

MORGAN STANLEY  
Form 10-Q  
November 05, 2018  
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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, 2018*

OR

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

EXCHANGE ACT OF 1934

Commission File Number 1-11758

(Exact Name of Registrant as specified in its charter)

**Delaware**

**1585 Broadway**

**36-3145972**

**(212) 761-4000**

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

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

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Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 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

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, 2018, there were 1,720,154,771 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, 2018*

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**Available Information**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains an internet site, [www.sec.gov](http://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](http://www.morganstanley.com). You can access our Investor Relations webpage at [www.morganstanley.com/about-us-ir](http://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 ( 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](http://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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**Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Introduction**

Morgan Stanley 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 (the Parent Company) together with its consolidated subsidiaries. We define the following as part of our consolidated financial statements ( financial statements ): consolidated income statements ( income statements ), consolidated balance sheets ( balance sheets ), and consolidated cash flow statements ( cash flow statements ). See the Glossary of Common Acronyms for definitions of certain acronyms used throughout this Form 10-Q.

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, prime brokerage and market-making activities in equity and fixed income products, including foreign exchange and commodities. 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 activities include investments and research.

*Wealth Management* provides a comprehensive array of financial services and solutions to individual investors and small to medium-sized businesses and institutions covering brokerage and investment advisory services, financial and wealth planning services, annuity and insurance products, credit and other lending products, banking and retirement plan services.

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

The results of operations in the past have been, and in the future may continue to be, materially affected by competition; risk factors; and legislative, legal and regulatory developments; as well as other factors. These factors also may have an adverse impact on our ability to achieve our strategic objectives. Additionally, the discussion of our results of operations herein may contain forward-looking statements. These statements, which reflect management's beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect our future results, see Forward-Looking Statements,

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Business Competition, Business Supervision and Regulation and Risk Factors in the 2017 Form 10-K, and Liquidity and Capital Resources 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 Share<sup>1</sup>**

1. For the calculation of basic and diluted EPS, see Note 15 to the financial statements.

We reported net revenues of \$9,872 million in the quarter ended September 30, 2018 ( current quarter, or 3Q 2018 ), compared with \$9,197 million in the quarter ended September 30, 2017 ( prior year quarter, or 3Q 2017 ). For the current quarter, net income applicable to Morgan Stanley was \$2,112 million, or \$1.17 per diluted common share, compared with \$1,781 million, or \$0.93 per diluted common share, in the prior year quarter.

We reported net revenues of \$31,559 million in the nine months ended September 30, 2018 ( current year period, or YTD 2018 ), compared with \$28,445 million in the nine months ended September 30, 2017 ( prior year period, or YTD 2017 ). For the current year period, net income applicable to Morgan Stanley was \$7,217 million, or \$3.92 per



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diluted common share, compared with \$5,468 million, or \$2.79 per diluted common share, in the prior year period.

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**Table of Contents****Management's Discussion and Analysis****Non-interest Expenses<sup>1</sup>***(\$ in millions)*

1. The percentages on the bars in the charts represent the contribution of compensation and benefits expenses and non-compensation expenses to the total.

Compensation and benefits expenses of \$4,310 million in the current quarter and \$13,845 million in the current year period increased 3% and 7%, respectively, from \$4,169 million in the prior year quarter and \$12,887 million in the prior year period. These results primarily reflected increases in discretionary incentive compensation mainly driven by higher revenues as well as salaries across all business segments. These increases were partially offset by a decrease in the fair value of investments to which certain deferred compensation plans are referenced.

Non-compensation expenses were \$2,711 million in the current quarter and \$8,334 million in the current year period compared with \$2,546 million in the prior year quarter and \$7,626 million in the prior year period, representing a 6% and a 9% increase, respectively. These increases were primarily as a result of higher volume-related expenses, the gross presentation of certain expenses due to the adoption of the accounting update *Revenue from Contracts with Customers* (see Notes 2 and 19 to the financial statements for further information) and increased investment in technology. In the current quarter, these increases were partially offset by lower litigation expenses.

***Income Taxes***

The current year period includes intermittent net discrete tax benefits of \$92 million, primarily associated with new information pertaining to the resolution of multi-jurisdiction tax examinations and other matters. The prior year quarter and prior year period included intermittent net discrete tax benefits of \$83 million and \$65 million, respectively, primarily resulting from the remeasurement of certain deferred taxes. In addition, the effective tax rate is lower in the current quarter and current year period compared with the corresponding prior periods primarily as a result of the enactment of the U.S. Tax Cuts and Jobs Act ( Tax Act ). For further information, see Supplemental Financial Information and Disclosures Income Tax Matters herein.

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

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September 30, <b>2018</b>	2017	Ended September 30, <b>2018</b>	2017
Income from continuing operations applicable to Morgan Stanley	\$ 2,113	\$ 1,775	\$ 7,222	\$ 5,489
Income (loss) from discontinued operations applicable to Morgan Stanley	(1)	6	(5)	(21)
Net income applicable to Morgan Stanley	2,112	1,781	7,217	5,468
Preferred stock dividends and other	93	93	356	353
<b>Earnings applicable to Morgan Stanley common shareholders</b>	<b>\$ 2,019</b>	<b>\$ 1,688</b>	<b>\$ 6,861</b>	<b>\$ 5,115</b>
Expense efficiency ratio <sup>1</sup>	71.1%	73.0%	70.3%	72.1%
ROE <sup>2</sup>	11.5%	9.6%	13.1%	9.8%
ROTCE <sup>2</sup>	13.2%	11.0%	15.1%	11.3%

<i>in millions, except per share and employee data</i>	At September 30, <b>2018</b>	At December 31, 2017
	GLR <sup>3</sup>	\$ 214,848
Loans <sup>4</sup>	\$ 109,983	\$ 104,126
Total assets	\$ 865,517	\$ 851,733
Deposits	\$ 175,185	\$ 159,436
Borrowings	\$ 190,889	\$ 192,582
Common shares outstanding	1,726	1,788
Common shareholders' equity	\$ 70,183	\$ 68,871
Tangible common shareholders' equity	\$ 61,265	\$ 59,829
Book value per common share <sup>5</sup>	\$ 40.67	\$ 38.52
Tangible book value per common share <sup>2, 5</sup>	\$ 35.50	\$ 33.46
Worldwide employees	59,835	57,633

	At September 30, <b>2018</b>	At December 31, 2017
	<b>Capital ratios<sup>6</sup></b>	
Common Equity Tier 1 capital ratio	16.7%	16.5%
Tier 1 capital ratio	19.0%	18.9%
Total capital ratio	21.6%	21.7%
Tier 1 leverage ratio	8.2%	8.3%

SLR<sup>7</sup>

6.4%

6.5%

1. The expense efficiency ratio represents total non-interest expense as a percentage of net revenues.
2. Represents a non-GAAP measure. See Selected Non-GAAP Financial Information herein.
3. For a discussion of the GLR, see Liquidity and Capital Resources Liquidity Risk Management Framework Global Liquidity Reserve herein.
4. 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).
5. Book value per common share and tangible book value per common share equal common shareholders equity and tangible common shareholders equity, respectively, divided by common shares outstanding.
6. Beginning in 2018, our risk based capital ratios are based on the Standardized Approach fully phased-in rules. At December 31, 2017, our risk based capital ratios were based on the Standardized Approach transitional rules. For a discussion of our regulatory capital ratios, see Liquidity and Capital Resources Regulatory Requirements herein.
7. The SLR became effective as a capital standard on January 1, 2018. For a discussion of the SLR, see Liquidity and Capital Resources Regulatory Requirements herein.

### ***Business Segment Results***

#### **Net Revenues by Segment<sup>1, 2</sup>**

*(\$ in millions)*

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**Management's Discussion and Analysis**

**Net Income Applicable to Morgan Stanley by Segment<sup>1, 3</sup>**

*(\$ 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 includes intersegment eliminations of \$(109) million and \$(74) million in the current quarter and prior year quarter, respectively, and \$(344) million and \$(223) million in the current year period and prior year period, respectively.
3. The total amount of Net Income Applicable to Morgan Stanley by Segment includes intersegment eliminations of \$(1) million and \$(4) million in the current quarter and prior year quarter, respectively, and \$(1) million and \$(2) million in the current year period and the prior year period, respectively.

Institutional Securities net revenues of \$4,929 million in the current quarter and \$16,743 million in the current year period increased 13% from the prior year quarter and 17% from the prior year period primarily reflecting higher revenues from both sales and trading and Investment banking.

Wealth Management net revenues of \$4,399 million in the current quarter and \$13,098 million in the current year period increased 4% from the prior year quarter and 5% from the prior year period primarily reflecting growth in Asset management revenues.

Investment Management net revenues of \$653 million in the current quarter and \$2,062 million in the current year period decreased 3% from the prior year quarter and increased 6% from the prior year period. The current quarter results primarily reflected lower investment gains. The current year period reflected higher Asset management revenues, partially offset by lower investment gains.

**Net Revenues by Region<sup>1, 2</sup>**

*(\$ in millions)*

1. For a discussion of how the geographic breakdown for net revenues is determined, see Note 19 to the financial statements.
2. The percentages on the bars in the charts represent the contribution of each region to the total.

**Selected Non-GAAP Financial Information**

We prepare our financial statements using 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

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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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 2,112</b>	\$ 1,781	<b>\$ 7,217</b>	\$ 5,468
Impact of adjustments	(4)	(83)	(92)	(65)
<b>Adjusted net income applicable to Morgan Stanley non-GAAP</b>	<b>\$ 2,108</b>	1,698	<b>\$ 7,125</b>	5,403
<b>Earnings per diluted common share</b>	<b>\$ 1.17</b>	\$ 0.93	<b>\$ 3.92</b>	\$ 2.79
Impact of adjustments		(0.05)	(0.05)	(0.03)
<b>Adjusted earnings per diluted common share non-GAAP</b>	<b>\$ 1.17</b>	\$ 0.88	<b>\$ 3.87</b>	\$ 2.76
<b>Effective income tax rate</b>	<b>24.4%</b>	28.1%	<b>21.9%</b>	29.7%
Impact of adjustments	0.2%	3.3%	0.9%	0.8%
<b>Adjusted effective income tax rate non-GAAP</b>	<b>24.6%</b>	31.4%	<b>22.8%</b>	30.5%

<i>\$ in millions</i>	At	
	September 30, 2018	At December 31, 2017
<b>Tangible Equity</b>		
<b>U.S. GAAP</b>		
Morgan Stanley shareholders' equity	\$ 78,703	\$ 77,391
Less: Goodwill and net intangible assets	(8,918)	(9,042)
<b>Morgan Stanley tangible shareholders' equity non-GAAP</b>	<b>\$ 69,785</b>	\$ 68,349
<b>U.S. GAAP</b>		
Common equity	\$ 70,183	\$ 68,871
Less: Goodwill and net intangible assets	(8,918)	(9,042)
<b>Tangible common equity non-GAAP</b>	<b>\$ 61,265</b>	\$ 59,829

<i>\$ in millions</i>	Average Monthly Balance			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Tangible Equity</b>				
<b>U.S. GAAP</b>				
Morgan Stanley shareholders' equity	\$ 78,760	\$ 79,007	\$ 78,165	\$ 78,206
Less: Goodwill and net intangible assets	(8,970)	(9,120)	(9,020)	(9,192)
<b>Morgan Stanley tangible shareholders equity non-GAAP</b>	<b>\$ 69,790</b>	<b>\$ 69,887</b>	<b>\$ 69,145</b>	<b>\$ 69,014</b>
<b>U.S. GAAP</b>				
Common equity	\$ 70,240	\$ 70,487	\$ 69,645	\$ 69,786
Less: Goodwill and net intangible assets	(8,970)	(9,120)	(9,020)	(9,192)
<b>Tangible common equity non-GAAP</b>	<b>\$ 61,270</b>	<b>\$ 61,367</b>	<b>\$ 60,625</b>	<b>\$ 60,594</b>

**Consolidated Non-GAAP Financial Measures**

<i>\$ in billions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Average common equity</b>				
Unadjusted	\$ 70.2	\$ 70.5	\$ 69.6	\$ 69.8
Adjusted <sup>1</sup>	70.2	70.5	69.6	69.8
<b>ROE<sup>2</sup></b>				
Unadjusted	11.5%	9.6%	13.1%	9.8%
Adjusted <sup>1, 3</sup>	11.5%	9.1%	13.0%	9.6%
<b>Average tangible common equity</b>				
Unadjusted	\$ 61.3	\$ 61.4	\$ 60.6	\$ 60.6
Adjusted <sup>1</sup>	61.3	61.3	60.6	60.6
<b>ROTCE<sup>2</sup></b>				
Unadjusted	13.2%	11.0%	15.1%	11.3%
Adjusted <sup>1, 3</sup>	13.2%	10.5%	14.9%	11.1%



**Table of Contents****Management's Discussion and Analysis****Non-GAAP Financial Measures by Business Segment**

<i>\$ in billions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Pre-tax profit margin<sup>4</sup></b>				
Institutional Securities	32%	28%	33%	31%
Wealth Management	27%	27%	27%	25%
Investment Management	16%	19%	19%	19%
Consolidated	29%	27%	30%	28%
<b>Average common equity<sup>5</sup></b>				
Institutional Securities	\$ 40.8	\$ 40.2	\$ 40.8	\$ 40.2
Wealth Management	16.8	17.2	16.8	17.2
Investment Management	2.6	2.4	2.6	2.4
Parent Company	10.0	10.7	9.4	10.0
<b>Consolidated average common equity</b>	<b>\$ 70.2</b>	<b>\$ 70.5</b>	<b>\$ 69.6</b>	<b>\$ 69.8</b>
<b>Average tangible common equity<sup>5</sup></b>				
Institutional Securities	\$ 40.1	\$ 39.6	\$ 40.1	\$ 39.6
Wealth Management	9.2	9.3	9.2	9.3
Investment Management	1.7	1.6	1.7	1.6
Parent Company	10.3	10.9	9.6	10.1
<b>Consolidated average tangible common equity</b>	<b>\$ 61.3</b>	<b>\$ 61.4</b>	<b>\$ 60.6</b>	<b>\$ 60.6</b>
<b>ROE<sup>2, 6</sup></b>				
Institutional Securities	10.3%	8.9%	12.8%	9.6%
Wealth Management	21.3%	15.8%	20.9%	15.0%
Investment Management	12.0%	18.8%	15.7%	15.4%
Consolidated	11.5%	9.6%	13.1%	9.8%
<b>ROTCE<sup>2, 6</sup></b>				
Institutional Securities	10.4%	9.1%	13.0%	9.8%
Wealth Management	38.9%	29.1%	38.1%	27.7%
Investment Management	18.8%	27.7%	24.5%	22.7%
Consolidated	13.2%	11.0%	15.1%	11.3%

1. Adjusted amounts exclude intermittent net discrete tax provisions (benefits). Income tax consequences associated with employee share-based awards are recognized in Provision for income taxes in the income statements but are excluded from the intermittent net discrete tax provisions (benefits) adjustment as we anticipate conversion activity each quarter. For further information on the net discrete tax provisions (benefits), see Supplemental Financial Information and Disclosures Income Tax Matters herein.

2. ROE and ROTCE equal annualized net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity and average tangible common equity, on a consolidated basis as indicated.

When excluding intermittent net discrete tax provisions (benefits), both the numerator and denominator are adjusted.

3. The calculations used in determining our ROE and ROTCE Targets referred to in the following section are the Adjusted ROE and Adjusted ROTCE amounts shown in this table.
4. Pre-tax profit margin represents income from continuing operations before income taxes as a percentage of net revenues.
5. Average common equity and average tangible common equity for each business segment are determined using our Required Capital framework (see Liquidity and Capital Resources Regulatory Requirements Attribution of Average Common Equity According to the Required Capital Framework herein).
6. The calculation of the ROE and ROTCE by segment uses the annualized net income applicable to Morgan Stanley by segment less preferred dividends allocated to each segment as a percentage of average common equity and average tangible common equity, respectively, allocated to each segment.

### **Return on Equity and Tangible Common Equity Targets**

In January 2018, we established an ROE Target of 10% to 13% and an ROTCE Target of 11.5% to 14.5% for the medium term.

Our ROE and ROTCE Targets 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; outside legal expenses or penalties and the ability to maintain a reduced level of expenses; and capital levels. For further information on our ROE and ROTCE Targets and related assumptions, see Management's Discussion and Analysis of Financial Condition and Results of Operations Executive Summary Return on Equity and Tangible Common Equity Targets in the 2017 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. See Note 19 to the financial statements for further information.

### ***Net Revenues, Compensation Expense and Income Taxes***

For an overview of the components of our net revenues, compensation expense and income taxes, see Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments in the 2017 Form 10-K.

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

<i>\$ in millions</i>	Three Months Ended September 30,		
	2018	2017	% Change
<b>Revenues</b>			
Investment banking	\$ 1,459	\$ 1,270	15%
Trading	2,573	2,504	3%
Investments	96	52	85%
Commissions and fees	589	561	5%
Asset management	112	88	27%
Other	244	143	71%
Total non-interest revenues	5,073	4,618	10%
Interest income	2,425	1,421	71%
Interest expense	2,569	1,663	54%
Net interest	(144)	(242)	40%
<b>Net revenues</b>	<b>4,929</b>	<b>4,376</b>	<b>13%</b>
Compensation and benefits	1,626	1,532	6%
Non-compensation expenses	1,747	1,608	9%
<b>Total non-interest expenses</b>	<b>3,373</b>	<b>3,140</b>	<b>7%</b>
Income from continuing operations before income taxes	1,556	1,236	26%
Provision for income taxes	397	260	53%
Income from continuing operations	1,159	976	19%
Income (loss) from discontinued operations, net of income taxes	(3)	6	(150)%
Net income	1,156	982	18%
Net income applicable to noncontrolling interests	36	9	N/M
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 1,120</b>	<b>\$ 973</b>	<b>15%</b>
	Nine Months Ended September 30,		

<i>\$ in millions</i>	Three Months Ended September 30,		
	2018	2017	% Change
<b>Revenues</b>			
Investment banking	\$ 4,671	\$ 4,100	14%
Trading	9,344	8,241	13%
Investments	234	155	51%
Commissions and fees	2,007	1,811	11%
Asset management	324	268	21%
Other	548	442	24%

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Total non-interest revenues	<b>17,128</b>	15,017	<b>14%</b>
Interest income	<b>6,424</b>	3,788	<b>70%</b>
Interest expense	<b>6,809</b>	4,515	<b>51%</b>
Net interest	<b>(385)</b>	(727)	<b>47%</b>
<b>Net revenues</b>	<b>16,743</b>	14,290	<b>17%</b>
Compensation and benefits	<b>5,779</b>	5,069	<b>14%</b>
Non-compensation expenses	<b>5,484</b>	4,812	<b>14%</b>
<b>Total non-interest expenses</b>	<b>11,263</b>	9,881	<b>14%</b>
Income from continuing operations before income taxes	<b>5,480</b>	4,409	<b>24%</b>
Provision for income taxes	<b>1,169</b>	1,132	<b>3%</b>
Income from continuing operations	<b>4,311</b>	3,277	<b>32%</b>
Income (loss) from discontinued operations, net of income taxes	<b>(7)</b>	(21)	<b>67%</b>
Net income	<b>4,304</b>	3,256	<b>32%</b>
Net income applicable to noncontrolling interests	<b>100</b>	77	<b>30%</b>
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 4,204</b>	\$ 3,179	<b>32%</b>

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

	Three Months Ended September 30,		
<i>\$ in millions</i>	2018	2017	% Change
Advisory	\$ 510	\$ 555	(8)%
Underwriting:			
Equity	441	273	62%
Fixed income	508	442	15%
Total underwriting	949	715	33%
<b>Total investment banking</b>	<b>\$ 1,459</b>	<b>\$ 1,270</b>	<b>15%</b>

	Nine Months Ended September 30,		
<i>\$ in millions</i>	2018	2017	% Change
Advisory	\$ 1,702	\$ 1,555	9%
Underwriting:			
Equity	1,403	1,068	31%
Fixed income	1,566	1,477	6%
Total underwriting	2,969	2,545	17%
<b>Total investment banking</b>	<b>\$ 4,671</b>	<b>\$ 4,100</b>	<b>14%</b>

**Investment Banking Volumes**

	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>\$ in billions</i>	2018	2017	2018	2017
Completed mergers and acquisitions <sup>1</sup>	\$ 164	\$ 238	\$ 665	\$ 615
Equity and equity-related offerings <sup>2, 3</sup>	14	17	52	46
Fixed income offerings <sup>2, 4</sup>	66	65	183	210

Source: Thomson Reuters, data as of October 1, 2018. 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. Includes transactions of \$100 million or more. Based on full credit to each of the advisors in a transaction.
  2. Based on full credit for single book managers and equal credit for joint book managers.
  3. Includes Rule 144A issuances and registered public offerings of common stock and convertible securities and rights offerings.
  4. Includes Rule 144A and publicly registered issuances, non-convertible preferred stock, mortgage-backed and asset-backed securities, and taxable municipal debt. Excludes 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 \$1,459 million in the current quarter and \$4,671 million in the current year period increased 15% and 14% from the comparable prior year periods. The adoption of the accounting update *Revenue from Contracts with Customers* had the effect of increasing the revenues reported in investment banking by approximately \$69 million in the current quarter and \$230 million in the current year period compared with the prior year periods (see Notes 2 and

19 to the financial statements for further information). The drivers of the increase in our Investment banking revenues, other than the effect of this accounting update, were:

Advisory revenues decreased in the current quarter primarily reflecting lower volumes of completed M&A activity (see Investment Banking Volumes table), partially offset by higher fee realizations. In the current year period, advisory revenues increased primarily due to higher volumes of completed M&A activity.

Equity underwriting revenues increased in the current quarter and current year period primarily as a result of higher fee realizations. In both the current quarter and current year period, revenues increased in initial public offerings, convertibles and follow-ons.

Fixed income underwriting revenues increased in the current quarter and current year period primarily due to higher fee realizations. In the current quarter, revenues increased in investment grade bond fees and loan fees, which benefited from event-related financings, partially offset by lower non-investment grade bond fees. Fixed income underwriting revenues increased in the current year period primarily due to higher loan fees, partially offset by lower non-investment grade bond fees.

### ***Sales and Trading Net Revenues***

#### **By Income Statement Line Item**

Three Months Ended  
September 30,

<i>\$ in millions</i>	<b>2018</b>	2017	% Change
Trading	<b>\$ 2,573</b>	\$ 2,504	<b>3%</b>

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Commissions and fees	<b>589</b>	561	<b>5%</b>
Asset management	<b>112</b>	88	<b>27%</b>
Net interest	<b>(144)</b>	(242)	<b>40%</b>
<b>Total</b>	<b>\$ 3,130</b>	\$ 2,911	<b>8%</b>

Nine Months Ended  
September 30,

<i>\$ in millions</i>	<b>2018</b>	2017	% Change
Trading	<b>\$ 9,344</b>	\$ 8,241	<b>13%</b>
Commissions and fees	<b>2,007</b>	1,811	<b>11%</b>
Asset management	<b>324</b>	268	<b>21%</b>
Net interest	<b>(385)</b>	(727)	<b>47%</b>
<b>Total</b>	<b>\$ 11,290</b>	\$ 9,593	<b>18%</b>

**By Business**

Three Months Ended  
September 30,

<i>\$ in millions</i>	<b>2018</b>	2017	% Change
Equity	<b>\$ 2,019</b>	\$ 1,891	<b>7%</b>
Fixed income	<b>1,179</b>	1,167	<b>1%</b>
Other	<b>(68)</b>	(147)	<b>54%</b>
<b>Total</b>	<b>\$ 3,130</b>	\$ 2,911	<b>8%</b>

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## Management's Discussion and Analysis

<i>\$ in millions</i>	Nine Months Ended September 30,		% Change
	2018	2017	
Equity	\$ 7,047	\$ 6,062	16%
Fixed income	4,441	4,120	8%
Other	(198)	(589)	66%
<b>Total</b>	<b>\$ 11,290</b>	<b>\$ 9,593</b>	<b>18%</b>

## Sales and Trading Revenues - Equity and Fixed Income

<i>\$ in millions</i>	Three Months Ended September 30, 2018			
	Trading	Fees <sup>1</sup>	Net Interest <sup>2</sup>	Total
Financing	\$ 1,097	\$ 99	\$ (141)	\$ 1,055
Execution services	554	524	(114)	964
<b>Total Equity</b>	<b>\$ 1,651</b>	<b>\$ 623</b>	<b>\$ (255)</b>	<b>\$ 2,019</b>
<b>Total Fixed Income</b>	<b>\$ 1,189</b>	<b>\$ 78</b>	<b>\$ (88)</b>	<b>\$ 1,179</b>

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

<i>\$ in millions</i>	Nine Months Ended September 30, 2018			
	Trading	Fees <sup>1</sup>	Net Interest <sup>2</sup>	Total
Financing	\$ 3,704	\$ 295	\$ (479)	\$ 3,520
Execution services	2,006	1,793	(272)	3,527



<b>Total Equity</b>	\$	<b>5,710</b>	\$	<b>2,088</b>	\$	<b>(751)</b>	\$	<b>7,047</b>
<b>Total Fixed Income</b>	\$	<b>4,203</b>	\$	<b>244</b>	\$	<b>(6)</b>	\$	<b>4,441</b>

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

1. Includes Commissions and fees and Asset management revenues.

2. Includes funding costs which are allocated to the businesses based on funding usage.

As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments Net Revenues by Segment in the 2017 Form 10-K, we manage each of the sales and trading businesses based on its aggregate net revenues. 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 19 to the financial statements.

### *Sales and Trading Net Revenues during the Current Quarter*

#### *Equity*

Equity sales and trading net revenues of \$2,019 million in the current quarter increased 7% from the prior year quarter, reflecting higher results in our financing businesses.

Financing revenues increased from the prior year quarter, primarily due to client positioning and higher average client balances, which resulted in both increased Trading and Net interest revenues.

Execution services remained relatively unchanged from the prior year quarter as higher commissions revenue was offset by increased funding costs.

#### *Fixed Income*

Fixed income net revenues of \$1,179 million in the current quarter were 1% higher than the prior year quarter, driven by higher results in commodities products and other, partially offset by lower results in credit products and higher funding costs.

Global macro products revenues remained relatively unchanged from the prior year quarter as higher results in foreign exchange products were offset by lower results in interest rates products, both of which were primarily driven by levels of client activity.

Credit products revenues decreased primarily due to a decline in Trading revenue associated with unfavorable corporate credit products inventory management.

Commodities products and Other increased driven primarily by inventory management gains in power and natural gas products.

***Other***

Other sales and trading net losses of \$68 million in the current quarter decreased from the prior year quarter, primarily from lower net funding costs reflecting changes in the balance sheet.

***Sales and Trading Net Revenues during the Current Year Period***

***Equity***

Equity sales and trading net revenues of \$7,047 million in the current year period increased 16% from the prior year period, reflecting higher results in both our financing businesses and execution services.

Financing revenues increased from the prior year period, primarily due to higher average client balances and client positioning, which resulted in both increased Trading and Net interest revenues.

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**Management's Discussion and Analysis**

Execution services increased from the prior year period, primarily reflecting higher Trading revenues driven by effective inventory management in derivative products. Commissions and fees also increased due to higher client activity in cash equities products, but were partially offset by increased funding costs.

***Fixed Income***

Fixed income net revenues of \$4,441 million in the current year period were 8% higher than the prior year period, primarily driven by higher results in commodities products and other, partially offset by lower results in credit products and higher funding costs.

Global macro products revenues remained relatively unchanged from the prior year period as higher results in foreign exchange products were offset by lower results in interest rates products, both of which were primarily driven by levels of client activity.

Credit products revenues decreased as a decline in Trading revenues associated with unfavorable corporate credit products inventory management was partially offset by growth in lending products.

Commodities products and Other increased primarily due to increased Commodities structured transactions and client flow and higher Trading revenues principally from a reduction in counterparty credit risk.

***Other***

Other sales and trading net losses of \$198 million in the current year period decreased from the prior year period, primarily reflecting lower net funding costs. In addition, losses associated with corporate loan hedging activity were lower in the current year period compared with the prior year period.

***Investments, Other Revenues, Non-interest Expenses and Income Tax Items***

***Investments***

Net investment gains of \$96 million in the current quarter and \$234 million in the current year period increased from the prior year periods, primarily as a result of higher net gains on business-related investments, partially offset by lower results from real estate limited partnership investments.

***Other Revenues***

Other revenues of \$244 million in the current quarter increased from the prior year quarter, primarily reflecting higher fees associated with corporate lending activity and improved results from other equity method investments. Other revenues of \$548 million in the current year period increased from the prior year period, primarily reflecting improved results from other equity method investments,

the recovery of a previously charged off energy industry loan and higher fees associated with corporate lending activity, partially offset by lower gains associated with held-for-sale corporate loans.

***Non-interest Expenses***

Non-interest expenses of \$3,373 million in the current quarter increased from the prior year quarter, reflecting a 6% increase in Compensation and benefits expenses and a 9% increase in Non-compensation expenses. Non-interest expenses of \$11,263 million in the current year period increased from the prior year period reflecting a 14% increase in both Compensation and benefits expenses and Non-compensation expenses.

Compensation and benefits expenses increased in the current quarter and current year period, primarily due to an increase in discretionary incentive compensation driven by higher revenues, as well as salaries, partially offset by a decrease in 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-related expenses, and the gross presentation of certain expenses due to the adoption of the accounting update *Revenue from Contracts with Customers* (see Notes 2 and 19 to the financial statements for further information), partially offset by lower litigation expenses. In addition, in the current year period, the results were partially offset by the reversal of a portion of previously recorded provisions related to U.K. VAT matters.

***Income Tax Items***

The current year period includes intermittent net discrete tax benefits of \$88 million, primarily associated with new information pertaining to the resolution of multi-jurisdiction tax examinations and other matters. The prior year quarter and prior year period included intermittent net discrete tax benefits of \$75 million and \$60 million, respectively, primarily resulting from the remeasurement of certain deferred taxes. In addition, the effective tax rate in the current year period is lower compared with the prior year period primarily as a result of the enactment of the Tax Act. For a discussion of the Tax Act, see Supplemental Financial Information and Disclosures Income Tax Matters herein.

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

<i>\$ in millions</i>	Three Months Ended		
	September 30,		% Change
	2018	2017	
<b>Revenues</b>			
Investment banking	\$ 129	\$ 125	3%
Trading	160	212	(25)%
Investments		1	(100)%
Commissions and fees	409	402	2%
Asset management	2,573	2,393	8%
Other	58	62	(6)%
Total non-interest revenues	3,329	3,195	4%
Interest income	1,412	1,155	22%
Interest expense	342	130	163%
Net interest	1,070	1,025	4%
<b>Net revenues</b>	<b>4,399</b>	<b>4,220</b>	<b>4%</b>
Compensation and benefits	2,415	2,326	4%
Non-compensation expenses	790	775	2%
<b>Total non-interest expenses</b>	<b>3,205</b>	<b>3,101</b>	<b>3%</b>
Income from continuing operations before income taxes	1,194	1,119	7%
Provision for income taxes	281	421	(33)%
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 913</b>	<b>\$ 698</b>	<b>31%</b>

<i>\$ in millions</i>	Nine Months Ended		
	September 30,		% Change
	2018	2017	
<b>Revenues</b>			
Investment banking	\$ 383	\$ 405	(5)%
Trading	404	657	(39)%
Investments	3	3	%
Commissions and fees	1,349	1,266	7%
Asset management	7,582	6,879	10%
Other	195	191	2%
Total non-interest revenues	9,916	9,401	5%
Interest income	4,012	3,348	20%
Interest expense	830	320	159%
Net interest	3,182	3,028	5%

<b>Net revenues</b>	<b>13,098</b>	12,429	<b>5%</b>
Compensation and benefits	<b>7,221</b>	6,940	<b>4%</b>
Non-compensation expenses	<b>2,366</b>	2,340	<b>1%</b>
<b>Total non-interest expenses</b>	<b>9,587</b>	9,280	<b>3%</b>
Income from continuing operations before income taxes	<b>3,511</b>	3,149	<b>11%</b>
Provision for income taxes	<b>808</b>	1,139	<b>(29)%</b>
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 2,703</b>	\$ 2,010	<b>34%</b>

**Financial Information and Statistical Data**

<i>\$ in billions</i>	At	
	September 30, 2018	December 31, 2017
Client assets	\$ 2,496	\$ 2,373
Fee-based client assets <sup>1</sup>	\$ 1,120	\$ 1,045
Fee-based client assets as a percentage of total client assets	45%	44%
Client liabilities <sup>2</sup>	\$ 83	\$ 80
Investment securities portfolio	\$ 59.8	\$ 59.2
Loans and lending commitments	\$ 81.8	\$ 77.3
Wealth Management representatives	15,655	15,712

## Three Months Ended

Per representative:	September 30,	
	2018	2017
Annualized revenues (\$ in thousands) <sup>3</sup>	\$ 1,125	\$ 1,071
Client assets (\$ in millions) <sup>4</sup>	\$ 159	\$ 146
Fee-based asset flows (\$ in billions) <sup>5</sup>	\$ 16.2	\$ 15.8

## Nine Months Ended

Per representative:	September 30,	
	2018	2017
Annualized revenues (\$ in thousands) <sup>3</sup>	\$ 1,114	\$ 1,051
Client assets (\$ in millions) <sup>4</sup>	\$ 159	\$ 146
Fee-based asset flows (\$ in billions) <sup>5</sup>	\$ 49.7	\$ 54.5

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.

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

<i>\$ in millions</i>	Three Months Ended		
	September 30,		
	2018	2017	% Change
Investment banking	\$ 129	\$ 125	3%
Trading	160	212	(25)%
Commissions and fees	409	402	2%
<b>Total</b>	<b>\$ 698</b>	<b>\$ 739</b>	<b>(6)%</b>
Transactional revenues as a % of Net revenues	16%	18%	

<i>\$ in millions</i>	Nine Months Ended		
	September 30,		
	2018	2017	% Change
Investment banking	\$ 383	\$ 405	(5)%
Trading	404	657	(39)%
Commissions and fees	1,349	1,266	7%
<b>Total</b>	<b>\$ 2,136</b>	<b>\$ 2,328</b>	<b>(8)%</b>
Transactional revenues as a % of Net Revenues	16%	19%	

**Transactional Revenues**

Transactional revenues of \$698 million in the current quarter and \$2,136 million in the current year period decreased 6% and 8%, respectively, from the prior year periods primarily as a result of lower Trading revenues, partially offset by higher Commissions and fees.

