Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

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	**New York, NY 10036**	(I.R.S. Employer Identification No.)	(Registrant s telephone number including area code)
incorporation or organization)	(Address of principal executive offices, including zip 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   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 No

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

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

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2017, there were 1,836,580,691 shares of the Registrant s Common Stock, par value $0.01 per share, outstanding.

Table of Contents

QUARTERLY REPORT ON FORM 10-Q

For the quarter ended June 30, 2017

Table of Contents

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, *www.sec.gov*, that contains annual, quarterly and current reports, proxy and information statements and other information that issuers file electronically with the SEC. Our electronic SEC filings are available to the public at the SEC s internet site.

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 our 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;
- Integrity Hotline Information; and
- Environmental and Social Policies.

Our 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.

Table of Contents

Financial Information

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 Company) 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, lending and other services to corporations, governments, financial institutions, and high to ultra-high net worth clients. Investment banking services consist of 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 and fixed income products, including prime brokerage services, global macro, credit and commodities products. Lending services include originating and/or purchasing corporate loans, commercial and residential mortgage lending, asset-backed lending, financing extended to equities and commodities customers, and loans to municipalities. Other services include investment and research activities.

Wealth Management provides a comprehensive array of financial services and solutions to individual investors and small to medium-sized businesses/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 include equity, fixed income, liquidity and alternative/other products. Institutional clients include defined benefit/defined contribution plans, 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; and 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, 2016 (the 2016 Form 10-K) and Liquidity and Capital Resources Regulatory Requirements herein.

Table of Contents

Management s Discussion and Analysis

Executive Summary

Overview of Financial Results

Consolidated Results

Net Revenues

($ in millions)

Net Income Applicable to Morgan Stanley

($ in millions)

Earnings per Common Share[1]

1. For the calculation of basic and diluted earnings per common share, see Note 15 to the consolidated financial statements.

We reported net revenues of $9,503 million in the three months ended June 30, 2017 (current quarter, or 2Q 2017), compared with $8,909 million in the three months ended June 30, 2016 (prior year quarter, or 2Q 2016). For the current quarter, net income applicable to Morgan Stanley was $1,757 million, or $0.87 per diluted common share, compared with $1,582 million, or $0.75 per diluted common share, in the prior year quarter.

We reported net revenues of $19,248 million in the six months ended June 30, 2017 (current year period, or YTD 2017), compared with $16,701 million in the six months ended June 30, 2016 (prior year period, or YTD 2016). For the current year period, net income applicable to Morgan Stanley was $3,687 million, or $1.87 per diluted common share, compared with income of $2,716 million, or $1.30 per diluted common share in the prior year period.

Non-interest Expenses

($ in millions)

Compensation and benefits expenses of $4,252 million in the current quarter and $8,718 million in the current year period increased 6% and 13%, respectively, from $4,015 million in the prior year quarter and $7,698 million in the prior year period, primarily due to increases in incentive compensation driven mainly by higher revenues and

Table of Contents

Management s Discussion and Analysis

the fair value of investments to which certain deferred compensation plans are referenced.

Non-compensation expenses were $2,609 million in the current quarter and $5,080 million in the current year period compared with $2,411 million in the prior year quarter and $4,782 million in the prior year period, representing an 8% and a 6% increase, respectively. These increases were primarily as a result of higher Brokerage, clearing and exchange fees expense and other volume-driven expenses and a provision related to a United Kingdom (U.K.) indirect tax (i.e. value-added tax or VAT) matter. In addition to these drivers, non-compensation expenses increased in the current year period due to higher litigation costs. For further discussion of the U.K. VAT matter, see Institutional Securities Investments, Other Revenues, Non-interest Expenses and Other Items Other Items herein.

Expense Efficiency Ratio

The expense efficiency ratio was 72.2% in the current quarter and 71.7% in the current year period. The expense efficiency ratio was 72.1% in the prior year quarter and 74.7% in the prior year period (see Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information herein).

Return on Average Common Equity

The annualized return on average common equity (ROE) was 9.1% in the current quarter and 9.9% in the current year period. The annualized ROE was 8.3% in the prior year quarter and 7.2% in the prior year period (see Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information herein).

