

MORGAN STANLEY
Form 10-Q
November 03, 2017
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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 September 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
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)

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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 October 31, 2017, there were 1,807,899,161 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, 2017

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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, 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 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.

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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 Stanley 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, and financing extended to equities and commodities customers and 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

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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.

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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 Share¹

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

We reported net revenues of \$9,197 million in the three months ended September 30, 2017 (current quarter, or 3Q 2017), compared with \$8,909 million in the three months ended September 30, 2016 (prior year quarter, or 3Q 2016). For the current quarter, net income applicable to Morgan Stanley was \$1,781 million, or \$0.93 per diluted common share, compared with \$1,597 million, or \$0.81 per diluted common share, in the prior year quarter.

We reported net revenues of \$28,445 million in the nine months ended September 30, 2017 (current year period, or YTD 2017), compared with \$25,610 million in the nine months ended September 30, 2016 (prior year period, or YTD 2016). For the current year period, net income applicable to Morgan Stanley was \$5,468 million, or \$2.79 per

diluted common share, compared with \$4,313 million, or \$2.11 per diluted common share in the prior year period.

Non-interest Expenses

(\$ in millions)

Compensation and benefits expenses of \$4,169 million in the current quarter and \$12,887 million in the current year period increased 2% and 9%, respectively, from \$4,097 million in the prior year quarter and \$11,795 million in the prior year period. The current quarter results primarily reflected increases in the formulaic payout to Wealth Management representatives linked to higher revenues and deferred compensation associated with carried interest in the Investment Management business segment, partially offset by a decrease in discretionary incentive compensation mainly driven by lower revenues in the Institutional Securities business segment. The current year period results primarily reflected increases in the fair value of investments to which certain deferred compensation plans are referenced, discretionary incentive compensation mainly driven by higher revenues, the formulaic payout to

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Management's Discussion and Analysis

Wealth Management representatives linked to higher revenues, and deferred compensation associated with carried interest.

Non-compensation expenses were \$2,546 million in the current quarter and \$7,626 million in the current year period compared with \$2,431 million in the prior year quarter and \$7,213 million in the prior year period, representing a 5% and a 6% increase, respectively. These increases were primarily as a result of higher volume-driven expenses. In addition, non-compensation expenses increased in the current year period due to a provision related to a United Kingdom (U.K.) indirect tax (i.e. value-added tax or VAT) matter and 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 73.0% in the current quarter and 72.1% in the current year period. The expense efficiency ratio was 73.3% in the prior year quarter and 74.2% 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 9.6% in the current quarter and 9.8% in the current year period. The annualized ROE was 8.7% in the prior year quarter and 7.7% 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)

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Management's Discussion and Analysis

Net Income Applicable to Morgan Stanley by Segment^{1, 3}

(\$ in millions)

1. The percentages in 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.
2. The total amount of Net Revenues by Segment also includes intersegment eliminations of \$(74) million and \$(77) million in the current quarter and prior year quarter, respectively, and \$(223) million and \$(207) million in the current year period and prior year period, respectively.
3. The total amount of Net Income Applicable to Morgan Stanley by Segment also includes intersegment eliminations of \$(4) million in the current quarter and \$(2) million in the current year period.

Institutional Securities net revenues of \$4,376 million in the current quarter and \$14,290 million in the current year period decreased 4% from the prior year quarter and increased 11% from the prior year period. The current quarter results primarily reflected lower revenues from fixed income sales and trading, partially offset by higher underwriting and advisory revenues. The current year period results primarily reflected higher revenues from underwriting and fixed income sales and trading.

Wealth Management net revenues of \$4,220 million in the current quarter and \$12,429 million in the current year period increased 9% both from the prior year quarter and the prior year period. The current quarter and the current year period results reflected growth in asset management fee revenues and Net interest income.

Investment Management net revenues of \$675 million in the current quarter and \$1,949 million in the current year period increased 22% from the prior year quarter and increased 21% from the prior year period. The current quarter and the current year period results primarily reflected higher carried interest and investment gains and growth in asset management fee revenues.

Net Revenues by Region¹

(\$ 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 the 2016 Form 10-K.

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Table of Contents**Management's Discussion and Analysis****Selected Financial Information and Other Statistical Data**

<i>\$ in millions</i>	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Income from continuing operations applicable to Morgan Stanley	\$ 1,775	\$ 1,589	\$ 5,489	\$ 4,312
Income (loss) from discontinued operations applicable to Morgan Stanley	6	8	(21)	1
Net income applicable to Morgan Stanley	1,781	1,597	5,468	4,313
Preferred stock dividends and other	93	79	353	314
Earnings applicable to Morgan Stanley common shareholders	\$ 1,688	\$ 1,518	\$ 5,115	\$ 3,999
Effective income tax rate from continuing operations	28.1%	31.5%	29.7%	32.7%

	At September 30, 2017	At December 31, 2016
Capital ratios		
Common Equity Tier 1 capital ratio ¹	16.9%	16.9%
Tier 1 capital ratio ¹	19.3%	19.0%
Total capital ratio ¹	22.2%	22.0%
Tier 1 leverage ratio	8.4%	8.4%

1. At September 30, 2017, our capital ratios are based on the Standardized Approach transitional rules. At December 31, 2016, our capital ratios were based on the Advanced Approach transitional rules. For a discussion of our regulatory capital ratios, see "Liquidity and Capital Resources - Regulatory Requirements" herein.

<i>in millions, except per share and employee data</i>	At September 30, 2017	At December 31, 2016
Loans ¹	\$ 104,431	\$ 94,248
Total assets	\$ 853,693	\$ 814,949
Global Liquidity Reserve ²	\$ 189,966	\$ 202,297
Deposits	\$ 154,639	\$ 155,863
Long-term borrowings	\$ 191,677	\$ 164,775
Common shareholders' equity	\$ 70,458	\$ 68,530
Common shares outstanding	1,812	1,852
Book value per common share ³	\$ 38.87	\$ 36.99
Worldwide employees	57,702	55,311

1. 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 balance sheets (see Note 7 to the financial statements).
2. 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.
3. 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 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.

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

<i>\$ in millions, except per share data</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net income applicable to Morgan Stanley				
U.S. GAAP	\$ 1,781	\$ 1,597	\$ 5,468	\$ 4,313
Impact of discrete tax provision ¹	(83)		(65)	
Net income applicable to Morgan Stanley, excluding discrete tax provision non-GAAP	\$ 1,698	\$ 1,597	\$ 5,403	\$ 4,313
Earnings per diluted common share				
U.S. GAAP	\$ 0.93	\$ 0.81	\$ 2.79	\$ 2.11
Impact of discrete tax provision ¹	(0.05)		(0.03)	
Earnings per diluted common share, excluding discrete tax provision non-GAAP	\$ 0.88	\$ 0.81	\$ 2.76	\$ 2.11
Effective income tax rate				
U.S. GAAP	28.1%	31.5%	29.7%	32.7%
Impact of discrete tax provision ¹	3.3%		0.8%	
Effective income tax rate from continuing operations, excluding discrete tax provision non-GAAP	31.4%	31.5%	30.5%	32.7%

Table of Contents**Management's Discussion and Analysis****Tangible Equity**

	At	At	Monthly Average Balance			
			Three Months Ended		Nine Months Ended	
			September 30,	September 30,	September 30,	September 30,
	September 30,	December 31,	2017	2016	2017	2016
<i>\$ in millions</i>	2017	2016	2017	2016	2017	2016
U.S. GAAP						
Common equity	\$ 70,458	\$ 68,530	\$ 70,487	\$ 69,531	\$ 69,786	\$ 68,859
Preferred equity	8,520	7,520	8,520	7,520	8,420	7,520
Morgan Stanley shareholders equity	78,978	76,050	79,007	77,051	78,206	76,379
Junior subordinated debentures issued to capital trusts				1,427		2,278
Less: Goodwill and net intangible assets	(9,079)	(9,296)	(9,120)	(9,368)	(9,192)	(9,447)
Morgan Stanley tangible shareholders equity non-GAAP	\$ 69,899	\$ 66,754	\$ 69,887	\$ 69,110	\$ 69,014	\$ 69,210
U.S. GAAP						
Common equity	\$ 70,458	\$ 68,530	\$ 70,487	\$ 69,531	\$ 69,786	\$ 68,859
Less: Goodwill and net intangible assets	(9,079)	(9,296)	(9,120)	(9,368)	(9,192)	(9,447)
Tangible common equity non-GAAP	\$ 61,379	\$ 59,234	\$ 61,367	\$ 60,163	\$ 60,594	\$ 59,412

Consolidated Non-GAAP Financial Measures

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
<i>\$ in billions</i>				
Average common equity^{1, 2}				
Unadjusted	\$ 70.5	\$ 69.5	\$ 69.8	\$ 68.9
Excluding DVA	71.3	69.6	70.4	69.0
Excluding DVA and discrete tax provision (benefit)	71.2	69.6	70.4	69.0
Return on average common equity^{1, 3, 4}				
Unadjusted	9.6%	8.7%	9.8%	7.7%
Excluding DVA	9.5%	8.7%	9.7%	7.7%
Excluding DVA and discrete tax provision (benefit)	9.0%	8.7%	9.6%	7.7%

Average tangible common equity^{1, 2, 5}				
Unadjusted	\$ 61.4	\$ 60.2	\$ 60.6	\$ 59.4
Excluding DVA	62.1	60.2	61.2	59.5
Excluding DVA and discrete tax provision (benefit)	62.1	60.2	61.3	59.5
Return on average tangible common equity^{1, 4}				
Unadjusted	11.0%	10.1%	11.3%	9.0%
Excluding DVA	10.9%	10.1%	11.1%	9.0%
Excluding DVA and discrete tax provision (benefit)	10.3%	10.1%	11.0%	9.0%
Expense efficiency ratio⁶	73.0%	73.3%	72.1%	74.2%

	At September 30, 2017	At December 31, 2016
Tangible book value per common share ⁵	\$ 33.86	\$ 31.98

Non-GAAP Financial Measures by Business Segment

<i>\$ in billions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Pre-tax profit margin⁷				
Institutional Securities	28%	30%	31%	30%
Wealth Management	27%	23%	25%	22%
Investment Management	19%	18%	19%	16%
Consolidated	27%	27%	28%	26%
Average common equity⁸				
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	10.7	8.2	10.0	7.6
Consolidated average common equity	\$ 70.5	\$ 69.5	\$ 69.8	\$ 68.9
Return on average common equity⁴				
Institutional Securities	8.9%	8.3%	9.6%	7.1%
Wealth Management	15.8%	14.5%	15.0%	13.3%
Investment Management	18.8%	9.3%	15.4%	9.0%
Consolidated	9.6%	8.7%	9.8%	7.7%

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. 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 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) 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 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.

2. The impact of DVA on average common equity and average tangible common equity was approximately \$(775) million and \$(62) million in the current quarter and prior year quarter, respectively, and approximately \$(652) million and \$(118) million in the current year period and prior year period, respectively.
3. 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.
4. Return on average common equity and return on average tangible common equity equal annualized net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity and average tangible common equity, respectively, on a consolidated or business segment basis as indicated. When excluding DVA, it is only excluded from the denominator. When excluding the discrete tax provision (benefit), both the numerator and denominator are adjusted.
5. Tangible book value per common share equals tangible common equity divided by common shares outstanding.
6. The expense efficiency ratio represents total non-interest expenses as a percentage of net revenues.
7. Pre-tax profit margin represents income from continuing operations before income taxes as a percentage of net revenues.

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Management's Discussion and Analysis

8. 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 remains fixed throughout the year until the next annual reset.

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 income taxes, 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**

<i>\$ in millions</i>	Three Months Ended		% Change
	2017	September 30, 2016	
Revenues			
Investment banking	\$ 1,270	\$ 1,104	15%
Trading	2,504	2,393	5%
Investments	52	36	44%
Commissions and fees	561	592	(5)%
Asset management, distribution and administration fees	88	68	29%
Other	143	243	(41)%
Total non-interest revenues	4,618	4,436	4%
Interest income	1,421	980	45%
Interest expense	1,663	863	93%
Net interest	(242)	117	N/M
Net revenues	4,376	4,553	(4)%
Compensation and benefits	1,532	1,657	(8)%
Non-compensation expenses	1,608	1,513	6%
Total non-interest expenses	3,140	3,170	(1)%
Income from continuing operations before income taxes	1,236	1,383	(11)%
Provision for income taxes	260	381	(32)%
Income from continuing operations	976	1,002	(3)%
Income (loss) from discontinued operations, net of income taxes	6	8	(25)%
Net income	982	1,010	(3)%
Net income applicable to noncontrolling interests	9	44	(80)%
Net income applicable to Morgan Stanley	\$ 973	\$ 966	1%

<i>\$ in millions</i>	September 30,		% Change
	2017	2016	
Revenues			
Investment banking	\$ 4,100	\$ 3,202	28%
Trading	8,241	6,782	22%
Investments	155	144	8%
Commissions and fees	1,811	1,854	(2)%
Asset management, distribution and administration fees	268	210	28%
Other	442	385	15%
Total non-interest revenues	15,017	12,577	19%
Interest income	3,788	2,999	26%

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Interest expense	4,515	2,731	65%
Net interest	(727)	268	N/M
Net revenues	14,290	12,845	11%
Compensation and benefits	5,069	4,664	9%
Non-compensation expenses	4,812	4,384	10%
Total non-interest expenses	9,881	9,048	9%
Income from continuing operations before income taxes	4,409	3,797	16%
Provision for income taxes	1,132	1,109	2%
Income from continuing operations	3,277	2,688	22%
Income (loss) from discontinued operations, net of income taxes	(21)	1	N/M
Net income	3,256	2,689	21%
Net income applicable to noncontrolling interests	77	144	(47)%
Net income applicable to Morgan Stanley	\$ 3,179	\$ 2,545	25%
N/M Not Meaningful			

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Table of Contents**Management's Discussion and Analysis****Investment Banking****Investment Banking Revenues**

<i>\$ in millions</i>	Three Months Ended September 30,		% Change
	2017	2016	
Advisory	\$ 555	\$ 504	10%
Underwriting:			
Equity	273	236	16%
Fixed income	442	364	21%
Total underwriting	715	600	19%
Total investment banking	\$ 1,270	\$ 1,104	15%

<i>\$ in millions</i>	Nine Months Ended September 30,		% Change
	2017	2016	
Advisory	\$ 1,555	\$ 1,592	(2)%
Underwriting:			
Equity	1,068	662	61%
Fixed income	1,477	948	56%
Total underwriting	2,545	1,610	58%
Total investment banking	\$ 4,100	\$ 3,202	28%

Investment Banking Volumes

<i>\$ in billions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Completed mergers and acquisitions ¹	\$ 229	\$ 190	\$ 585	\$ 728
Equity and equity-				
related offerings ^{2, 3}	16	13	46	34
Fixed income offerings ^{2, 4}	60	72	201	185

Source: Thomson Reuters, data at October 2, 2017. 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.

1. Amounts include transactions of \$100 million or more. Completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction.
2. 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.
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 \$1,270 million in the current quarter and \$4,100 million in the current year period increased 15% and 28% from the comparable prior year periods. The increase in the current quarter reflected both higher underwriting and advisory revenues. The increase in the current year period was due to higher underwriting revenues.

