)**	5,842
Customer and other payables and other liabilities	**3,798**	10,351
Securities purchased under agreements to resell	**(2,922)**	(43,918)
Securities sold under agreements to repurchase	**10,244**	(11,313)
Net cash provided by (used for) operating activities	**7,814**	(7,963)
Cash flows from investing activities		
Proceeds from (payments for):		
Other assets Premises, equipment and software, net	**(941)**	(964)
Changes in loans, net	**(7,709)**	(11,313)
Investment securities:		
Purchases	**(41,230)**	(32,133)
Proceeds from sales	**28,960**	32,788
Proceeds from paydowns and maturities	**5,956**	4,285
Other investing activities	**(24)**	(61)
Net cash used for investing activities	**(14,988)**	(7,398)
Cash flows from financing activities		
Net proceeds from (payments for):		
Short-term borrowings	**(1,233)**	(279)
Noncontrolling interests	**(47)**	(70)
Other secured financings	**(278)**	(1,677)
Deposits	**(4,191)**	13,682
Proceeds from:		
Excess tax benefits associated with stock-based awards	**51**	180

Derivatives financing activities				392
Issuance of preferred stock, net of issuance costs				1,493
Issuance of long-term borrowings		**27,528**		30,159
Payments for:				
Long-term borrowings		**(22,902)**		(17,615)
Derivatives financing activities		**(120)**		(372)
Repurchases of common stock and employee tax withholdings		**(2,908)**		(2,135)
Cash dividends		**(1,311)**		(1,096)
Net cash provided by (used for) financing activities		**(5,411)**		22,662
Effect of exchange rate changes on cash and cash equivalents		**1,054**		(767)
Net increase (decrease) in cash and cash equivalents		**(11,531)**		6,534
Cash and cash equivalents, at beginning of period		**54,083**		46,984
Cash and cash equivalents, at end of period	**$**	**42,552**	$	53,518
Cash and cash equivalents include:				
Cash and due from banks	**$**	**26,899**	$	19,244
Interest bearing deposits with banks		**15,653**		34,274
Cash and cash equivalents, at end of period	**$**	**42,552**	$	53,518

Supplemental Disclosure of Cash Flow Information

Cash payments for interest were **$1,784 million** and $1,456 million.

Cash payments for income taxes, net of refunds, were **$504 million** and $541 million.

Notes to Consolidated Financial Statements

(Unaudited)

1. Introduction and Basis of Presentation

The Firm

Morgan Stanley, a financial holding company, is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Wealth Management and Investment Management. Morgan Stanley, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Unless the context otherwise requires, the terms Morgan Stanley or the Firm mean Morgan Stanley (the Parent together with its consolidated subsidiaries.

For a description of the clients and principal products and services of each of the Firm s business segments, see Note 1 to the consolidated financial statements in the Firm s Annual Report on Form 10-K for the year ended December 31, 2015 (the 2015 Form 10-K).

Basis of Financial Information

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Firm to make estimates and assumptions regarding the valuations of certain financial instruments, the valuation of goodwill and intangible assets, compensation, deferred tax assets, the outcome of legal and tax matters, allowance for credit losses and other matters that affect its consolidated financial statements and related disclosures. The Firm believes that the estimates utilized in the preparation of its consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates. Intercompany balances and transactions have been eliminated.

The accompanying consolidated financial statements should be read in conjunction with the Firm s consolidated financial statements and notes thereto included in the 2015 Form 10-K. Certain footnote disclosures included in the 2015 Form 10-K have been condensed or omitted from the consolidated financial statements as they are not required for interim reporting under U.S. GAAP. The consolidated financial statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the interim period. The results of opera-

tions for interim periods are not necessarily indicative of results for the entire year.

Consolidation

The consolidated financial statements include the accounts of the Firm, its wholly owned subsidiaries and other entities in which the Firm has a controlling financial interest, including certain variable interest entities (VIE) (see Note 12). For consolidated subsidiaries that are less than wholly owned, the third-party holdings of equity interests are referred to as noncontrolling interests. The net income attributable to noncontrolling interests for such subsidiaries is presented as Net income (loss) applicable to noncontrolling interests in the consolidated statements of income. The portion of shareholders equity of such subsidiaries that is attributable to noncontrolling interests for such subsidiaries is presented as noncontrolling interests, a component of total equity, in the consolidated balance sheets.

For a discussion of the Firm s VIEs and its significant regulated U.S. and international subsidiaries, see Notes 1 and 2 to the consolidated financial statements in the 2015 Form 10-K. See also Note 2 herein.

Consolidated Statements of Cash Flows Presentation

The adoption of the accounting update, *Amendments to the Consolidation Analysis* (see Note 2) on January 1, 2016, resulted in a net noncash increase in total assets of $126 million. In the prior year period, the Firm deconsolidated approximately $191 million in net assets previously attributable to noncontrolling interests that were related to a real estate fund sponsored by the Firm. The deconsolidation resulted in a non-cash reduction of assets of $169 million.

Global Oil Merchanting Business

As a result of entering into a definitive agreement to sell the global oil merchanting unit of the commodities division to Castleton Commodities International LLC, on May 11, 2015, the Firm recognized an impairment charge of $10 million in the prior year quarter and $69 million in the prior year period in Other revenues to reduce the carrying amount of the unit to its estimated fair value less costs to sell. The Firm closed the transaction on November 1, 2015. The transaction did not meet the criteria for discontinued operations and did not have a material impact on the Firm s financial results.

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Notes to Consolidated Financial Statements

(Unaudited)

2. Significant Accounting Policies

For a detailed discussion about the Firm s significant accounting policies, see Note 2 to the consolidated financial statements in the 2015 Form 10-K.

During the current year period, other than the following, there were no significant updates made to the Firm s significant accounting policies.

Accounting Standards Adopted

The Firm adopted the following accounting updates as of January 1, 2016.

Recognition and Measurement of Financial Assets and Financial Liabilities. In January 2016, the Financial Accounting Standards Board (the FASB) issued an accounting update that changes the requirements for the recognition and measurement of certain financial assets and financial liabilities. The Firm early adopted the provision in this guidance relating to liabilities measured at fair value pursuant to a fair value option election that requires presenting unrealized DVA in Other comprehensive income (loss) (OCI), a change from the previous requirement to present DVA in net income. Realized DVA amounts will be recycled from AOCI to Trading revenues. DVA amounts from periods prior to adoption remain in Trading revenues as previously reported. A cumulative catch up adjustment, net of noncontrolling interests and tax, of $312 million was recorded as of January 1, 2016 to move the cumulative DVA loss amount from Retained earnings into AOCI.

Other provisions of this rule may not be early adopted and will be effective January 1, 2018, and are not expected to have a material impact on the consolidated financial statements.

Amendments to the Consolidation Analysis. In February 2015, the FASB issued an accounting update that provides a new consolidation model for certain entities, such as investment funds and limited partnerships. The adoption on January 1, 2016, increased total assets by $131 million, reflecting consolidations of $206 million net of deconsolidations of $75 million. The consolidations resulted primarily from certain funds in Investment Management where the Firm acts as a general partner.

Goodwill

The Firm completed its annual goodwill impairment testing at July 1, 2016. The Firm s impairment testing did not indicate any goodwill impairment, as each of the Firm s reporting units with goodwill had a fair value that was substantially in excess of its carrying value.

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Notes to Consolidated Financial Statements

(Unaudited)

3. Fair Values

Fair Value Measurement

Assets and Liabilities Measured at Fair Value on a Recurring Basis

$ in millions	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting	**At September 30, 2016**
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ **23,199**	$	$	$	$ **23,199**
U.S. agency securities	**2,020**	**25,398**	**8**		**27,426**
Total U.S. government and agency securities	**25,219**	**25,398**	**8**		**50,625**
Other sovereign government obligations	**21,437**	**6,975**	**12**		**28,424**
Corporate and other debt:					
State and municipal securities		**2,247**	**4**		**2,251**
Residential mortgage-backed securities		**811**	**188**		**999**
Commercial mortgage-backed securities		**1,427**	**64**		**1,491**
Asset-backed securities		**115**	**12**		**127**
Corporate bonds		**12,896**	**199**		**13,095**
Collateralized debt and loan		**403**	**85**		**488**

obligations					
Loans and lending commitments[1]		5,057	4,155		9,212
Other debt		892	246		1,138
Total corporate and other debt		23,848	4,953		28,801
Corporate equities[2]	113,805	338	336		114,479
Securities received as collateral	12,535	4	1		12,540
Derivative and other contracts:					
Interest rate contracts	648	417,114	1,116		418,878
Credit contracts		14,208	516		14,724
Foreign exchange contracts	124	51,072	6		51,202
Equity contracts	1,363	40,194	1,864		43,421
Commodity contracts	2,225	7,279	4,098		13,602
Other		25			25
Netting[3]	(3,758)	(444,890)	(2,172)	(57,947)	(508,767)
Total derivative and other contracts	602	85,002	5,428	(57,947)	33,085
Investments[4]:					
Principal investments	33	19	726		778
Other	609	276	210		1,095
Total investments	642	295	936		1,873
Physical commodities		179			179
Total trading assets[4]	174,240	142,039	11,674	(57,947)	270,006
Investment securities AFS securities	28,997	36,735			65,732
Securities purchased under agreements to resell		554			554
Intangible assets		3			3
Total assets measured at fair value	**$ 203,237**	**$ 179,331**	**$ 11,674**	**$ (57,947)**	**$ 336,295**
Liabilities at Fair Value					
Deposits	$	$ 29	$ 31	$	$ 60
		406	2		408

Short-term borrowings					
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	**9,500**				**9,500**
U.S. agency securities	**786**	**96**			**882**
Total U.S. government and agency securities	**10,286**	**96**			**10,382**
Other sovereign government obligations	**18,685**	**2,110**			**20,795**
Corporate and other debt:					
State and municipal securities		**230**			**230**
Asset-backed securities		**477**			**477**
Corporate bonds		**5,873**	**13**		**5,886**
Other debt		**17**	**3**		**20**
Total corporate and other debt		**6,597**	**16**		**6,613**
Corporate equities[2]	**44,980**	**50**	**19**		**45,049**
Obligation to return securities received as collateral	**20,929**	**5**	**1**		**20,935**
Derivative and other contracts:					
Interest rate contracts	**690**	**396,224**	**1,075**		**397,989**
Credit contracts		**14,765**	**1,399**		**16,164**
Foreign exchange contracts	**22**	**56,108**	**113**		**56,243**
Equity contracts	**1,305**	**43,623**	**1,724**		**46,652**
Commodity contracts	**2,002**	**5,860**	**2,804**		**10,666**
Other		**76**			**76**
Netting[3]	**(3,758)**	**(444,890)**	**(2,172)**	**(44,449)**	**(495,269)**
Total derivative and other contracts	**261**	**71,766**	**4,943**	**(44,449)**	**32,521**
Physical commodities		**4**			**4**

Total trading liabilities	**95,141**	**80,628**	**4,979**	**(44,449)**	**136,299**
Securities sold under agreements to repurchase		**596**	**149**		**745**
Other secured financings		**3,296**	**450**		**3,746**
Long-term borrowings	**43**	**36,662**	**2,042**		**38,747**
Total liabilities measured at fair value	**$ 95,184**	**$ 121,617**	**$ 7,653**	**$ (44,449)**	**$ 180,005**

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$ in millions	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting	At December 31, 2015
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 17,658	$	$	$	$ 17,658
U.S. agency securities	797	17,886			18,683
Total U.S. government and agency securities	18,455	17,886			36,341
Other sovereign government obligations	13,559	7,400	4		20,963
Corporate and other debt:					
State and municipal securities		1,651	19		1,670
Residential mortgage-backed securities		1,456	341		1,797
Commercial mortgage-backed securities		1,520	72		1,592
Asset-backed securities		494	25		519
Corporate bonds		9,959	267		10,226
Collateralized debt and loan obligations		284	430		714
Loans and lending commitments[1]		4,682	5,936		10,618
Other debt		2,263	448		2,711
Total corporate and other debt		22,309	7,538		29,847
Corporate equities[2]	106,296	379	433		107,108
Securities received as collateral	11,221	3	1		11,225
Derivative and other contracts:					
Interest rate contracts	406	323,586	2,052		326,044

Credit contracts		22,258	661		22,919
Foreign exchange contracts	55	64,608	292		64,955
Equity contracts	653	38,552	1,084		40,289
Commodity contracts	3,140	10,654	3,358		17,152
Other		219			219
Netting[3]	(3,840)	(380,443)	(3,120)	(55,562)	(442,965)
Total derivative and other contracts	414	79,434	4,327	(55,562)	28,613
Investments[4]:					
Principal investments	20	44	486		550
Other	163	310	221		694
Total investments	183	354	707		1,244
Physical commodities		321			321
Total trading assets[4]	150,128	128,086	13,010	(55,562)	235,662
Investment securities AFS securities	34,351	32,408			66,759
Securities purchased under agreements to resell		806			806
Intangible assets			5		5
Total assets measured at fair value	$ 184,479	$ 161,300	$ 13,015	$ (55,562)	$ 303,232
Liabilities at Fair Value					
Deposits	$	$ 106	$ 19	$	$ 125
Short-term borrowings		1,647	1		1,648
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	12,932				12,932
U.S. agency securities	854	127			981
Total U.S. government and agency securities	13,786	127			13,913
Other sovereign government obligations	10,970	2,558			13,528
Corporate and other debt:					
Commercial mortgage-backed securities		2			2
Corporate bonds		5,035			5,035
Lending commitments		3			3

Other debt		5	4		9
Total corporate and other debt		5,045	4		5,049
Corporate equities[2]	47,123	35	17		47,175
Obligation to return securities received as collateral	19,312	3	1		19,316
Derivative and other contracts:					
Interest rate contracts	466	305,151	1,792		307,409
Credit contracts		22,160	1,505		23,665
Foreign exchange contracts	22	65,177	151		65,350
Equity contracts	570	42,447	3,115		46,132
Commodity contracts	3,012	9,431	2,308		14,751
Other		43			43
Netting[3]	(3,840)	(380,443)	(3,120)	(40,473)	(427,876)
Total derivative and other contracts	230	63,966	5,751	(40,473)	29,474
Total trading liabilities	91,421	71,734	5,773	(40,473)	128,455
Securities sold under agreements to repurchase		532	151		683
Other secured financings		2,393	461		2,854
Long-term borrowings		31,058	1,987		33,045
Total liabilities measured at fair value	$ 91,421	$ 107,470	$ 8,392	$ (40,473)	$ 166,810

AFS Availablefor sale

1. At September 30, 2016, loans held at fair value consisted of $7,038 million of corporate loans, $1,338 million of residential real estate loans and $836 million of wholesale real estate loans. At December 31, 2015, loans held at fair value consisted of $7,286 million of corporate loans, $1,885 million of residential real estate loans and $1,447 million of wholesale real estate loans.
2. For trading purposes, the Firm holds or sells short equity securities issued by entities in diverse industries and of varying sizes.
3. For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled Counterparty and Cash Collateral Netting. For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that shared level. For further information on derivative instruments and hedging activities, see Note 4.
4. Amounts exclude certain investments that are measured at fair value using the net asset value (NAV) per share, which are not classified in the fair value hierarchy. For additional disclosure about such investments, see Fair Value of Investments Measured at Net Asset Value herein.

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(Unaudited)

For a description of the valuation techniques applied to the Firm s major categories of assets and liabilities measured at fair value on a recurring basis, see Note 3 to the consolidated financial statements in the 2015 Form 10-K. During the current quarter and current year period, there were no significant updates made to the Firm s valuation techniques.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for all periods presented. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities within the Level 3 category presented in the following tables do not reflect the related realized and unrealized gains (losses) on hedging instruments that have been classified by the Firm within the Level 1 and/or Level 2 categories.

Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Firm has classified within the Level 3 category. As a result, the unrealized gains (losses) during the period for assets and liabilities within the Level 3 category presented in the following tables herein may include changes in fair value during the period that were attributable to both observable and unobservable inputs.

Roll-forward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

$ in millions	Beginning Balance at June 30, 2016	Realized and Unrealized Gains (Losses)	Purchases[1]	Sales	Issuances	Settlements	Net Transfers	**Ending Balance at September 30, 2016**	**Unrealized Gains (Losses) at September 30, 2016**
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$ **20**	$	$	$ **(18)**	$	$	$ **6**	$ **8**	$
Other sovereign government obligations	**2**		**6**	**(1)**			**5**	**12**	
Corporate and other debt:									
State and municipal securities	**10**	**1**		**(7)**				**4**	
Residential mortgage-backed securities	**216**	**1**	**56**	**(76)**			**(9)**	**188**	**(12)**
	51	**(5)**	**12**	**(1)**			**7**	**64**	**(3)**

Commercial mortgage-backed securities									
Asset-backed securities	**88**	**(3)**	**6**	**(79)**				**12**	
Corporate bonds	**276**	**(55)**	**20**	**(23)**			**(19)**	**199**	**(55)**
Collateralized debt and loan obligations	**109**	**6**	**9**	**(38)**			**(1)**	**85**	**10**
Loans and lending commitments	**5,418**	**(12)**	**501**	**(206)**		**(733)**	**(813)**	**4,155**	**(12)**
Other debt	**528**		**191**	**(212)**			**(261)**	**246**	
Total corporate and other debt	**6,696**	**(67)**	**795**	**(642)**		**(733)**	**(1,096)**	**4,953**	**(72)**
Corporate equities	**572**	**(28)**	**42**	**(36)**			**(214)**	**336**	**(26)**
Securities received as collateral			**1**					**1**	
Net derivative and other contracts[2]:									
Interest rate contracts	**(235)**	**(60)**	**3**		**(15)**	**11**	**337**	**41**	**(45)**
Credit contracts	**(1,114)**	**147**				**2**	**82**	**(883)**	**147**
Foreign exchange contracts	**(1)**	**(27)**				**(42)**	**(37)**	**(107)**	**(27)**
Equity contracts	**(1,473)**	**220**	**31**	**(2)**	**(37)**	**567**	**834**	**140**	**239**
Commodity contracts	**1,298**	**269**			**(14)**	**(170)**	**(89)**	**1,294**	**104**
Other	**(11)**						**11**		
Total net derivative and other contracts	**(1,536)**	**549**	**34**	**(2)**	**(66)**	**368**	**1,138**	**485**	**418**
Investments:									
Principal investments	**769**	**(29)**	**2**	**(8)**		**(27)**	**19**	**726**	**(30)**
Other	**205**	**(12)**					**17**	**210**	**(6)**
Total investments	**974**	**(41)**	**2**	**(8)**		**(27)**	**36**	**936**	**(36)**
Liabilities at Fair Value									
Deposits	**$ 30**	**$ 1**	**$**	**$**	**$ 5**	**$**	**$ (3)**	**$ 31**	**$ 1**
Short-term borrowings							**2**	**2**	
Trading liabilities:									
Corporate and other debt:									
Corporate bonds	**6**	**(1)**	**(3)**	**2**			**7**	**13**	**(1)**
Other debt	**3**							**3**	

Total corporate and other debt	**9**	**(1)**	**(3)**	**2**			**7**	**16**	**(1)**
Corporate equities	**26**	**2**	**(2)**	**2**			**(5)**	**19**	
Obligation to return securities received as collateral				**1**				**1**	
Securities sold under agreements to repurchase	**150**	**1**						**149**	**2**
Other secured financings	**441**	**(11)**				**(2)**		**450**	**(11)**
Long-term borrowings	**1,929**	**(88)**			**193**	**(147)**	**(21)**	**2,042**	**(87)**

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(Unaudited)

$ in millions	Beginning Balance at December 31, 2015	Realized and Unrealized Gains (Losses)	Purchases[1]	Sales	Issuances	Settlements	Net Transfers	**Ending Balance at September 30, 2016**	**Unrealized Gains (Losses) at September 30, 2016**
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$	$	$ 3	$ (37)	$	$	$ 42	$ 8	$
Other sovereign government obligations	4		10	(6)			4	12	
Corporate and other debt:									
State and municipal securities	19			(16)			1	4	
Residential mortgage-backed securities	341	(14)	64	(201)			(2)	188	(13)
Commercial mortgage-backed securities	72	(17)	19	(18)			8	64	(15)
Asset-backed securities	25	(4)	5	(95)			81	12	(3)
Corporate bonds	267	(4)	146	(276)			66	199	(17)
Collateralized debt and loan obligations	430	9	13	(295)			(72)	85	16
Loans and lending commitments	5,936	(65)	921	(860)		(986)	(791)	4,155	(51)
Other debt	448	1	92	(35)			(260)	246	65
Total corporate and other debt	7,538	(94)	1,260	(1,796)		(986)	(969)	4,953	(18)
Corporate equities	433	(57)	62	(324)			222	336	(80)
Securities received as collateral	1							1	
Net derivative and other									

contracts[2]:									
Interest rate contracts	260	257	3		(15)	(59)	(405)	41	(156)
Credit contracts	(844)	(255)	1			155	60	(883)	(277)
Foreign exchange contracts	141	(104)				(224)	80	(107)	(102)
Equity contracts	(2,031)	334	816	(2)	(166)	1,083	106	140	172
Commodity contracts	1,050	377	33		(20)	(312)	166	1,294	162
Total net derivative and other contracts	(1,424)	609	853	(2)	(201)	643	7	485	(201)
Investments:									
Principal investments	486	(57)	374	(29)		(67)	19	726	(58)
Other	221	(3)		(8)				210	(5)
Total investments	707	(60)	374	(37)		(67)	19	936	(63)
Intangible assets	5						(5)		
Liabilities at Fair Value									
Deposits	$ 19	$ (1)	$	$	$ 15	$	$ (4)	$ 31	$ (1)
Short-term borrowings	1					(1)	2	2	
Trading liabilities:									
Corporate and other debt:									
Corporate bonds		(3)	(7)	32			(15)	13	(3)
Other debt	4		(1)					3	
Total corporate and other debt	4	(3)	(8)	32			(15)	16	(3)
Corporate equities	17	4	(37)	14			29	19	32
Obligation to return securities received as collateral	1							1	
Securities sold under agreements to repurchase	151	2						149	3
Other secured financings	461	(42)			69	(44)	(78)	450	(42)
Long-term borrowings	1,987	(103)			366	(262)	(152)	2,042	91

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(Unaudited)

$ in millions	Beginning Balance at June 30, 2015	Realized and Unrealized Gains (Losses)	Purchases[1]	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2015	Unrealized Gains (Losses) at September 30, 2015
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$ 3	$	$	$	$	$	$ (3)	$	$
Other sovereign government obligations	12		5	(4)			(2)	11	
Corporate and other debt:									
State and municipal securities	7	5	12	(5)			14	33	5
Residential mortgage-backed securities	378	3	59	(55)			19	404	4
Commercial mortgage-backed securities	84	(12)	17	(6)			(4)	79	(12)
Asset-backed securities	19		13	(7)			6	31	
Corporate bonds	479	(25)	78	(228)		(50)	(28)	226	(6)
Collateralized debt and loan obligations	660	(7)	80	(188)				545	(11)
Loans and lending commitments	5,512	(78)	939	(156)		(1,229)	176	5,164	(53)
Other debt	564	(22)	9	(4)		(1)	(16)	530	(23)
Total corporate and other debt	7,703	(136)	1,207	(649)		(1,280)	167	7,012	(96)
Corporate equities	486	10	150	(80)			9	575	4
Securities received as collateral	3			(2)				1	
Net derivative and other									

contracts[2]:									
Interest rate contracts	(236)	(137)	12		(7)	74	383	89	(66)
Credit contracts	(989)	210			(74)	86	(38)	(805)	219
Foreign exchange contracts	446	42	3			(327)	(98)	66	45
Equity contracts	(2,102)	309	16		(50)	(187)	(27)	(2,041)	296
Commodity contracts	1,205	238				(11)		1,432	179
Total net derivative and other contracts	(1,676)	662	31		(131)	(365)	220	(1,259)	673
Investments:									
Principal investments	581	26	8	(50)			(24)	541	26
Other	300	11	1					312	11
Total investments	881	37	9	(50)			(24)	853	37
Intangible assets	6	(1)						5	(1)
Liabilities at Fair Value									
Short-term borrowings	$	$ (2)	$	$	$ 4	$	$ 63	$ 69	$ (2)
Trading liabilities:									
Corporate and other debt:									
Corporate bonds	15	9	(10)	23				19	7
Other debt	4							4	
Total corporate and other debt	19	9	(10)	23				23	7
Corporate equities	112	72	(50)	99			8	97	73
Obligation to return securities received as collateral	3		(2)					1	
Securities sold under agreements to repurchase	154							154	
Other secured financings	168	2			187	(12)		341	2
Long-term borrowings	2,221	61			237	(81)	146	2,462	64

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$ in millions	Beginning Balance at December 31, 2014	Realized and Unrealized Gains (Losses)	Purchases[1]	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2015	Unrealized Gains (Losses) at September 30, 2015
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 41	$ (1)	$ 7	$ (31)	$	$	$ (5)	$ 11	$
Corporate and other debt:									
State and municipal securities		5	14	(1)			15	33	5
Residential mortgage-backed securities	175	28	172	(57)			86	404	19
Commercial mortgage-backed securities	96	(17)	23	(23)				79	(19)
Asset-backed securities	76	(1)	22	(31)			(35)	31	4
Corporate bonds	386	(19)	155	(218)		(53)	(25)	226	(16)
Collateralized debt and loan obligations	1,152	141	320	(709)		(331)	(28)	545	(7)
Loans and lending commitments	5,874	(34)	1,860	(95)		(2,461)	20	5,164	(62)
Other debt	285	(13)	30	(14)		(25)	267	530	
Total corporate and other debt	8,044	90	2,596	(1,148)		(2,870)	300	7,012	(76)
Corporate equities	272	57	437	(199)			8	575	67
Securities received as collateral			1					1	
Net derivative and other contracts[2]:									
Interest rate contracts	(173)	(37)	16		(22)	277	28	89	20
Credit contracts	(743)	(69)	6		(94)	86	9	(805)	(89)
Foreign exchange contracts	151	133	4		(1)	(197)	(24)	66	133
Equity contracts	(2,165)	(76)	115		(279)	252	112	(2,041)	(237)
Commodity contracts	1,146	345	2		(112)	111	(60)	1,432	420
Total net derivative and other contracts	(1,784)	296	143		(508)	529	65	(1,259)	247

Investments:									
Principal investments	835	22	20	(109)		(187)	(40)	541	
Other	323	(5)	2	(6)			(2)	312	
Total investments	1,158	17	22	(115)		(187)	(42)	853	
Intangible assets	6					(1)		5	
Liabilities at Fair Value									
Short-term borrowings	$	$ (2)	$	$	$ 60	$	$ 7	$ 69	$ (2)
Trading liabilities:									
Corporate and other debt:									
Corporate bonds	78	6	(25)	37			(65)	19	6
Lending commitments	5	5							5
Other debt	38		(1)	7		(39)	(1)	4	
Total corporate and other debt	121	11	(26)	44		(39)	(66)	23	11
Corporate equities	45	90	(88)	128			102	97	90
Obligation to return securities received as collateral				1				1	
Securities sold under agreements to repurchase	153	(1)						154	
Other secured financings	149	(5)			223	(36)		341	4
Long-term borrowings	1,934	159			853	(213)	47	2,462	157

1. Loan originations and consolidations of VIEs are included in purchases.
2. Net derivative and other contracts represent Trading assets Derivative and other contracts, net of Trading liabilities Derivative and other contracts.

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Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements

The following disclosures provide information on the valuation techniques, significant unobservable inputs, and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance. The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm s inventory. The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

Valuation Techniques and Sensitivity of Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements

$ in millions	Predominant Valuation Techniques/Significant Unobservable Inputs/Sensitivity	Range (Weighted Averages or Simple Averages/Median)[1] At September 30, 2016	At December 31, 2015
Assets at Fair Value			
Residential mortgage-backed securities (**$188 million** and $341 million)			
Comparable pricing:	Comparable bond price / (A)	**0 to 9 points (6 points)**	0 to 75 points (32 points)
Commercial mortgage-backed securities (**$64 million** and $72 million)			
Comparable pricing:	Comparable bond price / (A)	**0 to 11 points (2 points)**	0 to 9 points (2 points)
Corporate bonds (**$199 million** and $267 million)			
Comparable pricing:	Comparable bond price / (A)	**11 to 127 points (75 points)**	3 to 119 points (90 points)
Comparable pricing:	EBITDA multiple / (A)		7 to 9 times (8 times)
Option model:	At the money volatility / (C)	**6% to 33% (25%)**	
Structured bond model:	Discount rate / (C)		15% (15%)
Collateralized debt and loan obligations (**$85 million** and $430 million)			
Comparable pricing:	Comparable bond price / (A)	**0 to 80 points (44 points)**	47 to 103 points (67 points)
Correlation model:	Credit correlation / (B)	**23% to 65% (52%)**	39% to 60% (49%)

Loans and lending commitments (**$4,155 million** and $5,936 million)			
Corporate loan model:	Credit spread / (C)	**471 to 815 bps (633 bps)**	250 to 866 bps (531 bps)
Margin loan model:	Volatility skew / (C)(D)	**20% to 83% (36%)**	14% to 70% (33%)
	Discount rate / (C)(D)	**1% to 9% (2%)**	1% to 4% (2%)
	Credit spread / (C)(D)		62 to 499 bps (145 bps)
Expected recovery:	Asset coverage / (A)	**47% to 99% (85%)**	
Option model:	Volatility skew / (C)	**-1% (-1%)**	-1% (-1%)
Comparable pricing:	Comparable loan price / (A)	**41 to 100 points (85 points)**	35 to 100 points (88 points)
Discounted cash flow:	Implied weighted average cost of capital / (C)(D)	**5% (5%)**	6% to 8% (7%)
	Capitalization rate / (C)(D)	**4% to 10% (4%)**	4% to 10% (4%)
Other debt (**$246 million** and $448 million)			
Comparable pricing:	Comparable loan price / (A)	**3 to 87 points (69 points)**	4 to 84 points (59 points)
Comparable pricing:	Comparable bond price / (A)	**7 points (7 points)**	8 points (8 points)
Option model:	At the money volatility / (C)(D)	**16% to 53% (42%)**	16% to 53% (53%)
	Volatility skew / (C)(D)	**-1% to 0% (0%)**	
Margin loan model:	Discount rate / (C)		1% (1%)
Discounted cash flow:	Discount rate / (C)	**6% to 12% (11%)**	
Corporate equities (**$336 million** and $433 million)			
Comparable pricing:	Comparable equity price / (A)	**100% (100%)**	100% (100%)
Comparable pricing:	Comparable price / (A)		50% to 80% (72%)
Market approach:	EBITDA multiple / (A)		9 times (9 times)

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	Predominant Valuation Techniques/Significant	Range (Weighted Averages or Simple Averages/Median)[1]	
$ in millions	Unobservable Inputs/Sensitivity	**At September 30, 2016**	At December 31, 2015
Net derivative and other contracts[2]:			
Interest rate contracts (**$41 million** and $260 million)			
Option model:	Interest rate - Foreign exchange correlation / (A)(D)	**28% to 58% (44% / 43%)**	
	Interest rate - Foreign exchange correlation / (C)(D)		25% to 62% (43% / 43%)
	Interest rate volatility skew / (A)(D)	**31% to 114% (73% / 67%)**	29% to 82% (43% / 40%)
	Interest rate quanto correlation / (A)(D)	**-10% to 39% (5% / -4%)**	-8% to 36% (5% / -6%)
	Interest rate curve correlation / (C)(D)	**19% to 95% (72% / 78%)**	24% to 95% (60% / 69%)
	Interest rate curve / (C)(D)	**1% (1% / 1%)**	
	Inflation volatility / (C)(D)	**23% to 51% (38% / 37%)**	
	Inflation volatility / (A)(D)		58% (58% / 58%)
	Interest rate - Inflation correlation / (A)(D)		-41% to -39% (-41% / -41%)
	Interest rate volatility concentration liquidity multiple / (C)(D)		0 to 3 times (2 times)
Credit contracts (**$(883) million** and $(844) million)			
Comparable pricing:	Cash synthetic basis / (C)(D)	**5 to 12 points (11 points)**	5 to 12 points (9 points)
	Comparable bond price / (C)(D)	**0 to 75 points (24 points)**	0 to 75 points (24 points)
Correlation model:	Credit correlation / (B)	**24% to 83% (46%)**	39% to 97% (57%)
Foreign exchange contracts[3] (**$(107) million** and $141 million)			
Option model:	Interest rate - Foreign exchange correlation / (A)(D)	**28% to 58% (44% / 43%)**	
	Interest rate - Foreign exchange correlation / (C)(D)		25% to 62% (43% / 43%)
	Interest rate volatility skew / (A)(D)	**31% to 114% (73% / 67%)**	29% to 82% (43% / 40%)
	Interest rate curve / (A)(D)	**0% (0% / 0%)**	0% (0% / 0%)
	Interest rate quanto correlation / (A)(D)	**-10% to 39% (5% / -4%)**	
Equity contracts[3] (**$140 million** and $(2,031) million)			
Option model:	At the money volatility / (A)(D)		16% to 65% (32%)
	At the money volatility / (C)(D)	**6% to 64% (34%)**	
	Volatility skew / (A)(D)	**-4% to 0% (-1%)**	-3% to 0% (-1%)
	Equity - Equity correlation / (C)(D)	**40% to 96% (71%)**	40% to 99% (71%)
	Equity - Foreign exchange correlation / (C)(D)	**-70% to 40% (-24%)**	
	Equity - Foreign exchange correlation / (A)(D)		-60% to -11% (-39%)
	Equity - Interest rate correlation / (C)(D)	**-7% to 52% (15% / 7%)**	-29% to 50% (16% / 8%)
Commodity contracts (**$1,294 million** and $1,050 million)			
Option model:	Forward power price / (C)(D)	**$9 to $95 ($32) per MWh**	$3 to $91 ($32) per MWh
	Commodity volatility / (C)(D)	**6% to 57% (18%)**	
	Commodity volatility / (A)(D)		10% to 92% (18%)
	Cross commodity correlation / (C)(D)	**43% to 99% (93%)**	43% to 99% (93%)

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$ in millions	Predominant Valuation Techniques/Significant Unobservable Inputs/Sensitivity	Range (Weighted Averages or Simple Averages/Median)[1] At September 30, 2016	At December 31, 2015
Investments:			
Principal investments (**$726 million** and $486 million)			
Discounted cash flow:	Implied weighted average cost of capital / (C)(D)	**15% to 18% (17%)**	16% (16%)
	Exit multiple / (A)(D)	**7 to 21 times (6 times)**	8 to 14 times (9 times)
	Capitalization rate / (C)(D)		5% to 9% (6%)
	Equity discount rate / (C)(D)		20% to 35% (26%)
Market approach:	EBITDA multiple / (A)(D)	**6 to 25 times (12 times)**	8 to 20 times (11 times)
	Forward capacity price / (A)(D)	**$4 to $9 ($7)**	$5 to $9 ($7)
Comparable pricing:	Comparable equity price / (A)	**75% to 100% (84%)**	43% to 100% (81%)
Other (**$210 million** and $221 million)			
Discounted cash flow:	Implied weighted average cost of capital / (C)(D)	**9% (9%)**	10% (10%)
	Exit multiple / (A)(D)	**12 times (12 times)**	13 times (13 times)
Market approach:	EBITDA multiple / (A)	**6 to 13 times (11 times)**	7 to 14 times (12 times)
Comparable pricing:	Comparable equity price / (A)	**100% (100%)**	100% (100%)
Liabilities at Fair Value			
Securities sold under agreements to repurchase (**$149 million** and $151 million)			
Discounted cash flow:	Funding spread / (A)	**118 to 122 bps (119 bps)**	86 to 116 bps (105 bps)
Other secured financings (**$450 million** and $461 million)			
Option model:	Volatility skew / (C)	**-1% (-1%)**	-1% (-1%)
Discounted cash flow:	Discount rate / (C)	**4% (4%)**	4% to 13% (4%)
Discounted cash flow:	Funding spread / (A)	**81 to 110 bps (96 bps)**	95 to 113 bps (104 bps)
Long-term borrowings (**$2,042 million** and $1,987 million)			
Option model:	At the money volatility / (C)(D)	**6% to 40% (33%)**	20% to 50% (29%)
	Volatility skew / (C)(D)	**-2% to 0% (-1%)**	
	Volatility skew / (A)(D)		-1% to 0% (-1%)
	Equity - Equity correlation / (A)(D)	**41% to 98% (85%)**	40% to 97% (77%)
	Equity - Foreign exchange correlation / (C)(D)	**-70% to 9% (-37%)**	-70% to -11% (-39%)
Option model:	Interest rate - Foreign exchange correlation / (A)(D)	**54% (54% / 54%)**	
	Interest rate volatility skew / (A)(D)	**25% (25% / 25%)**	50% (50%)

	Equity volatility discount / (C)(D)	**7% to 12% (10% / 10%)**	
	Equity volatility discount / (A)(D)		10% (10%)
Correlation model:	Credit correlation / (B)		40% to 60% (52%)
Comparable pricing:	Comparable equity price / (A)	**100% (100%)**	100% (100%)

bps Basis points. A basis point equals 1/100th of 1%.

Points Percentage of par

MWh Megawatt hours.

EBITDA Earnings before interest, taxes, depreciation and amortization

1. Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.
2. Credit valuation adjustments (CVA) and funding valuation adjustments (FVA) are included in the balance but excluded from the Valuation Technique(s) and Significant Unobservable Inputs in the previous table. CVA is a Level 3 input when the underlying counterparty credit curve is unobservable. FVA is a Level 3 input in its entirety given the lack of observability of funding spreads in the principal market.
3. Includes derivative contracts with multiple risks (i.e., hybrid products).

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.

(B) Significant changes in credit correlation may result in a significantly higher or lower fair value measurement. Increasing (decreasing) correlation drives a redistribution of risk within the capital structure such that junior tranches become less (more) risky and senior tranches become more (less) risky.

(C) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.

(D) There are no predictable relationships between the significant unobservable inputs.

Notes to Consolidated Financial Statements

(Unaudited)

For a description of the Firm s significant unobservable inputs for all major categories of assets and liabilities, see Note 3 to the consolidated financial statements in the 2015 Form 10-K. Following are the updates to significant unobservable inputs disclosed in the 2015 Form 10-K.

Asset Coverage the ratio of a borrower s underlying pledged assets less applicable costs relative to their outstanding debt (while considering the loan s principal and the seniority and security of the loan commitment).

Fair Value of Investments Measured at Net Asset Value

For a description of the Firm s investments in private equity funds, real estate funds and hedge funds measured at fair value based on NAV, see Note 3 to the consolidated financial statements in the 2015 Form 10-K.

Investments in Certain Funds Measured at NAV per Share

	At September 30, 2016		At December 31, 2015	
$ in millions	Fair Value	Commitment	Fair Value	Commitment
Private equity funds	**$ 1,650**	**$ 384**	$ 1,917	$ 538
Real estate funds	**1,218**	**105**	1,337	128
Hedge funds	**277**	**4**	589	4
Total	**$ 3,145**	**$ 493**	$ 3,843	$ 670

Non-Redeemable Funds by Projected Distribution

	Fair Value at September 30, 2016	
$ in millions	Private Equity Funds	Real Estate Funds
Less than 5 years	**$ 124**	**$ 91**
5-10 years	**890**	**678**
Over 10 years	**636**	**449**
Total	**$ 1,650**	**$ 1,218**

Restrictions

Investments in hedge funds may be subject to lock-up or gate provisions. A lock-up provision is a provision which provides that during a certain initial period an investor may not make a withdrawal from the fund. A gate provision restricts the amount of redemption that an investor can demand on any redemption date.

Hedge Funds Fair Value by Redemption Frequency

	At September 30, 2016
Quarterly	**55%**
Every Six Months	**27%**
Greater than Six Months	**11%**
Subject to Lock-up Provisions[1]	**7%**

1. The remaining restriction period for these investments was primarily over three years.

The redemption notice periods for hedge funds were primarily greater than six months. Hedge fund investments representing approximately 28% of the fair value cannot be redeemed as of September 30, 2016 because a gate provision has been imposed by the hedge fund manager, primarily for indefinite periods.