Investment banking revenues were relatively unchanged in the current quarter. In the current year period, Investment banking revenues decreased primarily due to lower revenues from equity issuances.

Trading revenues decreased in the current quarter primarily as a result of lower fixed income revenue driven by product mix. In addition to lower fixed income revenue, Trading revenues decreased in the current year period as a result of lower gains related to investments associated with certain employee deferred compensation plans.

Commissions and fees were relatively unchanged in the current quarter. In the current year period, Commissions and fees increased primarily as a result of increased client transactions in alternatives and annuities products,



partially offset by decreased activity in mutual funds.

***Asset Management***

Asset management revenues of \$2,573 million in the current quarter and \$7,582 million in the current year period increased 8% and 10%, respectively, primarily due to the effect of market appreciation and net positive flows on the respective beginning of period fee-based client assets balances on which billings are generally based, partially offset by lower average fee rates.

See *Fee-Based Client Assets Rollforwards* herein.

***Net Interest***

Net interest of \$1,070 million in the current quarter and \$3,182 million in the current year period increased 4% and 5%, respectively, primarily as a result of higher interest rates and higher loan balances. In the current quarter and current year period, the effect of higher interest rates on loans was partially offset by higher average interest rates on Deposits, due to changes in our deposit mix.

***Non-interest Expenses***

Non-interest expenses of \$3,205 million in the current quarter and \$9,587 million in the current year period both increased 3% primarily as a result of higher Compensation and benefits expenses.

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

Non-compensation expenses were relatively unchanged in both the current quarter and current year period, with increased investment in technology offset by a decrease in litigation expenses.

***Income Tax Items***

The effective tax rate in the current quarter and current year period is lower compared with the prior year periods primarily as a result of the enactment of the Tax Act. For a discussion of the Tax Act, see *Supplemental Financial Information and Disclosures Income Tax Matters* herein.

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## Management's Discussion and Analysis

## Fee-Based Client Assets

For a description of fee-based client assets, including descriptions of the fee based client asset types and rollforward items in the following tables, see Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments Wealth Management Fee-Based Client Assets in the 2017 Form 10-K.

## Fee-Based Client Assets Rollforwards

	At				At
	June 30,	Inflows	Outflows	Market	September 30,
<i>\$ in billions</i>	2018			Impact	2018
Separately managed <sup>1</sup>	\$ 267	\$ 14	\$ (6)	\$ (3)	\$ 272
Unified managed	259	11	(8)	5	267
Mutual fund advisory	20	1	(1)		20
Advisor	149	7	(8)	5	153
Portfolio manager	367	18	(12)	13	386
Subtotal	\$ 1,062	\$ 51	\$ (35)	\$ 20	\$ 1,098
Cash management	22	4	(4)		22
<b>Total fee-based client assets</b>	<b>\$ 1,084</b>	<b>\$ 55</b>	<b>\$ (39)</b>	<b>\$ 20</b>	<b>\$ 1,120</b>

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

	At				At
	December 31,	Inflows	Outflows	Market	September 30,
<i>\$ in billions</i>	2017			Impact	2018

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Separately managed <sup>1</sup>	\$	252	\$	30	\$	(15)	\$	5	\$	272
Unified managed		250		36		(23)		4		267
Mutual fund advisory		21				(2)		1		20
Advisor		149		22		(22)		4		153
Portfolio manager		353		55		(31)		9		386
Subtotal	\$	1,025	\$	143	\$	(93)	\$	23	\$	1,098
Cash management		20		14		(12)				22
<b>Total fee-based client assets</b>	\$	1,045	\$	157	\$	(105)	\$	23	\$	1,120

	At				At					
	December 31,				September 30,					
<i>\$ in billions</i>	2016	Inflows	Outflows	Market Impact	2017					
Separately managed <sup>1</sup>	\$	222	\$	24	\$	(16)	\$	13	\$	243
Unified managed		204		36		(22)		21		239
Mutual fund advisory		21		1		(3)		2		21
Advisor		125		27		(20)		12		144
Portfolio manager		285		57		(29)		25		338
Subtotal	\$	857	\$	145	\$	(90)	\$	73	\$	985
Cash management		20		9		(11)				18
<b>Total fee-based client assets</b>	\$	877	\$	154	\$	(101)	\$	73	\$	1,003

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.

**Average Fee Rates**

<i>Fee rate in bps</i>	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Separately managed	15	17	16	16
Unified managed	97	97	97	98
Mutual fund advisory	119	118	119	118
Advisor	84	84	84	84
Portfolio manager	95	94	95	96
Subtotal	75	76	76	76
Cash management	6	6	6	6
Total fee-based client assets	74	75	74	75

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

<i>\$ in millions</i>	Three Months Ended September 30,		% Change
	2018	2017	
<b>Revenues</b>			
Trading	\$ 2	\$ (7)	N/M
Investments	40	114	(65)%
Asset management	604	568	6%
Other	(3)	1	N/M
Total non-interest revenues	643	676	(5)%
Interest income	19	1	N/M
Interest expense	9	2	N/M
Net interest	10	(1)	N/M
<b>Net revenues</b>	<b>653</b>	<b>675</b>	<b>(3)%</b>
Compensation and benefits	269	311	(14)%
Non-compensation expenses	282	233	21%
<b>Total non-interest expenses</b>	<b>551</b>	<b>544</b>	<b>1%</b>
Income from continuing operations before income taxes	102	131	(22)%
Provision for income taxes	18	16	13%
Income from continuing operations	84	115	(27)%
Income from discontinued operations, net of income taxes	2		N/M
Net income	86	115	(25)%
Net income applicable to noncontrolling interests	6	1	N/M
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 80</b>	<b>\$ 114</b>	<b>(30)%</b>

<i>\$ in millions</i>	Nine Months Ended September 30,		% Change
	2018	2017	
<b>Revenues</b>			
Trading	\$ 23	\$ (21)	N/M
Investments	172	337	(49)%
Asset management	1,840	1,624	13%
Other	10	9	11%
Total non-interest revenues	2,045	1,949	5%
Interest income	37	3	N/M
Interest expense	20	3	N/M
Net interest	17		N/M
<b>Net revenues</b>	<b>2,062</b>	<b>1,949</b>	<b>6%</b>

Compensation and benefits	845	878	(4)%
Non-compensation expenses	827	695	19%
<b>Total non-interest expenses</b>	<b>1,672</b>	<b>1,573</b>	<b>6%</b>
Income from continuing operations before income taxes	390	376	4%
Provision for income taxes	73	87	(16)%
Income from continuing operations	317	289	10%
Income from discontinued operations, net of income taxes	2		N/M
Net income	319	289	10%
Net income applicable to noncontrolling interests	8	8	%
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 311</b>	<b>\$ 281</b>	<b>11%</b>
<b>Net Revenues</b>			

### *Investments*

Investments gains of \$40 million in the current quarter compared with \$114 million in the prior year quarter reflect lower carried interest in certain infrastructure and multi-manager private equity funds.

Investments gains of \$172 million in the current year period compared with \$337 million in the prior year period reflect lower carried interest in certain infrastructure funds and the reversal of previously accrued carried interest in certain Asia private equity funds, primarily due to losses associated with weakening Asia-Pacific currencies.

### *Asset Management*

Asset management revenues of \$604 million in the current quarter and \$1,840 million in the current year period increased 6% and 13%, respectively, primarily as a result of higher average long-term AUM. See AUM Rollforwards herein.

The adoption of the accounting update *Revenue from Contracts with Customers* had the effect of increasing Asset management revenues due to the gross presentation of distribution fees. This increase (approximately \$17 million in the current quarter and \$61 million in the current year period) was partially offset by the delayed recognition of certain performance fees not in the form of carried interest until they are no longer probable of reversing. See Notes 2 and 19 to the financial statements for further details.

### **Non-interest Expenses**

Non-interest expenses of \$551 million in the current quarter and \$1,672 million in the current year period increased 1% and 6%, respectively, primarily due to higher Non-compensation expenses.

Compensation and benefits expenses decreased in the current quarter and current year period due to decreases in deferred compensation associated with carried interest and the fair value of investments to which certain deferred compensation plans are referenced. In the current year period, these decreases were partially offset by increases in salaries and discretionary incentive compensation.

Non-compensation expenses increased in the current quarter and current year period primarily as a result of higher fee sharing on increased average AUM balances and the gross presentation of distribution fees due to the adoption

of the accounting update *Revenue from Contracts with Customers*. See *Asset Management* above.

**Table of Contents****Management's Discussion and Analysis****Income Tax Items**

The effective tax rate in the current year period is lower compared with the prior year period primarily as a result of the enactment of the Tax Act. For a discussion of the Tax Act, see Supplemental Financial Information and Disclosures Income Tax Matters herein.

**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 the 2017 Form 10-K.

**AUM Rollforwards**

	At					At	
	June 30,	Inflows	Outflows	Market	Other <sup>1</sup>	September 30,	
<i>\$ in billions</i>	2018			Impact		2018	
Equity	\$ 114	\$ 10	\$ (9)	\$ 3	\$ (1)	\$ 117	
Fixed income	69	6	(4)			71	
Alternative/Other	132	5	(4)	1	(1)	133	
Long-term AUM subtotal	315	21	(17)	4	(2)	321	
Liquidity <sup>2</sup>	159	313	(322)	1	(1)	150	
<b>Total AUM</b>	<b>\$ 474</b>	<b>\$ 334</b>	<b>\$ (339)</b>	<b>\$ 5</b>	<b>\$ (3)</b>	<b>\$ 471</b>	
Shares of minority stake assets	7					7	

	At					At	
	June 30,	Inflows	Outflows	Market	Other <sup>1</sup>	September 30,	
<i>\$ in billions</i>	2017			Impact		2017	
Equity	\$ 94	\$ 5	\$ (6)	\$ 4	\$	\$ 97	
Fixed income	66	7	(5)	1		69	
Alternative/Other	121	5	(3)	1	1	125	
Long-term AUM subtotal	281	17	(14)	6	1	291	
Liquidity	154	279	(277)	1	(1)	156	
<b>Total AUM</b>	<b>\$ 435</b>	<b>\$ 296</b>	<b>\$ (291)</b>	<b>\$ 7</b>	<b>\$</b>	<b>\$ 447</b>	
Shares of minority stake assets	8					7	

<i>\$ in billions</i>	At	Inflows	Outflows	Market	Other <sup>1</sup>	At
	December 31,			Impact		September 30,
	2017					

	<b>2018</b>											
Equity	\$	105	\$	30	\$	(23)	\$	6	\$	(1)	\$	117
Fixed income		73		20		(20)		(1)		(1)		71
Alternative/Other		128		16		(13)		2				133
Long-term AUM subtotal		306		66		(56)		7		(2)		321
Liquidity <sup>2</sup>		176		1,013		(1,039)		2		(2)		150
<b>Total AUM</b>	\$	482	\$	1,079	\$	(1,095)	\$	9	\$	(4)	\$	471
Shares of minority stake assets		7										7

<i>\$ in billions</i>	At			At								
	December 31, 2016	Inflows	Outflows	Market Impact	Other <sup>1</sup>	September 30, 2017						
Equity	\$	79	\$	16	\$	(16)	\$	17	\$	1	\$	97
Fixed income		60		20		(16)		3		2		69
Alternative/Other		115		18		(13)		5				125
Long-term AUM subtotal		254		54		(45)		25		3		291
Liquidity		163		915		(923)		1				156
<b>Total AUM</b>	\$	417	\$	969	\$	(968)	\$	26	\$	3	\$	447
Shares of minority stake assets		8										7

1. Includes distributions and foreign currency impact for all periods and the impact of the Mesa West Capital, LLC acquisition in the current year period.
2. Included in Liquidity products outflows in the current quarter and current year period are \$(8) billion and \$(18) billion, respectively, related to the redesign of our brokerage sweep deposits program. See Liquidity and Capital Resources Unsecured Financing herein for more information.

#### Average AUM

<i>\$ in billions</i>	Three Months Ended		Nine Months Ended					
	September 30, 2018	2017	September 30, 2018	2017				
Equity	\$	116	\$	96	\$	112	\$	90
Fixed income		70		68		72		65
Alternative/Other		133		123		131		120
Long-term AUM subtotal		319		287		315		275
Liquidity		153		156		159		155
<b>Total AUM</b>	\$	472	\$	443	\$	474	\$	430
Shares of minority stake assets		7		7		7		7

#### Average Fee Rate

<i>Fee rate in bps</i>	Three Months Ended		Nine Months Ended					
	September 30, 2018	2017	September 30, 2018	2017				
Equity		76		75		76		74



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Fixed income	<b>33</b>	34	<b>34</b>	33
Alternative/Other	<b>65</b>	68	<b>67</b>	69
Long-term AUM	<b>62</b>	62	<b>62</b>	62
Liquidity	<b>17</b>	18	<b>18</b>	18
Total AUM	<b>47</b>	47	<b>47</b>	46

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**Table of Contents****Management's Discussion and Analysis****Supplemental Financial Information and Disclosures****Income Tax Matters****Effective Tax Rate from Continuing Operations**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
U.S. GAAP	24.4%	28.1%	21.9%	29.7%
Adjusted effective income tax rate non-GAAP	24.6%	31.4%	22.8%	30.5%
<b>Net discrete tax provisions/(benefits)</b>				
Intermittent <sup>2</sup>	\$ (4)	\$ (83)	\$ (92)	\$ (65)
Recurring <sup>3</sup>	\$	\$ (11)	\$ (164)	\$ (139)

- Adjusted effective income tax rate is a non-GAAP measure which excludes intermittent net discrete tax provisions (benefits). For further information on non-GAAP measures, see Selected Non-GAAP Financial Information herein.
- Includes all tax provisions (benefits) which have been determined to be discrete, other than recurring-type items as defined below.
- Recurring-type discrete tax benefits represent income tax consequences associated with employee share-based awards, which are recognized in Provision for income taxes in the income statements but are excluded from the intermittent net discrete tax provisions (benefits) adjustment as we anticipate conversion activity each quarter.

The current year period includes intermittent net discrete tax benefits primarily associated with new information pertaining to the resolution of multi-jurisdiction tax examinations and other matters. The prior year quarter and prior year period included intermittent net discrete tax benefits primarily resulting from the remeasurement of certain deferred taxes.

The effective tax rate reflects our current assumptions, estimates and interpretations related to the Tax Act and other factors. The Tax Act, enacted on December 22, 2017, significantly revised U.S. corporate income tax law by, among other things, reducing the corporate income tax rate to 21%, and implementing a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of non-U.S. subsidiaries; imposes a minimum tax on global intangible low-taxed income ( GILTI ) and an alternative base erosion and anti-abuse tax ( BEAT ) on U.S. corporations that make deductible payments to non-U.S. related persons in excess of specified amounts; and broadens the tax base by partially or wholly eliminating tax deductions for certain historically deductible expenses. Our income tax estimates may change as additional clarification and implementation guidance continue to be received from the U.S. Treasury Department and as the interpretation of the Tax Act evolves over time.

**U.S. Bank Subsidiaries**

Our U.S. bank subsidiaries, Morgan Stanley Bank N.A. ( MSBNA ) and Morgan Stanley Private Bank, National Association ( MSPBNA ) (collectively, U.S. Bank Subsidiaries ) accept deposit accounts, provide loans to a variety of customers, from large corporate and institutional clients to high net worth individuals, and invest in securities. The

lending activities in the Institutional Securities business segment primarily include loans and lending commitments to corporate clients. The lending activities in the Wealth Management business segment primarily include: securities-based lending, which allows clients to borrow money against the value of qualifying securities; and residential real estate loans.

We expect our lending activities to continue to grow through further market penetration of our client base. For a further discussion of our credit risks, see Quantitative and Qualitative Disclosures about Risk 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

	At	At
	September 30, December 31,	
<i>\$ in billions</i>	2018	2017
Assets	\$ 203.2	\$ 185.3
Investment securities portfolio:		
Investment securities AFS	41.5	42.0
Investment securities HTM	19.0	17.5
<b>Total investment securities</b>	<b>\$ 60.5</b>	<b>\$ 59.5</b>
Deposits <sup>2</sup>	\$ 174.4	\$ 159.1
<b>Wealth Management</b>		
Securities-based lending and other loans <sup>3</sup>	\$ 44.4	\$ 41.2
Residential real estate loans	26.7	26.7
<b>Total</b>	<b>\$ 71.1</b>	<b>\$ 67.9</b>
<b>Institutional Securities</b>		
Corporate loans	\$ 30.0	\$ 24.2
Wholesale real estate loans	10.9	12.2
<b>Total</b>	<b>\$ 40.9</b>	<b>\$ 36.4</b>

1. Amounts exclude transactions between the bank subsidiaries as well as deposits from the Parent Company and affiliates.
2. For further information on deposits, see Liquidity and Capital Resources Funding Management Unsecured Financing herein.
3. Other loans primarily include tailored lending.

### Accounting Development Updates

The Financial Accounting Standards Board has issued certain accounting updates that apply to us. 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:

*Derivatives and Hedging (ASU 2018-16)*. The amendments in this update permit use of the Overnight Index Swap ( OIS ) rate based on the Secured Overnight Financing Rate ( SOFR ) as a U.S. benchmark interest rate for hedge

accounting purposes. This update is effective for us as of

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## **Table of Contents**

### **Management's Discussion and Analysis**

January 1, 2019, with early adoption permitted. This update does not impact our existing hedges.

*Leases.* This accounting update requires lessees to recognize in 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 accounting for leases where we are the lessor is largely unchanged.

The right of use asset and lease liability will initially be measured using the present value of the remaining rental payments. This change to the accounting for leases where we are lessee requires modifications to our lease accounting systems and determining the discount rate to use in calculating the present value of the remaining rental payments. We will adopt this accounting update as of the effective date, January 1, 2019. Based upon our current population of leases, we expect the right of use asset and corresponding lease liability to be less than 1% of our total assets.

*Financial Instruments - Credit Losses.* This accounting update impacts the impairment model for certain financial assets measured at amortized cost by requiring a 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 the CECL models will be applied. This update is effective as of January 1, 2020.

### **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 financial

statements in the 2017 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 the 2017 Form 10-K.

### **Liquidity and Capital Resources**

Senior management, with oversight by the Asset and Liability Management Committee and the Board of Directors ( Board ), establishes and maintains our 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 sheet, liquidity and capital structure. Liquidity and capital matters are reported regularly to the Board and the Risk Committee of the Board.

### 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, 2018			
	IS	WM	IM	Total
<b>Assets</b>				
Cash and cash equivalents <sup>1</sup>	\$ 73,425	\$ 18,972	\$ 84	\$ 92,481
Trading assets at fair value	279,579	71	3,538	283,188
Investment securities	22,742	59,826		82,568
Securities purchased under agreements to resell	57,663	11,423		69,086
Securities borrowed	142,177	312		142,489
Customer and other receivables	43,010	17,256	573	60,839
Loans, net of allowance <sup>2</sup>	38,878	71,100	5	109,983
Other assets <sup>3</sup>	14,034	9,206	1,643	24,883
<b>Total assets</b>	<b>\$ 671,508</b>	<b>\$ 188,166</b>	<b>\$ 5,843</b>	<b>\$ 865,517</b>

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<i>\$ in millions</i>	At December 31, 2017			Total
	IS	WM	IM	
<b>Assets</b>				
Cash and cash equivalents <sup>1</sup>	\$ 63,597	\$ 16,733	\$ 65	\$ 80,395
Trading assets at fair value	295,678	59	2,545	298,282
Investment securities	19,556	59,246		78,802
Securities purchased under agreements to resell	74,732	9,526		84,258
Securities borrowed	123,776	234		124,010
Customer and other receivables	36,803	18,763	621	56,187
Loans, net of allowance <sup>2</sup>	36,269	67,852	5	104,126
Other assets <sup>3</sup>	14,563	9,596	1,514	25,673
<b>Total assets</b>	<b>\$ 664,974</b>	<b>\$ 182,009</b>	<b>\$ 4,750</b>	<b>\$ 851,733</b>

IS Institutional Securities

WM Wealth Management

IM Investment Management

1. Cash and cash equivalents includes Cash and due from banks, Interest bearing deposits with banks and Restricted cash.
2. 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).
3. Other assets primarily includes Goodwill, Intangible assets, premises, equipment, software, other investments, 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 \$865.5 billion at September 30, 2018 from \$851.7 billion at December 31, 2017, primarily due to increases in loans across all segments, as well as a net increase to support client activity in secured financings as reflected in Securities borrowed and Securities purchased under agreements to resell in the Institutional Securities business segment. Trading assets within the Institutional Securities business segment declined due to reductions in Equities inventory to support changes in client positioning, which resulted in greater liquidity, as reflected by increases in Cash and cash equivalents and Investment securities.

**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 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 the 2017 Form 10-K.

At September 30, 2018 and December 31, 2017, 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 the 2017 Form 10-K.

### GLR by Type of Investment

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Cash deposits with banks <sup>1</sup>	\$ 10,647	\$ 7,167
Cash deposits with central banks <sup>1</sup>	43,772	33,791
Unencumbered highly liquid securities:		
U.S. government obligations	93,545	73,422
U.S. agency and agency mortgage-backed securities	32,422	55,750
Non-U.S. sovereign obligations <sup>2</sup>	32,019	19,424
Other investment grade securities	2,443	3,106
<b>Total</b>	<b>\$ 214,848</b>	<b>\$ 192,660</b>

1. Included in Cash and due from banks and Interest bearing deposits with banks in the balance sheets.

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

### GLR Managed by Bank and Non-Bank Legal Entities

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017	Average Daily Balance Three Months Ended September 30, 2018
<b>Bank legal entities</b>			
Domestic	\$ 78,320	\$ 70,364	\$ 76,899
Foreign	4,628	4,756	4,343
Total Bank legal entities	82,948	75,120	81,242
<b>Non-Bank legal entities</b>			
Domestic:			
Parent Company	44,064	41,642	63,328
Non-Parent Company	31,992	35,264	31,208
Total Domestic	76,056	76,906	94,536
Foreign	55,844	40,634	53,195
Total Non-Bank legal entities	131,900	117,540	147,731
<b>Total</b>	<b>\$ 214,848</b>	<b>\$ 192,660</b>	<b>\$ 228,973</b>



**Regulatory Liquidity Framework**

*Liquidity Coverage Ratio*

We and our U.S. Bank Subsidiaries are subject to LCR requirements including a requirement to calculate each entity's LCR on each business day. The requirements are designed to ensure that banking organizations have sufficient HQLA to cover net cash outflows arising from significant stress over 30 calendar days, thus promoting the short-term resilience of the liquidity risk profile of banking organizations.

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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.

Based on our daily calculations, we and our U.S. Bank Subsidiaries are compliant with the minimum required LCR of 100%.

**HQLA by Type of Asset and LCR**

<i>\$ in millions</i>	Average Daily Balance	
	September 30, 2018	June 30, 2018
<b>HQLA</b>		
Cash deposits with central banks	\$ 48,962	\$ 38,456
Securities <sup>1</sup>	140,060	128,268
<b>Total</b>	\$ 189,022	\$ 166,724
<b>LCR</b>	<b>135%</b>	<b>128%</b>

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

The increase in the LCR in the current quarter is due to increased HQLA, consistent with higher liquidity levels.

The Firm's calculations are based on our current understanding of the LCR and other factors, which may be subject to change as we receive additional clarification and implementation guidance from regulators relating to the LCR, and as the interpretation of the LCR evolves over time.

***Net Stable Funding Ratio***

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

The Basel Committee on Banking Supervision (Basel Committee) has previously finalized the NSFR framework. In May 2016, the U.S. banking agencies 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 would expect to accomplish by the effective date of any final rule. Our preliminary estimates are subject to risks and uncertainties that may cause actual results based on the final rule to differ materially from estimates. For an additional discussion of the 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 the 2017 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, borrowings, securities sold under agreements to repurchase, 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 the 2017 Form 10-K.

At September 30, 2018 and December 31, 2017, the weighted average maturity of our secured financing of less liquid assets was greater than 120 days.

### Collateralized Financing Transactions

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Securities purchased under agreements to resell and Securities borrowed	\$ 211,575	\$ 208,268
Securities sold under agreements to repurchase and Securities loaned	\$ 72,161	\$ 70,016
Securities received as collateral <sup>1</sup>	\$ 8,865	\$ 13,749

Average Daily Balance

Three Months Ended

<i>\$ in millions</i>	September 30, 2018	December 31, 2017
Securities purchased under agreements to resell and Securities borrowed	\$ 229,243	\$ 214,343
Securities sold under agreements to repurchase and Securities loaned	\$ 59,346	\$ 66,879

1. Included in Trading assets in the balance sheets.

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See Note 2 to the financial statements in the 2017 Form 10-K and Note 6 to the financial statements for more details on collateralized financing transactions.

In addition to the collateralized financing transactions shown in the previous table, we also engage in financing transactions collateralized by customer-owned securities, which are segregated in accordance with regulatory requirements. Receivables under these financing transactions, primarily margin loans, are included in Customer and other receivables in the balance sheets, and payables under these financing transac-

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

tions, primarily to prime brokerage customers, are included in Customer and other payables in the balance sheets. 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.

**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 the 2017 Form 10-K.

**Deposits**

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Savings and demand deposits:		
Brokerage sweep deposits <sup>1</sup>	\$ 132,835	\$ 135,946
Savings and other	11,127	8,541
Total Savings and demand deposits	143,962	144,487
Time deposits <sup>2</sup>	31,223	14,949
<b>Total</b>	<b>\$ 175,185</b>	<b>\$ 159,436</b>

1. Represents balances swept from client brokerage accounts.

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 at September 30, 2018 increased compared with December 31, 2017, primarily driven by increases in Time deposits and Savings and other deposits, partially offset by a reduction in Brokerage sweep deposits due to client deployment of cash into investments and typical seasonal client tax payments. While Brokerage sweep deposits declined since December 31, 2017, the redesign of our brokerage sweep deposit program initiated in the second quarter of 2018 resulted in inflows of approximately \$18 billion. These inflows corresponded with outflows from Liquidity products AUM in the Investment Management business segment (see Business Segments Investment Management Assets Under Management or Supervision herein for more information).

**Borrowings**

We believe that accessing debt investors through multiple distribution channels helps provide consistent access to the unsecured markets. In addition, the issuance of borrowings with original maturities greater than one year allows us to reduce reliance on short-term credit sensitive instruments. Borrowings with original maturities greater than one year 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.

The availability and cost of financing to us can vary depending on market conditions, the volume of certain trading and lending activities, our credit ratings and the overall availability of credit. We also engage in, and may continue to engage in, repurchases of our borrowings in the ordinary course of business.

### Borrowings by Remaining Maturity at September 30, 2018<sup>1</sup>

<i>\$ in millions</i>	Parent Company	Subsidiaries	Total
Original maturities of one year or less	\$ 2	\$ 938	\$ 940
Original maturities greater than one year			
2018	\$ 2,673	\$ 1,380	\$ 4,053
2019	21,352	4,350	25,702
2020	18,705	2,713	21,418
2021	21,236	3,167	24,403
2022	14,935	1,961	16,896
Thereafter	80,300	17,177	97,477
<b>Total</b>	<b>\$ 159,201</b>	<b>\$ 30,748</b>	<b>\$ 189,949</b>
<b>Total Borrowings</b>	<b>\$ 159,203</b>	<b>\$ 31,686</b>	<b>\$ 190,889</b>
Maturities over next 12 months <sup>2</sup>			\$ 24,122

1. Original maturity in the table is generally based on contractual final maturity. For borrowings with put options, remaining maturity represents the earliest put date.

2. Includes only borrowings with original maturities greater than one year.

Borrowings of \$190,889 million as of September 30, 2018 remained relatively unchanged compared with \$192,582 million at December 31, 2017.

For further information on 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. When determining credit ratings, 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 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.

**Table of Contents****Management's Discussion and Analysis****Parent Company and MSBNA Senior Unsecured Ratings at October 31, 2018**

	Parent Company		
	Short-Term	Long-Term	Rating
	Debt	Debt	Outlook
DBRS, Inc.	<b>R-1 (middle)</b>	<b>A (high)</b>	<b>Stable</b>
Fitch Ratings, Inc.	<b>F1</b>	<b>A</b>	<b>Stable</b>
Moody's Investors Service, Inc.	<b>P-2</b>	<b>A3</b>	<b>Stable</b>
Rating and Investment Information, Inc.	<b>a-1</b>	<b>A-</b>	<b>Stable</b>
S&P Global Ratings	<b>A-2</b>	<b>BBB+</b>	<b>Stable</b>

	MSBNA		
	Short-Term	Long-Term	Rating
	Debt	Debt	Outlook
Fitch Ratings, Inc.	<b>F1</b>	<b>A+</b>	<b>Stable</b>
Moody's Investors Service, Inc.	<b>P-1</b>	<b>A1</b>	<b>Stable</b>
S&P Global Ratings	<b>A-1</b>	<b>A+</b>	<b>Stable</b>

***Incremental Collateral or Terminating Payments***

In connection with certain OTC derivatives 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 clearing organizations in the event of a future credit rating downgrade irrespective of whether we are in a net asset or net liability position. See Note 4 to the financial statements for additional information on OTC derivatives that contain such contingent features.

While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact it would have on our business and results of operations in future periods is inherently uncertain and would depend on a number of interrelated factors, including, among others, the magnitude of the downgrade, the rating relative to peers, the rating assigned by the relevant agency pre-downgrade, individual client behavior and future mitigating actions we might take. The liquidity impact of additional collateral requirements is included in our Liquidity Stress Tests.

**Capital Management**

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, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Repurchases of common stock under our share repurchase program	\$ 1,180	\$ 1,250	\$ 3,680	\$ 2,500

From time to time we repurchase our outstanding common stock, including as part of our share repurchase program. On April 18, 2018, we entered into a sales plan with Mitsubishi UFJ Financial Group, Inc. ( MUFG ) whereby MUFG sells shares of the Firm's common stock to us, as part of our share repurchase program. The sales plan is only intended to maintain MUFG's ownership percentage below 24.9% in order to comply with MUFG's passivity commitments to the Board of Governors of the Federal Reserve System ( Federal Reserve ) and will have no impact on the strategic alliance between MUFG and us, including the joint ventures in Japan. For a description of our share repurchase program, see Unregistered Sales of Equity Securities and Use of Proceeds.

For a description of our capital plan, see Liquidity and Capital Resources Regulatory Requirements Capital Plans and Stress Tests.

### Common Stock Dividend Announcement

Announcement date	October 16, 2018
Amount per share	\$0.30
Date to be paid	November 15, 2018
Shareholders of record as of	October 31, 2018

### Preferred Stock

### Preferred Stock Dividend Announcement

Announcement date	September 17, 2018
Date paid	October 15, 2018
Shareholders of record as of	September 28, 2018

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



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**Management's Discussion and Analysis**

**Regulatory Requirements**

***Regulatory Capital Framework***

We are a financial holding company ( FHC ) under the Bank Holding Company Act of 1956, as amended ( BHC Act ), and are subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for us, including well-capitalized standards, and evaluates our compliance with such capital requirements. The OCC establishes similar capital requirements and standards for our U.S. Bank Subsidiaries. For us to remain an FHC, we must remain well-capitalized in accordance with standards established by the Federal Reserve and our U.S. Bank Subsidiaries must remain well-capitalized in accordance with standards established by the OCC. For additional information on regulatory capital requirements for our U.S. Bank Subsidiaries, see Note 13 to the financial statements.

Regulatory capital requirements established by the Federal Reserve 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 ( Dodd-Frank Act ).

***Regulatory Capital Requirements***

We are required to maintain minimum risk-based and leverage-based capital ratios under the regulatory capital requirements. For more information on our regulatory capital requirements, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Capital Requirements in the 2017 Form 10-K.

***Risk-based 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 AOCI and investments in the capital instruments of unconsolidated financial institutions.

In addition to the minimum risk-based capital ratio requirements, by 2019 we will be subject to the following buffers:

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

The Common Equity Tier 1 G-SIB capital surcharge, currently at 3%; and

Up to a 2.5% Common Equity Tier 1 CCyB, currently set by U.S. banking agencies at zero. In 2018, each of the buffers is 75% of the 2019 requirement noted above (during 2017, the buffers were 50%). Failure to maintain the buffers would result in restrictions on our ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers. For a further discussion of the G-SIB capital surcharge, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements G-SIB Capital Surcharge in the 2017

Form 10-K.

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 RWA ( Standardized Approach ) and (ii) the applicable advanced approaches for calculating credit risk, market risk and operational risk RWA ( Advanced Approach ). At September 30, 2018 and December 31, 2017, our ratios are based on the Standardized Approach rules.

Effective January 1, 2019, Common Equity Tier 1 capital, Tier 1 capital and Total capital requirements, inclusive of buffers, will increase to 10.0%, 11.5%, and 13.5%, respectively.

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

*Leverage-based Regulatory Capital.* Minimum leverage-based capital requirements include a Tier 1 leverage ratio and an SLR. The SLR became effective as a capital standard on January 1, 2018. We are required to maintain a Tier 1 SLR of 3% as well as an enhanced SLR capital buffer of at least 2% (for a total of at least 5%) in order to avoid potential limitations on capital distributions, including dividends and stock repurchases, and discretionary bonus payments to executive officers.