Advisory revenues increased in the current quarter reflecting the higher volumes of completed merger, acquisition and restructuring transactions (M&A) (see Investment Banking Volumes table). Advisory revenues decreased in the current year period reflecting the lower volumes of completed M&A, partially 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 levels of deal activity. Fixed income underwriting revenues increased in the current quarter primarily due to higher non-investment grade bond fees and loan fees. Fixed income underwriting revenues increased in the current year period primarily due to higher bond fees and non-investment grade loan fees.

Sales and Trading Net Revenues

By Income Statement Line Item

<i>\$ in millions</i>	Three Months Ended September 30,		% Change
	2017	2016	
Trading	\$ 2,504	\$ 2,393	5%
Commissions and fees	561	592	(5)%
Asset management, distribution and administration fees	88	68	29%
Net interest	(242)	117	N/M
Total	\$ 2,911	\$ 3,170	(8)%

<i>\$ in millions</i>	Nine Months Ended September 30,		% Change
	2017	2016	

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Trading	\$ 8,241	\$ 6,782	22%
Commissions and fees	1,811	1,854	(2)%
Asset management, distribution and administration fees	268	210	28%
Net interest	(727)	268	N/M
Total	\$ 9,593	\$ 9,114	5%

N/M Not Meaningful

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Management's Discussion and Analysis

By Business

\$ in millions	Three Months Ended September 30,		% Change
	2017	2016	
Equity	\$ 1,891	\$ 1,883	%
Fixed income	1,167	1,479	(21)%
Other	(147)	(192)	23%
Total	\$ 2,911	\$ 3,170	(8)%

\$ in millions	Nine Months Ended September 30,		% Change
	2017	2016	
Equity	\$ 6,062	\$ 6,084	%
Fixed income	4,120	3,649	13%
Other	(589)	(619)	5%
Total	\$ 9,593	\$ 9,114	5%

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			
	September 30, 2017			
			Net	
<i>\$ in millions</i>	Trading	Fees ¹	Interest ²	Total
Financing	\$ 1,029	\$ 92	\$ (206)	\$ 915
Execution services	540	495	(59)	976
Total Equity	\$ 1,569	\$ 587	\$ (265)	\$ 1,891
Total Fixed income	\$ 1,073	\$ 65	\$ 29	\$ 1,167

	Three Months Ended			
	September 30, 2016			
			Net	
<i>\$ in millions</i>	Trading	Fees ¹	Interest ²	Total
Financing	\$ 872	\$ 83	\$ (110)	\$ 845
Execution services	536	541	(39)	1,038
Total Equity	\$ 1,408	\$ 624	\$ (149)	\$ 1,883
Total Fixed income	\$ 1,209	\$ 38	\$ 232	\$ 1,479

	Nine Months Ended			
	September 30, 2017			
			Net	
<i>\$ in millions</i>	Trading	Fees ¹	Interest ²	Total
Financing	\$ 3,126	\$ 269	\$ (621)	\$ 2,774
Execution services	1,805	1,643	(160)	3,288
Total Equity	\$ 4,931	\$ 1,912	\$ (781)	\$ 6,062
Total Fixed income	\$ 3,785	\$ 167	\$ 168	\$ 4,120

Nine Months Ended

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	September 30, 2016			
<i>\$ in millions</i>	Trading	Fees ¹	Net Interest ²	Total
Financing	\$ 2,797	\$ 259	\$ (152)	\$ 2,904
Execution services	1,621	1,690	(131)	3,180
Total Equity	\$ 4,418	\$ 1,949	\$ (283)	\$ 6,084
Total Fixed income	\$ 2,782	\$ 115	\$ 752	\$ 3,649

1. Includes Commissions and fees and Asset management, distribution and administration fees.

2. Funding costs are allocated to the businesses based on funding usage and are included in Net interest.

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Management's Discussion and Analysis

We manage each of the sales and trading businesses based on its aggregate net revenues, which are comprised of the income statement line items quantified in the previous table. Trading revenues are affected by a variety of market dynamics, including volumes, bid-offer spreads, and inventory prices, as well as impacts from hedging activity, which are interrelated. We provide qualitative commentary in the discussion of results that follow on the key drivers of period over period variances, as the quantitative impact of the various market dynamics typically cannot be disaggregated.

For additional information on total Trading revenues, see the table "Trading Revenues by Product Type" in Note 4 to the financial statements.

Sales and Trading Net Revenues during the Current Quarter

Equity

Equity sales and trading net revenues of \$1,891 million in the current quarter were relatively unchanged from the prior year quarter, reflecting higher results in our financing business, offset by lower results in execution services.

Financing revenues increased 8% from the prior year quarter due to higher client activity in equity swaps reflected in Trading revenues, partially offset by lower Net interest revenues due to a shift in the mix of financing transactions.

Execution services decreased 6% from the prior year quarter as reduced market volumes in the United States resulted in lower commissions and fees, while reduced Trading revenues from derivative products were offset by increased Trading revenues from cash equity products.

Fixed Income

Fixed income net revenues of \$1,167 million in the current quarter were 21% lower than the prior year quarter, primarily driven by lower results in credit and global macro products.

Credit products decreased due to tighter corporate credit spreads and lower volatility compared with the prior year quarter, which impacted Trading revenues. In addition, Net interest revenues decreased due to a lower level of interest realized in securitized products in the current quarter.

Global macro products decreased due to lower market and interest rate volatility, which reduced Trading revenues. In addition, Net interest revenues decreased due to the effect of interest rate products inventory management.

Commodities products and Other remained relatively unchanged from the prior year quarter.

Sales and Trading Net Revenues during the Current Year Period

Equity

Equity sales and trading net revenues of \$6,062 million in the current year period were relatively unchanged from the prior year period, reflecting lower results in our financing business, offset by higher results in execution services.

Financing revenues decreased 4% from the prior year period as Net interest revenues declined from higher net interest costs, reflecting increased liquidity requirements and a shift in the mix of financing transactions, partially offset by higher client activity in equity swaps reflected in Trading revenues.

Execution services increased 3% from the prior year period primarily due to improved results in cash equity inventory management reflected in Trading revenues, partially offset by lower commissions and fees driven by reduced market volumes in the United States.

Fixed Income

Fixed income net revenues of \$4,120 million in the current year period were 13% higher than the prior year period, driven by higher results across all three product areas.

Credit products increased due to the absence of inventory losses driven by a widening spread environment in the prior year period, which increased Trading revenues. This was partially offset by a lower level of interest realized in securitized products in the current year period, which reduced Net interest revenues.

Global macro products increased due to increased Trading revenues in foreign exchange driven by market volatility, and structured interest rate products driven by higher client activity. This was partially offset by higher interest costs impacting Net interest revenues in the current year period which resulted from interest rate products inventory management.

Commodities products and Other increased due to improved metals trading, commodities lending results and the absence of losses from counterparty risk management incurred in the prior year period.

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

Investments

Net investment gains of \$52 million in the current quarter increased from the prior year quarter primarily as a result of higher gains on real estate investments, partially offset by lower gains on equities business related investments.

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Net investment gains of \$155 million in the current year period increased from the prior year period primarily reflecting gains on investments associated with our compensation plans in the current year period compared with losses in the prior year period and higher gains on real estate investments, partially offset by lower gains on equities business related investments.

Other

Other revenues of \$143 million in the current quarter decreased from the prior year quarter primarily reflecting lower mark-to-market gains on loans held for sale. Other revenues of \$442 million in the current year period increased from the prior year period primarily reflecting a decrease in the provision on loans held for investment.

Non-interest Expenses

Non-interest expenses of \$3,140 million in the current quarter were relatively unchanged from the prior year quarter primarily reflecting an 8% decrease in Compensation and benefits expenses and a 6% increase in Non-compensation expenses. Non-interest expenses of \$9,881 million in the current year period increased from the prior year period reflecting a 9% increase in Compensation and benefits expenses and a 10% increase in Non-compensation expenses.

Compensation and benefits expenses decreased in the current quarter primarily due to decreases in discretionary incentive compensation driven mainly by lower revenues, and lower amortization of deferred cash and equity awards. Compensation and benefits expenses increased in the current year period primarily due to increases in discretionary incentive compensation driven mainly by higher revenues and the fair value of investments to which certain deferred compensation plans are referenced.

Non-compensation expenses increased in the current quarter and current year period primarily due to higher volume-driven expenses and litigation costs. In addition to higher volume-driven expenses and litigation costs, non-compensation expenses increased in the current year period due to a provision related to the U.K. VAT matter (see Other Items below).

Other Items

During the second quarter, the Firm self-identified an issue regarding VAT on intercompany services provided by certain overseas affiliates to our U.K. group. The Firm is reviewing the reporting of U.K. VAT as the focus and nature of services shifted among geographic locations. In the current year period, we have recorded a provision of \$86 million that incorporates potential additional VAT, interest and penalties for this exposure. We are actively working with Her Majesty's Revenue and Customs to resolve this matter. The provision reflected is based on currently available information and analyses, and our review of this matter is continuing.

Table of Contents**Management's Discussion and Analysis****Wealth Management****Income Statement Information**

<i>\$ in millions</i>	Three Months Ended		
	September 30,		
	2017	2016	% Change
Revenues			
Investment banking	\$ 125	\$ 129	(3)%
Trading	212	229	(7)%
Investments	1		N/M
Commissions and fees	402	433	(7)%
Asset management, distribution and administration fees	2,393	2,133	12%
Other	62	72	(14)%
Total non-interest revenues	3,195	2,996	7%
Interest income	1,155	979	18%
Interest expense	130	94	38%
Net interest	1,025	885	16%
Net revenues	4,220	3,881	9%
Compensation and benefits	2,326	2,203	6%
Non-compensation expenses	775	777	%
Total non-interest expenses	3,101	2,980	4%
Income from continuing operations before income taxes	1,119	901	24%
Provision for income taxes	421	337	25%
Net income applicable to Morgan Stanley	\$ 698	\$ 564	24%

<i>\$ in millions</i>	Nine Months Ended		
	September 30,		
	2017	2016 ¹	% Change
Revenues			
Investment banking	\$ 405	\$ 373	9%
Trading	657	675	(3)%
Investments	3	(2)	N/M
Commissions and fees	1,266	1,268	%
Asset management, distribution and administration fees	6,879	6,269	10%
Other	191	232	(18)%
Total non-interest revenues	9,401	8,815	7%
Interest income	3,348	2,813	19%
Interest expense	320	268	19%

Net interest	3,028	2,545	19%
Net revenues	12,429	11,360	9%
Compensation and benefits	6,940	6,443	8%
Non-compensation expenses	2,340	2,371	(1)%
Total non-interest expenses	9,280	8,814	5%
Income from continuing operations before income taxes	3,149	2,546	24%
Provision for income taxes	1,139	973	17%
Net income applicable to Morgan Stanley	\$ 2,010	\$ 1,573	28%
N/M Not Meaningful			

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

Financial Information and Statistical Data

<i>\$ in billions</i>	At September 30, 2017	At December 31, 2016
Client assets	\$ 2,307	\$ 2,103
Fee-based client assets ¹	\$ 1,003	\$ 877
Fee-based client assets as a percentage of total client assets	43%	42%
Client liabilities ²	\$ 78	\$ 73
Investment securities portfolio	\$ 60.6	\$ 63.9
Loans and lending commitments	\$ 76.2	\$ 68.7
Wealth Management representatives	15,759	15,763
	Three Months Ended September 30, 2017	2016
Annualized revenues per representative (dollars in thousands) ³	\$ 1,071	\$ 977
Client assets per representative (dollars in millions) ⁴	\$ 146	\$ 132
Fee-based asset flows ⁵ (dollars in billions)	\$ 15.8	\$ 13.5
	Nine Months Ended September 30, 2017	2016
Annualized revenues per representative (dollars in thousands) ³	\$ 1,051	\$ 953
	\$ 146	\$ 132

Client assets per representative
(dollars in millions)⁴

Fee-based asset flows⁵
(dollars in billions)

\$ 54.5 \$ 31.4

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, residential real estate loans and margin lending.
3. Annualized revenues per representative equal Wealth Management'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.

Table of Contents**Management's Discussion and Analysis****Net Revenues*****Transactional Revenues***

<i>\$ in millions</i>	Three Months Ended September 30,		
	2017	2016	% Change
Investment banking	\$ 125	\$ 129	(3)%
Trading	212	229	(7)%
Commissions and fees	402	433	(7)%
Total	\$ 739	\$ 791	(7)%

<i>\$ in millions</i>	Nine Months Ended September 30,		
	2017	2016	% Change
Investment banking	\$ 405	\$ 373	9%
Trading	657	675	(3)%
Commissions and fees	1,266	1,268	%
Total	\$ 2,328	\$ 2,316	1%

Transactional revenues of \$739 million in the current quarter decreased 7% from the prior year quarter primarily reflecting lower Commissions and fees and Trading revenues.

Transactional revenues of \$2,328 million in the current year period increased 1% from the prior year period primarily reflecting higher revenues in Investment banking revenues, partially offset by decreased Trading revenues.

Investment banking revenues were relatively unchanged in the current quarter. The increase in the current year period was due to higher revenues from structured products and equity syndicate activities, partially offset by lower preferred stock syndicate activity.

Trading revenues decreased in the current quarter primarily due to lower client activity in fixed income products. In addition to lower client activity, Trading revenues decreased in the current year period due to lower revenues related to the Fixed Income Integration, partially offset by gains related to investments associated with certain employee deferred compensation plans.

Commissions and fees decreased in the current quarter primarily due to decreased activity in equities, mutual funds and annuities. Commissions and fees were relatively unchanged in the current year period, with decreased activity

in annuities and mutual funds essentially offset by the impact of the Fixed Income Integration.

Asset Management

Asset management, distribution and administration fees of \$2,393 million in the current quarter and \$6,879 million in the current year period increased 12% and 10%, respectively. The increase in both periods is primarily due to market appreciation and net positive flows. See *Fee-Based Client Assets* herein.

Net Interest

Net interest of \$1,025 million in the current quarter and \$3,028 million in the current year period increased 16% and 19%, respectively, primarily due to higher loan balances and higher interest rates, partially offset by higher interest paid on deposits.

Other

Other revenues of \$62 million in the current quarter and \$191 million in the current year period decreased 14% and 18%, respectively, due to lower realized gains from the available for sale (AFS) securities portfolio.

Non-interest Expenses

Non-interest expenses of \$3,101 million in the current quarter and \$9,280 million in the current year period increased 4% and 5%, respectively, as a result of the increase in Compensation and benefits expenses.

Compensation and benefits expenses increased in the current quarter primarily due to the formulaic payout to Wealth Management representatives linked to higher revenues. In addition to the higher formulaic payout, Compensation and benefits expenses increased in the current year period due to increases in the fair value of investments to which certain deferred compensation plans are referenced.

Non-compensation expenses were relatively unchanged in the current quarter. Non-compensation expenses decreased in the current year period primarily due to lower litigation and information processing costs, partially offset by higher deposit insurance expense and higher consulting fees related to strategic initiatives.

Fee-Based Client Assets

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 Activity and Average Fee Rate by Account Type* in Part II, Item 7 of the 2016 Form 10-K.