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Fair Value Option

The Firm elected the fair value option for certain eligible instruments that are risk managed on a fair value basis to mitigate income statement volatility caused by measurement basis differences between the elected instruments and their associated risk management transactions or to eliminate complexities of applying certain accounting models.

Earnings Impact of Instruments under the Fair Value Option

$ in millions	Trading Revenues	Interest Income (Expense)	Gains (Losses) Included in Net Revenues
Three Months Ended September 30, 2016			
Securities purchased under agreements to resell	**$ (1)**	**$ 2**	**$ 1**
Deposits[1]	**2**		**2**
Short-term borrowings[1]	**(39)**		**(39)**
Securities sold under agreements to repurchase[1]	**7**	**(4)**	**3**
Long-term borrowings[1]	**(1,068)**	**(116)**	**(1,184)**
Nine Months Ended September 30, 2016			
Securities purchased under agreements to resell	**$ (2)**	**$ 6**	**$ 4**
Deposits[1]	**(1)**	**(1)**	**(2)**
Short-term borrowings[1]	**(3)**		**(3)**
Securities sold under agreements to repurchase[1]	**(5)**	**(9)**	**(14)**
Long-term borrowings[1]	**(3,322)**	**(385)**	**(3,707)**
Three Months Ended September 30, 2015			
Securities purchased under agreements to resell	$ (1)	$ 2	$ 1
Short-term borrowings[2]	(85)		(85)
Securities sold under agreements to repurchase[2]		(2)	(2)
Long-term borrowings[2]	1,137	(129)	1,008
Nine Months Ended September 30, 2015			
Securities purchased under agreements to resell	$ (4)	$ 7	$ 3
Short-term borrowings[2]	(127)		(127)
Securities sold under agreements to repurchase[2]	4	(5)	(1)
Long-term borrowings[2]	2,226	(399)	1,827

1. Gains (losses) are mainly attributable to changes in foreign currency rates or interest rates or movements in the reference price or index for short-term and long-term borrowings before the impact of related hedges. In accordance

with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, unrealized DVA gains (losses) of $(143) million and $405 million are recorded within OCI in the consolidated statements of comprehensive income and not included in this table for the current quarter and current year period, respectively. See Notes 2 and 14 for further information.

2. Gains (losses) recorded in Trading revenues for the prior year quarter and prior year period are attributable to DVA and the respective remainder is attributable to changes in foreign currency rates or interest rates or movements in the reference price or index for primarily structured notes before the impact of related hedges.

The amounts in the previous table are included within Net revenues and do not reflect gains or losses on related hedging instruments, if any. In addition to the amounts in the previous table, as discussed in Note 2 to the consolidated financial statements in the 2015 Form 10-K, instruments within Trading assets or Trading liabilities are measured at fair value.

Gains (Losses) due to Changes in Instrument-Specific Credit Risk

	Three Months Ended September 30,			
	2016		2015	
$ in millions	Trading Revenues	OCI	Trading Revenues	OCI
Short-term and long-term borrowings[1]	**$ (5)**	**$ (140)**	$ 435	$
Securities sold under agreements to repurchase[1]		**(3)**		
Loans and other debt[2]	**26**		(32)	
Lending commitments[3]			5	

	Nine Months Ended September 30,			
	2016		2015	
$ in millions	Trading Revenues	OCI	Trading Revenues	OCI
Short-term and long-term borrowings[1]	**$ 36**	**$ 405**	$ 742	$
Securities sold under agreements to repurchase[1]				
Loans and other debt[2]	**(88)**		39	
Lending commitments[3]	**3**		13	

1. In accordance with the early adoption of a provision of the accounting update, *Recognition and Measurement of Financial Assets and Financial Liabilities*, for the current quarter and current year period DVA gains (losses) are recorded in OCI when unrealized and in Trading revenues when realized. In the prior year quarter and prior year period, the realized and unrealized DVA gains (losses) are recorded in Trading revenues. The cumulative impact of changes in the Firm s DVA and the pre-tax amount recognized in AOCI is a loss of $56 million at September 30, 2016. See Notes 2 and 14 for further information.
2. Loans and other debt instrument-specific credit gains (losses) were determined by excluding the non-credit components of gains and losses, such as those due to changes in interest rates.
3. Gains (losses) on lending commitments were generally determined based on the differential between estimated expected client yields and contractual yields at each respective period-end.

Contractual Principal Amount In Excess of Fair Value

$ in millions	At

	At September 30, 2016	December 31, 2015
Loans and other debt[1]	**$ 15,408**	$ 14,095
Loans 90 or more days past due and/or on nonaccrual status[1]	**13,409**	11,651
Short-term and long-term borrowings[2]	**202**	508

1. The majority of the difference between principal and fair value amounts for loans and other debt relates to distressed debt positions purchased at amounts well below par.
2. Short-term and long-term borrowings do not include structured notes where the repayment of the initial principal amount fluctuates based on changes in a reference price or index.

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Short-Term and Long-Term Borrowings Measured at Fair Value on a Recurring Basis

$ in millions	**At September 30, 2016**	At December 31, 2015
Business Unit Responsible for Risk Management		
Equity	**$ 20,692**	$ 17,789
Interest rates	**16,519**	14,255
Credit and foreign exchange	**1,659**	2,266
Commodities	**285**	383
Total	**$ 39,155**	$ 34,693

Loans carried at Fair Value which are in Nonaccrual Status

$ in millions	**At September 30, 2016**	At December 31, 2015
Aggregate fair value of loans in nonaccrual status[1]	**$ 1,530**	$ 1,853

1. Includes all loans 90 or more days past due in the amount of $710 million and $885 million at September 30, 2016 and December 31, 2015, respectively.

The previous tables exclude non-recourse debt from consolidated VIEs, liabilities related to failed sales of financial assets, pledged commodities and other liabilities that have specified assets attributable to them.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

	September 30, 2016				Gains (Losses) for the		
		Fair Value by Level			**Three Months Ended**	**Nine Months Ended**	Income Statement
$ in millions	Carrying Value[1]	Level 1	Level 2	Level 3	**September 30, 2016**		Classification

Assets							
Loans[2]	**$ 6,303**	**$**	**$ 3,296**	**$ 3,007**	**$ 111**	**$ 41**	Other revenues
Other assets Other investments[3,4]	**86**			**86**	**(3)**	**(44)**	Other revenues
Other assets Premises, equipment and software costs[5,6]	**22**		**22**		**(29)**	**(56)**	Other revenues if held for sale, otherwise Other expenses
Intangible assets[3,6]					**(2)**	**(2)**	Other expenses
Total assets	**$ 6,411**	**$**	**$ 3,318**	**$ 3,093**	**$ 77**	**$ (61)**	
Liabilities							
Other liabilities and accrued expenses[2]	**$ 302**	**$**	**$ 236**	**$ 66**	**$ 52**	**$ 98**	Other revenues if held for sale, otherwise Other expenses
Total liabilities	**$ 302**	**$**	**$ 236**	**$ 66**	**$ 52**	**$ 98**	

	September 30, 2015				Gains (Losses) for the		
	Carrying	Fair Value by Level			Three Months Ended	Nine Months Ended	Income Statement
$ in millions	Value[1]	Level 1	Level 2	Level 3	September 30, 2015		Classification
Assets							
Loans[2]	$ 5,089	$	$ 3,060	$ 2,029	$ 12	$ (201)	Other revenues
Other assets Other investments[3]						(2)	Other revenues
Other assets Premises, equipment and software costs[5]					(2)	(24)	Other revenues if held for sale, otherwise Other expenses
Total assets	$ 5,089	$	$ 3,060	$ 2,029	$ 10	$ (227)	
Liabilities							
Other liabilities and accrued expenses[2]	$ 427	$	$ 365	$ 62	$ 144	$ 171	Other revenues if held for sale, otherwise Other expenses
Total liabilities	$ 427	$	$ 365	$ 62	$ 144	$ 171	

1. Carrying values included only those assets that had fair value adjustments during the current quarter and prior year quarter.
2. Non-recurring changes in the fair value of loans and lending commitments held for investment were calculated using the value of the underlying collateral. Loans and lending commitments held for sale were calculated using recently executed transactions; market price quotations; valuation models that incorporate market observable inputs where possible, such as comparable loan or debt prices and credit default swap spread levels adjusted for any basis difference between cash and derivative instruments; or default recovery analysis where such transactions and quotations are unobservable.
3. Losses related to Other assets Other investments and Intangible assets were determined primarily using discounted cash flow models and methodologies that incorporate multiples of certain comparable companies.
4.

Losses related to Other assets Other investments included a loss of approximately $35 million for the current year period in connection with the sale of solar investments and impairments of the remaining unsold solar investments accounted for under the equity method. The fair value of these investments was determined based on the sales price.

5. Losses related to Other assets Premises, equipment and software costs were determined primarily using a default recovery analysis.
6. Losses related to Other assets Premises, equipment and software costs and Intangible assets included an impairment charge of approximately $25 million for the current quarter in connection with an oil terminal facility, to reduce the carrying value to its estimated fair value less costs to sell.

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Financial Instruments Not Measured at Fair Value

	At September 30, 2016		Fair Value by Level		
$ in millions	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and due from banks	$ **26,899**	$ **26,899**	$ **26,899**	$	$
Interest bearing deposits with banks	**15,653**	**15,653**	**15,653**		
Investment securities HTM securities	**13,224**	**13,329**	**4,544**	**8,785**	
Securities purchased under agreements to resell	**90,025**	**90,030**		**87,033**	**2,997**
Securities borrowed	**126,280**	**126,282**		**126,147**	**135**
Customer and other receivables[1]	**47,203**	**47,108**		**42,382**	**4,726**
Loans[2]	**92,508**	**93,806**		**19,969**	**73,837**
Other assets Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	**30,784**	**30,784**	**30,784**		
Financial Liabilities					
Deposits	$ **151,783**	$ **151,903**	$	$ **151,903**	$
Short-term borrowings	**506**	**506**		**506**	
Securities sold under agreements to repurchase	**46,191**	**46,251**		**43,243**	**3,008**
Securities loaned	**16,515**	**16,525**		**16,525**	
Other secured financings	**6,066**	**6,071**		**4,665**	**1,406**
Customer and other payables[1]	**190,743**	**190,743**		**190,743**	
Long-term borrowings	**125,180**	**127,326**		**127,268**	**58**

	At December 31, 2015		Fair Value by Level		
$ in millions	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and due from banks	$ 19,827	$ 19,827	$ 19,827	$	$
Interest bearing deposits with banks	34,256	34,256	34,256		
Investment securities HTM securities	5,224	5,188	998	4,190	
Securities purchased under agreements to resell	86,851	86,837		86,186	651

Securities borrowed	142,416	142,414		142,266	148
Customer and other receivables[1]	41,676	41,576		36,752	4,824
Loans[2]	85,759	86,423		19,241	67,182
Other assets Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	31,469	31,469	31,469		
Financial Liabilities					
Deposits	$ 155,909	$ 156,163	$	$ 156,163	$
Short-term borrowings	525	525		525	
Securities sold under agreements to repurchase	36,009	36,060		34,150	1,910
Securities loaned	19,358	19,382		19,192	190
Other secured financings	6,610	6,610		5,333	1,277
Customer and other payables[1]	183,895	183,895		183,895	
Long-term borrowings	120,723	123,219		123,219	

HTM Held to maturity

1. Accrued interest, fees, and dividend receivables and payables where carrying value approximates fair value have been excluded.
2. Amounts include loans measured at fair value on a non-recurring basis.

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At September 30, 2016 and December 31, 2015, notional amounts of approximately $92.1 billion and $99.5 billion, respectively, of the Firm s lending commitments were held for investment and held for sale, which are not included in the previous table. The estimated fair value of such lending commitments was a liability of $1,410 million and $2,172 million, respectively, at September 30, 2016 and December 31, 2015. Had these commitments been accounted for at fair value, $1,073 million would have been categorized in Level 2 and $337 million in Level 3 at September 30, 2016, and $1,791 million would have been categorized in Level 2 and $381 million in Level 3 at December 31, 2015.

The carrying values of the remaining assets and liabilities not measured at fair value in the following tables approximate fair value due to their short-term nature. The previous tables exclude certain financial instruments such as equity method investments and all non-financial assets and liabilities such as the value of the long-term relationships with the Firm s deposit customers. For a further discussion of financial instruments not measured at fair value, see Note 3 to the consolidated financial statements in the 2015 Form 10-K.

4. Derivative Instruments and Hedging Activities

Fair Value, Notional and Offsetting of Derivative Assets and Liabilities

Derivative Assets at September 30, 2016

	Fair Value				Notional			
$ in millions	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
Derivatives designated as accounting hedges								
Interest rate contracts	**$ 2,971**	**$ 3,471**	**$**	**$ 6,442**	**$ 33,772**	**$ 69,219**	**$**	**$ 102,991**
Foreign exchange contracts	**24**			**24**	**3,355**	**127**		**3,482**
Total derivatives designated as accounting hedges	**2,995**	**3,471**		**6,466**	**37,127**	**69,346**		**106,473**
Derivatives not designated as accounting hedges[1]								
Interest rate contracts	**268,198**	**144,030**	**208**	**412,436**	**3,696,991**	**5,940,043**	**2,054,389**	**11,691,423**
Credit contracts	**11,977**	**2,747**		**14,724**	**389,167**	**132,408**		**521,575**
	50,749	**305**	**124**	**51,178**	**1,753,186**	**29,605**	**18,706**	**1,801,497**

Foreign exchange contracts								
Equity contracts	**22,739**		**20,682**	**43,421**	**358,008**		**291,873**	**649,881**
Commodity contracts	**10,543**		**3,059**	**13,602**	**66,102**		**87,714**	**153,816**
Other	**25**			**25**	**1,548**			**1,548**
Total derivatives not designated as accounting hedges	**364,231**	**147,082**	**24,073**	**535,386**	**6,265,002**	**6,102,056**	**2,452,682**	**14,819,740**
Total gross derivatives[2]	**$ 367,226**	**$ 150,553**	**$ 24,073**	**$ 541,852**	**$ 6,302,129**	**$ 6,171,402**	**$ 2,452,682**	**$ 14,926,213**
Amounts offset								
Counterparty netting	**(285,971)**	**(146,721)**	**(21,035)**	**(453,727)**				
Cash collateral netting	**(52,879)**	**(2,161)**		**(55,040)**				
Total derivative assets at fair value included in Trading assets	**$ 28,376**	**$ 1,671**	**$ 3,038**	**$ 33,085**				
Amounts not offset[3]								
Financial instruments collateral	**(10,464)**			**(10,464)**				
Other cash collateral	**(174)**			**(174)**				
Net exposure	**$ 17,738**	**$ 1,671**	**$ 3,038**	**$ 22,447**				

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Notes to Consolidated Financial Statements

(Unaudited)

	Derivative Liabilities at September 30, 2016							
	Fair Value				Notional			
$ in millions	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
Derivatives designated as accounting hedges								
Interest rate contracts	**$**	**$**	**$**	**$**	**$ 7**	**$ 27**	**$**	**$ 34**
Foreign exchange contracts	**309**	**23**		**332**	**5,494**	**694**		**6,188**
Total derivatives designated as accounting hedges	**309**	**23**		**332**	**5,501**	**721**		**6,222**
Derivatives not designated as accounting hedges[1]								
Interest rate contracts	**251,071**	**146,712**	**206**	**397,989**	**3,634,398**	**5,741,556**	**876,249**	**10,252,203**
Credit contracts	**13,461**	**2,703**		**16,164**	**453,893**	**118,266**		**572,159**
Foreign exchange contracts	**55,515**	**374**	**22**	**55,911**	**1,826,734**	**33,421**	**13,943**	**1,874,098**
Equity contracts	**25,299**		**21,353**	**46,652**	**374,098**		**295,580**	**669,678**
Commodity contracts	**7,723**		**2,943**	**10,666**	**69,764**		**65,585**	**135,349**
Other	**76**			**76**	**4,429**			**4,429**
Total derivatives not designated as accounting hedges	**353,145**	**149,789**	**24,524**	**527,458**	**6,363,316**	**5,893,243**	**1,251,357**	**13,507,916**
Total gross derivatives[2]	**$ 353,454**	**$ 149,812**	**$ 24,524**	**$ 527,790**	**$ 6,368,817**	**$ 5,893,964**	**$ 1,251,357**	**$ 13,514,138**
Amounts offset								
Counterparty netting	**(285,971)**	**(146,721)**	**(21,035)**	**(453,727)**				
Cash collateral netting	**(38,445)**	**(3,097)**		**(41,542)**				

Total derivative liabilities at fair value included in Trading liabilities	**$**	**29,038**	**$**	**(6)**	**$**	**3,489**	**$**	**32,521**
Amounts not offset[3]								
Financial instruments collateral		**(11,922)**				**(649)**		**(12,571)**
Other cash collateral		**(13)**		**(3)**				**(16)**
Net exposure	**$**	**17,103**	**$**	**(9)**	**$**	**2,840**	**$**	**19,934**

Notes to Consolidated Financial Statements

(Unaudited)

	Derivative Assets at December 31, 2015							
	Fair Value				Notional			
$ in millions	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
Derivatives designated as accounting hedges								
Interest rate contracts	$ 2,825	$ 1,442	$	$ 4,267	$ 36,999	$ 35,362	$	$ 72,361
Foreign exchange contracts	166	1		167	5,996	167		6,163
Total derivatives designated as accounting hedges	2,991	1,443		4,434	42,995	35,529		78,524
Derivatives not designated as accounting hedges[4]								
Interest rate contracts	220,289	101,276	212	321,777	4,348,002	5,748,525	1,218,645	11,315,172
Credit contracts	19,310	3,609		22,919	585,731	139,301		725,032
Foreign exchange contracts	64,438	295	55	64,788	1,907,290	13,402	7,715	1,928,407
Equity contracts	20,212		20,077	40,289	316,770		229,859	546,629
Commodity contracts	13,114		4,038	17,152	67,449		82,313	149,762
Other	219			219	5,684			5,684
Total derivatives not designated as accounting hedges	337,582	105,180	24,382	467,144	7,230,926	5,901,228	1,538,532	14,670,686
Total gross derivatives[2]	$ 340,573	$ 106,623	$ 24,382	$ 471,578	$ 7,273,921	$ 5,936,757	$ 1,538,532	$ 14,749,210
Amounts offset								
Counterparty netting	(265,707)	(104,294)	(21,592)	(391,593)				
Cash collateral netting	(50,335)	(1,037)		(51,372)				

Total derivative assets at fair value included in Trading assets	$	24,531	$	1,292	$	2,790	$	28,613
Amounts not offset[3]								
Financial instruments collateral		(9,190)						(9,190)
Other cash collateral		(9)						(9)
Net exposure	$	15,332	$	1,292	$	2,790	$	19,414

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(Unaudited)

	Derivative Liabilities at December 31, 2015							
	Fair Value				Notional			
$ in millions	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
Derivatives designated as accounting hedges								
Interest rate contracts	$ 20	$ 250	$	$ 270	$ 3,560	$ 9,869	$	$ 13,429
Foreign exchange contracts	56	6		62	4,604	455		5,059
Total derivatives designated as accounting hedges	76	256		332	8,164	10,324		18,488
Derivatives not designated as accounting hedges[4]								
Interest rate contracts	203,004	103,852	283	307,139	4,030,039	5,682,322	1,077,710	10,790,071
Credit contracts	19,942	3,723		23,665	562,027	131,388		693,415
Foreign exchange contracts	65,034	232	22	65,288	1,868,015	13,322	2,655	1,883,992
Equity contracts	25,708		20,424	46,132	332,734		229,266	562,000
Commodity contracts	10,864		3,887	14,751	59,169		62,974	122,143
Other	43			43	4,114			4,114
Total derivatives not designated as accounting hedges	324,595	107,807	24,616	457,018	6,856,098	5,827,032	1,372,605	14,055,735
Total gross derivatives[2]	$ 324,671	$ 108,063	$ 24,616	$ 457,350	$ 6,864,262	$ 5,837,356	$ 1,372,605	$ 14,074,223
Amounts offset								
Counterparty netting	(265,707)	(104,294)	(21,592)	(391,593)				
Cash collateral netting	(33,332)	(2,951)		(36,283)				

Total derivative liabilities at fair value included in Trading liabilities	$	25,632	$	818	$	3,024	$	29,474
Amounts not offset[3]								
Financial instruments collateral		(5,384)				(405)		(5,789)
Other cash collateral		(5)						(5)
Net exposure	$	20,243	$	818	$	2,619	$	23,680

OTC Over-the-counter

1. Notional amounts include gross notionals related to open long and short futures contracts of $1,714.6 billion and $431.1 billion, respectively. The unsettled fair value on these futures contracts (excluded from this table) of $1,784 million and $55 million is included in Customer and other receivables and Customer and other payables, respectively, in the consolidated balance sheets.
2. Amounts include transactions which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Firm has not determined the agreements to be legally enforceable as follows: $4.2 billion of derivative assets and $5.0 billion of derivative liabilities at September 30, 2016, and $4.2 billion of derivative assets and $5.2 billion of derivative liabilities at December 31, 2015.
3. Amounts relate to master netting agreements and collateral agreements that have been determined by the Firm to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.
4. Notional amounts include gross notionals related to open long and short futures contracts of $1,009.5 billion and $653.0 billion, respectively. The unsettled fair value on these futures contracts (excluded from this table) of $1,145 million and $437 million is included in Customer and other receivables and Customer and other payables, respectively, in the consolidated balance sheets.

For information related to offsetting of certain collateralized transactions, see Note 6. For a discussion of the Firm s derivative instruments and hedging activities, see Note 4 to the consolidated financial statements in the 2015 Form 10-K.

Gains (Losses) on Fair Value Hedges

	Gains (Losses) Recognized in Interest Expense			
	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in millions	**2016**	2015	**2016**	2015
Derivatives	**$ (733)**	$ 1,531	**$ 2,386**	$ 390
Borrowings	**790**	(1,696)	**(2,492)**	(678)
Total	**$ 57**	$ (165)	**$ (106)**	$ (288)

Gains (Losses) on Net Investment Hedges

	Gains (Losses) Recognized in OCI (effective portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in millions	**2016**	2015	**2016**	2015
Foreign exchange contracts[1]	**$ (60)**	$ 210	**$ (396)**	$ 391

1. Losses of $20 million in the current quarter and $59 million in the current year period recognized in Interest income were related to the forward points on the hedging instruments that were excluded from hedge effectiveness testing. Losses of $37 million in the prior year quarter and $117 million in the prior year period recognized in Interest income were related to the forward points on the hedging instruments that were excluded from hedge effectiveness testing.

Notes to Consolidated Financial Statements

(Unaudited)

Gains (Losses) on Trading Instruments

	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in millions	**2016**	2015	**2016**	2015
Interest rate contracts	**$ 357**	$ 216	**$ 983**	$ 1,141
Foreign exchange contracts	**170**	91	**769**	606
Equity security and index contracts[1]	**1,415**	968	**4,360**	4,309
Commodity and other contracts[2]	**63**	164	**(61)**	980
Credit contracts	**604**	152	**1,369**	871
Subtotal	**$ 2,609**	$ 1,591	**$ 7,420**	$ 7,907
Debt valuation adjustments[3]		435		742
Total trading revenue	**$ 2,609**	$ 2,026	**$ 7,420**	$ 8,649

1. Dividend income is included within equity security and index contracts.
2. Other contracts represent contracts not reported as interest rate, foreign exchange, equity security and index or credit contracts.
3. In accordance with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, unrealized DVA gains (losses) in the current quarter and current year period are recorded within OCI in the consolidated statements of comprehensive income. In the prior year quarter and prior year period, the DVA gains (losses) were recorded within Trading revenues in the consolidated statements of income. See Notes 2 and 14 for further information.

The previous table summarizes gains and losses included in Trading revenues in the consolidated statements of income from trading activities. These activities include revenues related to derivative and non-derivative financial instruments. The Firm generally utilizes financial instruments across a variety of product types in connection with their market-making and related risk management strategies. Accordingly, the trading revenues presented in the following table are not representative of the manner in which the Firm manages its business activities and are prepared in a manner similar to the presentation of trading revenues for regulatory reporting purposes.

OTC Derivative Products Trading Assets

Counterparty Credit Rating and Remaining Maturity of OTC Derivative Assets

Fair Value at September 30, 2016[1]

Contractual Years to Maturity Net Exposure Net Exposure

$ in millions	Less than 1	1-3	3-5	Over 5	Cross-Maturity and Cash Collateral Netting[2]	Post-cash Collateral	Post-collateral[3]
Credit Rating[4]							
AAA	**$ 167**	**$ 383**	**$ 991**	**$ 4,603**	**$ (5,361)**	**$ 783**	**$ 705**
AA	**2,095**	**1,847**	**1,913**	**13,532**	**(13,963)**	**5,424**	**3,252**
A	**7,940**	**7,561**	**4,958**	**28,357**	**(37,040)**	**11,776**	**6,345**
BBB	**3,764**	**3,895**	**2,825**	**14,720**	**(16,747)**	**8,457**	**6,386**
Non-investment grade	**2,760**	**2,102**	**746**	**3,433**	**(5,608)**	**3,433**	**2,721**
Total	**$ 16,726**	**$ 15,788**	**$ 11,433**	**$ 64,645**	**$ (78,719)**	**$ 29,873**	**$ 19,409**

	Fair Value at December 31, 2015[1]						
	Contractual Years to Maturity				Cross-Maturity and Cash Collateral Netting[2]	Net Exposure Post-cash Collateral	Net Exposure Post-collateral[3]
$ in millions	Less than 1	1-3	3-5	Over 5			
Credit Rating[4]							
AAA	$ 203	$ 453	$ 827	$ 3,665	$ (4,319)	$ 829	$ 715
AA	2,689	2,000	1,876	9,223	(10,981)	4,807	2,361
A	9,748	8,191	4,774	20,918	(34,916)	8,715	5,448
BBB	3,614	4,863	1,948	11,801	(15,086)	7,140	4,934
Non-investment grade	3,982	2,333	1,157	3,567	(6,716)	4,323	3,166
Total	$ 20,236	$ 17,840	$ 10,582	$ 49,174	$ (72,018)	$ 25,814	$ 16,624

1. Fair values shown represent the Firm s net exposure to counterparties related to its OTC derivative products.
2. Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within such maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.
3. Fair value is shown, net of collateral received (primarily cash and U.S. government and agency securities).
4. Obligor credit ratings are determined by the Credit Risk Management Department.

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Credit Risk-Related Contingencies

In connection with certain OTC trading agreements, the Firm may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties in the event of a credit rating downgrade of the Firm.

The following table presents the aggregate fair value of certain derivative contracts that contain credit risk-related contingent features that are in a net liability position for which the Firm has posted collateral in the normal course of business.

Net Derivative Liabilities and Collateral Posted

$ in millions	**At September 30, 2016**
Net derivative liabilities with credit risk- related contingent features	**$ 30,232**
Collateral posted	**26,761**

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody s Investors Service, Inc. (Moody s) and Standard & Poor s Global Ratings (S&P). The following table shows the future potential collateral amounts and termination payments that could be called or required by counterparties or exchange and clearing organizations in the event of one-notch or two-notch downgrade scenarios based on the relevant contractual downgrade triggers.

Incremental Collateral or Termination Payments upon Potential Future Ratings Downgrade

$ in millions	**At September 30, 2016**[1]
One-notch downgrade	**$ 1,279**
Two-notch downgrade	**1,245**

1. Amounts include $1,758 million related to bilateral arrangements between the Firm and other parties where upon the downgrade of one party, the downgraded party must deliver collateral to the other party. These bilateral downgrade arrangements are used by the Firm to manage the risk of counterparty downgrades.

Credit Derivatives and Other Credit Contracts

The Firm enters into credit derivatives, principally through credit default swaps, under which it receives or provides protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities. A majority of the Firm s counterparties are banks, broker-dealers and insurance and other financial institutions.

For further information on credit derivatives and other credit contracts, see Note 4 to the consolidated financial statements in the 2015 Form 10-K.

Protection Sold and Purchased with Credit Default Swaps

	At September 30, 2016			
	Protection Sold		Protection Purchased	
$ in millions	Notional	Fair Value (Asset)/ Liability	Notional	Fair Value (Asset)/ Liability
Single name credit default swaps	**$ 318,840**	**$ (1,188)**	**$ 312,236**	**$ 1,139**
Index and basket credit default swaps	**169,147**	**286**	**142,842**	**(510)**
Tranched index and basket credit default swaps	**38,157**	**(971)**	**112,512**	**2,684**
Total	**$ 526,144**	**$ (1,873)**	**$ 567,590**	**$ 3,313**

	At December 31, 2015			
	Protection Sold		Protection Purchased	
$ in millions	Notional	Fair Value (Asset)/ Liability	Notional	Fair Value (Asset)/ Liability
Single name credit default swaps	$ 420,806	$ 1,980	$ 405,361	$ (2,079)
Index and basket credit default swaps	199,688	(102)	173,936	(82)
Tranched index and basket credit default swaps	69,025	(1,093)	149,631	2,122
Total	$ 689,519	$ 785	$ 728,928	$ (39)

For single name and non-tranched index and basket credit default swaps, the Firm has purchased protection with a notional amount of approximately $452.2 billion and $577.7 billion at September 30, 2016 and December 31, 2015, respectively, compared with a notional amount of approximately $485.9 billion and $619.5 billion (included in the following tables) at September 30, 2016 and December 31, 2015, respectively, of credit protection sold with identical underlying reference obligations.

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Credit Ratings of Reference Obligation and Maturities of Credit Protection Sold

	At September 30, 2016					
	Maximum Potential Payout/Notional					Fair Value
	Years to Maturity					(Asset)/
$ in millions	Less than 1	1-3	3-5	Over 5	Total	Liability[1]
Single name credit default swaps[2]						
Investment grade	**$ 92,473**	**$ 81,544**	**$ 41,534**	**$ 12,856**	**$ 228,407**	**$ (1,438)**
Non-investment grade	**40,204**	**34,089**	**14,633**	**1,507**	**90,433**	**250**
Total single name credit default swaps	**132,677**	**115,633**	**56,167**	**14,363**	**318,840**	**(1,188)**
Index and basket credit default swaps[2]						
Investment grade	**22,936**	**35,780**	**25,744**	**16,044**	**100,504**	**(1,003)**
Non-investment grade	**52,148**	**27,175**	**14,979**	**12,498**	**106,800**	**318**
Total index and basket credit default swaps	**75,084**	**62,955**	**40,723**	**28,542**	**207,304**	**(685)**
Total credit default swaps sold	**$ 207,761**	**$ 178,588**	**$ 96,890**	**$ 42,905**	**$ 526,144**	**$ (1,873)**
Other credit contracts	**55**	**18**		**260**	**333**	**(9)**
Total credit derivatives and other credit contracts	**$ 207,816**	**$ 178,606**	**$ 96,890**	**$ 43,165**	**$ 526,477**	**$ (1,882)**

	At December 31, 2015					
	Maximum Potential Payout/Notional					Fair Value
	Years to Maturity					(Asset)/
$ in millions	Less than 1	1-3	3-5	Over 5	Total	Liability[1]
Single name credit default swaps[2]						
Investment grade	$ 84,543	$ 138,467	$ 63,754	$ 12,906	$ 299,670	$ (1,831)
Non-investment grade	38,054	56,261	24,432	2,389	121,136	3,811
Total single name credit default swaps	$ 122,597	$ 194,728	$ 88,186	$ 15,295	$ 420,806	$ 1,980
Index and basket credit default swaps[2]						
Investment grade	$ 33,507	$ 59,403	$ 45,505	$ 5,327	$ 143,742	$ (1,977)
Non-investment grade	52,590	43,899	15,480	13,002	124,971	782
Total index and basket credit default swaps	$ 86,097	$ 103,302	$ 60,985	$ 18,329	$ 268,713	$ (1,195)
Total credit default swaps sold	$ 208,694	$ 298,030	$ 149,171	$ 33,624	$ 689,519	$ 785

Other credit contracts	19	107	2	332	460	(24)
Total credit derivatives and other credit contracts	$ 208,713	$ 298,137	$ 149,173	$ 33,956	$ 689,979	$ 761

1. Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.
2. In order to provide an indication of the current payment status or performance risk of the CDS, a breakdown of CDS based on the Firm s internal credit ratings by investment grade and non-investment grade is provided. Internal credit ratings serve as the Credit Risk Management Department s assessment of credit risk, and the basis for a comprehensive credit limits framework used to control credit risk. The Firm uses quantitative models and judgment to estimate the various risk parameters related to each obligor.

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5. Investment Securities

The following tables present information about the Firm s AFS securities, which are carried at fair value, and HTM securities, which are carried at amortized cost. The net unrealized gains or losses on AFS securities are reported on an after-tax basis as a component of AOCI.

AFS and HTM Securities

	At September 30, 2016			
$ in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS debt securities				
U.S. government and agency securities:				
U.S. Treasury securities	**$ 27,669**	**$ 98**	**$ 54**	**$ 27,713**
U.S. agency securities[1]	**24,179**	**183**	**18**	**24,344**
Total U.S. government and agency securities	**51,848**	**281**	**72**	**52,057**
Corporate and other debt:				
Commercial mortgage-backed securities:				
Agency	**1,991**	**5**	**26**	**1,970**
Non-agency	**2,153**	**35**	**8**	**2,180**
Auto loan asset-backed securities	**1,733**	**4**		**1,737**
Corporate bonds	**3,886**	**55**	**1**	**3,940**
Collateralized loan obligations	**515**		**4**	**511**
FFELP student loan asset-backed securities[2]	**3,406**	**2**	**80**	**3,328**
Total corporate and other debt	**13,684**	**101**	**119**	**13,666**
Total AFS debt securities	**65,532**	**382**	**191**	**65,723**
AFS equity securities	**15**		**6**	**9**
Total AFS securities	**65,547**	**382**	**197**	**65,732**
HTM securities				
U.S. government securities:				
U.S. Treasury securities	**4,539**	**25**	**20**	**4,544**
U.S. agency securities[1]	**8,685**	**101**	**1**	**8,785**
Total HTM securities	**13,224**	**126**	**21**	**13,329**
Total Investment securities	**$ 78,771**	**$ 508**	**$ 218**	**$ 79,061**

	At December 31, 2015			
$ in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS debt securities				
U.S. government and agency securities:				

U.S. Treasury securities	$ 31,555	$ 5	$ 143	$ 31,417
U.S. agency securities[1]	21,103	29	156	20,976
Total U.S. government and agency securities	52,658	34	299	52,393
Corporate and other debt:				
Commercial mortgage-backed securities:				
Agency	1,906	1	60	1,847
Non-agency	2,220	3	25	2,198
Auto loan asset-backed securities	2,556		9	2,547
Corporate bonds	3,780	5	30	3,755
Collateralized loan obligations	502		7	495
FFELP student loan assets-backed securities[2]	3,632		115	3,517
Total corporate and other debt	14,596	9	246	14,359
Total AFS debt securities	67,254	43	545	66,752
AFS equity securities	15		8	7
Total AFS securities	67,269	43	553	66,759
HTM securities				
U.S. government securities:				
U.S. Treasury securities	1,001		3	998
U.S. agency securities[1]	4,223	1	34	4,190
Total HTM securities	5,224	1	37	5,188
Total Investment securities	$ 72,493	$ 44	$ 590	$ 71,947

1. U.S. agency securities consist mainly of agency-issued debt, agency mortgage pass-through pool securities and collateralized mortgage obligations.
2. FFELP Federal Family Education Loan Program. Amounts are backed by a guarantee from the U.S. Department of Education of at least 95% of the principal balance and interest on such loans.

Notes to Consolidated Financial Statements

(Unaudited)

Investment Securities in an Unrealized Loss Position

	At September 30, 2016					
	Less than 12 Months		12 Months or Longer		Total	
$ in millions	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
AFS debt securities						
U.S. government and agency securities:						
U.S. Treasury securities	**$ 6,520**	**$ 54**	**$**	**$**	**$ 6,520**	**$ 54**
U.S. agency securities	**4,485**	**6**	**1,961**	**12**	**6,446**	**18**
Total U.S. government and agency securities	**11,005**	**60**	**1,961**	**12**	**12,966**	**72**
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency			**1,143**	**26**	**1,143**	**26**
Non-agency	**149**	**1**	**649**	**7**	**798**	**8**
Auto loan asset-backed securities	**99**		**175**		**274**	
Corporate bonds	**333**		**142**	**1**	**475**	**1**
Collateralized loan obligations	**13**		**498**	**4**	**511**	**4**
FFELP student loan asset-backed securities			**2,885**	**80**	**2,885**	**80**
Total corporate and other debt	**594**	**1**	**5,492**	**118**	**6,086**	**119**
Total AFS debt securities	**11,599**	**61**	**7,453**	**130**	**19,052**	**191**
AFS equity securities	**9**	**6**			**9**	**6**
Total AFS securities	**11,608**	**67**	**7,453**	**130**	**19,061**	**197**
HTM securities						
U.S. government and agency securities:						
U.S. Treasury securities	**1,519**	**20**			**1,519**	**20**
U.S. agency securities	**450**	**1**			**450**	**1**
Total HTM securities	**1,969**	**21**			**1,969**	**21**
Total Investment securities	**$ 13,577**	**$ 88**	**$ 7,453**	**$ 130**	**$ 21,030**	**$ 218**

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	At December 31, 2015					
	Less than 12 Months		12 Months or Longer		Total	
$ in millions	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
AFS debt securities						
U.S. government and agency securities:						
U.S. Treasury securities	$ 25,994	$ 126	$ 2,177	$ 17	$ 28,171	$ 143
U.S. agency securities	14,242	135	639	21	14,881	156
Total U.S. government and agency securities	40,236	261	2,816	38	43,052	299
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	1,185	44	422	16	1,607	60
Non-agency	1,479	21	305	4	1,784	25
Auto loan asset-backed securities	1,644	7	881	2	2,525	9
Corporate bonds	2,149	19	525	11	2,674	30
Collateralized loan obligations	352	5	143	2	495	7
FFELP student loan asset-backed securities	2,558	79	929	36	3,487	115
Total corporate and other debt	9,367	175	3,205	71	12,572	246
Total AFS debt securities	49,603	436	6,021	109	55,624	545
AFS equity securities	7	8			7	8
Total AFS securities	49,610	444	6,021	109	55,631	553
HTM securities						
U.S. government and agency securities:						
U.S. Treasury securities	898	3			898	3
U.S. agency securities	3,677	34			3,677	34
Total HTM securities	4,575	37			4,575	37
Total Investment securities	$ 54,185	$ 481	$ 6,021	$ 109	$ 60,206	$ 590

As discussed in Note 2 to the consolidated financial statements in the 2015 Form 10-K, AFS and HTM securities with a current fair value less than their amortized cost are analyzed as part of the Firm s ongoing assessment of temporary versus other-than-temporarily impaired at the individual security level.

The Firm believes there are no securities in an unrealized loss position that are other-than-temporarily-impaired at September 30, 2016 and December 31, 2015 for the reasons discussed herein.

For AFS debt securities, the Firm does not intend to sell the securities and is not likely to be required to sell the securities prior to recovery of amortized cost basis. For AFS and HTM debt securities, the securities have not experienced credit losses as the net unrealized losses reported in the previous table are primarily due to higher interest rates since those securities were purchased.

Additionally, the Firm does not expect to experience a credit loss based on consideration of the relevant information (as

discussed in Note 2 to the consolidated financial statements in the 2015 Form 10-K), including for U.S. government and agency securities, the existence of an explicit and implicit guarantee provided by the U.S. government. The risk of credit loss on securities in an unrealized loss position is considered minimal because all of the Firm s agency securities as well as asset-backed securities (ABS), commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLOs) are highly rated and because corporate bonds are all investment grade.

For AFS equity securities, the Firm has the intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in market value.

See Note 12 for additional information on securities issued by VIEs, including U.S. agency mortgage-backed securities, non-agency CMBS, auto loan ABS, CLO and FFELP student loan ABS.