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

<i>\$ in millions</i>	Required	At September 30, 2018	
		Fully Phased-In	
		Standardized	Advanced
	Ratio		
<b>Risk-based capital</b>			
Common Equity Tier 1 capital		\$ 61,758	\$ 61,758
Tier 1 capital		70,328	70,328
Total capital		79,899	79,649
Total RWA		370,714	357,055
Common Equity Tier 1 capital ratio	8.6%	16.7%	17.3%
Tier 1 capital ratio	10.1%	19.0%	19.7%
Total capital ratio	12.1%	21.6%	22.3%
<b>Leverage-based capital</b>			
Adjusted average assets <sup>1</sup>		\$ 858,944	N/A
Tier 1 leverage ratio	4.0%	8.2%	N/A
Supplementary leverage exposure <sup>2</sup>		N/A	\$ 1,101,263
SLR	5.0%	N/A	6.4%

At December 31, 2017

<i>\$ in millions</i>	Required	Pro Forma Fully			
		Transitional <sup>3</sup>		Phased-In	
		Ratio	Standardized	Advanced	Standardized
<b>Risk-based capital</b>					
Common Equity Tier 1 capital		\$ 61,134	\$ 61,134	\$ 60,564	\$ 60,564
Tier 1 capital		69,938	69,938	69,120	69,120
Total capital		80,275	80,046	79,470	79,240
Total RWA		369,578	350,212	377,241	358,324
Common Equity Tier 1 capital ratio	7.3%	16.5%	17.5%	16.1%	16.9%
Tier 1 capital ratio	8.8%	18.9%	20.0%	18.3%	19.3%
Total capital ratio	10.8%	21.7%	22.9%	21.1%	22.1%
<b>Leverage-based capital</b>					
Adjusted average assets <sup>1</sup>		\$ 842,270	N/A	\$ 841,756	N/A
Tier 1 leverage ratio	4.0%	8.3%	N/A	8.2%	N/A
Supplementary leverage exposure <sup>2</sup>		N/A	\$ 1,082,683	N/A	\$ 1,082,170
Pro forma SLR	5.0%	N/A	6.5%	N/A	6.4%

- Adjusted average assets represents the denominator of the Tier 1 leverage ratio and is 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, 2017, adjusted for disallowed goodwill, intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other capital deductions.
- Supplementary leverage exposure is the sum of Adjusted average assets used in the Tier 1 leverage ratio and other adjustments, primarily (i) potential future exposure for derivative exposures, gross-up for cash collateral netting where qualifying criteria are not met, and the effective notional principal amount of sold credit protection offset by qualifying purchased credit protection; (ii) the counterparty credit risk for repo-style transactions; and (iii) the credit equivalent amount for off-balance sheet exposures.
- Regulatory compliance was determined based on capital ratios calculated under transitional rules until December 31, 2017.

At December 31, 2017, the pro forma fully phased-in estimated amounts and the pro forma estimated SLR utilized fully phased-in Tier 1 capital, including the fully phased-in Tier 1 capital deductions that applied beginning January 1, 2018. These pro forma fully phased-in estimates were non-GAAP financial measures as the related capital rules were not yet effective at December 31, 2017. These estimates were based on our understanding of the capital rules and other factors at the time.

Regulatory compliance was determined based on capital ratios including regulatory capital and RWA calculated under the transitional rules until December 31, 2017. The regulatory capital analyses in the following tables are presented using pro forma fully phased-in estimates as of December 31, 2017, which are equivalent to amounts calculated as of September 30, 2018.

### Fully Phased-In Regulatory Capital

	At		Change
	September 30, 2018	December 31, 2017 <sup>1</sup>	
<i>\$ in millions</i>			
<b>Common Equity Tier 1 capital</b>			
Common stock and surplus	\$ 10,852	\$ 14,354	\$ (3,502)
Retained earnings	63,330	57,577	5,753
AOCI	(3,999)	(3,060)	(939)
Regulatory adjustments and deductions:			
Net goodwill	(6,654)	(6,599)	(55)
Net intangible assets (other than goodwill and mortgage servicing assets)	(2,237)	(2,446)	209
Other adjustments and deductions <sup>2</sup>	466	738	(272)
<b>Total Common Equity Tier 1 capital</b>	<b>\$ 61,758</b>	<b>\$ 60,564</b>	<b>\$ 1,194</b>
<b>Additional Tier 1 capital</b>			
Preferred stock	\$ 8,520	\$ 8,520	\$
Noncontrolling interests	460	415	45
Other adjustments and deductions		(23)	23
Additional Tier 1 capital	\$ 8,980	\$ 8,912	\$ 68
Deduction for investments in covered funds	(410)	(356)	(54)
<b>Total Tier 1 capital</b>	<b>\$ 70,328</b>	<b>\$ 69,120</b>	<b>\$ 1,208</b>
<b>Standardized Tier 2 capital</b>			
Subordinated debt	\$ 9,052	\$ 9,839	\$ (787)

Noncontrolling interests	<b>108</b>	98	<b>10</b>
Eligible allowance for credit losses	<b>431</b>	423	<b>8</b>
Other adjustments and deductions	<b>(20)</b>	(10)	<b>(10)</b>
<b>Total Standardized Tier 2 capital</b>	<b>\$ 9,571</b>	\$ 10,350	<b>\$ (779)</b>
<b>Total Standardized capital</b>	<b>\$ 79,899</b>	\$ 79,470	<b>\$ 429</b>
<b>Advanced Tier 2 capital</b>			
Subordinated debt	<b>\$ 9,052</b>	\$ 9,839	<b>\$ (787)</b>
Noncontrolling interests	<b>108</b>	98	<b>10</b>
Eligible credit reserves	<b>181</b>	193	<b>(12)</b>
Other adjustments and deductions	<b>(20)</b>	(10)	<b>(10)</b>
<b>Total Advanced Tier 2 capital</b>	<b>\$ 9,321</b>	\$ 10,120	<b>\$ (799)</b>
<b>Total Advanced capital</b>	<b>\$ 79,649</b>	\$ 79,240	<b>\$ 409</b>

1. The pro forma fully phased-in estimates as of December 31, 2017 are non-GAAP financial measures as the related capital rules were not yet effective at December 31, 2017.
2. 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.

**Table of Contents****Management's Discussion and Analysis****Fully Phased-In RWA Rollforward**

<i>\$ in millions</i>	<b>Nine Months Ended</b>	
	<b>September 30, 2018<sup>1</sup></b>	
	Standardized	Advanced
<b>Credit risk RWA</b>		
Balance at December 31, 2017 <sup>2</sup>	\$ 301,946	\$ 170,754
Change related to the following items:		
Derivatives	(905)	2,431
Securities financing transactions	1,269	2,583
Securitized assets	941	(639)
Investment securities	(271)	6,708
Commitments, guarantees and loans	9,491	8,073
Cash	960	773
Equity investments	(1,346)	(1,429)
Other credit risk <sup>3</sup>	(1,945)	(1,498)
Total change in credit risk RWA	\$ 8,194	\$ 17,002
<b>Balance at September 30, 2018</b>	<b>\$ 310,140</b>	<b>\$ 187,756</b>
<b>Market risk RWA</b>		
Balance at December 31, 2017 <sup>2</sup>	\$ 75,295	\$ 74,907
Change related to the following items:		
Regulatory VaR	179	179
Regulatory stressed VaR	(5,242)	(5,242)
Incremental risk charge	1,097	1,097
Comprehensive risk measure	(2,636)	(2,102)
Specific risk:		
Non-securitized assets	(3,838)	(3,838)
Securitized assets	(4,281)	(4,281)
Total change in market risk RWA	\$ (14,721)	\$ (14,187)
<b>Balance at September 30, 2018</b>	<b>\$ 60,574</b>	<b>\$ 60,720</b>
<b>Operational risk RWA</b>		
Balance at December 31, 2017 <sup>2</sup>	N/A	\$ 112,663
Change in operational risk RWA	N/A	(4,084)
<b>Balance at September 30, 2018</b>	<b>N/A</b>	<b>\$ 108,579</b>
<b>Total RWA</b>	<b>\$ 370,714</b>	<b>\$ 357,055</b>
Regulatory VaR VaR for regulatory capital requirements		

1. The RWA for each category reflects both on- and off-balance sheet exposures, where appropriate.
2. The pro forma fully phased-in estimates as of December 31, 2017 are non-GAAP financial measures as the related capital rules were not yet effective at December 31, 2017.
3. Amount reflects assets not in a defined category, non-material portfolios of exposures and unsettled transactions, as applicable.

Credit risk RWA increased in the current year period under the Standardized and Advanced Approaches primarily due to increased corporate lending exposures within the Institutional Securities business segment. Credit risk RWA for Investment securities also increased in the current year period under the Advanced Approach driven by model revisions which increased the risk weighting for certain counterparty types.

Market risk RWA decreased in the current year period under the Standardized and Advanced Approaches primarily due to a decrease in Stressed VaR driven by reduced interest rate and credit spread risk, a decrease in securitization specific risk charges mainly as a result of reduced exposures in mortgage-backed securities, and a decrease in non-securitization specific risk charges primarily due to reduced exposures in bonds and equity derivatives.

The decrease in operational risk RWA under the Advanced Approach in the current year period reflects a continued reduction in the frequency and magnitude of internal losses utilized in the operational risk capital model related to litigation and execution and processing.

### ***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 BHCs of U.S. G-SIB ( covered BHC ), including the Parent Company, that establishes external 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.

The Federal Reserve s proposed modifications to the enhanced SLR would also make corresponding changes to the calibration of the TLAC leverage-based requirements, as well as certain other technical changes to the TLAC rule. For a further discussion of the enhanced SLR, see Regulatory Developments Proposed Modifications to the Enhanced SLR and to the SLR Applicable to Our U.S. Bank Subsidiaries herein.

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 the 2017 Form 10-K. For discussions about the interaction between the SPOE resolution strategy and the TLAC and LTD requirements, see Business Supervision and Regulation Financial Holding Company Resolution and Recovery Planning and Risk Factors Legal, Regulatory and Compliance Risk in the 2017 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 BHCs, including us, which form part of the Federal Reserve s annual CCAR framework.

We submitted our 2018 Capital Plan ( Capital Plan ) and company-run stress test results to the Federal Reserve on April 5, 2018. On June 21, 2018, the Federal Reserve published summary results of the Dodd-Frank Act supervisory stress tests of each large BHC, including us. On June 28, 2018, the Federal Reserve published summary results of CCAR and we received a conditional non-objection to our

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**Management's Discussion and Analysis**

Capital Plan, where the only condition was that our capital distributions not exceed the greater of the actual distributions we made over the previous four calendar quarters or the annualized average of actual distributions over the previous eight calendar quarters.

Our 2018 Capital Plan includes the repurchase of up to \$4.7 billion of outstanding common stock for the period beginning July 1, 2018 through June 30, 2019, and an increase in our quarterly common stock dividend to \$0.30 per share, beginning with the common stock dividend announced on July 18, 2018. The total amount of expected 2018 capital distributions is consistent with the \$6.8 billion of actual dividends and gross share repurchases included in our 2017 Capital Plan. We disclosed a summary of the results of our company-run stress tests on June 21, 2018 on our Investor Relations webpage. In addition, we submitted the results of our mid-cycle company-run stress test to the Federal Reserve and on October 22, 2018 disclosed a summary of the results on our Investor Relations webpage.

The Economic Growth, Regulatory Relief and Consumer Protection Act ( EGRRCPA ), which was enacted on May 24, 2018, modifies certain aspects of the stress-testing process applicable to BHCs, including us. Pursuant to EGRRCPA, on October 31, 2018, the Federal Reserve issued a proposal to tailor prudential standards that would, among other things, modify our obligation to perform company-run stress-tests from semi-annually to annually.

Each of our U.S. Bank Subsidiaries is also currently required to conduct an annual stress test. MSBNA and MSPBNA submitted their 2018 annual company-run stress tests to the OCC on April 5, 2018 and published a summary of their stress test results on June 21, 2018.

EGRRCPA also eliminates the statutory requirement for banks with less than \$250 billion of total assets, which includes both of our U.S. Bank Subsidiaries, to conduct stress-testing, effective November 2019. The OCC provided guidance in July 2018 that MSPBNA, as a national bank with less than \$100 billion of total consolidated assets, would be immediately exempted from company-run stress-testing requirements.

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 the 2017 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 under the Required Capital framework, as well as each business segment's relative contribution to our total Required Capital.

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 common equity. We generally hold Parent Company common equity for prospective regulatory requirements, organic growth, acquisitions and other capital needs.



The estimation and attribution of common equity to the business segments are based on the fully phased-in regulatory capital rules. The amount of capital allocated to the business segments is generally set at the beginning of each year and remains fixed throughout the year until the next annual reset unless a significant business change occurs (*e.g.*, acquisition or disposition). Differences between available and Required Capital are attributed to Parent Company common equity during the year.

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

### Average Common Equity Attribution<sup>1</sup>

<i>\$ in billions</i>	Three Months Ended		Nine Months Ended	
	September 30, <b>2018</b>	2017	September 30, <b>2018</b>	2017
Institutional Securities	\$ <b>40.8</b>	\$ 40.2	\$ <b>40.8</b>	\$ 40.2
Wealth Management	<b>16.8</b>	17.2	<b>16.8</b>	17.2
Investment Management	<b>2.6</b>	2.4	<b>2.6</b>	2.4
Parent Company	<b>10.0</b>	10.7	<b>9.4</b>	10.0
<b>Total</b>	\$ <b>70.2</b>	\$ 70.5	\$ <b>69.6</b>	\$ 69.8

1. Average common equity is a non-GAAP financial measure. See [Selected Non-GAAP Financial Information](#) herein.  
***Resolution and Recovery Planning***

Pursuant to the Dodd-Frank Act, we are required to periodically submit to the Federal Reserve and the FDIC a 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 an SPOE strategy. The Parent Company has amended and restated its secured support agreement with its

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material entities, as defined in our 2017 resolution plan. Under the secured 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 contributable 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 entities.

The obligations of the Parent Company under the secured amended and restated support agreement are in most cases 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 entities 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.

In addition, on July 1, 2018, MSBNA and MSPBNA each submitted to the FDIC a resolution plan that describes its strategy for a rapid and orderly resolution in the event of its material financial distress or failure.

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* and *Risk Factors Legal, Regulatory and Compliance Risk* in the 2017 Form 10-K.

### **Regulatory Developments**

#### ***Single-Counterparty Credit Limits***

On June 14, 2018, the Federal Reserve finalized rules that establish single-counterparty credit limits ( SCCL ) for large banking organizations. U.S. G-SIBs, including us, are subject to a limit of 15% of Tier 1 capital for aggregate net credit exposures to any major counterparty (defined to include other U.S. G-SIBs, foreign G-SIBs, and nonbank systemically important financial institutions supervised by the Federal Reserve). In addition, we are subject to a limit of 25% of Tier 1 capital for aggregate net credit exposures to any other unaffiliated counterparty. We must comply with the final SCCL rules beginning on January 1, 2020.

#### ***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 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.

On June 5, 2018, the Federal Reserve and the other federal financial regulatory agencies responsible for the Volcker Rule's implementing regulations released an interagency proposal that would revise certain elements of the Volcker Rule regulations. The proposed changes focus on proprietary trading, including the metrics reporting requirements and certain requirements imposed in connection with permitted market making, underwriting and risk-mitigating hedging activities, including market-making in and underwriting of covered funds. The impact of this proposal on us will not be known with certainty until final rules are issued. For more information about the Volcker Rule, see *Business Supervision and Regulation Activities Restrictions under the Volcker Rule* in the 2017 Form 10-K.

#### ***Proposed Stress Buffer Requirements***

On April 10, 2018, the Federal Reserve issued a proposal to integrate its annual capital planning and stress testing requirements with certain ongoing regulatory capital requirements. The proposal, which would apply to certain BHCs, including us, would introduce a stress capital buffer and a stress leverage buffer (collectively, Stress Buffer Requirements ) and related changes to the capital planning and stress testing processes. Under the proposal, Stress Buffer Requirements would apply only with respect to the Standardized Approach and Tier 1 leverage regulatory capital requirements and would generally be effective on October 1, 2019.

In the Standardized Approach, the stress capital buffer would replace the existing Common Equity Tier 1 capital conservation buffer, which will be 2.5% as of January 1, 2019. The Standardized Approach stress capital buffer would equal the greater of (i) the maximum decline in our Common Equity Tier 1 capital ratio under the severely adverse scenario over the supervisory stress test measurement period, plus the sum of the ratios of the dollar amount of our planned common stock dividends to our projected RWA for each of the fourth through seventh quarters of the supervisory stress test projection period, and (ii) 2.5%. Regulatory capital requirements under the Standardized Approach would include the stress capital buffer, as summarized above, as well as our Common Equity Tier 1 G-SIB capital surcharge and any applicable Common Equity Tier 1 CCyB.

Like the stress capital buffer, the stress leverage buffer would be calculated based on the results of our annual supervisory stress tests. The stress leverage buffer would equal the maximum decline in our Tier 1 leverage ratio under the severely adverse scenario, plus the sum of the ratios of the dollar amount of our planned common stock dividends to our projected leverage ratio denominator for each of the fourth through seventh quarters of the supervisory stress test projection period. No floor would be established for the stress leverage buffer, which would apply in addition to the current minimum Tier 1 leverage ratio of 4%.

The proposal would make related changes to capital planning and stress testing processes for BHCs subject to the Stress

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Buffer Requirements. In particular, the proposal would limit projected capital actions to planned common stock dividends in the fourth through seventh quarters of the supervisory stress test projection period and would assume that BHCs maintain a constant level of assets and RWA throughout the supervisory stress test projection period.

The proposal does not change regulatory capital requirements under the Advanced Approach or the SLR, although the Federal Reserve and the OCC have separately proposed to modify the enhanced SLR requirements, as summarized below. If the proposal is adopted in its current form, limitations on capital distributions and discretionary bonus payments to executive officers would be determined by the most stringent limitation, if any, as determined under the Standardized Approach or the Tier 1 leverage ratio, inclusive of Stress Buffer Requirements, or the Advanced Approach or SLR or TLAC requirements, inclusive of applicable buffers.

***Proposed Modifications to the Enhanced SLR and to the SLR Applicable to Our U.S. Bank Subsidiaries***

On April 11, 2018, the Federal Reserve proposed modifications to the enhanced SLR that would replace the current 2% enhanced SLR buffer applicable to U.S. G-SIBs, including us, with a leverage buffer equal to 50% of our Common Equity Tier 1 G-SIB capital surcharge, which is currently 3%. Under the proposal, our enhanced SLR buffer would become 1.5%, for a total enhanced SLR requirement of 4.5%, assuming that our G-SIB capital surcharge remains the same when the proposal becomes effective.

As part of the same proposal, the Federal Reserve and the OCC also proposed to align the well-capitalized SLR standard applicable to our U.S. Bank Subsidiaries with the proposed enhanced SLR buffer applicable to us. Under the proposal, the well-capitalized SLR requirement for our U.S. Bank Subsidiaries would change from the current 6% to 3% plus 50% of our current Common Equity Tier 1 G-SIB capital surcharge, for a total well-capitalized SLR requirement of 4.5%, assuming that our G-SIB capital surcharge remains the same when the proposal becomes effective.

***Proposed Regulatory Capital Adjustments Related to Implementation of the Current Expected Credit Losses Methodology***

On April 17, 2018, the U.S. banking agencies issued a proposal to revise the regulatory capital framework applicable to banking organizations, including us and our U.S. Bank Subsidiaries, to address the new accounting standard for credit losses, known as a CECL methodology. For a further discussion of CECL, see Accounting Development Updates Financial Instruments Credit Losses herein.

The proposal modifies the regulatory capital rules to identify which credit loss allowances under the new accounting standard are eligible for inclusion in regulatory capital and to

provide banking organizations the option to phase in, over a three-year period, the adverse effects on regulatory capital that may result from the adoption of the new accounting standard. The proposal requires a banking organization that has adopted a CECL methodology to include the provision for credit losses beginning in the 2020 stress test cycle.

***Proposed Standardized Approach for Counterparty Credit Risk***

On October 30, 2018, the U.S. banking agencies issued a proposal to incorporate the standardized approach for counterparty credit risk ( SA-CCR ), a new derivatives counterparty exposure methodology, into the regulatory capital framework and related regulatory standards. As proposed, SA-CCR would replace the current exposure method, on a mandatory basis, in our and our U.S. Bank Subsidiaries Standardized Approach RWAs, central counterparty default fund contributions and, in modified form, in Supplementary Leverage Ratio exposure calculations. SA-CCR would be available as an alternative in our and our U.S. Bank Subsidiaries Advanced Approach RWAs for trade exposures, in single counterparty credit limits applicable to us, and in bank lending limits applicable to our U.S. Bank Subsidiaries. The proposal would require us and our U.S. Bank Subsidiaries to implement SA-CCR by July 1, 2020, but would permit voluntary early adoption before that date after a final rule adopting SA-CCR is effective.

***U.S. Department of Labor Conflict of Interest Rule and SEC Standards of Conduct for Investment Professionals***

The U.S. DOL s final Conflict of Interest Rule under ERISA went into effect on June 9, 2017. On March 15, 2018, the U.S. Court of Appeals for the Fifth Circuit vacated the Conflict of Interest Rule and accompanying exemptions in their entirety. On June 21, 2018, the Court issued the mandate that makes effective its decision to vacate the rule.

On April 18, 2018, the SEC released for public comment a package of proposed rulemaking on the standards of conduct and required disclosures for broker-dealers and investment advisers. One of the proposals, entitled Regulation Best Interest, would require broker-dealers to act in the best interest of retail customers at the time a recommendation is made without placing the financial or other interests of the broker-dealer ahead of the interest of the retail customer. Additionally, the SEC proposed a new requirement for both broker-dealers and investment advisers to provide a brief relationship summary to retail investors with information intended to clarify the relationship between the parties. Finally, the SEC issued a proposed interpretation regarding the fiduciary duty that investment advisers owe their clients.

***U.K. Withdrawal from the E.U.***

Following the U.K. electorate vote to leave the E.U., the U.K. invoked Article 50 of the Lisbon Treaty on March 29, 2017, which triggered a two-year period, subject to extension (which would need the unanimous approval of the E.U. Member States), during which the U.K. government has been negotiating its with-

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drawal agreement with the E.U. For further discussion of the potential impact of the U.K.'s withdrawal from the E.U. on our operations, see Risk Factors International Risk in the 2017 Form 10-K. For further information regarding our exposure to the U.K., see also Quantitative and Qualitative Disclosures about Risk Credit Risk Country Risk Exposure.

***Expected Replacement of London Interbank Offered Rate***

Central banks around the world, including the Federal Reserve, have commissioned working groups of market participants and official sector representatives with the goal of finding suitable replacements for LIBOR based 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 few years. The U.K. Financial Conduct Authority ( FCA ), which regulates LIBOR, has announced that it has commitments from panel banks to continue to contribute to LIBOR through the end of 2021, but that it will not use its powers to compel contributions beyond such date. Accordingly, there is considerable uncertainty regarding the publication of such rates beyond 2021.

On April 3, 2018, the Federal Reserve Bank of New York commenced publication of three reference rates based on overnight U.S. Treasury repurchase agreement transactions, including SOFR, which has been recommended as an alternative to U.S. dollar LIBOR by the Alternative Reference Rates Committee. Further, the Bank of England has commenced publication of a reformed Sterling Overnight Index Average ( reformed SONIA ), comprised of a broader set of overnight Sterling money market transactions, as of April 23, 2018. Reformed SONIA has been recommended as the alternative to Sterling LIBOR by the working group on Sterling Risk-Free Reference Rates. Central bank sponsored committees in other jurisdictions have, or are expected to, select alternative reference rates denominated in other currencies.

Although the full impact of such reforms and actions, together with any transition away from LIBOR, including the potential or actual discontinuance of LIBOR publication, remains unclear, these changes may have an adverse impact on the value of, return on and trading markets for a broad array of financial products, including any LIBOR-based securities,

loans and derivatives that are included in our financial assets and liabilities. Such reforms and actions may also require extensive changes to the contracts that govern these LIBOR-based products, as well as our systems and processes.

**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 the 2017 Form 10-K.

**Off-Balance Sheet Arrangements and Contractual Obligations**

***Off-Balance Sheet Arrangements***

We enter into various off-balance sheet arrangements, including through unconsolidated 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 Risk](#) [Credit Risk](#) [Lending Activities Included in Loans and Trading Assets](#).

***Contractual Obligations***

For a discussion about our contractual obligations, see [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) [Liquidity and Capital Resources](#) [Contractual Obligations](#) in the 2017 Form 10-K.

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**Quantitative and Qualitative Disclosures about Risk**

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 the 2017 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 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 alternative and other funds. For a further discussion of market risk, see [Quantitative and Qualitative Disclosures about Market Risk Risk Management Market Risk](#) in the 2017 Form 10-K.

***Trading Risks***

*Value-at-Risk.* 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 the 2017 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 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. 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.

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



Three Months Ended

September 30, 2018

Period

<i>\$ in millions</i>	End	Average	High	Low
Interest rate and credit spread	\$ 28	\$ 29	\$ 35	\$ 25
Equity price	13	15	17	13
Foreign exchange rate	12	12	13	9
Commodity price	7	8	10	7
Less: Diversification benefit <sup>1, 2</sup>	(25)	(27)	N/A	N/A
Primary Risk Categories	\$ 35	\$ 37	\$ 42	\$ 33
Credit Portfolio	13	12	14	11
Less: Diversification benefit <sup>1, 2</sup>	(6)	(7)	N/A	N/A
<b>Total Management VaR</b>	<b>\$ 42</b>	<b>\$ 42</b>	<b>\$ 46</b>	<b>\$ 38</b>

Three Months Ended

June 30, 2018

Period

<i>\$ in millions</i>	End	Average	High	Low
Interest rate and credit spread	\$ 32	\$ 35	\$ 43	\$ 29
Equity price	13	14	17	12
Foreign exchange rate	11	9	12	7
Commodity price	8	9	12	7
Less: Diversification benefit <sup>1, 2</sup>	(25)	(26)	N/A	N/A
Primary Risk Categories	\$ 39	\$ 41	\$ 51	\$ 35
Credit Portfolio	14	11	14	9
Less: Diversification benefit <sup>1, 2</sup>	(10)	(8)	N/A	N/A
<b>Total Management VaR</b>	<b>\$ 43</b>	<b>\$ 44</b>	<b>\$ 54</b>	<b>\$ 38</b>

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.

Average total Management VaR and average Management VaR for the Primary Risk Categories of \$42 million and \$37 million, respectively, decreased from the three-months ended June 30, 2018, primarily as a result of reduced interest rate and credit spread risk within the Fixed Income division of the Institutional Securities business segment.

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### **Risk Disclosures**

*Distribution of VaR Statistics and Net Revenues.* 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. There were no days in the current year period on which trading losses exceeded VaR.

The distribution of VaR statistics and net revenues is presented in the following histograms for the Total Trading populations.

*Total Trading.* As shown in the 95%/One-Day Management VaR table, the average 95%/one-day total Management VaR for the current quarter was \$42 million. The following histogram presents the distribution of the daily 95%/one-day total Management VaR for the current quarter.

#### **Daily 95%/One-Day Total Management VaR for the Current Quarter**

*(\$ 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 exclude certain items not captured in the VaR model, such as fees, commissions and net interest income, and differ from the definition of revenues required for Regulatory VaR backtesting, which further excludes intraday trading.

#### **Daily Net Trading Revenues for the Current Quarter**

*(\$ in millions)*

#### ***Non-Trading Risks***

We believe that sensitivity analysis is an appropriate representation of our non-trading risks. The following sensitivity analyses cover substantially all of the non-trading risk in our portfolio.

*Exposure Related to Our Own Credit Spread.*

**Credit Spread Risk Sensitivity<sup>1</sup>**

	At	At
<i>\$ in millions</i>	<b>September 30, 2018</b>	June 30, 2018
Derivatives	\$ 6	\$ 6
Funding liabilities <sup>2</sup>	34	32

1. Amounts represent the increase in value for each 1 bps widening of our credit spread.

2. Relates to structured note liabilities carried at fair value.

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

**U.S. Bank Subsidiaries Net Interest Income Sensitivity Analysis**

	At	At
<i>\$ in millions</i>	<b>September 30,</b>	June 30,
	<b>2018</b>	2018
<b>Basis point change</b>		
+200	\$ 493	\$ 531
+100	254	273
-100	(389)	(489)

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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, including non-parallel rate change scenarios. 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 in the minus 100 basis point scenario between September 30, 2018 and June 30, 2018 is primarily related to higher interest rates.

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

**Investments Sensitivity, Including Related Performance Fees**

<i>\$ in millions</i>	Loss from 10% Decline	
	At September 30, 2018	At June 30, 2018
Investments related to Investment Management activities	\$ 286	\$ 301
Other investments:		
MUMSS	166	164
Other Firm investments	183	181
MUMSS Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.		

*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 the 2017 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.

### Loans and Lending Commitments

<i>\$ in millions</i>	At September 30, 2018			
	IS	WM	IM <sup>1</sup>	Total
Corporate loans	\$ 19,284	\$ 16,150	\$ 5	\$ 35,439
Consumer loans		28,321		28,321
Residential real estate loans		26,644		26,644
Wholesale real estate loans	8,157			8,157
<b>Loans held for investment, gross of allowance</b>	<b>27,441</b>	<b>71,115</b>	<b>5</b>	<b>98,561</b>
<b>Allowance for loan losses</b>	<b>(188)</b>	<b>(43)</b>		<b>(231)</b>
<b>Loans held for investment, net of allowance</b>	<b>27,253</b>	<b>71,072</b>	<b>5</b>	<b>98,330</b>
Corporate loans	10,035			10,035
Residential real estate loans	1	28		29
Wholesale real estate loans	1,589			1,589
<b>Loans held for sale</b>	<b>11,625</b>	<b>28</b>		<b>11,653</b>
Corporate loans	9,468		21	9,489
Residential real estate loans	912			912
Wholesale real estate loans	1,209		1,156	2,365
<b>Loans held at fair value</b>	<b>11,589</b>		<b>1,177</b>	<b>12,766</b>
<b>Total loans</b>	<b>50,467</b>	<b>71,100</b>	<b>1,182</b>	<b>122,749</b>
<b>Lending commitments<sup>2,3</sup></b>	<b>97,903</b>	<b>10,740</b>	<b>164</b>	<b>108,807</b>
<b>Total loans and lending commitments<sup>2,3</sup></b>	<b>\$ 148,370</b>	<b>\$ 81,840</b>	<b>\$ 1,346</b>	<b>\$ 231,556</b>

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<i>\$ in millions</i>	At December 31, 2017			
	IS	WM	IM	Total
Corporate loans	\$ 15,332	\$ 14,417	\$ 5	\$ 29,754
Consumer loans		26,808		26,808
Residential real estate loans		26,635		26,635
Wholesale real estate loans	9,980			9,980
<b>Loans held for investment, gross of allowance</b>	25,312	67,860	5	93,177
<b>Allowance for loan losses</b>	(182)	(42)		(224)
<b>Loans held for investment, net of allowance</b>	25,130	67,818	5	92,953
Corporate loans	9,456			9,456
Residential real estate loans	1	34		35
Wholesale real estate loans	1,682			1,682
<b>Loans held for sale</b>	11,139	34		11,173
Corporate loans	8,336		22	8,358
Residential real estate loans	799			799
Wholesale real estate loans	1,579			1,579
<b>Loans held at fair value</b>	10,714		22	10,736
<b>Total loans</b>	46,983	67,852	27	114,862
<b>Lending commitments<sup>2,3</sup></b>	92,588	9,481		102,069
<b>Total loans and lending commitments<sup>2,3</sup></b>	\$ 139,571	\$ 77,333	\$ 27	\$ 216,931

1. Investment Management business segment loans are entered into in conjunction with certain investment advisory activities. The increase in fair value loans in the current year period is a result of the consolidation of a fund managed by Mesa West Capital, LLC that primarily invests in commercial real estate loans with remaining maturities of less than 5 years.

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.

Total loans and lending commitments increased by approximately \$15 billion in the current year period, primarily due to increases in collateralized and relationship-based loans and lending commitments within the Institutional Securities business segment.

Credit exposure arising 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>	<b>At September 30, 2018</b>	<b>At December 31, 2017</b>
Loans	\$ 231	\$ 224
Lending commitments	201	198
<b>Total allowance for loans and lending commitments</b>	<b>\$ 432</b>	<b>\$ 422</b>

The aggregate allowance for loans and lending commitment losses increased during the current year period, primarily due to overall portfolio changes and qualitative and environmental factors impacting the inherent allowance within the Institutional Securities business segment. See Note 7 to the financial statements for further information.

**Status of Loans Held for Investment**

	<b>At September 30, 2018</b>		<b>At December 31, 2017</b>	
	IS	WM	IS	WM
Current	<b>99.8%</b>	<b>99.9%</b>	99.5%	99.9%
Nonaccrual <sup>1</sup>	<b>0.2%</b>	<b>0.1%</b>	0.5%	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 and 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 collateralized lines of credit and term loans with various types of collateral including residential real estate, commercial real estate, corporate and financial assets. These collateralized loans and lending commitments generally provide for over-collateralization. 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. The Firm monitors collateral levels against the requirements of lending agreements. See Note 12 to the financial statements for information about our securitization activities.

**Table of Contents****Risk Disclosures****Institutional Securities Loans and Lending Commitments<sup>1</sup>**

<i>\$ in millions</i>	<b>At September 30, 2018</b>					Total
	Years to Maturity					
	Less than 1	1-3	3-5	Over 5		
<b>Loans</b>						
AA	\$ 10	\$ 488	\$	\$ 19	\$	\$ 517
A	1,172	3,259	978	325		5,734
BBB	3,042	6,108	4,252	796		14,198
NIG	7,169	11,395	7,050	2,383		27,997
Unrated <sup>2</sup>	81	184	147	1,609		2,021
<b>Total loans</b>	<b>11,474</b>	<b>21,434</b>	<b>12,427</b>	<b>5,132</b>		<b>50,467</b>
<b>Lending commitments</b>						
AAA		165				165
AA	2,837	803	3,119			6,759
A	4,803	10,409	9,159	370		24,741
BBB	2,361	11,490	19,180	771		33,802
NIG	1,244	9,401	15,129	6,603		32,377
Unrated <sup>2</sup>	1		19	39		59
<b>Total lending commitments</b>	<b>11,246</b>	<b>32,268</b>	<b>46,606</b>	<b>7,783</b>		<b>97,903</b>
<b>Total exposure</b>	<b>\$ 22,720</b>	<b>\$ 53,702</b>	<b>\$ 59,033</b>	<b>\$ 12,915</b>		<b>\$ 148,370</b>

<i>\$ in millions</i>	<b>At December 31, 2017</b>					Total
	Years to Maturity					
	Less than 1	1-3	3-5	Over 5		
<b>Loans</b>						
AA	\$ 14	\$ 503	\$ 30	\$ 5	\$	\$ 552
A	1,608	1,710	1,235	693		5,246
BBB	2,791	6,558	3,752	646		13,747
NIG	4,760	12,311	4,480	3,245		24,796
Unrated <sup>2</sup>	243	291	621	1,487		2,642
<b>Total loans</b>	<b>9,416</b>	<b>21,373</b>	<b>10,118</b>	<b>6,076</b>		<b>46,983</b>
<b>Lending commitments</b>						
AAA		165				165
AA	3,745	1,108	3,002			7,855
A	3,769	5,533	11,774	197		21,273
BBB	3,987	12,345	16,818	1,095		34,245
NIG	4,159	9,776	12,279	2,698		28,912
Unrated <sup>2</sup>	9	40	42	47		138
<b>Total lending commitments</b>	<b>15,669</b>	<b>28,967</b>	<b>43,915</b>	<b>4,037</b>		<b>92,588</b>
<b>Total exposure</b>	<b>\$ 25,085</b>	<b>\$ 50,340</b>	<b>\$ 54,033</b>	<b>\$ 10,113</b>		<b>\$ 139,571</b>
NIG	Non-investment grade					



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 Risk Market Risk herein.