Business Segment Results

Net Revenues by Segment[1, 2]

($ in millions)

Table of Contents

Management s Discussion and Analysis

Net Income Applicable to Morgan Stanley by Segment[2, 3]

($ in millions)

1. The total amount of Net Revenues by Segment also includes intersegment eliminations of $(75) million and $(63) million in the current quarter and prior year quarter, respectively, and $(149) million and $(130) million in the current year period and prior year period, respectively.
2. The percentages on the sides of the charts represent the contribution of each business segment to the total. Amounts do not necessarily total to 100% due to intersegment eliminations, where applicable.
3. The total amount of Net Income Applicable to Morgan Stanley by Segment also includes intersegment eliminations of $2 million in the current year period.

Institutional Securities net revenues of $4,762 million in the current quarter and $9,914 million in the current year period increased 4% from the prior year quarter and increased 20% from the prior year period. The current quarter results primarily reflected higher revenues from underwriting and strength in equity sales and trading. The current year period results primarily reflected higher revenues from fixed income sales and trading and underwriting.

Wealth Management net revenues of $4,151 million in the current quarter and $8,209 million in the current year period increased 9% from the prior year quarter and increased 10% from the prior year period. The current quarter and the current year period results reflected growth in asset management fee revenues and Net interest income. In addition to these drivers, the current year period results reflected higher transactional revenues.

Investment Management net revenues of $665 million in the current quarter and $1,274 million in the current year period increased 14% from the prior year quarter and increased 20% from the prior year period. The current quarter results primarily reflected higher investment gains and carried interest and growth in asset management fee revenues. Current year period results primarily reflected investment gains compared with losses in the prior year period and positive carried interest in the current year period.

Net Revenues by Region[1]

($ in millions)

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 2016 Form 10-K.

Table of Contents

Management s Discussion and Analysis

Selected Financial Information and Other Statistical Data

$ in millions	Three Months Ended June 30, **2017**	Three Months Ended June 30, 2016	Six Months Ended June 30, **2017**	Six Months Ended June 30, 2016
Income from continuing operations applicable to Morgan Stanley	**$ 1,762**	$ 1,586	**$ 3,714**	$ 2,723
Income (loss) from discontinued operations applicable to Morgan Stanley	**(5)**	(4)	**(27)**	(7)
Net income applicable to Morgan Stanley	**1,757**	1,582	**3,687**	2,716
Preferred stock dividends and other	**170**	157	**260**	235
Earnings applicable to Morgan Stanley common shareholders	**$ 1,587**	$ 1,425	**$ 3,427**	$ 2,481
Effective income tax rate from continuing operations	**32.0%**	33.5%	**30.5%**	33.4%

	At June 30, 2017	At December 31, 2016
Capital ratios (Transitional-Advanced)[1]		
Common Equity Tier 1 capital ratio	**16.6%**	16.9%
Tier 1 capital ratio	**19.0%**	19.0%
Total capital ratio	**21.9%**	22.0%
Capital ratios (Transitional-Standardized)[1]		
Tier 1 leverage ratio[2]	**8.5%**	8.4%

in millions, except per share and employee data	**At June 30, 2017**	At December 31, 2016
Loans[3]	**$ 97,639**	$ 94,248
Total assets	**$ 841,016**	$ 814,949
Global Liquidity Reserve[4]	**$ 188,296**	$ 202,297
Deposits	**$ 144,913**	$ 155,863
Long-term borrowings	**$ 184,112**	$ 164,775
Common shareholders equity	**$ 70,306**	$ 68,530
Common shares outstanding	**1,840**	1,852
Book value per common share[5]	**$ 38.22**	$ 36.99
Worldwide employees	**56,187**	55,311

1. For a discussion of our regulatory capital ratios, see Liquidity and Capital Resources Regulatory Requirements herein.

2. See Note 13 to the consolidated financial statements for information on the Tier 1 leverage ratio.
3. 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).
4. 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 2016 Form 10-K.
5. Book value per common share equals common shareholders equity divided by common shares outstanding.

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 of America (U.S. GAAP). From time to time, we may disclose certain non-GAAP financial measures in this document, or in the course of our earnings releases, earnings and other conference calls, financial presentations, Definitive Proxy Statement 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. We consider the non-GAAP financial measures we disclose to be useful to us, investors and analysts by providing further transparency about, or an alternate means of assessing, our financial condition, operating results, prospective regulatory capital requirements, or capital adequacy. 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.

The principal non-GAAP financial measures presented in this document are set forth below.