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Investment Securities by Contractual Maturity

	At September 30, 2016		
$ in millions	Amortized Cost	Fair Value	Annualized Average Yield
AFS debt securities			
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	**$ 372**	**$ 372**	**0.7%**
After 1 year through 5 years	**19,965**	**20,047**	**1.0%**
After 5 years through 10 years	**7,332**	**7,294**	**1.4%**
Total	**27,669**	**27,713**	
U.S. agency securities:			
After 1 year through 5 years	**3,272**	**3,276**	**0.6%**
After 5 years through 10 years	**1,130**	**1,150**	**1.9%**
After 10 years	**19,777**	**19,918**	**1.6%**
Total	**24,179**	**24,344**	
Total U.S. government and agency securities	**51,848**	**52,057**	**1.3%**
Corporate and other debt:			
Commercial mortgage-backed securities:			
Agency:			
Due within 1 year	**83**	**84**	**0.9%**
After 1 year through 5 years	**377**	**380**	**1.2%**
After 5 years through 10 years	**564**	**565**	**1.2%**
After 10 years	**967**	**941**	**1.6%**
Total	**1,991**	**1,970**	
Non-agency:			
After 10 years	**2,153**	**2,180**	**2.0%**
Total	**2,153**	**2,180**	
Auto loan asset-backed securities:			
Due within 1 year	**142**	**142**	**1.3%**
After 1 year through 5 years	**1,489**	**1,492**	**1.4%**
After 5 years through 10 years	**102**	**103**	**1.7%**
Total	**1,733**	**1,737**	
Corporate bonds:			
Due within 1 year	**563**	**563**	**1.3%**
After 1 year through 5 years	**2,620**	**2,656**	**1.8%**
After 5 years through 10 years	**703**	**721**	**2.5%**
Total	**3,886**	**3,940**	
Collateralized loan obligations:			

After 5 years through 10 years	**502**	**498**	**1.5%**
After 10 years	**13**	**13**	**1.5%**
Total	**515**	**511**	
FFELP student loan asset-backed securities:			
After 1 year through 5 years	**86**	**86**	**0.7%**
After 5 years through 10 years	**870**	**847**	**0.9%**
After 10 years	**2,450**	**2,395**	**1.0%**
Total	**3,406**	**3,328**	
Total corporate and other debt	**13,684**	**13,666**	**1.5%**
Total AFS debt securities	**65,532**	**65,723**	**1.3%**
AFS equity securities	**15**	**9**	**%**
Total AFS securities	**65,547**	**65,732**	**1.3%**

	At September 30, 2016		
$ in millions	Amortized Cost	Fair Value	Annualized Average Yield
HTM securities			
U.S. government securities:			
U.S. Treasury securities:			
Due within 1 year	**$ 500**	**$ 500**	**0.7%**
After 1 year through 5 years	**1,107**	**1,116**	**1.2%**
After 10 years	**2,932**	**2,928**	**1.8%**
Total	**4,539**	**4,544**	
U.S. agency securities:			
After 10 years	**8,685**	**8,785**	**2.0%**
Total	**8,685**	**8,785**	
Total HTM securities	**13,224**	**13,329**	**1.8%**
Total Investment securities	**$ 78,771**	**$ 79,061**	**1.4%**

Gross Realized Gains and Losses on Sales of AFS Securities

	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in millions	**2016**	2015	**2016**	2015
Gross realized gains	**$ 45**	$ 22	**$ 130**	$ 91
Gross realized (losses)		(4)	**(3)**	(17)
Total	**$ 45**	$ 18	**$ 127**	$ 74

Gross realized gains and losses are recognized in Other revenues in the consolidated statements of income.

6. Collateralized Transactions

The Firm enters into securities purchased under agreements to resell, securities sold under agreements to repurchase, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers needs and to finance its inventory positions. For further discussion of the Firm s collateralized transactions, see Note 6 to the consolidated financial statements in the 2015 Form 10-K.

Offsetting of Certain Collateralized Transactions

	At September 30, 2016				
$ in millions	Gross Amounts[1]	Amounts Offset	Net Amounts Presented	Amounts Not Offset[2]	Net Exposure
Assets					
Securities purchased under agreements to resell	**$ 162,348**	**$ (71,769)**	**$ 90,579**	**$ (83,064)**	**$ 7,515**
Securities borrowed	**136,370**	**(10,090)**	**126,280**	**(121,245)**	**5,035**
Liabilities					
Securities sold under agreements to repurchase	**$ 118,705**	**$ (71,769)**	**$ 46,936**	**$ (39,291)**	**$ 7,645**
Securities loaned	**26,605**	**(10,090)**	**16,515**	**(16,336)**	**179**

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	At December 31, 2015				
$ in millions	Gross Amounts[1]	Amounts Offset	Net Amounts Presented	Amounts Not Offset[2]	Net Exposure
Assets					
Securities purchased under agreements to resell	$ 135,714	$ (48,057)	$ 87,657	$ (84,752)	$ 2,905
Securities borrowed	147,445	(5,029)	142,416	(134,250)	8,166
Liabilities					
Securities sold under agreements to repurchase	$ 84,749	$ (48,057)	$ 36,692	$ (31,604)	$ 5,088
Securities loaned	24,387	(5,029)	19,358	(18,881)	477

1. Amounts include transactions which are either not subject to master netting agreements or are subject to such agreements but the Firm has not determined the agreements to be legally enforceable as follows: $7.0 billion of Securities purchased under agreements to resell, $1.4 billion of Securities borrowed, $6.9 billion of Securities sold under agreements to repurchase and $0.1 billion of Securities loaned at September 30, 2016, and $2.6 billion of Securities purchased under agreements to resell, $3.0 billion of Securities borrowed and $4.9 billion of Securities sold under agreements to repurchase at December 31, 2015.
2. Amounts relate to master netting agreements that have been determined by the Firm to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

For information related to offsetting of derivatives, see Note 4.

Secured Financing Transactions Maturities and Collateral Pledged

Gross Secured Financing Balances by Remaining Contractual Maturity

	At September 30, 2016				
$ in millions	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days	Total
Securities sold under agreements to repurchase[1]	**$ 37,212**	**$ 31,284**	**$ 24,697**	**$ 25,512**	**$ 118,705**
Securities loaned[1]	**15,613**	**134**	**3,128**	**7,730**	**26,605**
Gross amount of secured financing included in the offsetting disclosure	**$ 52,825**	**$ 31,418**	**$ 27,825**	**$ 33,242**	**$ 145,310**
Trading liabilities Obligation to return securities received as collateral	**20,935**				**20,935**
Total	**$ 73,760**	**$ 31,418**	**$ 27,825**	**$ 33,242**	**$ 166,245**

	At December 31, 2015				
$ in millions	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days	Total
Securities sold under agreements to repurchase[1]	$ 20,410	$ 25,245	$ 13,221	$ 25,873	$ 84,749
Securities loaned[1]	12,247	478	2,156	9,506	24,387
Gross amount of secured financing included in the offsetting disclosure	$ 32,657	$ 25,723	$ 15,377	$ 35,379	$ 109,136
Trading liabilities Obligation to return securities received as collateral	19,316				19,316
Total	$ 51,973	$ 25,723	$ 15,377	$ 35,379	$ 128,452

1. Amounts are presented on a gross basis, prior to netting in the consolidated balance sheets.

Gross Secured Financing Balances by Class of Collateral Pledged

$ in millions	**At September 30, 2016**	At December 31, 2015
Securities sold under agreements to repurchase[1]		
U.S. government and agency securities	**$ 46,027**	$ 36,609
State and municipal securities	**647**	173
Other sovereign government obligations	**46,527**	24,820
Asset-backed securities	**2,668**	441
Corporate and other debt	**8,139**	4,020
Corporate equities	**14,017**	18,473
Other	**680**	213
Total securities sold under agreements to repurchase	**$ 118,705**	$ 84,749
Securities loaned[1]		
U.S. government and agency securities	**$ 272**	$
Other sovereign government obligations	**10,126**	7,336
Corporate and other debt	**105**	71
Corporate equities	**16,047**	16,972
Other	**55**	8
Total securities loaned	**$ 26,605**	$ 24,387
Gross amount of secured financing included in the offsetting disclosure	**$ 145,310**	$ 109,136
Trading liabilities Obligation to return securities received as collateral		
Corporate and other debt	**$**	$ 3
Corporate equities	**20,916**	19,313
Other	**19**	
Total Trading liabilities obligation to return securities received as collateral	**$ 20,935**	$ 19,316
Total	**$ 166,245**	$ 128,452

1. Amounts are presented on a gross basis, prior to netting in the consolidated balance sheets.

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Trading Assets Pledged

The Firm pledges its trading assets to collateralize securities sold under agreements to repurchase and other secured financings. Pledged financial instruments that can be sold or repledged by the secured party are identified as Trading assets (pledged to various parties) in the consolidated balance sheets. At September 30, 2016 and December 31, 2015, the carrying value of Trading assets that have been loaned or pledged to counterparties, where those counterparties do not have the right to sell or repledge the collateral, were $40.3 billion and $35.0 billion, respectively.

Collateral Received

The Firm receives collateral in the form of securities in connection with securities purchased under agreements to resell, securities borrowed and derivative transactions, customer margin loans and securities-based lending. In many cases, the Firm is permitted to sell or repledge these securities held as collateral and use the securities to secure securities sold under agreements to repurchase, to enter into securities lending and derivative transactions or for delivery to counterparties to cover short positions. The Firm additionally receives securities as collateral in connection with certain securities-for-securities transactions in which it is the lender. In instances where the Firm is permitted to sell or repledge these securities, it reports the fair value of the collateral received and the related obligation to return the collateral included in Trading assets and Trading liabilities, respectively, in its consolidated balance sheets. At September 30, 2016 and December 31, 2015, the total fair value of financial instruments received as collateral where the Firm is permitted to sell or repledge the securities was $551.8 billion and $522.6 billion, respectively, and the fair value of the portion that had been sold or repledged was $433.8 billion and $398.1 billion, respectively.

Other

The Firm engages in margin lending to clients that allows the client to borrow against the value of qualifying securities. Margin loans are included within Customer and other receivables in the consolidated balance sheets. Under these agreements and transactions, the Firm receives collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. Customer receivables generated from margin lending activities are collateralized by customer-owned securities held by the Firm. The Firm monitors required margin levels and established credit terms daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary. At September 30, 2016 and December 31, 2015, the amounts related to margin

lending were approximately $28.0 billion and $25.3 billion, respectively.

For a further discussion of the Firm s margin lending activities, see Note 6 to the consolidated financial statements in the 2015 Form 10-K.

The Firm has additional secured liabilities. For a further discussion of other secured financings, see Note 10.

Cash and Securities Deposited with Clearing Organizations or Segregated

$ in millions		At September 30, 2016		At December 31, 2015
Securities[1]	$	**16,625**	$	14,390
Other assets Cash deposited with clearing organizations or segregated under federal and other regulations or requirements		**30,784**		31,469
Total	**$**	**47,409**	$	45,859

1. Securities deposited with clearing organizations or segregated under federal and other regulations or requirements are sourced from Securities purchased under agreements to resell and Trading assets in the consolidated balance sheets.

7. Loans and Allowance for Credit Losses

Loans

The Firm s loans held for investment are recorded at amortized cost, and its loans held for sale are recorded at the lower of cost or fair value in the consolidated balance sheets. For a further description of these loans, refer to Note 7 to the consolidated financial statements in the 2015 Form 10-K. See Note 3 for further information regarding Loans and lending commitments held at fair value.

Loans Held for Investment and Held for Sale

	At September 30, 2016					
$ in millions		Loans Held for Investment		Loans Held for Sale		Total Loans[1,2]
Loans by Product Type						
Corporate loans	**$**	**24,792**	**$**	**10,223**	**$**	**35,015**
Consumer loans		**24,717**				**24,717**
Residential real estate loans		**23,562**		**79**		**23,641**
Wholesale real estate loans		**7,616**		**1,806**		**9,422**
Total loans, gross		**80,687**		**12,108**		**92,795**
Allowance for loan losses		**(287)**				**(287)**
Total loans, net	**$**	**80,400**	**$**	**12,108**	**$**	**92,508**

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	At December 31, 2015		
	Loans Held for	Loans Held for	Total
$ in millions	Investment	Sale	Loans[1,2]
Loans by Product Type			
Corporate loans	$ 23,554	$ 11,924	$ 35,478
Consumer loans	21,528		21,528
Residential real estate loans	20,863	104	20,967
Wholesale real estate loans	6,839	1,172	8,011
Total loans, gross	72,784	13,200	85,984
Allowance for loan losses	(225)		(225)
Total loans, net	$ 72,559	$ 13,200	$ 85,759

1. Amounts include loans that are made to non-U.S. borrowers of $8,975 million and $9,789 million at September 30, 2016 and December 31, 2015, respectively.
2. Loans at fixed interest rates and floating or adjustable interest rates were $10,450 million and $82,058 million, respectively, at September 30, 2016 and $8,471 million and $77,288 million, respectively, at December 31, 2015.

Credit Quality

For a further discussion about the Firm s evaluation of credit transactions and monitoring and credit quality indicators, see Note 7 to the consolidated financial statements in the 2015 Form 10-K.

Credit Quality Indicators for Loans Held for Investment, Gross of Allowance for Loan Losses, by Product Type

	At September 30, 2016				
			Residential Real	Wholesale Real	
$ in millions	Corporate	Consumer	Estate	Estate	Total
Pass	**$ 23,145**	**$ 24,717**	**$ 23,524**	**$ 7,321**	**$ 78,707**
Special mention	**357**			**106**	**463**
Substandard	**1,152**		**38**	**189**	**1,379**
Doubtful	**138**				**138**
Loss					
Total loans	**$ 24,792**	**$ 24,717**	**$ 23,562**	**$ 7,616**	**$ 80,687**

	At December 31, 2015				
			Residential	Wholesale	
$ in millions	Corporate	Consumer	Real Estate	Real Estate	Total
Pass	$ 22,040	$ 21,528	$ 20,828	$ 6,839	$ 71,235
Special mention	300				300
Substandard	1,202		35		1,237
Doubtful	12				12
Loss					
Total loans	$ 23,554	$ 21,528	$ 20,863	$ 6,839	$ 72,784

Allowance for Credit Losses and Impaired Loans

For factors considered by the Firm in determining the allowance for loan losses and impairments, see Notes 2 and 7 to the consolidated financial statements in the 2015 Form 10-K.

Impaired and Past Due Loans by Product Type

	At September 30, 2016		
		Residential	
$ in millions	Corporate	Real Estate	Total
Impaired loans with allowance	**$ 181**	**$**	**$ 181**
Impaired loans without allowance[1]	**186**	**28**	**214**
Impaired loans unpaid principal balance[2]	**374**	**30**	**404**
Past due 90 days loans and on nonaccrual	**1**	**21**	**22**

	At December 31, 2015		
		Residential	
$ in millions	Corporate	Real Estate	Total
Impaired loans with allowance	$ 39	$	$ 39
Impaired loans without allowance[1]	89	17	106
Impaired loans unpaid principal balance[2]	130	19	149
Past due 90 days loans and on nonaccrual	1	21	22

1. At September 30, 2016 and December 31, 2015, no allowance was outstanding for these loans as the present value of the expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral held) equaled or exceeded the carrying value.
2. The impaired loans unpaid principal balance differs from the aggregate amount of impaired loan balances with and without allowance due to various factors, including charge-offs and net deferred loan fees or costs.

Select Loan Information by Region

	At September 30, 2016		
$ in millions	Americas	EMEA	Total

			Asia-Pacific	
Impaired loans	**$ 395**	**$ —**	**$ —**	**$ 395**
Past due 90 days loans and on nonaccrual	**22**			**22**
Allowance for loan losses	**254**	**29**	**4**	**287**

	At December 31, 2015			
$ in millions	Americas	EMEA	Asia-Pacific	Total
Impaired loans	$ 108	$ 12	$ 25	$ 145
Past due 90 days loans and on nonaccrual	22			22
Allowance for loan losses	183	34	8	225

EMEA Europe, Middle East and Africa

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Allowance for Credit Losses on Lending Activities

$ in millions	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
Allowance for Loan Losses					
Balance at December 31, 2015	$ 166	$ 5	$ 17	$ 37	$ 225
Gross charge-offs	**(15)**				**(15)**
Gross recoveries					
Net recoveries/(charge-offs)	**(15)**				**(15)**
Provision for (release of) loan losses[1]	**120**	**(2)**	**3**	**8**	**129**
Other[2]	**(52)**				**(52)**
Balance at September 30, 2016	**$ 219**	**$ 3**	**$ 20**	**$ 45**	**$ 287**
Allowance for Loan Losses by Impairment Methodology					
Inherent	**$ 142**	**$ 3**	**$ 20**	**$ 45**	**$ 210**
Specific	**77**				**77**
Total allowance for loan losses at September 30, 2016	**$ 219**	**$ 3**	**$ 20**	**$ 45**	**$ 287**
Loans Evaluated by Impairment Methodology[3]					
Inherent	**$ 24,425**	**$ 24,717**	**$ 23,534**	**$ 7,616**	**$ 80,292**
Specific	**367**		**28**		**395**
Total loans evaluated at September 30, 2016	**$ 24,792**	**$ 24,717**	**$ 23,562**	**$ 7,616**	**$ 80,687**
Allowance for Lending Commitments					
Balance at December 31, 2015	$ 180	$ 1	$	$ 4	$ 185
Provision for lending commitments[1]	**9**				**9**
Other	**(7)**				**(7)**
Balance at September 30, 2016	**$ 182**	**$ 1**	**$**	**$ 4**	**$ 187**
Allowance for Lending Commitments by Impairment Methodology					
Inherent	**$ 180**	**$ 1**	**$**	**$ 4**	**$ 185**
Specific	**2**				**2**
Total allowance for lending commitments at September 30, 2016	**$ 182**	**$ 1**	**$**	**$ 4**	**$ 187**

Lending Commitments Evaluated by Impairment Methodology[3]										
Inherent	$	**64,261**	$	**5,561**	$	**326**	$	**536**	$	**70,684**
Specific		**76**								**76**
Total lending commitments evaluated at September 30, 2016	**$**	**64,337**	**$**	**5,561**	**$**	**326**	**$**	**536**	**$**	**70,760**

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$ in millions	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
Allowance for Loan Losses					
Balance at December 31, 2014	$ 118	$ 2	$ 8	$ 21	$ 149
Gross charge-offs			(1)		(1)
Gross recoveries	1				1
Net recoveries/(charge-offs)	1		(1)		
Provision for loan losses[1]	31		3	1	35
Other	(11)				(11)
Balance at September 30, 2015	$ 139	$ 2	$ 10	$ 22	$ 173
Allowance for Loan Losses by Impairment Methodology					
Inherent	$ 134	$ 2	$ 10	$ 22	$ 168
Specific	5				5
Total allowance for loan losses at September 30, 2015	$ 139	$ 2	$ 10	$ 22	$ 173
Loans Evaluated by Impairment Methodology[3]					
Inherent	$ 22,426	$ 20,447	$ 19,615	$ 6,577	$ 69,065
Specific	93		25		118
Total loans evaluated at September 30, 2015	$ 22,519	$ 20,447	$ 19,640	$ 6,577	$ 69,183
Allowance for Lending Commitments					
Balance at December 31, 2014	$ 147	$	$	$ 2	$ 149
Provision for lending commitments[1]	11			1	12
Balance at September 30, 2015	$ 158	$	$	$ 3	$ 161
Allowance for Lending Commitments by Impairment Methodology					
Inherent	$ 158	$	$	$ 3	$ 161
Total allowance for lending commitments at September 30, 2015	$ 158	$	$	$ 3	$ 161
Lending Commitments Evaluated by Impairment Methodology[3]					
Inherent	$ 65,627	$ 4,587	$ 310	$ 446	$ 70,970
Specific	128				128
Total lending commitments evaluated at September 30, 2015	$ 65,755	$ 4,587	$ 310	$ 446	$ 71,098

1. No material provision was recorded for the current quarter and the prior year quarter, respectively.
2. Amount includes $51 million of allowance related to loans of $413 million that were transferred to loans held for sale during the current year period.
3. Loan balances are gross of the allowance for loan losses, and lending commitments are gross of the allowance for lending commitments.

Troubled Debt Restructurings

At September 30, 2016 and December 31, 2015, the impaired loans and lending commitments classified as held for investment include troubled debt restructurings of $52.8 million and $44.0 million related to loans and $13.9 million and $34.8 million related to lending commitments, respectively, within corporate loans. At September 30, 2016 the Firm did not record an allowance related to these troubled debt restructurings. At December 31, 2015, an allowance of $5.1 million was recorded. These restructurings typically include modifications of interest rates, collateral requirements, other loan covenants, and payment extensions.

Employee Loans

Employee loans are granted primarily in conjunction with a program established in the Wealth Management business segment to retain and recruit certain employees. These loans are recorded in Customer and other receivables in the consolidated balance sheets. These loans are full recourse, generally require periodic payments and have repayment terms ranging from 1 to 12 years. The Firm establishes an allowance for loan amounts it does not consider recoverable, which is recorded in Compensation and benefits expense. At September 30, 2016, the Firm had $4,821 million of employee loans, net of an allowance of approximately $96 million. At December 31, 2015, the Firm had $4,923 million of employee loans, net of an allowance of approximately $108 million.

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8. Equity Method Investments

Overview

The Firm has investments accounted for under the equity method of accounting (see Note 1 to the consolidated financial statements in the 2015 Form 10-K) of $3,168 million and $3,144 million at September 30, 2016 and December 31, 2015, respectively, included in Other assets Other investments in the consolidated balance sheets. Income (loss) from equity method investments was $(40) million for the current quarter and $35 million for the prior year quarter, and $(39) million for the current year period and $118 million for the prior year period, and is included in Other revenues in the consolidated statements of income. In addition, a loss of $35 million was recognized in the current year period in connection with the sale of solar investments and impairments of the remaining unsold solar investments accounted for under the equity method.

Japanese Securities Joint Venture

Included in the equity method investments is the Firm s 40% voting interest (40% interest) in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (MUMSS). Mitsubishi UFJ Financial Group, Inc. (MUFG) holds a 60% voting interest. The Firm accounts for its equity method investment in MUMSS within the Institutional Securities business segment. The Firm recorded income from its 40% interest in MUMSS of $26 million in the current quarter and $54 million in the prior year quarter, and income of $83 million in the current year period and $194 million in the prior year period, within Other revenues in the consolidated statements of income.

9. Deposits

Deposits

$ in millions	**At September 30, 2016[1]**	At December 31, 2015[1]
Savings and demand deposits	**$ 150,244**	$ 153,346
Time deposits[2]	**1,599**	2,688
Total[3]	**$ 151,843**	$ 156,034

1. Total deposits subject to Federal Deposit Insurance Corporation (FDIC) insurance at September 30, 2016 and December 31, 2015 were $125 billion and $113 billion, respectively. Of the total time deposits subject to the FDIC insurance at September 30, 2016 and December 31, 2015, $12 million and $14 million, respectively, met or exceeded the FDIC insurance limit.
2. Certain time deposit accounts are carried at fair value under the fair value option (see Note 3).
3. Deposits were primarily held in the U.S.

Interest bearing deposits at September 30, 2016 included $150,228 million of savings deposits payable upon demand and $728 million of time deposits maturing in 2016, $805 million of time deposits maturing in 2017 and $12 million of time deposits maturing in 2018.

10. Long-Term Borrowings and Other Secured Financings

Long-Term Borrowings

Components of Long-term Borrowings

$ in millions	At September 30, 2016	At December 31, 2015
Senior debt	**$ 152,917**	$ 140,494
Subordinated debt	**11,010**	10,404
Junior subordinated debentures		2,870
Total	**$ 163,927**	$ 153,768

The Firm issued notes with a principal amount of approximately $27.5 billion in the current year period and $30.2 billion in the prior year period, and approximately $22.9 billion and $17.6 billion, respectively, in aggregate long-term borrowings matured or were retired.

The weighted average maturity of long-term borrowings, based upon stated maturity dates, was approximately 5.9 years and 6.1 years at September 30, 2016 and December 31, 2015, respectively.

Trust Preferred Securities

During the current quarter, Morgan Stanley Capital Trust III, Morgan Stanley Capital Trust IV, Morgan Stanley Capital Trust V and Morgan Stanley Capital Trust VIII redeemed all of their issued and outstanding Capital Securities pursuant to the optional redemption provisions provided in the respective governing documents. In the aggregate, $2.8 billion was redeemed. We concurrently redeemed the related underlying junior subordinated debentures.

Other Secured Financings

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Firm is deemed to be the primary beneficiary, pledged commodities, certain equity-linked notes and other secured borrowings. These liabilities are generally payable from the cash flows of the related assets accounted for as Trading assets. See Note 12 for further information on Other secured financings related to VIEs and securitization activities.

Components of Other Secured Financings

$ in millions	At September 30, 2016	At December 31, 2015
Secured financings with original maturities greater than one year	**$ 8,251**	$ 7,629
Secured financings with original maturities one year or less	**1,292**	1,435

Failed sales[1]		**269**		400
Total	**$**	**9,812**	$	9,464

1. For more information on failed sales, see Note 12.

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11. Commitments, Guarantees and Contingencies

Commitments

The Firm s commitments are summarized in the following table by years to maturity. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

Commitments

	Years to Maturity at September 30, 2016				
$ in millions	Less than 1	1-3	3-5	Over 5	Total
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	**$ 122**	**$ 1**	**$ 1**	**$ 42**	**$ 166**
Investment activities	**551**	**101**	**33**	**273**	**958**
Corporate lending commitments[1]	**16,695**	**22,606**	**46,098**	**1,556**	**86,955**
Consumer lending commitments	**5,555**	**2**		**4**	**5,561**
Residential real estate lending commitments	**79**	**43**	**96**	**227**	**445**
Wholesale real estate lending commitments	**118**	**328**	**111**	**79**	**636**
Forward-starting securities purchased under agreements to resell and securities borrowed[2]	**70,997**				**70,997**
Underwriting commitments	**51**				**51**
Total	**$ 94,168**	**$ 23,081**	**$ 46,339**	**$ 2,181**	**$ 165,769**

1. Due to the nature of the Firm s obligations under the commitments, these amounts include certain commitments participated to third parties of $5.7 billion.
2. The Firm enters into forward-starting securities purchased under agreements to resell and securities borrowed agreements that primarily settle within three business days of the trade date, and of the total amount at September 30, 2016, $60.3 billion settled within three business days.

For a further description of these commitments, refer to Note 12 to the consolidated financial statements in the 2015 Form 10-K.

The Firm sponsors several non-consolidated investment funds for third-party investors where it typically acts as general partner of, and investment advisor to, these funds and typically commits to invest a minority of the capital of such funds, with subscribing third-party investors contributing the

majority. The Firm s employees, including its senior officers as well as the Firm s Board of Directors, may participate on the same terms and conditions as other investors in certain of these funds that the Firm sponsors primarily for client investment, except that the Firm may waive or lower applicable fees and charges for its employees. The Firm has contractual capital commitments, guarantees, lending facilities and counterparty arrangements with respect to these investment funds.

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Guarantees

Obligations Under Guarantee Arrangements at September 30, 2016

	Maximum Potential Payout/Notional Years to Maturity					Carrying Amount	
in millions	Less than 1	1-3	3-5	Over 5	Total	(Asset)/ Liability	Collateral/ Recourse
redit erivative ontracts[1]	**$ 207,761**	**$ 178,588**	**$ 96,890**	**$ 42,905**	**$ 526,144**	**$ (1,873)**	**$**
ther credit ontracts	**55**	**18**		**260**	**333**	**(9)**	
on-credit erivative ontracts[1]	**994,398**	**644,322**	**269,117**	**551,899**	**2,459,736**	**73,892**	
tandby letters f credit and ther financial uarantees ssued[2]	**1,177**	**651**	**1,480**	**5,590**	**8,898**	**(129)**	**6,886**
larket value uarantees	**52**	**254**	**93**	**13**	**412**	**2**	**6**
iquidity acilities	**3,038**				**3,038**	**(5)**	**5,404**
/hole loan ales uarantees			**2**	**23,359**	**23,361**	**8**	
ecuritization epresentations nd warranties				**60,333**	**60,333**	**103**	
ieneral partner uarantees	**8**	**36**	**52**	**309**	**405**	**50**	

1. Carrying amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting. For further information on derivative contracts, see Note 4.
2. These amounts include certain issued standby letters of credit participated to third parties totaling $0.8 billion due to the nature of the Firm s obligations under these arrangements.

The Firm has obligations under certain guarantee arrangements, including contracts and indemnification agreements, that contingently require the Firm to make payments to the guaranteed party based on changes in an underlying measure (such as an interest or foreign exchange rate, security or commodity price, an index, or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. Also included as guarantees are contracts that contingently require the Firm to make payments to the guaranteed party based on another entity s failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others.

For more information on the nature of the obligation and related business activity for market value guarantees, liquidity facilities, whole loan sale guarantees and general partner guarantees related to certain investment management funds, as well as the other products in the previous table, see Note 12 to the consolidated financial statements in the 2015 Form 10-K.

Other Guarantees and Indemnities

In the normal course of business, the Firm provides guarantees and indemnifications in a variety of transactions. These provisions generally are standard contractual terms. Certain of these guarantees and indemnifications related to trust preferred securities, indemnities and exchange/clearinghouse member guarantees are described in Note 12 to the consolidated financial statements in the 2015 Form 10-K.

In addition, in the ordinary course of business, the Firm guarantees the debt and/or certain trading obligations (including obligations associated with derivatives, foreign exchange contracts and the settlement of physical commodities) of certain subsidiaries. These guarantees generally are entity or product specific and are required by investors or trading counterparties. The activities of the Firm s subsidiaries covered by these guarantees (including any related debt or trading obligations) are included in the consolidated financial statements.

Finance Subsidiary

The Parent Company fully and unconditionally guarantees the securities issued by Morgan Stanley Finance LLC, a 100%-owned finance subsidiary.

Contingencies

Legal. In the normal course of business, the Firm has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or are in financial distress. These actions have included, but are not limited to, residential mortgage and

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credit crisis related matters. Over the last several years, the level of litigation and investigatory activity (both formal and informal) by governmental and self-regulatory agencies has increased materially in the financial services industry. As a result, the Firm expects that it may become the subject of increased claims for damages and other relief and, while the Firm has identified below any individual proceedings where the Firm believes a material loss to be reasonably possible and reasonably estimable, there can be no assurance that material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be probable or possible and reasonably estimable losses.

The Firm contests liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the consolidated financial statements and the Firm can reasonably estimate the amount of that loss, the Firm accrues the estimated loss by a charge to income. The Firm s future legal expenses may fluctuate from period to period, given the current environment regarding government investigations and private litigation affecting global financial services firms, including the Firm.

In many proceedings and investigations, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where a loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the size of the possible loss or range of loss.

For certain legal proceedings and investigations, the Firm cannot reasonably estimate such losses, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or governmental entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional range of loss can be reasonably estimated for a proceeding or investigation.

For certain other legal proceedings and investigations, the Firm can estimate reasonably possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued, but does not believe, based on current knowledge and after consultation with counsel, that such

losses will have a material adverse effect on the Firm s consolidated financial statements as a whole, other than the matters referred to in the following paragraphs.

On July 15, 2010, China Development Industrial Bank (CDIB) filed a complaint against the Firm, styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated et al.*, which is pending in the Supreme Court of the State of New York, New York County (Supreme Court of NY). The complaint relates to a $275 million credit default swap referencing the super senior portion of the STACK 2006-1 CDO. The complaint asserts claims for common law fraud, fraudulent inducement and fraudulent concealment and alleges that the Firm misrepresented the risks of the STACK 2006-1 CDO to CDIB, and that the Firm knew that the assets backing the CDO were of poor quality when it entered into the credit default swap with CDIB. The complaint seeks compensatory damages related to the approximately $228 million that CDIB alleges it has already lost under the credit default swap, rescission of CDIB s obligation to pay an additional $12 million, punitive damages, equitable relief, fees and costs. On February 28, 2011, the court denied the Firm s motion to dismiss the complaint. Based on currently available information, the Firm believes it could incur a loss in this action of up to approximately $240 million plus pre- and post-judgment interest, fees and costs.

On January 25, 2011, the Firm was named as a defendant in *The Bank of New York Mellon Trust, National Association v. Morgan Stanley Mortgage Capital, Inc*., a litigation pending in the United States District Court for the Southern District of New York (SDNY). The suit, brought by the trustee of a series of commercial mortgage pass-through certificates, alleges that the Firm breached certain representations and warranties with respect to an $81 million commercial mortgage loan that was originated and transferred to the trust by the Firm. The complaint seeks, among other things, to have the Firm repurchase the loan and pay additional monetary damages. On June 16, 2014, the court granted the Firm s supplemental motion for summary judgment, which was appealed by plaintiff. On April 27, 2016, the United States Court of Appeals for the Second Circuit vacated the judgment of the SDNY and remanded the case to the SDNY for further proceedings consistent with its opinion. A trial has been set for February 13, 2017. Based on currently available information, the Firm believes it could incur a loss in this action of up to approximately $81 million, plus pre-judgment interest, fees and costs.

On August 7, 2012, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-4SL and Mortgage Pass-Through Certificates, Series 2006-4SL against the Firm. The matter is styled *Morgan Stanley Mortgage Loan Trust 2006-4SL, et al. v.*

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Morgan Stanley Mortgage Capital Inc. and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $303 million, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreement underlying the transaction, specific performance and unspecified damages and interest. On August 8, 2014, the court granted in part and denied in part the Firm s motion to dismiss. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately $149 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On August 8, 2012, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-14SL, Mortgage Pass-Through Certificates, Series 2006-14SL, Morgan Stanley Mortgage Loan Trust 2007-4SL and Mortgage Pass-Through Certificates, Series 2007-4SL against the Firm styled *Morgan Stanley Mortgage Loan Trust 2006-14SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc*., pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trusts, which had original principal balances of approximately $354 million and $305 million respectively, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreements underlying the transactions, specific performance and unspecified damages and interest. On August 16, 2013, the court granted in part and denied in part the Firm s motion to dismiss the complaint. On August 16, 2016, the Firm moved for summary judgment and the plaintiffs moved for partial summary judgment. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately $527 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On September 28, 2012, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-13ARX against the Firm styled *Morgan Stanley Mortgage Loan Trust 2006-13ARX v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.*, pending in the Supreme Court of NY. The plaintiff filed an amended

complaint on January 17, 2013, which asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $609 million, breached various representations and warranties. The amended complaint seeks, among other relief, declaratory judgment relief, specific performance and unspecified damages and interest. By order dated September 30, 2014, the court granted in part and denied in part the Firm s motion to dismiss the amended complaint. On August 11, 2016, the Appellate Division, First Department reversed in part the trial court s granting of the Firm s motion to dismiss. On September 9, 2016, the Firm filed a motion for reargument or, in the alternative, leave to appeal that decision. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately $170 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On January 10, 2013, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-10SL and Mortgage Pass-Through Certificates, Series 2006-10SL against the Firm styled *Morgan Stanley Mortgage Loan Trust 2006-10SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $300 million, breached various representations and warranties. The complaint seeks, among other relief, an order requiring the Firm to comply with the loan breach remedy procedures in the transaction documents, unspecified damages, and interest. On August 8, 2014, the court granted in part and denied in part the Firm s motion to dismiss the complaint. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately $197 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On May 3, 2013, plaintiffs in *Deutsche Zentral-Genossenschaftsbank AG et al. v. Morgan Stanley et al.* filed a complaint against the Firm, certain affiliates, and other defendants in the Supreme Court of NY. The complaint alleges that defendants made material misrepresentations and omissions in the sale to plaintiffs of certain mortgage pass-through certificates backed by securitization trusts containing

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residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Firm to plaintiff currently at issue in this action was approximately $644 million. The complaint alleges causes of action against the Firm for common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission and seeks, among other things, compensatory and punitive damages. On June 10, 2014, the court granted in part and denied in part the Firm s motion to dismiss the complaint. The Firm perfected its appeal from that decision on June 12, 2015. At September 25, 2016, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $252 million, and the certificates had incurred actual losses of approximately $85 million. Based on currently available information, the Firm believes it could incur a loss in this action up to the difference between the $252 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Firm, or upon sale, plus pre- and post-judgment interest, fees and costs. The Firm may be entitled to be indemnified for some of these losses.

On July 8, 2013, U.S. Bank National Association, in its capacity as trustee, filed a complaint against the Firm styled *U.S. Bank National Association, solely in its capacity as Trustee of the Morgan Stanley Mortgage Loan Trust 2007-2AX (MSM 2007-2AX) v. Morgan Stanley Mortgage Capital Holdings LLC, as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc. and Greenpoint Mortgage Funding, Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $650 million, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages and interest. On August 22, 2013, the Firm filed a motion to dismiss the complaint, which was granted in part and denied in part on November 24, 2014. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately $240 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On December 30, 2013, Wilmington Trust Company, in its capacity as trustee for Morgan Stanley Mortgage Loan Trust 2007-12, filed a complaint against the Firm. The matter is styled *Wilmington Trust Company v. Morgan Stanley Mortgage Capital Holdings LLC et al.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the

loans in the trust, which had an original principal balance of approximately $516 million, breached various representations and warranties. The complaint seeks, among other relief, unspecified damages, attorneys fees, costs and interest. On February 28, 2014, the defendants filed a motion to dismiss the complaint, which was granted in part and denied in part on June 14, 2016. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately $152 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands that it did not repurchase, plus attorney s fees, costs and interest, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On April 28, 2014, Deutsche Bank National Trust Company, in its capacity as trustee for Morgan Stanley Structured Trust I 2007-1, filed a complaint against the Firm styled *Deutsche Bank National Trust Company v. Morgan Stanley Mortgage Capital Holdings LLC*, pending in the SDNY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $735 million, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified compensatory and/or rescissory damages, interest and costs. On April 3, 2015, the court granted in part and denied in part the Firm s motion to dismiss the complaint. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately $292 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On January 23, 2015, Deutsche Bank National Trust Company, in its capacity as trustee, filed a complaint against the Firm styled *Deutsche Bank National Trust Company solely in its capacity as Trustee of the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4 v. Morgan Stanley Mortgage Capital Holdings LLC as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc., and Morgan Stanley ABS Capital I Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $1.05 billion, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, compensatory, consequential, rescissory, equitable and punitive damages, attorneys fees, costs and other related expenses, and interest. On October 20, 2015, the court

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granted in part and denied in part the Firm s motion to dismiss the complaint. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately $277 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands from a certificate holder and a monoline insurer that the Firm did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

12. Variable Interest Entities and Securitization Activities

Overview

For a discussion on the Firm s VIEs, the determination and structure of VIEs and securitization activities, see Note 13 to the consolidated financial statements in the 2015 Form 10-K.

As a result of adopting the accounting update, *Amendments to the Consolidation Analysis*, on January 1, 2016, certain consolidated entities are now considered VIEs and are included in the balances at September 30, 2016. See Note 2 for further information.

Consolidated VIEs

Assets and Liabilities by Type of Activity

	At September 30, 2016		At December 31, 2015	
$ in millions	VIE Assets	VIE Liabilities	VIE Assets	VIE Liabilities
Credit-linked notes	**$ 901**	**$**	$ 900	$
Other structured financings	**572**	**7**	787	13
Asset-backed securitizations[1]	**597**	**371**	668	423
Other[2]	**916**	**32**	245	
Total	**$ 2,986**	**$ 410**	$ 2,600	$ 436

1. Asset-backed securitizations include transactions backed by residential mortgage loans, commercial mortgage loans and other types of assets including consumer or commercial assets. The value of assets is determined based on the fair value of the liabilities of and the interests owned by the Firm in such VIEs, because the fair values for the liabilities and interests owned are more observable.
2. Other primarily includes certain operating entities, investment funds and structured transactions.