### Institutional Securities Loans and Lending Commitments by Industry

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
<b>Industry</b>		
Financials	\$ 32,546	\$ 22,112
Real estate	25,005	28,426
Consumer discretionary	12,267	11,555
Industrials	11,785	11,090
Information technology	11,337	11,862
Utilities	9,877	9,592
Healthcare	9,789	9,956
Energy	9,398	10,233
Consumer staples	8,640	8,315
Telecommunications services	5,720	4,172
Materials	5,432	5,069
Insurance	4,883	4,739
Other	1,691	2,450
<b>Total</b>	<b>\$ 148,370</b>	<b>\$ 139,571</b>

### Event-Driven Loans and Lending Commitments

<i>\$ in millions</i>	At September 30, 2018				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Loans	\$ 2,565	\$ 778	\$ 615	\$ 662	\$ 4,620
Lending commitments	396	3,909	2,900	2,188	9,393
<b>Total loans and lending commitments</b>	<b>\$ 2,961</b>	<b>\$ 4,687</b>	<b>\$ 3,515</b>	<b>\$ 2,850</b>	<b>\$ 14,013</b>

<i>\$ in millions</i>	At December 31, 2017				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Loans	\$ 1,458	\$ 1,058	\$ 639	\$ 2,012	\$ 5,167
Lending commitments	1,272	3,206	2,091	1,874	8,443
<b>Total loans and lending commitments</b>	<b>\$ 2,730</b>	<b>\$ 4,264</b>	<b>\$ 2,730</b>	<b>\$ 3,886</b>	<b>\$ 13,610</b>

Event-driven loans and lending commitments, which comprise a portion of corporate loans and lending commitments within the Institutional Securities business segment, 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. The increase in event-driven lending commitments in the current year period is primarily due to an increase in held-for-sale commitments driven by client M&A transactions.

*Wealth Management*

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

Securities-based lending provided to our clients is primarily conducted through our Liquidity Access Line platform. 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 the 2017 Form 10-K.

**Table of Contents****Risk Disclosures****Wealth Management Loans and Lending Commitments**

<i>\$ in millions</i>	At September 30, 2018				Total
	Contractual Years to Maturity				
	Less than 1	1-3	3-5	Over 5	
Securities-based lending and other loans	\$ 37,622	\$ 3,736	\$ 2,005	\$ 1,083	\$ 44,446
Residential real estate loans		27	5	26,622	26,654
<b>Total loans</b>	<b>\$ 37,622</b>	<b>\$ 3,763</b>	<b>\$ 2,010</b>	<b>\$ 27,705</b>	<b>\$ 71,100</b>
Lending commitments	9,247	1,129	89	275	10,740
<b>Total loans and lending commitments</b>	<b>\$ 46,869</b>	<b>\$ 4,892</b>	<b>\$ 2,099</b>	<b>\$ 27,980</b>	<b>\$ 81,840</b>
Securities-based lending Liquidity Access Line platform loans					\$ 33,738

<i>\$ in millions</i>	At December 31, 2017				Total
	Contractual Years to Maturity				
	Less than 1	1-3	3-5	Over 5	
Securities-based lending and other loans	\$ 34,389	\$ 3,687	\$ 1,899	\$ 1,231	\$ 41,206
Residential real estate loans		24	15	26,607	26,646
<b>Total loans</b>	<b>\$ 34,389</b>	<b>\$ 3,711</b>	<b>\$ 1,914</b>	<b>\$ 27,838</b>	<b>\$ 67,852</b>
Lending commitments	7,253	1,827	120	281	9,481
<b>Total loans and lending commitments</b>	<b>\$ 41,642</b>	<b>\$ 5,538</b>	<b>\$ 2,034</b>	<b>\$ 28,119</b>	<b>\$ 77,333</b>
Securities-based lending Liquidity Access Line platform loans					\$ 32,230

For the current year period, loans and lending commitments associated with the Wealth Management business segment lending activities increased by approximately 6%, primarily due to growth in securities-based lending and other loans.

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

<i>\$ in millions</i>	At September 30, 2018		
	IS	WM	Total
Net customer receivables representing margin loans	\$ 22,153	\$ 11,668	\$ 33,821

<i>\$ in millions</i>	At December 31, 2017		
	IS	WM	Total
Net customer receivables representing margin loans	\$ 19,977	\$ 12,135	\$ 32,112

The Institutional Securities and Wealth Management business segments provide margin lending arrangements which allow customers 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.

### Employee Loans

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Balance	\$ 3,491	\$ 4,185
Allowance for loan losses	(70)	(77)
Balance, net	\$ 3,421	\$ 4,108
Repayment term range, in years	1 to 20	1 to 20

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.

### 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.

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 the 2017 Form 10-K.

### Counterparty Credit Rating and Remaining Contractual Maturity of OTC Derivative Assets at Fair Value

<i>\$ in millions</i>	Credit Rating <sup>1</sup>					Total
	AAA	AA	A	BBB	NIG	
<b>At September 30, 2018</b>						
< 1 year	\$ 473	\$ 6,603	\$ 42,113	\$ 13,877	\$ 7,596	\$ 70,662
1-3 years	747	3,392	23,551	9,717	7,039	44,446
3-5 years	821	2,396	13,462	5,584	2,607	24,870
Over 5 years	4,151	9,089	65,037	35,917	10,314	124,508
Total, gross	\$ 6,192	\$ 21,480	\$ 144,163	\$ 65,095	\$ 27,556	\$ 264,486
Counterparty netting	(2,683)	(13,855)	(116,420)	(46,413)	(15,519)	(194,890)
Cash and securities collateral	(3,171)	(5,811)	(24,039)	(13,251)	(8,642)	(54,914)
Total, net	\$ 338	\$ 1,814	\$ 3,704	\$ 5,431	\$ 3,395	\$ 14,682



**Table of Contents****Risk Disclosures**

<i>\$ in millions</i>	<b>Credit Rating<sup>1, 2</sup></b>					<b>Total</b>
	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>NIG</b>	
<b>At December 31, 2017</b>						
< 1 year	\$ 356	\$ 5,302	\$ 36,001	\$ 11,577	\$ 5,904	\$ 59,140
1-3 years	558	4,118	23,137	8,887	4,827	41,527
3-5 years	702	3,183	15,577	5,489	4,879	29,830
Over 5 years	5,470	11,667	78,779	37,286	12,079	145,281
Total, gross	\$ 7,086	\$ 24,270	\$ 153,494	\$ 63,239	\$ 27,689	\$ 275,778
Counterparty netting	(3,018)	(15,261)	(125,378)	(45,421)	(15,828)	(204,906)
Cash and securities collateral	(3,188)	(6,785)	(23,257)	(12,844)	(9,123)	(55,197)
Total, net	\$ 880	\$ 2,224	\$ 4,859	\$ 4,974	\$ 2,738	\$ 15,675

1. Obligor credit ratings are determined internally by the Credit Risk Management department.

2. Prior period amounts have been revised to conform to the current presentation.

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

<i>\$ in millions</i>	<b>At September 30, 2018</b>	<b>At December 31, 2017</b>
<b>Industry</b>		
Utilities	\$ 4,290	\$ 4,382
Financials	3,487	3,330
Regional governments	894	1,005
Industrials	858	1,124
Energy	781	646
Healthcare	705	882
Information technology	704	715
Consumer discretionary	508	464
Not-for-profit organizations	500	703
Sovereign governments	486	1,084
Insurance	388	206
Real estate	341	374
Materials	289	329
Consumer staples	208	161
Other	243	270
<b>Total</b>	<b>\$ 14,682</b>	<b>\$ 15,675</b>

For additional information on derivative instruments, including credit derivatives, 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 the 2017 Form 10-K.

Our sovereign exposures consist of financial contracts/obligations entered into with sovereign and local governments. Our non-sovereign exposures consist of financial contracts/obligations entered into primarily with corporations and financial institutions. Index credit derivatives are included in the following 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.

### Top Ten Non-U.S. Country Exposures at September 30, 2018

#### United Kingdom

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ (594)	\$ 1,958	\$ 1,364
Net counterparty exposure <sup>2</sup>		8,129	8,129
Loans		1,894	1,894
Lending commitments		5,702	5,702
Exposure before hedges	(594)	17,683	17,089
Hedges <sup>3</sup>	(355)	(1,550)	(1,905)
Net exposure	\$ (949)	\$ 16,133	\$ 15,184

#### Japan

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ 7,266	\$ 120	\$ 7,386
Net counterparty exposure <sup>2</sup>	43	3,199	3,242
Loans			
Lending commitments			
Exposure before hedges	7,309	3,319	10,628
Hedges <sup>3</sup>	(118)	(114)	(232)
Net exposure	\$ 7,191	\$ 3,205	\$ 10,396

#### Spain

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ (101)	\$ (49)	\$ (150)
Net counterparty exposure <sup>2</sup>		115	115
Loans		1,894	1,894
Lending commitments		4,110	4,110
Exposure before hedges	(101)	6,070	5,969
Hedges <sup>3</sup>		(199)	(199)

Net exposure	\$	(101)	\$	5,871	\$	5,770
<b>Brazil</b>						
<i>\$ in millions</i>		Sovereigns		Non-sovereigns		Total
Net inventory <sup>1</sup>	\$	3,955	\$	98	\$	4,053
Net counterparty exposure <sup>2</sup>				337		337
Loans				68		68
Lending commitments				279		279
Exposure before hedges		3,955		782		4,737
Hedges <sup>3</sup>		(12)		(18)		(30)
Net exposure	\$	3,943	\$	764	\$	4,707



**Table of Contents****Risk Disclosures****France**

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ 66	\$ 539	\$ 605
Net counterparty exposure <sup>2</sup>		1,813	1,813
Loans		284	284
Lending commitments		2,102	2,102
Exposure before hedges	66	4,738	4,804
Hedges <sup>3</sup>	(56)	(655)	(711)
Net exposure	\$ 10	\$ 4,083	\$ 4,093

**China**

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ 434	\$ 1,082	\$ 1,516
Net counterparty exposure <sup>2</sup>	281	128	409
Loans		1,304	1,304
Lending commitments		630	630
Exposure before hedges	715	3,144	3,859
Hedges <sup>3</sup>	(40)	(10)	(50)
Net exposure	\$ 675	\$ 3,134	\$ 3,809

**Netherlands**

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ (77)	\$ 569	\$ 492
Net counterparty exposure <sup>2</sup>		732	732
Loans		1,540	1,540
Lending commitments		1,119	1,119
Exposure before hedges	(77)	3,960	3,883
Hedges <sup>3</sup>	(32)	(252)	(284)
Net exposure	\$ (109)	\$ 3,708	\$ 3,599

**Germany**

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ (2,450)	\$ 684	\$ (1,766)
Net counterparty exposure <sup>2</sup>	476	1,746	2,222
Loans		947	947
Lending commitments		3,260	3,260
Exposure before hedges	(1,974)	6,637	4,663
Hedges <sup>3</sup>	(510)	(1,048)	(1,558)
Net exposure	\$ (2,484)	\$ 5,589	\$ 3,105

**Italy**

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ 1,218	\$ 642	\$ 1,860
Net counterparty exposure <sup>2</sup>	(16)	392	376
Loans		122	122
Lending commitments		410	410
Exposure before hedges	1,202	1,566	2,768

Hedges <sup>3</sup>		16	(77)	(61)
Net exposure	\$	1,218	\$ 1,489	\$ 2,707
<b>Canada</b>				
<i>\$ in millions</i>		Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$	(913)	\$ 246	\$ (667)
Net counterparty exposure <sup>2</sup>		35	1,845	1,880
Loans			60	60
Lending commitments			1,401	1,401
Exposure before hedges		(878)	3,552	2,674
Hedges <sup>3</sup>			(149)	(149)
Net exposure	\$	(878)	\$ 3,403	\$ 2,525

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 the fair value of any 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. 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 Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Credit Exposure Derivatives in the 2017 Form 10-K.

#### Credit Derivatives Included in Net Inventory

		At September 30, 2018
<i>\$ in millions</i>		
Gross purchased protection	\$	(77,227)
Gross written protection		76,461
Net exposure	\$	(766)

As a market maker, we may transact in CDS positions to facilitate client trading. The previous table includes exposures related to single-name and index credit derivatives for those countries shown in the Top Ten Non-U.S. Country Exposures table.

#### Benefit of Collateral Received against Counterparty Credit

##### Exposure

		At September 30, 2018
<i>\$ in millions</i>		
<b>Counterparty credit exposure</b>	<b>Collateral<sup>1</sup></b>	
United Kingdom	U.K., U.S. and France	\$ 9,653
Germany	Germany and France	8,818

Other	U.S., Japan and France	<b>15,448</b>
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1. Collateral primarily consists of cash and government obligations.

Net counterparty exposure shown in the Top Ten Non-U.S. Country Exposures table is net of the benefit of collateral received shown in the previous table.

*Country Risk Exposures Related to the U.K.* At September 30, 2018, our country risk exposures in the U.K. included net exposures of \$15,184 million as shown in the Top Ten Country Exposures table, and overnight deposits of \$6,483 million. The \$16,133 million of exposures to non-sovereigns were diversified across both names and

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**Table of Contents****Risk Disclosures**

sectors. Of these exposures, \$4,928 million were to U.K.-focused counterparties that generate more than one-third of their revenues in the U.K., \$4,591 million were to geographically diversified counterparties, and \$4,706 million were to exchanges and clearinghouses.

*Country Risk Exposures Related to Brazil.* At September 30, 2018, our country risk exposures in Brazil included net exposures of \$4,707 million as shown in the Top Ten Country Exposures table. Our sovereign net exposures in Brazil were principally in the form of local currency government bonds held onshore to support client activity. The \$764 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, from 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 the 2017 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 strategy. For a further discussion about our model risk, see *Quantitative and Qualitative Disclosures about Market Risk* *Risk Management* *Model Risk* in the 2017 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 the 2017 Form 10-K and *Management's Discussion and Analysis of Financial Condition and Results of Operations* *Liquidity and Capital Resources* herein.

**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 AML 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 the 2017 Form 10-K.



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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Morgan Stanley:

**Results of Review of Interim Financial Information**

We have reviewed the accompanying condensed consolidated balance sheet of Morgan Stanley and subsidiaries (the Firm ) as of September 30, 2018, and the related condensed consolidated income statements and comprehensive income statements for the three-month and nine-month periods ended September 30, 2018 and 2017, and the cash flow statements and statements of changes in total equity for the nine-month periods ended September 30, 2018 and 2017, and the related notes (collectively referred to as the interim financial information ). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it 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) (PCAOB), the consolidated balance sheet of the Firm as of December 31, 2017, and the related 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, 2018, 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, 2017 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

**Basis for Review Results**

This interim financial information is the responsibility of the Firm s management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Firm in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. 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 PCAOB, 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.

/s/ Deloitte & Touche LLP

New York, New York

November 5, 2018



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

<i>in millions, except per share data</i>	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
<b>Revenues</b>				
Investment banking	\$ 1,567	\$ 1,380	\$ 4,994	\$ 4,455
Trading	2,752	2,704	9,815	8,870
Investments	136	167	409	495
Commissions and fees	932	937	3,144	2,997
Asset management	3,251	3,026	9,632	8,695
Other	298	200	748	628
Total non-interest revenues	8,936	8,414	28,742	26,140
Interest income	3,627	2,340	9,781	6,411
Interest expense	2,691	1,557	6,964	4,106
Net interest	936	783	2,817	2,305
<b>Net revenues</b>	<b>9,872</b>	<b>9,197</b>	<b>31,559</b>	<b>28,445</b>
<b>Non-interest expenses</b>				
Compensation and benefits	4,310	4,169	13,845	12,887
Occupancy and equipment	351	330	1,033	990
Brokerage, clearing and exchange fees	559	522	1,795	1,556
Information processing and communications	513	459	1,487	1,320
Marketing and business development	152	128	471	419
Professional services	570	534	1,660	1,622
Other	566	573	1,888	1,719
<b>Total non-interest expenses</b>	<b>7,021</b>	<b>6,715</b>	<b>22,179</b>	<b>20,513</b>
Income from continuing operations before income taxes	2,851	2,482	9,380	7,932
Provision for income taxes	696	697	2,050	2,358
Income from continuing operations	2,155	1,785	7,330	5,574
Income (loss) from discontinued operations, net of income taxes	(1)	6	(5)	(21)
Net income	\$ 2,154	\$ 1,791	\$ 7,325	\$ 5,553
Net income applicable to noncontrolling interests	42	10	108	85
Net income applicable to Morgan Stanley	\$ 2,112	\$ 1,781	\$ 7,217	\$ 5,468
Preferred stock dividends and other	93	93	356	353
<b>Earnings applicable to Morgan Stanley common shareholders</b>	<b>\$ 2,019</b>	<b>\$ 1,688</b>	<b>\$ 6,861</b>	<b>\$ 5,115</b>
<b>Earnings per basic common share</b>				
Income from continuing operations	\$ 1.19	\$ 0.95	\$ 3.99	\$ 2.87
Income (loss) from discontinued operations				(0.01)
<b>Earnings per basic common share</b>	<b>\$ 1.19</b>	<b>\$ 0.95</b>	<b>\$ 3.99</b>	<b>\$ 2.86</b>
<b>Earnings per diluted common share</b>				
Income from continuing operations	\$ 1.17	\$ 0.93	\$ 3.92	\$ 2.81



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Income (loss) from discontinued operations				(0.02)
<b>Earnings per diluted common share</b>	<b>\$ 1.17</b>	\$ 0.93	<b>\$ 3.92</b>	\$ 2.79
<b>Dividends declared per common share</b>	<b>\$ 0.30</b>	\$ 0.25	<b>\$ 0.80</b>	\$ 0.65
<b>Average common shares outstanding</b>				
Basic	<b>1,697</b>	1,776	<b>1,719</b>	1,789
Diluted	<b>1,727</b>	1,818	<b>1,749</b>	1,830

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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, <b>2018</b>	2017	September 30, <b>2018</b>	2017
Net income	\$ <b>2,154</b>	\$ 1,791	\$ <b>7,325</b>	\$ 5,553
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	\$ <b>(79)</b>	\$ 61	\$ <b>(154)</b>	\$ 223
Change in net unrealized gains (losses) on available-for-sale securities	<b>(171)</b>	26	<b>(707)</b>	218
Pension, postretirement and other	<b>5</b>		<b>16</b>	4
Change in net debt valuation adjustment	<b>(743)</b>	(149)	<b>347</b>	(323)
Total other comprehensive income (loss)	\$ <b>(988)</b>	\$ (62)	\$ <b>(498)</b>	\$ 122
Comprehensive income	\$ <b>1,166</b>	\$ 1,729	\$ <b>6,827</b>	\$ 5,675
Net income applicable to noncontrolling interests	<b>42</b>	10	<b>108</b>	85
Other comprehensive income (loss) applicable to noncontrolling interests	<b>(59)</b>	(6)	<b>4</b>	23
<b>Comprehensive income applicable to Morgan Stanley</b>	\$ <b>1,183</b>	\$ 1,725	\$ <b>6,715</b>	\$ 5,567

See Notes to Consolidated Financial Statements

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**Table of Contents****Consolidated Balance Sheets**

	(Unaudited)	
	At	At
	September 30, 2018	December 31, 2017
<i>\$ in millions, except share data</i>		
<b>Assets</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 36,641	\$ 24,816
Interest bearing deposits with banks	22,638	21,348
Restricted cash	33,202	34,231
Trading assets at fair value (\$127,919 and \$169,735 were pledged to various parties)	283,188	298,282
Investment securities (includes \$57,232 and \$55,203 at fair value)	82,568	78,802
Securities purchased under agreements to resell	69,086	84,258
Securities borrowed	142,489	124,010
Customer and other receivables	60,839	56,187
Loans:		
Held for investment (net of allowance of \$231 and \$224)	98,330	92,953
Held for sale	11,653	11,173
Goodwill	6,680	6,597
Intangible assets (net of accumulated amortization of \$2,995 and \$2,730)	2,240	2,448
Other assets	15,963	16,628
<b>Total assets</b>	<b>\$ 865,517</b>	<b>\$ 851,733</b>
<b>Liabilities</b>		
Deposits (includes \$382 and \$204 at fair value)	\$ 175,185	\$ 159,436
Trading liabilities at fair value	129,032	131,295
Securities sold under agreements to repurchase (includes \$784 and \$800 at fair value)	60,328	56,424
Securities loaned	11,833	13,592
Other secured financings (includes \$4,554 and \$3,863 at fair value)	10,057	11,271
Customer and other payables	191,026	191,510
Other liabilities and accrued expenses	17,093	17,157
Borrowings (includes \$50,506 and \$46,912 at fair value)	190,889	192,582
<b>Total liabilities</b>	<b>785,443</b>	<b>773,267</b>
<b>Commitments and contingent liabilities (see Note 11)</b>		
<b>Equity</b>		
Morgan Stanley shareholders' equity:		
Preferred stock	8,520	8,520
Common stock, \$0.01 par value:		
Shares authorized: 3,500,000,000; Shares issued: 2,038,893,979; Shares outstanding: 1,725,792,278 and 1,788,086,805	20	20
Additional paid-in capital	23,664	23,545
Retained earnings	63,330	57,577

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Employee stock trusts	2,797	2,907
Accumulated other comprehensive income (loss)	(3,999)	(3,060)
Common stock held in treasury at cost, \$0.01 par value (313,101,701 and 250,807,174 shares)	(12,832)	(9,211)
Common stock issued to employee stock trusts	(2,797)	(2,907)
<b>Total Morgan Stanley shareholders equity</b>	<b>78,703</b>	<b>77,391</b>
Noncontrolling interests	1,371	1,075
<b>Total equity</b>	<b>80,074</b>	<b>78,466</b>
<b>Total liabilities and equity</b>	<b>\$ 865,517</b>	<b>\$ 851,733</b>

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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, 2017	\$ 8,520	\$ 20	\$ 23,545	\$ 57,577	\$ 2,907	\$ (3,060)	\$ (9,211)	\$ (2,907)	\$ 1,075	\$ 78,466
Cumulative adjustment for accounting changes <sup>1</sup>				306		(437)				(131)
Net income applicable to Morgan Stanley				7,217						7,217
Net income applicable to noncontrolling interests									108	108
Dividends				(1,770)						(1,770)
Shares issued under employee plans			119		(110)		759	110		878
Repurchases of common stock and employee tax withholdings							(4,380)			(4,380)
Net change in Accumulated other comprehensive income (loss)						(502)			4	(498)
Other net increases									184	184
<b>Balance at September 30,</b>	<b>\$ 8,520</b>	<b>\$ 20</b>	<b>\$ 23,664</b>	<b>\$ 63,330</b>	<b>\$ 2,797</b>	<b>\$ (3,999)</b>	<b>\$ (12,832)</b>	<b>\$ (2,797)</b>	<b>\$ 1,371</b>	<b>\$ 80,074</b>

**2018**

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 <sup>1</sup>			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)							994
Other net decreases								(99)		(99)
Balance at September 30, 2017	\$ 8,520	\$ 20	\$ 23,389	\$ 57,554	\$ 2,899	\$ (2,544)	\$ (7,961)	\$ (2,899)	\$ 1,136	\$ 80,114

1. The cumulative adjustments relate to the adoption of certain accounting updates during the current and prior year periods. See Notes 2 and 14 for further information.

See Notes to Consolidated Financial Statements

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

<i>\$ in millions</i>	Nine Months Ended September 30,	
	2018	2017
<b>Cash flows from operating activities</b>		
Net income	\$ 7,325	\$ 5,553
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
(Income) loss from equity method investments	(62)	
Stock-based compensation expense	743	775
Depreciation and amortization	1,375	1,340
(Release of) Provision for credit losses on lending activities	(27)	32
Other operating adjustments	35	(62)
Changes in assets and liabilities:		
Trading assets, net of Trading liabilities	10,039	(19,646)
Securities borrowed	(18,479)	(7,656)
Securities loaned	(1,759)	(214)
Customer and other receivables and other assets	(4,092)	(7,930)
Customer and other payables and other liabilities	310	8,055
Securities purchased under agreements to resell	15,172	11,849
Securities sold under agreements to repurchase	3,904	(645)
<b>Net cash provided by (used for) operating activities</b>	<b>14,484</b>	<b>(8,549)</b>
<b>Cash flows from investing activities</b>		
Proceeds from (payments for):		
Other assets Premises, equipment and software, net	(1,361)	(1,177)
Changes in loans, net	(7,697)	(9,350)
Investment securities:		
Purchases	(16,836)	(19,713)
Proceeds from sales	2,947	16,111
Proceeds from paydowns and maturities	9,126	5,378
Other investing activities	(245)	(77)
<b>Net cash provided by (used for) investing activities</b>	<b>(14,066)</b>	<b>(8,828)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from (payments for):		
Noncontrolling interests	(95)	(43)
Other secured financings	(1,874)	1,400
Deposits	15,749	(1,224)
Proceeds from:		
Derivatives financing activities		73
Issuance of preferred stock, net of issuance costs		994
Issuance of Borrowings	34,233	46,121
Payments for:		
Borrowings	(28,235)	(25,097)
Derivatives financing activities		(73)

Repurchases of common stock and employee tax withholdings	(4,380)	(3,008)
Cash dividends	(1,788)	(1,562)
Other financing activities	(248)	(48)
<b>Net cash provided by (used for) financing activities</b>	<b>13,362</b>	<b>17,533</b>
Effect of exchange rate changes on cash and cash equivalents	(1,694)	3,406
Net increase (decrease) in cash and cash equivalents	<b>12,086</b>	<b>3,562</b>
Cash and cash equivalents, at beginning of period	<b>80,395</b>	<b>77,360</b>
<b>Cash and cash equivalents, at end of period</b>	<b>\$ 92,481</b>	<b>\$ 80,922</b>
Cash and cash equivalents:		
Cash and due from banks	\$ 36,641	\$ 24,047
Interest bearing deposits with banks	22,638	24,144
Restricted cash	33,202	32,731
<b>Cash and cash equivalents, at end of period</b>	<b>\$ 92,481</b>	<b>\$ 80,922</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash payments for:		
Interest	\$ 6,818	\$ 3,422
Income taxes, net of refunds	1,009	967



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**Notes to Consolidated Financial Statements**

**(Unaudited)**

**1. Introduction and Basis of Presentation**

**The Firm**

Morgan Stanley 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. See the Glossary of Common Acronyms for definitions of certain acronyms used throughout this Form 10-Q.

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, prime brokerage and market-making activities in equity and fixed income products, including foreign exchange and commodities. 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 activities include investments and research.

*Wealth Management* provides a comprehensive array of financial services and solutions to individual investors and small to medium-sized businesses and institutions covering brokerage and investment advisory services, financial and wealth planning services, annuity and insurance products, credit and other lending products, banking and retirement plan services.

*Investment Management* provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets to a diverse group of clients across institutional and intermediary channels. Strategies and products 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 U.S. GAAP, which requires 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 financial statements and notes thereto included in the 2017 Form 10-K. Certain footnote disclosures included in the 2017 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 VIEs (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 financial statements in the 2017 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 financial statements in the 2017 Form 10-K.

During the nine months ended September 30, 2018 (current year period), there were no significant revisions to the Firm's significant accounting policies, other than for Carried Interest and the accounting updates adopted.

***Carried Interest***

The Firm is entitled to receive performance-based fees (also referred to as incentive fees, and includes carried interest) when the return on assets under management exceeds certain benchmark returns or other performance targets. Beginning January 1, 2018, when the Firm earns carried interest from funds as specified performance thresholds are met, that carried interest and any related general or limited partner interest is accounted for under the equity method of accounting and measured based on the Firm's claim on the NAV of the fund at the reporting date, taking into account the distribution terms applicable to the interest held. Performance-based fees in the form of carried interest considered equity method investments are therefore outside the scope of the policies for revenue from contracts with customers discussed below. See Note 11 for information regarding general partner guarantees, which include potential obligations to return performance fee distributions previously received.

**Accounting Updates Adopted**

The Firm adopted the following accounting updates in the current year period. Prior period results are presented under previous policies. See Note 14 for a summary of the Retained earnings impacts of these and other minor adoptions effective in the current year period.

***Revenue from Contracts with Customers***

On January 1, 2018, we adopted *Revenue from Contracts with Customers* using the modified retrospective method, which resulted in a net decrease to Retained earnings of \$32 million, net of tax. Prior period amounts were not restated.

Our revised accounting policy in accordance with this adoption is effective January 1, 2018, and is discussed below.

***Revenue Recognition***

Revenues are recognized when the promised goods or services are delivered to our customers, in an amount that is based on the consideration the Firm expects to receive in exchange for those goods or services when such amounts are not probable of significant reversal.

***Investment Banking***

Revenue from investment banking activities consists of revenues earned from underwriting primarily equity and fixed income securities and advisory fees for mergers, acquisitions, restructuring and advisory assignments.

Underwriting revenues are generally recognized on trade date if there is no uncertainty or contingency related to the amount to be paid. Underwriting costs are deferred and recognized in the relevant non-interest expenses line items when the related underwriting revenues are recorded.

Advisory fees are recognized as advice is provided to the client, based on the estimated progress of work and when the revenue is not probable of a significant reversal. Advisory costs are recognized as incurred in the relevant non-interest expenses line items, including when reimbursed.

#### *Commissions and Fees*

Commission and fee revenues result from transaction-based arrangements in which the client is charged a fee for the execution of transactions. Such revenues primarily arise from transactions in equity securities; services related to sales and trading activities; and sales of mutual funds, alternative funds, futures, insurance products and options. Commission and fee revenues are recognized on trade date when the performance obligation is satisfied.

#### *Asset Management Revenues*

Asset management, distribution and administration fees are generally based on related asset levels being managed, such as the AUM of a customer's account, or the net asset value of a fund. These fees are generally recognized when services are performed and the fees become known. Management fees are reduced by estimated fee waivers and expense caps, if any, provided to the customer.

Performance-based fees not in the form of carried interest are recorded when the annual performance target is met and the revenue is not probable of a significant reversal. Performance-based fees in the form of carried interest are considered equity method investments and are therefore outside the scope of these policies for revenue from contracts with customers.

Sales commissions paid by the Firm in connection with the sale of certain classes of shares of its open-end mutual fund products are accounted for as deferred commission assets and amortized to expense over the expected life of the contract.

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**Notes to Consolidated Financial Statements**

**(Unaudited)**

The Firm periodically tests deferred commission assets for recoverability based on cash flows expected to be received in future periods. Other asset management and distribution costs are recognized as incurred in the relevant non-interest expenses line items.

*Other Items*

Revenue from commodities-related contracts is recognized as the promised goods or services are delivered to the customer.

Receivables from contracts with customers are recognized in Customer and other receivables in the balance sheets when the underlying performance obligations have been satisfied and the Firm has the right per the contract to bill the customer. Contract assets are recognized in Other assets when the Firm has satisfied its performance obligations, but customer payment is conditional. Contract liabilities are recognized in Other liabilities when the Firm has collected payment from a customer based on the terms of the contract, but the underlying performance obligations are not yet satisfied.

For contracts with a term less than one year, incremental costs to obtain the contract are expensed as incurred. Revenues are not discounted when payment is expected within one year.

The Firm presents, net within revenues, all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Firm from a customer.

***Derivatives and Hedging Targeted Improvements to Accounting for Hedging Activities***

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 also results in simplification of the application of hedge accounting related to the assessment of hedge effectiveness.

The Firm early adopted this accounting update in the first quarter of 2018. Upon adoption, the Firm recorded a cumulative catch-up adjustment, decreasing Retained earnings by \$99 million, net of tax. This adjustment represents the cumulative effect of applying the new rules from the inception of certain fair value hedges of the interest rate risk of our borrowings, in particular the provision allowing only the benchmark rate component of coupon cash flows to be hedged.

Effective January 1, 2018, in accordance with this adoption, the Firm has updated its accounting policies to permit the hedged item in a fair value hedge of interest rate risk to be defined as including only the benchmark

rate component of contractual coupon cash flows, and to allow for hedging part of the contractual term of the hedged instrument. The accounting policy also requires the entire gain or loss from revaluing hedges of net investments in foreign operations at the spot rate to be reported within AOCI.

In the current quarter, the Firm began designating interest rate swaps as fair value hedges of changes in the benchmark interest rate of certain AFS securities. Consistent with the Firm's existing fair value hedges of borrowings, the Firm uses regression analysis to perform an ongoing prospective and retrospective assessment of the effectiveness of these hedging relationships.

For qualifying fair value hedges of benchmark interest rates, the changes in the fair value of the derivative and the changes in the fair value of the hedged asset due to changes in the benchmark interest rate provide an offset of one another and are recorded in Interest income. When a derivative is de-designated as a hedge, any basis adjustment remaining on the hedged asset is amortized to Interest income over the remaining life of the asset using the effective interest method.

***Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income***

This accounting update, which the Firm elected to early adopt as of January 1, 2018, allows companies to reclassify from AOCI to Retained earnings the stranded tax effects associated with enactment of the Tax Act on December 22, 2017. These stranded tax effects resulted from the requirement to reflect the total amount of the remeasurement of and other adjustments to deferred tax assets and liabilities in 2017 in income from continuing operations, regardless of whether the deferred taxes were originally recorded in AOCI. Accordingly, as of January 1, 2018, the Firm recorded a net increase to Retained earnings as a result of the reclassification of \$443 million of such stranded tax effects previously recorded in AOCI, which were primarily the result of the remeasurement of deferred tax assets and liabilities associated with the change in tax rates.

Aside from the above treatment related to the Tax Act, the Firm releases stranded tax effects from AOCI into earnings once the related category of instruments or transactions giving rise to these effects no longer exists. For further detail on the tax effects reclassified, refer to Note 14 to the financial statements.