Table of Contents**Management's Discussion and Analysis****Fee-Based Client Assets Rollforward**

<i>\$ in billions</i>	At June 30, 2017	Inflows	Outflows	Market Impact	At September 30, 2017
Separately managed accounts ^{1, 2}	\$ 237	\$ 8	\$ (5)	\$ 3	\$ 243
Unified managed accounts ²	228	11	(7)	7	239
Mutual fund advisory	21	1	(1)		21
Representative as advisor	138	9	(7)	4	144
Representative as portfolio manager	321	18	(11)	10	338
Subtotal	\$ 945	\$ 47	\$ (31)	\$ 24	\$ 985
Cash management	17	3	(2)		18
Total fee-based client assets	\$ 962	\$ 50	\$ (33)	\$ 24	\$ 1,003

<i>\$ in billions</i>	At June 30, 2016	Inflows	Outflows	Market Impact	At September 30, 2016
Separately managed accounts ¹	\$ 279	\$ 8	\$ (15)	\$ 7	\$ 279
Unified managed accounts	120	17	(5)	4	136
Mutual fund advisory	23		(1)	1	23
Representative as advisor	117	10	(7)	3	123
Representative as portfolio manager	265	19	(12)	6	278
Subtotal	\$ 804	\$ 54	\$ (40)	\$ 21	\$ 839
Cash management	16	2	(2)		16
Total fee-based client assets	\$ 820	\$ 56	\$ (42)	\$ 21	\$ 855

\$ in billions At Inflows Outflows At

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	December 31, 2016			MarketSeptember 30, Impact 2017		
Separately managed accounts ^{1, 2}	\$ 222	\$ 24	\$ (16)	\$ 13	\$ 243	
Unified managed accounts ²	204	36	(22)	21	239	
Mutual fund advisory	21	1	(3)	2	21	
Representative as advisor	125	27	(20)	12	144	
Representative as portfolio manager	285	57	(29)	25	338	
Subtotal	\$ 857	\$ 145	\$ (90)	\$ 73	\$ 985	
Cash management	20	9	(11)		18	
Total fee-based client assets	\$ 877	\$ 154	\$ (101)	\$ 73	\$ 1,003	

	At December 31, 2015			At MarketSeptember 30, Impact 2016		
<i>\$ in billions</i>		Inflows	Outflows			
Separately managed accounts ¹	\$ 283	\$ 24	\$ (31)	\$ 3	\$ 279	
Unified managed accounts	105	37	(13)	7	136	
Mutual fund advisory	25	1	(5)	2	23	
Representative as advisor	115	22	(20)	6	123	
Representative as portfolio manager	252	48	(32)	10	278	
Subtotal	\$ 780	\$ 132	\$ (101)	\$ 28	\$ 839	
Cash management	15	8	(7)		16	
Total fee-based client assets	\$ 795	\$ 140	\$ (108)	\$ 28	\$ 855	
Average Fee Rates³						

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
<i>Fee Rate in bps</i>				
Separately managed accounts ²	17	35	16	36
Unified managed accounts ²	97	104	98	106
Mutual fund advisory	118	119	118	119
Representative as advisor	84	85	84	85
Representative as portfolio manager	94	98	96	99
Subtotal	76	76	76	77
Cash management	6	6	6	6
Total fee-based client assets	75	75	75	76
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.
2. A shift in client assets of approximately \$66 billion in the fourth quarter of 2016 from separately managed accounts to unified managed accounts resulted in a lower average fee rate for those platforms but did not impact the average fee rate for total fee-based client assets.

3. Certain data enhancements made in the first quarter of 2017 resulted in a modification to the Fee Rate calculations. Prior periods have been restated to reflect the revised calculations.

Table of Contents**Management's Discussion and Analysis****Investment Management****Income Statement Information**

<i>\$ in millions</i>	Three Months Ended		
	September 30, 2017	2016	% Change
Revenues			
Investment banking	\$	\$ (2)	N/M
Trading	(7)	(3)	(133)%
Investments	114	51	124%
Asset management, distribution and administration fees	568	508	12%
Other	1	(3)	133%
Total non-interest revenues	676	551	23%
Interest income	1	1	%
Interest expense	2		N/M
Net interest	(1)	1	(200)%
Net revenues	675	552	22%
Compensation and benefits	311	237	31%
Non-compensation expenses	233	218	7%
Total non-interest expenses	544	455	20%
Income from continuing operations before income taxes	131	97	35%
Provision for income taxes	16	31	(48)%
Net income	115	66	74%
Net income (loss) applicable to noncontrolling interests	1	(1)	200%
Net income applicable to Morgan Stanley	\$ 114	\$ 67	70%

Nine Months Ended

<i>\$ in millions</i>	September 30,		
	2017	2016	% Change
Revenues			
Investment banking	\$	\$ (1)	N/M
Trading	(21)	(8)	(163)%
Investments	337	37	N/M
Commissions and fees		3	N/M
Asset management, distribution and administration fees	1,624	1,551	5%

Other	9	28	(68)%
Total non-interest revenues	1,949	1,610	21%
Interest income	3	5	(40)%
Interest expense	3	3	%
Net interest		2	N/M
Net revenues	1,949	1,612	21%
Compensation and benefits	878	688	28%
Non-compensation expenses	695	665	5%
Total non-interest expenses	1,573	1,353	16%
Income from continuing operations before income taxes	376	259	45%
Provision for income taxes	87	78	12%
Net income	289	181	60%
Net income (loss) applicable to noncontrolling interests	8	(14)	157%
Net income applicable to Morgan Stanley	\$ 281	\$ 195	44%
N/M	Not Meaningful		

Net Revenues

Investments

Investments gains of \$114 million in the current quarter compared with \$51 million in the prior year quarter reflected higher carried interest principally in Infrastructure investments, partially offset by weaker investment performance which resulted in the reversal of previously accrued carried interest in Private Equity.

Investments gains of \$337 million in the current year period compared with \$37 million in the prior year period reflected higher carried interest and performance gains in all asset classes.

Asset Management, Distribution and Administration Fees

Asset management, distribution and administration fees of \$568 million increased 12% in the current quarter compared to the prior year quarter as a result of higher average assets under management or supervision (AUM) across all asset classes and higher performance fees.

Asset management, distribution and administration fees of \$1,624 million increased 5% in the current year period compared to the prior year period primarily as a result of higher average AUM.

See Assets Under Management or Supervision herein.

Non-interest Expenses

Non-interest expenses of \$544 million in the current quarter and \$1,573 million in the current year period increased 20% and 16% from the comparable prior periods primarily due to higher Compensation and benefits expenses.

Compensation and benefits expenses increased in the current quarter and current year period due to higher discretionary incentive compensation and an increase in deferred compensation associated with carried interest.

Non-compensation expenses increased in the current quarter and current year period primarily due to higher brokerage, clearing and exchange fees.

Assets Under Management or Supervision

For a description of the asset classes and rollforward items in the following tables, see Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments Investment Management Assets Under Management or Supervision in Part II, Item 7 of the 2016 Form 10-K.

Table of Contents**Management's Discussion and Analysis****AUM Rollforwards**

	At					At	
<i>\$ in billions</i>	June 30, 2017	Inflows	Outflows	Market Impact	Other ¹	September 30, 2017	
Equity	\$ 94	\$ 5	\$ (6)	\$ 4	\$	\$ 97	
Fixed income	66	7	(5)	1		69	
Liquidity	154	279	(277)	1	(1)	156	
Alternative / Other products	121	5	(3)	1	1	125	
Total AUM	\$ 435	\$ 296	\$ (291)	\$ 7	\$	\$ 447	
Shares of minority stake assets	8					7	

	At					At	
<i>\$ in billions</i>	June 30, 2016	Inflows	Outflows	Market Impact	Other ¹	September 30, 2016	
Equity	\$ 81	\$ 4	\$ (6)	\$ 4	\$	\$ 83	
Fixed income	61	6	(5)	1		63	
Liquidity	149	358	(352)	(1)		154	
Alternative / Other products	115	4	(4)	2		117	
Total AUM	\$ 406	\$ 372	\$ (367)	\$ 6	\$	\$ 417	
Shares of minority stake assets	8					7	

	At					At	
<i>\$ in billions</i>	December 31, 2016	Inflows	Outflows	Market Impact	Other ¹	September 30, 2017	
Equity	\$ 79	\$ 16	\$ (16)	\$ 17	\$ 1	\$ 97	
Fixed income	60	20	(16)	3	2	69	
Liquidity	163	915	(923)	1		156	
Alternative / Other products	115	18	(13)	5		125	
Total AUM	\$ 417	\$ 969	\$ (968)	\$ 26	\$ 3	\$ 447	

Shares of minority stake assets	8	7
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	At			At		
<i>\$ in billions</i>	December 31, 2015	Inflows	Outflows	Market Impact	Other ¹	September 30, 2016
Equity	\$ 83	\$ 14	\$ (18)	\$ 4	\$	\$ 83
Fixed income	60	18	(19)	3	1	63
Liquidity	149	985	(979)	(1)		154
Alternative / Other products	114	18	(18)	3		117
Total AUM	\$ 406	\$ 1,035	\$ (1,034)	\$ 9	\$ 1	\$ 417
Shares of minority stake assets	8					7
Average AUM						

	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>\$ in billions</i>	2017	2016	2017	2016
Equity	\$ 96	\$ 83	\$ 90	\$ 81
Fixed income	68	62	65	61
Liquidity	156	151	155	149
Alternative / Other products	123	116	120	115
Total AUM	\$ 443	\$ 412	\$ 430	\$ 406
Shares of minority stake assets	7	7	7	8
Average Fee Rate				

	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>Fee Rate in bps</i>	2017	2016	2017	2016
Equity	75	74	74	72
Fixed income	34	32	33	32
Liquidity	18	18	18	18
Alternative / Other products	68	73	69	76
Total AUM	47	47	46	48

AUM Assets under management or supervision

bps Basis points

1. Includes distributions and foreign currency impact.

Table of Contents**Management's Discussion and Analysis****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 market penetration of the client base within the 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. For further discussion about loans and lending commitments, see Notes 7 and 11 to the financial statements.

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

<i>\$ in billions</i>	At September 30, 2017	At December 31, 2016
U.S. Bank Subsidiaries assets ¹	\$ 182.2	\$ 176.8
U.S. Bank Subsidiaries investment securities portfolio:		
Investment securities AFS	42.7	50.3
Investment securities HTM	18.1	13.6
Total investment securities	\$ 60.8	\$ 63.9
Deposits ²	\$ 154.2	\$ 154.7
Wealth Management U.S. Bank Subsidiaries data		
Securities-based lending and other loans ³	\$ 40.1	\$ 36.0
Residential real estate loans	26.2	24.4
Total	\$ 66.3	\$ 60.4
Institutional Securities U.S. Bank Subsidiaries data		
Corporate loans	\$ 22.3	\$ 20.3
Wholesale real estate loans	10.1	9.9
Total	\$ 32.4	\$ 30.2
AFS Available for sale		
HTM Held to maturity		

1. Certain revisions have been made to prior periods to conform to the current presentation.
2. For further information on deposits, see Liquidity and Capital Resources Funding Management Unsecured Financing herein.
3. Other loans primarily include tailored lending.

Income Tax Matters

Effective Tax Rate

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
From continuing operations	28.1%	31.5%	29.7%	32.7%

The effective tax rate for the current quarter and current year period reflects a recurring-type discrete tax benefit of \$11 million and \$139 million, respectively, associated with the adoption of new accounting guidance related to employee share-based payments, and other net discrete tax benefits of \$83 million and \$65 million, respectively, primarily resulting from the remeasurement of certain deferred taxes. See Note 2 to the financial statements for information on the adoption of the accounting update *Improvements to Employee Share-Based Payment Accounting*.

Accounting Development Updates

The Financial Accounting Standards Board has issued certain accounting updates that apply to us but are not yet effective for the Firm. Accounting updates not listed below were assessed and determined to be either not applicable or are not expected to have a significant impact on our 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, develop a common revenue recognition standard across all industries for U.S. GAAP and provide enhanced disclosures for users of the financial statements. The core principle of this guidance is that an entity should recognize revenues 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. The update is not applicable to financial instruments. We will adopt the guidance on January 1, 2018 and apply the modified retrospective method of adoption.

This accounting update will change the presentation of certain costs related to underwriting and advisory activities so that such costs will be recorded in the relevant non-interest expense line item versus the current practice of netting such costs against Investment banking revenues. This change is estimated to gross up Investment banking revenues and affected expenses for the Institutional Securities segment by approximately 5%-10%. Similarly, certain costs related to the selling and distribution of investment funds will no longer be netted against Asset management, distribution and administration fees, and therefore is expected to result in a gross up of such Investment

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Management's Discussion and Analysis

Management revenues and affected expenses by less than 5%. These changes will not have an impact on net income.

In addition, the timing of the recognition of certain performance fees from fund management activities, not in the form of carried interest, is generally expected to be deferred within a fiscal year until the fees are no longer probable of being reversed. Thus, the recognition of such revenues, which are recorded in Asset management, distribution and administration fees within the Investment Management segment, which approximated \$60 million in 2016 and were recognized throughout the year, are generally expected to be recognized in the fourth quarter of each fiscal year based on current fee arrangements.

The recognition of performance fees from fund management activities in the form of carried interest that are subject to reversal will remain essentially unchanged. We will apply the equity method of accounting to such carried interest, thus excluding them from the scope of this standard.

We will continue to assess the impact of the new standard as we progress through the implementation process and as industry interpretations are resolved; therefore, additional impacts may be identified prior to adoption.

Hedge Accounting. This accounting update aims to better align the hedge accounting requirements with an entity's risk management strategies and improve the financial reporting of hedging relationships. It will also result in simplification of the application of hedge accounting related to the assessment of hedge effectiveness. This update is effective as of January 1, 2019 with early adoption permitted.

Leases. This accounting update requires lessees to recognize on the balance sheet all leases with terms exceeding one year, which results in the recognition of a right of use asset and corresponding lease liability, including for those leases that 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.

Financial Instruments - Credit Losses. This accounting update impacts the impairment model for certain financial assets measured at amortized cost by requiring a current expected credit loss (CECL) methodology to estimate expected credit losses over the entire life of the financial asset, recorded at inception or purchase. CECL will replace the loss model currently applicable to loans held for investment, HTM securities and other receivables carried at amortized cost.

The update also eliminates the concept of other-than-temporary impairment for AFS securities. Impairments on AFS securities will be required to be recognized in earnings through an allowance, when the fair value is less than amortized cost and a credit loss exists or the securities are expected to be sold before recovery of amortized cost.

Under the update, there may be an ability to determine there are no expected credit losses in certain circumstances, e.g., based on collateral arrangements for lending and financing transactions or based on the credit quality of the borrower or issuer.

Overall, the amendments in this update are expected to accelerate the recognition of credit losses for portfolios where CECL models will be applied. This update is effective as of January 1, 2020 with early adoption permitted as of January 1, 2019.

Critical Accounting Policies

Our financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions (see Note 1 to the financial statements). We believe that of our significant accounting policies (see Note 2 to the consolidated financial statements in the 2016 Form 10-K and Note 2 to the financial statements), 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 2016 Form 10-K.

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 balance sheets, liquidity and capital structure. Liquidity and capital matters are reported regularly to the Board of Directors (the Board) and the Board's Risk Committee.