Assets and Liabilities by Balance Sheet Caption

$ in millions

	At September 30, 2016	At December 31, 2015
Assets		
Cash and due from banks	**$ 86**	$ 14
Trading assets, at fair value	**1,889**	1,842
Customer and other receivables	**7**	3
Goodwill	**18**	
Intangible assets	**138**	
Other assets	**848**	741
Total assets	**$ 2,986**	$ 2,600
Liabilities		
Other secured financings, at fair value	**$ 378**	$ 431
Other liabilities and accrued expenses	**32**	5
Total liabilities	**$ 410**	$ 436

Consolidated VIE assets and liabilities are presented in the previous tables after intercompany eliminations. The assets owned by many consolidated VIEs cannot be removed unilaterally by the Firm and are not generally available to the Firm. The related liabilities issued by many consolidated VIEs are non-recourse to the Firm. In certain other consolidated VIEs, the Firm either has the unilateral right to remove assets or provide additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

As part of the Institutional Securities business segment s securitization and related activities, the Firm has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Firm (see Note 11).

In general, the Firm s exposure to loss in consolidated VIEs is limited to losses that would be absorbed on the VIE s net assets recognized in its financial statements, net of amounts absorbed by third-party variable interest holders. At September 30, 2016 and December 31, 2015, noncontrolling interests in the consolidated financial statements related to consolidated VIEs were $204 million and $37 million, respectively. The Firm also had additional maximum exposure to losses of approximately $78 million and $72 million at September 30, 2016 and December 31, 2015, respectively, primarily related to certain derivatives, commitments, guarantees and other forms of involvement.

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Non-consolidated VIEs

The following tables include all VIEs in which the Firm has determined that its maximum exposure to loss is greater than specific thresholds or meets certain other criteria, and exclude exposure to loss from liabilities due to immateriality. Most of the VIEs included in the following tables are sponsored by unrelated parties; the Firm s involvement generally is the result of its secondary market-making activities, securities held in its Investment securities portfolio (see Note 5), and certain investments in funds.

Non-Consolidated VIE Assets, Maximum and Carrying Value of Exposure to Loss

	At September 30, 2016				
$ in millions	Mortgage- and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
VIE assets that the Firm does not consolidate (unpaid principal balance)	**$ 120,846**	**$ 4,875**	**$ 5,070**	**$ 4,597**	**$ 39,119**
Maximum exposure to loss					
Debt and equity interests	**$ 12,505**	**$ 741**	**$ 45**	**$ 1,639**	**$ 5,011**
Derivative and other contracts			**3,038**		**46**
Commitments, guarantees and other	**714**	**196**		**373**	**363**
Total maximum exposure to loss	**$ 13,219**	**$ 937**	**$ 3,083**	**$ 2,012**	**$ 5,420**
Carrying value of exposure to loss Assets					
Debt and equity interests	**$ 12,505**	**$ 741**	**$ 12**	**$ 1,248**	**$ 5,011**
Derivative and other contracts			**6**		**15**
Total carrying value of exposure to loss Assets	**$ 12,505**	**$ 741**	**$ 18**	**$ 1,248**	**$ 5,026**

	At December 31, 2015				
$ in millions	Mortgage- and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
VIE assets that the Firm does not consolidate	$ 126,872	$ 8,805	$ 4,654	$ 2,201	$ 20,775

(unpaid principal balance)					
Maximum exposure to loss					
Debt and equity interests	$ 13,361	$ 1,259	$ 1	$ 1,129	$ 3,854
Derivative and other contracts			2,834		67
Commitments, guarantees and other	494	231		361	222
Total maximum exposure to loss	$ 13,855	$ 1,490	$ 2,835	$ 1,490	$ 4,143
Carrying value of exposure to loss Assets					
Debt and equity interests	$ 13,361	$ 1,259	$ 1	$ 685	$ 3,854
Derivative and other contracts			5		13
Total carrying value of exposure to loss Assets	$ 13,361	$ 1,259	$ 6	$ 685	$ 3,867

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Non-Consolidated VIE Mortgage- and Asset-Backed Securitization Assets

	At September 30, 2016		At December 31, 2015	
$ in millions	Unpaid Principal Balance	Debt and Equity Interests	Unpaid Principal Balance	Debt and Equity Interests
Residential mortgages	**$ 7,824**	**$ 620**	$ 13,787	$ 1,012
Commercial mortgages	**63,835**	**2,705**	57,313	2,871
U.S. agency collateralized mortgage obligations	**18,744**	**3,532**	13,236	2,763
Other consumer or commercial loans	**30,443**	**5,648**	42,536	6,715
Total mortgage- and asset-backed securitization assets	**$ 120,846**	**$ 12,505**	$ 126,872	$ 13,361

The Firm s maximum exposure to loss often differs from the carrying value of the variable interests held by the Firm. The maximum exposure to loss is dependent on the nature of the Firm s variable interest in the VIEs and is limited to the notional amounts of certain liquidity facilities, other credit support, total return swaps, written put options, and the fair value of certain other derivatives and investments the Firm has made in the VIEs. Liabilities issued by VIEs generally are non-recourse to the Firm. Where notional amounts are utilized in quantifying maximum exposure related to derivatives, such amounts do not reflect fair value write-downs already recorded by the Firm.

The Firm s maximum exposure to loss does not include the offsetting benefit of any financial instruments that the Firm may utilize to hedge these risks associated with its variable interests. In addition, the Firm s maximum exposure to loss is not reduced by the amount of collateral held as part of a transaction with the VIE or any party to the VIE directly against a specific exposure to loss.

Securitization transactions generally involve VIEs. Primarily as a result of its secondary market-making activities, the Firm owned additional VIE assets mainly issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional assets totaled $13.3 billion and $12.9 billion at September 30, 2016 and December 31, 2015, respectively. These assets were either retained in connection with transfers of assets by the Firm, acquired in connection with secondary market-making activities or held as AFS securities in its Investment securities portfolio (see Note 5) or held as investments in funds. At September 30, 2016 and December 31, 2015, these assets consisted of securities backed by residential mortgage loans, commercial mortgage loans or other consumer loans, such as credit card receivables, automobile loans and student loans, CDOs or CLOs, and investment funds. The Firm s primary risk exposure is to the securities issued by the SPE owned by the Firm, with the risk highest on the most subordinate class

of beneficial interests. These assets generally are included in Trading assets Corporate and other debt, Trading assets Investments or AFS securities within its Investment securities portfolio and are measured at fair value (see Note 3). The Firm does not provide additional support in these transactions through contractual facilities, such as liquidity facilities, guarantees or similar derivatives. The Firm s maximum exposure to loss generally equals the fair value of the assets owned.

Transactions with SPEs in which the Firm, acting as principal, transferred financial assets with continuing involvement and received sales treatment are shown below.

Transfers of Assets with Continuing Involvement

	At September 30, 2016			
$ in millions	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other[1]
SPE assets (unpaid principal balance)[2]	**$ 19,196**	**$ 61,089**	**$ 14,433**	**$ 11,497**
Retained interests (fair value)				
Investment grade	**$**	**$ 65**	**$ 518**	**$**
Non-investment grade	**6**	**72**		**973**
Total retained interests (fair value)	**$ 6**	**$ 137**	**$ 518**	**$ 973**
Interests purchased in the secondary market (fair value)				
Investment grade	**$**	**$ 131**	**$ 156**	**$**
Non-investment grade	**24**	**89**		
Total interests purchased in the secondary market (fair value)	**$ 24**	**$ 220**	**$ 156**	**$**
Derivative assets (fair value)	**$**	**$ 301**	**$**	**$ 111**
Derivative liabilities (fair value)				**443**

	At December 31, 2015			
$ in millions	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other[1]
SPE assets (unpaid principal balance)[2]	$ 22,440	$ 72,760	$ 17,978	$ 12,235
Retained interests (fair value)				
Investment grade	$	$ 238	$ 649	$
Non-investment grade	160	63		1,136
Total retained interests (fair value)	$ 160	$ 301	$ 649	$ 1,136
Interests purchased in the secondary market (fair value)				
Investment grade	$	$ 88	$ 99	$
Non-investment grade	60	63		10
Total interests purchased in the secondary market (fair value)	$ 60	$ 151	$ 99	$ 10
Derivative assets (fair value)	$	$ 343	$	$ 151
Derivative liabilities (fair value)				449

1. Amounts include CLO transactions managed by unrelated third parties.
2. Amounts include assets transferred by unrelated transferors.

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	At September 30, 2016		
$ in millions	Level 2	Level 3	Total
Retained interests (fair value)			
Investment grade	**$ 583**	**$**	**$ 583**
Non-investment grade	**31**	**1,020**	**1,051**
Total retained interests (fair value)	**$ 614**	**$ 1,020**	**$ 1,634**
Interests purchased in the secondary market (fair value)			
Investment grade	**$ 287**	**$**	**$ 287**
Non-investment grade	**100**	**13**	**113**
Total interests purchased in the secondary market (fair value)	**$ 387**	**$ 13**	**$ 400**
Derivative assets (fair value)	**$ 396**	**$ 16**	**$ 412**
Derivative liabilities (fair value)	**82**	**361**	**443**

	At December 31, 2015		
$ in millions	Level 2	Level 3	Total
Retained interests (fair value)			
Investment grade	$ 886	$ 1	$ 887
Non-investment grade	17	1,342	1,359
Total retained interests (fair value)	$ 903	$ 1,343	$ 2,246
Interests purchased in the secondary market (fair value)			
Investment grade	$ 187	$	$ 187
Non-investment grade	112	21	133
Total interests purchased in the secondary market (fair value)	$ 299	$ 21	$ 320
Derivative assets (fair value)	$ 466	$ 28	$ 494
Derivative liabilities (fair value)	110	339	449

Transferred assets are carried at fair value prior to securitization, and any changes in fair value are recognized in the consolidated statements of income. The Firm may act as underwriter of the beneficial interests issued by these securitization vehicles. Investment banking underwriting net revenues are recognized in connection with these transactions. The Firm may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in the consolidated balance sheets at fair value. Any changes in the fair value of such retained interests are recognized in the consolidated statements of income.

Proceeds from New Securitization Transactions and Retained Interests in Securitization Transactions

	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in millions	**2016**	2015	**2016**	2015
Proceeds received from new securitization transactions	**$ 6,819**	$ 6,105	**$ 13,695**	$ 17,270
	768	476	**1,901**	2,082

Proceeds from retained interests in securitization transactions

Net gains on sale of assets in securitization transactions at the time of the sale were not material for all periods presented.

The Firm has provided, or otherwise agreed to be responsible for representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Firm (see Note 11).

Proceeds from Sales to CLO Entities Sponsored by Non-Affiliates

	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in millions	**2016**	2015	**2016**	2015
Proceeds from sale of corporate loans sold to those SPEs	**$ 199**	$ 121	**$ 230**	$ 1,086

Net gains on sale of corporate loans to CLO transactions at the time of sale were not material for all periods presented.

The Firm also enters into transactions in which it sells equity securities and contemporaneously enters into bilateral OTC equity derivatives with the purchasers of the securities, through which it retains the exposure to the securities as shown in the following table.

Carrying and Fair Value of Assets Sold and Retained Interest Exposure

$ in millions	**At September 30, 2016**	At December 31, 2015
Carrying value of assets derecognized at the time of sale and gross cash proceeds	**$ 9,792**	$ 7,878
Fair value of assets sold	**9,900**	7,935
Fair value of derivative assets recognized in the consolidated balance sheets	**118**	97
Fair value of derivative liabilities recognized in the consolidated balance sheets	**10**	40

Failed Sales

For transfers that fail to meet the accounting criteria for a sale, the Firm continues to recognize the assets in Trading assets at fair value, and the Firm recognizes the associated liabilities in Other secured financings at fair value in the consolidated balance sheets (see Note 10).

The assets transferred to certain unconsolidated VIEs in transactions accounted for as failed sales cannot be removed unilaterally by the Firm and are not generally available to the Firm. The related liabilities are also non-recourse to the Firm. In certain other failed sale transactions, the Firm has the right to remove assets or provide additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

Carrying Value of Assets and Liabilities Related to Failed Sales

	At September 30, 2016		At December 31, 2015	
$ in millions	Assets	Liabilities	Assets	Liabilities
Failed sales	**$ 269**	**$ 269**	$ 400	$ 400

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(Unaudited)

13. Regulatory Requirements

Regulatory Capital Framework

For a discussion of the Firm s regulatory capital framework, see Note 14 to the consolidated financial statements in the 2015 Form 10-K.

Risk-Based Capital Requirement

The Firm is required to maintain minimum risk-based and leverage capital ratios under the regulatory capital requirements. The Firm s binding risk-based capital ratios for regulatory purposes are the lower of the capital ratios computed under the (i) standardized approaches for calculating credit risk-weighted assets (RWAs) and market risk RWAs (the Standardized Approach) and (ii) applicable advanced approaches for calculating credit risk, market risk and operational risk RWAs (the Advanced Approach).

In addition to the minimum risk-based capital ratio requirements, on a fully phased-in basis by 2019, the Firm will be subject to:

- A greater than 2.5% Common Equity Tier 1 capital conservation buffer;
- The Common Equity Tier 1 global systemically important bank capital surcharge, currently at 3%; and
- Up to a 2.5% Common Equity Tier 1 countercyclical capital buffer, currently set by banking regulators at zero (collectively, the buffers).

In 2016, the phase-in amount for each of the buffers is 25% of the fully phased-in buffer requirement. Failure to maintain the buffers will result in restrictions on the Firm s ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers.

The methods for calculating each of the Firm s risk-based capital ratios will change through January 1, 2022 as aspects of the capital rules are phased in. These changes may result in differences in the Firm s reported capital ratios from one reporting period to the next that are independent of changes to its capital base, asset composition, off-balance sheet exposures or risk profile.

For a further discussion of the Firm s calculation of risk-based capital ratios, see Note 14 to the consolidated financial statements in the 2015 Form 10-K.

The Firm s Regulatory Capital and Capital Ratios

At September 30, 2016 and December 31, 2015, the Firm s binding ratios are based on the Advanced Approach transitional rules.

Regulatory Capital

	At September 30, 2016		
$ in millions	Amount	Ratio	Minimum Ratio[1]
Regulatory capital and capital ratios			
Common Equity Tier 1 capital	**$ 60,340**	**16.8%**	**5.9%**
Tier 1 capital	**67,603**	**18.9%**	**7.4%**
Total capital	**78,838**	**22.0%**	**9.4%**
Tier 1 leverage[2]		**8.3%**	**4.0%**
Assets			
Total RWAs	**$ 358,486**	**N/A**	**N/A**
Adjusted average assets[3]	**809,927**	**N/A**	**N/A**

	At December 31, 2015		
$ in millions	Amount	Ratio	Minimum Ratio[1]
Regulatory capital and capital ratios			
Common Equity Tier 1 capital	$ 59,409	15.5%	4.5%
Tier 1 capital	66,722	17.4%	6.0%
Total capital	79,403	20.7%	8.0%
Tier 1 leverage[2]		8.3%	4.0%
Assets			
Total RWAs	$ 384,162	N/A	N/A
Adjusted average assets[3]	803,574	N/A	N/A

N/A NotApplicable

1. Percentages represent minimum regulatory capital ratios under the transitional rules.
2. Tier 1 leverage ratios are calculated under Standardized Approach transitional rules.
3. Adjusted average assets represent the denominator of the Tier 1 leverage ratio and are composed of the average daily balance of consolidated on-balance sheet assets under U.S. GAAP during the calendar quarter, adjusted for disallowed goodwill, transitional intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.

U.S. Bank Subsidiaries Regulatory Capital and Capital Ratios

Morgan Stanley Bank, N.A. (MSBNA) and Morgan Stanley Private Bank, National Association (MSPBNA) (collectively, U.S. Bank Subsidiaries) are subject to similar regulatory capital requirements as the Firm. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Firm s U.S. Bank Subsidiaries financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, each of the Firm s U.S. Bank Subsidiaries must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

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At September 30, 2016 and December 31, 2015, the Firm s U.S. Bank Subsidiaries binding ratios are based on the Standardized Approach transitional rules.

MSBNA s Regulatory Capital

	At September 30, 2016		
$ in millions	Amount	Ratio	Required Capital Ratio[1]
Common Equity Tier 1 capital	**$ 13,105**	**15.7%**	**6.5%**
Tier 1 capital	**13,105**	**15.7%**	**8.0%**
Total capital	**14,577**	**17.5%**	**10.0%**
Tier 1 leverage	**13,105**	**10.1%**	**5.0%**

	At December 31, 2015		
$ in millions	Amount	Ratio	Required Capital Ratio[1]
Common Equity Tier 1 capital	$ 13,333	15.1%	6.5%
Tier 1 capital	13,333	15.1%	8.0%
Total capital	15,097	17.1%	10.0%
Tier 1 leverage	13,333	10.2%	5.0%

1. Capital ratios that are required in order to be considered well-capitalized for U.S. regulatory purposes.

MSPBNA s Regulatory Capital

	At September 30, 2016		
$ in millions	Amount	Ratio	Required Capital Ratio[1]
Common Equity Tier 1 capital	**$ 5,264**	**26.5%**	**6.5%**
Tier 1 capital	**5,264**	**26.5%**	**8.0%**
Total capital	**5,298**	**26.7%**	**10.0%**
Tier 1 leverage	**5,264**	**10.5%**	**5.0%**

	At December 31, 2015		
$ in millions	Amount	Ratio	Required Capital Ratio[1]

Common Equity Tier 1 capital	$ 4,197	26.5%	6.5%
Tier 1 capital	4,197	26.5%	8.0%
Total capital	4,225	26.7%	10.0%
Tier 1 leverage	4,197	10.5%	5.0%

1. Capital ratios that are required in order to be considered well-capitalized for U.S. regulatory purposes.

Under regulatory capital requirements adopted by the U.S. federal banking agencies, U.S. depository institutions, in order to be considered well-capitalized, must maintain certain minimum capital ratios. Each U.S. depository institution subsidiary of the Firm must be well-capitalized in order for the Firm to continue to qualify as a financial holding company and to continue to engage in the broadest range of financial activities permitted for financial holding companies. At September 30, 2016 and December 31, 2015, the Firm s U.S.

Bank Subsidiaries maintained capital at levels sufficiently in excess of the universally mandated well-capitalized requirements to address any additional capital needs and requirements identified by the U.S. federal banking regulators.

Broker-Dealer Regulatory Capital Requirements

Morgan Stanley & Co. LLC (MS&Co.) is a registered broker-dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the U.S. Securities and Exchange Commission (SEC) and the U.S. Commodity Futures Trading Commission (CFTC). MS&Co. has consistently operated with capital in excess of its regulatory capital requirements. MS&Co. s net capital totaled $10,170 million and $10,254 million at September 30, 2016 and December 31, 2015, respectively, which exceeded the amount required by $8,093 million and $8,458 million, respectively. MS&Co. is required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of SEC Rule 15c3-1. In addition, MS&Co. is required to notify the SEC in the event that its tentative net capital is less than $5 billion. At September 30, 2016 and December 31, 2015, MS&Co. had tentative net capital in excess of the minimum and the notification requirements.

Morgan Stanley Smith Barney LLC (MSSB LLC) is a registered broker-dealer and introducing broker for the futures business and, accordingly, is subject to the minimum net capital requirements of the SEC and the CFTC. MSSB LLC has consistently operated with capital in excess of its regulatory capital requirements. MSSB LLC s net capital totaled $3,858 million and $3,613 million at September 30, 2016 and December 31, 2015, respectively, which exceeded the amount required by $3,711 million and $3,459 million, respectively.

Morgan Stanley & Co. International plc (MSIP), a London-based broker-dealer subsidiary, is subject to the capital requirements of the Prudential Regulation Authority, and Morgan Stanley MUFG Securities Co., Ltd. (MSMS), a Tokyo-based broker-dealer subsidiary, is subject to the capital requirements of the Financial Services Agency. MSIP and MSMS have consistently operated with capital in excess of their respective regulatory capital requirements.

Other Regulated Subsidiaries

Certain other U.S. and non-U.S. subsidiaries of the Firm are subject to various securities, commodities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These subsidiaries have consistently operated with capital in excess of their local capital adequacy requirements.

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14. Total Equity

Dividends and Share Repurchases

The Firm repurchased approximately $1,250 million of our outstanding common stock as part of our share repurchase program during the current quarter and $2,500 million during the current year period. The Firm repurchased approximately $625 million during the prior year quarter and $1,500 million in the prior year period.

For a description of the 2015 capital plan, see Note 15 to the consolidated financial statements in the 2015 Form 10-K.

In June 2016, the Firm received a conditional non-objection from the Board of Governors of the Federal Reserve System (the Federal Reserve) to its 2016 capital plan. The capital plan included a share repurchase of up to $3.5 billion of the Firm s outstanding common stock during the period beginning July 1, 2016 through June 30, 2017. Additionally, the capital plan included an increase in the quarterly common stock dividend to $0.20 per share from $0.15 per share during the period beginning with the dividend declared on July 20, 2016 (see Note 20). The Federal Reserve Board also asked the Firm to submit an additional capital plan by December 29, 2016 addressing weaknesses identified in the Firm s capital planning process.

Preferred Stock

For a description of Series A through Series J preferred stock issuances, see Note 15 to the consolidated financial statements in the 2015 Form 10-K. Dividends declared on the Firm s outstanding preferred stock were $78 million during the current quarter and $78 million during the prior year quarter, and $312 million during the current year period and $297 million during the prior year period. On September 15, 2016, the Firm announced that the Board declared a quarterly dividend for preferred stock shareholders of record on September 30, 2016 that was paid on October 17, 2016. The Firm is authorized to issue 30 million shares of preferred stock. The preferred stock has a preference over the common stock upon liquidation. The Firm s preferred stock qualifies as Tier 1 capital in accordance with regulatory capital requirements (see Note 13).

Preferred Stock Outstanding

$ in millions, except per share data	Shares Outstanding **At September 30, 2016**	Liquidation Preference per Share	Carrying Value **At September 30, 2016**	Carrying Value At December 31, 2015
Series				
A	**44,000**	**$ 25,000**	**$ 1,100**	$ 1,100
C[1]	**519,882**	**1,000**	**408**	408
E	**34,500**	**25,000**	**862**	862
F	**34,000**	**25,000**	**850**	850

G	**20,000**	**25,000**	**500**	500
H	**52,000**	**25,000**	**1,300**	1,300
I	**40,000**	**25,000**	**1,000**	1,000
J	**60,000**	**25,000**	**1,500**	1,500
Total			**$ 7,520**	$ 7,520

1. Series C is comprised of the issuance of 1,160,791 shares of Series C Preferred Stock to MUFG for an aggregate purchase price of $911 million, less the redemption of 640,909 shares of Series C Preferred Stock of $503 million, which were converted to common shares of approximately $705 million.

Accumulated Other Comprehensive Income (Loss)

Changes in AOCI by Component, Net of Tax and Noncontrolling Interests

$ in millions	Foreign Currency Translation Adjustments	AFS Securities	Pensions, Postretirement and Other	DVA	Total
Balance at June 30, 2016	$ (779)	$ 219	$ (378)	$ 33	$ (905)
Change in OCI before reclassifications	**25**	**(69)**		**(94)**	**(138)**
Amounts reclassified from AOCI[2]		**(30)**	**(1)**	**4**	**(27)**
Net OCI during the period	**25**	**(99)**	**(1)**	**(90)**	**(165)**
Balance at September 30, 2016	**$ (754)**	**$ 120**	**$ (379)**	**$ (57)**	**$ (1,070)**
Balance at June 30, 2015	$ (833)	$ (101)	$ (513)	$	$ (1,447)
Change in OCI before reclassifications	(76)	111	2		37
Amounts reclassified from AOCI[2]		(11)	2		(9)
Net OCI during the period	(76)	100	4		28
Balance at September 30, 2015	$ (909)	$ (1)	$ (509)	$	$ (1,419)

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$ in millions	Foreign Currency Translation Adjustments	AFS Securities	Pensions, Postretirement and Other	DVA	Total
Balance at December 31, 2015	$ (963)	$ (319)	$ (374)	$	$ (1,656)
Cumulative adjustment for accounting change related to DVA[1]				**(312)**	**(312)**
Change in OCI before reclassifications	**209**	**521**	**(3)**	**277**	**1,004**
Amounts reclassified from AOCI[2, 3]		**(82)**	**(2)**	**(22)**	**(106)**
Net OCI during the period	**209**	**439**	**(5)**	**255**	**898**
Balance at September 30, 2016	**$ (754)**	**$ 120**	**$ (379)**	**$ (57)**	**$ (1,070)**
Balance at December 31, 2014	$ (663)	$ (73)	$ (512)	$	$ (1,248)
Change in OCI before reclassifications	(246)	118	(2)		(130)
Amounts reclassified from AOCI[2]		(46)	5		(41)
Net OCI during the period	(246)	72	3		(171)
Balance at September 30, 2015	$ (909)	$ (1)	$ (509)	$	$ (1,419)

1. In accordance with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, a cumulative catch up adjustment was recorded as of January 1, 2016 to move the cumulative DVA amount, net of noncontrolling interest and tax, related to outstanding liabilities under the fair value option election from Retained earnings into AOCI. See Note 2 for further information.
2. Amounts reclassified from AOCI related to realized gains and losses from sales of AFS securities are classified within Other revenues in the consolidated statements of income. The tax impact in Provision for (benefit from) income taxes resulting from such reclassifications was $(17) million in the current quarter and $(47) million in the current year period, and $(7) million in the prior year quarter and $(27) million in the prior year period.
3. Amounts reclassified from AOCI related to realization of DVA are classified within Trading revenues in the consolidated statements of income. The tax impact in Provision for (benefit from) income taxes resulting from such reclassifications was $2 million in the current quarter and $(13) million in the current year period. See Note 2 for further information.

Noncontrolling Interests

Noncontrolling interests were $1,313 million and $1,002 million at September 30, 2016 and December 31, 2015, respectively. The increase in noncontrolling interests was primarily due to the consolidation of certain investment management funds sponsored by the Firm. See Note 2 for further information on the adoption of the accounting update *Amendments to the Consolidation Analysis*.

15. Earnings per Common Share

Calculation of Basic and Diluted Earnings per Common Share (EPS)

in millions, except for per share data	Three Months Ended September 30, **2016**	2015	Nine Months Ended September 30, **2016**	2015
Basic EPS				
Income from continuing operations	**$ 1,632**	$ 1,051	**$ 4,442**	$ 5,352
Income (loss) from discontinued operations	**8**	(2)	**1**	(9)
Net income	**1,640**	1,049	**4,443**	5,343
Net income applicable to noncontrolling interests	**43**	31	**130**	124
Net income applicable to Morgan Stanley	**1,597**	1,018	**4,313**	5,219
Less: Preferred stock dividends	**(78)**	(78)	**(312)**	(297)
Less: Allocation of (earnings) loss to participating RSUs[1]	**(1)**	(1)	**(2)**	(4)
Earnings applicable to Morgan Stanley common shareholders	**$ 1,518**	$ 939	**$ 3,999**	$ 4,918
Weighted average common shares outstanding	**1,838**	1,904	**1,863**	1,916
Earnings per basic common share				
Income from continuing operations	**$ 0.82**	$ 0.49	**$ 2.15**	$ 2.57
Income (loss) from discontinued operations	**0.01**			
Earnings per basic common share	**$ 0.83**	$ 0.49	**$ 2.15**	$ 2.57
Diluted EPS				
Earnings applicable to Morgan Stanley common shareholders	**$ 1,518**	$ 939	**$ 3,999**	$ 4,918
Weighted average common shares outstanding	**1,838**	1,904	**1,863**	1,916
Effect of dilutive securities: Stock options and RSUs[1]	**41**	45	**35**	42
Weighted average common shares outstanding and common stock equivalents	**1,879**	1,949	**1,898**	1,958
Earnings per diluted common share				
Income from continuing operations	**$ 0.80**	$ 0.48	**$ 2.11**	$ 2.52
Income (loss) from discontinued operations	**0.01**			(0.01)
Earnings per diluted common share	**$ 0.81**	$ 0.48	**$ 2.11**	$ 2.51

1. Restricted stock units (RSUs) that are considered participating securities are treated as a separate class of securities in the computation of basic EPS, and, therefore, such RSUs are not included as incremental shares in the diluted EPS computations. The diluted EPS computations also do not include weighted average antidilutive RSUs and antidilutive stock options of 14 million shares for the current quarter and 12 million shares for the prior year quarter, and 15 million shares for the current year period and 12 million shares for the prior year period.

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16. Interest Income and Interest Expense

Interest Income and Interest Expense

$ in millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest income[1]				
Trading assets[2]	**$ 526**	$ 568	**$ 1,651**	$ 1,707
Investment securities	**289**	211	**762**	650
Loans	**698**	560	**2,026**	1,573
Interest bearing deposits with banks	**30**	29	**134**	74
Securities purchased under agreements to resell and Securities borrowed[3]	**(118)**	(99)	**(315)**	(404)
Customer receivables and Other[4]	**309**	182	**890**	721
Total interest income	**$ 1,734**	$ 1,451	**$ 5,148**	$ 4,321
Interest expense[1]				
Deposits	**$ 12**	$ 17	**$ 48**	$ 51
Short-term borrowings	**(3)**	7	**12**	16
Long-term borrowings	**817**	908	**2,621**	2,749
Securities sold under agreements to repurchase and Securities loaned[5]	**228**	254	**761**	797
Customer payables and Other[6]	**(323)**	(497)	**(1,109)**	(1,348)
Total interest expense	**$ 731**	$ 689	**$ 2,333**	$ 2,265
Net interest	**$ 1,003**	$ 762	**$ 2,815**	$ 2,056

1. Interest income and expense are recorded within the consolidated statements of income depending on the nature of the instrument and related market conventions. When interest is included as a component of the instrument s fair value, interest is included within Trading revenues or Investments revenues. Otherwise, it is included within Interest income or Interest expense.
2. Interest expense on Trading liabilities is reported as a reduction to Interest income on Trading assets.
3. Includes fees paid on Securities borrowed.
4. Includes interest from customer receivables and other interest earning assets.
5. Includes fees received on Securities loaned.
6. Includes fees received from prime brokerage customers for stock loan transactions incurred to cover customers short positions.

17. Employee Benefit Plans

The Firm sponsors various retirement plans for the majority of its U.S. and non-U.S. employees. The Firm provides certain other postretirement benefits, primarily health care and life insurance, to eligible U.S. employees.

Components of Net Periodic Benefit Expense (Income) for Pension and Other Postretirement Plans

	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in millions	**2016**	2015	**2016**	2015
Service cost, benefits earned during the period	**$ 6**	$ 5	**$ 14**	$ 15
Interest cost on projected benefit obligation	**38**	39	**115**	116
Expected return on plan assets	**(31)**	(30)	**(91)**	(89)
Net amortization of prior service credit	**(4)**	(4)	**(13)**	(14)
Net amortization of actuarial loss	**3**	6	**9**	19
Net periodic benefit expense	**$ 12**	$ 16	**$ 34**	$ 47

18. Income Taxes

The Firm is under continuous examination by the Internal Revenue Service (the IRS) and other tax authorities in certain countries, such as Japan and the United Kingdom (U.K.), and in states in which it has significant business operations, such as New York. The Firm is currently at various levels of field examination with respect to audits by the IRS, as well as New York State and New York City, for tax years 2009-2012 and 2007-2009, respectively. The Firm believes that the resolution of these tax matters will not have a material effect in the consolidated balance sheets, although a resolution could have a material impact in the consolidated statements of income for a particular future period and on the effective tax rate for any period in which such resolution occurs.

In April 2016, the Firm received a notification from the IRS that the Congressional Joint Committee on Taxation approved the final report of an Appeals Office review of matters from tax years 1999-2005, and the Revenue Agent s Report reflecting agreed closure of the 2006-2008 tax years. The Firm has reserved the right to contest certain items, associated with tax years 1999-2005, the resolution of which is not expected to have a material impact on the effective tax rate or the consolidated financial statements.

During 2017, the Firm expects to reach a conclusion with the U.K. tax authorities on substantially all issues through tax year 2010, the resolution of which is not expected to have a material impact on the effective tax rate or the consolidated financial statements.

The Firm has established a liability for unrecognized tax benefits that it believes is adequate in relation to the potential for additional assessments. Once established, the Firm adjusts liabilities for unrecognized tax benefits only when more information is available or when an event occurs necessitating a change.

It is reasonably possible that significant changes in the balance of unrecognized tax benefits may occur within the next 12 months related to certain tax authority examinations referred to herein. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and the impact on the Firm s effective tax rate over the next 12 months.

The Firm s effective tax rate from continuing operations for the prior year period included a net discrete tax benefit of $564 million. This net discrete tax benefit was primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated due to an internal restructuring to simplify the Firm s legal entity organization in the U.K.

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Notes to Consolidated Financial Statements

(Unaudited)

19. Segment and Geographic Information

Segment Information

For a discussion about the Firm s business segments, see Note 21 to the consolidated financial statements in the 2015 Form 10-K.

Selected Financial Information by Business Segment

	Three Months Ended September 30, 2016				
$ in millions	Institutional Securities[1,2]	Wealth Management[2]	Investment Management	Intersegment Eliminations	Total
Total non-interest revenues[3,4]	**$ 4,436**	**$ 2,996**	**$ 551**	**$ (77)**	**$ 7,906**
Interest income	**980**	**979**	**1**	**(226)**	**1,734**
Interest expense	**863**	**94**		**(226)**	**731**
Net interest	**117**	**885**	**1**		**1,003**
Net revenues	**$ 4,553**	**$ 3,881**	**$ 552**	**$ (77)**	**$ 8,909**
Income (loss) from continuing operations before income taxes	**$ 1,383**	**$ 901**	**$ 97**	**$**	**$ 2,381**
Provision (benefit) for income taxes	**381**	**337**	**31**		**749**
Income (loss) from continuing operations	**1,002**	**564**	**66**		**1,632**
Income from discontinued operations, net of income taxes	**8**				**8**
Net income (loss)	**1,010**	**564**	**66**		**1,640**
Net income (loss) applicable to noncontrolling interests	**44**		**(1)**		**43**
Net income (loss) applicable to Morgan Stanley	**$ 966**	**$ 564**	**$ 67**	**$**	**$ 1,597**

	Three Months Ended September 30, 2015				
$ in millions	Institutional Securities[1]	Wealth Management	Investment Management	Intersegment Eliminations	Total
Total non-interest revenues[3,4]	$ 3,889	$ 2,889	$ 278	$ (51)	$ 7,005
Interest income	825	777		(151)	1,451
Interest expense	810	26	4	(151)	689
Net interest	15	751	(4)		762
Net revenues	$ 3,904	$ 3,640	$ 274	$ (51)	$ 7,767
	$ 688	$ 824	$ (38)	$	$ 1,474

Income (loss) from continuing operations before income taxes					
Provision (benefit) for income taxes	141	315	(33)		423
Income (loss) from continuing operations	547	509	(5)		1,051
Income (loss) from discontinued operations, net of income taxes	(3)		1		(2)
Net income (loss)	544	509	(4)		1,049
Net income applicable to noncontrolling interests	26		5		31
Net income (loss) applicable to Morgan Stanley	$ 518	$ 509	$ (9)	$	$ 1,018

	Nine Months Ended September 30, 2016				
$ in millions	Institutional Securities[1,2]	Wealth Management[2]	Investment Management	Intersegment Eliminations	Total
Total non-interest revenues[3,4]	**$ 12,577**	**$ 8,815**	**$ 1,610**	**$ (207)**	**$ 22,795**
Interest income	**2,999**	**2,813**	**5**	**(669)**	**5,148**
Interest expense	**2,731**	**268**	**3**	**(669)**	**2,333**
Net interest	**268**	**2,545**	**2**		**2,815**
Net revenues	**$ 12,845**	**$ 11,360**	**$ 1,612**	**$ (207)**	**$ 25,610**
Income from continuing operations before income taxes	**$ 3,797**	**$ 2,546**	**$ 259**	**$**	**$ 6,602**
Provision for income taxes	**1,109**	**973**	**78**		**2,160**
Income from continuing operations	**2,688**	**1,573**	**181**		**4,442**
Income from discontinued operations, net of income taxes	**1**				**1**
Net income	**2,689**	**1,573**	**181**		**4,443**
Net income applicable to noncontrolling interests	**144**		**(14)**		**130**
Net income applicable to Morgan Stanley	**$ 2,545**	**$ 1,573**	**$ 195**	**$**	**$ 4,313**

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(Unaudited)

	Nine Months Ended September 30, 2015				
$ in millions	Institutional Securities[1]	Wealth Management	Investment Management	Intersegment Eliminations	Total
Total non-interest revenues[3,4]	$ 14,640	$ 9,172	$ 1,709	$ (160)	$ 25,361
Interest income	2,418	2,296	1	(394)	4,321
Interest expense	2,524	119	16	(394)	2,265
Net interest	(106)	2,177	(15)		2,056
Net revenues	$ 14,534	$ 11,349	$ 1,694	$ (160)	$ 27,417
Income from continuing operations before income taxes	$ 4,123	$ 2,564	$ 369	$	$ 7,056
Provision for income taxes[5]	658	959	87		1,704
Income from continuing operations	3,465	1,605	282		5,352
Income (loss) from discontinued operations, net of income taxes	(10)		1		(9)
Net income	3,455	1,605	283		5,343
Net income applicable to noncontrolling interests	100		24		124
Net income applicable to Morgan Stanley	$ 3,355	$ 1,605	$ 259	$	$ 5,219

1. In accordance with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, for the current quarter and current year period, DVA gains (losses) are recorded within OCI when unrealized and in Trading revenues when realized. In the prior year quarter and prior year period, the realized and unrealized DVA gains (losses) are recorded in Trading revenues. See Notes 2 and 14 for further information.
2. Effective July 1, 2016, the Wealth Management and Institutional Securities business segments entered into an agreement whereby Institutional Securities assumed management of Wealth Management s fixed income client-driven trading activities and pays fees to Wealth Management based on distribution activity. Prior periods have not been recast for this new inter-segment agreement due to immateriality.
3. In certain management fee arrangements, the Firm is entitled to receive performance-based fees (also referred to as incentive fees and includes carried interest) when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fee revenues are accrued (or reversed) quarterly based on measuring account/fund performance to date versus the performance benchmark stated in the investment management agreement. The Firm s portion of net unrealized cumulative performance-based fees (for which the Firm is not obligated to pay compensation) at risk of reversing if fund performance falls below stated

investment management agreement benchmarks was approximately $419 million and $422 million at September 30, 2016 and December 31, 2015, respectively. See Note 11 for information regarding general partner guarantees, which include potential obligations to return performance fee distributions previously received.

4. The Firm waives a portion of its fees from certain registered money market funds that comply with the requirements of Rule 2a-7 of the Investment Company Act of 1940. These fee waivers resulted in a reduction of fees of approximately $26 million for the current quarter and $52 million for the prior year quarter, and $61 million for the current year period and $152 million for the prior year period.
5. The Firm s effective tax rate from continuing operations for the prior year period included a net discrete tax benefit of $564 million, within Institutional Securities (see Note 18).

Total Assets by Business Segment

$ in millions		**At September 30, 2016**		At December 31, 2015
Institutional Securities	**$**	**634,648**	$	602,714
Wealth Management		**174,521**		179,708
Investment Management		**4,722**		5,043
Total[1]	**$**	**813,891**	$	787,465

1. Corporate assets have been fully allocated to the business segments.

Geographic Information

For a discussion about the Firm s geographic net revenues, see Note 21 to the consolidated financial statements in the 2015 Form 10-K.

Net Revenues by Region

	Three Months Ended September 30,				Nine Months Ended September 30,			
$ in millions		**2016**		2015		**2016**		2015
Americas	**$**	**6,624**	$	5,652	**$**	**18,914**	$	19,359
EMEA		**1,236**		1,198		**3,677**		4,396
Asia-Pacific		**1,049**		917		**3,019**		3,662
Net revenues	**$**	**8,909**	$	7,767	**$**	**25,610**	$	27,417

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Notes to Consolidated Financial Statements

(Unaudited)

20. Subsequent Events

The Firm has evaluated subsequent events for adjustment to or disclosure in the consolidated financial statements through the date of this report and has not identified any recordable or disclosable events, not otherwise reported in these consolidated financial statements or the notes thereto, except for the following:

Common Stock Dividend

On October 19, 2016, the Firm announced that its Board of Directors declared a quarterly dividend per common share of $0.20. The dividend is payable on November 15, 2016 to common shareholders of record on October 31, 2016.