**Goodwill**

The Firm completed its annual goodwill impairment testing as of July 1, 2018. 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>	<b>At September 30, 2018</b>				<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Netting<sup>1</sup></b>	
<b>Assets at fair value</b>					
Trading assets:					
U.S. Treasury and agency securities	\$ 25,578	\$ 24,183	\$ 5	\$	\$ 49,766
Other sovereign government obligations	26,698	5,016	36		31,750
State and municipal securities		3,002	4		3,006
MABS		2,652	316		2,968
Loans and lending commitments <sup>2</sup>		6,031	6,735		12,766
Corporate and other debt		21,722	710		22,432
Corporate equities <sup>3</sup>	125,028	413	106		125,547
Derivative and other contracts:					
Interest rate	1,883	156,753	1,029		159,665
Credit		5,740	416		6,156
Foreign exchange	72	63,647	10		63,729
Equity	3,206	45,505	1,207		49,918
Commodity and other	519	7,105	3,487		11,111
Netting <sup>1</sup>	(4,417)	(208,658)	(1,003)	(45,862)	(259,940)
Total derivative and other contracts	1,263	70,092	5,146	(45,862)	30,639
Investments <sup>4</sup>	603	255	818		1,676
Physical commodities		226			226
Total trading assets <sup>4</sup>	179,170	133,592	13,876	(45,862)	280,776
Investment securities AFS	32,846	24,386			57,232
Intangible assets		3			3
<b>Total assets at fair value</b>	<b>\$ 212,016</b>	<b>\$ 157,981</b>	<b>\$ 13,876</b>	<b>\$ (45,862)</b>	<b>\$ 338,011</b>

<i>\$ in millions</i>	<b>At September 30, 2018</b>				<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Netting<sup>1</sup></b>	
<b>Liabilities at fair value</b>					
Deposits	\$	\$ 309	\$ 73	\$	\$ 382
Trading liabilities:					
U.S. Treasury and agency securities	14,169	245			14,414
Other sovereign government obligations	18,779	1,770			20,549
		8,421	1		8,422

Corporate and other debt					
Corporate equities <sup>3</sup>	59,630	178	13		59,821
Derivative and other contracts:					
Interest rate	1,860	141,016	452		143,328
Credit		6,156	395		6,551
Foreign exchange	12	61,662	54		61,728
Equity	3,070	45,439	2,878		51,387
Commodity and other	659	8,255	1,467		10,381
Netting <sup>1</sup>	(4,417)	(208,658)	(1,003)	(33,471)	(247,549)
Total derivative and other contracts	1,184	53,870	4,243	(33,471)	25,826
Total trading liabilities	93,762	64,484	4,257	(33,471)	129,032
Securities sold under agreements to repurchase		784			784
Other secured financings		4,382	172		4,554
Borrowings		46,886	3,620		50,506
<b>Total liabilities at fair value</b>	<b>\$ 93,762</b>	<b>\$ 116,845</b>	<b>\$ 8,122</b>	<b>\$ (33,471)</b>	<b>\$ 185,258</b>

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**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)**

<i>\$ in millions</i>	At December 31, 2017				
	Level 1	Level 2	Level 3	Netting <sup>1</sup>	Total
<b>Assets at fair value</b>					
Trading assets:					
U.S. Treasury and agency securities	\$ 22,077	\$ 26,888	\$	\$	\$ 48,965
Other sovereign government obligations	20,234	7,825	1		28,060
State and municipal securities		3,592	8		3,600
MABS		2,364	423		2,787
Loans and lending commitments <sup>2</sup>		4,791	5,945		10,736
Corporate and other debt		16,837	701		17,538
Corporate equities <sup>3</sup>	149,697	492	166		150,355
Derivative and other contracts:					
Interest rate	472	178,704	1,763		180,939
Credit		7,602	420		8,022
Foreign exchange	58	53,724	15		53,797
Equity	1,101	40,359	3,530		44,990
Commodity and other	1,126	5,390	4,147		10,663
Netting <sup>1</sup>	(2,088)	(216,764)	(1,575)	(47,171)	(267,598)
Total derivative and other contracts	669	69,015	8,300	(47,171)	30,813
Investments <sup>4</sup>	297	523	1,020		1,840
Physical commodities		1,024			1,024
Total trading assets <sup>4</sup>	192,974	133,351	16,564	(47,171)	295,718
Investment securities AFS	27,522	27,681			55,203
Intangible assets		3			3
<b>Total assets at fair value</b>	<b>\$ 220,496</b>	<b>\$ 161,035</b>	<b>\$ 16,564</b>	<b>\$ (47,171)</b>	<b>\$ 350,924</b>

<i>\$ in millions</i>	At December 31, 2017				
	Level 1	Level 2	Level 3	Netting <sup>1</sup>	Total
<b>Liabilities at fair value</b>					
Deposits	\$	\$ 157	\$ 47	\$	\$ 204
Trading liabilities:					
U.S. Treasury and agency securities	17,802	24			17,826
Other sovereign government obligations	24,857	2,016			26,873
Corporate and other debt		7,141	3		7,144
Corporate equities <sup>3</sup>	52,653	82	22		52,757
Derivative and other contracts:					
Interest rate	364	162,239	545		163,148
Credit		8,166	379		8,545
Foreign exchange	23	55,118	127		55,268
Equity	1,001	44,666	2,322		47,989
Commodity and other	1,032	5,156	2,701		8,889
Netting <sup>1</sup>	(2,088)	(216,764)	(1,575)	(36,717)	(257,144)
Total derivative and other contracts	332	58,581	4,499	(36,717)	26,695
Total trading liabilities	95,644	67,844	4,524	(36,717)	131,295

Securities sold under agreements to repurchase	650	150	800
Other secured financings	3,624	239	3,863
Borrowings	43,928	2,984	46,912
<b>Total liabilities at fair value</b>	\$ 95,644	\$ 116,203	\$ 183,074
MABS Mortgage- and asset-backed securities			

1. For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled Netting. Positions classified within the same level that are with the same counterparty are netted within that level. For further information on derivative instruments and hedging activities, see Note 4.
2. For a further breakdown by type, see the following Loans and Lending Commitments at Fair Value table.
3. For trading purposes, the Firm holds or sells short equity securities issued by entities in diverse industries and of varying sizes.
4. Amounts exclude certain investments that are measured based on NAV per share, which are not classified in the fair value hierarchy. For additional disclosure about such investments, see Measured Based on Net Asset Value herein.

### Loans and Lending Commitments at Fair Value

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Corporate	\$ 9,489	\$ 8,358
Residential real estate	912	799
Wholesale real estate	2,365	1,579
<b>Total</b>	\$ 12,766	\$ 10,736
<b>Unsettled Fair Value of Futures Contracts<sup>1</sup></b>		

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Customer and other receivables, net	\$ 660	\$ 831

1. These contracts are primarily Level 1, actively traded, valued based on quoted prices from the exchange and are excluded from the previous recurring fair value tables. For a description of the valuation techniques applied to the Firm's major categories of assets and liabilities measured at fair value on a recurring basis, see Note 3 to the financial statements in the 2017 Form 10-K. During the current year period, there were no significant revisions made to the Firm's valuation techniques.

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

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the quarter ended September 30, 2018 ( current quarter ) and September 30, 2017 ( prior year quarter ), the current year period and the nine months ended September 30, 2017 ( prior year period ). Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. The realized and unrealized gains (losses) for assets and liabilities within the Level 3 category presented in the

following tables do not reflect the related realized and unrealized gains (losses) on hedging instruments that have been classified by the Firm within the Level 1 and/or Level 2 categories.

Additionally, the unrealized gains (losses) during the period for assets and liabilities within the Level 3 category presented in the following tables herein may include changes in fair value during the period that were attributable to both observable and unobservable inputs. Total realized and unrealized gains (losses) are primarily included in Trading revenues in the income statements.

**Rollforward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Current Quarter**

<i>\$ in millions</i>	Beginning Balance at June 30, 2018	Realized and Unrealized Gains (Losses)	Purchases <sup>1</sup>	Sales and Issuances <sup>2</sup>	Settlements <sup>1</sup>	Net Transfers	Ending Balance at September 30, 2018	Unrealized Gains (Losses)
<b>Assets at Fair Value</b>								
Trading assets:								
U.S. Treasury and agency securities	\$	\$	\$ 5	\$	\$	\$	\$ 5	\$
Other sovereign government obligations	5		32	(2)		1	36	
State and municipal securities	2		2				4	
MABS	327	(1)	23	(46)	(14)	27	316	(8)
Loans and lending commitments	6,923	17	2,076	(1,184)	(777)	(320)	6,735	12
Corporate and other debt	701	(4)	109	(153)	(6)	63	710	9

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Corporate equities	171	(7)	15	(50)	(23)	106	5
Net derivative and other contracts <sup>3</sup> :							
Interest rate	567	(3)	12	(9)	(2)	12	24
Credit	(2)	(39)	4		58	21	(41)
Foreign exchange	(26)	(35)			2	15	(9)
Equity	(1,535)	(149)	29	(138)	84	38	(132)
Commodity and other	2,032	(29)		(11)	(1)	29	(105)
Total net derivative and other contracts	1,036	(255)	45	(158)	141	94	(263)
Investments	941	5	72	(103)		(97)	2
<b>Liabilities at Fair Value</b>							
Deposits	\$ 37	\$ (2)	\$	\$ 11	\$	\$ 23	\$ (2)
Trading liabilities:							
Corporate and other debt	1						1
Corporate equities	24		(12)	3		(2)	13
Other secured financings	170	(2)					(2)
Borrowings	3,295	(56)		344	(81)	6	(55)

1. Loan originations and consolidations of VIEs are included in purchases and deconsolidations of VIEs are included in Settlements.
2. Amounts related to entering into Net derivatives and other contracts, Deposits, Other secured financings and Borrowings primarily represent issuances. Amounts for other line items primarily represent sales.
3. Net derivative and other contracts represent Trading assets Derivative and other contracts, net of Trading liabilities Derivative and other contracts. Amounts are presented before counterparty netting.

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Rollforward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Prior Year Quarter**

<i>\$ in millions</i>	Beginning Balance at June 30, 2017	Realized and Unrealized Gains (Losses)	Purchases <sup>1</sup>	Sales and Issuances	Settlements and Transfers	Ending Balance at September 30, 2017	Net Unrealized Gains (Losses)	
<b>Assets at Fair Value</b>								
Trading assets:								
Other sovereign government obligations	\$ 100	\$ 2	\$ 86	\$ (82)	\$ (2)	\$ 104	\$ 1	
State and municipal securities	9		4	(3)		10		
MABS	264	4	52	(54)	8	274	1	
Loans and lending commitments	4,864	25	1,772	(1,431)	(236)	(129)	4,865	17
Corporate and other debt	693	41	220	(241)	(4)	(21)	688	34
Corporate equities	500	(9)	24	(268)	49	296		
Net derivative and other contracts <sup>3</sup> :								
Interest rate	970	105	13	(29)	33	(16)	1,076	92
Credit	(305)	(33)	7	(9)	35	2	(303)	(33)
Foreign exchange	2	(59)	9		17	(47)	(78)	(50)
Equity	1,093	114	60	(77)	79	(38)	1,231	110
Commodity and other	1,509	158	1	(1)	(112)	(21)	1,534	45
Total net derivative and other contracts	3,269	285	90	(116)	52	(120)	3,460	164
Investments	946	(4)	13	(17)	(16)	3	925	(5)
<b>Liabilities at Fair Value</b>								
Deposits	\$ 79	\$ (1)		\$ 32	\$ (6)	\$ 106	\$ (1)	
Trading liabilities:								
Corporate and other debt	15	(2)	(18)	9		8	(1)	
Corporate equities	28	1	(10)	24	10	51	2	
Securities sold under agreements to repurchase	148	(1)				149	(1)	
Other secured financings	244	(5)		2	(1)	250	(5)	
Borrowings	2,646	(53)		679	(49)	(726)	2,603	(47)

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Loan originations and consolidations of VIEs are included in purchases and deconsolidations of VIEs are included in Settlements.

2. Amounts related to entering into Net derivatives and other contracts, Deposits, Other secured financings and Borrowings primarily represent issuances. Amounts for other line items primarily represent sales.
3. Net derivative and other contracts represent Trading assets Derivative and other contracts, net of Trading liabilities Derivative and other contracts. Amounts are presented before counterparty netting.

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Rollforward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Current Year Period**

<i>\$ in millions</i>	Beginning Balance at December 31, 2017	Realized and Unrealized Gains (Losses)	Purchases <sup>1</sup>	Sales and Issuances <sup>2</sup>	Settlements <sup>3</sup>	Net Transfers	Ending Balance at September 30, 2018	Unrealized Gains (Losses)
<b>Assets at fair value</b>								
Trading assets:								
U.S. Treasury and agency securities	\$	\$	\$ 5	\$	\$	\$	\$ 5	\$
Other sovereign government obligations	1		35				36	
State and municipal securities	8		3	(7)			4	
MABS	423	88	73	(317)	(16)	65	316	(6)
Loans and lending commitments	5,945	16	4,030	(978)	(1,926)	(352)	6,735	(8)
Corporate and other debt	701	51	276	(227)	(8)	(83)	710	16
Corporate equities	166	17	69	(134)		(12)	106	14
Net derivative and other contracts <sup>3</sup> :								
Interest rate	1,218	(46)	84	(38)	(92)	(549)	577	(47)
Credit	41	(17)	9	(40)	30	(2)	21	(20)
Foreign exchange	(112)	71	2	(48)	43		(44)	1
Equity <sup>4</sup>	1,208	83	120	(1,052)	319	(2,349)	(1,671)	19
Commodity and other	1,446	332	80	(18)	17	163	2,020	33
Total net derivative and other contracts	3,801	423	295	(1,196)	317	(2,737)	903	(14)
Investments	1,020	5	134	(209)		(132)	818	5
<b>Liabilities at fair value</b>								
Deposits	\$ 47	\$ 1	\$	\$ 27	\$ (2)	\$ 2	\$ 73	\$ 1
Trading liabilities:								
Corporate and other debt	3		(3)	1			1	
Corporate equities	22	4	(12)	11		(4)	13	4
Securities sold under agreements to repurchase	150					(150)		

Other secured financings	239	<b>16</b>	<b>8</b>	<b>(18)</b>	<b>(41)</b>	<b>172</b>	<b>16</b>
Borrowings	2,984	<b>156</b>	<b>1,275</b>	<b>(339)</b>	<b>(144)</b>	<b>3,620</b>	<b>168</b>

1. Loan originations and consolidations of VIEs are included in Purchases and deconsolidations of VIEs are included in Settlements.
2. Amounts related to entering into Net derivative and other contracts, Deposits, Other secured financings and Borrowings primarily represent issuances. Amounts for other line items primarily represent sales.
3. Net derivative and other contracts represent Trading assets Derivative and other contracts, net of Trading liabilities Derivative and other contracts. Amounts are presented before counterparty netting.
4. During the current year period, the Firm transferred from Level 3 to Level 2 \$2.4 billion of Equity Derivatives due to a reduction in the significance of the unobservable inputs relating to volatility.



**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Rollforward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Prior Year Period**

<i>\$ in millions</i>	Beginning Balance at December 31, 2016	Realized and Unrealized Gains (Losses)	Purchases <sup>1</sup>	Sales and Issuances <sup>2</sup>	Settlements <sup>3</sup>	Net Transfers	Ending Balance at September 30, 2017	Realized Gains (Losses)
<b>Assets at fair value</b>								
Trading assets:								
U.S. Treasury and agency securities	\$ 74	\$ (1)	\$	\$ (240)	\$	\$ 167	\$	\$
Other sovereign government obligations	6		104	(5)		(1)	104	
State and municipal securities	250	3	6	(81)		(168)	10	
MABS	217	49	120	(120)	(16)	24	274	13
Loans and lending commitments	5,122	88	2,470	(1,927)	(964)	76	4,865	85
Corporate and other debt	475	67	437	(383)	(7)	99	688	3
Corporate equities	446	8	74	(604)		372	296	3
Net derivative and other contracts <sup>3</sup> :								
Interest rate	420	137	36	(42)	658	(133)	1,076	146
Credit	(373)	(18)	6	(9)	96	(5)	(303)	(34)
Foreign exchange	(43)	(92)	9		48		(78)	(72)
Equity	184	168	816	(231)	209	85	1,231	277
Commodity and other	1,600	523	13	(21)	(431)	(150)	1,534	88
Total net derivative and other contracts	1,788	718	880	(303)	580	(203)	3,460	405
Investments	958	16	96	(44)	(78)	(23)	925	10
<b>Liabilities at fair value</b>								
Deposits	\$ 42	\$ (2)	\$	\$ 62	\$	\$	\$ 106	\$ (2)
Trading liabilities:								
Corporate and other debt	36	(1)	(55)	99		(73)	8	
Corporate equities	35		(69)	27		58	51	(1)
	149						149	1

Securities sold under agreements to repurchase							
Other secured financings	434	(28)	54	(223)	(43)	250	(21)
Borrowings	2,014	(142)	1,418	(328)	(643)	2,603	(136)

1. Loan originations and consolidations of VIEs are included in Purchases and deconsolidations of VIEs are included in Settlements.
2. Amounts related to entering into Net derivative and other contracts, Deposits, Other secured financings and Borrowings primarily represent issuances. Amounts for other line items primarily represent sales.
3. Net derivative and other contracts represent Trading assets Derivative and other contracts, net of Trading liabilities Derivative and other contracts. Amounts are presented before counterparty netting.

### Significant Unobservable Inputs Used in Recurring and Nonrecurring Level 3 Fair Value Measurements

The following disclosures provide information on the valuation techniques, significant unobservable inputs, and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring and nonrecurring basis with a significant Level 3 balance. The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. For qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs, see Note 3 to the financial statements in the 2017 Form 10-K. There are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique. A single amount is disclosed when there is no significant difference between the minimum, maximum and average.

### Valuation Techniques and Sensitivity of Unobservable Inputs

#### Used in Level 3 Fair Value Measurements

#### Recurring Fair Value Measurement

Balance / Range (Average<sup>1</sup>)

<i>\$ in millions, except inputs</i>	At September 30, 2018	At December 31, 2017
<b>Assets at Fair Value</b>		
<b>MABS</b>	\$ 316	\$ 423
Comparable pricing:		
Bond price	0 to 100 points (34 points)	0 to 95 points (26 points)
<b>Loans and lending commitments</b>	\$ 6,735	\$ 5,945
Margin loan model:		
Discount rate	1% to 6% (2%)	0% to 3% (1%)
Volatility skew	14% to 59% (27%)	7% to 41% (22%)

Comparable pricing:		
Loan price	<b>56 to 105 points (97 points)</b>	55 to 102 points (95 points)
<b>Corporate and other debt</b>	<b>\$ 710</b>	<b>\$ 701</b>
Comparable pricing:		
Bond price	<b>0 to 100 points (62 points)</b>	3 to 134 points (59 points)
Discounted cash flow:		
Recovery rate	<b>20%</b>	6% to 36% (27%)
Discount rate	<b>15% to 25% (16%)</b>	7% to 20% (14%)
Option model:		
At the money volatility	<b>23% to 51% (34%)</b>	17% to 52% (52%)
<b>Corporate equities</b>	<b>\$ 106</b>	<b>\$ 166</b>
Comparable pricing:		
Equity price	<b>100%</b>	100%

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)**

<i>\$ in millions, except inputs</i>	Balance / Range (Average <sup>1</sup> )	
	At September 30, 2018	At December 31, 2017
<b>Net derivative and other contracts<sup>2</sup>:</b>		
<b>Interest rate</b>	\$ 577	\$ 1,218
Option model:		
IR volatility skew	27% to 95% (43% / 41%)	31% to 97% (41% / 47%)
Inflation volatility	26% to 66% (46% / 43%)	23% to 63% (44% / 41%)
IR curve	2%	2%
<b>Credit</b>	\$ 21	\$ 41
Comparable pricing:		
Cash synthetic basis	8 to 9 points (9 points)	12 to 13 points (12 points)
Bond price	0 to 75 points (28 points)	0 to 75 points (25 points)
Credit spread	195 to 474 bps (349 bps)	N/M
Correlation model:		
Credit correlation	35% to 74% (48%)	38% to 100% (48%)
<b>Foreign exchange<sup>3</sup></b>	\$ (44)	\$ (112)
Option model:		
IR - FX correlation	53% to 57% (55% / 55%)	54% to 57% (56% / 56%)
IR volatility skew	27% to 95% (43% / 41%)	31% to 97% (41% / 47%)
Contingency probability	85% to 95% (93% / 95%)	95% to 100% (96% / 95%)
<b>Equity<sup>3</sup></b>	\$ (1,671)	\$ 1,208
Option model:		
At the money volatility	12% to 56% (34%)	7% to 54% (32%)
Volatility skew	-2% to 0% (-1%)	-5% to 0% (-1%)
Equity correlation	5% to 99% (67%)	5% to 99% (76%)
FX correlation	-64% to 10% (-47%)	-55% to 40% (36%)
IR correlation	-7% to 44% (15% / 10%)	-7% to 49% (18% / 20%)
<b>Commodity and other</b>	\$ 2,020	\$ 1,446
Option model:		
Forward power price	\$3 to \$169 (\$30) per MWh	\$4 to \$102 (\$31) per MWh
Commodity volatility	5% to 104% (15%)	7% to 205% (17%)
Cross-commodity correlation	5% to 99% (92%)	5% to 99% (92%)
<b>Investments</b>	\$ 818	\$ 1,020
Discounted cash flow:		
WACC	8% to 15% (9%)	8% to 15% (9%)
Exit multiple	7 to 10 times (10 times)	8 to 11 times (10 times)
Market approach:		
EBITDA multiple	3 to 23 times (13 times)	6 to 25 times (11 times)
Comparable pricing:		
Equity price	25% to 100% (95%)	45% to 100% (92%)
<b>Liabilities at Fair Value</b>		
<b>Deposits</b>	\$ 73	\$ 47

<b>Option Model</b>			
At the money volatility		<b>17% to 38% (20%)</b>	N/M
Volatility skew		<b>0%</b>	N/M
<b>Other secured financings</b>	<b>\$</b>	<b>172</b>	<b>\$ 239</b>
<b>Discounted cash flow:</b>			
Funding spread		<b>60 to 260 bps (160 bps)</b>	39 to 76 bps (57 bps)
<b>Option model:</b>			
Volatility skew		<b>N/A</b>	-1%
At the money volatility		<b>10% to 40% (26%)</b>	10% to 40% (26%)

	Balance / Range (Average <sup>1</sup> )	
<i>\$ in millions, except inputs</i>	<b>At September 30, 2018</b>	At December 31, 2017
<b>Borrowings</b>	<b>\$ 3,620</b>	<b>\$ 2,984</b>
<b>Option model:</b>		
At the money volatility	<b>5% to 35% (23%)</b>	5% to 35% (22%)
Volatility skew	<b>-2% to 0% (0%)</b>	-2% to 0% (0%)
Equity correlation	<b>38% to 98% (75%)</b>	39% to 95% (86%)
Equity - FX correlation	<b>-75% to 50% (-28%)</b>	-55% to 10% (-18%)

**Nonrecurring Fair Value Measurement**

<b>Loans</b>	<b>\$ 1,096</b>	<b>\$ 924</b>
<b>Corporate loan model:</b>		
Credit spread	<b>96 to 400 bps (160 bps)</b>	93 to 563 bps (239 bps)
<b>Expected recovery:</b>		
Asset coverage	<b>N/M</b>	95% to 99% (95%)
Points Percentage of par		

IR Interest rate

FX Foreign exchange

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

For a description of the Firm's significant unobservable inputs and related sensitivity, see Note 3 to the financial statements in the 2017 Form 10-K. During the current year period, there were no significant revisions made to the Firm's significant unobservable inputs.

**Measured Based on Net Asset Value**

	<b>At September 30, 2018</b>		At December 31, 2017	
	Carrying		Carrying	
<i>\$ in millions</i>	Value	Commitment	Value	Commitment
Private equity	<b>\$ 1,568</b>	<b>\$ 328</b>	<b>\$ 1,674</b>	<b>\$ 308</b>
Real estate	<b>749</b>	<b>168</b>	<b>800</b>	<b>183</b>
Hedge <sup>1</sup>	<b>95</b>	<b>4</b>	<b>90</b>	<b>4</b>

<b>Total</b>	<b>\$ 2,412</b>	<b>\$ 500</b>	<b>\$ 2,564</b>	<b>\$ 495</b>
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1. Investments in hedge funds may be subject to initial period lock-up or gate provisions, which restrict an investor from withdrawing from the fund during a certain initial period or restrict the redemption amount on any redemption date, respectively.

For a description of the Firm’s investments in private equity funds, real estate funds and hedge funds, which are measured based on NAV, see Note 3 to the financial statements in the 2017 Form 10-K.

Amounts in the previous table represent the Firm’s carrying value of general and limited partnership interests in fund investments, as well as any related performance fees in the form of carried interest. The carrying amounts are measured based on the NAV of the fund taking into account the distribution terms applicable to the interest held. This same measurement applies whether investments are accounted for under the equity method or fair value.

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)**

See Note 11 for information regarding general partner guarantees, which include potential obligations to return performance fee distributions previously received. See Note 19 for information regarding related performance fees at risk of reversal, including performance fees in the form of carried interest.

**Nonredeemable Funds by Contractual Maturity**

<i>\$ in millions</i>	<b>Carrying Value at September 30, 2018</b>	
	Private Equity	Real Estate
Less than 5 years	\$ 621	\$ 408
5-10 years	816	313
Over 10 years	131	28
<b>Total</b>	<b>\$ 1,568</b>	<b>\$ 749</b>

**Fair Value Option**

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

**Borrowings Measured at Fair Value on a Recurring Basis**

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
<b>Business Unit Responsible for Risk Management</b>		
Equity	\$ 25,049	\$ 25,903
Interest rates	22,101	19,230
Foreign exchange	504	666
Credit	863	815
Commodities	1,989	298
<b>Total</b>	<b>\$ 50,506</b>	<b>\$ 46,912</b>

**Earnings Impact of Borrowings under the Fair Value Option**

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Trading revenues	\$ 449	\$ (964)	\$ 1,334	\$ (3,484)
Interest expense	(59)	(107)	(234)	(338)

<b>Net revenues<sup>1</sup></b>	<b>\$ 390</b>	<b>\$ (1,071)</b>	<b>\$ 1,100</b>	<b>\$ (3,822)</b>
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1. Amounts do not reflect any gains or losses on related hedging instruments.

Gains (losses) are mainly attributable to changes in foreign exchange rates, or interest rates or movements in the reference price or index.

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

<i>\$ in millions</i>	Three Months Ended September 30,			
	2018		2017	
	Trading Revenues	OCI	Trading Revenues	OCI
Borrowings	\$ (4)	\$ (1,010)	\$ 9	\$ (226)
Loans and other debt <sup>1</sup>	55		49	
Lending commitments <sup>2</sup>	(6)			
Other	(32)	28		(3)

<i>\$ in millions</i>	Nine Months Ended September 30,			
	2018		2017	
	Trading Revenues	OCI	Trading Revenues	OCI
Borrowings	\$ (22)	\$ 425	\$ 1	\$ (493)
Loans and other debt <sup>1</sup>	199		94	
Lending commitments <sup>2</sup>	(3)			
Other	(32)	32		(6)

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Cumulative pre-tax DVA gain (loss) recognized in AOCI	\$ (1,374)	\$ (1,831)

1. Loans and other debt instrument-specific credit gains (losses) were determined by excluding the non-credit components of gains and losses.

2. Gains (losses) on lending commitments were generally determined based on the difference between estimated expected client yields and contractual yields at each respective period-end.

### Excess of Contractual Principal Amount Over Fair Value

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Loans and other debt <sup>1</sup>	\$ 12,809	\$ 13,481



Loans 90 or more days past due and/or on nonaccrual status <sup>1</sup>	<b>10,678</b>	11,253
Borrowings <sup>2</sup>	<b>1,438</b>	71

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

**Fair Value Loans on Nonaccrual Status**

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Nonaccrual loans	\$ <b>1,522</b>	\$ 1,240
Nonaccrual loans 90 or more days past due	\$ <b>802</b>	\$ 779

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

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Measured at Fair Value on a Nonrecurring Basis****Carrying and Fair Values**

<i>\$ in millions</i>	<b>At September 30, 2018</b>		
	Level 2	Fair Value Level 3 <sup>1</sup>	Total
<b>Assets</b>			
Loans	\$ 1,460	\$ 1,096	\$ 2,556
Other assets Other investments	15	36	51
Other assets Premises, equipment and software			
<b>Total</b>	<b>\$ 1,475</b>	<b>\$ 1,132</b>	<b>\$ 2,607</b>
<b>Liabilities</b>			
Other liabilities and accrued expenses Lending commitments	\$ 185	\$ 48	\$ 233
<b>Total</b>	<b>\$ 185</b>	<b>\$ 48</b>	<b>\$ 233</b>

<i>\$ in millions</i>	<b>At December 31, 2017</b>		
	Level 2	Fair Value Level 3 <sup>1</sup>	Total
<b>Assets</b>			
Loans	\$ 1,394	\$ 924	\$ 2,318
Other assets Other investments		144	144
<b>Total</b>	<b>\$ 1,394</b>	<b>\$ 1,068</b>	<b>\$ 2,462</b>
<b>Liabilities</b>			
Other liabilities and accrued expenses Lending commitments	\$ 158	\$ 38	\$ 196
<b>Total</b>	<b>\$ 158</b>	<b>\$ 38</b>	<b>\$ 196</b>

1. For significant Level 3 balances, refer to Significant Unobservable Inputs Used in Recurring and Nonrecurring Level 3 Fair Value Measurements section herein for details of the significant unobservable inputs used for nonrecurring fair value measurement.

**Gains (Losses) from Fair Value Remeasurements<sup>1</sup>**

<i>\$ in millions</i>	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Assets</b>				

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Loans <sup>2</sup>	\$	(5)	\$		\$	1	\$	41
Other assets Other investments <sup>3</sup>		(2)		(6)		(9)		(6)
Other assets Premises, equipment and software <sup>4</sup>		(3)		(1)		(13)		(7)
<b>Total</b>	\$	<b>(10)</b>	\$	<b>(7)</b>	\$	<b>(21)</b>	\$	<b>28</b>
<b>Liabilities</b>								
Other liabilities and accrued expenses Lending commitments <sup>5</sup>	\$	<b>31</b>	\$	4	\$	<b>41</b>	\$	64
<b>Total</b>	\$	<b>31</b>	\$	4	\$	<b>41</b>	\$	64

1. Gains and losses for Loans and Other assets Other investments are classified in Other revenues. For other items, gains and losses are recorded in Other revenues if the item is held for sale, otherwise in Other expenses.
2. Nonrecurring changes in the fair value of loans and lending commitments were calculated as follows: for the held for investment category, based on the value of the underlying collateral; and for the held for sale category, based on recently executed transactions, market price quotations, valuation models that incorporate market observable inputs where possible, such as comparable loan or debt prices and CDS spread levels adjusted for any basis difference between cash and derivative instruments, or default recovery analysis where such transactions and quotations are unobservable.
3. Losses related to Other assets Other investments were determined using techniques that included discounted cash flow models, methodologies that incorporate multiples of certain comparable companies and recently executed transactions.
4. Losses related to Other assets Premises, equipment and software were determined using techniques that included a default recovery analysis and recently executed transactions.

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Financial Instruments Not Measured at Fair Value**

<i>\$ in millions</i>	At September 30, 2018				
	Carrying Value	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
Cash and cash equivalents:					
Cash and due from banks	\$ 36,641	\$ 36,641	\$	\$	\$ 36,641
Interest bearing deposits with banks	22,638	22,638			22,638
Restricted cash	33,202	33,202			33,202
Investment securities HTM	25,336	12,757	10,883	442	24,082
Securities purchased under agreements to resell	69,086		69,026		69,026
Securities borrowed	142,489		142,433		142,433
Customer and other receivables <sup>1</sup>	55,189		51,768	3,251	55,019
Loans <sup>2</sup>	109,983		21,259	88,321	109,580
Other assets	483		483		483
<b>Financial Liabilities</b>					
Deposits	\$ 174,803	\$	\$ 174,764	\$	\$ 174,764
Securities sold under agreements to repurchase	59,544		59,495		59,495
Securities loaned	11,833		11,909		11,909
Other secured financings	5,503		3,876	1,634	5,510
Customer and other payables <sup>1</sup>	188,054		188,054		188,054
Borrowings	140,383		145,076	30	145,106
At December 31, 2017					
	Carrying Value	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
Cash and cash equivalents:					
Cash and due from banks	\$ 24,816	\$ 24,816	\$	\$	\$ 24,816
Interest bearing deposits with banks	21,348	21,348			21,348
Restricted cash	34,231	34,231			34,231
Investment securities HTM	23,599	11,119	11,673	289	23,081
Securities purchased under agreements to resell	84,258		78,239	5,978	84,217
Securities borrowed	124,010		124,018	1	124,019
Customer and other receivables <sup>1</sup>	51,269		47,159	3,984	51,143
Loans <sup>2</sup>	104,126		21,290	82,928	104,218
Other assets	433		433		433

**Financial Liabilities**

Deposits	\$ 159,232	\$	\$ 159,232	\$	\$ 159,232
Securities sold under agreements to repurchase	55,624		51,752	3,867	55,619
Securities loaned	13,592		13,191	401	13,592
Other secured financings	7,408		5,987	1,431	7,418
Customer and other payables <sup>1</sup>	188,464		188,464		188,464
Borrowings	145,670		151,692	30	151,722

1. Accrued interest and dividend receivables and payables where carrying value approximates fair value have been excluded.

2. Amounts include loans measured at fair value on a nonrecurring basis.

**Lending Commitments Held for Investment and Held for Sale**

<i>\$ in millions</i>	Commitment		Fair Value		Total
	Amount <sup>1</sup>	Level 2	Level 3		
<b>September 30, 2018</b>	<b>\$ 106,904</b>	<b>\$ 702</b>	<b>\$ 204</b>	<b>\$ 906</b>	
December 31, 2017	100,151	620	174	794	

1. For further discussion on lending commitments, see Note 11.

The previous tables exclude certain financial instruments such as equity method investments and all non-financial assets and liabilities such as the value of the long-term relationships with the Firm's deposit customers. During the current year period, there were no significant updates made to the Firm's valuation techniques for financial instruments not measured at fair value.