Non-GAAP Financial Measures by Business Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
$ in billions	**2017**	2016	**2017**	2016
Pre-tax profit margin[1]				
Institutional Securities	**30%**	33%	**32%**	29%
Wealth Management	**25%**	23%	**25%**	22%
Investment Management	**21%**	20%	**19%**	15%
Consolidated	**28%**	28%	**28%**	25%
Average common equity[2]				
Institutional Securities	**$ 40.2**	$ 43.2	**$ 40.2**	$ 43.2
Wealth Management	**17.2**	15.3	**17.2**	15.3
Investment Management	**2.4**	2.8	**2.4**	2.8
Parent Company	**10.1**	7.7	**9.7**	7.3
Consolidated average common equity	**$ 69.9**	$ 69.0	**$ 69.5**	$ 68.6
Return on average common equity[2]				
Institutional Securities	**8.5%**	8.0%	**9.9%**	6.4%
Wealth Management	**14.6%**	12.9%	**14.6%**	12.7%
Investment Management	**16.3%**	10.6%	**13.7%**	8.8%
Consolidated	**9.1%**	8.3%	**9.9%**	7.2%

Table of Contents

Management s Discussion and Analysis

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

$ in millions, except per share data	Three Months Ended June 30, **2017**	Three Months Ended June 30, 2016	Six Months Ended June 30, **2017**	Six Months Ended June 30, 2016
Net income applicable to Morgan Stanley				
U.S. GAAP	**$ 1,757**	$ 1,582	**$ 3,687**	$ 2,716
Impact of discrete tax provision[3]	**4**		**18**	
Net income applicable to Morgan Stanley, excluding discrete tax provision non-GAAP	**$ 1,761**	$ 1,582	**$ 3,705**	$ 2,716
Earnings per diluted common share				
U.S. GAAP	**$ 0.87**	$ 0.75	**$ 1.87**	$ 1.30
Impact of discrete tax provision[3]			**0.01**	
Earnings per diluted common share, excluding discrete tax provision non-GAAP	**$ 0.87**	$ 0.75	**$ 1.88**	$ 1.30
Effective income tax rate				
U.S. GAAP	**32.0%**	33.5%	**30.5%**	33.4%
Impact of discrete tax provision[3]	**(0.1)%**		**(0.4)%**	
Effective income tax rate from continuing operations, excluding discrete tax provision non-GAAP	**31.9%**	33.5%	**30.1%**	33.4%

1. Pre-tax profit margin represents income from continuing operations before income taxes as a percentage of net revenues.
2. Average common equity for each business segment is determined at the beginning of each year 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) and will remain fixed throughout the year until the next annual reset. Each business segment s return on average common equity equals annualized net income applicable to Morgan Stanley less an allocation of preferred dividends as a percentage of average common equity for that segment. 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.

Beginning in 2017, with the adoption of the accounting update *Improvements to Employee Share-Based Payment Accounting*, the income tax consequences related to share-based payments are required to be recognized in Provision for income taxes in the consolidated income statements upon the conversion of employee share-based awards, which primarily occur in the first quarter of each year. The impact of the income tax consequences upon conversion of the awards may be either a benefit or a provision and is treated as a discrete item. The non-GAAP financial measures for net income applicable to Morgan Stanley, earnings per diluted common share and effective income tax rate above exclude discrete tax provisions other than income tax consequences arising from conversion activity as we anticipate conversion activity each quarter. See Note 2 to the consolidated financial statements for information on the adoption of the accounting update *Improvements to Employee Share-Based Payment Accounting*. For further information on the discrete tax provision, see Supplemental Financial Information and Disclosures Income Tax Matters herein.