Long-Term Borrowings

Subsequent to September 30, 2016 and through October 31, 2016, long-term borrowings increased by approximately $2.2 billion, net of maturities. This amount includes the issuance of $2.5 billion of senior debt on October 24, 2016 and $3.0 billion of senior debt on October 27, 2016.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Morgan Stanley:

We have reviewed the accompanying condensed consolidated balance sheet of Morgan Stanley and subsidiaries (the Company) as of September 30, 2016, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2016 and 2015, and the condensed consolidated statements of cash flows and changes in total equity for the nine-month periods ended September 30, 2016 and 2015. These interim condensed consolidated financial statements are the responsibility of the management of the Company.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding

the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such interim condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of December 31, 2015, and the consolidated statements of income, comprehensive income, cash flows and changes in total equity for the year then ended (not presented herein) included in the Company s Annual Report on Form 10-K; and in our report dated February 23, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2015 is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York

November 2, 2016

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Morgan Stanley, a financial holding company, is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Wealth Management and Investment Management. Morgan Stanley, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Unless the context otherwise requires, the terms Morgan Stanley , Firm , us , we , or our mean Morgan Stanl Parent) together with its consolidated subsidiaries.

A description of the clients and principal products and services of each of our business segments is as follows:

Institutional Securities provides investment banking, sales and trading and other services to corporations, governments, financial institutions, and high-to-ultra high net worth clients. Investment banking services comprise capital raising and financial advisory services, including services relating to the underwriting of debt, equity and other securities as well as advice on mergers and acquisitions, restructurings, real estate and project finance. Sales and trading services include sales, financing and market-making activities in equity securities and fixed income products, including foreign exchange and commodities, as well as prime brokerage services. Other services include corporate lending activities and credit products, investments and research.

Wealth Management provides a comprehensive array of financial services and solutions to individual investors and small-to-medium sized businesses and institutions covering brokerage and investment advisory services, financial and

wealth planning services, annuity and insurance products, credit and other lending products, banking and retirement plan services.

Investment Management provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets, to a diverse group of clients across institutional and intermediary channels. Strategies and products comprise equity, fixed income, liquidity and alternative/other products. Institutional clients include defined benefit/defined contribution pensions, foundations, endowments, government entities, sovereign wealth funds, insurance companies, third-party fund sponsors and corporations. Individual clients are serviced through intermediaries, including affiliated and non-affiliated distributors.

The results of operations in the past have been, and in the future may continue to be, materially affected by competition, risk factors, legislative, legal and regulatory developments, as well as other factors. These factors also may have an adverse impact on our ability to achieve our strategic objectives. Additionally, the discussion of our results of operations herein may contain forward-looking statements. These statements, which reflect management s beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect our future results, see Forward-Looking Statements immediately preceding Part I, Item 1, Business Competition and Business Supervision and Regulation in Part I, Item 1 Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 (the 2015 Form 10-K), Business Segments Wealth Management Other Items, and Liquidity and Capital Resources herein.

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Management s Discussion and Analysis

Executive Summary

Business Segment Financial Information and Other Statistical Data

$ in millions, except per share amounts	Three Months Ended September 30, **2016**	Three Months Ended September 30, 2015	Nine Months Ended September 30, **2016**	Nine Months Ended September 30, 2015
Net revenues by segment				
Institutional Securities	**$ 4,553**	$ 3,904	**$ 12,845**	$ 14,534
Wealth Management	**3,881**	3,640	**11,360**	11,349
Investment Management	**552**	274	**1,612**	1,694
Intersegment Eliminations	**(77)**	(51)	**(207)**	(160)
Consolidated net revenues	**$ 8,909**	$ 7,767	**$ 25,610**	$ 27,417
Net revenues by region[1]				
Americas	**$ 6,624**	$ 5,652	**$ 18,914**	$ 19,359
EMEA	**1,236**	1,198	**3,677**	4,396
Asia-Pacific	**1,049**	917	**3,019**	3,662
Consolidated net revenues	**$ 8,909**	$ 7,767	**$ 25,610**	$ 27,417
Income from continuing operations applicable to Morgan Stanley				
Institutional Securities	**$ 958**	$ 521	**$ 2,544**	$ 3,365
Wealth Management	**564**	509	**1,573**	1,605
Investment Management	**67**	(10)	**195**	258
Income from continuing operations applicable to Morgan Stanley	**1,589**	1,020	**4,312**	5,228
Income (loss) from discontinued operations applicable to Morgan Stanley	**8**	(2)	**1**	(9)
Net income applicable to Morgan Stanley	**1,597**	1,018	**4,313**	5,219
Preferred stock dividend and other	**79**	79	**314**	301
Earnings applicable to Morgan Stanley common shareholders	**$ 1,518**	$ 939	**$ 3,999**	$ 4,918
Earnings per basic common share[2]	**$ 0.83**	$ 0.49	**$ 2.15**	$ 2.57
Earnings per diluted common share[2]	**0.81**	0.48	**2.11**	2.51
Effective income tax rate from continuing operations	**31.5%**	28.7%	**32.7%**	24.1%

	At September 30, 2016	At December 31, 2015
Capital ratios (Transitional)[3]		
Common Equity Tier 1 capital ratio	**16.8%**	15.5%
Tier 1 capital ratio	**18.9%**	17.4%

Total capital ratio	**22.0%**	20.7%
Tier 1 leverage ratio[4]	**8.3%**	8.3%

$ in millions, except per share amounts	**At September 30, 2016**	At December 31, 2015
Loans[5]	**$ 92,508**	$ 85,759
Total assets	**$ 813,891**	$ 787,465
Global Liquidity Reserve[6]	**$ 197,094**	$ 203,264
Deposits	**$ 151,843**	$ 156,034
Long-term borrowings	**$ 163,927**	$ 153,768
Book value per common share[7]	**$ 37.11**	$ 35.24
Worldwide employees	**55,256**	56,218

EMEA Europe, Middle East and Africa

1. For a discussion of how the geographic breakdown for net revenues is determined, see Note 21 to the consolidated financial statements in Item 8 of the 2015 Form 10-K.
2. For the calculation of basic and diluted earnings per common share, see Note 15 to the consolidated financial statements in Item 1.
3. For a discussion of our regulatory capital ratios, see Liquidity and Capital Resources Regulatory Requirements herein.
4. See Note 13 to the consolidated financial statements in Item 1 for information on the Tier 1 leverage ratio.
5. Amounts include loans held for investment (net of allowance) and loans held for sale but exclude loans at fair value, which are included in Trading assets in the consolidated balance sheets (see Note 7 to the consolidated financial statements in Item 1).
6. For a discussion of Global Liquidity Reserve, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Risk Management Framework Global Liquidity Reserve in Part II, Item 7 of the 2015 Form 10-K.
7. Book value per common share equals common shareholders equity of $69,629 million at September 30, 2016 and $67,662 million at December 31, 2015 divided by common shares outstanding of 1,876 million at September 30, 2016 and 1,920 million at December 31, 2015.

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Management s Discussion and Analysis

Overview of Financial Results

Consolidated Results for the Quarter Ended September 30, 2016

We reported net revenues of $8,909 million in the quarter ended September 30, 2016 (current quarter), compared with $7,767 million in the quarter ended September 30, 2015 (prior year quarter). For the current quarter, net income applicable to Morgan Stanley was $1,597 million, or $0.81 per diluted common share, compared with $1,018 million, or $0.48 per diluted common share, in the prior year quarter.

The prior year quarter included positive revenues due to the impact of debt valuation adjustments (DVA) of $435 million or $0.14 per diluted common share. Excluding DVA, net revenues were $7,332 million and net income applicable to Morgan Stanley was $740 million, or $0.34 per diluted common share, in the prior year quarter (see Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information herein).

Effective January 1, 2016, we early adopted a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities* that requires unrealized gains and losses from debt-related credit spreads and other credit factors to be presented in other comprehensive income (loss) (OCI) as opposed to Trading revenues. Results for 2015 are not restated pursuant to that guidance.

Consolidated Results for the Nine Months Ended September 30, 2016

We reported net revenues of $25,610 million in the nine months ended September 30, 2016 (current year period), compared with $27,417 million in the nine months ended September 30, 2015 (prior year period). For the current year period, net income applicable to Morgan Stanley was $4,313 million, or $2.11 per diluted common share, compared with $5,219 million, or $2.51 per diluted common share in the prior year period.

The prior year period included a net discrete tax benefit of $564 million or $0.29 per diluted common share, primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated, and positive revenues associated with DVA of $742 million or $0.24 per diluted common share. For a further discussion of the net discrete tax benefit, see Supplemental Financial Information and Disclosures Income Tax Matters herein.

Net revenues excluding DVA were $26,675 million in the prior year period, while net income applicable to Morgan Stanley was $4,742 million excluding DVA, or $2.27 per diluted common share excluding DVA, in the prior year period. Excluding both DVA and the net discrete tax benefit, net income applicable to Morgan Stanley was $4,178 million, or $1.98 per diluted common share, in the prior year period (see Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information herein).

Business Segment Net Revenues for the Current Quarter and Current Year Period

Institutional Securities net revenues were $4,553 million in the current quarter and $12,845 million in the current year period, an increase of 17% from the prior year quarter and a decrease of 12% from the prior year period. The current quarter results reflected improved performance across sales and trading products, partially offset by lower Investment banking advisory and underwriting revenues. The current year period results reflected lower revenues in sales and trading and underwriting, partially offset by higher results in M&A advisory.

Wealth Management net revenues of $3,881 million in the current quarter and $11,360 million in the current year period increased 7% from the prior year quarter and were essentially flat compared with the prior year period. The current quarter results reflected higher revenues related to investments associated with certain employee deferred compensation plans and growth in net interest income. The current year period results reflected growth in net interest income, partially offset by lower asset management, distribution and administration fees.

Investment Management net revenues of $552 million in the current quarter increased from $274 million in the prior year quarter and net revenues of $1,612 million in the current year period decreased from $1,694 million in the prior year period. Results reflected positive carried interest in the current quarter and significant reversal of previously accrued carried interest associated with Asia private equity in the prior year quarter and prior year period. The current year period reflected weaker investment performance compared to the prior year period. Asset management fees were relatively unchanged from the comparable prior year periods.

Consolidated Non-Interest Expenses for the Current Quarter and Current Year Period

Compensation and benefits expenses of $4,097 million in the current quarter and $11,795 million in the current year period increased 19% and decreased 5% from $3,437 million in the prior year quarter and $12,366 million in the prior year period. The current quarter results primarily reflected an increase in the fair value of investments to which certain deferred compensation plans are referenced, an increase in carried interest payable to employees, and an increase in discretionary incentive compensation driven

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Management s Discussion and Analysis

mainly by higher revenues. The current year period results reflected a decrease in discretionary incentive compensation driven mainly by lower revenue, and a decrease in salaries due to lower headcount, partially offset by an increase in the fair value of investments to which certain deferred compensation plans are referenced.

Non-compensation expenses were $2,431 million in the current quarter and $7,213 million in the current year period compared with $2,856 million in the prior year quarter and $7,995 million in the prior year period, representing a 15% and a 10% decrease, respectively, primarily due to lower litigation costs.

Return on Average Common Equity

The annualized return on average common equity was 8.7% in the current quarter and 7.7% in the current year period. For the prior year quarter, the annualized return on average common equity was 5.6%, or 3.9% excluding DVA. For the prior year period, the annualized return on average common equity was 9.8%, or 8.8% excluding DVA, and 7.7% excluding DVA and the net discrete tax benefit (see Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information herein).

Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information

We prepare our Consolidated Financial Statements using accounting principles generally accepted in the United States (U.S. GAAP). From time to time, we may disclose certain non-GAAP financial measures in the course of our earnings releases, earnings and other conference calls, financial presentations and otherwise. A non-GAAP financial measure excludes, or includes, amounts from the most directly comparable measure calculated and presented in accordance with U.S. GAAP. Non-GAAP financial measures disclosed by us are provided as additional information to investors and analysts in order to provide them with further transparency about, or as an alternative method for assessing, our financial condition, operating results or prospective regulatory capital requirements. These measures are not in accordance with, or a substitute for, U.S. GAAP and may be different from or inconsistent with non-GAAP financial measures used by other companies. Whenever we refer to a non-GAAP financial measure, we will also generally define it or present the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, along with a reconciliation of the differences between the U.S. GAAP financial measure and the non-GAAP financial measure.

Non-GAAP Financial Measures by Business Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in billions	**2016**	2015	**2016**	2015
Pre-tax profit margin[1]				
Institutional Securities	**30%**	18%	**30%**	28%
Wealth Management	**23%**	23%	**22%**	23%
Investment Management	**18%**	N/M	**16%**	22%
Consolidated	**27%**	19%	**26%**	26%
Average common equity[2]				

Institutional Securities	**$ 43.2**	$ 33.8	**$ 43.2**	$ 35.4
Wealth Management	**15.3**	11.4	**15.3**	10.9
Investment Management	**2.8**	2.1	**2.8**	2.2
Parent	**8.2**	20.3	**7.6**	18.2
Consolidated average common equity	**$ 69.5**	$ 67.6	**$ 68.9**	$ 66.7
Return on average common equity[2]				
Institutional Securities	**8.3%**	5.6%	**7.1%**	12.0%
Wealth Management	**14.5%**	16.8%	**13.3%**	18.1%
Investment Management	**9.3%**	N/M	**9.0%**	15.5%
Consolidated	**8.7%**	5.6%	**7.7%**	9.8%

Reconciliations from U.S. GAAP to Non-GAAP Consolidated Financial Measures

$ in millions, except per share data	Three Months Ended September 30, **2016**	2015	Nine Months Ended September 30, **2016**	2015
Net revenues				
Net revenues U.S. GAAP	**$ 8,909**	$ 7,767	**$ 25,610**	$ 27,417
Impact of DVA[3]		(435)		(742)
Net revenues, excluding DVA non-GAAP[4]	**$ 8,909**	$ 7,332	**$ 25,610**	$ 26,675
Net income applicable to Morgan Stanley				
Net income applicable to Morgan Stanley U.S. GAAP	**$ 1,597**	$ 1,018	**$ 4,313**	$ 5,219
Impact of DVA[3]		(278)		(477)
Net income applicable to Morgan Stanley, excluding DVA non-GAAP[4]	**$ 1,597**	$ 740	**$ 4,313**	$ 4,742
Impact of net discrete tax benefit[5]				(564)
Net income applicable to Morgan Stanley, excluding DVA and net discrete tax benefit non-GAAP[4]	**$ 1,597**	$ 740	**$ 4,313**	$ 4,178
Earnings per diluted common share				
Earnings per diluted common share U.S. GAAP	**$ 0.81**	$ 0.48	**$ 2.11**	$ 2.51
Impact of DVA[3]		(0.14)		(0.24)
Earnings per diluted common share, excluding DVA non-GAAP[4]	**$ 0.81**	$ 0.34	**$ 2.11**	$ 2.27
Impact of net discrete tax benefit[5]				(0.29)
Earnings per diluted common share, excluding DVA and net discrete tax benefit non-GAAP[4]	**$ 0.81**	$ 0.34	**$ 2.11**	$ 1.98

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	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in millions, except per share data	**2016**	2015	**2016**	2015
Effective income tax rate				
Effective income tax rate from continuing operations U.S. GAAP	**31.5%**	28.7%	**32.7%**	24.1%
Impact of net discrete tax benefit[5]				8.0%
Effective income tax rate from continuing operations, excluding net discrete tax benefit non-GAAP[4]	**31.5%**	28.7%	**32.7%**	32.1%

N/M Not Meaningful

DVA Debt valuation adjustments represent the change in the fair value resulting from fluctuations in our credit spreads and other credit factors related to liabilities carried at fair value, primarily certain Long-term and Short-term borrowings.

1. Pre-tax profit margin is a non-GAAP financial measure that we consider to be a useful measure to us, investors and analysts to assess operating performance and represents income from continuing operations before income taxes as a percentage of net revenues, which are two U.S. GAAP reported amounts, without adjustment.
2. Average common equity and return on average common equity are non-GAAP financial measures we consider to be useful measures to us, investors and analysts to assess capital adequacy and to allow better comparability of period-to-period operating performance. Average common equity for each business segment is determined using our Required Capital framework, an internal capital adequacy measure (see Liquidity and Capital Resources Regulatory Requirements Attribution of Average Common Equity according to the Required Capital Framework herein). Each business segment s return on average common equity equals annualized net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity for that segment. Effective tax rates used in the computation are determined on a separate legal entity basis. Consolidated return on average common equity equals annualized consolidated net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity.
3. In accordance with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, unrealized DVA gains (losses) in the current quarter and current year period are recorded within OCI in the consolidated statements of comprehensive income. In the prior year quarter and prior year period, the DVA gains (losses) were recorded within Trading revenues in the consolidated statements of income. See Notes 2 and 14 to the consolidated financial statements in Item 1 for further information.
4. Net revenues, excluding DVA, net income applicable to Morgan Stanley, excluding DVA, net income applicable to Morgan Stanley, excluding DVA and net discrete tax benefit, earnings per diluted common share, excluding DVA, earnings per diluted common share, excluding DVA and net discrete tax benefit and effective income tax rate from continuing operations, excluding net discrete tax benefit are non-GAAP financial measures we consider to be useful measures to us, investors and analysts to allow better comparability of period-to-period operating performance.
5. For a discussion of our net discrete tax benefit, see Supplemental Financial Information and Disclosures Income Tax Matters herein.

Consolidated Non-GAAP Financial Measures

$ in billions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Average common equity[1, 2, 3]				
Average common equity	**$ 69.5**	$ 67.6	**$ 68.9**	$ 66.7
Average common equity, excluding DVA	**69.6**	68.1	**69.0**	67.4
Average common equity, excluding DVA and net discrete tax benefit	**69.6**	68.1	**69.0**	67.0
Return on average common equity[1, 2]				
Return on average common equity	**8.7%**	5.6%	**7.7%**	9.8%
Return on average common equity, excluding DVA	**8.7%**	3.9%	**7.7%**	8.8%
Return on average common equity, excluding DVA and net discrete tax benefit	**8.7%**	3.9%	**7.7%**	7.7%

$ in billions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Average tangible common equity[1, 3]				
Average tangible common equity	**$ 60.2**	$ 57.9	**$ 59.4**	$ 57.0
Average tangible common equity, excluding DVA	**60.2**	58.4	**59.5**	57.7
Average tangible common equity, excluding DVA and net discrete tax benefit	**60.2**	58.4	**59.5**	57.3
Return on average tangible common equity[1, 4]				
Return on average tangible common equity	**10.1%**	6.5%	**9.0%**	11.5%
Return on average tangible common equity, excluding DVA	**10.1%**	4.5%	**9.0%**	10.3%
Return on average tangible common equity, excluding DVA and net discrete tax benefit	**10.1%**	4.5%	**9.0%**	9.0%

	At September 30, 2016	At December 31, 2015
Tangible book value per common share[1, 5]	**$ 32.13**	$ 30.26

1. Average common equity, return on average common equity, average tangible common equity, return on average tangible common equity and tangible book value per common share are non-GAAP financial measures we consider to be useful measures to us, investors and analysts to assess capital adequacy and to allow better comparability of period-to-period operating performance. For a discussion of tangible common equity, see Liquidity and Capital Resources Tangible Equity herein.
2. Return on average common equity equals annualized consolidated net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity. Effective January 1, 2016, as a result of the adoption of a provision of the accounting update related to DVA, we have redefined the calculation of the return on average common equity excluding DVA to adjust for DVA only in the denominator. Prior to January 1, 2016, for the return on average common equity, excluding DVA, and excluding DVA and net discrete tax benefits, both the numerator and denominator were adjusted to exclude those items.
3. The impact of DVA on average common equity and average tangible common equity was approximately $(62) million and $(550) million in the current quarter and prior year quarter, respectively. The impact of DVA on average common equity and average tangible common equity was approximately $(118) million and $(684) million in the current year period and prior year period, respectively. The impact of the net discrete tax benefit on average common equity and average tangible common equity was approximately $395 million in the prior year period.

4. Return on average tangible common equity equals net income applicable to Morgan Stanley less preferred dividends as a percentage of average tangible common equity. Effective January 1, 2016, as a result of the adoption of a provision of the accounting update related to DVA, we have redefined the calculation of return on average tangible common equity excluding DVA to adjust for DVA only in the denominator. Prior to January 1, 2016, for the return on average tangible common equity, excluding DVA, and excluding DVA and net discrete tax benefits, both the numerator and the denominator were adjusted to exclude the impact of DVA and the impact of net discrete tax benefits. The impact of DVA was 2.0% and 1.2% in the prior year quarter and prior year period, respectively. The impact of the net discrete tax benefit was 1.3% in the prior year period.
5. Tangible book value per common share equals tangible common equity of $60,300 million at September 30, 2016 and $58,098 million at December 31, 2015 divided by common shares outstanding of 1,876 million at September 30, 2016 and 1,920 million at December 31, 2015.

Return on Equity Target

We are aiming to improve our return to shareholders, and accordingly have established a target return on average common equity, excluding DVA, (Return on Equity) to be achieved by 2017, subject to the successful execution of our strategic objectives. For further information on our Return on Equity target and related assumptions, see Management s Discussion and Analysis of Financial Condition and Results of Operations Executive Summary Return on Equity Target in Part II, Item 7 of the 2015 Form 10-K.

Business Segments

Substantially all of our operating revenues and operating expenses are directly attributable to the business segments. Certain revenues and expenses have been allocated to each business segment, generally in proportion to its respective net revenues, non-interest expenses or other relevant measures.

As a result of treating certain intersegment transactions as transactions with external parties, we include an Intersegment Eliminations category to reconcile the business segment results to our consolidated results.

Net Revenues and Compensation Expense

For discussions of our net revenues, see Management s Discussion and Analysis of Financial Condition and Results of Operations Business Segments Net Revenues and Management s Discussion and Analysis of Financial Condition and Results of Operations Business Segments Net Revenues by Segment in Part II, Item 7 of the 2015 Form 10-K. For a discussion of our compensation expense, see Management s Discussion and Analysis of Financial Condition and Results of Operations Business Segments Compensation Expense in Part II, Item 7 of the 2015 Form 10-K.

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Institutional Securities

Income Statement Information

$ in millions	Three Months Ended September 30, 2016	2015	% Change
Revenues			
Investment banking	**$ 1,104**	$ 1,181	**(7)%**
Trading	**2,393**	1,984	**21%**
Investments	**36**	113	**(68)%**
Commissions and fees	**592**	657	**(10)%**
Asset management, distribution and administration fees	**68**	66	**3%**
Other	**243**	(112)	**N/M**
Total non-interest revenues	**4,436**	3,889	**14%**
Interest income	**980**	825	**19%**
Interest expense	**863**	810	**7%**
Net interest	**117**	15	**N/M**
Net revenues	**4,553**	3,904	**17%**
Compensation and benefits	**1,657**	1,318	**26%**
Non-compensation expenses	**1,513**	1,898	**(20)%**
Total non-interest expenses	**3,170**	3,216	**(1)%**
Income from continuing operations before income taxes	**1,383**	688	**101%**
Provision for income taxes	**381**	141	**170%**
Income from continuing operations	**1,002**	547	**83%**
Income (loss) from discontinued operations, net of income taxes	**8**	(3)	**N/M**
Net income	**1,010**	544	**86%**
Net income applicable to noncontrolling interests	**44**	26	**69%**
Net income applicable to Morgan Stanley	**$ 966**	$ 518	**86%**

$ in millions	Nine Months Ended September 30, 2016	2015	% Change
Revenues			
Investment banking	**$ 3,202**	$ 3,794	**(16)%**
Trading	**6,782**	8,191	**(17)%**
Investments	**144**	241	**(40)%**
Commissions and fees	**1,854**	2,013	**(8)%**
Asset management, distribution and administration fees	**210**	211	
Other	**385**	190	**103%**
Total non-interest revenues	**12,577**	14,640	**(14)%**

Interest income	**2,999**	2,418	**24%**
Interest expense	**2,731**	2,524	**8%**
Net interest	**268**	(106)	**N/M**
Net revenues	**12,845**	14,534	**(12)%**
Compensation and benefits	**4,664**	5,241	**(11)%**
Non-compensation expenses	**4,384**	5,170	**(15)%**
Total non-interest expenses	**9,048**	10,411	**(13)%**
Income from continuing operations before income taxes	**3,797**	4,123	**(8)%**
Provision for income taxes	**1,109**	658	**69%**
Income from continuing operations	**2,688**	3,465	**(22)%**
Income (loss) from discontinued operations, net of income taxes	**1**	(10)	**N/M**
Net income	**2,689**	3,455	**(22)%**
Net income applicable to noncontrolling interests	**144**	100	**44%**
Net income applicable to Morgan Stanley	**$ 2,545**	$ 3,355	**(24)%**

N/M Not Meaningful

Investment Banking

Investment Banking Revenues

	Three Months Ended September 30,		
$ in millions	**2016**	2015	% Change
Advisory revenues	**$ 504**	$ 557	**(10)%**
Underwriting revenues:			
Equity underwriting revenues	**236**	250	**(6)%**
Fixed income underwriting revenues	**364**	374	**(3)%**
Total underwriting revenues	**600**	624	**(4)%**
Total investment banking revenues	**$ 1,104**	$ 1,181	**(7)%**

	Nine Months Ended September 30,		
$ in millions	**2016**	2015	% Change
Advisory revenues	**$ 1,592**	$ 1,451	**10%**
Underwriting revenues:			
Equity underwriting revenues	**662**	1,046	**(37)%**
Fixed income underwriting revenues	**948**	1,297	**(27)%**
Total underwriting revenues	**1,610**	2,343	**(31)%**
Total investment banking revenues	**$ 3,202**	$ 3,794	**(16)%**

Investment Banking Volumes

	Three Months Ended September 30,		Nine Months Ended September 30,	
$ in billions	**2016** [1]	2015 [1]	**2016** [1]	2015 [1]
Completed mergers and acquisitions[2]	**$ 156**	$ 201	**$ 690**	$ 463

Equity and equity-related offerings[3]	**12**	12	**33**	51
Fixed income offerings[4]	**71**	49	**187**	197

1. Source: Thomson Reuters, data at October 3, 2016. Completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and fixed income offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or change in the value of a transaction.
2. Amounts include transactions of $100 million or more.
3. Amounts include Rule 144A issuances and registered public offerings of common stock and convertible securities and rights offerings.
4. Amounts include non-convertible preferred stock, mortgage-backed and asset-backed securities, and taxable municipal debt. Amounts include publicly registered and Rule 144A issues. Amounts exclude leveraged loans and self-led issuances.

Investment banking revenues are composed of fees from advisory services and revenues from the underwriting of securities offerings and syndication of loans, net of syndication expenses.

Investment banking revenues of $1,104 million in the current quarter and $3,202 million in the current year period

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decreased 7% and 16% from the comparable prior year periods due to lower advisory and underwriting revenues in the current quarter, and lower underwriting revenues, partially offset by higher advisory revenues in the current year period.

Advisory revenues decreased in the current quarter and increased in the current year period reflecting lower completed M&A activity in the current quarter and higher completed M&A activity in the current year period (see Investment Banking Volumes table).

Equity underwriting revenues decreased as a result of a shift in product mix in the current quarter and due to lower equity related offerings in the current year period (see Investment Banking Volumes table). Fixed income underwriting revenues decreased in the current quarter primarily due to lower loan fees, partially offset by higher bond fees. In the current year period, fixed income underwriting revenues decreased primarily due to lower bond and loan fees.

Sales and Trading Net Revenues

Sales and Trading Net Revenues

	Three Months Ended September 30,		
$ in millions	**2016**	2015	% Change
Trading	**$ 2,393**	$ 1,984	**21%**
Commissions and fees	**592**	657	**(10)%**
Asset management, distribution and administration fees	**68**	66	**3%**
Net interest	**117**	15	**N/M**
Total sales and trading net revenues	**$ 3,170**	$ 2,722	**16%**

	Nine Months Ended September 30,		
$ in millions	**2016**	2015	% Change
Trading	**$ 6,782**	$ 8,191	**(17)%**
Commissions and fees	**1,854**	2,013	**(8)%**
Asset management, distribution and administration fees	**210**	211	
Net interest	**268**	(106)	**N/M**
Total sales and trading net revenues	**$ 9,114**	$ 10,309	**(12)%**

N/M Not Meaningful

Sales and Trading Net Revenues by Business

$ in millions	Three Months Ended September 30, 2016	2015	% Change
Equity	**$ 1,883**	$ 1,869	**1%**
Fixed income[1]	**1,479**	918	**61%**
Other	**(192)**	(65)	**(195)%**
Total sales and trading net revenues	**$ 3,170**	$ 2,722	**16%**

$ in millions	Nine Months Ended September 30, 2016	2015	% Change
Equity	**$ 6,084**	$ 6,504	**(6)%**
Fixed income[1]	**3,649**	4,298	**(15)%**
Other	**(619)**	(493)	**(26)%**
Total sales and trading net revenues	**$ 9,114**	$ 10,309	**(12)%**

1. Effective for the current quarter, the Institutional Securities Fixed Income and Commodities business has been renamed the Fixed Income business.

Sales and Trading Net Revenues, Excluding DVA in 2015

Sales and trading net revenues, including equity and fixed income sales and trading net revenues that exclude the impact of DVA in 2015, are non-GAAP financial measures that we consider useful for us, investors and analysts to allow further comparability of period-to-period operating performance.

$ in millions	Three Months Ended September 30, 2016	2015	% Change
Total sales and trading net revenues U.S. GAAP	**$ 3,170**	$ 2,722	**16%**
Impact of DVA[1]		(435)	**(100)%**
Total sales and trading net revenues non-GAAP	**$ 3,170**	$ 2,287	**39%**
Equity sales and trading net revenues U.S. GAAP	**$ 1,883**	$ 1,869	**1%**
Impact of DVA[1]		(100)	**(100)%**
Equity sales and trading net revenues non-GAAP	**$ 1,883**	$ 1,769	**6%**
Fixed income sales and trading net revenues U.S. GAAP	**$ 1,479**	$ 918	**61%**
Impact of DVA[1]		(335)	**(100)%**
Fixed income sales and trading net revenues non-GAAP	**$ 1,479**	$ 583	**N/M**

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$ in millions	Nine Months Ended September 30, 2016	2015	% Change
Total sales and trading net revenues U.S. GAAP	**$ 9,114**	$ 10,309	**(12)%**
Impact of DVA[1]		(742)	**(100)%**
Total sales and trading net revenues non-GAAP	**$ 9,114**	$ 9,567	**(5)%**
Equity sales and trading net revenues U.S. GAAP	**$ 6,084**	$ 6,504	**(6)%**
Impact of DVA[1]		(197)	**(100)%**
Equity sales and trading net revenues non-GAAP	**$ 6,084**	$ 6,307	**(4)%**
Fixed income sales and trading net revenues U.S. GAAP	**$ 3,649**	$ 4,298	**(15)%**
Impact of DVA[1]		(545)	**(100)%**
Fixed income sales and trading net revenues non-GAAP	**$ 3,649**	$ 3,753	**(3)%**

1. In accordance with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, unrealized DVA gains (losses) in the current quarter and current year period are recorded within OCI in the consolidated statements of comprehensive income. In the prior year quarter and prior year period, the DVA gains (losses) were recorded within Trading revenues in the consolidated statements of income. See Notes 2 and 14 to the consolidated financial statements in Item 1 for further information.

Sales and Trading Net Revenues during the Current Quarter

Equity

Equity sales and trading net revenues were $1,883 million, an increase from the comparable prior year period reflecting improved performance in derivatives and cash products due to improved market conditions, and increased activity in some derivative products.

Fixed Income

Excluding the $335 million positive impact of DVA on prior year quarter results, fixed income net revenues of $1,479 million in the current quarter were higher than the prior year quarter primarily due to credit products, which benefited from an improved credit market environment, and improved market conditions for interest rate products. The increase was partially offset by the absence of revenues from the global oil merchanting business, which was sold on November 1, 2015. For more information on the sale of the global oil merchanting business, see Management s Discussion and Analysis of Financial Conditions and Results of Operations Business Segments Institutional Securities Investments, Other Revenues, Non-interest Expenses, Income Tax Items, Dispositions and Other Items 2015 Compared with 2014 Dispositions in Part II, Item 7 of the 2015 Form 10-K.

Other

Other sales and trading net losses of $192 million in the current quarter increased from the comparable prior year period primarily reflecting losses in the current quarter associated with corporate loan hedging activity compared with gains in the prior year quarter.

Sales and Trading Net Revenues during the Current Year Period

Equity

Equity sales and trading net revenues were $6,084 million, a decrease from the comparable prior year period, primarily reflecting lower revenues in cash products due to reduced volumes in international markets, partially offset by improved performance in prime brokerage across regions.

Fixed Income

Excluding the $545 million positive impact of DVA on the prior year period, fixed income net revenues of $3,649 million in the current year period were lower than the prior year period primarily due to the absence of revenues from the global oil merchanting business, as discussed herein, and lower results in foreign exchange driven mainly by lower volumes, partially offset by an improved credit market environment.

Other

Other sales and trading net losses of $619 million in the current year increased from the comparable prior year period primarily reflecting losses in the current year period associated with corporate loan hedging activity compared with gains in the prior year period.

Investments, Other Revenues, Non-interest Expenses and Other Items

Investments

Net investment gains of $36 million in the current quarter decreased from the prior year quarter as a result of lower gains on real estate and business related investments and losses on investments associated with our compensations plans compared to gains in the prior year quarter. Net investment gains of $144 million in the current year period decreased from the comparable prior year period primarily reflecting losses on investments associated with our compensations plans compared to gains in the prior year period and lower gains on real estate investments, partially offset by higher gains on business related investments.

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Other

Other revenues of $243 million were recognized in the current quarter compared with negative revenues of $112 million in the prior year quarter. Other revenues were $385 million in the current year period and $190 million in the prior year period. Results in both current quarter and current year period reflected mark-to-market gains on loans held for sale compared with mark-to-market losses in the comparable prior year periods, partially offset by lower results related to our 40% stake in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (see Note 8 to the consolidated financial statements in Item 1 for further information). In the current year period, results also reflected an increase in the allowance for losses on loans held for investment.

Non-interest Expenses

Non-interest expenses of $3,170 million in the current quarter and $9,048 million in the current year period decreased from the comparable prior year periods. Results reflected a 20% reduction in Non-compensation expenses, partially offset by a 26% increase in Compensation and benefits expenses in the current quarter. In the current year period, results reflected an 11% reduction in Compensation and benefits expenses and a 15% reduction in Non-compensation expenses.

Compensation and benefits expenses increased in the current quarter primarily due to an increase in the fair value of investments to which certain deferred compensation plans are referenced and an increase in discretionary incentive compensation driven mainly by higher revenues. Compensation and benefits expenses decreased in the current year period primarily due to a decrease in discretionary incentive compensation driven mainly by lower revenues and a decrease in salaries due to lower headcount, partially offset by an increase in the fair value of investments to which certain deferred compensation plans are referenced.

Non-compensation expenses decreased in the current quarter and current year period primarily due to lower litigation costs. In the prior year quarter and prior year period, Non-compensation expenses included a reserve for the settlement of a credit default swap (CDS) antitrust litigation. For more information on the CDS antitrust litigation, see Legal Proceedings in Part I, Item 3 of the 2015 Form 10-K.

Noncontrolling Interests

Noncontrolling interests primarily relate to Mitsubishi UFJ Financial Group, Inc. s interest in Morgan Stanley MUFG Securities Co., Ltd.

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Wealth Management

Income Statement Information

$ in millions	Three Months Ended September 30, 2016[1]	2015	% Change
Revenues			
Investment banking	**$ 129**	$ 140	**(8)%**
Trading	**229**	47	**N/M**
Investments		3	**N/M**
Commissions and fees	**433**	465	**(7)%**
Asset management, distribution and administration fees	**2,133**	2,182	**(2)%**
Other	**72**	52	**38%**
Total non-interest revenues	**2,996**	2,889	**4%**
Interest income	**979**	777	**26%**
Interest expense	**94**	26	**N/M**
Net interest	**885**	751	**18%**
Net revenues	**3,881**	3,640	**7%**
Compensation and benefits	**2,203**	2,024	**9%**
Non-compensation expenses	**777**	792	**(2)%**
Total non-interest expenses	**2,980**	2,816	**6%**
Income from continuing operations before income taxes	**901**	824	**9%**
Provision for income taxes	**337**	315	**7%**
Net income applicable to Morgan Stanley	**$ 564**	$ 509	**11%**

$ in millions	Nine Months Ended September 30, 2016[1]	2015	% Change
Revenues			
Investment banking	**$ 373**	$ 518	**(28)%**
Trading	**675**	475	**42%**
Investments	**(2)**	18	**N/M**
Commissions and fees	**1,268**	1,481	**(14)%**
Asset management, distribution and administration fees	**6,269**	6,471	**(3)%**
Other	**232**	209	**11%**
Total non-interest revenues	**8,815**	9,172	**(4)%**
Interest income	**2,813**	2,296	**23%**
Interest expense	**268**	119	**N/M**
Net interest	**2,545**	2,177	**17%**
Net revenues	**11,360**	11,349	
Compensation and benefits	**6,443**	6,449	

Non-compensation expenses	**2,371**	2,336	**1%**
Total non-interest expenses	**8,814**	8,785	
Income from continuing operations before income taxes	**2,546**	2,564	**(1)%**
Provision for income taxes	**973**	959	**1%**
Net income applicable to Morgan Stanley	**$ 1,573**	$ 1,605	**(2)%**

N/M Not Meaningful

1. Effective July 1, 2016, the Wealth Management and Institutional Securities business segments entered into an agreement whereby Institutional Securities assumed management of Wealth Management s fixed income client-driven trading activities and pays fees to Wealth Management based on distribution activity (Fixed Income Integration). Prior periods have not been recast for this new inter-segment agreement due to immateriality.

Statistical Data

Financial Information and Statistical Data

$ in billions, except where noted	**At September 30, 2016**	At December 31, 2015
Client assets	**$ 2,090**	$ 1,985
Fee-based client assets[1]	**$ 855**	$ 795
Fee-based client assets as a percentage of total client assets	**41%**	40%
Client liabilities[2]	**$ 70**	$ 64
Bank deposit program	**$ 149**	$ 149
Investment securities portfolio	**$ 64.7**	$ 57.9
Loans and lending commitments	**$ 65.9**	$ 55.3
Wealth Management representatives	**15,856**	15,889
Retail locations	**608**	608

	Three Months Ended September 30,	
	2016	2015
Annualized revenues per representative (dollars in thousands)[3]	**$ 977**	$ 922
Client assets per representative (dollars in millions)[4]	**$ 132**	$ 122
Fee-based asset flows[5]	**$ 13.5**	$ 7.7

	Nine Months Ended September 30,	
	2016	2015
Annualized revenues per representative (dollars in thousands)[3]	**$ 953**	$ 952
Client assets per representative (dollars in millions)[4]	**$ 132**	$ 122
Fee-based asset flows[5]	**$ 31.4**	$ 34.9

1. Fee-based client assets represent the amount of assets in client accounts where the basis of payment for services is a fee calculated on those assets.
2. Client liabilities include securities-based and tailored lending, home loans and margin lending.
3. Annualized revenues per representative equal the Wealth Management business segment s annualized revenues divided by the average representative headcount.

4. Client assets per representative equal total period-end client assets divided by period-end representative headcount.
5. Fee-based asset flows include net new fee-based assets, net account transfers, dividends, interest and client fees and exclude institutional cash management-related activity.