Table of Contents**Management's Discussion and Analysis****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 and business segment 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

<i>\$ in millions</i>	At September 30, 2017			
	Institutional Securities	Wealth Management	Investment Management	Total
Assets				
Cash and cash equivalents ¹	\$ 31,100	\$ 17,026	\$ 65	\$ 48,191
Trading assets at fair value	282,555	68	2,465	285,088
Investment securities	18,532	60,554		79,086
Securities purchased under agreements to resell	84,223	5,883		90,106
Securities borrowed	132,597	295		132,892
Customer and other receivables	35,725	18,061	602	54,388
Loans, net of allowance	38,171	66,255	5	104,431
Other assets ²	45,378	12,486	1,647	59,511
Total assets	\$ 668,281	\$ 180,628	\$ 4,784	\$ 853,693

<i>\$ in millions</i>	At December 31, 2016			
	Institutional Securities	Wealth Management	Investment Management	Total
Assets				
Cash and cash equivalents ¹	\$ 25,291	\$ 18,022	\$ 68	\$ 43,381
Trading assets at fair value	259,680	64	2,410	262,154
Investment securities	16,222	63,870		80,092
Securities purchased under agreements to resell	96,735	5,220		101,955
Securities borrowed	124,840	396		125,236
Customer and other receivables	26,624	19,268	568	46,460
Loans, net of allowance	33,816	60,427	5	94,248

Other assets ²	45,941	13,868	1,614	61,423
Total assets	\$ 629,149	\$ 181,135	\$ 4,665	\$ 814,949

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. Total assets increased to \$853.7 billion at September 30, 2017 from \$814.9 billion at December 31, 2016, primarily driven by an increase in trading inventory within Institutional Securities, along with loan growth across both Institutional Securities and Wealth Management. The change in trading inventory reflects increased trading activity in U.S. government and agency securities and Other sovereign government obligations, along with higher market values for corporate equities compared with December 31, 2016.

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 Note 2 to the consolidated financial statements in the 2016 Form 10-K and Note 6 to the financial statements).

Collateralized Financing Transactions

<i>\$ in millions</i>	At September 30, 2017	At December 31, 2016
Securities purchased under agreements to resell and Securities borrowed	\$ 222,998	\$ 227,191
Securities sold under agreements to repurchase and Securities loaned	\$ 69,613	\$ 70,472
Securities received as collateral ¹	\$ 12,995	\$ 13,737

<i>\$ in millions</i>	Daily Average Balance	
	Three Months Ended September 30, 2017	December 31, 2016
Securities purchased under agreements to resell and Securities borrowed	\$ 227,146	\$ 224,355
Securities sold under agreements to repurchase and Securities loaned	\$ 68,563	\$ 68,908

1. Included in Trading assets in the balance sheets.

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

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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.

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Table of Contents**Management's Discussion and Analysis****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 core components of our Liquidity Risk Management Framework are the Required Liquidity Framework, Liquidity Stress Tests and the Global Liquidity Reserve (GLR), which support our target liquidity profile. For further discussion about the Firm's 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 2016 Form 10-K.

At September 30, 2017 and December 31, 2016, we maintained sufficient liquidity to meet current and contingent funding obligations as modeled in our Liquidity Stress Tests.

Global Liquidity Reserve

We maintain sufficient global liquidity reserves pursuant to our Required Liquidity Framework. For further discussion of our GLR, 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.

GLR by Type of Investment

<i>\$ in millions</i>	At	
	September 30, 2017	At December 31, 2016
Cash deposits with banks	\$ 9,684	\$ 8,679
Cash deposits with central banks	33,566	30,568
Unencumbered highly liquid securities:		
U.S. government obligations	67,677	78,615
U.S. agency and agency mortgage-backed securities	51,676	46,360
Non-U.S. sovereign obligations ¹	24,110	30,884
Investments in money market funds	2	
Other investment grade securities	3,251	7,191
Total	\$ 189,966	\$ 202,297

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

GLR Managed by Bank and Non-Bank Legal Entities

	At		Daily Average Balance
	At	At	Three Months Ended
<i>\$ in millions</i>	September 30, 2017	December 31, 2016	September 30, 2017
Bank legal entities			
Domestic	\$ 72,567	\$ 74,411	\$ 68,746
Foreign	4,248	4,238	4,297
Total Bank legal entities	76,815	78,649	73,043
Non-Bank legal entities			
Domestic:			
Parent Company	39,747	66,514	50,893
Non-Parent Company	31,754	18,801	33,934
Total Domestic	71,501	85,315	84,827
Foreign	41,650	38,333	44,244
Total Non-Bank legal entities	113,151	123,648	129,071
Total	\$ 189,966	\$ 202,297	\$ 202,114

Regulatory Liquidity Framework

Liquidity Coverage Ratio

The Basel Committee on Banking Supervision's (Basel Committee) Liquidity Coverage Ratio (LCR) standard is designed to ensure that banking organizations have sufficient high-quality liquid assets (HQLA) to cover net cash outflows arising from significant stress over 30 calendar days. The standard's objective is to promote the short-term resilience of the liquidity risk profile of banking organizations. We and our U.S. Bank Subsidiaries are subject to the LCR requirements issued by U.S. banking regulators (U.S. LCR), which are based on the Basel Committee's LCR, including a requirement to calculate each entity's U.S. LCR on each business day. We and our U.S. Bank Subsidiaries are compliant with the minimum required U.S. LCR of 100%.

HQLA by Type of Asset and LCR

	At		Daily Average Balance
	At	At	Three Months Ended
<i>\$ in millions</i>	September 30, 2017	December 31, 2016	September 30, 2017
HQLA			
Cash deposits with central banks	\$ 33,614	\$ 30,569	\$ 40,841

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Securities ¹	125,426	129,524	134,363
Total	\$ 159,040	\$ 160,093	\$ 175,204
LCR			130%

1. Primarily includes U.S. Treasuries; U.S. agency mortgage-backed securities; sovereign bonds; investment-grade corporate bonds; and publicly traded common equities.

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Management's Discussion and Analysis

The regulatory definition of HQLA is substantially the same as our GLR. GLR includes cash placed at institutions other than central banks that is considered an inflow for LCR purposes. HQLA includes a portion of cash placed at central banks, certain unencumbered investment grade corporate bonds and publicly traded common equities, which do not meet the definition of our GLR.

Net Stable Funding Ratio

The objective of the Net Stable Funding Ratio (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 May 2016, the U.S. banking regulators issued a proposal to implement the NSFR in the U.S., which would apply to us and our U.S. Bank Subsidiaries. Our preliminary estimates, based on the current proposal, indicate that actions will be necessary to meet the requirement, which we expect to accomplish by the effective date of any final rule. For an additional discussion of NSFR, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Liquidity Framework Net Stable Funding Ratio in Part II, Item 7 of the 2016 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, 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 2016 Form 10-K.

At September 30, 2017 and December 31, 2016, the weighted average maturity of our secured financing of 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 Condition and Results of Operations Liquidity and Capital Resources Funding Management Unsecured Financing in Part II, Item 7 of the 2016 Form 10-K and see Note 4 to the financial statements.

Deposits

	At September 30,	At December 31,
<i>\$ in millions</i>	2017	2016
Savings and demand deposits: Brokerage sweep deposits ¹	\$ 135,152	\$ 153,042
Savings and other	5,555	1,517
Total Savings and demand deposits	140,707	154,559
Time deposits ²	13,932	1,304
Total	\$ 154,639	\$ 155,863

1. Represents balances swept from client brokerage accounts. Also referred to as the Bank Deposit program.

2. Certain time deposit accounts are carried at fair value under the fair value option (see Note 3 to the financial statements).

Deposits are primarily sourced from our Wealth Management clients, and are considered to have stable, low-cost funding characteristics. Total deposits as of September 30, 2017 were relatively unchanged compared with December 31, 2016, with the decrease in brokerage sweep deposits, primarily due to client deployment of cash into the markets, largely offset by an increase in time deposits and savings and other deposits, primarily due to growth in certificates of deposits and savings products.

Short-Term Borrowings

	At September 30,	At December 31,
<i>\$ in millions</i>	2017	2016
Short-term borrowings	\$ 1,087	\$ 941

Our unsecured short-term borrowings primarily consist of structured notes, bank loans and bank notes with original maturities of 12 months or less.

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.

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

Long-term Borrowings by Maturity at September 30, 2017

<i>\$ in millions</i>	Parent		Total
	Company	Subsidiaries	
2017	\$ 4,605	\$ 3,685	\$ 8,290
2018	18,816	2,244	21,060
2019	21,841	2,033	23,874
2020	19,362	2,075	21,437
2021	15,862	1,449	17,311
Thereafter	88,786	10,919	99,705
Total	\$ 169,272	\$ 22,405	\$ 191,677
Maturities over next 12 months			\$ 25,792

Long-term Borrowings increased to \$191,677 million as of September 30, 2017, compared with \$164,775 million at December 31, 2016. This increase is a result of issuances, partially offset by maturities and retirements, presented in the table below.

<i>\$ in millions</i>	Nine Months Ended September 30, 2017
Issued	\$ 45,334
Matured or retired	24,480

For further information on long-term borrowings, see Note 10 to the financial statements.

Credit Ratings

We rely on external sources to finance a significant portion of our daily operations. The cost and availability of financing generally are impacted by our credit ratings, among other things. 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 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 and the macroeconomic environment, among other things.

Our credit ratings do not include any uplift from perceived government support from any rating agency given the significant progress of the U.S. financial reform legislation and regulations. Some rating agencies have stated that they currently incorporate various degrees of credit rating uplift from non-governmental third-party sources of potential support.

Parent Company and MSBNA's Senior Unsecured Ratings at October 31, 2017

	Parent Company		Rating Outlook
	Short-term Debt	Long-term Debt	
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.		Rating Outlook
	Short-term Debt	Long-term Debt	
Fitch Ratings, Inc.	F1	A+	Stable
Moody's Investors Service, Inc.	P-1	A1	Stable
Standard & Poor's Global Ratings	A-1	A+	Stable

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, 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

<i>\$ in millions</i>	At September 30, 2017		At December 31, 2016
One-notch downgrade	\$	856	\$ 1,292
Two-notch downgrade		635	875

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.

Table of Contents**Management's Discussion and Analysis****Capital Management**

We view capital as an important source of financial strength and 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.

Common Stock

<i>\$ in millions</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Repurchases of common stock	\$ 1,250	\$ 1,250	\$ 2,500	\$ 2,500

From time to time we repurchase our outstanding common stock which includes our share repurchase program. For a description of our share repurchase program, see [Unregistered Sales of Equity Securities and Use of Proceeds](#).

The Board determines the declaration and payment of dividends on a quarterly basis. On October 17, 2017, we announced that the Board declared a quarterly dividend per common share of \$0.25. The dividend is payable on November 15, 2017 to common shareholders of record on October 31, 2017.

For a description of our 2017 capital plan, see [Liquidity and Capital Resources](#), [Regulatory Requirements](#), [Capital Plans and Stress Tests](#).

Preferred Stock

On September 15, 2017, we announced that the Board declared quarterly dividends for preferred stock shareholders of record on September 29, 2017 that were paid on October 16, 2017.

For additional information on preferred stock, see Note 14 to the financial statements.

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 Board of Governors of the Federal Reserve System (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 published revisions to certain standards in its capital framework, and is actively considering potential revisions to other capital standards, that, if adopted by the U.S. banking agencies, could substantially change the U.S. regulatory capital framework. For additional discussion of regulatory capital framework, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements Regulatory Capital Framework in Part II, Item 7 of the 2016 Form 10-K.

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.

Regulatory Capital. Minimum risk-based capital ratio requirements apply to Common Equity Tier 1 capital, Tier 1 capital and Total capital (which includes Tier 2 capital). Certain adjustments to and deductions from capital are required for purposes of determining these ratios, such as goodwill, intangible assets, certain deferred tax assets, other amounts in Accumulated other comprehensive income (loss) (AOCI) 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 U.S. banking regulators at zero (collectively, the buffers).

In 2017, the phase-in amount for each of the buffers is 50% of the fully phased-in buffer requirement. Failure to main-

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Management's Discussion and Analysis

tain 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 2016 Form 10-K.

See Total Loss-Absorbing Capacity, Long-Term Debt and Clean Holding Company Requirements herein for additional capital requirements effective January 1, 2019.

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 obligations to us;

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

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

For a further discussion of our market, credit and operational risks, see Quantitative and Qualitative Disclosures about Market Risk.

Our risk-based capital ratios for purposes of determining regulatory compliance are the lower of the capital ratios computed under (i) the standardized approaches for calculating credit risk 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). The credit risk RWA calculations between the two approaches differ in that the Standardized Approach requires calculation of RWAs using prescribed risk weights, whereas the Advanced Approach utilizes models to calculate exposure amounts and risk weights. At September 30, 2017, our ratios are based on the Standardized Approach transitional rules. For prior periods, the ratios were 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. See Total Loss-Absorbing Capacity, Long-Term Debt and Clean Holding Company Requirements herein for additional capital requirements effective January 1, 2019.

Transitional and Fully Phased-In Regulatory Capital Ratios

<i>\$ in millions</i>	At September 30, 2017			
	Transitional Standardized	Transitional Advanced	Pro Forma Standardized	Fully Phased-In Advanced
Risk-based capital				
Common Equity Tier 1 capital	\$ 62,214	\$ 62,214	\$ 61,603	\$ 61,603
Tier 1 capital	71,006	71,006	70,276	70,276
Total capital	81,861	81,652	81,148	80,939
Total RWAs	368,629	358,219	378,334	368,507
Common Equity Tier 1 capital ratio	16.9%	17.4%	16.3%	16.7%
Tier 1 capital ratio	19.3%	19.8%	18.6%	19.1%
Total capital ratio	22.2%	22.8%	21.4%	22.0%
Leverage-based capital				
Adjusted average assets ¹	\$ 841,360	N/A	\$ 840,845	N/A
Tier 1 leverage ratio ²	8.4%	N/A	8.4%	N/A

<i>\$ in millions</i>	At December 31, 2016			
	Transitional Standardized	Transitional Advanced	Pro Forma Standardized	Fully Phased-In Advanced
Risk-based capital				
Common Equity Tier 1 capital	\$ 60,398	\$ 60,398	\$ 58,616	\$ 58,616
Tier 1 capital	68,097	68,097	66,315	66,315
Total capital	78,917	78,642	77,155	76,881
Total RWAs	340,191	358,141	351,101	369,709
Common Equity Tier 1 capital ratio	17.8%	16.9%	16.7%	15.9%
Tier 1 capital ratio	20.0%	19.0%	18.9%	17.9%
Total capital ratio	23.2%	22.0%	22.0%	20.8%
Leverage-based capital				
Adjusted average assets ¹	\$ 811,402	N/A	\$ 810,288	N/A
Tier 1 leverage ratio ²	8.4%	N/A	8.2%	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 current quarter and the quarter ended December 31, 2016 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%.

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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 regulations evolves over time. These fully phased-in pro forma estimates are non-GAAP financial measures because they were not yet effective at September 30, 2017. 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, 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 2016 Form 10-K.

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

	At September 30, 2017
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, 2017 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.