Consolidated Non-GAAP Financial Measures

	Three Months Ended June 30,		Six Months Ended June 30,	
$ in billions	**2017**	2016	**2017**	2016
Average common equity[1, 2, 3]				
Unadjusted	**$ 69.9**	$ 69.0	**$ 69.5**	$ 68.6
Excluding DVA	**70.5**	69.1	**70.1**	68.7
Excluding DVA and discrete tax provision (benefit)	**70.5**	69.1	**70.1**	68.7
Return on average common equity[1, 2, 4, 5]				
Unadjusted	**9.1%**	8.3%	**9.9%**	7.2%
Excluding DVA	**9.0%**	8.3%	**9.8%**	7.2%
Excluding DVA and discrete tax provision (benefit)	**9.0%**	8.3%	**9.8%**	7.2%
Average tangible common equity[1, 2, 3, 6]				
Unadjusted	**$ 60.7**	$ 59.5	**$ 60.2**	$ 59.1
Excluding DVA	**61.3**	59.6	**60.8**	59.2
Excluding DVA and discrete tax provision (benefit)	**61.3**	59.6	**60.8**	59.2
Return on average tangible common equity[1, 2, 5]				
Unadjusted	**10.4%**	9.6%	**11.4%**	8.4%
Excluding DVA	**10.3%**	9.6%	**11.3%**	8.4%
Excluding DVA and discrete tax provision (benefit)	**10.4%**	9.6%	**11.3%**	8.4%
Expense efficiency ratio[7]	**72.2%**	72.1%	**71.7%**	74.7%

	At June 30, 2017	At December 31, 2016
Tangible book value per common share[6]	**$ 33.24**	$ 31.98

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

1. When excluding DVA, it is only excluded from the denominator. When excluding the discrete tax provision (benefit), both the numerator and denominator are adjusted to exclude that item.
2. Beginning in 2017, with the adoption of the accounting update *Improvements to Employee Share-Based Payment Accounting*, the income tax consequences related to share-based payments are required to be recognized in Provision for income taxes in the consolidated income statements upon the conversion of employee share-based awards, which primarily occur in the first quarter of each year. The impact of the income tax consequences upon conversion of the awards may be either a benefit or a provision and is treated as a discrete item. When excluding discrete tax provision (benefit) from average common equity, return on average common equity, average tangible common equity and return on average tangible common equity above only discrete tax provisions (benefits) other than income tax consequences arising from conversion activity are excluded as we anticipate conversion activity each quarter. See Note 2 to the consolidated financial statements for information on the adoption of the accounting update *Improvements to Employee Share-Based Payment Accounting*.
3. The impact of DVA on average common equity and average tangible common equity was approximately $(612) million and $(106) 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 $(599) million and $(128) million in the current year period and prior year period, respectively.
4. The calculation used in determining the Firm s ROE Target is return on average common equity excluding DVA and discrete tax items as set forth above.
5. Return on average common equity equals annualized consolidated net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity. Return on average tangible common equity equals annualized net income applicable to Morgan Stanley less preferred dividends as a percentage of average tangible common equity.

Table of Contents

Management s Discussion and Analysis

6. For a discussion of tangible common equity, see Liquidity and Capital Resources Tangible Equity herein. Tangible book value per common share equals tangible common equity divided by common shares outstanding.
7. The expense efficiency ratio represents total non-interest expenses as a percentage of net revenues.

Return on Equity Target

We have an ROE Target of 9% to 11% to be achieved by 2017. Our ROE Target and the related strategies and goals are forward-looking statements that may be materially affected by many factors, including, among other things: macroeconomic and market conditions; legislative and regulatory developments; industry trading and investment banking volumes; equity market levels; interest rate environment; legal expenses and the ability to reduce expenses in general; capital levels; and discrete tax items. For further information on our ROE 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 2016 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, Compensation Expense and Income Taxes

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 2016 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 2016 Form 10-K. For a discussion of our Income Tax expense, see Management s Discussion and Analysis of Financial Condition and Results of Operations Business Segments Income Taxes in Part II, Item 7 of the 2016 Form 10-K.

Table of Contents

Management s Discussion and Analysis

Institutional Securities

Income Statement Information

	Three Months Ended June 30,		
$ in millions	**2017**	2016	% Change
Revenues			
Investment banking	**$ 1,413**	$ 1,108	**28%**
Trading	**2,725**	2,498	**9%**
Investments	**37**	76	**(51)%**
Commissions and fees	**630**	607	**4%**
Asset management, distribution and administration fees	**89**	69	**29%**
Other	**126**	138	**(9)%**
Total non-interest revenues	**5,020**	4,496	**12%**
Interest income	**1,243**	966	**29%**
Interest expense	**1,501**	884	**70%**
Net interest	**(258)**	82	**N/M**
Net revenues	**4,762**	4,578	**4%**
Compensation and benefits	**1,667**	1,625	**3%**
Non-compensation expenses	**1,652**	1,447	**14%**
Total non-interest expenses	**3,319**	3,072	**8%**
Income from continuing operations before income taxes	**1,443**	1,506	**(4)%**
Provision for income taxes	**413**	453	**(9)%**
Income from continuing operations	**1,030**	1,053	**(2)%**
Income (loss) from discontinued operations, net of income taxes	**(5)**	(4)	**(25)%**
Net income	**1,025**	1,049	**(2)%**
Net income applicable to noncontrolling interests	**33**	61	**(46)%**
Net income applicable to Morgan Stanley	**$ 992**	988	**%**