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****4. Derivative Instruments and Hedging Activities****Derivative Fair Values***At September 30, 2018*

<i>\$ in millions</i>	<b>Assets</b>			Total
	Bilateral OTC	Cleared OTC	Exchange- Traded	
<b>Designated as accounting hedges</b>				
Interest rate contracts	\$ 467	\$	\$	\$ 467
Foreign exchange contracts	107	46		153
Total	574	46		620
<b>Not designated as accounting hedges</b>				
Interest rate contracts	156,859	1,960	379	159,198
Credit contracts	4,446	1,710		6,156
Foreign exchange contracts	61,596	1,798	182	63,576
Equity contracts	26,522		23,396	49,918
Commodity and other contracts	8,975		2,136	11,111
Total	258,398	5,468	26,093	289,959
<b>Total gross derivatives</b>	<b>\$ 258,972</b>	<b>\$ 5,514</b>	<b>\$ 26,093</b>	<b>\$ 290,579</b>
<b>Amounts offset</b>				
Counterparty netting	(190,040)	(4,850)	(24,242)	(219,132)
Cash collateral netting	(40,294)	(514)		(40,808)
<b>Total in Trading assets</b>	<b>\$ 28,638</b>	<b>\$ 150</b>	<b>\$ 1,851</b>	<b>\$ 30,639</b>
<b>Amounts not offset<sup>1</sup></b>				
Financial instruments collateral	(14,077)			(14,077)
Other cash collateral	(29)			(29)
<b>Net amounts</b>	<b>\$ 14,532</b>	<b>\$ 150</b>	<b>\$ 1,851</b>	<b>\$ 16,533</b>
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				\$ 3,590

<i>\$ in millions</i>	<b>Liabilities</b>			Total
	Bilateral OTC	Cleared OTC	Exchange- Traded	
<b>Designated as accounting hedges</b>				
Interest rate contracts	\$ 270	\$ 1	\$	\$ 271
Foreign exchange contracts	19	14		33
Total	289	15		304
<b>Not designated as accounting hedges</b>				

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Interest rate contracts	140,816	1,733	508	143,057
Credit contracts	4,452	2,099		6,551
Foreign exchange contracts	59,763	1,848	84	61,695
Equity contracts	28,920		22,467	51,387
Commodity and other contracts	8,308		2,073	10,381
Total	242,259	5,680	25,132	273,071
<b>Total gross derivatives</b>	<b>\$ 242,548</b>	<b>\$ 5,695</b>	<b>\$ 25,132</b>	<b>\$ 273,375</b>
<b>Amounts offset</b>				
Counterparty netting	(190,040)	(4,850)	(24,242)	(219,132)
Cash collateral netting	(27,777)	(640)		(28,417)
<b>Total in Trading liabilities</b>	<b>\$ 24,731</b>	<b>\$ 205</b>	<b>\$ 890</b>	<b>\$ 25,826</b>
<b>Amounts not offset<sup>1</sup></b>				
Financial instruments collateral	(4,729)		(143)	(4,872)
Other cash collateral	(33)			(33)
<b>Net amounts</b>	<b>\$ 19,969</b>	<b>\$ 205</b>	<b>\$ 747</b>	<b>\$ 20,921</b>
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				\$ 5,763

At December 31, 2017

\$ in millions	Assets			Total
	Bilateral OTC	Cleared OTC	Exchange- Traded	
<b>Designated as accounting hedges</b>				
Interest rate contracts	\$ 1,057	\$	\$	\$ 1,057
Foreign exchange contracts	57	6		63
Total	1,114	6		1,120
<b>Not designated as accounting hedges</b>				
Interest rate contracts	177,948	1,700	234	179,882
Credit contracts	5,740	2,282		8,022
Foreign exchange contracts	52,878	798	58	53,734
Equity contracts	24,452		20,538	44,990
Commodity and other contracts	8,861		1,802	10,663
Total	269,879	4,780	22,632	297,291
<b>Total gross derivatives</b>	<b>\$ 270,993</b>	<b>\$ 4,786</b>	<b>\$ 22,632</b>	<b>\$ 298,411</b>
<b>Amounts offset</b>				
Counterparty netting	(201,051)	(3,856)	(19,861)	(224,768)
Cash collateral netting	(42,141)	(689)		(42,830)
<b>Total in Trading assets</b>	<b>\$ 27,801</b>	<b>\$ 241</b>	<b>\$ 2,771</b>	<b>\$ 30,813</b>
<b>Amounts not offset<sup>1</sup></b>				
Financial instruments collateral	(12,363)			(12,363)
Other cash collateral	(4)			(4)
<b>Net amounts</b>	<b>\$ 15,434</b>	<b>\$ 241</b>	<b>\$ 2,771</b>	<b>\$ 18,446</b>
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				\$ 3,154

\$ in millions	Liabilities			Total
	Bilateral OTC	Cleared OTC	Exchange- Traded	

<b>Designated as accounting hedges</b>				
Interest rate contracts	\$ 67	\$ 1	\$	\$ 68
Foreign exchange contracts	72	57		129
Total	139	58		197
<b>Not designated as accounting hedges</b>				
Interest rate contracts	161,758	1,178	144	163,080
Credit contracts	6,273	2,272		8,545
Foreign exchange contracts	54,191	925	23	55,139
Equity contracts	27,993		19,996	47,989
Commodity and other contracts	7,117		1,772	8,889
Total	257,332	4,375	21,935	283,642
<b>Total gross derivatives</b>	<b>\$ 257,471</b>	<b>\$ 4,433</b>	<b>\$ 21,935</b>	<b>\$ 283,839</b>
<b>Amounts offset</b>				
Counterparty netting	(201,051)	(3,856)	(19,861)	(224,768)
Cash collateral netting	(31,892)	(484)		(32,376)
<b>Total in Trading liabilities</b>	<b>\$ 24,528</b>	<b>\$ 93</b>	<b>\$ 2,074</b>	<b>\$ 26,695</b>
<b>Amounts not offset<sup>1</sup></b>				
Financial instruments collateral	(5,523)		(412)	(5,935)
Other cash collateral	(18)	(14)		(32)
<b>Net amounts</b>	<b>\$ 18,987</b>	<b>\$ 79</b>	<b>\$ 1,662</b>	<b>\$ 20,728</b>
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				\$ 3,751

1. Amounts relate to master netting agreements and collateral agreements that have been determined by the Firm to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.



**Table of Contents****Notes to Consolidated Financial Statements  
(Unaudited)**

See Note 3 for information related to the unsettled fair value of futures contracts not designated as accounting hedges, which are excluded from the previous tables.

**Derivative Notionals**

At September 30, 2018

<i>\$ in billions</i>	Assets			Total
	Bilateral OTC	Cleared OTC	Exchange- Traded	
<b>Designated as accounting hedges</b>				
Interest rate contracts	\$ 16	\$ 8	\$	\$ 24
Foreign exchange contracts	5	1		6
Total	21	9		30
<b>Not designated as accounting hedges</b>				
Interest rate contracts	5,359	7,067	1,206	13,632
Credit contracts	139	71		210
Foreign exchange contracts	2,160	91	18	2,269
Equity contracts	433		406	839
Commodity and other contracts	95		64	159
Total	8,186	7,229	1,694	17,109
<b>Total gross derivatives</b>	<b>\$ 8,207</b>	<b>\$ 7,238</b>	<b>\$ 1,694</b>	<b>\$ 17,139</b>

<i>\$ in billions</i>	Liabilities			Total
	Bilateral OTC	Cleared OTC	Exchange- Traded	
<b>Designated as accounting hedges</b>				
Interest rate contracts	\$ 2	\$ 153	\$	\$ 155
Foreign exchange contracts	3	1		4
Total	5	154		159
<b>Not designated as accounting hedges</b>				
Interest rate contracts	5,317	6,361	710	12,388
Credit contracts	146	79		225
Foreign exchange contracts	2,155	87	17	2,259
Equity contracts	462		578	1,040
Commodity and other contracts	77		62	139
Total	8,157	6,527	1,367	16,051
<b>Total gross derivatives</b>	<b>\$ 8,162</b>	<b>\$ 6,681</b>	<b>\$ 1,367</b>	<b>\$ 16,210</b>

At December 31, 2017

<i>\$ in billions</i>	Assets			Total
	Bilateral OTC	Cleared OTC	Exchange- Traded	
<b>Designated as accounting hedges</b>				
Interest rate contracts	\$ 20	\$ 46	\$	\$ 66
Foreign exchange contracts	4			4
Total	24	46		70
<b>Not designated as accounting hedges</b>				
Interest rate contracts	3,999	6,458	2,714	13,171
Credit contracts	194	100		294
Foreign exchange contracts	1,960	67	9	2,036
Equity contracts	397		334	731
Commodity and other contracts	86		72	158
Total	6,636	6,625	3,129	16,390
<b>Total gross derivatives</b>	<b>\$ 6,660</b>	<b>\$ 6,671</b>	<b>\$ 3,129</b>	<b>\$ 16,460</b>
<i>\$ in billions</i>	Liabilities			Total
	Bilateral OTC	Cleared OTC	Exchange- Traded	
<b>Designated as accounting hedges</b>				
Interest rate contracts	\$ 2	\$ 102	\$	\$ 104
Foreign exchange contracts	4	2		6
Total	6	104		110
<b>Not designated as accounting hedges</b>				
Interest rate contracts	4,199	6,325	1,089	11,613
Credit contracts	226	80		306
Foreign exchange contracts	2,014	78	51	2,143
Equity contracts	394		405	799
Commodity and other contracts	68		61	129
Total	6,901	6,483	1,606	14,990
<b>Total gross derivatives</b>	<b>\$ 6,907</b>	<b>\$ 6,587</b>	<b>\$ 1,606</b>	<b>\$ 15,100</b>

The Firm believes that the notional amounts of derivative contracts generally overstate its exposure.

For information related to offsetting of certain collateralized transactions, see Note 6. For a discussion of the Firm's derivative instruments and hedging activities, see Note 4 to the financial statements in the 2017 Form 10-K.

### Gains (Losses) on Accounting Hedges

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Fair Value Hedges Recognized in Interest Expense</b>				
Interest rate contracts	\$ (1,124)	\$ (218)	\$ (3,584)	\$ (878)
Borrowings	1,124	175	3,563	670
<b>Net Investment Hedges Foreign exchange contracts</b>				
Recognized in OCI	\$ 107	\$ (88)	\$ 354	\$ (340)
Forward points excluded from hedge effectiveness testing Recognized in Interest income	13	(3)	44	(22)
<b>Fair Value Hedges Hedged Items</b>				

<i>\$ in millions</i>	<b>At September 30, 2018</b>
<b>Investment Securities AFS</b>	
Carrying amount <sup>2</sup> currently or previously hedged	\$ 86
<b>Borrowings</b>	
Carrying amount <sup>2</sup> currently or previously hedged	\$ 103,269
Basis adjustments included in carrying amount <sup>3</sup>	\$ (3,744)

1. In the current quarter, the Firm began designating interest rate swaps as fair value hedges of certain AFS securities. Amounts recognized in interest income and basis adjustments related to AFS securities were not material.
2. Carrying amount represents amortized cost basis.
3. Hedge accounting basis adjustments for Borrowings are primarily related to outstanding hedges.

#### **Credit Risk-Related Contingencies**

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

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Net Derivative Liabilities and Collateral Posted**

<i>\$ in millions</i>	<b>At September 30, 2018</b>	<b>At December 31, 2017</b>
Net derivative liabilities with credit risk-related contingent features	<b>\$ 16,081</b>	<b>\$ 20,675</b>
Collateral posted	<b>12,745</b>	<b>16,642</b>

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

**Incremental Collateral or Termination Payments upon Potential Future Ratings Downgrade**

<i>\$ in millions</i>	<b>At September 30, 2018</b>
One-notch downgrade	<b>\$ 429</b>
Two-notch downgrade	<b>325</b>
Bilateral downgrade agreements included in the amounts above <sup>1</sup>	<b>\$ 653</b>

1. Amount represents arrangements between the Firm and other parties where upon the downgrade of one party, the downgraded party must deliver collateral to the other party. These bilateral downgrade arrangements are used by the Firm to manage the risk of counterparty downgrades.

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 S&P Global Ratings. The previous table shows the future potential collateral amounts and termination payments that could be called or required by counterparties or exchange and clearing organizations in the event of one-notch or two-notch downgrade scenarios based on the relevant contractual downgrade triggers.

**Credit Derivatives and Other Credit Contracts**

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

For further information on credit derivatives and other credit contracts, see Note 4 to the financial statements in the 2017 Form 10-K.

### Protection Sold and Purchased with CDS

<i>\$ in millions</i>	At September 30, 2018			
	Fair Value (Asset)/Liability		Notional	
	Protection Sold	Protection Purchased	Protection Sold	Protection Purchased
Single name	\$ (326)	\$ 469	\$ 111,848	\$ 127,114
Index and basket	159	(67)	81,810	94,320
Tranched index and basket	(207)	367	6,844	12,738
<b>Total</b>	<b>\$ (374)</b>	<b>\$ 769</b>	<b>\$ 200,502</b>	<b>\$ 234,172</b>

<i>\$ in millions</i>	At December 31, 2017			
	Fair Value (Asset)/Liability		Notional	
	Protection Sold	Protection Purchased	Protection Sold	Protection Purchased
Single name	\$ (1,277)	\$ 1,658	\$ 146,948	\$ 164,773
Index and basket	(341)	209	131,073	120,348
Tranched index and basket	(342)	616	11,864	24,498
<b>Total</b>	<b>\$ (1,960)</b>	<b>\$ 2,483</b>	<b>\$ 289,885</b>	<b>\$ 309,619</b>

### Maximum Potential Payout/Notional of Credit Protection Sold<sup>1</sup>

<i>\$ in millions</i>	Years to maturity at September 30, 2018				
	< 1	1-3	3-5	Over 5	Total
<b>Single name CDS</b>					
Investment grade	\$ 24,275	\$ 25,802	\$ 17,512	\$ 9,721	\$ 77,310
Non-investment grade	11,777	12,006	8,743	2,012	34,538
<b>Total</b>	<b>\$ 36,052</b>	<b>\$ 37,808</b>	<b>\$ 26,255</b>	<b>\$ 11,733</b>	<b>\$ 111,848</b>
<b>Index and basket CDS</b>					
Investment grade	\$ 6,594	\$ 8,975	\$ 22,203	\$ 16,832	\$ 54,604
Non-investment grade	5,300	6,884	9,727	12,139	34,050
<b>Total</b>	<b>\$ 11,894</b>	<b>\$ 15,859</b>	<b>\$ 31,930</b>	<b>\$ 28,971</b>	<b>\$ 88,654</b>
<b>Total CDS sold</b>	<b>\$ 47,946</b>	<b>\$ 53,667</b>	<b>\$ 58,185</b>	<b>\$ 40,704</b>	<b>\$ 200,502</b>
Other credit contracts				129	129
<b>Total credit protection sold</b>	<b>\$ 47,946</b>	<b>\$ 53,667</b>	<b>\$ 58,185</b>	<b>\$ 40,833</b>	<b>\$ 200,631</b>
CDS protection sold with identical protection purchased					\$ 186,961

<i>\$ in millions</i>	Years to maturity at December 31, 2017				
	< 1	1-3	3-5	Over 5	Total
<b>Single name CDS</b>					
Investment grade	\$ 39,721	\$ 42,591	\$ 18,157	\$ 8,872	\$ 109,341
Non-investment grade	14,213	16,293	6,193	908	37,607
<b>Total</b>	<b>\$ 53,934</b>	<b>\$ 58,884</b>	<b>\$ 24,350</b>	<b>\$ 9,780</b>	<b>\$ 146,948</b>

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<b>Index and basket CDS</b>					
Investment grade	\$ 29,046	\$ 15,418	\$ 37,343	\$ 6,807	\$ 88,614
Non-investment grade	5,246	7,371	32,417	9,289	54,323
Total	\$ 34,292	\$ 22,789	\$ 69,760	\$ 16,096	\$ 142,937
<b>Total CDS sold</b>	\$ 88,226	\$ 81,673	\$ 94,110	\$ 25,876	\$ 289,885
Other credit contracts	2			134	136
<b>Total credit protection sold</b>	\$ 88,228	\$ 81,673	\$ 94,110	\$ 26,010	\$ 290,021
CDS protection sold with identical protection purchased					\$ 274,473

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**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Fair Value (Asset)/Liability of Credit Protection Sold<sup>1</sup>**

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
<b>Single name CDS</b>		
Investment grade	\$ (387)	\$ (1,167)
Non-investment grade	61	(110)
Total	\$ (326)	\$ (1,277)
<b>Index and basket CDS</b>		
Investment grade	\$ (683)	\$ (1,091)
Non-investment grade	635	408
Total	\$ (48)	\$ (683)
<b>Total CDS sold</b>	<b>\$ (374)</b>	<b>\$ (1,960)</b>
Other credit contracts	21	16
<b>Total credit protection sold</b>	<b>\$ (353)</b>	<b>\$ (1,944)</b>

1. Investment grade/non-investment grade determination is based on the internal credit rating of the reference obligation.

The fair value amounts as shown in the previous table are prior to cash collateral or counterparty netting. Internal credit ratings serve as the Credit Risk Management Department's assessment of credit risk and the basis for a comprehensive credit limits framework used to control credit risk. The Firm uses quantitative models and judgment to estimate the various risk parameters related to each obligor.

**5. Investment Securities****AFS and HTM Securities**

<i>\$ in millions</i>	At September 30, 2018			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<b>AFS securities</b>				
U.S. government and agency securities:				
U.S. Treasury securities	\$ 33,093	\$	\$ 1,026	\$ 32,067
U.S. agency securities <sup>1</sup>	20,368	14	658	19,724
Total U.S. government and agency securities	53,461	14	1,684	51,791
Corporate and other debt:				

Agency CMBS	1,198	1	70	1,129
Non-agency CMBS	465		18	447
Corporate bonds	1,402		34	1,368
State and municipal securities	200			200
CLO	262			262
FFELP student loan ABS <sup>2</sup>	2,027	15	7	2,035
Total corporate and other debt	5,554	16	129	5,441
Total AFS securities	59,015	30	1,813	57,232
<b>HTM securities</b>				
U.S. government and agency securities:				
U.S. Treasury securities	13,387		630	12,757
U.S. agency securities <sup>1</sup>	11,500		617	10,883
Total U.S. government and agency securities	24,887		1,247	23,640
Corporate and other debt:				
Non-agency CMBS	449	1	8	442
Total HTM securities	25,336	1	1,255	24,082
<b>Total investment securities</b>	<b>\$ 84,351</b>	<b>\$ 31</b>	<b>\$ 3,068</b>	<b>\$ 81,314</b>

At December 31, 2017

<i>\$ in millions</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>AFS debt securities</b>				
U.S. government and agency securities:				
U.S. Treasury securities	\$ 26,842	\$	\$ 589	\$ 26,253
U.S. agency securities <sup>1</sup>	22,803	28	247	22,584
Total U.S. government and agency securities	49,645	28	836	48,837
Corporate and other debt:				
Agency CMBS	1,370	2	49	1,323
Non-agency CMBS	1,102		8	1,094
Corporate bonds	1,379	5	12	1,372
CLO	398	1		399
FFELP student loan ABS <sup>2</sup>	2,165	15	7	2,173
Total corporate and other debt	6,414	23	76	6,361
Total AFS debt securities	56,059	51	912	55,198
<b>AFS equity securities</b>	15		10	5
Total AFS securities	56,074	51	922	55,203
<b>HTM securities</b>				
U.S. government and agency securities:				
U.S. Treasury securities	11,424		305	11,119
U.S. agency securities <sup>1</sup>	11,886	7	220	11,673
Total U.S. government and agency securities	23,310	7	525	22,792
Corporate and other debt:				
Non-agency CMBS	289	1	1	289
Total HTM securities	23,599	8	526	23,081
Total investment securities	\$ 79,673	\$ 59	\$ 1,448	\$ 78,284

1. U.S. agency securities consist mainly of agency-issued debt, agency mortgage pass-through pool securities and CMOs.

2. Underlying loans are backed by a guarantee, ultimately from the U.S. Department of Education, of at least 95% of the principal balance and interest outstanding.





**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Investment Securities in an Unrealized Loss Position**

<i>\$ in millions</i>	Less than 12 Months		At September 30, 2018 12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>AFS securities</b>						
U.S. government and agency securities:						
U.S. Treasury securities	\$ 26,238	\$ 858	\$ 5,284	\$ 168	\$ 31,522	\$ 1,026
U.S. agency securities	13,615	525	2,604	133	16,219	658
Total U.S. government and agency securities	39,853	1,383	7,888	301	47,741	1,684
Corporate and other debt:						
Agency CMBS	828	70			828	70
Non-agency CMBS	224	7	223	11	447	18
Corporate bonds	725	14	521	20	1,246	34
FFELP student loan ABS	881	7			881	7
Total corporate and other debt	2,658	98	744	31	3,402	129
Total AFS securities	42,511	1,481	8,632	332	51,143	1,813
<b>HTM securities</b>						
U.S. government and agency securities:						
U.S. Treasury securities	3,102	44	9,655	586	12,757	630
U.S. agency securities	2,373	73	8,510	544	10,883	617
Total U.S. government and agency securities	5,475	117	18,165	1,130	23,640	1,247
Corporate and other debt:						
Non-agency CMBS	195	5	68	3	263	8
Total HTM securities	5,670	122	18,233	1,133	23,903	1,255
<b>Total investment securities</b>	<b>\$ 48,181</b>	<b>\$ 1,603</b>	<b>\$ 26,865</b>	<b>\$ 1,465</b>	<b>\$ 75,046</b>	<b>\$ 3,068</b>

<i>\$ in millions</i>	Less than 12 Months		At December 31, 2017 12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>AFS debt securities</b>						
U.S. government and agency securities:						

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U.S. Treasury securities	\$ 21,941	\$ 495	\$ 4,287	\$ 94	\$ 26,228	\$ 589
U.S. agency securities	12,673	192	2,513	55	15,186	247
<b>Total U.S. government and agency securities</b>	<b>34,614</b>	<b>687</b>	<b>6,800</b>	<b>149</b>	<b>41,414</b>	<b>836</b>
Corporate and other debt:						
Agency CMBS	930	49			930	49
Non-agency CMBS	257	1	559	7	816	8
Corporate bonds	316	3	389	9	705	12
FFELP student loan ABS	984	7			984	7
<b>Total corporate and other debt</b>	<b>2,487</b>	<b>60</b>	<b>948</b>	<b>16</b>	<b>3,435</b>	<b>76</b>
<b>Total AFS debt securities</b>	<b>37,101</b>	<b>747</b>	<b>7,748</b>	<b>165</b>	<b>44,849</b>	<b>912</b>
<b>AFS equity securities</b>			<b>5</b>	<b>10</b>	<b>5</b>	<b>10</b>
<b>Total AFS securities</b>	<b>37,101</b>	<b>747</b>	<b>7,753</b>	<b>175</b>	<b>44,854</b>	<b>922</b>
<b>HTM securities</b>						
U.S. government and agency securities:						
U.S. Treasury securities	6,608	86	4,512	219	11,120	305
U.S. agency securities	2,879	24	7,298	196	10,177	220
<b>Total U.S. government and agency securities</b>	<b>9,487</b>	<b>110</b>	<b>11,810</b>	<b>415</b>	<b>21,297</b>	<b>525</b>
Corporate and other debt:						
Non-agency CMBS	124	1			124	1
<b>Total HTM securities</b>	<b>9,611</b>	<b>111</b>	<b>11,810</b>	<b>415</b>	<b>21,421</b>	<b>526</b>
<b>Total investment securities</b>	<b>\$ 46,712</b>	<b>\$ 858</b>	<b>\$ 19,563</b>	<b>\$ 590</b>	<b>\$ 66,275</b>	<b>\$ 1,448</b>

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)**

The Firm believes there are no securities in an unrealized loss position that are other-than-temporarily impaired after performing the analysis described in Note 2 to the financial statements in the 2017 Form 10-K. For AFS debt securities, the Firm does not intend to sell the securities and is not likely to be required to sell the securities prior to recovery of the amortized cost basis. Furthermore, for AFS and HTM debt securities, the securities have not experienced credit losses as the net unrealized losses reported in the previous table are primarily due to higher interest rates since those securities were purchased.

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

**Investment Securities by Contractual Maturity**

<i>\$ in millions</i>	<b>At September 30, 2018</b>		
	Amortized Cost	Fair Value	Annualized Average Yield
<b>AFS securities</b>			
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	\$ 3,447	\$ 3,432	1.3%
After 1 year through 5 years	27,517	26,734	1.9%
After 5 years through 10 years	2,129	1,901	1.4%
Total	33,093	32,067	
U.S. agency securities:			
Due within 1 year	473	467	1.0%
After 1 year through 5 years	806	789	1.2%
After 5 years through 10 years	1,718	1,644	1.8%
After 10 years	17,371	16,824	2.1%
Total	20,368	19,724	
Total U.S. government and agency securities	53,461	51,791	1.9%
Corporate and other debt:			
Agency CMBS:			
Due within 1 year	3	3	0.9%
After 1 year through 5 years	384	382	1.3%
After 5 years through 10 years	40	41	1.2%
After 10 years	771	703	1.6%
Total	1,198	1,129	
Non-agency CMBS:			
After 5 years through 10 years	36	34	2.5%
After 10 years	429	413	2.4%
Total	465	447	

Corporate bonds:			
Due within 1 year	70	70	1.7%
After 1 year through 5 years	1,270	1,237	2.4%
After 5 years through 10 years	62	61	3.4%
Total	1,402	1,368	
State and municipal securities:			
After 1 year through 5 years	200	200	3.5%
Total	200	200	
CLO:			
After 5 years through 10 years	64	64	1.5%
After 10 years	198	198	2.4%
Total	262	262	

At September 30, 2018

<i>\$ in millions</i>	Amortized Cost	Fair Value	Annualized Average Yield
FFELP student loan ABS:			
After 1 year through 5 years	84	83	0.8%
After 5 years through 10 years	319	316	0.8%
After 10 years	1,624	1,636	1.2%
Total	2,027	2,035	
Total corporate and other debt	5,554	5,441	1.8%
Total AFS securities	59,015	57,232	1.9%
<b>HTM securities</b>			
U.S. government securities:			
U.S. Treasury securities:			
Due within 1 year	2,126	2,118	1.2%
After 1 year through 5 years	5,423	5,303	2.0%
After 5 years through 10 years	5,112	4,725	1.9%
After 10 years	726	611	2.3%
Total	13,387	12,757	
U.S. agency securities:			
After 5 years through 10 years	31	30	1.9%
After 10 years	11,469	10,853	2.6%
Total	11,500	10,883	
Total U.S. government and agency securities	24,887	23,640	2.2%
Corporate and other debt:			
Non-agency CMBS:			
Due within 1 year	68	68	3.5%
After 1 year through 5 years	61	61	4.4%
After 5 years through 10 years	301	295	4.0%
After 10 years	19	18	4.0%
Total corporate and other debt	449	442	4.0%
Total HTM securities	25,336	24,082	2.2%
<b>Total investment securities</b>	<b>\$ 84,351</b>	<b>\$ 81,314</b>	<b>2.0%</b>

**Gross Realized Gains (Losses) on Sales of AFS Securities**Three Months Ended  
September 30,Nine Months Ended  
September 30,

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<i>\$ in millions</i>	<b>2018</b>	2017	<b>2018</b>	2017
Gross realized gains	<b>\$ 5</b>	\$ 11	<b>\$ 11</b>	\$ 38
Gross realized (losses)			<b>(3)</b>	(11)
<b>Total<sup>1</sup></b>	<b>\$ 5</b>	\$ 11	<b>\$ 8</b>	\$ 27

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

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****6. Collateralized Transactions**

The Firm enters into securities purchased under agreements to resell, securities sold under agreements to repurchase, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance its inventory positions. For further discussion of the Firm's collateralized transactions, see Note 6 to the financial statements in the 2017 Form 10-K.

**Offsetting of Certain Collateralized Transactions**

<i>\$ in millions</i>	<b>At September 30, 2018</b>				
	Gross Amounts	Amounts Offset	Net		Net Amounts
			Amounts Presented	Amounts Not Offset <sup>1</sup>	
<b>Assets</b>					
Securities purchased under agreements to resell	\$ 212,796	\$ (143,710)	\$ 69,086	\$ (63,821)	\$ 5,265
Securities borrowed	161,903	(19,414)	142,489	(136,940)	5,549
<b>Liabilities</b>					
Securities sold under agreements to repurchase	\$ 204,038	\$ (143,710)	\$ 60,328	\$ (52,421)	\$ 7,907
Securities loaned	31,247	(19,414)	11,833	(11,664)	169
<b>Net amounts for which master netting agreements are not in place or may not be legally enforceable</b>					
Securities purchased under agreements to resell					\$ 3,640
Securities borrowed					1,377
Securities sold under agreements to repurchase					6,074
Securities loaned					142

<i>\$ in millions</i>	<b>At December 31, 2017</b>				
	Gross Amounts	Amounts Offset	Net		Net Amounts
			Amounts Presented	Amounts Not Offset <sup>1</sup>	
<b>Assets</b>					
Securities purchased under agreements to resell	\$ 199,044	\$ (114,786)	\$ 84,258	\$ (78,009)	\$ 6,249
Securities borrowed	133,431	(9,421)	124,010	(119,358)	4,652
<b>Liabilities</b>					
Securities sold under agreements to repurchase	\$ 171,210	\$ (114,786)	\$ 56,424	\$ (48,067)	\$ 8,357
Securities loaned	23,014	(9,422)	13,592	(13,271)	321

<b>Net amounts for which master netting agreements are not in place or may not be legally enforceable</b>	
Securities purchased under agreements to resell	\$ 5,687
Securities borrowed	572
Securities sold under agreements to repurchase	6,945
Securities loaned	307

1. Amounts relate to master netting agreements that have been determined by the Firm to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

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

### Maturities and Collateral Pledged

#### Gross Secured Financing Balances by Remaining Contractual Maturity

	<b>At September 30, 2018</b>				Total
	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days	
<i>\$ in millions</i>					
Securities sold under agreements to repurchase	\$ 69,184	\$ 59,181	\$ 32,727	\$ 42,946	\$ 204,038
Securities loaned	19,930	3,698	1,733	5,886	31,247
Total included in the offsetting disclosure	\$ 89,114	\$ 62,879	\$ 34,460	\$ 48,832	\$ 235,285
Trading liabilities Obligation to return securities received as collateral	18,727				18,727
<b>Total</b>	<b>\$ 107,841</b>	<b>\$ 62,879</b>	<b>\$ 34,460</b>	<b>\$ 48,832</b>	<b>\$ 254,012</b>

	<b>At December 31, 2017</b>				Total
	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days	
<i>\$ in millions</i>					
Securities sold under agreements to repurchase	\$ 41,332	\$ 66,593	\$ 28,682	\$ 34,603	\$ 171,210
Securities loaned	12,130	873	1,577	8,434	23,014
Total included in the offsetting disclosure	\$ 53,462	\$ 67,466	\$ 30,259	\$ 43,037	\$ 194,224
Trading liabilities Obligation to return securities received as collateral	22,555				22,555
<b>Total</b>	<b>\$ 76,017</b>	<b>\$ 67,466</b>	<b>\$ 30,259</b>	<b>\$ 43,037</b>	<b>\$ 216,779</b>

#### Gross Secured Financing Balances by Class of Collateral Pledged

	At September 30, 2018	At December 31, 2017
	<i>\$ in millions</i>	
<b>Securities sold under agreements to repurchase</b>		



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U.S. Treasury and agency securities	\$	54,625	\$	43,346
State and municipal securities		1,516		2,451
Other sovereign government obligations		115,046		87,141
ABS		2,257		1,130
Corporate and other debt		8,142		7,737
Corporate equities		21,756		28,497
Other		696		908
<b>Total</b>	<b>\$</b>	<b>204,038</b>	<b>\$</b>	<b>171,210</b>
<b>Securities loaned</b>				
Other sovereign government obligations	\$	19,850	\$	9,489
Corporate equities		11,270		13,174
Other		127		351
<b>Total</b>	<b>\$</b>	<b>31,247</b>	<b>\$</b>	<b>23,014</b>
<b>Total included in the offsetting disclosure</b>	<b>\$</b>	<b>235,285</b>	<b>\$</b>	<b>194,224</b>
<b>Trading liabilities Obligation to return securities received as collateral</b>				
Corporate equities	\$	18,727	\$	22,555
<b>Total</b>	<b>\$</b>	<b>254,012</b>	<b>\$</b>	<b>216,779</b>

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**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Assets Pledged**

The Firm pledges its trading assets and loans to collateralize securities sold under agreements to repurchase, securities loaned, other secured financings and derivatives, and cover customer short sales. Counterparties may or may not have the right to sell or repledge the collateral.

Pledged financial instruments that can be sold or repledged by the secured party are identified as Trading assets (pledged to various parties) in the balance sheets.

**Carrying Value of Assets Loaned or Pledged without****Counterparty Right to Sell or Repledge**

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Trading assets	\$ 31,347	\$ 31,324
Loans (gross of allowance for loan losses)	570	228
<b>Total</b>	<b>\$ 31,917</b>	<b>\$ 31,552</b>

**Collateral Received**

The Firm receives collateral in the form of securities in connection with securities purchased under agreements to resell, securities borrowed, securities-for-securities transactions, derivative transactions, customer margin loans and securities-based lending. In many cases, the Firm is permitted to sell or repledge these securities held as collateral and use the securities to secure securities sold under agreements to repurchase, to enter into securities lending and derivative transactions or for delivery to counterparties to cover short positions.

**Fair Value of Collateral Received with Right to Sell or Repledge**

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Collateral received with right to sell or repledge	\$ 658,309	\$ 599,244
Collateral that was sold or repledged <sup>1</sup>	505,108	475,113

1. Does not include securities used to meet federal regulations for the Firm's broker-dealers.

**Customer Margin Lending and Other**

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Net customer receivables representing margin loans	\$ 33,821	\$ 32,112

The Firm provides margin lending arrangements which allow customers to borrow against the value of qualifying securities. Customer receivables representing margin loans are included within Customer and other receivables in the balance sheets. Under these agreements and transactions, the Firm receives collateral, including U.S. government and

agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. Customer receivables generated from margin lending activities are collateralized by customer-owned securities held by the Firm. The Firm monitors required margin levels and established credit terms daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary.

For a further discussion of the Firm's margin lending activities, see Note 6 to the financial statements in the 2017 Form 10-K.

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

### Restricted Cash and Segregated Securities

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Restricted cash	\$ 33,202	\$ 34,231
Segregated securities <sup>1</sup>	25,820	20,549
<b>Total</b>	<b>\$ 59,022</b>	<b>\$ 54,780</b>

1. Securities segregated under federal regulations for the Firm's U.S. broker-dealers are sourced from Securities purchased under agreements to resell and Trading assets in the balance sheets.

### 7. Loans, Lending Commitments and Allowance for Credit Losses

#### Loans

The Firm's loans held for investment are recorded at amortized cost, and its loans held for sale are recorded at the lower of cost or fair value in the balance sheets. For a further description of these loans, refer to Note 7 to the financial statements in the 2017 Form 10-K. See Note 3 for further information regarding Loans and lending commitments held at fair value. See Note 11 for details of current commitments to lend in the future.