Regulatory Capital Calculated under Transitional Rules

	At September 30,	At December 31,
<i>\$ in millions</i>	2017	2016
Common Equity Tier 1 capital		
Common stock and surplus	\$ 15,448	\$ 17,494
Retained earnings	57,554	53,679
AOCI	(2,544)	(2,643)
Regulatory adjustments and deductions:		
Net goodwill	(6,519)	(6,526)
Net intangible assets (other than goodwill and mortgage servicing assets)	(1,991)	(1,631)

Other adjustments and deductions ¹	266	25
Total Common Equity Tier 1 capital	\$ 62,214	\$ 60,398
Additional Tier 1 capital		
Preferred stock	\$ 8,520	\$ 7,520
Noncontrolling interests	544	613
Other adjustments and deductions ²	33	(246)
Additional Tier 1 capital	\$ 9,097	\$ 7,887
Deduction for investments in covered funds	(305)	(188)
Total Tier 1 capital	\$ 71,006	\$ 68,097
Standardized Tier 2 capital		
Subordinated debt	\$ 10,341	\$ 10,303
Noncontrolling interests	95	62
Eligible allowance for credit losses	426	464
Other adjustments and deductions	(7)	(9)
Total Standardized Tier 2 capital	\$ 10,855	\$ 10,820
Total Standardized capital	\$ 81,861	\$ 78,917
Advanced Tier 2 capital		
Subordinated debt	\$ 10,341	\$ 10,303
Noncontrolling interests	95	62
Eligible credit reserves	217	189
Other adjustments and deductions	(7)	(9)
Total Advanced Tier 2 capital	\$ 10,646	\$ 10,545
Total Advanced capital	\$ 81,652	\$ 78,642

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Regulatory Capital Rollforward Calculated under Transitional Rules

<i>\$ in millions</i>	Nine Months Ended September 30, 2017
Common Equity Tier 1 capital	
Common Equity Tier 1 capital at December 31, 2016	\$ 60,398
Change related to the following items:	
Value of shareholders' common equity	1,928
Net goodwill	7
Net intangible assets (other than goodwill and mortgage servicing assets)	(360)
Other adjustments and deductions ¹	241
Common Equity Tier 1 capital at September 30, 2017	\$ 62,214
Additional Tier 1 capital	
Additional Tier 1 capital at December 31, 2016	\$ 7,887
New issuance of qualifying preferred stock	1,000
Change related to the following items:	
Noncontrolling interests	(69)
Other adjustments and deductions ²	279
Additional Tier 1 capital at September 30, 2017	9,097
Deduction for investments in covered funds at December 31, 2016	(188)
Change in deduction for investments in covered funds	(117)
Deduction for investments in covered funds at September 30, 2017	(305)
Tier 1 capital at September 30, 2017	\$ 71,006
Standardized Tier 2 capital	
Tier 2 capital at December 31, 2016	\$ 10,820
Change related to the following items:	
Eligible allowance for credit losses	(38)
Other changes, adjustments and deductions ³	73
Standardized Tier 2 capital at September 30, 2017	\$ 10,855
Total Standardized capital at September 30, 2017	\$ 81,861
Advanced Tier 2 capital	
Tier 2 capital at December 31, 2016	\$ 10,545
Change related to the following items:	
Eligible credit reserves	28
Other changes, adjustments and deductions ³	73
Advanced Tier 2 capital at September 30, 2017	\$ 10,646
Total Advanced capital at September 30, 2017	\$ 81,652

1.

Other adjustments and deductions used in the calculation of Common Equity Tier 1 capital include credit spread premium over risk-free rate for derivative liabilities, net deferred tax assets, net after-tax DVA and adjustments related to AOCI.

- Other adjustments and deductions used in the calculation of Additional Tier 1 capital include credit spread premium over risk-free rate for derivatives liabilities, net deferred tax assets and net after-tax DVA.
- Other changes, adjustments and deductions used in the calculations of Standardized and Advanced Tier 2 capital include changes in subordinated debt and noncontrolling interests.

RWAs Rollforward Calculated under Transitional Rules

<i>\$ in millions</i>	Nine Months Ended September 30, 2017 ¹	
	Standardized	Advanced
Credit risk RWAs		
Balance at December 31, 2016	\$ 278,874	\$ 169,231
Change related to the following items:		
Derivatives	7,013	166
Securities financing transactions	5,892	3,246
Securitized	1,559	1,224
Investment securities	(3,044)	(1,467)
Commitments, guarantees and loans	213	(4,317)
Cash	(103)	(592)
Equity investments	(889)	(946)
Other credit risk ²	1,795	1,650
Total change in credit risk RWAs	\$ 12,436	\$ (1,036)
Balance at September 30, 2017	\$ 291,310	\$ 168,195
Market risk RWAs		
Balance at December 31, 2016	\$ 61,317	\$ 60,872
Change related to the following items:		
Regulatory VaR	523	523
Regulatory stressed VaR	11,304	11,304
Incremental risk charge	2,662	2,662
Comprehensive risk measure	(3,923)	(3,543)
Specific risk:		
Non-securitized	4,065	4,065
Securitized	1,371	1,409
Total change in market risk RWAs	\$ 16,002	\$ 16,420
Balance at September 30, 2017	\$ 77,319	\$ 77,292
Operational risk RWAs		
Balance at December 31, 2016	\$ N/A	\$ 128,038
Change in operational risk RWAs	N/A	(15,306)
Balance at September 30, 2017	\$ N/A	\$ 112,732
Total RWAs	\$ 368,629	\$ 358,219
VaR Value-at-Risk		

N/A Not Applicable

- The RWAs for each category in the table reflect both on- and off-balance sheet exposures, where appropriate.
- Amount reflects assets not in a defined category, non-material portfolios of exposures and unsettled transactions, as applicable.

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The decrease of \$15,306 million in operational risk RWAs in the current year period under the Advanced Approach reflects a reduction in the internal loss data related to litigation utilized in the operational risk capital model.

Regulatory stressed VaR increased \$11,304 million in the current year period under both the Standardized and the Advanced Approaches. These increases were primarily driven by increases in trading inventory across the equities, global macro, and credit businesses within Institutional Securities, in response to client demand.

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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 discretionary 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

<i>\$ in millions</i>	At September 30, 2017		At December 31, 2016	
	Transitional basis	Fully phased-in ¹	Transitional basis	Fully phased-in ¹
Average total assets ²	\$ 850,616	\$ 850,616	\$ 820,536	\$ 820,536
Adjustments ^{3, 4}	237,305	236,789	242,113	240,999
Pro forma supplementary leverage exposure	\$ 1,087,921	\$ 1,087,405	\$ 1,062,649	\$ 1,061,535
Pro forma supplementary leverage ratio	6.5%	6.5%	6.4%	6.2%

1. Estimated amounts utilize fully phased-in Tier 1 capital and take into consideration the Tier 1 capital deductions that would be applicable in 2018 after the phase-in period has ended.
2. Computed as the average daily balance of consolidated total assets under U.S. GAAP during the current quarter and the quarter ended December 31, 2016.
3. Computed as the arithmetic mean of the month-end balances over the current quarter and the quarter ended December 31, 2016.
4. 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.

The pro forma fully phased-in supplementary leverage exposure and ratios, shown in the previous table, are based on our current understanding of rules and other factors.

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

At September 30, 2017

At December 31, 2016

MSBNA	8.9%	7.7%
MSPBNA	9.4%	10.2%

The pro forma transitional and fully phased-in supplementary leverage exposures and ratios are non-GAAP financial measures because they 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 2016 Form 10-K.

Total Loss-Absorbing Capacity, Long-Term Debt and Clean Holding Company Requirements

On December 15, 2016, the Federal Reserve adopted a final rule for top-tier bank holding companies of U.S. G-SIBs (covered BHCs), including the Parent Company, that establishes external total loss-absorbing capacity (TLAC), long-term debt (LTD) and clean holding company requirements. The final rule contains various definitions and restrictions, such as requiring eligible LTD to be issued by the covered BHC and be unsecured, have a maturity of one year or more from the date of issuance and not have certain derivative-linked features typically associated with certain types of structured notes. We expect to be in compliance with all requirements of the rule by January 1, 2019, the date that compliance is required.

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, Long-Term Debt and Clean Holding Company Requirements* in Part II, Item 7 of the 2016 Form 10-K. For discussions about the interaction between the single point of entry resolution strategy and the TLAC and LTD requirements, 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 2016 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.

We submitted our 2017 capital plan and company-run stress test results to the Federal Reserve on April 5, 2017. On June 22, 2017, the Federal Reserve published summary results of the Dodd-Frank Act supervisory stress tests of each large bank holding company, including us. On June 28, 2017, the Federal Reserve published summary results of CCAR and announced that they did not object to our 2017 Capital Plan (Capital Plan). The Capital Plan includes the repurchase of up to \$5.0 billion of outstanding common stock for the period beginning July 1, 2017 through June 30, 2018, an increase

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from \$3.5 billion in the 2016 Capital Plan. Additionally, the Capital Plan includes an increase in our quarterly common stock dividend to \$0.25 per share from \$0.20 per share, beginning with the common stock dividend declared on July 19, 2017. We disclosed a summary of the results of our company-run stress tests on June 23, 2017 on our Investor Relations website. In addition, we submitted the results of our mid-cycle company-run stress test to the Federal Reserve on October 5, 2017 and disclosed a summary of the results on October 20, 2017 on our Investor Relations website.

The Dodd-Frank Act also requires each of our U.S. Bank Subsidiaries to conduct an annual stress test. MSBNA and MSPBNA submitted their 2017 annual company-run stress tests to the OCC on April 5, 2017 and published a summary of their stress test results on June 23, 2017 on our Investor Relations website.

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 2016 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 sum of the average common equity amounts allocated to our business segments as Parent Company equity. We generally hold Parent Company equity for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

Common equity estimation and attribution to the business segments are based on our pro forma fully phased-in regulatory capital estimates, including supplementary leverage, and incorporates our internal stress tests. The amount of capital

allocated to the business segments is set at the beginning of each year and remains fixed throughout the year until the next annual reset. Differences between available and Required Capital are attributed to Parent Company equity during the year.

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

Average Common Equity Attribution

<i>\$ in billions</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
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	10.7	8.2	10.0	7.6
Total¹	\$ 70.5	\$ 69.5	\$ 69.8	\$ 68.9

1. Average common equity is a non-GAAP financial measure.

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 2017 resolution plan, is a single point of entry strategy. We submitted our full 2017 resolution plan on June 30, 2017. We previously submitted a status report in respect of certain shortcomings identified in our 2015 resolution plan on September 30, 2016. As indicated in our 2017 resolution plan, the Parent Company has amended and restated its support agreement with its material subsidiaries. Under the amended and restated support agreement, upon the occurrence of a resolution scenario, the Parent Company would be obligated to contribute or loan on a subordinated basis all of its material assets, other than shares in subsidiaries of the Parent Company and certain intercompany receivables, to provide capital and liquidity, as applicable, to our material subsidiaries. The obligations of the Parent Company under the amended and restated support agreement are secured on a senior basis by the assets of the Parent Company (other than shares in subsidiaries of the Parent Company). As a result, claims of our material subsidiaries against the assets of the Parent Company (other than shares in subsidiaries of the Parent Company) are effectively senior to unsecured obligations of the Parent Company.

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In September 2017, the Federal Reserve and the FDIC extended the next resolution plan filing deadline for eight large domestic banks, including us, by one year to July 1, 2019.

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 and MSPBNA. The guidelines were effective on January 1, 2017; MSBNA must be in compliance by January 1, 2018 and MSPBNA must be in compliance by October 1, 2018.

In September 2017, the Federal Reserve issued a final rule that would impose contractual requirements on certain qualified financial contracts (covered QFCs) to which U.S. G-SIBs, including us, and their subsidiaries (covered entities) are parties. While national banks and savings associations are not covered entities under the final Federal Reserve rule, the OCC is expected to issue a final 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, to substantively identical requirements. Under the Federal Reserve's final rule, covered QFCs must generally expressly provide that transfer restrictions and default rights against a covered entity are limited to the same extent as they would be under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Act and their implementing regulations. In addition, covered QFCs may not, among other things, permit the exercise of any cross-default right against a covered entity based on an affiliate's entry into insolvency, resolution or similar proceedings, subject to certain creditor protections. There is a phased-in compliance schedule based on counterparty type, with the first compliance date of January 1, 2019.

For more information about resolution and recovery planning requirements and our activities in these areas, including the implications of such activities in a resolution scenario, see *Business Supervision and Regulation Financial Holding Company Resolution and Recovery Planning* in Part I, Item 1, *Risk Factors Legal, Regulatory and Compliance Risk* in Part I, Item 1A and *Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Developments Resolution and Recovery Planning* in Part II, Item 7 of the 2016 Form 10-K.

Legacy Covered Funds under the Volcker Rule

The Volcker Rule prohibits banking entities, including us and our affiliates, from engaging in certain proprietary trading activities, as defined in the Volcker Rule, subject to

exemptions for underwriting, market-making-related activities, risk-mitigating hedging and certain other activities. The Volcker Rule also prohibits certain investments and relationships by banking entities with covered funds, with a number of exemptions and exclusions. In June 2017, we received approval from the Federal Reserve of our application for a five-year extension of the transition period to conform investments in certain legacy Volcker covered funds that are also illiquid funds. The approval covers essentially all of our non-conforming investments in, and relationships with, legacy covered funds subject to the Volcker Rule.

For more information about Volcker Rule requirements and our activities in these areas, including the conformance periods applicable to certain covered funds and our application for a statutory extension, see *Business Supervision and Regulation Financial Holding Company Activities Restrictions under the Volcker Rule* in Part I, Item 1 and *Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Developments Legacy Covered Funds under the Volcker Rule* in Part II, Item 7 of the 2016

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U.S. Department of Labor Conflict of Interest Rule

The U.S. Department of Labor's final Conflict of Interest Rule went into effect on June 9, 2017, with certain aspects subject to phased-in compliance. Full compliance is currently scheduled to be required by January 1, 2018, but the U.S. Department of Labor recently proposed to delay the full compliance date to July 1, 2019. In addition, the U.S. Department of Labor is undertaking an examination of the rule which may result in changes to the rule or related exemptions or a further change in the full compliance date. For a discussion of the U.S. Department of Labor Conflict of Interest Rule, see *Business Supervision and Regulation Institutional Securities and Wealth Management* in Part I, Item 1 of the 2016 Form 10-K.

U.K. Referendum

Following the U.K. electorate vote to leave the European Union, the U.K. invoked Article 50 of the Lisbon Treaty on March 29, 2017. For further discussion of U.K. referendum's potential impact on our operations, see *Risk Factors International Risk* in Part I, Item 1A of the 2016 Form 10-K. 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*.

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Expected Replacement of LIBOR

Central banks around the world, including the Federal Reserve, have commissioned working groups of market participants and others with the goal of finding suitable replacements for the London Interbank Offered Rate (LIBOR) based more fully on observable market transactions. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next several years.

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 2016 Form 10-K.

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 financial statements.

For information on our commitments, obligations under certain guarantee arrangements and indemnities, see Note 11 to the financial statements. For further information on our lending commitments, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Lending Activities.