Net Revenues

Transactional Revenues

	Three Months Ended September 30,		
$ in millions	**2016**	2015	% Change
Investment banking	**$ 129**	$ 140	**(8)%**
Trading	**229**	47	**N/M**
Commissions and fees	**433**	465	**(7)%**
Transactional revenues	**$ 791**	$ 652	**21%**

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$ in millions	Nine Months Ended September 30, 2016	2015	% Change
Investment banking	**$ 373**	$ 518	**(28)%**
Trading	**675**	475	**42%**
Commissions and fees	**1,268**	1,481	**(14)%**
Transactional revenues	**$ 2,316**	$ 2,474	**(6)%**

Transactional revenues of $791 million in the current quarter increased 21% from the prior year quarter primarily reflecting higher revenues related to investments associated with certain employee deferred compensation plans partially offset by lower commission revenues.

Transactional revenues of $2,316 million in the current year period decreased 6% from the prior year period due to lower revenues in Investment banking and Commissions and fees, partially offset by higher revenues in Trading.

Investment banking revenues decreased in the current quarter due to lower fixed income revenues as a result of the Fixed Income Integration. The decrease in the current year period was due to lower revenues from unit investments trusts, equity and structured products, partially offset by increased levels of preferred underwriting activity.

Trading revenues increased in the current quarter and the current year period primarily due to gains related to investments associated with certain employee deferred compensation plans and higher revenues from fixed income products, partially offset by decreases from the Fixed Income Integration.

Commissions and fees decreased in the current quarter and current year period reflected lower daily average commissions primarily due to reduced client activity in equity and annuity products. The decrease in the current quarter was partially offset by increases from the Fixed Income Integration.

Asset Management

Asset management, distribution and administration fees of $2,133 million in the current quarter decreased 2% from the comparable prior year period primarily due to lower average fee rates reflecting larger client account balances with lower tiered rates, as well as shifts in the mix of investment types and strategies in fee-based accounts, partially offset by positive flows. Asset management, distribution and administration fees of $6,269 million in the current year period decreased 3% from the comparable prior year period primarily due to lower fees from mutual funds reflecting the impact of lower average asset levels and lower average fee rates related to fee-based accounts, partially offset by positive flows. See Fee-Based Client Assets Activity and Average Fee Rate by Account Type herein.

Net Interest

Net interest of $885 million in the current quarter and $2,545 million in the current year period increased 18% and 17%, respectively, from the comparable prior year periods primarily due to higher loan and investment securities balances which were funded by higher average deposits.

Other

Other revenues of $72 million in the current quarter and $232 million in the current year period increased 38% and 11%, respectively, from the comparable prior year periods, due to higher realized gains from the available for sale (AFS) securities portfolio. The increase in Other revenues in the current year period was also due to higher referral fees.

Non-interest Expenses

Non-interest expenses of $2,980 million in the current quarter increased 6% from the comparable prior year period. Non-interest expense in the current year period was relatively unchanged from the comparable prior year period.

Compensation and benefits expenses increased in the current quarter primarily due to the increase in the fair value of investments to which certain deferred compensation plans are referenced. Compensation and benefits expenses in the current year period were relatively unchanged from the prior year period.

Non-compensation expenses decreased in the current quarter due to lower professional service costs partially offset by higher litigation costs. Non-compensation expenses in the current year period were relatively unchanged.

Other Items

U.S. Department of Labor Conflict of Interest Rule

In April 2016, the U.S. Department of Labor adopted a conflict of interest rule under the Employee Retirement Income Security Act of 1974 that broadens the circumstances under which a firm is considered a fiduciary when transacting with retail investment accounts and sets forth requirements to ensure that advice given by broker-dealers acting as investment advice fiduciaries is impartial. The new fiduciary standard for investment advice will apply on April 10, 2017 and full compliance is required by January 1, 2018. Given the breadth and scale of our platform and continued investment in technology and infrastructure, we believe that we will be able to provide compliant solutions to meet our clients investment needs (see also Business Supervision and Regulation Institutional Securities and Wealth Management Broker-Dealer and Investment Adviser Regulation in Part I, Item 1 of the 2015 Form 10-K).

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Fee-Based Client Assets Activity and Average Fee Rate by Account Type

For a description of fee-based client assets, including descriptions for the fee based client asset types and rollforward items in the following tables, see Management s Discussion and Analysis of Financial Condition and Results of Operations Business Segments Wealth Management Fee-Based Client Assets in Part II, Item 7 of the 2015 Form 10-K.

$ in billions, Fee Rate in bps	At June 30, 2016	Inflows	Outflows	Market Impact	**At September 30, 2016**	**Average for the Three Months Ended September 30, 2016** Fee Rate
Separately managed accounts[1]	$ 279	**$ 8**	**$ (15)**	**$ 7**	**$ 279**	**28**
Unified managed accounts	120	**17**	**(5)**	**4**	**136**	**106**
Mutual fund advisory	23		**(1)**	**1**	**23**	**121**
Representative as advisor	117	**10**	**(7)**	**3**	**123**	**87**
Representative as portfolio manager	265	**19**	**(12)**	**6**	**278**	**100**
Subtotal	$ 804	**$ 54**	**$ (40)**	**$ 21**	**$ 839**	**73**
Cash management	16	**2**	**(2)**		**16**	**6**
Total fee-based client assets	$ 820	**$ 56**	**$ (42)**	**$ 21**	**$ 855**	**72**

$ in billions, Fee Rate in bps	At June 30, 2015	Inflows	Outflows	Market Impact	At September 30, 2015	Average for the Three Months Ended September 30, 2015 Fee Rate
Separately managed accounts[1]	$ 294	$ 13	$ (11)	$ (18)	$ 278	34
Unified managed accounts	103	6	(4)	(7)	98	112
Mutual fund advisory	29		(1)	(3)	25	120
Representative as advisor	120	7	(7)	(8)	112	88
Representative as portfolio manager	253	15	(10)	(16)	242	103
Subtotal	$ 799	$ 41	$ (33)	$ (52)	$ 755	76
Cash management	14	3	(2)		15	6
Total fee-based client assets	$ 813	$ 44	$ (35)	$ (52)	$ 770	74

$ in billions, Fee Rate in bps	At December 31, 2015	Inflows	Outflows	Market Impact	**At September 30, 2016**	**Average for the Nine Months Ended September 30, 2016** Fee Rate
Separately managed accounts[1]	$ 283	**$ 24**	**$ (31)**	**$ 3**	**$ 279**	**30**

Unified managed accounts	105	**37**	**(13)**	**7**	**136**	**108**
Mutual fund advisory	25	**1**	**(5)**	**2**	**23**	**121**
Representative as advisor	115	**22**	**(20)**	**6**	**123**	**88**
Representative as portfolio manager	252	**48**	**(32)**	**10**	**278**	**101**
Subtotal	$ 780	**$ 132**	**$ (101)**	**$ 28**	**$ 839**	**74**
Cash management	15	**8**	**(7)**		**16**	**6**
Total fee-based client assets	$ 795	**$ 140**	**$ (108)**	**$ 28**	**$ 855**	**73**

$ in billions, Fee Rate in bps	At December 31, 2014	Inflows	Outflows	Market Impact	At September 30, 2015	Average for the Nine Months Ended September 30, 2015 Fee Rate
Separately managed accounts[1]	$ 285	$ 34	$ (24)	$ (17)	$ 278	34
Unified managed accounts	93	21	(10)	(6)	98	113
Mutual fund advisory	31	1	(5)	(2)	25	121
Representative as advisor	119	22	(20)	(9)	112	89
Representative as portfolio manager	241	44	(28)	(15)	242	104
Subtotal	$ 769	$ 122	$ (87)	$ (49)	$ 755	76
Cash management	16	7	(8)		15	6
Total fee-based client assets	$ 785	$ 129	$ (95)	$ (49)	$ 770	75

bps Basis points

1. Includes non-custody account values reflecting prior quarter-end balances due to a lag in the reporting of asset values by third-party custodians.

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Investment Management

Income Statement Information

$ in millions	Three Months Ended September 30, 2016	2015	% Change
Revenues			
Investment banking	**$ (2)**	$ 1	**N/M**
Trading	**(3)**		**N/M**
Investments	**51**	(235)	**N/M**
Commissions and fees			
Asset management, distribution and administration fees	**508**	511	**(1)%**
Other	**(3)**	1	**N/M**
Total non-interest revenues	**551**	278	**98%**
Interest income	**1**		**N/M**
Interest expense		4	**N/M**
Net interest	**1**	(4)	**N/M**
Net revenues	**552**	274	**101%**
Compensation and benefits	**237**	95	**149%**
Non-compensation expenses	**218**	217	
Total non-interest expenses	**455**	312	**46%**
Income (loss) from continuing operations before income taxes	**97**	(38)	**N/M**
Provision for (benefit from) income taxes	**31**	(33)	**N/M**
Income (loss) from continuing operations	**66**	(5)	**N/M**
Income (loss) from discontinued operations, net of income taxes		1	**N/M**
Net income (loss)	**66**	(4)	**N/M**
Net income (loss) applicable to noncontrolling interests	**(1)**	5	**N/M**
Net income (loss) applicable to Morgan Stanley	**$ 67**	$ (9)	**N/M**

$ in millions	Nine Months Ended September 30, 2016	2015	% Change
Revenues			
Investment banking	**$ (1)**	$ 1	**N/M**
Trading	**(8)**	(3)	**(167)%**
Investments	**37**	149	**(75)%**
Commissions and fees	**3**		**N/M**
Asset management, distribution and administration fees	**1,551**	1,547	
Other	**28**	15	**87%**
Total non-interest revenues	**1,610**	1,709	**(6)%**

Interest income	**5**	1	**N/M**
Interest expense	**3**	16	**(81)%**
Net interest	**2**	(15)	**N/M**
Net revenues	**1,612**	1,694	**(5)%**
Compensation and benefits	**688**	676	**2%**
Non-compensation expenses	**665**	649	**2%**
Total non-interest expenses	**1,353**	1,325	**2%**
Income from continuing operations before income taxes	**259**	369	**(30)%**
Provision for income taxes	**78**	87	**(10)%**
Income from continuing operations	**181**	282	**(36)%**
Income (loss) from discontinued operations, net of income taxes		1	**N/M**
Net income	**181**	283	**(36)%**
Net income (loss) applicable to noncontrolling interests	**(14)**	24	**N/M**
Net income applicable to Morgan Stanley	**$ 195**	$ 259	**(25)%**

N/M Not Meaningful

Net Revenues

Investments

Investments gains of $51 million in the current quarter and gains of $37 million in the current year period compared with losses of $235 million and gains of $149 million in the comparable prior year periods. The current quarter reflected positive carried interest in the current quarter and current year period. The losses in the prior year quarter were due to a reversal of previously accrued carried interest associated with Asia private equity. The current year period reflected weaker investment performance compared to the prior year period.

Asset Management, Distribution and Administration Fees

Asset management, distribution and administration fees of $508 million in the current quarter and $1,551 million in the current year period were relatively unchanged from the comparable prior year periods, as increases in management fees, driven by higher assets under management or supervision (AUM) and average fee rates, were offset by lower performance fees (see AUM and Average Fee Rate by Asset Class herein).

Non-interest Expenses

Non-interest expenses of $455 million in the current quarter and $1,353 million in the current year period increased 46% and 2% from the comparable prior year periods primarily due to higher Compensation and benefit expenses.

Compensation and benefits expenses increased in the current quarter mainly attributed to reversal of previously accrued carried interest in the prior year quarter. Compensation and benefits expenses increased in the current year period primarily due to an increase in deferred compensation associated with carried interest and an increase in amortization of the prior year compensation awards partially offset by a decrease in discretionary incentive compensation driven by lower revenues.

Non-compensation expenses in the current quarter and current year period were relatively unchanged from the comparable prior year periods.

Assets Under Management or Supervision

Effective in the second quarter of 2016, the presentation of AUM for Investment Management has been revised to better align asset classes with its present organizational structure. With this change, the Alternative / Other products asset class now includes products in fund of funds, real estate, private equity and credit strategies, as well as multi-asset portfolios. All prior period information has been recast in the new format.

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AUM and Average Fee Rate by Asset Class

For a description of the rollforward items in the following tables, see Management s Discussion and Analysis of Financial Condition and Results of Operations Business Segments Investment Management Statistical Data in Part II, Item 7 of the 2015 Form 10-K.

$ in billions, Fee Rate in bps	At June 30, 2016	Inflows	Outflows	Distributions	Market Impact	Foreign Currency Impact	**At September 30, 2016**	**Average for the Three Months Ended September 30, 2016** Total AUM	**Average for the Three Months Ended September 30, 2016** Fee Rate
Equity	$ 81	**$ 4**	**$ (6)**	**$**	**$ 4**	**$**	**$ 83**	**$ 83**	**74**
Fixed income	61	**6**	**(5)**		**1**		**63**	**62**	**32**
Liquidity	149	**358**	**(352)**		**(1)**		**154**	**151**	**18**
Alternative / Other products	115	**4**	**(4)**	**(1)**	**2**	**1**	**117**	**116**	**73**
Total assets under management or supervision	$ 406	**$ 372**	**$ (367)**	**$ (1)**	**$ 6**	**$ 1**	**$ 417**	**$ 412**	**47**
Shares of minority stake assets	8						**7**	**7**	

$ in billions, Fee Rate in bps	At June 30, 2015	Inflows	Outflows	Distributions	Market Impact	Foreign Currency Impact	At September 30, 2015	Average for the Three Months Ended September 30, 2015 Total AUM	Average for the Three Months Ended September 30, 2015 Fee Rate
Equity	$ 96	$ 4	$ (10)	$	$ (10)	$ 1	$ 81	$ 90	69
Fixed income	64	5	(8)				61	62	32
Liquidity	132	338	(323)		1		148	141	9
Alternative / Other products	111	10	(4)	(1)	(1)	(1)	114	113	79
Total assets under management or supervision	$ 403	$ 357	$ (345)	$ (1)	$ (10)	$	$ 404	$ 406	45
Shares of minority stake assets	7						8	8	

	At December 31,	Inflows	Outflows	Distributions	Market Impact	Foreign Currency	**At**	**Average for the**

$ in billions, Fee Rate in bps	2015					Impact	September 30, 2016	Nine Months Ended September 30, 2016 Total AUM	Fee Rate
Equity	$ 83	**$ 14**	**$ (18)**	**$**	**$ 4**	**$**	**$ 83**	**$ 81**	**72**
Fixed income	60	**18**	**(19)**		**3**	**1**	**63**	**61**	**32**
Liquidity	149	**985**	**(979)**		**(1)**		**154**	**149**	**18**
Alternative / Other products	114	**18**	**(18)**	**(2)**	**3**	**2**	**117**	**115**	**76**
Total assets under management or supervision	$ 406	**$ 1,035**	**$ (1,034)**	**$ (2)**	**$ 9**	**$ 3**	**$ 417**	**$ 406**	**48**
Shares of minority stake assets	8						**7**	**8**	

$ in billions, Fee Rate in bps	At December 31, 2014	Inflows	Outflows	Distributions	Market Impact	Foreign Currency Impact	At September 30, 2015	Average for the Nine Months Ended September 30, 2015 Total AUM	Fee Rate
Equity	$ 99	$ 11	$ (24)	$	$ (5)	$	$ 81	$ 96	69
Fixed income	65	17	(19)			(2)	61	64	32
Liquidity	128	927	(908)		1		148	133	9
Alternative / Other products	111	21	(14)	(3)		(1)	114	112	80
Total assets under management or supervision	$ 403	$ 976	$ (965)	$ (3)	$ (4)	$ (3)	$ 404	$ 405	46
Shares of minority stake assets	7						8	7	

bps Basis points

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Supplemental Financial Information and Disclosures

U.S. Bank Subsidiaries

We provide loans to a variety of customers, from large corporate and institutional clients to high net worth individuals, primarily through our U.S. bank subsidiaries, Morgan Stanley Bank, N.A. (MSBNA) and Morgan Stanley Private Bank, National Association (MSPBNA) (collectively, U.S. Bank Subsidiaries). The lending activities in the Institutional Securities business segment primarily include loans or lending commitments to corporate clients. The lending activities in the Wealth Management business segment primarily include securities-based lending that allows clients to borrow money against the value of qualifying securities and also include residential real estate loans. We expect our lending activities to continue to grow through further penetration of the Wealth Management business segments client base. For a further discussion of our credit risks, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk in Item 3. For further discussion about loans and lending commitments, see Notes 7 and 11 to the consolidated financial statements in Item 1.

U.S. Bank Subsidiaries Supplemental Financial Information Excluding Transactions with the Parent

$ in billions	**At September 30, 2016**	At December 31, 2015
U.S. Bank Subsidiaries assets	**$ 173.9**	$ 174.2
U.S. Bank Subsidiaries investment securities portfolio[1]	**64.7**	57.9
Wealth Management U.S. Bank Subsidiaries data		
Securities-based lending and other loans[2]	**$ 34.1**	$ 28.6
Residential real estate loans	**23.6**	20.9
Total	**$ 57.7**	$ 49.5
Institutional Securities U.S. Bank Subsidiaries data		
Corporate loans	**$ 21.0**	$ 22.9
Wholesale real estate loans	**9.9**	8.9
Total	**$ 30.9**	$ 31.8

1. The U.S. Bank Subsidiaries investment securities portfolio includes AFS investment securities of $53.5 billion at September 30, 2016 and $53.0 billion at December 31, 2015. The remaining balance represents held to maturity investment securities of $11.2 billion at September 30, 2016 and $4.9 billion at December 31, 2015.
2. Other loans primarily include tailored lending.

Income Tax Matters

The effective tax rate from continuing operations was 31.5% and 32.7% for the current quarter and current year period, respectively.

The effective tax rate from continuing operations was 28.7% and 24.1% for the prior year quarter and prior year period, respectively. The results for prior year period included a net discrete tax benefit of $564 million, primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated due to an internal restructuring to simplify our legal entity organization in the U.K. Excluding this net discrete tax benefit, the effective tax rate from continuing operations for the prior year period would have been 32.1%.

Accounting Development Updates

The Financial Accounting Standards Board (the FASB) issued the following accounting updates which apply to us.

The Firm considers the applicability and impact of all accounting updates. Accounting updates not listed below were assessed and determined to be either not applicable or are not expected to have a material impact on our consolidated financial statements.

The following accounting updates are currently being evaluated to determine the potential impact of adoption:

Revenue from Contracts with Customers. This accounting update aims to clarify the principles of revenue recognition, to develop a common revenue recognition standard across all industries for U.S. GAAP and International Financial Reporting Standards and to provide enhanced disclosures for users of the financial statements. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update is effective as of January 1, 2018, with early adoption permitted as of January 1, 2017.

Statement of Cash Flows. This accounting update standardizes the cash flow classification of certain cash flow matters. This update is effective as of January 1, 2018, with early adoption permitted.

Financial Instruments Credit Losses. This accounting update impacts the impairment model for certain financial assets measured at amortized cost such as loans held for investment and held to maturity debt securities. The amendments in this update will accelerate the recognition of credit losses by replacing the incurred loss impairment methodology with a current expected credit loss (CECL) methodology that requires an estimate of expected credit losses over the entire life of the financial asset. Additionally, although the CECL methodology will not apply to AFS debt securities, the update will require establishment of an

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allowance to reflect impairment of these securities, thereby eliminating the concept of a permanent write-down. This update is effective as of January 1, 2020, with early adoption permitted as of January 1, 2019.

Leases. This accounting update requires lessees to recognize all leases with terms exceeding one year on the balance sheet which results in the recognition of a right of use asset and corresponding lease liability, including for those leases which we currently classify as operating leases. The right of use asset and lease liability will initially be measured using the present value of the remaining rental payments. The accounting for leases where we are the lessor is largely unchanged. This update is effective as of January 1, 2019 with early adoption permitted.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which require us to make estimates and assumptions (see Note 1 to the consolidated financial statements in Item 1). We believe that of our significant accounting policies (see Note 2 to the consolidated financial statements in Item 8 of the 2015 Form 10-K and Note 2 to the consolidated financial statements in Item 1), the fair value, goodwill and intangible assets, legal and regulatory contingencies and income taxes policies involve a higher degree of judgment and complexity. For a further discussion about our critical accounting policies, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in Part II, Item 7 of the 2015 Form 10-K.

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Liquidity and Capital Resources

Senior management establishes liquidity and capital policies. Through various risk and control committees, senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity, interest rate and currency sensitivity of our asset and liability position. The Treasury Department, Firm Risk Committee, Asset and Liability Management Committee, and other committees and control groups assist in evaluating, monitoring and controlling the impact that our business activities have on our consolidated balance sheets, liquidity and capital structure. Liquidity and capital matters are reported regularly to the Board and the Board s Risk Committee.

The Balance Sheet

We monitor and evaluate the composition and size of our balance sheet on a regular basis. Our balance sheet management process includes quarterly planning, business-specific thresholds, monitoring of business-specific usage versus key performance metrics and new business impact assessments.

We establish balance sheet thresholds at the consolidated, business segment and business unit levels. We monitor balance sheet utilization and review variances resulting from business activity or market fluctuations. On a regular basis, we review current performance versus established thresholds and assess the need to re-allocate our balance sheet based on business unit needs. We also monitor key metrics, including asset and liability size and capital usage.

Total Assets by Business Segment

	At September 30, 2016			
$ in millions	Institutional Securities	Wealth Management	Investment Management	Total
Assets				
Cash and cash equivalents[1]	**$ 31,791**	**$ 10,670**	**$ 91**	**$ 42,552**
Trading assets, at fair value	**270,334**	**87**	**2,730**	**273,151**
Investment securities	**14,227**	**64,729**		**78,956**
Securities purchased under agreements to resell	**82,267**	**8,312**		**90,579**
Securities borrowed	**125,987**	**293**		**126,280**
Customer and other receivables	**31,509**	**19,387**	**515**	**51,411**
Loans, net of allowance	**34,698**	**57,810**		**92,508**
Other assets[2]	**43,835**	**13,233**	**1,386**	**58,454**
Total assets	**$ 634,648**	**$ 174,521**	**$ 4,722**	**$ 813,891**

	At December 31, 2015			
$ in millions	Institutional Securities	Wealth Management	Investment Management	Total
Assets				
Cash and cash equivalents[1]	$ 22,356	$ 31,216	$ 511	$ 54,083
Trading assets, at fair value	236,174	883	2,448	239,505
Investment securities	14,124	57,858	1	71,983

Securities purchased under agreements to resell	83,205	4,452		87,657
Securities borrowed	141,971	445		142,416
Customer and other receivables	23,390	21,406	611	45,407
Loans, net of allowance	36,237	49,522		85,759
Other assets[2]	45,257	13,926	1,472	60,655
Total assets	$ 602,714	$ 179,708	$ 5,043	$ 787,465

1. Cash and cash equivalents include cash and due from banks and interest bearing deposits with banks.
2. Other assets primarily includes Cash deposited with clearing organizations or segregated under federal and other regulations or requirements; Other investments; Premises, equipment and software costs; Goodwill; Intangible assets and deferred tax assets.

A substantial portion of total assets consists of liquid marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business segment. The liquid nature of these assets provides us with flexibility in managing the composition and size of our balance sheet. Total assets increased to $814 billion at September 30, 2016 from $787 billion at December 31, 2015, primarily due to increases in Trading assets including higher balances for U.S. government and agency securities, other sovereign government obligations and corporate equities.

Securities Repurchase Agreements and Securities Lending

Securities borrowed or securities purchased under agreements to resell and securities loaned or securities sold under agreements to repurchase are treated as collateralized financings (see Notes 2 and 6 to the consolidated financial statements in Item 1).

Collateralized Financing Transactions

$ in millions	**At September 30, 2016**	At December 31, 2015
Securities purchased under agreements to resell and Securities borrowed	**$ 216,859**	$ 230,073
Securities sold under agreements to repurchase and Securities loaned	**$ 63,451**	$ 56,050

	Average Balance	
	Three Months Ended	
$ in millions	**September 30, 2016**	December 31, 2015
Securities purchased under agreements to resell and Securities borrowed	**$ 223,301**	$ 250,605
Securities sold under agreements to repurchase and Securities loaned	**$ 66,848**	$ 62,373

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At September 30, 2016 differences between period end balances and average balances during the current quarter in the previous table were not significant. Securities purchased under agreements to resell and Securities borrowed and Securities sold under agreements to repurchase and Securities loaned period-end balances at December 31, 2015 were lower than the average balance during 2015. The balances moved in line with client financing activity and with general movements of inventory. Securities financing assets and liabilities also include matched book transactions with minimal market, credit and/or liquidity risk. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. Additionally, included within securities financing transactions were $13 billion and $11 billion at September 30, 2016 and December 31, 2015, respectively, related to fully collateralized securities-for-securities lending transactions represented in Trading assets.

Customer Securities Financing

The customer receivable portion of the securities financing transactions primarily includes customer margin loans, collateralized by customer-owned securities, which are segregated in accordance with regulatory requirements. The customer payable portion of the securities financing transactions primarily includes payables to our prime brokerage customers. Our risk exposure on these transactions is mitigated by collateral maintenance policies that limit our credit exposure to customers and liquidity reserves held against this risk exposure.

Liquidity Risk Management Framework

The primary goal of our Liquidity Risk Management Framework is to ensure that we have access to adequate funding across a wide range of market conditions and time horizons. The framework is designed to enable us to fulfill our financial obligations and support the execution of our business strategies.

The following principles guide our Liquidity Risk Management Framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region and term of funding should be diversified; and
- Liquidity Stress Tests should anticipate, and account for, periods of limited access to funding.

The core components of our Liquidity Risk Management Framework are the Required Liquidity Framework, Liquidity Stress Tests and the Global Liquidity Reserve, which support our target liquidity profile. For a further discussion about our Required Liquidity Framework and Liquidity Stress Tests, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Risk Management Framework in Part II, Item 7 of the 2015 Form 10-K.

At September 30, 2016 and December 31, 2015, we maintained sufficient liquidity to meet current and contingent funding obligations as modeled in our Liquidity Stress Tests.

Global Liquidity Reserve

We maintain sufficient liquidity reserves to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. For a further discussion of our Global Liquidity Reserve, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Risk Management Framework Global Liquidity Reserve in Part II, Item 7 of the 2015 Form 10-K.

Global Liquidity Reserve by Type of Investment

$ in millions	**At September 30, 2016**	At December 31, 2015
Cash deposits with banks	**$ 10,468**	$ 10,187
Cash deposits with central banks	**27,898**	39,774
Unencumbered highly liquid securities:		
U.S. government obligations	**76,508**	72,265
U.S. agency and agency mortgage-backed securities	**51,902**	37,678
Non-U.S. sovereign obligations[1]	**17,129**	28,999
Other investment grade securities	**13,189**	14,361
Global Liquidity Reserve	**$ 197,094**	$ 203,264

1. Non-U.S. sovereign obligations are primarily composed of unencumbered German, French, Dutch, U.K. and Japanese government obligations.

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Global Liquidity Reserve Managed by Bank and Non-Bank Legal Entities

$ in millions	**At September 30, 2016**	At December 31, 2015	Daily Average Balance Three Months Ended **September 30, 2016**
Bank legal entities			
Domestic	**$ 78,903**	$ 88,432	**$ 83,892**
Foreign	**5,688**	5,896	**5,408**
Total Bank legal entities	**84,591**	94,328	**89,300**
Non-Bank legal entities			
Domestic			
Parent	**58,276**	54,810	**60,161**
Non-Parent	**16,494**	20,001	**18,287**
Total Domestic	**74,770**	74,811	**78,448**
Foreign	**37,733**	34,125	**38,536**
Total Non-Bank legal entities	**112,503**	108,936	**116,984**
Total	**$ 197,094**	$ 203,264	**$ 206,284**

Regulatory Liquidity Framework

The Basel Committee on Banking Supervision (the Basel Committee) has developed two standards intended for use in liquidity risk supervision: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Liquidity Coverage Ratio

The LCR was developed to ensure banking organizations have sufficient high-quality liquid assets to cover net cash outflows arising from significant stress over 30 calendar days. This standard s objective is to promote the short-term resilience of the liquidity risk profile of banking organizations.

The final rule to implement the LCR in the U.S. (U.S. LCR) applies to us and our U.S. Bank Subsidiaries and each is required to calculate its respective U.S. LCR on each business day. As of January 1, 2016, we and our U.S. Bank Subsidiaries are required to maintain a minimum U.S. LCR of 90%, and this minimum standard will reach the fully phased-in level of 100% beginning on January 1, 2017. In addition, the Board of Governors of the Federal Reserve System (the Federal Reserve) has proposed rules that would require large banking organizations, including us, to publicly disclose certain qualitative and quantitative information about their U.S. LCR. We are compliant with the minimum required U.S. LCR based on current interpretation and we continue to evaluate its impact on our liquidity and funding requirements.

Net Stable Funding Ratio

The objective of the NSFR is to reduce funding risk over a one-year horizon by requiring banking organizations to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. The Basel

Committee finalized the NSFR framework in 2014. In the second quarter of 2016, the U.S. banking regulators issued a proposal to implement the NSFR in the U.S. The proposal would require a covered company to maintain an amount of available stable funding, which is calculated by applying standardized weightings to its equity and liabilities based on their expected stability, that is no less than the amount of its required stable funding, which is calculated by applying standardized weightings to its assets, derivatives exposures, and certain other off-balance sheet exposures based on their liquidity characteristics. If adopted as proposed, the requirements would apply to us and our U.S. Bank Subsidiaries from January 1, 2018. We continue to evaluate the potential impact of the proposal, which is subject to public comment and further rulemaking procedures. Our preliminary estimates, based on the current proposal, indicate that steps will be necessary to meet the requirement, which we expect to accomplish by the effective date of the final rule. Our preliminary estimates are subject to risks and uncertainties that may cause actual results based on the final rule to differ materially from estimates. For a discussion of risks and uncertainties that may affect our future results, see Risk Factors in Part I, Item 1A of the 2015 Form 10-K.

Funding Management

We manage our funding in a manner that reduces the risk of disruption to our operations. We pursue a strategy of diversification of secured and unsecured funding sources (by product, investor and region) and attempt to ensure that the tenor of our liabilities equals or exceeds the expected holding period of the assets being financed.

We fund our balance sheet on a global basis through diverse sources. These sources may include our equity capital, long-term borrowings, securities sold under agreements to repurchase (repurchase agreements), securities lending, deposits, commercial paper, letters of credit and lines of credit. We have active financing programs for both standard and structured products targeting global investors and currencies.

Secured Financing

For a discussion of our secured financing activities, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Funding Management Secured Financing in Part II, Item 7 of the 2015 Form 10-K.

At September 30, 2016 and December 31, 2015, the weighted average maturity of our secured financing against less liquid assets was greater than 120 days.

Unsecured Financing

For a discussion of our unsecured financing activities, see Management s Discussion and Analysis of Financial Condi-

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tion and Results of Operations Liquidity and Capital Resources Funding Management Unsecured Financing in Part II, Item 7 of the 2015 Form 10-K. When appropriate, we may use derivative products to conduct asset and liability management and to make adjustments to our interest rate and structured borrowings risk profile (see Note 4 to the consolidated financial statements in Item 1).

Deposits

Available funding sources to our bank subsidiaries include demand deposit accounts, money market deposit accounts, time deposits, repurchase agreements, federal funds purchased and Federal Home Loan Bank advances. The vast majority of deposits in our U.S. Bank Subsidiaries are sourced from our retail brokerage accounts and are considered to have stable, low-cost funding characteristics. At September 30, 2016 and December 31, 2015 deposits were $151,843 million and $156,034 million, respectively (see Note 9 to the consolidated financial statements in Item 1).

Short-Term Borrowings

Our unsecured short-term borrowings may consist of bank loans, bank notes, commercial paper and structured notes with maturities of 12 months or less at issuance. At September 30, 2016 and December 31, 2015, we had approximately $914 million and $2,173 million, respectively, in Short-term borrowings.

Long-Term Borrowings

We believe that accessing debt investors through multiple distribution channels helps provide consistent access to the unsecured markets. In addition, the issuance of long-term borrowings allows us to reduce reliance on short-term credit sensitive instruments. Long-term borrowings are generally managed to achieve staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients across regions, currencies and product types. Availability and cost of financing to us can vary depending on market conditions, the volume of certain trading and lending activities, our credit ratings and the overall availability of credit.

We may engage in various transactions in the credit markets (including, for example, debt retirements) that we believe are in our best interests and our investors.

Long-term Borrowings by Maturity Profile

$ in millions	Parent	Subsidiaries	**Total**
Due in 2016	**$ 5,245**	**$ 3,343**	**$ 8,588**
Due in 2017	**22,377**	**1,418**	**23,795**
Due in 2018	**18,250**	**1,217**	**19,467**
Due in 2019	**20,403**	**923**	**21,326**
Due in 2020	**16,329**	**1,005**	**17,334**
Thereafter	**68,391**	**5,026**	**73,417**
Total	**$ 150,995**	**$ 12,932**	**$ 163,927**

Maturities of long-term borrowings outstanding over the next 12 months were $27,255 million and $22,396 million at September 30, 2016 and December 31, 2015, respectively.

Trust Preferred Securities

During the current quarter, Morgan Stanley Capital Trust III, Morgan Stanley Capital Trust IV, Morgan Stanley Capital Trust V and Morgan Stanley Capital Trust VIII redeemed all of their issued and outstanding Capital Securities pursuant to the optional redemption provisions provided in the respective governing documents. In the aggregate, $2.8 billion was redeemed. We concurrently redeemed the related underlying junior subordinated debentures.

For further information on Long-term borrowings, see Notes 10 and 20 to the consolidated financial statements in Item 1.

Credit Ratings

We rely on external sources to finance a significant portion of our day-to-day operations. The cost and availability of financing generally are impacted by, among other things, our credit ratings. In addition, our credit ratings can have an impact on certain trading revenues, particularly in those businesses where longer-term counterparty performance is a key consideration, such as over-the-counter (OTC) derivative transactions, including credit derivatives and interest rate swaps. Rating agencies consider company-specific factors; other industry factors such as regulatory or legislative changes; the macroeconomic environment; and perceived levels of government support, among other things.

Our credit ratings no longer incorporate uplift from perceived government support from any rating agency given the significant progress of the U.S. financial reform legislation and regulations. Meanwhile, some rating agencies have stated that they currently incorporate various degrees of credit rating uplift from non-governmental third-party sources of potential support.

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Parent and MSBNA s Senior Unsecured Ratings at October 31, 2016

	Parent		
	Short-Term Debt	Long-Term Debt	Rating Outlook
DBRS, Inc.	**R-1 (middle)**	**A (high)**	**Stable**
Fitch Ratings, Inc.	**F1**	**A**	**Stable**
Moody s Investors Service, Inc.	**P-2**	**A3**	**Stable**
Rating and Investment Information, Inc.	**a-1**	**A-**	**Stable**
Standard & Poor s Global Ratings	**A-2**	**BBB+**	**Stable**

	Morgan Stanley Bank, N.A.		
	Short-Term Debt	Long-Term Debt	Rating Outlook
DBRS, Inc.			
Fitch Ratings, Inc.	**F1**	**A+**	**Stable**
Moody s Investors Service, Inc.	**P-1**	**A1**	**Stable**
Rating and Investment Information, Inc.			
Standard & Poor s Global Ratings	**A-1**	**A**	**Positive Watch**

In connection with certain OTC trading agreements and certain other agreements where we are a liquidity provider to certain financing vehicles associated with the Institutional Securities business segment, we may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain exchanges and clearing organizations in the event of a future credit rating downgrade irrespective of whether we are in a net asset or net liability position.

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody s Investors Service, Inc. (Moody s) and Standard & Poor s Global Ratings (S&P). The following table shows the future potential collateral amounts and termination payments that could be called or required by counterparties or exchanges and clearing organizations in the event of one-notch or two-notch downgrade scenarios, from the lowest of Moody s or S&P ratings, based on the relevant contractual downgrade triggers.

Incremental Collateral or Terminating Payments upon Potential Future Rating Downgrade

$ in millions	**At September 30, 2016**	At December 31, 2015
One-notch downgrade	**$ 1,388**	$ 1,169
Two-notch downgrade	**1,321**	1,465

While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact it would have on our business and results of operations in future periods is inherently uncertain and would depend on a number of interrelated factors, including, among others, the magnitude of the downgrade, the rating relative to peers, the

rating assigned by the relevant agency pre-downgrade, individual client behavior and future mitigating actions we might take. The liquidity impact of additional collateral requirements is included in our Liquidity Stress Tests.

Capital Management

Senior management views capital as an important source of financial strength. We actively manage our consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract our capital base to address the changing needs of our businesses. We attempt to maintain total capital, on a consolidated basis, at least equal to the sum of our operating subsidiaries required equity.

We repurchased approximately $1,250 million of our outstanding common stock as part of our share repurchase program during the current quarter and $2,500 million during the current year period. We repurchased approximately $625 million during the prior year quarter and $1,500 million in the prior year period (see Note 14 to the consolidated financial statements in Item 1).

For a description of our share repurchase program, see Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities in Part II, Item 5 of the 2015 Form 10-K.

The Board determines the declaration and payment of dividends on a quarterly basis. On October 19, 2016, we announced that the Board declared a quarterly dividend per common share of $0.20. The dividend is payable on November 15, 2016 to common shareholders of record on October 31, 2016 (see Note 20 to the consolidated financial statements in Item 1).

On September 15, 2016, we announced that the Board declared a quarterly dividend for preferred stock shareholders of record on September 30, 2016 that was paid on October 17, 2016.

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Tangible Equity

Tangible Equity Measures Period End and Average

$ in millions	At September 30, 2016	At December 31, 2015	Monthly Average Balance Three Months Ended September 30, 2016
Common equity	**$ 69,629**	$ 67,662	**$ 69,531**
Preferred equity	**7,520**	7,520	**7,520**
Morgan Stanley shareholders equity	**77,149**	75,182	**77,051**
Junior subordinated debentures issued to capital trusts		2,870	**1,427**
Less: Goodwill and net intangible assets	**(9,329)**	(9,564)	**(9,368)**
Tangible Morgan Stanley shareholders equity[1]	**$ 67,820**	$ 68,488	**$ 69,110**
Common equity	**$ 69,629**	$ 67,662	**$ 69,531**
Less: Goodwill and net intangible assets	**(9,329)**	(9,564)	**(9,368)**
Tangible common equity[1]	**$ 60,300**	$ 58,098	**$ 60,163**

1. Tangible Morgan Stanley shareholders equity and tangible common equity are non-GAAP financial measures that we and investors consider to be a useful measure to assess capital adequacy.

Regulatory Requirements

Regulatory Capital Framework

We are a financial holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act), and are subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for us, including well-capitalized standards, and evaluates our compliance with such capital requirements. The Office of the Comptroller of the Currency (OCC) establishes similar capital requirements and standards for our U.S. Bank Subsidiaries. The regulatory capital requirements are largely based on the Basel III capital standards established by the Basel Committee and also implement certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

The Basel Committee has finalized revisions to the Basel III framework that, if adopted by the U.S. banking agencies, could result in substantial changes to our capital requirements. In particular, the Basel Committee has finalized a new standardized approach methodology for calculating counterparty credit risk exposures in derivatives transactions, and revised frameworks for market risk, interest rate risk in the banking book, and securitization capital requirements. In addition, the Basel Committee has proposed revisions to various regulatory capital standards, the impact of which is uncertain and depends on future rulemakings by the U.S. banking agencies.

Regulatory Capital Requirements

We are required to maintain minimum risk-based and leverage capital ratios under the regulatory capital requirements. A summary of the calculations of regulatory capital, risk-weighted assets (RWAs) and transition provisions follows. For a further discussion of these calculations, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements Implementation of U.S. Basel III in Part II, Item 7 of the 2015 Form 10-K.

Regulatory Capital. Minimum risk-based capital ratio requirements apply to Common Equity Tier 1 capital, Tier 1 capital and Total capital. Certain adjustments to and deductions from capital are required for purposes of determining these ratios, such as deductions for goodwill, intangibles, certain deferred tax assets, other amounts in accumulated other comprehensive income and investments in the capital instruments of unconsolidated financial institutions. Certain of these adjustments and deductions are also subject to transitional provisions.