	Six Months Ended June 30,		
$ in millions	**2017**	2016	% Change
Revenues			
Investment banking	**$ 2,830**	$ 2,098	**35%**
Trading	**5,737**	4,389	**31%**
Investments	**103**	108	**(5)%**
Commissions and fees	**1,250**	1,262	**(1)%**
Asset management, distribution and administration fees	**180**	142	**27%**
Other	**299**	142	**111%**

Total non-interest revenues	**10,399**	8,141	**28%**
Interest income	**2,367**	2,019	**17%**
Interest expense	**2,852**	1,868	**53%**
Net interest	**(485)**	151	**N/M**
Net revenues	**9,914**	8,292	**20%**
Compensation and benefits	**3,537**	3,007	**18%**
Non-compensation expenses	**3,204**	2,871	**12%**
Total non-interest expenses	**6,741**	5,878	**15%**
Income from continuing operations before income taxes	**3,173**	2,414	**31%**
Provision for income taxes	**872**	728	**20%**
Income from continuing operations	**2,301**	1,686	**36%**
Income (loss) from discontinued operations, net of income taxes	**(27)**	(7)	**N/M**
Net income	**2,274**	1,679	**35%**
Net income applicable to noncontrolling interests	**68**	100	**(32)%**
Net income applicable to Morgan Stanley	**$ 2,206**	$ 1,579	**40%**

N/M Not Meaningful

Table of Contents

Management s Discussion and Analysis

Investment Banking

Investment Banking Revenues

$ in millions	Three Months Ended June 30, 2017	2016	% Change
Advisory	**$ 504**	$ 497	**1%**
Underwriting revenues:			
Equity	**405**	266	**52%**
Fixed income	**504**	345	**46%**
Total underwriting	**909**	611	**49%**
Total investment banking	**$ 1,413**	$ 1,108	**28%**

$ in millions	Six Months Ended June 30, 2017	2016	% Change
Advisory	**$ 1,000**	$ 1,088	**(8)%**
Underwriting revenues:			
Equity	**795**	426	**87%**
Fixed income	**1,035**	584	**77%**
Total underwriting	**1,830**	1,010	**81%**
Total investment banking	**$ 2,830**	$ 2,098	**35%**

Investment Banking Volumes

$ in billions	Three Months Ended June 30, 2017[1]	2016[1]	Six Months Ended June 30, 2017[1]	2016[1]
Completed mergers and acquisitions[2]	**$ 205**	$ 241	**$ 356**	$ 538
Equity and equity-related offerings[3]	**20**	14	**30**	21
Fixed income offerings[4]	**67**	62	**142**	113

1. Source: Thomson Reuters, data at July 12, 2017. 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 issuances. 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 $1,413 million in the current quarter and $2,830 million in the current year period increased 28% and 35% from the comparable prior year periods. The increase in the current quarter primarily reflected higher underwriting revenues. The increase in the current year period was due to higher underwriting revenues, partially offset by lower advisory revenues.

Advisory revenues were relatively unchanged in the current quarter and decreased in the current year period reflecting the lower volumes of completed merger, acquisition and restructuring transactions (see Investment Banking Volumes table), offset by the positive impact of higher fee realizations.

Equity underwriting revenues increased in the current quarter and current year period as a result of higher global market volumes in both follow-on and initial public offerings (see Investment Banking Volumes table). In the current year period, equity underwriting revenues also increased as a result of higher fee realizations. Fixed income underwriting revenues increased in the current quarter and current year period primarily due to higher non-investment grade loan fees and bond fees.