#### Loans by Type

<i>\$ in millions</i>	At September 30, 2018		
	Loans Held for Investment	Loans Held for Sale	Total Loans
Corporate loans	\$ 35,439	\$ 10,035	\$ 45,474

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Consumer loans	28,321		28,321
Residential real estate loans	26,644	29	26,673
Wholesale real estate loans	8,157	1,589	9,746
Total loans, gross	98,561	11,653	110,214
Allowance for loan losses	(231)		(231)
<b>Total loans, net</b>	<b>\$ 98,330</b>	<b>\$ 11,653</b>	<b>\$ 109,983</b>
Fixed rate loans, net			\$ 15,263
Floating or adjustable rate loans, net			94,720
Loans to non-U.S. borrowers, net			14,346

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)**

<i>\$ in millions</i>	At December 31, 2017		
	Loans Held for Investment	Loans Held for Sale	Total Loans
Corporate loans	\$ 29,754	\$ 9,456	\$ 39,210
Consumer loans	26,808		26,808
Residential real estate loans	26,635	35	26,670
Wholesale real estate loans	9,980	1,682	11,662
Total loans, gross	93,177	11,173	104,350
Allowance for loan losses	(224)		(224)
<b>Total loans, net</b>	<b>\$ 92,953</b>	<b>\$ 11,173</b>	<b>\$ 104,126</b>
Fixed rate loans, net			\$ 13,339
Floating or adjustable rate loans, net			90,787
Loans to non-U.S. borrowers, net			9,977

**Credit Quality**

For a further discussion about the Firm's evaluation of credit transactions, monitoring and credit quality indicators, as well as factors considered by the Firm in determining the allowance for loan losses and impairments, see Notes 2 and 7 to the financial statements in the 2017 Form 10-K.

**Loans Held for Investment before Allowance by Credit Quality**

<i>\$ in millions</i>	At September 30, 2018				
	Corporate	Consumer	Real Estate	Real Estate	Total
Pass	\$ 35,062	\$ 28,316	\$ 26,563	\$ 7,625	\$ 97,566
Special mention	108	5		360	473
Substandard	268		81	172	521
Doubtful	1				1
Loss					
<b>Total</b>	<b>\$ 35,439</b>	<b>\$ 28,321</b>	<b>\$ 26,644</b>	<b>\$ 8,157</b>	<b>\$ 98,561</b>

<i>\$ in millions</i>	At December 31, 2017				
	Corporate	Consumer	Real Estate	Real Estate	Total
Pass	\$ 29,166	\$ 26,802	\$ 26,562	\$ 9,480	\$ 92,010
Special mention	188	6		200	394
Substandard	393		73	300	766
Doubtful	7				7

Loss					
<b>Total</b>	\$ 29,754	\$ 26,808	\$ 26,635	\$ 9,980	\$ 93,177

**Impaired Loans and Lending Commitments before Allowance**

<i>\$ in millions</i>	<b>At September 30, 2018</b>		
	Corporate	Residential Estate	Total
<b>Loans</b>			
With allowance	\$ 23	\$	\$ 23
Without allowance <sup>1</sup>	42	60	102
Total impaired loans	\$ 65	\$ 60	\$ 125
UPB	71	61	132
<b>Lending Commitments</b>			
With allowance	\$ 21	\$	\$ 21
Without allowance <sup>1</sup>	24		24

<i>\$ in millions</i>	<b>At December 31, 2017</b>		
	Corporate	Residential Estate	Total
<b>Loans</b>			
With allowance	\$ 16	\$	\$ 16
Without allowance <sup>1</sup>	118	45	163
Total impaired loans	\$ 134	\$ 45	\$ 179
UPB	146	46	192
<b>Lending Commitments</b>			
Without allowance <sup>1</sup>	\$ 199	\$	\$ 199

1. At September 30, 2018 and December 31, 2017, no allowance was recorded for these loans and lending commitments as the present value of the expected future cash flows (or, alternatively, the observable market price of the instrument or the fair value of the collateral held) equaled or exceeded the carrying value.

Loans and lending commitments in the previous table have been evaluated for a specific allowance. All remaining loans and lending commitments are assessed under the inherent allowance methodology.

**Impaired Loans and Total Allowance by Region**

<i>\$ in millions</i>	<b>At September 30, 2018</b>			
	Americas	EMEA	Asia	Total
Impaired loans	\$ 125	\$	\$	\$ 125
Total Allowance for loan losses	192	38	1	231

<i>\$ in millions</i>	<b>At December 31, 2017</b>			
	Americas	EMEA	Asia	Total
Impaired loans	\$ 160	\$ 9	\$ 10	\$ 179
Total Allowance for loan losses	194	27	3	224

**Troubled Debt Restructurings**

<i>\$ in millions</i>	At <b>September 30,</b> <b>2018</b>	At December 31, 2017
Loans	\$ <b>46</b>	\$ <b>51</b>
Lending commitments	<b>37</b>	28
Allowance for loan losses and lending commitments	<b>4</b>	10

Impaired loans and lending commitments classified as held for investment within corporate loans include TDRs as shown in the previous table. These restructurings typically include modifications of interest rates, collateral requirements, other loan covenants and payment extensions.

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Allowance for Loan Losses Rollforward**

<i>\$ in millions</i>	Residential Wholesale				Total
	Corporate	Consumer	Real Estate	Real Estate	
December 31, 2017	\$ 126	\$ 4	\$ 24	\$ 70	\$ 224
Gross charge-offs	(4)				(4)
Recoveries <sup>1</sup>	54				54
Net recoveries (charge-offs)	50				50
Provision (release) <sup>1, 2</sup>	(39)	1	(4)	9	(33)
Other	(2)			(8)	(10)
<b>September 30, 2018</b>	<b>\$ 135</b>	<b>\$ 5</b>	<b>\$ 20</b>	<b>\$ 71</b>	<b>\$ 231</b>
Inherent	\$ 130	\$ 5	\$ 20	\$ 71	\$ 226
Specific	5				5

<i>\$ in millions</i>	Residential Wholesale				Total
	Corporate	Consumer	Real Estate	Real Estate	
December 31, 2016	\$ 195	\$ 4	\$ 20	\$ 55	\$ 274
Gross charge-offs	(75)				(75)
Recoveries	1				1
Net recoveries (charge-offs)	(74)				(74)
Provision (release) <sup>2</sup>	26		4	12	42
Other	2			1	3
September 30, 2017	\$ 149	\$ 4	\$ 24	\$ 68	\$ 245
Inherent	\$ 142	\$ 4	\$ 24	\$ 68	\$ 238
Specific	7				7

1. The current year period release was primarily due to the recovery of a previously charged off energy industry related loan.

2. The Firm recorded a provision of \$1 million and \$13 million for loan losses in the current quarter and prior year quarter, respectively.

**Allowance for Lending Commitments Rollforward**

<i>\$ in millions</i>	Residential Wholesale				Total
	Corporate	Consumer	Real Estate	Real Estate	



December 31, 2017	\$ 194	\$ 1	\$ 3	\$ 198
Provision (release) <sup>1</sup>	5		1	6
Other	(2)		(1)	(3)
<b>September 30, 2018</b>	<b>\$ 197</b>	<b>\$ 1</b>	<b>\$ 3</b>	<b>\$ 201</b>
Inherent	\$ 190	\$ 1	\$ 3	\$ 194
Specific	7			7

\$ in millions	ResidentialWholesale				Total
	Corporate	Consumer	Real Estate	Real Estate	
December 31, 2016	\$ 185	\$ 1	\$ 4	\$ 190	
Provision (release) <sup>1</sup>	(10)			(10)	
Other	1			1	
September 30, 2017	\$ 176	\$ 1	\$ 4	\$ 181	
Inherent	\$ 173	\$ 1	\$ 4	\$ 178	
Specific	3			3	

1. The Firm recorded a provision of \$1 million, and release of \$6 million for lending commitments in the current quarter and prior year quarter, respectively.

### Employee Loans

\$ in millions	At	At
	September 30, 2018	December 31, 2017
Balance	\$ 3,491	\$ 4,185
Allowance for loan losses	(70)	(77)
Balance, net	\$ 3,421	\$ 4,108
Repayment term range, in years	1 to 20	1 to 20

Employee loans are granted in conjunction with a program established to retain and recruit certain employees, are full recourse and generally require periodic repayments. These loans are recorded in Customer and other receivables in the balance sheets. The Firm establishes an allowance for loan amounts it does not consider recoverable, and the related provision is recorded in Compensation and benefits expense.

## 8. Equity Method Investments

### Overview

Equity method investments other than certain investments in funds are summarized below and included in Other assets in the balance sheets with related income or loss included in Other revenues in the income statements. See the Measured Based on Net Asset Value table in Note 3 for the carrying value of the Firm's fund interests, which are comprised of general and limited partnership interests, as well as any related performance-based fees in the form of carried interest.

### Equity Method Investment Balances

\$ in millions

	At <b>September 30,</b> <b>2018</b>	At December 31, 2017
Investments	\$ 2,452	\$ 2,623

	Three Months Ended		Nine Months Ended	
	September 30, <b>2018</b>	2017	September 30, <b>2018</b>	2017
<i>\$ in millions</i>				
Income (loss)	\$ 8	\$	\$ 62	\$

**Japanese Securities Joint Venture**

	Three Months Ended		Nine Months Ended	
	September 30, <b>2018</b>	2017	September 30, <b>2018</b>	2017
<i>\$ in millions</i>				
Income from investment in MUMSS	\$ 17	\$ 25	\$ 99	\$ 96

Included in the equity method investments is the Firm's 40% voting interest in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ( MUMSS ). Mitsubishi UFJ Financial Group, Inc. ( MUFG ) holds a 60% voting interest. The Firm accounts for its equity method investment in MUMSS within the Institutional Securities business segment.

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****9. Deposits****Deposits**

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Savings and demand deposits	\$ 143,962	\$ 144,487
Time deposits	31,223	14,949
<b>Total</b>	<b>\$ 175,185</b>	<b>\$ 159,436</b>
Deposits subject to FDIC insurance	\$ 134,872	\$ 127,017
Time deposits that equal or exceed the FDIC insurance limit	\$ 12	\$ 38

**Time Deposit Maturities**

<i>\$ in millions</i>	At September 30, 2018
2018	\$ 7,238
2019	12,519
2020	7,879
2021	1,569
2022	631
Thereafter	1,387

**10. Borrowings and Other Secured Financings****Borrowings**

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Original maturities of one year or less	\$ 940	\$ 1,519
<b>Original maturities greater than one year</b>		
Senior	\$ 180,136	\$ 180,835
Subordinated	9,813	10,228
<b>Total</b>	<b>\$ 189,949</b>	<b>\$ 191,063</b>
<b>Total borrowings</b>	<b>\$ 190,889</b>	<b>\$ 192,582</b>
Weighted average stated maturity, in years <sup>1</sup>	6.6	6.6

1. Includes only borrowings with original maturities greater than one year.

### Other Secured Financings

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

### Other Secured Financings by Original Maturity and Type

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Original maturities:		
Greater than one year	\$ 7,840	\$ 8,685
One year or less	1,555	2,034
Failed sales	662	552
<b>Total</b>	<b>\$ 10,057</b>	<b>\$ 11,271</b>

#### *Failed Sales*

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

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

## 11. Commitments, Guarantees and Contingencies

### Commitments

<i>\$ in millions</i>	Years to Maturity at September 30, 2018				Total
	Less than 1	1-3	3-5	Over 5	
Lending:					
Corporate	\$ 13,345	\$ 32,893	\$ 46,671	\$ 7,805	\$ 100,714
Consumer	7,074		11		7,085
Residential real estate		83	13	253	349
Wholesale real estate	129	530			659
Forward-starting secured financing receivables	82,818			1,181	83,999

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Investment activities	517	100	47	257	921
Letters of credit and other financial guarantees	184	1		39	224
<b>Total</b>	<b>\$ 104,067</b>	<b>\$ 33,607</b>	<b>\$ 46,742</b>	<b>\$ 9,535</b>	<b>\$ 193,951</b>
Corporate lending commitments participated to third parties					\$ 7,620
Forward-starting secured financing receivables settled within three business days					\$ 77,520

Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

For a further description of these commitments, refer to Note 12 to the financial statements in the 2017 Form 10-K.

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Guarantees****Obligations under Guarantee Arrangements at September 30, 2018**

<i>\$ in millions</i>	Maximum Potential Payout/Notional Years to Maturity				Total
	Less than 1	1-3	3-5	Over 5	
Credit derivatives	\$ 47,946	\$ 53,667	\$ 58,185	\$ 40,704	\$ 200,502
Other credit contracts				129	129
Non-credit derivatives	1,870,310	1,471,732	405,669	648,797	4,396,508
Standby letters of credit and other financial guarantees issued <sup>1</sup>	1,009	913	1,452	4,908	8,282
Market value guarantees	16	101	24		141
Liquidity facilities	3,994				3,994
Whole loan sales guarantees		1		23,215	23,216
Securitization representations and warranties				63,208	63,208
General partner guarantees	4	52	338	34	428

<i>\$ in millions</i>	Carrying Amount (Asset)/ Liability	Collateral/ Recourse
Credit derivatives <sup>2</sup>	\$ (374)	\$
Other credit contracts	21	
Non-credit derivatives <sup>2</sup>	40,951	
Standby letters of credit and other financial guarantees issued <sup>1</sup>	(234)	6,717
Market value guarantees		3
Liquidity facilities	(6)	6,459
Whole loan sales guarantees	9	
Securitization representations and warranties	62	
General partner guarantees	73	

1. These amounts include certain issued standby letters of credit participated to third parties, totaling \$0.6 billion of notional and collateral/recourse, due to the nature of the Firm's obligations under these arrangements.

2. Carrying amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting. For further information on derivative contracts, see Note 4.

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

In certain situations, collateral may be held by the Firm for those contracts that meet the definition of a guarantee. Generally, the Firm sets collateral requirements by counterparty so that the collateral covers various transactions and products and is not allocated specifically to individual contracts. Also, the Firm may recover amounts related to the underlying asset delivered to the Firm under a derivative contract.

For more information on the nature of the obligation and related business activity for market value guarantees, liquidity facilities, whole loan sales guarantees and general partner guarantees related to certain investment management funds, as well as the other products in the previous table, see Note 12 to the financial statements in the 2017 Form 10-K.

### **Other Guarantees and Indemnities**

In the normal course of business, the Firm provides guarantees and indemnifications in a variety of transactions. These provisions generally are standard contractual terms. Certain of these guarantees and indemnifications related to indemnities, exchange/clearinghouse member guarantees and merger and acquisition guarantees are described in Note 12 to the financial statements in the 2017 Form 10-K.

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

### ***Finance Subsidiary***

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

### **Contingencies**

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

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**Notes to Consolidated Financial Statements**

**(Unaudited)**

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

The Firm contests liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the financial statements and the Firm can reasonably estimate the amount of that loss, the Firm accrues the estimated loss by a charge to income.

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

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

For certain other legal proceedings and investigations, the Firm can estimate reasonably possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued, but does not believe, based on current knowledge and after consultation with counsel, that such losses will have a material adverse effect on the Firm's financial statements as a whole, other than the matters referred to in the following paragraphs.

On July 15, 2010, China Development Industrial Bank ( CDIB ) filed a complaint against the Firm, styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated et al.*, which is pending in the Supreme Court of the State of New York, New York County ( Supreme Court of NY ). The complaint relates to a \$275 million CDS referencing the super senior portion of the STACK 2006-1 CDO. The complaint asserts claims for common law fraud, fraudulent inducement and fraudulent concealment and alleges that the Firm misrepresented the risks of the STACK 2006-1 CDO to CDIB, and that the Firm knew that the assets backing the CDO were of poor quality when it entered into the CDS with CDIB. The complaint seeks compensatory damages related to the approximately \$228 million that CDIB alleges it has already lost under the CDS, rescission of CDIB's obligation to pay an additional \$12 million, punitive damages, equitable relief, fees and costs. On February 28, 2011, the court denied the Firm's motion to dismiss the complaint. On June 27, 2018, the Firm filed a motion for summary judgment and spoliation sanctions against CDIB. Based on currently available information, the Firm believes it could incur a loss in this action of up to approximately \$240 million plus pre- and post-judgment interest, fees and costs.



On July 8, 2013, U.S. Bank National Association, in its capacity as trustee, filed a complaint against the Firm styled *U.S. Bank National Association, solely in its capacity as Trustee of the Morgan Stanley Mortgage Loan Trust 2007-2AX (MSM 2007-2AX) v. Morgan Stanley Mortgage Capital Holdings LLC, Successor-by-Merger to Morgan Stanley Mortgage Capital Inc. and GreenPoint Mortgage Funding, Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately \$650 million, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages and interest. On August 22, 2013, the Firm filed a motion to dismiss the complaint, which was granted in part and denied in part on November 24, 2014. On August 13, 2018, the Firm filed a motion to renew its motion to dismiss. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately \$240 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

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**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)**

On September 19, 2014, Financial Guaranty Insurance Company ( FGIC ) filed a complaint against the Firm in the Supreme Court of NY, styled *Financial Guaranty Insurance Company v. Morgan Stanley ABS Capital I Inc. et al.* relating to a securitization issued by Basket of Aggregated Residential NIMS 2007-1 Ltd. The complaint asserts claims for breach of contract and alleges, among other things, that the net interest margin securities ( NIMS ) in the trust breached various representations and warranties. FGIC issued a financial guaranty policy with respect to certain notes that had an original balance of approximately \$475 million. The complaint seeks, among other relief, specific performance of the NIMS breach remedy procedures in the transaction documents, unspecified damages, reimbursement of certain payments made pursuant to the transaction documents, attorneys' fees and interest. On November 24, 2014, the Firm filed a motion to dismiss the complaint, which the court denied on January 19, 2017. On September 13, 2018, the Appellate Division, First Department, affirmed the lower court's order denying the Firm's motion to dismiss. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately \$126 million, the unpaid balance of these notes, plus pre- and post-judgment interest, fees and costs, as well as claim payments that FGIC has made and will make in the future.

On September 23, 2014, FGIC filed a complaint against the Firm in the Supreme Court of NY styled *Financial Guaranty Insurance Company v. Morgan Stanley ABS Capital I Inc. et al.* relating to the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4. The complaint asserts claims for breach of contract and fraudulent inducement and alleges, among other things, that the loans in the trust breached various representations and warranties and defendants made untrue statements and material omissions to induce FGIC to issue a financial guaranty policy on certain classes of certificates that had an original balance of approximately \$876 million. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, compensatory, consequential and punitive damages, attorneys' fees and interest. On January 23, 2017, the court denied the Firm's motion to dismiss the complaint. On September 13, 2018, the Appellate Division, First Department, affirmed in part and reversed in part the lower court's order denying the Firm's motion to dismiss. On October 15, 2018, the plaintiff filed a motion for leave to appeal the decision of the Appellate Division, First Department, to the New York Court of Appeals or, in the alternative, for reargument. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately \$277 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands from a certificate holder and FGIC that the Firm did not repurchase, plus pre- and post-judgment interest, fees and costs, as well as claim payments that FGIC has made and will make in the future. In addition, plaintiff is seeking to expand

the number of loans at issue and the possible range of loss could increase.

On January 23, 2015, Deutsche Bank National Trust Company, in its capacity as trustee, filed a complaint against the Firm styled *Deutsche Bank National Trust Company solely in its capacity as Trustee of the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4 v. Morgan Stanley Mortgage Capital Holdings LLC as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc., and Morgan Stanley ABS Capital I Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately \$1.05 billion, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, compensatory, consequential, rescissory, equitable and punitive damages, attorneys' fees, costs and other related expenses, and interest. On December 11, 2015, the court granted in part and denied in part the Firm's motion to dismiss the complaint. On February 11, 2016, plaintiff filed a notice of appeal of that order, and the appeal was fully

briefed on August 19, 2016. On October 19, 2018, the court granted the Firm's motion for leave to amend its answer and to stay the case pending resolution of Deutsche Bank National Trust Company's appeal to the New York Court of Appeals in another case. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately \$277 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands from a certificate holder and a monoline insurer that the Firm did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

In matters styled *Case number 15/3637* and *Case number 15/4353*, the Dutch Tax Authority (Dutch Authority) is challenging, in the District Court in Amsterdam, the prior set-off by the Firm of approximately 124 million (approximately \$144 million) plus accrued interest of withholding tax credits against the Firm's corporation tax liabilities for the tax years 2007 to 2013. The Dutch Authority alleges that the Firm was not entitled to receive the withholding tax credits on the basis, inter alia, that a Firm subsidiary did not hold legal title to certain securities subject to withholding tax on the relevant dates. The Dutch Authority has also alleged that the Firm failed to provide certain information to the Dutch Authority and keep adequate books and records. A hearing took place in this matter on September 19, 2017. On April 26, 2018, the District Court in Amsterdam issued a decision dismissing the Dutch Authority's claims. On June 6, 2018, the Dutch Authority filed an appeal against the decision issued by the District Court in Amsterdam. Based on currently available information, the Firm believes that

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it could incur a loss in this action of up to approximately 124 million (approximately \$144 million) plus accrued interest.

**12. Variable Interest Entities and Securitization Activities****Overview**

For a discussion of the Firm's VIEs, the determination and structure of VIEs and securitization activities, see Note 13 to the financial statements in the 2017 Form 10-K.

**Consolidated VIEs****Assets and Liabilities by Type of Activity**

	<b>At September 30,</b>		<b>2018</b>		At December 31, 2017	
<i>\$ in millions</i>	VIE Assets	VIE Liabilities	VIE Assets	VIE Liabilities	VIE Assets	VIE Liabilities
OSF	\$ 273	\$	\$ 378	\$	3	3
MABS <sup>1</sup>	66	44	249	210	210	210
Other <sup>2</sup>	2,234	834	1,174	250	250	250
<b>Total</b>	<b>\$ 2,573</b>	<b>\$ 878</b>	<b>\$ 1,801</b>	<b>\$ 463</b>	<b>\$ 463</b>	<b>\$ 463</b>

OSF Other structured financings

1. Amounts include transactions backed by residential mortgage loans, commercial mortgage loans and other types of assets, including consumer or commercial assets. The value of assets is determined based on the fair value of the liabilities and the interests owned by the Firm in such VIEs as the fair values for the liabilities and interests owned are more observable.

2. Other primarily includes investment funds, certain operating entities and structured transactions. At September 30, 2018, Other includes the consolidation of a fund managed by Mesa West Capital, LLC, which was acquired in the first quarter of 2018.

**Assets and Liabilities by Balance Sheet Caption**

	<b>At</b>	<b>At</b>
<i>\$ in millions</i>	<b>September 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents:		

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Cash and due from banks	\$	99	\$	69
Restricted cash		170		222
Trading assets at fair value		1,712		833
Customer and other receivables		22		19
Goodwill		18		18
Intangible assets		134		155
Other assets		418		485
<b>Total</b>	\$	<b>2,573</b>	\$	<b>1,801</b>
<b>Liabilities</b>				
Other secured financings	\$	845	\$	438
Other liabilities and accrued expenses		33		25
<b>Total</b>	\$	<b>878</b>	\$	<b>463</b>
Noncontrolling interests	\$	437	\$	189

Consolidated VIE assets and liabilities are presented in the previous tables after intercompany eliminations. Most assets owned by consolidated VIEs cannot be removed unilaterally by the Firm and are not generally available to the Firm. Most related liabilities issued by consolidated VIEs are non-recourse to the Firm. In certain other consolidated VIEs,

the Firm either has the unilateral right to remove assets or provides additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

In general, the Firm's exposure to loss in consolidated VIEs is limited to losses that would be absorbed on the VIE net assets recognized in its financial statements, net of amounts absorbed by third-party variable interest holders.

**Non-consolidated VIEs**

**At September 30, 2018**

<i>\$ in millions</i>	MABS	CDO	MTOB	OSF	Other
VIE assets (UPB)	\$ 73,812	\$ 15,427	\$ 6,314	\$ 3,457	\$ 20,199
<b>Maximum exposure to loss</b>					
Debt and equity interests	\$ 8,598	\$ 1,505	\$ 17	\$ 1,579	\$ 5,006
Derivative and other contracts			3,994		1,756
Commitments, guarantees and other	863	630		139	327
<b>Total</b>	\$ 9,461	\$ 2,135	\$ 4,011	\$ 1,718	\$ 7,089
<b>Carrying value of exposure to loss Assets</b>					
Debt and equity interests	\$ 8,598	\$ 1,505	\$ 17	\$ 1,166	\$ 5,006
Derivative and other contracts			6		70
<b>Total</b>	\$ 8,598	\$ 1,505	\$ 23	\$ 1,166	\$ 5,076
Additional VIE assets owned <sup>1</sup>					\$ 12,231

**At December 31, 2017**

<i>\$ in millions</i>	MABS	CDO	MTOB	OSF	Other
VIE assets (UPB)	\$ 89,288	\$ 9,807	\$ 5,306	\$ 3,322	\$ 31,934

**Maximum exposure to loss**

Debt and equity interests	\$ 10,657	\$ 1,384	\$ 80	\$ 1,628	\$ 4,730
Derivative and other contracts			3,333		1,686
Commitments, guarantees and other	1,214	668		164	433
<b>Total</b>	<b>\$ 11,871</b>	<b>\$ 2,052</b>	<b>\$ 3,413</b>	<b>\$ 1,792</b>	<b>\$ 6,849</b>

**Carrying value of exposure to loss Assets**

Debt and equity interests	\$ 10,657	\$ 1,384	\$ 43	\$ 1,202	\$ 4,730
Derivative and other contracts			5		184
<b>Total</b>	<b>\$ 10,657</b>	<b>\$ 1,384</b>	<b>\$ 48</b>	<b>\$ 1,202</b>	<b>\$ 4,914</b>
Additional VIE assets owned <sup>1</sup>					\$ 11,318

MTOB Municipal tender option bonds

1. Additional VIE Assets owned represents the carrying value of total exposure to non-consolidated VIEs for which the maximum exposure to loss is less than specific thresholds, primarily interests issued by securitization SPEs. Most of the VIEs included in the previous tables are sponsored by unrelated parties; the Firm's involvement generally

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**Notes to Consolidated Financial Statements**

**(Unaudited)**

is the result of its secondary market-making activities, securities held in its Investment securities portfolio (see Note 5) and certain investments in funds.

The Firm's maximum exposure to loss is dependent on the nature of the Firm's variable interest in the VIE and is limited to:

- notional amounts of certain liquidity facilities;
- other credit support;
- total return swaps;
- written put options; and
- fair value of certain other derivatives and investments the Firm has made in the VIE.

Where notional amounts are utilized in quantifying the maximum exposure related to derivatives, such amounts do not reflect changes in fair value recorded by the Firm.

The Firm's maximum exposure to loss presented in the previous table does not include:

- offsetting benefit of any financial instruments that the Firm may utilize to hedge these risks associated with its variable interests; and
- any reductions associated with the amount of collateral held as part of a transaction with the VIE or any party to the VIE directly against a specific exposure to loss.

Liabilities issued by VIEs generally are non-recourse to the Firm.

The Firm's primary risk exposure related to additional VIE assets owned is to the most subordinate class of beneficial interest, which are typically acquired by the Firm in the secondary market and generally issued by SPEs sponsored by unrelated parties. These assets, which generally consist of MABS, CDO, MTOB and other exposure, are primarily included in Trading assets - Corporate and other debt, Trading assets - Investments or AFS securities within its Investment securities portfolio and are measured at fair value (see Note 3). The Firm does not provide additional support in these transactions through contractual facilities, such as liquidity facilities, guarantees or similar derivatives. The Firm's maximum exposure to loss generally equals the fair value of the assets owned.

**Mortgage- and Asset-Backed Securitization Assets**

<i>\$ in millions</i>	<b>At September 30, 2018</b>	At December 31, 2017	
	UPB	UPB	Debt and Equity Interests
	Debt and Equity		

	Interests			
Residential mortgages	\$ 9,299	\$ 923	\$ 15,636	\$ 1,272
Commercial mortgages	39,554	1,289	46,464	2,331
U.S. agency collateralized mortgage obligations	14,176	2,822	16,223	3,439
Other consumer or commercial loans	10,783	3,564	10,965	3,615
<b>Total</b>	<b>\$ 73,812</b>	<b>\$ 8,598</b>	<b>\$ 89,288</b>	<b>\$ 10,657</b>

**Transfers of Assets with Continuing Involvement**

At September 30, 2018

\$ in millions	U.S. Agency				CLN and Other <sup>1</sup>
	RML	CML	CMO		
SPE assets (UPB) <sup>2</sup>	\$ 14,775	\$ 66,829	\$ 14,793	\$ 17,101	
<b>Retained interests</b>					
Investment grade	\$ 18	\$ 492	\$ 850	\$ 14	
Non-investment grade (fair value)	3	119		359	
<b>Total</b>	<b>\$ 21</b>	<b>\$ 611</b>	<b>\$ 850</b>	<b>\$ 373</b>	
<b>Interests purchased in the secondary market (fair value)</b>					
Investment grade	\$ 7	\$ 141	\$ 71	\$	
Non-investment grade	51	47			
<b>Total</b>	<b>\$ 58</b>	<b>\$ 188</b>	<b>\$ 71</b>	<b>\$</b>	
Derivative assets (fair value)	\$	\$	\$	\$	140
Derivative liabilities (fair value)					136

At December 31, 2017

\$ in millions	U.S. Agency				CLN and Other <sup>1</sup>
	RML	CML	CMO		
SPE assets (UPB) <sup>2</sup>	\$ 15,555	\$ 62,744	\$ 11,612	\$ 17,060	
<b>Retained interests</b>					
Investment grade	\$	\$ 293	\$ 407	\$ 4	
Non-investment grade (fair value)	1	98		478	
<b>Total</b>	<b>\$ 1</b>	<b>\$ 391</b>	<b>\$ 407</b>	<b>\$ 482</b>	
<b>Interests purchased in the secondary market (fair value)</b>					
Investment grade	\$	\$ 94	\$ 439	\$	
Non-investment grade	16	66		4	
<b>Total</b>	<b>\$ 16</b>	<b>\$ 160</b>	<b>\$ 439</b>	<b>\$ 4</b>	
Derivative assets (fair value)	\$ 1	\$	\$	\$	226
Derivative liabilities (fair value)					85

RML Residential mortgage loans

CML Commercial mortgage loans

1. Amounts include CLO transactions managed by unrelated third parties.

2. Amounts include assets transferred by unrelated transferors.





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<i>\$ in millions</i>	Level 2	Level 3	Total
<b>Retained interests</b>			
Investment grade	\$ 868	\$ 56	\$ 924
Non-investment grade	139	342	481
<b>Total</b>	\$ 1,007	\$ 398	\$ 1,405
<b>Interests purchased in the secondary market</b>			
Investment grade	\$ 208	\$ 11	\$ 219
Non-investment grade	88	10	98
<b>Total</b>	\$ 296	\$ 21	\$ 317
Derivative assets	\$ 28	\$ 112	\$ 140
Derivative liabilities	133	3	136

**Fair Value at December 31, 2017**

<i>\$ in millions</i>	Level 2	Level 3	Total
<b>Retained interests</b>			
Investment grade	\$ 407	\$ 4	\$ 411
Non-investment grade	22	555	577
<b>Total</b>	\$ 429	\$ 559	\$ 988
<b>Interests purchased in the secondary market</b>			
Investment grade	\$ 531	\$ 2	\$ 533
Non-investment grade	57	29	86
<b>Total</b>	\$ 588	\$ 31	\$ 619
Derivative assets	\$ 78	\$ 149	\$ 227
Derivative liabilities	81	4	85

The previous tables include transactions with SPEs in which the Firm, acting as principal, transferred financial assets with continuing involvement and received sales treatment.

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

**Proceeds from New Securitization Transactions and Sales of Loans**

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
New transactions <sup>1</sup>	\$ 7,299	\$ 6,875	\$ 19,056	\$ 17,622
Retained interests	584	648	2,222	1,607
Sales of corporate loans to CLO SPEs <sup>1, 2</sup>	17	56	253	148

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

2. Sponsored by non-affiliates.

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

### Assets Sold with Retained Exposure

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Carrying value of assets derecognized at the time of sale and gross cash proceeds	\$ 28,121	\$ 19,115
<b>Fair value</b>		
Assets sold	\$ 28,820	\$ 19,138
Derivative assets recognized in the balance sheets	826	176
Derivative liabilities recognized in the balance sheets	127	153

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

## 13. Regulatory Requirements

### Regulatory Capital Framework and Requirements

For a discussion of the Firm's regulatory capital framework, see Note 14 to the financial statements in the 2017 Form 10-K.

The Firm is required to maintain minimum risk-based and leverage-based capital ratios under the regulatory capital requirements. A summary of the calculations of regulatory capital, RWA and transition provisions follows.

The Firm's 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 RWA ( Standardized Approach ) and (ii) the applicable advanced approaches for calculating credit risk, market risk and operational risk RWA ( Advanced Approach ).

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 AOCI and investments in the capital instruments of unconsolidated financial institutions.

In addition to the minimum risk-based capital ratio requirements, by 2019 the Firm will be subject to the following buffers:

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

The Common Equity Tier 1 G-SIB capital surcharge, currently at 3%; and

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Up to a 2.5% Common Equity Tier 1 CCyB, currently set by U.S. banking agencies at zero. In 2018, each of the buffers is 75% of the 2019 requirement noted above (during 2017, the buffers were 50%). Failure to maintain the buffers would result in restrictions on the Firm's ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers.

For a further discussion of the Firm's calculation of risk-based capital ratios, see Note 14 to the financial statements in the 2017 Form 10-K.

**The Firm's Regulatory Capital and Capital Ratios**

<i>\$ in millions</i>	<b>At September 30, 2018</b>		
	Required Ratio <sup>1</sup>	Amount	Ratio
<b>Risk-based capital</b>			
Common Equity Tier 1 capital	8.6%	\$ 61,758	16.7%
Tier 1 capital	10.1%	70,328	19.0%
Total capital	12.1%	79,899	21.6%
Total RWA		370,714	
<b>Leverage-based capital</b>			
Tier 1 leverage	4.0%	\$ 70,328	8.2%
Adjusted average assets <sup>2</sup>		858,944	
SLR <sup>3</sup>	5.0%	70,328	6.4%
Supplementary leverage exposure <sup>4</sup>		1,101,263	

<i>\$ in millions</i>	<b>At December 31, 2017</b>		
	Required Ratio <sup>1</sup>	Amount	Ratio <sup>5</sup>
<b>Risk-based capital</b>			
Common Equity Tier 1 capital	7.3%	\$ 61,134	16.5%
Tier 1 capital	8.8%	69,938	18.9%
Total capital	10.8%	80,275	21.7%
Total RWA		369,578	
<b>Leverage-based capital</b>			
Tier 1 leverage	4.0%	\$ 69,938	8.3%
Adjusted average assets <sup>2</sup>		842,270	

1. Percentages represent minimum required regulatory capital ratios for risk-based capital, the ratios are under the transitional rules.