In addition to the minimum risk-based capital ratio requirements, on a fully phased-in basis by 2019, we will be subject to:

- A greater than 2.5% Common Equity Tier 1 capital conservation buffer;

- The Common Equity Tier 1 global systemically important bank (G-SIB) capital surcharge, currently at 3%; and

- Up to a 2.5% Common Equity Tier 1 countercyclical capital buffer (CCyB), currently set by banking regulators at zero (collectively, the buffers).

In 2016, the phase-in amount for each of the buffers is 25% of the fully phased-in buffer requirement. Failure to maintain the buffers would result in restrictions on our ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers. For a further discussion of the G-SIB capital surcharge, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements G-SIB Capital Surcharge in Part II, Item 7 of the 2015 Form 10-K.

Risk-Weighted Assets. RWAs reflect both our on- and off-balance sheet risk as well as capital charges attributable to the risk of loss arising from the following:

- Credit risk: The failure of a borrower, counterparty or issuer to meet its financial obligation to us;

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Market risk: Adverse changes in the level of one or more market prices, rate, indices, implied volatilities, correlations or other market factors, such as market liquidity; and

Operational risk: Inadequate or failed processes, people and systems or external events (*e.g.*, fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets).

Our binding risk-based capital ratios for regulatory purposes are the lower of the capital ratios computed under (i) the standardized approaches for calculating credit risk RWAs and market risk RWAs (the Standardized Approach) and (ii) the

applicable advanced approaches for calculating credit risk, market risk and operational risk RWAs (the Advanced Approach). At September 30, 2016, our binding ratios are based on the Advanced Approach transitional rules.

The methods for calculating each of our risk-based capital ratios will change through January 1, 2022 as aspects of the capital rules are phased in. These changes may result in differences in our reported capital ratios from one reporting period to the next that are independent of changes to our capital base, asset composition, off-balance sheet exposures or risk profile.

Minimum Risk-Based Capital Ratios: Transitional Provisions

1. These ratios assume the requirements for the G-SIB capital surcharge (3.0%) and CCyB (zero) remain at current levels.

Management s Discussion and Analysis

Transitional and Fully Phased-In Regulatory Capital Ratios

	At September 30, 2016			
	Transitional		Fully Phased-In	
$ in millions	Standardized	Advanced	Standardized	Advanced
Risk-based capital				
Common Equity Tier 1 capital	**$ 60,340**	**$ 60,340**	**$ 58,362**	**$ 58,362**
Tier 1 capital	**67,603**	**67,603**	**66,065**	**66,065**
Total capital	**79,144**	**78,838**	**77,629**	**77,323**
Total RWAs	**350,430**	**358,486**	**360,948**	**369,636**
Common Equity Tier 1 capital ratio	**17.2%**	**16.8%**	**16.2%**	**15.8%**
Tier 1 capital ratio	**19.3%**	**18.9%**	**18.3%**	**17.9%**
Total capital ratio	**22.6%**	**22.0%**	**21.5%**	**20.9%**
Leverage-based capital				
Adjusted average assets[1]	**$ 809,927**	**N/A**	**$ 808,826**	**N/A**
Tier 1 leverage ratio[2]	**8.3%**	**N/A**	**8.2%**	**N/A**

	At December 31, 2015			
	Transitional		Fully Phased-In	
$ in millions	Standardized	Advanced	Standardized	Advanced
Risk-based capital				
Common Equity Tier 1 capital	$ 59,409	$ 59,409	$ 55,441	$ 55,441
Tier 1 capital	66,722	66,722	63,000	63,000
Total capital	79,663	79,403	73,858	73,598
Total RWAs	362,920	384,162	373,421	395,277
Common Equity Tier 1 capital ratio	16.4%	15.5%	14.8%	14.0%
Tier 1 capital ratio	18.4%	17.4%	16.9%	15.9%
Total capital ratio	22.0%	20.7%	19.8%	18.6%
Leverage-based capital				
Adjusted average assets[1]	$ 803,574	N/A	$ 801,346	N/A
Tier 1 leverage ratio[2]	8.3%	N/A	7.9%	N/A

N/A Not Applicable

1. Adjusted average assets represent the denominator of the Tier 1 leverage ratio and are composed of the average daily balance of consolidated on-balance sheet assets under U.S. GAAP during the calendar quarter, adjusted for disallowed goodwill, transitional intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.
2. The minimum Tier 1 leverage ratio requirement is 4.0%.

The fully phased-in pro forma estimates in the previous tables are based on our current understanding of the capital rules and other factors, which may be subject to change as we receive additional clarification and implementation guidance

from the Federal Reserve and as the interpretation of the regulation evolves over time. These fully phased-in pro forma estimates are non-GAAP financial measures that we consider to be useful measures for us, investors and analysts in evaluating compliance with new regulatory capital requirements that were not yet effective at September 30, 2016. These preliminary estimates are subject to risks and uncertainties that may cause actual results to differ materially and should not be taken as a projection of what our capital ratios, RWAs, earnings or other results will actually be at future dates. For a discussion of risks and uncertainties that may affect our future results, see Risk Factors in Part I, Item 1A of the 2015 Form 10-K.

Well-Capitalized Minimum Regulatory Capital Ratios for U.S. Bank Subsidiaries

	At September 30, 2016
Common Equity Tier 1 risk-based capital ratio	**6.5%**
Tier 1 risk-based capital ratio	**8.0%**
Total risk-based capital ratio	**10.0%**
Tier 1 leverage ratio	**5.0%**

For us to remain a financial holding company, our U.S. Bank Subsidiaries must qualify as well-capitalized by maintaining the minimum ratio requirements set forth in the previous table. The Federal Reserve has not yet revised the well-capitalized standard for financial holding companies to reflect the higher capital standards required for us under the capital rules. Assuming that the Federal Reserve would apply the same or very similar well-capitalized standards to financial holding companies, each of our risk-based capital ratios and Tier 1 leverage ratio at September 30, 2016 would have exceeded the revised well-capitalized standard. The Federal Reserve may require us to maintain risk- and leverage-based capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a financial holding company s particular condition, risk profile and growth plans.

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Regulatory Capital Calculated under Advanced Approach Transitional Rules

$ in millions		**At September 30, 2016**		At December 31, 2015
Common Equity Tier 1 capital				
Common stock and surplus	**$**	**18,154**	$	20,114
Retained earnings		**52,545**		49,204
AOCI		**(1,070)**		(1,656)
Regulatory adjustments and deductions:				
Net goodwill		**(6,577)**		(6,582)
Net intangible assets (other than goodwill and mortgage servicing assets)		**(1,646)**		(1,192)
Credit spread premium over risk-free rate for derivative liabilities		**(351)**		(202)
Net deferred tax assets		**(615)**		(675)
Net after-tax DVA[1]		**34**		156
Adjustments related to AOCI		**101**		411
Other adjustments and deductions		**(235)**		(169)
Total Common Equity Tier 1 capital	**$**	**60,340**	$	59,409
Additional Tier 1 capital				
Preferred stock	**$**	**7,520**	$	7,520
Trust preferred securities				702
Noncontrolling interests		**675**		678
Regulatory adjustments and deductions:				
Net deferred tax assets		**(410)**		(1,012)
Credit spread premium over risk-free rate for derivative liabilities		**(234)**		(303)
Net after-tax DVA[1]		**23**		233
Other adjustments and deductions		**(155)**		(253)
Additional Tier 1 capital	**$**	**7,419**	$	7,565
Deduction for investments in covered funds		**(156)**		(252)
Total Tier 1 capital	**$**	**67,603**	$	66,722
Tier 2 capital				
Subordinated debt	**$**	**11,010**	$	10,404
Trust preferred securities				2,106
Other qualifying amounts		**56**		35
Regulatory adjustments and deductions		**169**		136
Total Tier 2 capital	**$**	**11,235**	$	12,681
Total capital	**$**	**78,838**	$	79,403

Roll-forward of Regulatory Capital Calculated under Advanced Approach Transitional Rules

$ in millions	Nine Months Ended September 30, 2016	
Common Equity Tier 1 capital		
Common Equity Tier 1 capital at December 31, 2015	$	59,409
Change related to the following items:		
Value of shareholders common equity		**1,967**
Net goodwill		**5**
Net intangible assets (other than goodwill and mortgage servicing assets)		**(454)**
Credit spread premium over risk-free rate for derivative liabilities		**(149)**
Net deferred tax assets		**60**
Net after-tax DVA[1]		**(122)**
Adjustments related to AOCI		**(310)**
Other deductions and adjustments		**(66)**
Common Equity Tier 1 capital at September 30, 2016	**$**	**60,340**
Additional Tier 1 capital		
Additional Tier 1 capital at December 31, 2015	$	7,565
Change related to the following items:		
Trust preferred securities		**(702)**
Noncontrolling interests		**(3)**
Net deferred tax assets		**602**
Credit spread premium over risk-free rate for derivative liabilities		**69**
Net after-tax DVA[1]		**(210)**
Other adjustments and deductions		**98**
Additional Tier 1 capital at September 30, 2016		**7,419**
Deduction for investments in covered funds at December 31, 2015		(252)
Deduction for investments in covered funds		**96**
Deduction for investments in covered funds at September 30, 2016		**(156)**
Tier 1 capital at September 30, 2016	**$**	**67,603**
Tier 2 capital		
Tier 2 capital at December 31, 2015	$	12,681
Change related to the following items:		
Subordinated debt		**606**
Trust preferred securities		**(2,106)**
Noncontrolling interests		**21**
Other adjustments and deductions		**33**
Tier 2 capital at September 30, 2016	**$**	**11,235**
Total capital at September 30, 2016	**$**	**78,838**

1. In connection with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, related to DVA, the aggregate balance of net after-tax valuation adjustments was reduced by $77 million as of January 1, 2016.

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Roll-forward of RWAs Calculated under Advanced Approach Transitional Rules

$ in millions		**Nine Months Ended September 30, 2016**[1]
Credit risk RWAs		
Balance at December 31, 2015	$	173,586
Change related to the following items:		
Derivatives		**598**
Securities financing transactions		**2,020**
Other counterparty credit risk		**(60)**
Securitizations		**(1,560)**
Credit valuation adjustment		**5,172**
Investment securities		**1,324**
Loans		**(7,151)**
Cash		**376**
Equity investments		**(1,266)**
Other credit risk[2]		**(1,265)**
Total change in credit risk RWAs	**$**	**(1,812)**
Balance at September 30, 2016	**$**	**171,774**
Market risk RWAs		
Balance at December 31, 2015	$	71,476
Change related to the following items:		
Regulatory VaR		**(2,226)**
Regulatory stressed VaR		**(5,676)**
Incremental risk charge		**(577)**
Comprehensive risk measure		**(2,399)**
Specific risk:		
Non-securitizations		**244**
Securitizations		**(547)**
Total change in market risk RWAs	**$**	**(11,181)**
Balance at September 30, 2016	**$**	**60,295**
Operational risk RWAs		
Balance at December 31, 2015	$	139,100
Change in operational risk RWAs[3]		**(12,683)**
Balance at September 30, 2016	**$**	**126,417**
Total RWAs	**$**	**358,486**

VaR Value-at-Risk

1. The RWAs for each category in the table reflect both on- and off-balance sheet exposures, where appropriate.
2. Amount reflects assets not in a defined category, non-material portfolios of exposures and unsettled transactions.
3. Amount reflects a reduction in the internal loss data related to litigation utilized in the operational risk capital model.

Supplementary Leverage Ratio

We and our U.S. Bank Subsidiaries are required to publicly disclose our supplementary leverage ratios, which will become effective as a capital standard on January 1, 2018. By January 1, 2018, we must also maintain a Tier 1 supplementary leverage capital buffer of at least 2% in addition to the 3% minimum supplementary leverage ratio (for a total of at least 5%), in order to avoid limitations on capital distributions, including dividends and stock repurchases, and discre-

tionary bonus payments to executive officers. In addition, beginning in 2018, our U.S. Bank Subsidiaries must maintain a supplementary leverage ratio of 6% to be considered well-capitalized.

Pro Forma Supplementary Leverage Exposure and Ratio on a Transitional Basis

$ in millions	**At September 30, 2016**	At December 31, 2015
Average total assets[1]	**$ 819,725**	$ 813,715
Adjustments[2, 3]	**245,701**	284,090
Pro forma supplementary leverage exposure	**$ 1,065,426**	$ 1,097,805
Pro forma supplementary leverage ratio	**6.3%**	6.1%

1. Computed as the average daily balance of consolidated total assets under U.S. GAAP during the calendar quarter.
2. Computed as the arithmetic mean of the month-end balances over the calendar quarter.
3. Adjustments are to: (i) incorporate derivative exposures, including adding the related potential future exposure (including for derivatives cleared for clients), grossing up cash collateral netting where qualifying criteria are not met, and adding the effective notional principal amount of sold credit protection offset by qualifying purchased credit protection; (ii) reflect the counterparty credit risk for repo-style transactions; (iii) add the credit equivalent amount for off-balance sheet exposures; and (iv) apply other adjustments to Tier 1 capital, including disallowed goodwill, transitional intangible assets, certain deferred tax assets and certain investments in the capital instruments of unconsolidated financial institutions.

Based on our current understanding of the rules and other factors, we estimate our pro forma fully phased-in supplementary leverage ratio to be approximately 6.2% and 5.8% at September 30, 2016 and December 31, 2015, respectively. This estimate utilizes a fully phased-in Tier 1 capital numerator and a fully phased-in denominator of approximately $1,064.3 billion and $1,095.6 billion at September 30, 2016 and December 31, 2015, respectively, which takes into consideration the Tier 1 capital deductions that would be applicable in 2018 after the phase-in period has ended.

U.S. Subsidiary Banks Pro Forma Supplementary Leverage Ratios on a Transitional Basis

	At September 30, 2016	At December 31, 2015
MSBNA	**7.4%**	7.3%
MSPBNA	**10.1%**	10.3%

The pro forma supplementary leverage exposures and pro forma supplementary leverage ratios, both on transitional and fully phased-in bases, are non-GAAP financial measures that we consider to be useful measures for us, investors and analysts in evaluating prospective compliance with new regulatory capital requirements that have not yet become effective. Our estimates are subject to risks and uncertainties that may cause actual results to differ materially from estimates based on these regulations. Further, these expectations should not be taken as projections of what our supplementary leverage ratios, earnings, assets or exposures will actually be at future dates. For a discussion of risks and uncertainties that may affect our future results, see Risk Factors in Part I, Item 1A of the 2015 Form 10-K.

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Total Loss-Absorbing Capacity and Long-Term Debt Requirements

The Federal Reserve has proposed a rule for top-tier bank holding companies of U.S. G-SIBs (covered BHCs), including the Parent, that establishes external total loss-absorbing capacity (TLAC) and long-term debt (LTD) requirements. The proposal contains various definitions and restrictions, such as requiring eligible LTD to be unsecured, have a remaining maturity of one year or more, and not have derivative-linked features, such as structured notes. The proposal would also impose restrictions on certain liabilities that covered BHCs may incur or have outstanding, including structured notes, as well as require all U.S. banking organizations supervised by the Federal Reserve with assets of at least $1 billion to make certain deductions from capital for their investments in unsecured debt issued by covered BHCs. For a further discussion of TLAC and LTD requirements, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements Total Loss-Absorbing Capacity and Long-Term Debt Requirements in Part II, Item 7 of the 2015 Form 10-K. For discussions about the implication of the single point of entry (SPOE) resolution strategy and the TLAC proposal, see Business Supervision and Regulation Financial Holding Company Resolution and Recovery Planning in Part I, Item 1 and Risk Factors Legal, Regulatory and Compliance Risk in Part I, Item 1A of the 2015 Form 10-K.

Capital Plans and Stress Tests

Pursuant to the Dodd-Frank Act, the Federal Reserve has adopted capital planning and stress test requirements for large bank holding companies, including us, which form part of the Federal Reserve s annual Comprehensive Capital Analysis and Review (CCAR) framework.

On April 5, 2016, we submitted our 2016 CCAR capital plan, and summary results of the Dodd-Frank Act and CCAR supervisory stress tests were published by the Federal Reserve in June. We exceeded all stressed capital ratio minimum requirements in the Federal Reserve severely adverse scenario, and our quantitative capital results improved from our prior year submission. In June 2016, we received a conditional non-objection from the Federal Reserve to our 2016 capital plan (see Capital Management herein). As required, we disclosed a summary of the result of our company-run stress tests on June 23, 2016. The Federal Reserve Board also asked us to submit an additional capital plan by December 29, 2016 addressing weaknesses identified in our capital planning process. Future capital distributions may be restricted if these identified weaknesses are not satisfactorily addressed when the Federal Reserve reviews our resubmitted capital plan. Pursuant to the conditional non-

objection, we are able to execute the capital actions set forth in our 2016 capital plan, which included increasing our common stock dividend to $0.20 per share beginning in the third quarter of 2016 and executing share repurchases of $3.5 billion during the period July 1, 2016 through June 30, 2017. In addition, we submitted the results of our mid-cycle company-run stress test to the Federal Reserve on October 5, 2016 and we disclosed a summary of the results on October 31, 2016.

In September 2016, the Federal Reserve proposed revisions to the capital plan and stress test rules that would, among other things, reduce the *de minimis* threshold for additional capital distributions that a firm may make during a capital plan cycle without seeking the Federal Reserve s prior approval. The proposal would also establish a one-quarter blackout period while the Federal Reserve is conducting CCAR during which firms would not be permitted to submit *de minimis* exception notices or prior approval requests for additional capital distributions. The Federal Reserve is currently considering making further changes to CCAR requirements, which may increase minimum capital requirements for the Firm.

The Dodd-Frank Act also requires each of our U.S. Bank Subsidiaries to conduct an annual stress test. MSBNA and MSPBNA submitted their 2016 annual company-run stress tests to the OCC on April 5, 2016 and published a summary of their stress test results on June 23, 2016.

For a further discussion of our capital plans and stress tests, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements Capital Plans and Stress Tests in Part II, Item 7 of the 2015 Form 10-K.

Attribution of Average Common Equity according to the Required Capital Framework

Our required capital (Required Capital) estimation is based on the Required Capital framework, an internal capital adequacy measure. Common equity attribution to the business segments is based on capital usage calculated by the Required Capital framework, as well as each business segment s relative contribution to our total Required Capital. Required Capital is assessed for each business segment and further attributed to product lines. This process is intended to align capital with the risks in each business segment in order to allow senior management to evaluate returns on a risk-adjusted basis.

The Required Capital framework is a risk-based and leverage use-of-capital measure, which is compared with our regulatory capital to ensure that we maintain an amount of going concern capital after absorbing potential losses from stress events, where applicable, at a point in time. We define the difference between our total average common equity and the

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sum of the average common equity amounts allocated to our business segments as Parent equity. We generally hold Parent equity for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

Effective January 1, 2016, the common equity estimation and attribution to the business segments are based on our fully phased-in regulatory capital, including supplementary leverage and stress losses (which results in more capital being attributed to the business segments), whereas prior periods were attributed based on transitional regulatory capital provisions. Also, beginning in 2016, the amount of capital allocated to the business segments will be set at the beginning of each year, and will remain fixed throughout the year, until the next annual reset. Differences between available and Required Capital will be reflected in Parent equity during the year. Periods prior to 2016 have not been recast under the new methodology.

The Required Capital framework is expected to evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modeling techniques. We will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

Average Common Equity by Business Segment and Parent Equity

	Three Months Ended[1]		Nine Months Ended[1]	
	September 30,		September 30,	
$ in billions	**2016**	2015	**2016**	2015
Institutional Securities	**$ 43.2**	$ 33.8	**$ 43.2**	$ 35.4
Wealth Management	**15.3**	11.4	**15.3**	10.9
Investment Management	**2.8**	2.1	**2.8**	2.2
Parent	**8.2**	20.3	**7.6**	18.2
Total	**$ 69.5**	$ 67.6	**$ 68.9**	$ 66.7

1. Amounts are calculated on a monthly basis. Average common equity is a non-GAAP financial measure that we consider to be a useful measure for us, investors and analysts to assess capital adequacy.

Regulatory Developments

Resolution and Recovery Planning

Pursuant to the Dodd-Frank Act, we are required to submit to the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC) an annual resolution plan that describes our strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of our material financial distress or failure. Our preferred resolution strategy, which is set out in our 2015 resolution plan, is an SPOE strategy. On September 30, 2016, we submitted a status report to the Federal Reserve and the FDIC in respect of certain shortcomings identified in our 2015 resolution plan. Pursuant to the status report, we indicated that the parent holding company will amend and restate

its support agreement with its material subsidiaries that are designed to ensure such subsidiaries have sufficient capital and liquidity as and when needed throughout a resolution scenario. Under the amended and restated support agreement, upon the occurrence of a resolution scenario, the parent holding company will be obligated to contribute or loan on a subordinated basis all of its material assets, other than shares in subsidiaries of the parent holding company and certain intercompany payables, to provide capital and liquidity, as applicable, to our material subsidiaries. The obligations of the parent holding company under the amended and restated support agreement will be secured on a senior basis by the assets of the parent holding company (other than shares in subsidiaries of the parent holding company). As a result, claims of our material subsidiaries against the assets of the parent holding company (other than shares in subsidiaries of the parent holding company) will be effectively senior to unsecured obligations of the parent holding company. Our next full resolution plan submission will be on July 1, 2017. If the Federal Reserve and the FDIC were, at a later time, to jointly determine that our 2017 resolution plan is not credible or would not facilitate an orderly resolution, and if we were unable to address any deficiencies at that later time, we or any of our subsidiaries may be subjected to more stringent capital, leverage, or liquidity requirements or restrictions on our growth, activities, or operations, or, after a two-year period, we may be required to divest assets or operations.

In September 2016, the OCC issued final guidelines that establish enforceable standards for recovery planning by national banks and certain other institutions with total consolidated assets of $50 billion or more, calculated on a rolling four-quarter average basis, including MSBNA. The guidelines are effective on January 1, 2017, and MSBNA must be in compliance by January 1, 2018.

In May 2016, the Federal Reserve proposed a rule that would impose contractual requirements on certain qualified financial contracts (covered QFCs) to which U.S. G-SIBs, including us, and their subsidiaries are parties. In August 2016, the OCC proposed a rule that would subject national banks that are subsidiaries of U.S. G-SIBs, including our U.S. Bank Subsidiaries, as well as certain other institutions (collectively with U.S. G-SIBs and their other subsidiaries, covered entities), to substantively identical requirements. Under the proposals, covered QFCs must expressly provide that transfer restrictions and default rights against a covered entity are limited to the same extent as provided under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Act and their implementing regulations. In addition, covered QFCs may not permit the exercise of cross-default rights against a covered entity based on an affiliate s entry into insolvency, resolution or similar proceedings. If adopted as proposed, the requirements would take effect at the start of

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the first calendar quarter that begins at least one year after the final rules are issued. We continue to evaluate the potential impact of the proposals, which are subject to public comment and further rulemaking procedures.

For more information about resolution and recovery planning requirements and our activities in these areas, see Business Supervision and Regulation Financial Holding Company Resolution and Recovery Planning in Part I, Item 1 of the 2015 Form 10-K.

Single-Counterparty Credit Limits

In March 2016, the Federal Reserve re-proposed rules that would establish single-counterparty credit limits for large banking organizations (covered companies), with more stringent limits for the largest covered companies. U.S. G-SIBs, including us, would be subject to a limit of 15% of Tier 1 capital for credit exposures to any major counterparty (defined as other U.S. G-SIBs, foreign G-SIBs and nonbank systemically important financial institutions supervised by the Federal Reserve) and to a limit of 25% of Tier 1 capital for credit exposures to any other unaffiliated counterparty. We continue to evaluate the potential impact of the proposed rules.

Compensation Practices

In the second quarter of 2016, the federal regulatory agencies required under the Dodd-Frank Act to issue regulations relating to the compensation practices of covered financial institutions, including us, re-proposed rules that if implemented would require, among other things, the deferral of a percentage of certain incentive-based compensation for senior executives and certain other employees and, under certain circumstances, clawback of incentive-based compensation. We continue to evaluate the proposal, which is subject to further rulemaking procedures.

Legacy Covered Funds under the Volcker Rule

The Volcker Rule prohibits certain investments and relationships by banking entities, such as us, with covered funds, with a number of exemptions and exclusions. The Federal Reserve has extended the conformance period until July 21, 2017 for investments in, and relationships with, covered funds that were in place before December 31, 2013, referred to as legacy covered funds. On July 7, 2016, the Federal Reserve stated that it will continue to consider whether to take action regarding the additional extended five-year transition period for certain legacy covered funds that are also illiquid funds and that it expects to provide more information in the near term as to how it will address applications by banking entities seeking the statutory extension for this limited category of legacy covered funds. We currently have approximately $2.2 billion of non-conforming investments in,

and relationships with, legacy covered funds subject to the Volcker Rule. While we expect to request additional extensions for the overwhelming majority of the investments, we also continue to consider various alternatives to be in compliance with the Volcker Rule, including sales, redemptions, and liquidations, where the amounts we ultimately realize on these investments may be less than their current carrying values.

U.S. Department of the Treasury Regulations

On October 13, 2016, the U.S. Department of the Treasury released final and temporary regulations under Section 385 of the U.S. tax code addressing, among other things, the treatment of certain related-party indebtedness as equity for U.S. federal income tax purposes. The regulations include multiple effective dates, the earliest of which is effective from January 19, 2017 and applies to certain financial instruments issued after April 4, 2016. Although we are continuing to evaluate the regulations, we do not expect them to have a material effective tax rate impact.

Commodities and Merchant Banking Activities

In September 2016, the Federal Reserve issued a proposed rulemaking that would increase risk-based capital requirements for certain commodities-related activities and commodities-related merchant banking investments of U.S. financial holding companies (FHCs), including us; impose new limitations on the physical commodity trading activities of certain U.S. FHCs; and enhance reporting requirements with respect to U.S. FHCs commodities-related activities and investments. If adopted in its current form, the proposed rulemaking would result in increases in our RWAs with respect to certain commodities-related investments and physical commodity holdings. However, we expect that the proposed rule, if finalized in its proposed form, would not have a significant impact on our aggregate RWAs or risk-based capital ratios.

Off-Balance Sheet Arrangements

We enter into various off-balance sheet arrangements, including through unconsolidated special purpose entities (SPEs) and lending-related financial instruments (*e.g.*, guarantees and commitments), primarily in connection with the Institutional Securities and Investment Management business segments.

We utilize SPEs primarily in connection with securitization activities. For information on our securitization activities, see Note 12 to the consolidated financial statements in Item 1.

For information on our commitments, obligations under certain guarantee arrangements and indemnities, see Note 11

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to the consolidated financial statements in Item 1. For further information on our lending commitments, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Lending Activities in Item 3.

Effects of Inflation and Changes in Interest and Foreign Exchange Rates

For a discussion of the effects of inflation and changes in interest and foreign exchange rates on our business and financial results and strategies to mitigate potential exposures, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Effects of Inflation and Changes in Interest and Foreign Exchange Rates in Part II, Item 7 of the 2015 Form 10-K.

U.K. Referendum

On June 23, 2016, the U.K. electorate voted to leave the European Union (the EU). It is difficult to predict the future of the U.K. s relationship with the EU, which uncertainty may increase the volatility in the global financial markets in the short- and medium-term. There are several alternative models of relationship that the U.K. might seek to negotiate with the EU, the timeframe for which is uncertain but could take two years or more. The regulatory framework applicable to financial institutions with significant operations in Europe, such as us, is expected to evolve and specific and meaningful information regarding the long-term consequences of the vote is expected to become clearer over time. We will continue to evaluate various courses of action in the context of the development of the U.K. s withdrawal from the EU and the referendum s potential impact on our operations. For further information regarding our exposure to the U.K., see also Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Country Risk Exposure in Part I, Item 3.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Risk Management

Management believes effective risk management is vital to the success of our business activities. For a discussion of our risk management functions, see Quantitative and Qualitative Disclosures about Market Risk Risk Management in Part II, Item 7A of the 2015 Form 10-K.

Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, we incur market risk as a result of trading, investing and client facilitation activities, principally within the Institutional Securities business segment where the substantial majority of our Value-at-Risk (VaR) for market risk exposures is generated. In addition, we incur trading-related market risk within the Wealth Management business segment. The Institutional Securities and Wealth Management business segments incur non-trading interest rate risk primarily from lending and deposit taking activities. The Investment Management business segment primarily incurs non-trading market risk from investments in private equity and real estate funds. For a further discussion of market risk, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Market Risk in Part II, Item 7A of the 2015 Form 10-K.

VaR

We use the statistical technique known as VaR as one of the tools used to measure, monitor and review the market risk exposures of our trading portfolios. The Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management.

VaR Methodology, Assumptions and Limitations. For information regarding our VaR methodology, assumptions and limitations, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Market Risk Sales and Trading and Related Activities VaR Methodology, Assumptions and Limitations in Part II, Item 7A of the 2015 Form 10-K.

We utilize the same VaR model for risk management purposes as well as for regulatory capital calculations as approved by our regulators.

The portfolio of positions used for our VaR for risk management purposes (Management VaR) differs from that used for regulatory capital requirements (Regulatory VaR). Management VaR contains certain positions that are excluded from Regulatory VaR. Examples include counterparty Credit Valuation Adjustments (CVA) and related hedges, as well as loans that are carried at fair value and associated hedges.

The following table presents the Management VaR for the Trading portfolio, on a period-end, quarterly average and quarterly high and low basis. To further enhance the transparency of the traded market risk, the Credit Portfolio VaR has been disclosed as a separate category from the Primary Risk Categories.

Trading Risks

95%/One-Day Management VaR

	95%/One-Day VaR for the **Quarter Ended September 30, 2016**			
$ in millions	Period End	Average	High	Low
Interest rate and credit spread	**$ 26**	**26**	**33**	**22**
Equity price	**14**	**15**	**27**	**13**
Foreign exchange rate	**7**	**7**	**9**	**4**
Commodity price	**10**	**9**	**10**	**8**
Less: Diversification benefit[1, 2]	**(23)**	**(25)**	**N/A**	**N/A**
Primary Risk Categories	**$ 34**	**32**	**42**	**29**
Credit Portfolio	**18**	**22**	**24**	**18**
Less: Diversification benefit[1, 2]	**(9)**	**(12)**	**N/A**	**N/A**
Total Management VaR	**$ 43**	**42**	**51**	**39**

	95%/One-Day VaR for the Quarter Ended June 30, 2016			
$ in millions	Period End	Average	High	Low
Interest rate and credit spread	$ 26	$ 32	$ 38	$ 26
Equity price	20	17	43	13
Foreign exchange rate	10	7	12	6
Commodity price	9	10	12	9
Less: Diversification benefit[1, 2]	(32)	(28)	N/A	N/A
Primary Risk Categories	$ 33	$ 38	$ 61	$ 31
Credit Portfolio	22	20	23	18
Less: Diversification benefit[1, 2]	(13)	(12)	N/A	N/A
Total Management VaR	$ 42	$ 46	$ 68	$ 39

N/A Not Applicable

1. Diversification benefit equals the difference between the total Management VaR and the sum of the component VaRs. This benefit arises because the simulated one-day losses for each of the components occur on different days; similar diversification benefits also are taken into account within each component.
2. The high and low VaR values for the total Management VaR and each of the component VaRs might have occurred on different days during the quarter, and therefore, the diversification benefit is not an applicable measure.

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Risk Disclosures

The average Total Management VaR for the quarter ended September 30, 2016 (current quarter) was $42 million, which was reduced from $46 million for the quarter ended June 30, 2016 (last quarter).

The average Management VaR for the Primary Risk Categories for the current quarter was $32 million compared with $38 million for the last quarter. The decrease was driven by an overall reduction in risk exposures across the Sales and Trading businesses.

Distribution of VaR Statistics and Net Revenues for the Current Quarter. One method of evaluating the reasonableness of our VaR model as a measure of our potential volatility of net revenues is to compare VaR with actual trading revenues. Assuming no intraday trading, for a 95%/one-day VaR, the expected number of times that trading losses should exceed VaR during the year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the adequacy of the VaR model would be questioned. We evaluate the reasonableness of our VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results for the Firm, as well as individual business units. For days where losses exceed the VaR statistic, we examine the drivers of trading losses to evaluate the VaR model s accuracy relative to realized trading results.

The distribution of VaR Statistics and Net Revenues is presented in the following histograms for the Total Trading populations.

Total Trading. As shown in the 95%/One-Day Management VaR table, the average 95%/one-day Total Management VaR for the current quarter was $42 million. The following histogram presents the distribution of the daily 95%/one-day Total Management VaR for the current quarter, which was in a range between $35 million and $45 million for approximately 95% of trading days during the quarter.

The following histogram shows the distribution for the current quarter of daily net trading revenues, including profits and losses from Interest rate and credit spread, Equity price, Foreign exchange rate, Commodity price and Credit Portfolio positions and intraday trading activities, for our Trading businesses. Daily net trading revenues also include intraday trading activities but exclude certain items not captured in the VaR model, such as fees, commissions and net interest income. Daily net trading revenues differ from the definition of revenues required for Regulatory VaR backtesting, which further excludes intraday trading. During the current quarter, we experienced net trading losses on 1 day, which was not in excess of the 95%/one-day Total Management VaR.

Non-trading Risks

We believe that sensitivity analysis is an appropriate representation of our non-trading risks. Reflected below is this analysis covering substantially all of the non-trading risk in our portfolio.

Counterparty Exposure Related to Our Own Credit Spread. The credit spread risk sensitivity of the counterparty exposure related to our own credit spread corresponded to an increase in value of approximately $7 million for each 1 basis point widening in our credit spread level at both September 30, 2016 and June 30, 2016.

Funding Liabilities. The credit spread risk sensitivity of our mark-to-market funding liabilities corresponded to an increase in value of approximately $17 million and $15 million for each 1 basis point widening in our credit spread level at September 30, 2016 and June 30, 2016, respectively.

Interest Rate Risk Sensitivity. The following table presents an analysis of selected instantaneous upward and downward parallel interest rate shocks on net interest income over the next 12 months for our U.S. Bank Subsidiaries. These shocks are applied to our 12-month forecast for our U.S. Bank

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Risk Disclosures

Subsidiaries, which incorporates market expectations of interest rates and our forecasted business activity, including our deposit deployment strategy and asset-liability management hedges.

U.S. Bank Subsidiaries Net Interest Income Sensitivity Analysis

$ in millions	**At September 30, 2016**	At June 30, 2016
+200 basis points	**$ (171)**	$ (204)
+100 basis points	**(87)**	(21)
100 basis points	**(652)**	(532)

At September 30, 2016 and June 30, 2016, large instantaneous interest rates shocks had a negative impact to our U.S. Bank Subsidiaries projected net interest income over the following 12 months due to composition of the banks assets as well as expected deposit pricing behavior at higher levels of interest rates. We do not manage to any single rate scenario but rather manage net interest income in our U.S. Bank Subsidiaries to optimize across a range of possible outcomes. The sensitivity analysis assumes that we take no action in response to these scenarios and does not assume any change in other macroeconomic variables normally correlated with changes in interest rates.

Investments. We have exposure to public and private companies through direct investments as well as through funds that invest in these assets. These investments are predominantly equity positions with long investment horizons, a portion of which are for business facilitation purposes. The market risk related to these investments is measured by estimating the potential reduction in net income associated with a 10% decline in investment values and related impact on performance fees.

Investments Sensitivity, Including Related Performance Fees

	10% Sensitivity	
$ in millions	**At September 30, 2016**	At June 30, 2016
Investments related to Investment Management activities	**$ 381**	$ 375
Other investments:		
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	**181**	175
Other Firm investments	**160**	162

Equity Market Sensitivity. In the Wealth Management and Investment Management business segments, certain fee-based revenue streams are driven by the value of clients equity holdings. The overall level of revenues for these streams also depends on multiple additional factors that include, but are not limited to, the level and duration of the equity market decline, price volatility, the geographic and industry mix of client assets, the rate and magnitude of client investments and redemptions, and the impact of such market decline and price volatility on client behavior. Therefore, overall revenues do not correlate completely with changes in the equity markets.

Credit Risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to us. We primarily incur credit risk exposure to institutions and individuals through our Institutional Securities and Wealth Management business segments. For a further discussion of our credit risks, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk in Part II, Item 7A of the 2015 Form 10-K. Also, see Notes 7 and 11 to the consolidated financial statements in Item 1 for additional information about our loans and lending commitments, respectively.

Lending Activities

We provide loans and lending commitments to a variety of customers, from large corporate and institutional clients to high net worth individuals. In addition, we purchase loans in the secondary market. In the consolidated balance sheets, these loans and lending commitments are carried at either fair value with changes in fair value recorded in earnings; held for investment, which are recorded at amortized cost; or held for sale, which are recorded at lower of cost or fair value. Loans held for investment and loans held for sale are classified in Loans, and loans held at fair value are classified in Trading assets in the consolidated balance sheets. See Notes 3, 7 and 11 to the consolidated financial statements in Item 1 for further information.

Risk Disclosures

Loan and Lending Commitment Portfolio by Business Segment

	At September 30, 2016		
$ in millions	Institutional Securities	Wealth Management	Total
Corporate loans	**$ 15,293**	**$ 9,499**	**$ 24,792**
Consumer loans		**24,717**	**24,717**
Residential real estate loans		**23,562**	**23,562**
Wholesale real estate loans	**7,616**		**7,616**
Loans held for investment, gross of allowance	**22,909**	**57,778**	**80,687**
Allowance for loan losses	**(253)**	**(34)**	**(287)**
Loans held for investment, net of allowance	**22,656**	**57,744**	**80,400**
Corporate loans	**10,223**		**10,223**
Residential real estate loans	**13**	**66**	**79**
Wholesale real estate loans	**1,806**		**1,806**
Loans held for sale	**12,042**	**66**	**12,108**
Corporate loans	**7,038**		**7,038**
Residential real estate loans	**1,338**		**1,338**
Wholesale real estate loans	**836**		**836**
Loans held at fair value	**9,212**		**9,212**
Total loans[1]	**43,910**	**57,810**	**101,720**
Lending commitments[2, 3]	**85,548**	**8,049**	**93,597**
Total loans and lending commitments[2, 3]	**$ 129,458**	**$ 65,859**	**$ 195,317**

	At December 31, 2015		
$ in millions	Institutional Securities	Wealth Management	Total
Corporate loans	$ 16,452	$ 7,102	$ 23,554
Consumer loans		21,528	21,528
Residential real estate loans		20,863	20,863
Wholesale real estate loans	6,839		6,839
Loans held for investment, gross of allowance	23,291	49,493	72,784
Allowance for loan losses	(195)	(30)	(225)
Loans held for investment, net of allowance	23,096	49,463	72,559
Corporate loans	11,924		11,924
Residential real estate loans	45	59	104
Wholesale real estate loans	1,172		1,172
Loans held for sale	13,141	59	13,200
Corporate loans	7,286		7,286
Residential real estate loans	1,885		1,885
Wholesale real estate loans	1,447		1,447
Loans held at fair value	10,618		10,618

Total loans[1]	46,855	49,522	96,377
Lending commitments[2, 3]	95,572	5,821	101,393
Total loans and lending commitments[2, 3]	$ 142,427	$ 55,343	$ 197,770

1. Amounts exclude $28.0 billion and $25.3 billion related to margin loans and $4.8 billion and $4.9 billion related to employee loans at September 30, 2016 and December 31, 2015, respectively. See Notes 6 and 7 to the consolidated financial statements in Item 1 for further information.
2. Lending commitments represent the notional amount of legally binding obligations to provide funding to clients for all lending transactions. Since commitments associated with these business activities may expire unused or may not be utilized to full capacity, they do not necessarily reflect the actual future cash funding requirements.
3. For syndications led by us, the lending commitments accepted by the borrower but not yet closed are net of the amounts agreed to by counterparties that will participate in the syndication. For syndications that we participate in and do not lead, lending commitments accepted by the borrower but not yet closed include only the amount that we expect will be allocated from the lead, syndicate bank. Due to the nature of our obligations under the commitments, these amounts include certain commitments participated to third parties.