Sales and Trading Net Revenues

By Income Statement Line Item

	Three Months Ended June 30,		
$ in millions	**2017**	2016	% Change
Trading	**$ 2,725**	$ 2,498	**9%**
Commissions and fees	**630**	607	**4%**
Asset management, distribution and administration fees	**89**	69	**29%**
Net interest	**(258)**	82	**N/M**
Total	**$ 3,186**	$ 3,256	**(2)%**

	Six Months Ended June 30,		
$ in millions	**2017**	2016	% Change
Trading	**$ 5,737**	$ 4,389	**31%**
Commissions and fees	**1,250**	1,262	**(1)%**
Asset management, distribution and administration fees	**180**	142	**27%**
Net interest	**(485)**	151	**N/M**

Total	**$ 6,682**	$ 5,944	**12%**

N/M Not Meaningful

Table of Contents

Management s Discussion and Analysis

By Business

	Three Months Ended June 30,		
$ in millions	**2017**	2016	% Change
Equity	**$ 2,155**	$ 2,145	**%**
Fixed income	**1,239**	1,297	**(4)%**
Other	**(208)**	(186)	**(12)%**
Total	**$ 3,186**	$ 3,256	**(2)%**

	Six Months Ended June 30,		
$ in millions	**2017**	2016	% Change
Equity	**$ 4,171**	$ 4,201	**(1)%**
Fixed income	**2,953**	2,170	**36%**
Other	**(442)**	(427)	**(4)%**
Total	**$ 6,682**	$ 5,944	**12%**

Sales and Trading Activities Equity and Fixed Income

Following is a description of the sales and trading activities within our equities and fixed income businesses as well as how their results impact the income statement line items, followed by a presentation and explanation of results.

Equities Financing. We provide financing and prime brokerage services to our clients active in the equity markets through a variety of products including margin lending, securities lending and swaps. Results from this business are largely driven by the difference between financing income earned and financing costs incurred, which are reflected in Net interest for securities and equity lending products and in Trading revenues for derivative products.

Equities Execution services. We make markets for our clients in equity-related securities and derivative products, including providing liquidity and hedging products. A significant portion of the results for this business is generated by commissions and fees from executing and clearing client transactions on major stock and derivative exchanges as well as from over-the-counter (OTC) transactions. Market-making also generates gains and losses on inventory, which are reflected in Trading revenues.

Fixed income Within fixed income we make markets in order to facilitate client activity as part of the following products and services.

Global macro products. We make markets for our clients in interest rate, foreign exchange and emerging market products, including exchange-traded and OTC securities, loans and derivative instruments. The results of this market-making activity are primarily driven by gains and losses from buying and selling positions to stand ready for and satisfy client demand, and are recorded in Trading revenues.

Credit products. We make markets in credit-sensitive products, such as corporate bonds and mortgage securities and other securitized products, and related derivative instruments. The values of positions in this business are sensitive to changes in credit spreads and interest rates, which result in gains and losses reflected in Trading revenues. Due to the amount and type of the interest-bearing securities and loans making up this business, a significant portion of the results is also reflected in Net interest revenues.

Commodities products and Other. We make markets in various commodity products related primarily to electricity, natural gas, oil, and precious metals, with the results primarily reflected in Trading revenues. Other activities include the results from the centralized management of our fixed income derivative counterparty exposures, which are primarily recorded in Trading revenues.

Sales and Trading Net Revenues Equity and Fixed Income

	Three Months Ended **June 30, 2017**			
$ in millions	Trading	Fees[1]	Net Interest[2]	Total
Financing	**$ 1,166**	**$ 88**	**$ (227)**	**$ 1,027**
Execution services	**601**	**580**	**(53)**	**1,128**
Total Equity	**$ 1,767**	**$ 668**	**$ (280)**	**$ 2,155**
Total Fixed Income	**$ 1,114**	**$ 48**	**$ 77**	**$ 1,239**

	Three Months Ended June 30, 2016			
$ in millions	Trading	Fees[1]	Net Interest[2]	Total
Financing	$ 1,039	$ 90	$ (82)	$ 1,047
Execution services	576	549	(27)	1,098
Total Equity	$ 1,615	$ 639	$ (109)	$ 2,145
Total Fixed Income	$ 1,018	$ 37	$ 242	$ 1,297

	Six Months Ended **June 30, 2017**			
$ in millions	Trading	Fees[1]	Net Interest[2]	Total
Financing	**$ 2,097**	**$ 177**	**$ (415)**	**$ 1,859**
Execution services	**1,265**	**1,148**	**(101)**	**2,312**
Total Equity	**$ 3,362**	**$ 1,325**	**$ (516)**	**$ 4,171**
Total Fixed Income	**$ 2,712**	**$ 102**	**$ 139**	**$ 2,953**