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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 2016 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, volatilities, 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 market risk within the Wealth Management and Investment Management business segments. The Wealth Management business segment primarily incurs non-trading market risk from lending and deposit-taking activities. The Investment Management business segment primarily incurs non-trading market risk from capital investments in real estate funds and investments in private equity vehicles. 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 2016 Form 10-K.

VaR

The statistical technique known as VaR is one of the tools we use 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 2016 Form 10-K.

We utilize the same VaR model for risk management purposes and for regulatory capital calculations. Our regulators have approved our VaR model for use in regulatory calculations.

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 adjustment (*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. The Credit Portfolio includes counterparty CVA and related hedges, as well as loans that are carried at fair value and associated hedges.

Trading Risks**95% / One-Day Management VaR**

		95%/One-Day VaR for the Three Months Ended September 30, 2017			
		Period			
<i>\$ in millions</i>	End	Average	High	Low	
Interest rate and credit spread	\$ 28	\$ 31	\$ 42	\$ 25	
Equity price	13	14	18	12	
Foreign exchange rate	9	9	13	6	
Commodity price	9	9	10	7	
Less: Diversification benefit ^{1, 2}	(26)	(25)	N/A	N/A	
Primary Risk Categories	\$ 33	\$ 38	\$ 47	\$ 32	
Credit Portfolio	10	11	11	10	
Less: Diversification benefit ^{1, 2}	(6)	(6)	N/A	N/A	
Total Management VaR	\$ 37	\$ 43	\$ 50	\$ 36	

		95%/One-Day VaR for the Three Months Ended June 30, 2017			
		Period			
<i>\$ in millions</i>	End	Average	High	Low	
Interest rate and credit spread	\$ 35	\$ 35	\$ 44	\$ 27	
Equity price	15	18	26	15	
Foreign exchange rate	10	11	15	8	
Commodity price	9	9	10	8	
Less: Diversification benefit ^{1, 2}	(27)	(27)	N/A	N/A	
Primary Risk Categories	\$ 42	\$ 46	\$ 60	\$ 36	
Credit Portfolio	11	12	14	11	
Less: Diversification benefit ^{1, 2}	(7)	(7)	N/A	N/A	
Total Management VaR	\$ 46	\$ 51	\$ 64	\$ 41	
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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The average total Management VaR for the three months ended September 30, 2017 (current quarter) was \$43 million compared with \$51 million for the three months ended June 30, 2017 (last quarter). The average Management VaR for the Primary Risk Categories for the current quarter was \$38 million compared with \$46 million last quarter. These decreases were primarily driven by reduced market volatility and decreases in trading inventory across the equities and credit businesses within Institutional Securities.

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 corresponding 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 corresponding 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 on the preceding page, the average 95%/one-day total Management VaR for the current quarter was \$43 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 \$50 million for approximately 97% of trading days during the current quarter.

Daily 95% / One-day Total Management VaR for the Three Months Ended September 30, 2017

(\$ in millions)

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 three days, which were not in excess of the 95%/one-day Total Management VaR.

Daily Net Trading Revenues for the Three Months Ended September 30, 2017

(\$ in millions)

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 \$6 million for each 1 basis point widening in our credit spread level at both September 30, 2017 and June 30, 2017.

Funding Liabilities. The credit spread risk sensitivity of our mark-to-market structured note liabilities corresponded to an increase in value of approximately \$28 million and \$26 million for each 1 basis point widening in our credit spread level at September 30, 2017 and June 30, 2017, 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

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are applied to our 12-month forecast for our U.S. Bank 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

<i>\$ in millions</i>	At	
	September 30, 2017	June 30, 2017
Basis point change		
+200	\$ 566	\$ 716
+100	433	413
-100	(647)	(577)

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, assumes there are no changes in other macroeconomic variables normally correlated with changes in interest rates, and includes subjective assumptions regarding customer and market re-pricing behavior and other factors. The change in sensitivity to interest rates between June 30, 2017 and September 30, 2017 is related to overall changes in our asset-liability positioning and higher market 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

<i>\$ in millions</i>	10% Sensitivity	
	At	At
	September 30, 2017	June 30, 2017
Investments related to Investment Management activities	\$ 321	\$ 326
Other investments:		
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	174	171
Other Firm investments	155	151

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 increase or 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 increase or 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 2016 Form 10-K. Also, see Notes 7 and 11 to the financial statements for additional information about our loans and lending commitments, respectively.

Lending Activities included in Loans and Trading Assets

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 balance sheets, these loans and lending commitments are carried as held for investment, which are recorded at amortized cost; as held for sale, which are recorded at the lower of cost or fair value; or at fair value with changes in fair value recorded in earnings. 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 balance sheets. See Notes 3, 7 and 11 to the financial statements for further information.

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<i>\$ in millions</i>	At September 30, 2017			
	IS	WM	IM ¹	Total
Corporate loans	\$ 16,201	\$ 13,480	\$ 5	\$ 29,686
Consumer loans		26,616		26,616
Residential real estate loans		26,150		26,150
Wholesale real estate loans	9,000			9,000
Loans held for investment, gross of allowance	25,201	66,246	5	91,452
Allowance for loan losses	(203)	(42)		(245)
Loans held for investment, net of allowance	24,998	66,204	5	91,207
Corporate loans	12,524			12,524
Residential real estate loans	9	51		60
Wholesale real estate loans	640			640
Loans held for sale	13,173	51		13,224
Corporate loans	6,420		21	6,441
Residential real estate loans	690			690
Wholesale real estate loans	1,157			1,157
Loans held at fair value	8,267		21	8,288
Total loans	46,438	66,255	26	112,719
Lending commitments^{2,3}	89,329	9,994		99,323
Total loans and lending commitments^{2,3}	\$ 135,767	\$ 76,249	\$ 26	\$ 212,042

<i>\$ in millions</i>	At December 31, 2016			
	IS	WM	IM ¹	Total
Corporate loans	\$ 13,858	\$ 11,162	\$ 5	\$ 25,025
Consumer loans		24,866		24,866
Residential real estate loans		24,385		24,385
Wholesale real estate loans	7,702			7,702
Loans held for investment, gross of allowance	21,560	60,413	5	81,978
Allowance for loan losses	(238)	(36)		(274)
Loans held for investment, net of allowance	21,322	60,377	5	81,704
Corporate loans	10,710			10,710
Residential real estate loans	11	50		61
Wholesale real estate loans	1,773			1,773
Loans held for sale	12,494	50		12,544
Corporate loans	7,199		18	7,217
Residential real estate loans	966			966

Wholesale real estate loans	519			519
Loans held at fair value	8,684		18	8,702
Total loans	42,500	60,427	23	102,950
Lending commitments^{2,3}	90,143	8,299		98,442
Total loans and lending commitments^{2,3}	\$ 132,643	\$ 68,726	\$ 23	\$ 201,392

IS Institutional Securities

WM Wealth Management

IM Investment Management

1. Loans in Investment Management are entered into in conjunction with certain investment advisory activities.
2. Lending commitments represent the notional amount of legally binding obligations to provide funding to clients for 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, any lending commitments accepted by the borrower but not yet closed are net of amounts syndicated. For syndications that we participate in and do not lead, any 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.

Allowance for Loans and Lending Commitments Held for Investment

<i>\$ in millions</i>	At September 30, 2017		At December 31, 2016	
Loans	\$	245	\$	274
Commitments		181		190

The aggregate allowance for loan and commitment losses decreased during the current year period primarily due to the charge-off of an energy industry related loan. See Note 7 to the financial statements for further information.

Status of Loans Held for Investment

	At September 30, 2017		At December 31, 2016	
	IS	WM	IS	WM
Current	99.4%	99.9%	98.6%	99.9%
Non-accrual ¹	0.6%	0.1%	1.4%	0.1%

1. These loans are 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

In connection with certain Institutional Securities business segment activities, we provide loans and lending commitments to a diverse group of corporate and other institutional clients. These activities include originating and purchasing corporate loans, commercial and residential mortgage lending, asset-backed lending, financing extended to equities and commodities customers and 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.

We also participate in securitization activities whereby we extend short-term or long-term funding to clients through

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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 financial statements for information about our securitization activities. In addition, a collateral management group monitors collateral levels against requirements and oversees the administration of the collateral function. See Note 6 to the financial statements for additional information about our collateralized transactions.

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 and index hedges) with a notional amount of \$17.1 billion and \$20.2 billion at September 30, 2017 and December 31, 2016, 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.

Institutional Securities Loans and Lending Commitments by Credit Rating¹

<i>\$ in millions</i>	At September 30, 2017				Total
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	
Loans					
AAA	\$	\$	\$	\$	\$
AA			32	5	37
A	1,437	1,911	1,061	705	5,114
BBB	2,186	4,537	3,105	379	10,207
NIG	5,658	13,017	4,838	5,455	28,968
Unrated ²	211	149	244	1,508	2,112
Total Loans	9,492	19,614	9,280	8,052	46,438
Lending Commitments					
AAA		165			165
AA	3,726	473	3,731		7,930
A	2,824	5,288	11,672	647	20,431
BBB	3,321	10,245	16,935	395	30,896
NIG	2,486	11,796	12,278	3,266	29,826
Unrated ²	17	31	12	21	81
Total Lending Commitments	12,374	27,998	44,628	4,329	89,329
Total Exposure	\$ 21,866	\$ 47,612	\$ 53,908	\$ 12,381	\$ 135,767

At December 31, 2016

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\$ in millions	Years to Maturity				Total
	Less than 1	1-3	3-5	Over 5	
Loans					
AAA	\$	\$	\$	\$	\$
AA			38		38
A	235	775	1,391	552	2,953
BBB	1,709	6,473	2,768	1,362	12,312
NIG	4,667	12,114	5,629	2,304	24,714
Unrated ²	699	126	175	1,483	2,483
Total Loans	7,310	19,488	10,001	5,701	42,500
Lending Commitments					
AAA	50	105	50		205
AA	3,724	451	3,989		8,164
A	1,994	4,610	11,135	392	18,131
BBB	6,261	9,006	18,148	653	34,068
NIG	2,839	8,934	14,267	3,418	29,458
Unrated ²	107	6		4	117
Total Lending Commitments	14,975	23,112	47,589	4,467	90,143
Total Exposure	\$ 22,285	\$ 42,600	\$ 57,590	\$ 10,168	\$ 132,643

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 herein.

Institutional Securities Loans and Lending Commitments by Industry

\$ in millions	At September 30,	At December 31,
	2017	2016
Industry¹		
Real estate	\$ 23,235	\$ 19,807
Information technology	13,907	8,602
Consumer discretionary	12,129	12,059
Industrials	12,110	11,465
Energy	11,074	11,757
Funds, exchanges and other financial services ²	10,639	11,481
Healthcare	10,014	11,534
Utilities	9,407	9,216
Consumer staples	7,282	7,329
Materials	6,129	7,630
Mortgage finance	5,826	6,296
Telecommunications services	4,722	6,156
Insurance	3,986	4,190
Consumer finance	2,949	2,847
Other	2,358	2,274
Total	\$ 135,767	\$ 132,643

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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.

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<i>\$ in millions</i>	At September 30, 2017				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Loans	\$ 996	\$ 1,738	\$ 749	\$ 4,568	\$ 8,051
Lending commitments	3,001	1,559	2,601	2,304	9,465
Total loans and lending commitments	\$ 3,997	\$ 3,297	\$ 3,350	\$ 6,872	\$ 17,516

<i>\$ in millions</i>	At December 31, 2016				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Loans	\$ 666	\$ 1,593	\$ 1,216	\$ 1,622	\$ 5,097
Lending commitments	6,594	1,460	4,807	3,391	16,252
Total loans and lending commitments	\$ 7,260	\$ 3,053	\$ 6,023	\$ 5,013	\$ 21,349

Institutional Securities Lending Exposures Related to the Energy Industry. At September 30, 2017, Institutional Securities loans and lending commitments related to the energy industry were \$11.1 billion, of which approximately 68% are accounted for as held for investment and 32% are accounted for as either held for sale or at fair value. Additionally, approximately 55% of the total energy industry loans and lending commitments were to investment grade counterparties.

At September 30, 2017, the energy industry portfolio included \$1.1 billion in loans and \$2.1 billion in lending commitments to Oil and Gas Exploration and Production (E&P) companies. The E&P loans were to non-investment grade counterparties, which are generally subject to periodic borrowing base reassessments based on the value of 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. Approximately 51% of the E&P lending commitments were to investment grade counterparties. To the extent oil and natural gas prices deteriorate, we may incur lending losses.

Wealth Management

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. 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 2016 Form 10-K.

For the current quarter, loans and lending commitments associated with the Wealth Management business segment lending activities increased by approximately 3%, primarily due to growth in securities-based lending and other loans.

Wealth Management Loans and Lending Commitments by Remaining Contractual Maturity

<i>\$ in millions</i>	At September 30, 2017				Total
	Less than 1	Years to Maturity		Over 5	
		1-3	3-5		
Securities-based lending and other loans ¹	\$ 33,947	\$ 3,303	\$ 1,713	\$ 1,114	\$ 40,077
Residential real estate loans		16	27	26,135	26,178
Total Loans	\$ 33,947	\$ 3,319	\$ 1,740	\$ 27,249	\$ 66,255
Lending commitments	6,950	2,515	228	301	9,994
Total loans and lending commitments	\$ 40,897	\$ 5,834	\$ 1,968	\$ 27,550	\$ 76,249

<i>\$ in millions</i>	At December 31, 2016				Total
	Less than 1	Years to Maturity		Over 5	
		1-3	3-5		
Securities-based lending and other loans ¹	\$ 30,547	\$ 2,983	\$ 1,304	\$ 1,179	\$ 36,013
Residential real estate loans			45	24,369	24,414
Total Loans	\$ 30,547	\$ 2,983	\$ 1,349	\$ 25,548	\$ 60,427
Lending commitments	6,372	1,413	268	246	8,299
Total loans and lending commitments	\$ 36,919	\$ 4,396	\$ 1,617	\$ 25,794	\$ 68,726

1. PLA and LAL platforms had an outstanding loan balance of \$31.8 billion and \$29.7 billion at September 30, 2017 and December 31, 2016, respectively.

Lending Activities included in Customer and Other Receivables**Margin Loans**

<i>\$ in millions</i>	At September 30, 2017		
	Institutional	Wealth Securities Management	Total
Net customer receivables representing margin loans	\$ 16,613	\$ 11,996	\$ 28,609

<i>\$ in millions</i>	At December 31, 2016		
	Institutional	Wealth Securities Management	Total
Net customer receivables representing margin loans	\$ 11,876	\$ 12,483	\$ 24,359

Institutional Securities and Wealth Management provide margin lending arrangements which allow the client to borrow against the value of qualifying securities. Margin lending activities generally have minimal credit risk due to the value of collateral held and their short-term nature.

Table of Contents**Risk Disclosures****Employee Loans**

<i>\$ in millions (except repayment terms)</i>	At September 30, 2017	At December 31, 2016
Employee loans:		
Balance	\$ 4,317	\$ 4,804
Allowance for loan losses	(79)	(89)
Balance, net	\$ 4,238	\$ 4,715
Repayment term range, in years	1 to 20	1 to 12

Employee loans are generally granted to retain and recruit certain employees, are full recourse and generally require periodic repayments. We establish an allowance for loan amounts to terminated employees that we do not consider recoverable, which is recorded in Compensation and benefits expense. See Note 7 to the financial statements for a further description of our employee loans.