Our credit exposure from our loans and lending commitments is measured in accordance with our internal risk management standards. Risk factors considered in determining the aggregate allowance for loan and commitment losses include the borrower s financial strength, seniority of the loan, collateral type, volatility of collateral value, debt cushion, loan-to-value ratio, debt service ratio, covenants and counterparty type. Qualitative and environmental factors such as economic and business conditions, nature and volume of the portfolio and lending terms and volume and severity of past due loans may also be considered. At September 30, 2016 and December 31, 2015, the allowance for loan losses related to loans that were accounted for as held for investment was $287 million and $225 million, respectively, and the allowance for commitment losses related to lending commitments that were accounted for as held for investment was $187 million and $185 million, respectively. The aggregate allowance for loan and commitment losses increased over the nine months ended September 30, 2016 primarily due to specific reserves on exposures to counterparties in the energy sector and other select downgrades. See Institutional Securities Lending Exposures Related to the Energy Industry herein and Note 7 to the consolidated financial statements in Item 1 for further information.

Institutional Securities Lending Activities. In connection with certain of our Institutional Securities business segment activities, we provide loans and lending commitments to a diverse group of corporate and other institutional clients. These activities include corporate lending, commercial and residential mortgage lending, asset-backed lending, corporate loans purchased in the secondary market, financing extended to equities and commodities customers, and loans to municipalities. These loans and lending commitments may have varying terms; may be senior or subordinated; may be secured or unsecured; are generally contingent upon representations, warranties and contractual conditions applicable to the borrower; and may be syndicated, traded or hedged by us.

Institutional Securities loans and lending commitments are mainly related to relationship-based and event-driven lending to select corporate clients. Relationship-based loans and lending commitments are used for general corporate purposes, working capital and liquidity purposes by our Investment Banking clients and typically consist of revolving lines of credit, letter of credit facilities and term loans. In connection with the relationship-based lending activities, we had hedges (which included single-name, sector and index hedges) with a notional amount of $18.0 billion and $12.0 billion at September 30, 2016 and December 31, 2015, respectively. Event-driven loans and lending commitments are associated with a particular event or transaction, such as to support client merger, acquisition, recapitalization and project finance activities. Event-driven loans and lending commitments typically consist of revolving lines of credit, term loans and bridge loans.

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Institutional Securities Loans and Lending Commitments by Credit Rating[1]

	At September 30, 2016				
	Years to Maturity				
$ in millions	Less than 1	1-3	3-5	Over 5	Total
AAA	**$ 50**	**$**	**$ 50**	**$**	**$ 100**
AA	**4,028**	**710**	**4,332**		**9,070**
A	**2,276**	**5,825**	**11,959**	**1,097**	**21,157**
BBB	**10,626**	**13,671**	**22,532**	**1,722**	**48,551**
Investment grade	**16,980**	**20,206**	**38,873**	**2,819**	**78,878**
Non-investment grade	**7,207**	**19,437**	**17,488**	**2,981**	**47,113**
Unrated[2]	**1,084**	**337**	**129**	**1,917**	**3,467**
Total	**$ 25,271**	**$ 39,980**	**$ 56,490**	**$ 7,717**	**$ 129,458**

	At December 31, 2015				
	Years to Maturity				
$ in millions	Less than 1	1-3	3-5	Over 5	Total
AAA	$ 287	$ 24	$ 50	$	$ 361
AA	5,022	2,553	3,735	63	11,373
A	3,996	5,726	11,993	1,222	22,937
BBB	5,089	16,720	23,248	4,086	49,143
Investment grade	14,394	25,023	39,026	5,371	83,814
Non-investment grade	7,768	15,863	22,818	7,779	54,228
Unrated[2]	930	1,091	246	2,118	4,385
Total	$ 23,092	$ 41,977	$ 62,090	$ 15,268	$ 142,427

1. Obligor credit ratings are determined by the Credit Risk Management Department.
2. Unrated loans and lending commitments are primarily trading positions that are measured at fair value and risk managed as a component of Market Risk. For a further discussion of our Market Risk, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Market Risk in Part II, Item 7A of the 2015 Form 10-K.

At September 30, 2016 and December 31, 2015, the aggregate amount of investment grade loans was $16.6 billion and $15.8 billion, respectively, the aggregate amount of non-investment grade loans was $24.0 billion and $26.9 billion, respectively, and the aggregate amount of unrated loans was $3.3 billion and $4.2 billion, respectively.

Event-Driven Loans and Lending Commitments

$ in billions	**At September 30, 2016**	At December 31, 2015

Event-driven loans	**$**	**4.4**	$	5.4
Event-driven lending commitments		**11.0**		17.8
Total	**$**	**15.4**	$	23.2
Event-driven loans and lending commitments to non- investment grade borrowers	**$**	**7.9**	$	13.5

Maturity Profile of Event-driven Loans and Lending Commitments

	At September 30, 2016	At December 31, 2015
Less than 1 year	**43%**	24%
1-3 years	**21%**	21%
3-5 years	**23%**	24%
Over 5 years	**13%**	31%

At September 30, 2016, approximately 98% of the Institutional Securities business segment loans held for investment were current, while approximately 2% were on nonaccrual status. At December 31, 2015, approximately 99% of the Institutional Securities business segment loans held for investment were current, while approximately 1% were on nonaccrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

Institutional Securities Credit Exposure from Loans and Lending Commitments by Industry

$ in millions		**At September 30, 2016**		At December 31, 2015
Industry[1]				
Real estate	**$**	**18,935**	$	17,847
Healthcare		**13,923**		12,677
Energy		**13,036**		15,921
Consumer discretionary		**12,494**		12,098
Industrials		**10,989**		10,018
Utilities		**9,785**		12,631
Consumer staples		**7,895**		8,597
Information technology		**7,708**		11,122
Funds, exchanges and other financial services[2]		**7,278**		11,649
Mortgage finance		**6,675**		8,260
Materials		**6,449**		6,440
Telecommunications services		**3,879**		4,403
Insurance		**3,711**		4,682
Consumer finance		**3,208**		977
Special purpose vehicles		**1,657**		3,482
Other		**1,836**		1,623
Total	**$**	**129,458**	$	142,427

1. Industry categories are based on the Global Industry Classification Standard®.
2. Includes mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses, and diversified financial services.

Institutional Securities Lending Exposures Related to the Energy Industry. At September 30, 2016, Institutional Securities loans and lending commitments related to the energy industry were $13.0 billion, of which approximately 66% are accounted for as held for investment and 34% are accounted for as either held for sale or at fair value. Additionally, approximately 56% of the total energy industry loans and lending commitments were to investment grade counterparties. At September 30, 2016, the energy industry portfolio included $1.6 billion in loans and $2.0 billion in lending commitments to Oil and Gas Exploration and Production (E&P) companies. The E&P lending commitments were primarily to investment grade counterparties. The E&P loans were to non-investment grade counterparties, which are generally subject to periodic borrowing base reassessments based on the value of

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the underlying oil and gas reserves pledged as collateral. In limited situations, we may extend the period related to borrowing base reassessments typically in conjunction with taking certain risk mitigating actions with the borrower. Over the nine months ended September 30, 2016, we increased the allowance for loan and commitment losses on held for investment energy exposures and incurred mark-to-market losses on fair value energy loans. See Credit Risk Lending Activities herein for further information. To the extent commodities prices, or oil prices, remain at quarter-end levels, or deteriorate further, we may incur additional lending losses.

At December 31, 2015, Institutional Securities loans and lending commitments related to the energy industry were $15.9 billion. Approximately 60% of these energy industry loans and lending commitments were to investment grade counterparties. At December 31, 2015, the energy industry portfolio included $1.7 billion in loans and $2.7 billion in lending commitments to E&P companies. The E&P loans were substantially all to non-investment grade counterparties which are subject to semi-annual borrowing base reassessments based on the value of the underlying oil and gas reserves pledged as collateral. The E&P lending commitments were primarily to investment grade counterparties.

Institutional Securities Margin Lending. In addition to the activities noted above, Institutional Securities provides margin lending, which allows the client to borrow against the value of qualifying securities. At September 30, 2016 and December 31, 2015, the amounts related to margin lending were $15.2 billion and $10.6 billion, respectively, which were classified within Customer and other receivables in the consolidated balance sheets.

Wealth Management Lending Activities. The principal Wealth Management lending activities include securities-based lending and residential real estate loans.

Securities-based lending provided to our retail clients is primarily conducted through our Portfolio Loan Account (PLA) and Liquidity Access Line (LAL) platforms which had an outstanding loan balance of $29.1 billion and $24.9 billion at September 30, 2016 and December 31, 2015, respectively. For more information about our securities-based lending and residential real estate loans, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Lending Activities in Part II, Item 7A of the 2015 Form 10-K.

For the current quarter, loans and lending commitments associated with the Wealth Management business segment lending activities increased by approximately 7.5%, mainly due to growth in LAL and residential real estate loans.

Wealth Management Lending Activities by Remaining Contractual Maturity

	At September 30, 2016				
	Years to Maturity				
$ in millions	Less than 1	1-3	3-5	Over 5	Total
Securities-based lending and other loans	$ **30,410**	$ **1,572**	$ **1,149**	$ **1,071**	$ **34,202**
Residential real estate loans			**43**	**23,565**	**23,608**
Total	$ **30,410**	$ **1,572**	$ **1,192**	$ **24,636**	$ **57,810**
Lending commitments	**7,354**	**302**	**140**	**253**	**8,049**
Total loans and lending commitments	$ **37,764**	$ **1,874**	$ **1,332**	$ **24,889**	$ **65,859**

	At December 31, 2015				
	Years to Maturity				
$ in millions	Less than 1	1-3	3-5	Over 5	Total
Securities-based lending and other loans	$ 25,975	$ 1,004	$ 889	$ 749	$ 28,617
Residential real estate loans			35	20,870	20,905
Total	$ 25,975	$ 1,004	$ 924	$ 21,619	$ 49,522
Lending commitments	5,143	286	115	277	5,821
Total loans and lending commitments	$ 31,118	$ 1,290	$ 1,039	$ 21,896	$ 55,343

At September 30, 2016 and December 31, 2015, approximately 99.9% of the Wealth Management business segment loans held for investment were current, while approximately 0.1% were on nonaccrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

The Wealth Management business segment also provides margin lending to clients and had an outstanding balance of $12.8 billion and $14.7 billion at September 30, 2016 and December 31, 2015, respectively, which were classified within Customer and other receivables in the consolidated balance sheets.

In addition, the Wealth Management business segment has employee loans that are granted primarily in conjunction with programs established by us to retain and recruit certain employees. These loans are recorded in Customer and other receivables in the consolidated balance sheets. These loans are full recourse, generally require periodic payments and have repayment terms ranging from 1 to 12 years. We establish an allowance for loan amounts we do not consider recoverable, which is recorded in Compensation and benefits expense.

Credit Exposure Derivatives

We incur credit risk as a dealer in OTC derivatives. Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of

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the contract. In connection with our OTC derivative activities, we generally enter into master netting agreements and collateral arrangements with counterparties. These agreements provide us with the ability to demand collateral, as well as to liquidate collateral and offset receivables and payables covered under the same master netting agreement in the event of counterparty default. We manage our trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options). For credit exposure information on our OTC derivative products, see Note 4 to the consolidated financial statements in Item 1. For a discussion of our credit exposure to derivative contracts, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Credit Exposure Derivatives in Part II, Item 7A of the 2015 Form 10-K.

Credit Derivative Portfolio by Counterparty Type

	At September 30, 2016				
	Fair Values[1]			Notionals	
$ in millions	Receivable	Payable	Net	Protection Purchased	Protection Sold
Banks and securities firms	**$ 10,396**	**$ 11,385**	**$ (989)**	**$ 394,746**	**$ 352,822**
Insurance and other financial institutions	**4,247**	**4,663**	**(416)**	**167,281**	**169,592**
Non-financial entities	**81**	**116**	**(35)**	**5,563**	**3,730**
Total	**$ 14,724**	**$ 16,164**	**$ (1,440)**	**$ 567,590**	**$ 526,144**

	At December 31, 2015				
	Fair Values[1]			Notionals	
$ in millions	Receivable	Payable	Net	Protection Purchased	Protection Sold
Banks and securities firms	$ 16,962	$ 17,295	$ (333)	$ 533,557	$ 491,267
Insurance and other financial institutions	5,842	6,247	(405)	189,439	194,723
Non-financial entities	115	123	(8)	5,932	3,529
Total	$ 22,919	$ 23,665	$ (746)	$ 728,928	$ 689,519

1. Our credit default swaps (CDS) are classified in either Level 2 or Level 3 of the fair value hierarchy. Approximately 4% and 3% of receivable fair values and 9% and 6% of payable fair values represented Level 3 amounts at September 30, 2016 and December 31, 2015, respectively (see Note 3 to the consolidated financial statements in Item 1).

The fair values shown in the previous table are before the application of contractual netting or collateral. For additional credit exposure information on our credit derivative portfolio, see Note 4 to the consolidated financial statements in Item 1.

OTC Derivative Products at Fair Value, Net of Collateral, by Industry

$ in millions	**At September 30, 2016**	At December 31, 2015
Industry[1]		
Utilities	**$ 4,456**	$ 3,428
Banks and securities firms	**2,897**	1,672
Funds, exchanges and other financial services[2]	**2,582**	2,029
Industrials	**1,670**	2,304
Regional governments	**1,477**	1,163
Healthcare	**1,335**	1,041
Sovereign governments	**780**	524
Not-for-profit organizations	**622**	794
Special purpose vehicles	**523**	718
Consumer discretionary	**514**	725
Insurance	**495**	380
Energy	**487**	396
Consumer staples	**412**	506
Materials	**407**	473
Information technology	**392**	294
Other	**360**	177
Total[3]	**$ 19,409**	$ 16,624

1. Industry categories are based on the Global Industry Classification Standard®.
2. Amounts include mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses, and diversified financial services.
3. For further information on derivative instruments and hedging activities, see Note 4 to the consolidated financial statements in Item 1.

Other

In addition to the activities noted above, there are other credit risks managed by the Credit Risk Management Department and various business areas within the Institutional Securities business segment. We participate in securitization activities whereby we extend short-term or long-term funding to clients through loans and lending commitments that are secured by the assets of the borrower and generally provide for over-collateralization, including commercial real estate loans, loans secured by loan pools, commercial company loans, and secured lines of revolving credit. Credit risk with respect to these loans and lending commitments arises from the failure of a borrower to perform according to the terms of the loan agreement or a decline in the underlying collateral value. See Note 12 to the consolidated financial statements in Item 1 for information about our securitization activities. In addition, a collateral management group monitors collateral levels against requirements and oversees the administration of the

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collateral function. See Note 6 to the consolidated financial statements in Item 1 for additional information about our collateralized transactions.

Country Risk Exposure

Country risk exposure is the risk that events in, or that affect, a foreign country (any country other than the U.S.) might adversely affect us. We actively manage country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals and allows us to effectively identify, monitor and limit country risk. Country risk exposure before and after hedging is monitored and managed. For a further discussion of our country risk exposure see, Quantitative and Qualitative Disclosures about Market Risk Risk Management Country Risk Exposure in Part II, Item 7A of the 2015 Form 10-K.

Our sovereign exposures consist of financial instruments entered into with sovereign and local governments. Our non-sovereign exposures consist of exposures to primarily corporations and financial institutions. The following table shows our 10 largest non-U.S. country risk net exposures at September 30, 2016. Index credit derivatives are included in the country risk exposure table. Each reference entity within an index is allocated to that reference entity s country of risk. Index exposures are allocated to the underlying reference entities in proportion to the notional weighting of each reference entity in the index, adjusted for any fair value receivable/payable for that reference entity. Where credit risk crosses multiple jurisdictions, for example, a CDS purchased from an issuer in a specific country that references bonds issued by an entity in a different country, the fair value of the CDS is reflected in the Net Counterparty Exposure column based on the country of the CDS issuer. Further, the notional amount of the CDS adjusted for the fair value of the receivable/payable is reflected in the Net Inventory column based on the country of the underlying reference entity.

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Top Ten Country Exposures at September 30, 2016

$ in millions	Net Inventory[1]	Net Counterparty Exposure[2,3]	Loans	Lending Commitments	Exposure Before Hedges	Hedges[4]	Net Exposure[5]
Country							
United Kingdom:							
Sovereigns	$ 479	$ 28	$	$	$ 507	$ (256)	$ 251
Non-sovereigns	824	10,780	2,476	5,751	19,831	(2,126)	17,705
Total	$ 1,303	$ 10,808	$ 2,476	$ 5,751	$ 20,338	$ (2,382)	$ 17,956
Brazil:							
Sovereigns	$ 4,861	$	$	$	$ 4,861	$ (11)	$ 4,850
Non-sovereigns	70	370	981	35	1,456	(802)	654
Total	$ 4,931	$ 370	$ 981	$ 35	$ 6,317	$ (813)	$ 5,504
Japan:							
Sovereigns	$ 1,356	$ 92	$	$	$ 1,448	$ (82)	$ 1,366
Non-sovereigns	659	2,442	370		3,471	(150)	3,321
Total	$ 2,015	$ 2,534	$ 370	$	$ 4,919	$ (232)	$ 4,687
France:							
Sovereigns	$ 1,593	$	$	$	$ 1,593	$	$ 1,593
Non-sovereigns	(51)	1,890	179	2,343	4,361	(1,369)	2,992
Total	$ 1,542	$ 1,890	$ 179	$ 2,343	$ 5,954	$ (1,369)	$ 4,585
Italy:							
Sovereigns	$ 1,616	$ (12)	$	$	$ 1,604	$	$ 1,604
Non-sovereigns	159	491		783	1,433	(259)	1,174
Total	$ 1,775	$ 479	$	$ 783	$ 3,037	$ (259)	$ 2,778
Canada:							
Sovereigns	$ 143	$ 37	$	$	$ 180	$	$ 180
Non-sovereigns	(18)	931	187	1,517	2,617	(345)	2,272
Total	$ 125	$ 968	$ 187	$ 1,517	$ 2,797	$ (345)	$ 2,452
Netherlands:							
Sovereigns	$ 4	$	$	$	$ 4	$ (20)	$ (16)
Non-sovereigns	442	719	458	1,091	2,710	(371)	2,339
Total	$ 446	$ 719	$ 458	$ 1,091	$ 2,714	$ (391)	$ 2,323
Germany:							
Sovereigns	$ (368)	$ 325	$	$	$ (43)	$ (1,237)	$ (1,280)
Non-sovereigns	76	1,334	279	3,565	5,254	(1,760)	3,494
Total	$ (292)	$ 1,659	$ 279	$ 3,565	$ 5,211	$ (2,997)	$ 2,214
Singapore:							
Sovereigns	$ 1,651	$ 157	$	$	$ 1,808	$	$ 1,808

Non-sovereigns	**58**	**232**	**39**	**30**	**359**		**359**
Total	**$ 1,709**	**$ 389**	**$ 39**	**$ 30**	**$ 2,167**	**$**	**$ 2,167**
China:							
Sovereigns	**$ 189**	**$ 347**	**$**	**$**	**$ 536**	**$ (651)**	**$ (115)**
Non-sovereigns	**921**	**181**	**872**	**257**	**2,231**	**(10)**	**2,221**
Total	**$ 1,110**	**$ 528**	**$ 872**	**$ 257**	**$ 2,767**	**$ (661)**	**$ 2,106**

1. Net inventory represents exposure to both long and short single-name and index positions (*i.e.*, bonds and equities at fair value and CDS based on a notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, we may transact in these CDS positions to facilitate client trading. At September 30, 2016, gross purchased protection, gross written protection, and net exposures related to single-name and index credit derivatives for those countries were $(117.0) billion, $115.0 billion and $(1.9) billion, respectively. For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of our hedges, see Credit Exposure Derivatives herein.
2. Net counterparty exposure (*i.e.*, repurchase transactions, securities lending and OTC derivatives) takes into consideration legally enforceable master netting agreements and collateral.
3. At September 30, 2016, the benefit of collateral received against counterparty credit exposure was $13.6 billion in Germany, with 99% of collateral consisting of cash and government obligations of France, Belgium and Germany, and $10.7 billion in the U.K. with 97% of collateral consisting of cash and government obligations of the U.K., the U.S. and Italy. The benefit of collateral received against counterparty credit exposure in the other countries totaled approximately $19.6 billion, with collateral primarily consisting of cash and government obligations of Japan and France. These amounts do not include collateral received on secured financing transactions.
4. Amounts represent CDS hedges (purchased and sold) on net counterparty exposure and lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for us. Amounts are based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.
5. In addition, at September 30, 2016, we had exposure to these countries for overnight deposits with banks of approximately $9.1 billion.

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Country Risk Exposure Related to the United Kingdom. At September 30, 2016, our country risk exposures in the U.K. included net exposures of $17,956 million (shown in the previous table) and overnight deposits of $3,368 million. The $17,705 million (shown in the previous table) of exposures to non-sovereigns were diversified across both names and sectors. Of this exposure, $15,201 million is to investment grade counterparties, with the largest single component ($4,702 million) to exchanges and clearing houses.

Country Risk Exposure Related to Brazil. At September 30, 2016, our country risk exposures in Brazil included net exposures of $5,504 million (shown in the previous table). Our sovereign net exposures in Brazil were principally in the form of local currency government bonds held onshore to support client activity. The $654 million (shown in the previous table) of exposures to non-sovereigns were diversified across both names and sectors.

Country Risk Exposure Related to China. At September 30, 2016, our country risk exposures in China included net exposures of $2,106 million (shown in the previous table) and overnight deposits with international banks of $303 million. The $2,221 million (shown in the previous table) of exposures to non-sovereigns were diversified across both names and sectors and were primarily concentrated in high-quality positions with negligible direct exposure to onshore equities.

Operational Risk

Operational risk refers to the risk of loss, or of damage to our reputation, resulting from inadequate or failed processes, people and systems or from external events (*e.g.*, fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). We may incur operational risk across the full scope of our business activities, including revenue-generating activities (*e.g.*, sales and trading) and support and control groups (*e.g.*, information technology and trade processing). On March 4, 2016, the Basel Committee on Banking Supervision updated its proposal for calculating operational risk regulatory capital. Under the proposal, which would eliminate the use of an internal model-based approach, required levels

of operational risk regulatory capital would generally be determined under a standardized approach based primarily on a financial statement-based measure of operational risk exposure and adjustments based on the particular institution s historic operational loss record. We are evaluating the potential impact of the proposal, which is subject to public comment and further rulemaking procedures. For a further discussion about our operational risk, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Operational Risk in Part II, Item 7A, of the 2015 Form 10-K.

Liquidity and Funding Risk

Liquidity and funding risk refers to the risk that we will be unable to finance our operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses our ability (or perceived ability) to meet our financial obligations without experiencing significant business disruption or reputational damage that may threaten our viability as a going concern. For a further discussion about our liquidity and funding risk, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Liquidity and Funding Risk in Part II, Item 7A, of the 2015 Form 10-K.

Legal and Compliance Risk

Legal and compliance risk includes the risk of legal or regulatory sanctions, material financial loss, including fines, penalties, judgments, damages and/or settlements, or loss to reputation that we may suffer as a result of failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty s performance obligations will be unenforceable. It also includes compliance with anti-money laundering and terrorist financing rules and regulations. For a further discussion about our legal and compliance risk, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Legal and Compliance Risk in Part II, Item 7A, of the 2015 Form 10-K.

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Item 4. Controls and Procedures

Under the supervision and with the participation of the Firm s management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the Firm s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

No change in the Firm s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, the Firm s internal control over financial reporting.

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Financial Data Supplement (Unaudited)

Average Balances and Interest Rates and Net Interest Income

	Three Months Ended September 30,					
	2016			2015		
$ in millions	Average Daily Balance	Interest	Annualized Average Rate	Average Daily Balance	Interest	Annualized Average Rate
Assets						
Interest earning assets						
Trading assets[1]:						
U.S.	**$ 117,063**	**$ 452**	**1.5%**	$ 99,151	$ 468	1.9%
Non-U.S.	**98,160**	**74**	**0.3**	107,577	100	0.4
Investment securities:						
U.S.	**79,948**	**289**	**1.4**	62,745	211	1.4
Loans:						
U.S.	**90,628**	**692**	**3.0**	77,686	552	2.9
Non-U.S.	**382**	**6**	**6.0**	239	8	13.6
Interest bearing deposits with banks:						
U.S.	**22,327**	**32**	**0.7**	29,252	20	0.3
Non-U.S.	**1,666**	**(2)**	**(0.6)**	922	9	4.0
Securities purchased under agreements to resell and Securities borrowed[2]:						
U.S.	**138,420**	**(58)**	**(0.2)**	173,622	(119)	(0.3)
Non-U.S.	**84,881**	**(60)**	**(0.3)**	85,061	20	0.1
Customer receivables and Other[3]:						
U.S.	**48,637**	**298**	**2.4**	47,779	325	2.8
Non-U.S.	**22,162**	**11**	**0.2**	28,811	(143)	(2.0)
Total	**$ 704,274**	**$ 1,734**	**1.0%**	$ 712,845	$ 1,451	0.8%
Non-interest earning assets	**115,451**			114,619		
Total assets	**$ 819,725**			$ 827,464		
Liabilities and Equity						
Interest bearing liabilities						
Deposits:						
U.S.	**$ 151,485**	**$ 7**	**%**	$ 141,726	$ 16	%
Non-U.S.	**1,551**	**5**	**1.3**	2,962	1	0.1
Short-term borrowings[4]:						
U.S.	**159**		**0.2**	1,300	2	0.6
Non-U.S.	**275**	**(3)**	**(4.0)**	1,078	5	1.9
Long-term borrowings[4]:						

U.S.		**156,718**		**808**	**2.0**		152,617		900	2.4
Non-U.S.		**9,119**		**9**	**0.4**		7,343		8	0.4
Trading liabilities[1]:										
U.S.		**28,217**					30,693			
Non-U.S.		**52,606**					55,641			
Securities sold under agreements to repurchase and Securities loaned[5]:										
U.S.		**33,361**		**133**	**1.6**		45,559		116	1.0
Non-U.S.		**33,487**		**95**	**1.1**		33,032		138	1.7
Customer payables and Other[6]:										
U.S.		**123,355**		**(217)**	**(0.7)**		112,001		(291)	(1.1)
Non-U.S.		**60,404**		**(106)**	**(0.7)**		68,251		(206)	(1.2)
Total	**$**	**650,737**	**$**	**731**	**0.5**	$	652,203	$	689	0.4
Non-interest bearing liabilities and equity		**168,988**					175,261			
Total liabilities and equity	**$**	**819,725**				$	827,464			
Net interest income and net interest rate spread			**$**	**1,003**	**0.5%**			$	762	0.4%

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Financial Data Supplement (Unaudited)

Average Balances and Interest Rates and Net Interest Income

	Nine Months Ended September 30,					
	2016			2015		
$ in millions	Average Daily Balance	Interest	Annualized Average Rate	Average Daily Balance	Interest	Annualized Average Rate
Assets						
Interest earning assets						
Trading assets[1]:						
U.S.	**$ 106,082**	**$ 1,426**	**1.8%**	$ 98,668	$ 1,414	1.9%
Non-U.S.	**96,942**	**225**	**0.3**	113,321	293	0.3
Investment securities:						
U.S.	**77,989**	**762**	**1.3**	68,794	650	1.3
Loans:						
U.S.	**88,566**	**2,008**	**3.0**	72,306	1,547	2.9
Non-U.S.	**429**	**18**	**5.6**	253	26	13.7
Interest bearing deposits with banks:						
U.S.	**26,967**	**111**	**0.5**	22,450	51	0.3
Non-U.S.	**1,362**	**23**	**2.3**	1,000	23	3.1
Securities purchased under agreements to resell and Securities borrowed[2]:						
U.S.	**148,918**	**(184)**	**(0.2)**	170,895	(454)	(0.4)
Non-U.S.	**84,802**	**(131)**	**(0.2)**	83,061	50	0.1
Customer receivables and Other[3]:						
U.S.	**47,723**	**838**	**2.3**	55,778	596	1.4
Non-U.S.	**22,209**	**52**	**0.3**	27,217	125	0.6
Total	**$ 701,989**	**$ 5,148**	**1.0%**	$ 713,743	$ 4,321	0.8%
Non-interest earning assets	**110,603**			123,981		
Total assets	**$ 812,592**			$ 837,724		
Liabilities and Equity						
Interest bearing liabilities						
Deposits:						
U.S.	**$ 153,501**	**$ 33**	**—%**	$ 136,128	$ 48	—%
Non-U.S.	**2,097**	**15**	**1.0**	2,092	3	0.2
Short-term borrowings[4]:						
U.S.	**489**	**1**	**0.2**	1,195	3	0.3
Non-U.S.	**490**	**11**	**3.1**	1,127	13	1.5
Long-term borrowings[4]:						

U.S.	**154,293**	**2,594**	**2.2**	150,227	2,723	2.4
Non-U.S.	**8,202**	**27**	**0.4**	7,686	26	0.5
Trading liabilities[1]:						
U.S.	**30,405**			29,551		
Non-U.S.	**50,862**			54,176		
Securities sold under agreements to repurchase and Securities loaned[5]:						
U.S.	**32,183**	**424**	**1.8**	58,306	341	0.8
Non-U.S.	**29,970**	**337**	**1.5**	34,941	456	1.7
Customer payables and Other[6]:						
U.S.	**124,000**	**(826)**	**(0.9)**	115,150	(1,154)	(1.3)
Non-U.S.	**60,402**	**(283)**	**(0.6)**	63,739	(194)	(0.4)
Total	**$ 646,894**	**$ 2,333**	**0.5**	$ 654,318	$ 2,265	0.5
Non-interest bearing liabilities and equity	**165,698**			183,406		
Total liabilities and equity	**$ 812,592**			$ 837,724		
Net interest income and net interest rate spread		**$ 2,815**	**0.5%**		$ 2,056	0.3%

1. Interest expense on Trading liabilities is reported as a reduction to Interest income on Trading assets.
2. Includes fees paid on Securities borrowed.
3. Includes interest from customer receivables and other interest earning assets.
4. The Firm also issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities, which are recorded within Trading revenues (see Note 3 to the consolidated financial statements in Item 1).
5. Includes fees received on Securities loaned.
6. Includes fees received from prime brokerage customers for stock loan transactions incurred to cover customers short positions.

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Financial Data Supplement (Unaudited)

Rate/Volume Analysis

Effect of Net Interest Income of Volume and Rate Changes

	Three Months Ended September 30, 2016 versus Three Months Ended September 30, 2015 Increase (decrease) due to change in:			Nine Months Ended September 30, 2016 versus Nine Months Ended September 30, 2015 Increase (decrease) due to change in:		
$ in millions	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest earning assets						
Trading Assets:						
U.S.	$ 85	$ (101)	$ (16)	$ 106	$ (94)	$ 12
Non-U.S.	(9)	(17)	(26)	(42)	(26)	(68)
Investment securities:						
U.S.	58	20	78	87	25	112
Loans:						
U.S.	92	48	140	348	113	461
Non-U.S.	5	(7)	(2)	18	(26)	(8)
Interest bearing deposits with banks:						
U.S.	(5)	17	12	10	50	60
Non-U.S.	7	(18)	(11)	8	(8)	
Securities purchased under agreements to resell and Securities borrowed:						
U.S.	24	37	61	58	212	270
Non-U.S.		(80)	(80)	1	(182)	(181)
Customer receivables and Other:						
U.S.	6	(33)	(27)	(86)	328	242
Non-U.S.	33	121	154	(23)	(50)	(73)
Change in interest income	$ 296	$ (13)	$ 283	$ 485	$ 342	$ 827
Interest bearing liabilities						
Deposits:						
U.S.	$ 1	$ (10)	$ (9)	$ 6	$ (21)	$ (15)
Non-U.S.		4	4		12	12
Short-term borrowings:						
U.S.	(2)		(2)	(2)		(2)
Non-U.S.	(4)	(4)	(8)	(7)	5	(2)
Long-term borrowings:						

U.S.	**24**	**(116)**	**(92)**	**74**	**(203)**	**(129)**
Non-U.S.	**2**	**(1)**	**1**	**2**	**(1)**	**1**
Securities sold under agreements to repurchase and Securities loaned:						
U.S.	**(31)**	**48**	**17**	**(153)**	**236**	**83**
Non-U.S.	**2**	**(45)**	**(43)**	**(65)**	**(54)**	**(119)**
Customer payables and Other:						
U.S.	**(29)**	**103**	**74**	**(89)**	**417**	**328**
Non-U.S.	**24**	**76**	**100**	**10**	**(99)**	**(89)**
Change in interest expense	**$ (13)**	**$ 55**	**$ 42**	**$ (224)**	**$ 292**	**$ 68**
Change in net interest income	**$ 309**	**$ (68)**	**$ 241**	**$ 709**	**$ 50**	**$ 759**

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Part II Other Information

Item 1. Legal Proceedings

The following new matters and developments have occurred since previously reporting certain matters in Morgan Stanley s (the Firm s) Annual Report on Form 10-K for the year ended December 31, 2015 (the Form 10-K), the Firm Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 (the First Quarter Form 10-Q), and the Firm s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 (the Second Quarter Form 10-Q). See also the disclosures set forth under Legal Proceedings in Part I, Item 3 of the Form 10-K and Part II, Item 1 of the First Quarter Form 10-Q and the Second Quarter Form 10-Q.

Residential Mortgage and Credit Crisis Related Matters

Civil Litigation

On August 11, 2016, the Appellate Division, First Department reversed in part the trial court s granting of the Firm s motion to dismiss in *Morgan Stanley Mortgage Loan Trust 2006-13ARX v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.* On September 9, 2016, the Firm filed a motion for reargument or, in the alternative, leave to appeal that decision.

On August 11, 2016, the Appellate Division, First Department affirmed the trial court s order denying in part the Firm s motion to dismiss the complaint in *IKB International S.A. in Liquidation et al. v. Morgan Stanley et al.*

On August 16, 2016, the Firm moved for summary judgment and the plaintiffs moved for partial summary judgment in *Morgan Stanley Mortgage Loan Trust 2006-14SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc*.

On September 15, 2016, the New York Court of Appeals denied the plaintiff s motion for leave to appeal in *Dexia SA/NV, et al. v. Morgan Stanley, et al.*

On September 21, 2016, the Firm filed a motion for summary judgment in *Federal Home Loan Bank of San Francisco v. Deutsche Bank Securities, Inc., et al.*

On September 30, 2016, the court in *California v. Morgan Stanley, et al.* granted the Firm s demurrer, with leave to replead. On October 21, 2016, the California Attorney General filed an amended complaint.

Commercial Mortgage Related Matter

In *The Bank of New York Mellon Trust, National Association v. Morgan Stanley Mortgage Capital, Inc.*, a trial has been set for February 13, 2017.

Currency Related Matters

Class Action Litigation

On September 20, 2016, the court in *In Re Foreign Exchange Benchmark Rates Antitrust Litigation* granted in part and denied in part the Firm s motion to dismiss the amended complaint.

On September 29, 2016, a purported antitrust action was filed on behalf of indirect foreign exchange purchasers in the United States District Court for the Southern District of New York. The action, styled *Baker v. Bank of America et al.*, names the Firm and 15 other foreign exchange dealers as defendants, and asserts claims under state antitrust and consumer protection laws.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth the information with respect to purchases made by or on behalf of the Firm of its common stock during the quarterly period ended September 30, 2016.

Issuer Purchases of Equity Securities

$ in millions, except per share data	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
Month #1 (July 1, 2016-July 31, 2016)				
Share Repurchase Program[2]	**5,800,000**	**$ 28.96**	**5,800,000**	**$ 3,332**
Employee transactions[3]	**961,220**	**$ 28.60**		
Month #2 (August 1, 2016-August 31, 2016)				
Share Repurchase Program[2]	**22,510,000**	**$ 29.43**	**22,510,000**	**$ 2,670**
Employee transactions[3]	**37,638**	**$ 29.11**		
Month #3 (September 1, 2016-September 30, 2016)				
Share Repurchase Program[2]	**13,189,153**	**$ 31.82**	**13,189,153**	**$ 2,250**
Employee transactions[3]	**22,604**	**$ 31.60**		
Quarter ended at September 30, 2016				
Share Repurchase Program[2]	**41,499,153**	**$ 30.12**	**41,499,153**	**$ 2,250**
Employee transactions[3]	**1,021,462**	**$ 28.68**		

1. Share purchases under publicly announced programs are made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices the Firm deems appropriate and may be suspended at any time.
2. The Firm s Board of Directors has authorized the repurchase of the Firm s outstanding stock under a share repurchase program (the Share Repurchase Program). The Share Repurchase Program is a program for capital management purposes that considers, among other things, business segment capital needs, as well as equity-based compensation and benefit plan requirements. The Share Repurchase Program has no set expiration or termination date. Share repurchases by the Firm are subject to regulatory approval. In June 2016, the Firm received a conditional non-objection from the Federal Reserve to its 2016 capital plan, which included a share repurchase of up to $3.5 billion of the Firm s outstanding common stock during the period beginning July 1, 2016 through June 30, 2017. During the quarter ended September 30, 2016, the Firm repurchased approximately $1.25 billion of the Firm s outstanding common stock as part of its Share Repurchase Program. For further information, see Liquidity and Capital Resources Capital Management in Part I, Item 2.

3. Includes shares acquired by the Firm in satisfaction of the tax withholding obligations on stock-based awards and the exercise of stock options granted under the Firm s stock-based compensation plans.

Item 5. Other Information

On October 28, 2016, the Firm announced that James A. Rosenthal, Executive Vice President and Chief Operating Officer of the Firm, would be leaving his position at the end of 2016. Mr. Rosenthal will remain in his position through December 31, 2016, and will remain an employee of the Firm in the role of senior advisor through his anticipated termination date of July 31, 2017. The Firm s Board of Directors approved the following material terms of a separation and release agreement with Mr. Rosenthal: Mr. Rosenthal s discretionary bonus compensation with respect to 2016 will be comprised of a mix of current cash bonus, a deferred cash incentive compensation award and a deferred equity incentive compensation award in the form of restricted stock units; Mr. Rosenthal s outstanding deferred cash and equity awards will not be modified and, in accordance with the award terms, such awards will vest on his date of termination and will be

subject to specified cancellation and clawback provisions until the applicable scheduled distribution or conversion date, and any stock options will remain outstanding and exercisable until the expiration of the original option term; if the Firm agrees to accelerate Mr. Rosenthal s termination date, then he will receive the base remuneration that he would have been paid through July 31, 2017; Mr. Rosenthal will have continued access to office space and administrative support, and continued access to his primary care physician under the Firm s Executive Health Program, through December 31, 2017; Mr. Rosenthal will remain subject to certain customary covenants in the agreement through December 31, 2017; and the agreement will have a general release and waiver of claims in favor of the Firm.

Item 6. Exhibits

An exhibit index has been filed as part of this Report on Page E-1.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MORGAN STANLEY

(Registrant)

By: /S/ JONATHAN PRUZAN
Jonathan Pruzan

Executive Vice President and

Chief Financial Officer

By: /S/ PAUL C. WIRTH
Paul C. Wirth

Deputy Chief Financial Officer

Date: November 2, 2016

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Exhibit Index

Morgan Stanley

Quarter Ended September 30, 2016

Exhibit No.	Description
12	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Computation of Earnings to Fixed Charges and Preferred Stock Dividends.
15	Letter of awareness from Deloitte & Touche LLP, dated November 2, 2016, concerning unaudited interim financial information.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Income Three Months and Nine Months Ended September 30, 2016 and 2015, (ii) the Consolidated Statements of Comprehensive Income Three Months and Nine Months Ended September 30, 2016 and 2015, (iii) the Consolidated Balance Sheets September 30, 2016 and December 31, 2015, (iv) the Consolidated Statements of Changes in Total Equity Nine Months Ended September 30, 2016 and 2015, (v) the Consolidated Statements of Cash Flows Nine Months Ended September 30, 2016 and 2015, and (vi) Notes to Consolidated Financial Statements (unaudited).

E-1