Credit Exposure Derivatives

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

Fair values as shown below represent the Firm's net exposure to counterparties related to its OTC derivative products. Obligor credit ratings are determined internally by the Credit Risk Management Department.

Counterparty Credit Rating and Remaining Contractual Maturity of OTC Derivative Assets

<i>\$ in millions</i>	Fair Value at September 30, 2017				Total Derivative Assets
	Contractual Years to Maturity				
Credit Rating	Less than 1	1-3	3-5	Over 5	
AAA	\$ 129	\$ 328	\$ 359	\$ 3,183	\$ 3,999
AA	1,666	1,716	1,987	7,822	13,191
A	6,536	5,597	3,760	19,947	35,840
BBB	3,554	2,718	1,712	12,806	20,790
Non-investment grade	2,551	2,634	3,539	2,472	11,196
Total	\$ 14,436	\$ 12,993	\$ 11,357	\$ 46,230	\$ 85,016

Fair Value at September 30, 2017

<i>\$ in millions</i>	Total Derivative Assets	Cross- Maturity and Cash Collateral Netting ¹	Net Amounts	
			Post-cash Collateral	Post- collateral ²
Credit Rating				
AAA	\$ 3,999	\$ (3,011)	\$ 988	\$ 913
AA	13,191	(8,178)	5,013	2,397
A	35,840	(26,352)	9,488	5,108
BBB	20,790	(14,388)	6,402	4,609
Non-investment grade	11,196	(5,277)	5,919	2,542
Total	\$ 85,016	\$ (57,206)	\$ 27,810	\$ 15,569

<i>\$ in millions</i>	Fair Value at December 31, 2016				Total Derivative Assets
	Contractual Years to Maturity				
	Less than 1	1-3	3-5	Over 5	
Credit Rating					
AAA	\$ 150	\$ 428	\$ 918	\$ 2,931	\$ 4,427
AA	3,177	2,383	2,942	10,194	18,696
A	9,244	6,676	5,495	21,322	42,737
BBB	4,423	3,085	2,434	13,023	22,965
Non-investment grade	2,283	1,702	1,722	1,794	7,501
Total	\$ 19,277	\$ 14,274	\$ 13,511	\$ 49,264	\$ 96,326

<i>\$ in millions</i>	Fair Value at December 31, 2016			
	Cross- Maturity and Cash Net Amounts			
	Total Derivative Assets	Collateral Netting ¹	Post-cash Collateral	Net Post- collateral ²
Credit Rating				
AAA	\$ 4,427	\$ (3,900)	\$ 527	\$ 485
AA	18,696	(11,813)	6,883	4,114
A	42,737	(31,425)	11,312	6,769
BBB	22,965	(16,629)	6,336	4,852
Non-investment grade	7,501	(4,131)	3,370	1,915
Total	\$ 96,326	\$ (67,898)	\$ 28,428	\$ 18,135

1. 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.

2. Fair value is shown net of collateral received (primarily cash and U.S. government and agency securities).

Table of Contents**Risk Disclosures****OTC Derivative Products at Fair Value, Net of Collateral, by Industry**

<i>\$ in millions</i>	At September 30, 2017	At December 31, 2016¹
Industry²		
Utilities	\$ 4,020	\$ 4,184
Funds, exchanges and other financial services ³	2,707	2,756
Regional governments	1,069	1,352
Sovereign governments	1,044	709
Industrials	1,032	1,644
Healthcare	949	1,103
Banks and securities firms	772	1,485
Not-for-profit organizations	717	830
Information technology	542	267
Hedge funds	539	233
Energy	464	533
Consumer discretionary	445	590
Insurance	313	570
Materials	284	235
Special purpose vehicles	228	821
Consumer staples	176	567
Other	268	256
Total⁴	\$ 15,569	\$ 18,135

1. The amounts included in the December 31, 2016 industry categories have been revised due to previous misclassifications. The total remains unchanged.

2. Industry categories are based on the Global Industry Classification Standard®.

3. Amounts include mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses, consumer finance, mortgage finance and other diversified financial services.

4. For further information on derivative instruments and hedging activities, see Note 4 to the financial statements.

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 a discussion of our credit exposure and related credit derivative contracts, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Credit Exposure Derivatives in Part II, Item 7A of the 2016 Form 10-K.

Credit Derivative Portfolio by Counterparty Type

At September 30, 2017

\$ in millions	Fair Values ¹			Notionals	
	Receivable	Payable	Net	Protection Purchased	Protection Sold
Banks and securities firms	\$ 5,191	\$ 5,623	\$ (432)	\$ 208,611	\$ 178,670
Insurance and other financial institutions	3,679	4,358	(679)	163,291	160,493
Non-financial entities	34	52	(18)	3,146	1,195
Total	\$ 8,904	\$ 10,033	\$ (1,129)	\$ 375,048	\$ 340,358

At December 31, 2016

\$ in millions	Fair Values ¹			Notionals	
	Receivable	Payable	Net	Protection Purchased	Protection Sold
Banks and securities firms	\$ 8,516	\$ 9,397	\$ (881)	\$ 319,830	\$ 273,462
Insurance and other financial institutions	3,619	3,901	(282)	144,527	151,999
Non-financial entities	94	127	(33)	5,832	4,269
Total	\$ 12,229	\$ 13,425	\$ (1,196)	\$ 470,189	\$ 429,730

1. Our Credit Default Swaps (CDS) are classified in either Level 2 or Level 3 of the fair value hierarchy. Approximately 4% of receivable fair values represented Level 3 amounts at September 30, 2017 and December 31, 2016. Approximately 7% of payable fair values represented Level 3 amounts at September 30, 2017 and December 31, 2016. See Note 3 to the financial statements for further information.

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 financial statements.

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 2016 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, 2017. 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.

Table of Contents**Risk Disclosures****Top Ten Country Exposures at September 30, 2017**

<i>\$ in millions</i>	Net Counterparty							Net Exposure
	Net Inventory ¹	Exposure ²	Loans	Lending Commitments	Exposure Before Hedges	Hedges ³		
Country								
United Kingdom:								
Sovereigns	\$ 487	\$ 29	\$	\$	\$ 516	\$ (280)	\$ 236	
Non-sovereigns	306	8,516	1,843	5,976	16,641	(1,916)	14,725	
Total	\$ 793	\$ 8,545	\$ 1,843	\$ 5,976	\$ 17,157	\$ (2,196)	\$ 14,961	
Japan:								
Sovereigns	\$ 5,391	\$ 54	\$	\$	\$ 5,445	\$ (103)	\$ 5,342	
Non-sovereigns	696	3,365	65		4,126	(114)	4,012	
Total	\$ 6,087	\$ 3,419	\$ 65	\$	\$ 9,571	\$ (217)	\$ 9,354	
Brazil:								
Sovereigns	\$ 3,729	\$	\$	\$	\$ 3,729	\$ (11)	\$ 3,718	
Non-sovereigns	196	577	755	75	1,603	(343)	1,260	
Total	\$ 3,925	\$ 577	\$ 755	\$ 75	\$ 5,332	\$ (354)	\$ 4,978	
Canada:								
Sovereigns	\$ 84	\$ 25	\$	\$	\$ 109	\$	\$ 109	
Non-sovereigns	211	1,885	110	1,605	3,811	(384)	3,427	
Total	\$ 295	\$ 1,910	\$ 110	\$ 1,605	\$ 3,920	\$ (384)	\$ 3,536	
India:								
Sovereigns	\$ 1,503	\$	\$	\$	\$ 1,503	\$	\$ 1,503	
Non-sovereigns	615	467			1,082		1,082	
Total	\$ 2,118	\$ 467	\$	\$	\$ 2,585	\$	\$ 2,585	
Italy:								
Sovereigns	\$ 1,201	\$ (14)	\$	\$	\$ 1,187	\$ 9	\$ 1,196	
Non-sovereigns	99	447	348	748	1,642	(286)	1,356	
Total	\$ 1,300	\$ 433	\$ 348	\$ 748	\$ 2,829	\$ (277)	\$ 2,552	
China:								
Sovereigns	\$ (24)	\$ 227	\$	\$	\$ 203	\$ (79)	\$ 124	
Non-sovereigns	774	215	657	524	2,170	(10)	2,160	
Total	\$ 750	\$ 442	\$ 657	\$ 524	\$ 2,373	\$ (89)	\$ 2,284	
Singapore:								
Sovereigns	\$ 1,670	\$ 107	\$	\$	\$ 1,777	\$	\$ 1,777	
Non-sovereigns	70	189	106	37	402		402	
Total	\$ 1,740	\$ 296	\$ 106	\$ 37	\$ 2,179	\$	\$ 2,179	
Netherlands:								
Sovereigns	\$ (286)	\$	\$	\$	\$ (286)	\$ (20)	\$ (306)	
Non-sovereigns	125	565	922	1,156	2,768	(383)	2,385	

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Total	\$	(161)	\$	565	\$	922	\$	1,156	\$	2,482	\$	(403)	\$	2,079
Ireland:														
Sovereigns	\$	(57)	\$	3	\$		\$		\$	(54)	\$	(81)	\$	(135)
Non-sovereigns		52		205		1,770		149		2,176				2,176
Total	\$	(5)	\$	208	\$	1,770	\$	149	\$	2,122	\$	(81)	\$	2,041

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).
2. Net counterparty exposure (*i.e.*, repurchase transactions, securities lending and OTC derivatives) takes into consideration legally enforceable master netting agreements and collateral.
3. 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. For a further description of the contractual terms for purchased credit protection and whether they may limit the effectiveness of our hedges, see Credit Exposure Derivatives herein.

Table of Contents**Risk Disclosures**

As a market maker, we may transact in CDS positions to facilitate client trading. Exposures related to single-name and index credit derivatives for those countries shown in the previous table were as follows:

Credit Derivatives Included in Net Inventory

<i>\$ in millions</i>	At September 30, 2017
Gross purchased protection	\$ (61,795)
Gross written protection	60,031
Net exposure	\$ (1,764)

Net counterparty exposure shown in the Top Ten Country Exposure table above includes the benefit of collateral received, which is typically composed of cash and government obligations.

Benefit of Collateral Received Against Counterparty Credit Exposure

<i>\$ in millions</i>	At September 30, 2017
U.K. ¹	\$ 8,334
Japan ²	4,824
Other ³	5,133

1. Primarily obligations of the U.K., the U.S. and Italy.

2. Primarily obligations of Japan.

3. Primarily obligations of the Netherlands and the U.K.

Country Risk Exposures Related to the United Kingdom. At September 30, 2017, our country risk exposures in the U.K. included net exposures of \$14,961 million as shown in the table above, and overnight deposits of \$7,137 million. The \$14,725 million of exposures to non-sovereigns were diversified across both names and sectors. Of these exposures, \$4,699 million were to U.K. focused counterparties that generate more than one-third of their revenues in the U.K., \$4,858 million were to geographically diversified counterparties, and \$4,934 million were to exchanges and clearing houses.

Country Risk Exposures Related to Brazil. At September 30, 2017, our country risk exposures in Brazil included net exposures of \$4,978 million as shown in the table above. Our sovereign net exposures in Brazil were principally in the form of local currency government bonds held onshore to support client activity. The \$1,260 million of exposures to non-sovereigns were diversified across both names and sectors.

Operational Risk

Operational risk refers to the risk of loss, or of damage to our reputation, resulting from inadequate or failed processes or systems, human factors 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). 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 2016 Form 10-K.

Model Risk

Model risk refers to the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model risk can lead to financial loss, poor business and strategic decision making, or damage to the Firm's reputation. The risk inherent in a model is a function of the materiality, complexity and uncertainty around inputs and assumptions. Model risk is generated from the use of models impacting financial statements, regulatory filings, capital adequacy assessments and the formulation of business strategies. For a further discussion about our model risk, see [Quantitative and Qualitative Disclosures about Market Risk Risk Management Model Risk](#) in Part II, Item 7A of the 2016 Form 10-K.

Liquidity Risk

Liquidity 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 our assets. Liquidity 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 risk, see [Quantitative and Qualitative Disclosures about Market Risk Risk Management Liquidity Risk](#) in Part II, Item 7A of the 2016 Form 10-K and [Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources](#) in Part I, Item 2.

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 2016 Form 10-K.

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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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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 Firm) as of September 30, 2017, and the related condensed consolidated income statements and comprehensive income statements for the three-month and nine-month periods ended September 30, 2017 and 2016, and the cash flow statements and statements of changes in total equity for the nine-month periods ended September 30, 2017 and 2016. These condensed consolidated interim financial statements are the responsibility of the management of the Firm.

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 condensed consolidated interim 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 balance sheet of the Firm as of December 31, 2016, and the consolidated income statement, comprehensive income statement, cash flow statement and statement of changes in total equity for the year then ended (not presented herein) included in the Firm's Annual Report on Form 10-K; and in our report dated February 27, 2017, 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, 2016 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP
New York, New York

November 3, 2017

Table of Contents**Financial Statements****Consolidated Financial Statements and Notes****Consolidated Income Statements****(Unaudited)**

<i>in millions, except per share data</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Investment banking	\$ 1,380	\$ 1,225	\$ 4,455	\$ 3,556
Trading	2,704	2,609	8,870	7,420
Investments	167	87	495	179
Commissions and fees	937	991	2,997	3,066
Asset management, distribution and administration fees	3,026	2,686	8,695	7,943
Other	200	308	628	631
Total non-interest revenues	8,414	7,906	26,140	22,795
Interest income	2,340	1,734	6,411	5,148
Interest expense	1,557	731	4,106	2,333
Net interest	783	1,003	2,305	2,815
Net revenues	9,197	8,909	28,445	25,610
Non-interest expenses				
Compensation and benefits	4,169	4,097	12,887	11,795
Occupancy and equipment	330	339	990	997
Brokerage, clearing and exchange fees	522	491	1,556	1,440
Information processing and communications	459	456	1,320	1,327
Marketing and business development	128	130	419	418
Professional services	534	489	1,622	1,550
Other	573	526	1,719	1,481
Total non-interest expenses	6,715	6,528	20,513	19,008
Income from continuing operations before income taxes	2,482	2,381	7,932	6,602
Provision for income taxes	697	749	2,358	2,160
Income from continuing operations	1,785	1,632	5,574	4,442
Income (loss) from discontinued operations, net of income taxes	6	8	(21)	1
Net income	\$ 1,791	\$ 1,640	\$ 5,553	\$ 4,443
Net income applicable to noncontrolling interests	10	43	85	130
Net income applicable to Morgan Stanley	\$ 1,781	\$ 1,597	\$ 5,468	\$ 4,313
Preferred stock dividends and other	93	79	353	314
Earnings applicable to Morgan Stanley common shareholders	\$ 1,688	\$ 1,518	\$ 5,115	\$ 3,999
Earnings per basic common share				
Income from continuing operations	\$ 0.95	\$ 0.82	\$ 2.87	\$ 2.15

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Income (loss) from discontinued operations		0.01	(0.01)	
Earnings per basic common share	\$ 0.95	\$ 0.83	\$ 2.86	\$ 2.15
Earnings per diluted common share				
Income from continuing operations	\$ 0.93	\$ 0.80	\$ 2.81	\$ 2.11
Income (loss) from discontinued operations		0.01	(0.02)	
Earnings per diluted common share	\$ 0.93	\$ 0.81	\$ 2.79	\$ 2.11
Dividends declared per common share	\$ 0.25	\$ 0.20	\$ 0.65	\$ 0.50
Average common shares outstanding				
Basic	1,776	1,838	1,789	1,863
Diluted	1,818	1,879	1,830	1,898

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See Notes to Consolidated Financial Statements

Table of Contents**Consolidated Comprehensive Income Statements****(Unaudited)**

<i>\$ in millions</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net income	\$ 1,791	\$ 1,640	\$ 5,553	\$ 4,443
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	\$ 61	\$ 43	223	360
Change in net unrealized gains (losses) on available-for-sale securities	26	(99)	218	439
Pension, postretirement and other		(1)	4	(5)
Change in net debt valuation adjustment	(149)	(93)	(323)	255
Total other comprehensive income (loss)	\$ (62)	\$ (150)	\$ 122	\$ 1,049
Comprehensive income	\$ 1,729	\$ 1,490	\$ 5,675	\$ 5,492
Net income applicable to noncontrolling interests	10	43	85	130
Other comprehensive income (loss) applicable to noncontrolling interests	(6)	15	23	151
Comprehensive income applicable to Morgan Stanley	\$ 1,725	\$ 1,432	\$ 5,567	\$ 5,211

See Notes to Consolidated Financial Statements

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Table of Contents**Consolidated Balance Sheets**

	(Unaudited)	
	At September 30, 2017	At December 31, 2016
<i>\$ in millions, except share data</i>		
Assets		
Cash and due from banks	\$ 24,047	\$ 22,017
Interest bearing deposits with banks	24,144	21,364
Trading assets at fair value (\$158,445 and \$152,548 were pledged to various parties)	285,088	262,154
Investment securities (includes \$54,954 and \$63,170 at fair value)	79,086	80,092
Securities purchased under agreements to resell (includes \$101 and \$302 at fair value)	90,106	101,955
Securities borrowed	132,892	125,236
Customer and other receivables	54,388	46,460
Loans:		
Held for investment (net of allowance of \$245 and \$274)	91,207	81,704
Held for sale	13,224	12,544
Goodwill	6,590	6,577
Intangible assets (net of accumulated amortization of \$2,651 and \$2,421)	2,491	2,721
Other assets	50,430	52,125
Total assets	\$ 853,693	\$ 814,949
Liabilities		
Deposits (includes \$174 and \$63 at fair value)	\$ 154,639	\$ 155,863
Short-term borrowings (includes \$658 and \$406 at fair value)	1,087	941
Trading liabilities at fair value	127,237	128,194
Securities sold under agreements to repurchase (includes \$810 and \$729 at fair value)	53,983	54,628
Securities loaned	15,630	15,844
Other secured financings (includes \$6,514 and \$5,041 at fair value)	14,244	11,118
Customer and other payables	198,792	190,513
Other liabilities and accrued expenses	16,290	15,896
Long-term borrowings (includes \$46,231 and \$38,736 at fair value)	191,677	164,775
Total liabilities	773,579	737,772
Commitments and contingent liabilities (see Note 11)		
Equity		
Morgan Stanley shareholders' equity:		
Preferred stock	8,520	7,520
Common stock, \$0.01 par value:		
Shares authorized: 3,500,000,000 ; Shares issued: 2,038,893,979 ; Shares outstanding: 1,812,472,419 and 1,852,481,601	20	20
Additional paid-in capital	23,389	23,271

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Retained earnings	57,554	53,679
Employee stock trusts	2,899	2,851
Accumulated other comprehensive income (loss)	(2,544)	(2,643)
Common stock held in treasury at cost, \$0.01 par value (226,421,560 and 186,412,378 shares)	(7,961)	(5,797)
Common stock issued to employee stock trusts	(2,899)	(2,851)
Total Morgan Stanley shareholders equity	78,978	76,050
Noncontrolling interests	1,136	1,127
Total equity	80,114	77,177
Total liabilities and equity	\$ 853,693	\$ 814,949

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See Notes to Consolidated Financial Statements

Table of Contents**Consolidated Statements of Changes in Total Equity****(Unaudited)**

	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
<i>\$ in millions</i>										
Balance at December 31, 2016	\$ 7,520	\$ 20	\$ 23,271	\$ 53,679	\$ 2,851	\$ (2,643)	\$ (5,797)	\$ (2,851)	\$ 1,127	\$ 77,177
Cumulative adjustment for accounting changes ¹			45	(35)						10
Net income applicable to Morgan Stanley				5,468						5,468
Net income applicable to noncontrolling interests									85	85
Dividends				(1,558)						(1,558)
Shares issued under employee plans			79		48		844	(48)		923
Repurchases of common stock and employee tax withholdings							(3,008)			(3,008)
Net change in Accumulated other comprehensive income (loss)						99			23	122
Issuance of preferred stock	1,000		(6)						(99)	994
										(99)

Other net
decreases**Balance at
September 30,
2017**

\$ 8,520	\$ 20	\$	23,389	\$	57,554	\$ 2,899	\$ (2,544)	\$ (7,961)	\$ (2,899)	\$ 1,136	\$	80,114
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Balance at
December 31,
2015

\$ 7,520	\$ 20	\$	24,153	\$	49,204	\$ 2,409	\$ (1,656)	\$ (4,059)	\$ (2,409)	\$ 1,002	\$	76,184
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Cumulative
adjustment for
accounting
change related
to DVA²

					312		(312)					
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Net adjustment
for accounting
change related
to
consolidation³

										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
tax
withholdings

								(2,908)				(2,908)
--	--	--	--	--	--	--	--	---------	--	--	--	---------

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
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1.

The cumulative adjustment relates to the adoption of the following accounting updates on January 1, 2017: *Improvements to Employee Share-Based Payment Accounting*, for which the Firm recorded a cumulative catch-up adjustment to reflect its election to account for forfeitures as they occur (see Note 2 for further information); and *Intra-Entity Transfers of Assets Other Than Inventory*, for which the Firm recorded a cumulative catch-up adjustment to reflect the tax impact from an intercompany sale of assets.

2. Debt valuation adjustment (DVA) represents 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 under the fair value option, primarily related to certain Long-term and Short-term borrowings. 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 unrealized DVA amount, net of noncontrolling interests and tax, related to outstanding liabilities under the fair value option election from Retained earnings into Accumulated other comprehensive income (loss) (AOCI). See Note 2 to the consolidated financial statements in the Firm's Annual Report on Form 10-K for the year ended December 31, 2016 (the 2016 Form 10-K) and Note 14 for further information.
3. In accordance with the accounting update *Amendments to the Consolidation Analysis*, a net adjustment was recorded as of January 1, 2016 to both consolidate and deconsolidate certain entities under the new guidance. See Note 2 to the consolidated financial statements in the 2016 Form 10-K for further information.

See Notes to Consolidated Financial
Statements

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September 2017 Form 10-Q

Table of Contents**Consolidated Cash Flow Statements****(Unaudited)**

<i>\$ in millions</i>	Nine Months Ended	
	2017	September 30, 2016
Cash flows from operating activities		
Net income	\$ 5,553	\$ 4,443
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
(Income) loss from equity method investments		39
Compensation payable in common stock and options	775	794
Depreciation and amortization	1,340	1,357
Net gain on sale of available-for-sale securities	(27)	(127)
Impairment charges	13	102
Provision for credit losses on lending activities	32	138
Other operating adjustments	(48)	(36)
Changes in assets and liabilities:		
Trading assets, net of Trading liabilities	(18,599)	(20,509)
Securities borrowed	(7,656)	16,136
Securities loaned	(214)	(2,843)
Customer and other receivables and other assets	(6,682)	(2,800)
Customer and other payables and other liabilities	8,196	3,849
Securities purchased under agreements to resell	11,849	(2,922)
Securities sold under agreements to repurchase	(645)	10,244
Net cash provided by (used for) operating activities	(6,113)	7,865
Cash flows from investing activities		
Proceeds from (payments for):		
Other assets Premises, equipment and software, net	(1,177)	(941)
Changes in loans, net	(9,350)	(7,709)
Investment securities:		
Purchases	(19,713)	(41,230)
Proceeds from sales	16,111	28,960
Proceeds from paydowns and maturities	5,378	5,956
Other investing activities	(77)	(24)
Net cash provided by (used for) investing activities	(8,828)	(14,988)
Cash flows from financing activities		
Net proceeds from (payments for):		
Short-term borrowings	64	(1,233)
Noncontrolling interests	(43)	(47)
Other secured financings	1,400	(278)
Deposits	(1,224)	(4,191)
Proceeds from:		
Derivatives financing activities	73	

Issuance of preferred stock, net of issuance costs		994		
Issuance of long-term borrowings		45,334		27,528
Payments for:				
Long-term borrowings		(24,480)		(22,902)
Derivatives financing activities		(73)		(120)
Repurchases of common stock and employee tax withholdings		(3,008)		(2,908)
Cash dividends		(1,562)		(1,311)
Other financing activities		58		
Net cash provided by (used for) financing activities		17,533		(5,462)
Effect of exchange rate changes on cash and cash equivalents		2,218		1,054
Net increase (decrease) in cash and cash equivalents		4,810		(11,531)
Cash and cash equivalents, at beginning of period		43,381		54,083
Cash and cash equivalents, at end of period	\$	48,191	\$	42,552
Cash and cash equivalents include:				
Cash and due from banks	\$	24,047	\$	26,899
Interest bearing deposits with banks		24,144		15,653
Cash and cash equivalents, at end of period	\$	48,191	\$	42,552
Supplemental Disclosure of Cash Flow Information				

Cash payments for interest were **\$3,422 million** and \$1,784 million.

Cash payments for income taxes, net of refunds, were **\$967 million** and \$504 million.

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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 Company) together with its consolidated subsidiaries.

A description of the clients and principal products and services of each of the Firm s 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, and financing extended to equities and commodities customers and 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.

Basis of Financial Information

The unaudited consolidated financial statements (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 financial statements and related disclosures. The Firm believes that the estimates utilized in the preparation of its financial statements are prudent and reasonable. Actual results could differ materially from these estimates. Intercompany balances and transactions have been eliminated. Certain reclassifications have been made to prior periods to conform to the current presentation.

The accompanying financial statements should be read in conjunction with the Firm's consolidated financial statements and notes thereto included in the 2016 Form 10-K. Certain footnote disclosures included in the 2016 Form 10-K have been condensed or omitted from these financial statements as they are not required for interim reporting under U.S. GAAP. The 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 operations for interim periods are not necessarily indicative of results for the entire year.

Consolidation

The 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 applicable to noncontrolling interests in the consolidated income statements (income statements). The portion of shareholders' equity that is attributable to noncontrolling interests for such subsidiaries is presented as noncontrolling interests, a component of total equity, in the consolidated balance sheets (balance sheets).

For a discussion of the Firm's involvement with VIEs and its significant regulated U.S. and international subsidiaries, see Notes 1 and 2 to the consolidated financial statements in the 2016 Form 10-K.

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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 2016 Form 10-K.

During the nine months ended September 30, 2017 (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 update on January 1, 2017.

Improvements to Employee Share-Based Payment Accounting. This accounting update simplifies the accounting for employee share-based payments, including the recognition of forfeitures, the classification of income tax consequences, and the classification within the consolidated cash flow statements (cash flow statements). Beginning in 2017, the income tax consequences related to share-based payments are required to be recognized in Provision for income taxes in the income statements upon the conversion of employee share-based awards instead of additional paid-in capital. The impact of the income tax consequences upon conversion of the awards may be either a benefit or a provision. Conversion of employee share-based awards to Firm shares will primarily occur in the first quarter of each year. The impact of recognizing excess tax benefits upon conversion of awards in the quarter in which the accounting update was adopted (three months ended March 31, 2017) was a \$112 million benefit to Provision for income taxes. The classification of cash flows from excess tax benefits was moved from the financing section to the operating section of the cash flow statements, and was applied on a retrospective basis.

In addition, this accounting update permits an entity to elect whether to continue to estimate the total forfeitures, or to account for forfeitures on an actual basis as they occur. The Firm has elected to account for forfeitures on an actual basis as they occur. This change is required to be applied using a modified retrospective approach, and upon adoption, the Firm recorded a cumulative catch-up adjustment, decreasing Retained earnings by approximately \$30 million net of tax, increasing Additional paid-in capital by approximately \$45 million and increasing deferred tax assets by approximately \$15 million.

Goodwill

The Firm completed its annual goodwill impairment testing as of July 1, 2017. 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.

Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****3. Fair Values****Fair Value Measurement****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

<i>\$ in millions</i>	At September 30, 2017				Total
	Level 1	Level 2	Level 3	Netting¹	
Assets at Fair Value					
Trading assets:					
U.S. Treasury and agency securities	\$ 27,538	\$ 23,186	\$	\$	\$ 50,724
Other sovereign government obligations ²	25,428	6,201	104		31,733
Corporate and other debt:					
State and municipal securities		2,123	10		2,133
MABS		2,399	274		2,673
Corporate bonds		14,164	419		14,583
CDO		313	76		389
Loans and lending commitments ³		3,423	4,865		8,288
Other debt		1,041	193		1,234
Total corporate and other debt		23,463	5,837		29,300
Corporate equities ⁴	137,028	425	296		137,749
Derivative and other contracts:					
Interest rate	581	183,561	1,658		185,800
Credit		8,527	377		8,904
Foreign exchange	93	53,842	47		53,982
Equity	1,056	44,986	3,402		49,444
Commodity and other	1,240	4,929	4,107		10,276
Netting ¹	(2,896)	(225,857)	(1,853)	(46,425)	(277,031)
Total derivative and other contracts	74	69,988	7,738	(46,425)	31,375
Investments ⁵	316	257	925		1,498
Physical commodities		157			157
Total trading assets ⁵	190,384	123,677	14,900	(46,425)	282,536

Investment securities AFS	25,022	29,932	54,954
Securities purchased under agreements to resell		101	101
Intangible assets		3	3
Total assets at fair value	\$ 215,406	\$ 153,713	\$ 14,900
			\$ (46,425)
			\$ 337,594

<i>\$ in millions</i>	At September 30, 2017				Total
	Level 1	Level 2	Level 3	Netting ¹	
Liabilities at Fair Value					
Deposits	\$	\$ 68	\$ 106	\$	\$ 174
Short-term borrowings		658			658
Trading liabilities:					
U.S. Treasury and agency securities	14,574	61			14,635
Other sovereign government obligations ²	24,351	1,432			25,783
Corporate and other debt:					
Corporate bonds		7,044	6		7,050
Other debt		342	2		344
Total corporate and other debt		7,386	8		7,394
Corporate equities ⁴	54,778	157	51		54,986
Derivative and other contracts:					
Interest rate	478	165,399	582		166,459
Credit		9,353	680		10,033
Foreign exchange	52	54,198	125		54,375
Equity	1,252	47,603	2,171		51,026
Commodity and other	1,233	3,879	2,573		7,685
Netting ¹	(2,896)	(225,857)	(1,853)	(34,533)	(265,139)
Total derivative and other contracts	119	54,575	4,278	(34,533)	24,439
Total trading liabilities	93,822	63,611			