2.

Adjusted average assets represents the denominator of the Tier 1 leverage ratio and is 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, 2017, adjusted for disallowed goodwill, intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.

3. The SLR became effective as a capital standard on January 1, 2018.
4. Supplementary Leverage exposure is the sum of Adjusted average assets used in the Tier 1 leverage ratio and other adjustments, primarily (i) potential future exposure for derivative exposures, gross-up for cash collateral netting where qualifying criteria are not met, and the effective notional principal amount of sold credit protection offset by qualifying purchased credit protection; (ii) the counterparty credit risk for repo-style transactions; and (iii) the credit equivalent amount for off-balance sheet exposures.
5. For risk- and leverage-based capital, regulatory compliance was determined based on capital ratios calculated under the transitional rules until December 31, 2017.

At September 30, 2018 and December 31, 2017, the Firm's risk-based capital ratios are based on the Standardized Approach rules.

### U.S. Bank Subsidiaries Regulatory Capital and Capital Ratios

The OCC establishes capital requirements for our U.S. Bank Subsidiaries and evaluates their compliance with such capital requirements. Regulatory capital requirements for our U.S. Bank Subsidiaries are calculated in a similar manner to the Firm's regulatory capital requirements, although G-SIB capital surcharge requirements do not apply to our U.S. Bank Subsidiaries.

The OCC's regulatory capital framework includes Prompt Corrective Action (PCA) standards, including well-capitalized PCA standards that are based on specified regulatory capital ratio minimums. For us to remain an FHC, our U.S. Bank Subsidiaries must remain well-capitalized in accordance with the OCC's PCA standards. In addition, failure by our U.S. Bank Subsidiaries to meet minimum capital requirements may result in certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the U.S. Bank Subsidiaries and the Firm's financial statements.

At September 30, 2018 and December 31, 2017, the U.S. Bank Subsidiaries' risk-based capital ratios are based on the Standardized Approach rules and exceeded well-capitalized requirements.

### MSBNA's Regulatory Capital

<i>\$ in millions</i>	At September 30, 2018		
	Required Ratio <sup>1</sup>	Amount	Ratio
<b>Risk-based capital</b>			
Common Equity Tier 1 capital	6.5%	\$ 15,683	20.4%
Tier 1 capital	8.0%	15,683	20.4%
Total capital	10.0%	15,933	20.7%
<b>Leverage-based capital</b>			
Tier 1 leverage	5.0%	\$ 15,683	10.9%
SLR <sup>2</sup>	6.0%	15,683	8.5%

<i>\$ in millions</i>	At December 31, 2017		
	Required Ratio <sup>1</sup>	Amount	Ratio <sup>3</sup>

<b>Risk-based capital</b>			
Common Equity Tier 1 capital	6.5%	\$ 15,196	20.5%
Tier 1 capital	8.0%	15,196	20.5%
Total capital	10.0%	15,454	20.8%
<b>Leverage-based capital</b>			
Tier 1 leverage	5.0%	\$ 15,196	11.8%

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****MSPBNA s Regulatory Capital**

	<b>At September 30, 2018</b>		
<i>\$ in millions</i>	Required Ratio <sup>1</sup>	Amount	Ratio
<b>Risk-based capital</b>			
Common Equity Tier 1 capital	6.5%	\$ 6,841	25.0%
Tier 1 capital	8.0%	6,841	25.0%
Total capital	10.0%	6,886	25.1%
<b>Leverage-based capital</b>			
Tier 1 leverage	5.0%	\$ 6,841	9.7%
SLR <sup>2</sup>	6.0%	6,841	9.4%

	<b>At December 31, 2017</b>		
<i>\$ in millions</i>	Required Ratio <sup>1</sup>	Amount	Ratio <sup>3</sup>
<b>Risk-based capital</b>			
Common Equity Tier 1 capital	6.5%	\$ 6,215	24.4%
Tier 1 capital	8.0%	6,215	24.4%
Total capital	10.0%	6,258	24.6%
<b>Leverage-based capital</b>			
Tier 1 leverage	5.0%	\$ 6,215	9.7%

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

2. The SLR became effective as a capital standard on January 1, 2018.

3. For risk- and leverage-based capital, regulatory compliance was determined based on capital ratios calculated under the transitional rules until December 31, 2017.

**U.S. Broker-Dealer Regulatory Capital Requirements****MS&Co. Regulatory Capital**

<i>\$ in millions</i>	<b>At September 30, 2018</b>	At December 31, 2017
Net capital	\$ 12,627	\$ 10,142
Excess net capital	10,253	8,018

MS&Co. is a registered U.S. broker-dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the SEC and the CFTC. MS&Co. has consistently operated with capital in excess of its regulatory capital requirements.



As an Alternative Net Capital broker-dealer, and in accordance with the market and credit risk standards of Appendix E of SEC Rule 15c3-1, MS&Co. is subject to minimum net capital and tentative net capital requirements. In addition, MS&Co. must notify the SEC if its tentative net capital falls below certain levels. At September 30, 2018 and December 31, 2017, MS&Co. has exceeded its net capital requirement and has tentative net capital in excess of the minimum and notification requirements.

### MSSB LLC Regulatory Capital

<i>\$ in millions</i>	At September 30, 2018	At December 31, 2017
Net capital	\$ 3,030	\$ 2,567
Excess net capital	2,864	2,400

MSSB LLC is a registered U.S. broker-dealer and introducing broker for the futures business and, accordingly, is subject to the minimum net capital requirements of the SEC. MSSB LLC has consistently operated with capital in excess of its regulatory capital requirements.

### Other Regulated Subsidiaries

MSIP, a London-based broker-dealer subsidiary, is subject to the capital requirements of the PRA, and MSMS, a Tokyo-based broker-dealer subsidiary, is subject to the capital requirements of the Financial Services Agency. MSIP and MSMS have consistently operated with capital in excess of their respective regulatory capital requirements.

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

## 14. Total Equity

### Share Repurchases

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Repurchases of common stock under the Firm's share repurchase program	\$ 1,180	\$ 1,250	\$ 3,680	\$ 2,500

The Firm's 2018 Capital Plan (Capital Plan) includes the share repurchase of up to \$4.7 billion of outstanding common stock for the period beginning July 1, 2018 through June 30, 2019. Additionally, the Capital Plan includes quarterly common stock dividends of up to \$0.30 per share.

On April 18, 2018, the Firm entered into a sales plan with MUFG whereby MUFG sells shares of the Firm's common stock to the Firm, as part of the Firm's share repurchase program. The sales plan is only intended to maintain MUFG's ownership percentage below 24.9% in order to comply with MUFG's passivity commitments to the Board of Governors of the Federal Reserve System and will have no impact on the strategic alliance between MUFG and the Firm, including the joint ventures in Japan.

### Preferred Stock

<i>\$ in millions</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Dividends declared	\$ 93	\$ 93	\$ 356	\$ 353

For a description of Series A through Series K preferred stock issuances, see Note 15 to the financial statements in the 2017

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Form 10-K. The Firm is authorized to issue 30 million shares of preferred stock. The preferred stock has a preference over the common stock upon liquidation. The Firm's preferred stock qualifies as Tier 1 capital in accordance with regulatory capital requirements (see Note 13).

**Preferred Stock Outstanding**

<i>\$ in millions, except per share data</i>	Shares Outstanding	Liquidation Preference per Share	Carrying Value	
	At September 30, 2018		At September 30, 2018	At December 31, 2017
<b>Series</b>				
A	44,000	\$ 25,000	\$ 1,100	\$ 1,100
C <sup>1</sup>	519,882	1,000	408	408
E	34,500	25,000	862	862
F	34,000	25,000	850	850
G	20,000	25,000	500	500
H	52,000	25,000	1,300	1,300
I	40,000	25,000	1,000	1,000
J	60,000	25,000	1,500	1,500
K	40,000	25,000	1,000	1,000
<b>Total</b>			<b>\$ 8,520</b>	<b>\$ 8,520</b>

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

**Comprehensive Income (Loss)****Accumulated Other Comprehensive Income (Loss)<sup>1</sup>**

<i>\$ in millions</i>	Foreign Currency Translation Adjustments	AFS Securities	Pension, Postretirement and Other	DVA	Total
June 30, 2018	\$ (864)	\$ (1,194)	\$ (704)	\$ (308)	\$ (3,070)
OCI during the period	(54)	(171)	5	(709)	(929)
<b>September 30, 2018</b>	<b>\$ (918)</b>	<b>\$ (1,365)</b>	<b>\$ (699)</b>	<b>\$ (1,017)</b>	<b>\$ (3,999)</b>

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June 30, 2017	\$ (856)	\$ (396)	\$ (470)	\$ (766)	\$ (2,488)
OCI during the period	61	26		(143)	(56)
September 30, 2017	\$ (795)	\$ (370)	\$ (470)	\$ (909)	\$ (2,544)
December 31, 2017	\$ (767)	\$ (547)	\$ (591)	\$ (1,155)	\$ (3,060)
Cumulative adjustment for accounting changes <sup>2</sup>	(8)	(111)	(124)	(194)	(437)
OCI during the period	(143)	(707)	16	332	(502)
<b>September 30, 2018</b>	<b>\$ (918)</b>	<b>\$ (1,365)</b>	<b>\$ (699)</b>	<b>\$ (1,017)</b>	<b>\$ (3,999)</b>
December 31, 2016	\$ (986)	\$ (588)	\$ (474)	\$ (595)	\$ (2,643)
OCI during the period	191	218	4	(314)	99
September 30, 2017	\$ (795)	\$ (370)	\$ (470)	\$ (909)	\$ (2,544)

1. Amounts net of tax and noncontrolling interests.

2. The cumulative adjustment for accounting changes is primarily the effect of the adoption of the accounting update *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This adjustment was recorded as of January 1, 2018 to reclassify certain income tax effects related to enactment of the Tax Act from AOCI to Retained earnings, primarily related to the remeasurement of deferred tax assets and liabilities resulting from the reduction in corporate income tax rate to 21%. See Note 2 for further information.

**Components of Period Changes in OCI**

**Three Months Ended**

\$ in millions	September 30, 2018				
	Pre-tax Gain (Loss)	Income Tax Benefit (Provision)	After-tax Gain (Loss)	Non-controlling Interests	Net
<b>Foreign currency translation adjustments</b>					
OCI activity	\$ (44)	\$ (35)	\$ (79)	\$ (25)	\$ (54)
Reclassified to earnings					
<b>Net OCI</b>	<b>\$ (44)</b>	<b>\$ (35)</b>	<b>\$ (79)</b>	<b>\$ (25)</b>	<b>\$ (54)</b>
<b>Change in net unrealized gains (losses) on AFS securities</b>					
OCI activity	\$ (219)	\$ 51	\$ (168)	\$	\$ (168)
Reclassified to earnings	(5)	2	(3)		(3)
<b>Net OCI</b>	<b>\$ (224)</b>	<b>\$ 53</b>	<b>\$ (171)</b>	<b>\$</b>	<b>\$ (171)</b>
<b>Pension, postretirement and other</b>					
OCI activity	\$	\$	\$	\$	\$
Reclassified to earnings	7	(2)	5		5
<b>Net OCI</b>	<b>\$ 7</b>	<b>\$ (2)</b>	<b>\$ 5</b>	<b>\$</b>	<b>\$ 5</b>
<b>Change in net DVA</b>					
OCI activity	\$ (1,018)	\$ 248	\$ (770)	\$ (34)	\$ (736)
Reclassified to earnings	36	(9)	27		27
<b>Net OCI</b>	<b>\$ (982)</b>	<b>\$ 239</b>	<b>\$ (743)</b>	<b>\$ (34)</b>	<b>\$ (709)</b>

Three Months Ended

September 30, 2017

<i>\$ in millions</i>	Pre-tax Gain (Loss)	Income Tax Benefit (Provision)	After-tax Gain (Loss)	Non- controlling Interests	Net
<b>Foreign currency translation adjustments</b>					
OCI activity	\$ 19	\$ 42	\$ 61	\$	\$ 61
Reclassified to earnings					
<b>Net OCI</b>	\$ 19	\$ 42	\$ 61	\$	\$ 61
<b>Change in net unrealized gains (losses) on AFS securities</b>					
OCI activity	\$ 52	\$ (19)	\$ 33	\$	\$ 33
Reclassified to earnings	(11)	4	(7)		(7)
<b>Net OCI</b>	\$ 41	\$ (15)	\$ 26	\$	\$ 26
<b>Pension, postretirement and other</b>					
OCI activity	\$	\$	\$	\$	\$
Reclassified to earnings	1	(1)			
<b>Net OCI</b>	\$ 1	\$ (1)	\$	\$	\$
<b>Change in net DVA</b>					
OCI activity	\$ (220)	\$ 77	\$ (143)	\$ (6)	\$ (137)
Reclassified to earnings	(9)	3	(6)		(6)
<b>Net OCI</b>	\$ (229)	\$ 80	\$ (149)	\$ (6)	\$ (143)

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)**

	Nine Months Ended				
	September 30, 2018 <sup>1</sup>				
<i>\$ in millions</i>	Pre-tax Gain (Loss)	Income Tax Benefit (Provision)	After-tax Gain (Loss)	Non- controlling Interests	Net
<b>Foreign currency translation adjustments</b>					
OCI activity	\$ (52)	\$ (102)	\$ (154)	\$ (11)	\$ (143)
Reclassified to earnings					
<b>Net OCI</b>	<b>\$ (52)</b>	<b>\$ (102)</b>	<b>\$ (154)</b>	<b>\$ (11)</b>	<b>\$ (143)</b>
<b>Change in net unrealized gains (losses) on AFS securities</b>					
OCI activity	\$ (916)	\$ 215	\$ (701)	\$	\$ (701)
Reclassified to earnings	(8)	2	(6)		(6)
<b>Net OCI</b>	<b>\$ (924)</b>	<b>\$ 217</b>	<b>\$ (707)</b>	<b>\$</b>	<b>\$ (707)</b>
<b>Pension, postretirement and other</b>					
OCI activity	\$ 2	\$	\$ 2	\$	\$ 2
Reclassified to earnings	19	(5)	14		14
<b>Net OCI</b>	<b>\$ 21</b>	<b>\$ (5)</b>	<b>\$ 16</b>	<b>\$</b>	<b>\$ 16</b>
<b>Change in net DVA</b>					
OCI activity	\$ 403	\$ (97)	\$ 306	\$ 15	\$ 291
Reclassified to earnings	54	(13)	41		41
<b>Net OCI</b>	<b>\$ 457</b>	<b>\$ (110)</b>	<b>\$ 347</b>	<b>\$ 15</b>	<b>\$ 332</b>

Nine Months Ended

	September 30, 2017				
<i>\$ in millions</i>	Pre-tax Gain (Loss)	Income Tax Benefit (Provision)	After-tax Gain (Loss)	Non- controlling Interests	Net
<b>Foreign currency translation adjustments</b>					
OCI activity	\$ 63	\$ 160	\$ 223	\$ 32	\$ 191
Reclassified to earnings					
<b>Net OCI</b>	<b>\$ 63</b>	<b>\$ 160</b>	<b>\$ 223</b>	<b>\$ 32</b>	<b>\$ 191</b>
<b>Change in net unrealized gains (losses) on AFS securities</b>					

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OCI activity	\$ 374	\$ (139)	\$ 235	\$	\$ 235
Reclassified to earnings	(27)	10	(17)		(17)
<b>Net OCI</b>	<b>\$ 347</b>	<b>\$ (129)</b>	<b>\$ 218</b>	<b>\$</b>	<b>\$ 218</b>
<b>Pension, postretirement and other</b>					
OCI activity	\$ 3	\$	\$ 3	\$	\$ 3
Reclassified to earnings	2	(1)	1		1
<b>Net OCI</b>	<b>\$ 5</b>	<b>\$ (1)</b>	<b>\$ 4</b>	<b>\$</b>	<b>\$ 4</b>
<b>Change in net DVA</b>					
OCI activity	\$ (498)	\$ 175	\$ (323)	\$ (9)	\$ (314)
Reclassified to earnings	(1)	1			
<b>Net OCI</b>	<b>\$ (499)</b>	<b>\$ 176</b>	<b>\$ (323)</b>	<b>\$ (9)</b>	<b>\$ (314)</b>

1. Exclusive of 2018 cumulative adjustments related to the adoption of certain accounting updates in the current year period. Refer to the table below and Note 2 for further information.

**Cumulative Adjustments to Retained Earnings Related to Adoption of Accounting Updates**

<i>\$ in millions</i>	<b>Nine Months Ended September 30, 2018</b>
Revenue from contracts with customers	<b>\$ (32)</b>
Derivatives and hedging-targeted improvements to accounting for hedging activities	<b>(99)</b>
Reclassification of certain tax effects from AOCI	<b>443</b>
Other <sup>1</sup>	<b>(6)</b>
<b>Total</b>	<b>\$ 306</b>

<i>\$ in millions</i>	<b>Nine Months Ended September 30, 2017</b>
Improvements to employee share-based payment accounting <sup>2</sup>	<b>(30)</b>
Intra-entity transfers of assets other than inventory	<b>(5)</b>
<b>Total</b>	<b>\$ (35)</b>

1. Other includes the adoption of accounting updates related to *Recognition and Measurement of Financial Assets and Financial Liabilities* (other than the provision around presenting unrealized DVA in OCI which the Firm early adopted in 2016) and *Derecognition of Nonfinancial Assets*. The impact of these adoptions on Retained earnings was not significant.

2. See Note 2 to the 2017 Form 10-K for further information.





**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****15. Earnings per Common Share****Calculation of Basic and Diluted EPS**

<i>in millions, except for per share data</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
<b>Basic EPS</b>				
Income from continuing operations	\$ 2,155	\$ 1,785	\$ 7,330	\$ 5,574
Income (loss) from discontinued operations	(1)	6	(5)	(21)
Net income	2,154	1,791	7,325	5,553
Net income applicable to noncontrolling interests	42	10	108	85
Net income applicable to Morgan Stanley	2,112	1,781	7,217	5,468
Preferred stock dividends and other	93	93	356	353
<b>Earnings applicable to Morgan Stanley common shareholders</b>	<b>\$ 2,019</b>	<b>\$ 1,688</b>	<b>\$ 6,861</b>	<b>\$ 5,115</b>
<b>Weighted average common shares outstanding</b>	<b>1,697</b>	1,776	<b>1,719</b>	1,789
<b>Earnings per basic common share</b>				
Income from continuing operations	\$ 1.19	\$ 0.95	\$ 3.99	\$ 2.87
Income (loss) from discontinued operations				(0.01)
Earnings per basic common share	\$ 1.19	\$ 0.95	\$ 3.99	\$ 2.86
<b>Diluted EPS</b>				
Earnings applicable to Morgan Stanley common shareholders	\$ 2,019	\$ 1,688	\$ 6,861	\$ 5,115
Weighted average common shares outstanding	1,697	1,776	1,719	1,789
Effect of dilutive securities:				
Stock options and RSUs	30	42	30	41
<b>Weighted average common shares outstanding and common stock equivalents</b>	<b>1,727</b>	1,818	<b>1,749</b>	1,830
<b>Earnings per diluted common share</b>				
Income from continuing operations	\$ 1.17	\$ 0.93	\$ 3.92	\$ 2.81
Income (loss) from discontinued operations				(0.02)
Earnings per diluted common share	\$ 1.17	\$ 0.93	\$ 3.92	\$ 2.79

Weighted average antidilutive RSUs and stock options  
(excluded from the computation of diluted EPS)

1

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## 16. Interest Income and Interest Expense

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Interest income</b>				
Investment securities	\$ 440	\$ 313	\$ 1,281	\$ 943
Loans	1,085	853	3,097	2,399
Securities purchased under agreements to resell and Securities borrowed <sup>1</sup>	575	76	1,156	86
Trading assets, net of Trading liabilities	571	506	1,687	1,461
Customer receivables and Other <sup>2</sup>	956	592	2,560	1,522
<b>Total interest income</b>	<b>\$ 3,627</b>	<b>\$ 2,340</b>	<b>\$ 9,781</b>	<b>\$ 6,411</b>
<b>Interest expense</b>				
Deposits	\$ 377	\$ 63	\$ 809	\$ 88
Borrowings	1,287	1,109	3,683	3,197
Securities sold under agreements to repurchase and Securities loaned <sup>3</sup>	478	325	1,326	912
Customer payables and Other <sup>4</sup>	549	60	1,146	(91)
<b>Total interest expense</b>	<b>\$ 2,691</b>	<b>\$ 1,557</b>	<b>\$ 6,964</b>	<b>\$ 4,106</b>
<b>Net interest</b>	<b>\$ 936</b>	<b>\$ 783</b>	<b>\$ 2,817</b>	<b>\$ 2,305</b>

1. Includes fees paid on Securities borrowed.

2. Includes interest from Customer receivables and Cash and cash equivalents.

3. Includes fees received on Securities loaned.

4. Includes fees received from prime brokerage customers for stock loan transactions incurred to cover customers' short positions.

Interest income and Interest expense are classified in the income statements based on the nature of the instrument and related market conventions. When included as a component of the instrument's fair value, interest is included within Trading revenues or Investments revenues. Otherwise, it is included within Interest income or Interest expense.

## 17. Employee Benefit Plans

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

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

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Service cost, benefits earned during the period	\$ 4	\$ 4	\$ 12	\$ 12

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Interest cost on projected benefit obligation	<b>34</b>	37	<b>103</b>	112
Expected return on plan assets	<b>(29)</b>	(29)	<b>(85)</b>	(87)
Net amortization of prior service credit	<b>(1)</b>	(4)	<b>(1)</b>	(12)
Net amortization of actuarial loss	<b>8</b>	4	<b>20</b>	12
<b>Net periodic benefit expense (income)</b>	<b>\$ 16</b>	\$ 12	<b>\$ 49</b>	\$ 37

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**Notes to Consolidated Financial Statements**

**(Unaudited)**

**18. Income Taxes**

The Firm is under continuous examination by the IRS and other tax authorities in certain countries, such as Japan and the U.K., and in states in which it has significant business operations, such as New York. The Firm has established a liability for unrecognized tax benefits, and associated interest, if applicable ( tax liabilities ), that it believes is adequate in relation to the potential for additional assessments. Once established, the Firm adjusts such tax liabilities only when new information is available or when an event occurs necessitating a change.

The Firm is currently at various levels of field examination with respect to audits by the IRS, as well as New York State and New York City, for tax years 2009-2016 and 2007-2014, respectively.

The Firm believes that the resolution of the above tax matters will not have a material effect on the annual financial statements, although a resolution could have a material impact in the income statements and effective tax rate for any period in which such resolution occurs.

Furthermore, by the end of the first quarter of 2018, the Firm reached a conclusion with the U.K. tax authorities on certain issues through tax year 2010, the resolution of which did not have a material impact on the financial statements or effective tax rate.

See Note 11 regarding the Dutch Tax Authority's challenge, in the District Court in Amsterdam (matters styled *Case number 15/3637* and *Case number 15/4353*), of the Firm's entitlement to certain withholding tax credits which may impact the balance of unrecognized tax benefits.

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

The Firm's effective tax rate for the current year period includes recurring-type discrete tax benefits associated with employee share-based payments of \$164 million. Additionally, as a result of new information pertaining to the resolution of multi-jurisdiction tax examinations and other matters, the Firm's effective tax rate for the current year period includes intermittent net discrete tax benefits of \$92 million with a corresponding reduction in the total amount of gross unrecognized tax benefits (excluding federal benefit of state items, competent authority and foreign tax credit offsets) of approximately \$430 million.

**19. Segment, Geographic and Revenue Information**

**Segment Information**

For a discussion about the Firm's business segments, see Note 21 to the financial statements in the 2017 Form 10-K.

**Selected Financial Information by Business Segment**

## Three Months Ended September 30, 2018

<i>\$ in millions</i>	IS	WM	IM	I/E	Total
Investment banking <sup>1, 2</sup>	\$ 1,459	\$ 129	\$	\$ (21)	\$ 1,567
Trading	2,573	160	2	17	2,752
Investments	96		40		136
Commissions and fees <sup>1</sup>	589	409		(66)	932
Asset management <sup>1</sup>	112	2,573	604	(38)	3,251
Other	244	58	(3)	(1)	298
Total non-interest revenues <sup>3, 4</sup>	5,073	3,329	643	(109)	8,936
Interest income	2,425	1,412	19	(229)	3,627
Interest expense	2,569	342	9	(229)	2,691
Net interest	(144)	1,070	10		936
<b>Net revenues</b>	<b>\$ 4,929</b>	<b>\$ 4,399</b>	<b>\$ 653</b>	<b>\$ (109)</b>	<b>\$ 9,872</b>
Income from continuing operations before income taxes	\$ 1,556	\$ 1,194	\$ 102	\$ (1)	\$ 2,851
Provision for income taxes	397	281	18		696
Income from continuing operations	1,159	913	84	(1)	2,155
Income (loss) from discontinued operations, net of income taxes	(3)		2		(1)
Net income	1,156	913	86	(1)	2,154
Net income applicable to noncontrolling interests	36		6		42
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 1,120</b>	<b>\$ 913</b>	<b>\$ 80</b>	<b>\$ (1)</b>	<b>\$ 2,112</b>

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)**

<i>\$ in millions</i>	Three Months Ended September 30, 2017				
	IS	WM	IM	I/E	Total
Investment banking	\$ 1,270	\$ 125	\$	\$ (15)	\$ 1,380
Trading	2,504	212	(7)	(5)	2,704
Investments	52	1	114		167
Commissions and fees	561	402		(26)	937
Asset management	88	2,393	568	(23)	3,026
Other	143	62	1	(6)	200
Total non-interest revenues	4,618	3,195	676	(75)	8,414
Interest income	1,421	1,155	1	(237)	2,340
Interest expense	1,663	130	2	(238)	1,557
Net interest	(242)	1,025	(1)	1	783
<b>Net revenues</b>	<b>\$ 4,376</b>	<b>\$ 4,220</b>	<b>\$ 675</b>	<b>\$ (74)</b>	<b>\$ 9,197</b>
Income from continuing operations before income taxes	\$ 1,236	\$ 1,119	\$ 131	\$ (4)	\$ 2,482
Provision for income taxes	260	421	16		697
Income from continuing operations	976	698	115	(4)	1,785
Income (loss) from discontinued operations, net of income taxes	6				6
Net income	982	698	115	(4)	1,791
Net income applicable to noncontrolling interests	9		1		10
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 973</b>	<b>\$ 698</b>	<b>\$ 114</b>	<b>\$ (4)</b>	<b>\$ 1,781</b>

<i>\$ in millions</i>	Nine Months Ended September 30, 2018				
	IS	WM	IM	I/E	Total
Investment banking <sup>1, 2</sup>	\$ 4,671	\$ 383	\$	\$ (60)	\$ 4,994
Trading	9,344	404	23	44	9,815
Investments	234	3	172		409
Commissions and fees <sup>1</sup>	2,007	1,349		(212)	3,144
Asset management <sup>1</sup>	324	7,582	1,840	(114)	9,632
Other	548	195	10	(5)	748
Total non-interest revenues <sup>3, 4</sup>	17,128	9,916	2,045	(347)	28,742
Interest income	6,424	4,012	37	(692)	9,781
Interest expense	6,809	830	20	(695)	6,964
Net interest	(385)	3,182	17	3	2,817
<b>Net revenues</b>	<b>\$ 16,743</b>	<b>\$ 13,098</b>	<b>\$ 2,062</b>	<b>\$ (344)</b>	<b>\$ 31,559</b>
Income from continuing operations before income taxes	\$ 5,480	\$ 3,511	\$ 390	\$ (1)	\$ 9,380
Provision for income taxes	1,169	808	73		2,050
Income from continuing operations	4,311	2,703	317	(1)	7,330
Income (loss) from discontinued operations, net of income taxes	(7)		2		(5)
Net income	4,304	2,703	319	(1)	7,325
Net income applicable to noncontrolling interests	100		8		108
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 4,204</b>	<b>\$ 2,703</b>	<b>\$ 311</b>	<b>\$ (1)</b>	<b>\$ 7,217</b>

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\$ in millions	Nine Months Ended September 30, 2017				
	IS	WM	IM	I/E	Total
Investment banking	\$ 4,100	\$ 405	\$	\$ (50)	\$ 4,455
Trading	8,241	657	(21)	(7)	8,870
Investments	155	3	337		495
Commissions and fees	1,811	1,266		(80)	2,997
Asset management	268	6,879	1,624	(76)	8,695
Other	442	191	9	(14)	628
Total non-interest revenues	15,017	9,401	1,949	(227)	26,140
Interest income	3,788	3,348	3	(728)	6,411
Interest expense	4,515	320	3	(732)	4,106
Net interest	(727)	3,028		4	2,305
<b>Net revenues</b>	<b>\$ 14,290</b>	<b>\$ 12,429</b>	<b>\$ 1,949</b>	<b>\$ (223)</b>	<b>\$ 28,445</b>
Income from continuing operations before income taxes	\$ 4,409	\$ 3,149	\$ 376	\$ (2)	\$ 7,932
Provision for income taxes	1,132	1,139	87		2,358
Income from continuing operations	3,277	2,010	289	(2)	5,574
Income (loss) from discontinued operations, net of income taxes	(21)				(21)
Net income	3,256	2,010	289	(2)	5,553
Net income applicable to noncontrolling interests	77		8		85
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 3,179</b>	<b>\$ 2,010</b>	<b>\$ 281</b>	<b>\$ (2)</b>	<b>\$ 5,468</b>

I/E Intersegment Eliminations

1. Approximately 85% of Investment banking revenues and substantially all of Commissions and fees and Asset management revenues in the current quarter and current year period were determined under the *Revenues from Contracts with Customers* accounting update.
2. Current quarter Institutional Securities Investment banking revenues are composed of \$510 million of Advisory and \$949 million of Underwriting revenues. Current year period Institutional Securities Investment banking revenues are composed of \$1,702 million of Advisory and \$2,969 million of Underwriting revenues.
3. The Firm enters into certain contracts which contain a current obligation to perform services in the future. Excluding contracts where billing is commensurate with the value of the services performed at each stage of the contract, contracts with variable consideration that is subject to reversal, and contracts with less than one year duration, we expect to record the following approximate revenues in the future: \$25 million in the remainder of 2018; \$100 million per year over the next two years; and between \$10 million and \$50 million per year thereafter through 2035. These revenues are primarily related to certain commodities contracts with customers.
4. Includes \$804 million and \$2,192 million in revenue recognized in the current quarter and current year period, respectively, where some or all services were performed in prior periods. This amount is primarily composed of investment banking advisory fees, and distribution fees.

**Total Assets by Business Segment**

\$ in millions	At September 30, 2018	At December 31, 2017
Institutional Securities	\$ 671,508	\$ 664,974
Wealth Management	188,166	182,009
Investment Management	5,843	4,750
<b>Total<sup>1</sup></b>	<b>\$ 865,517</b>	<b>\$ 851,733</b>

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



**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)***Additional Segment Information Investment Management***Net Unrealized Performance-based Fees**

	At	At
	September 30, 2018	December 31, 2017
<i>\$ in millions</i>		
Net cumulative unrealized performance-based fees at risk of reversing	\$ 406	\$ 442

The Firm's portion of net cumulative unrealized performance-based fees (for which the Firm is not obligated to pay compensation) are at risk of reversing if the fund performance falls below the stated investment management agreement benchmarks. See Note 11 for information regarding general partner guarantees, which include potential obligations to return performance fee distributions previously received.

**Reduction of Fees due to Fee Waivers**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
<i>\$ in millions</i>	2018	2017	2018	2017
Fee waivers	\$ 11	\$ 20	\$ 45	\$ 66

The Firm waives a portion of its fees in the Investment Management business segment from certain registered money market funds that comply with the requirements of Rule 2a-7 of the Investment Company Act of 1940.

**Geographic Information**

For a discussion about the Firm's geographic net revenues, see Note 21 to the financial statements in the 2017 Form 10-K.

**Net Revenues by Region**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
<i>\$ in millions</i>	2018	2017	2018	2017
Americas	\$ 7,357	\$ 6,833	\$ 22,989	\$ 20,667
EMEA	1,355	1,325	4,892	4,420
Asia	1,160	1,039	3,678	3,358

<b>Total</b>	<b>\$ 9,872</b>	<b>\$ 9,197</b>	<b>\$ 31,559</b>	<b>\$ 28,445</b>
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**Trading Revenues by Product Type**

<i>\$ in millions</i>	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Interest rate contracts	\$ 744	\$ 648	\$ 2,396	\$ 1,693
Foreign exchange contracts	223	181	622	613
Equity security and index contracts <sup>1</sup>	1,432	1,416	5,094	4,875
Commodity and other contracts	254	223	1,047	522
Credit contracts	99	236	656	1,167
<b>Total</b>	<b>\$ 2,752</b>	<b>\$ 2,704</b>	<b>\$ 9,815</b>	<b>\$ 8,870</b>

1. Dividend income is included within equity security and index contracts.

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

**Change in Revenue and Expense as a Result of Application of the New Revenue Recognition Standard**

<i>\$ in millions</i>	Three	Nine
	Months Ended September 30, 2018	Months Ended September 30, 2018
<b>Gross presentation impact Revenue</b>		
Investment banking Advisory	\$ 12	\$ 56
Underwriting	59	161
Asset management	8	22
Other	14	41
Subtotal	93	280
<b>Gross presentation impact Expense</b>		
Brokerage, clearing and exchange fees	\$ 8	\$ 22
Marketing and business development	8	20
Professional services	39	93
Other <sup>1</sup>	38	145
Subtotal	93	280
<b>Timing impact Revenue</b>		
Investment banking Advisory	(2)	13
Asset management	(15)	(31)
Other	5	10
Subtotal	(12)	(8)

<b>Net change in revenue and expense</b>	<b>\$</b>	<b>(12)</b>	<b>\$</b>	<b>(8)</b>
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1. Primarily composed of Investment banking transaction-related costs.

As a result of adopting the accounting update *Revenue from Contracts with Customers*, the accounting for certain transactions has changed (see Note 2 for further details). As summarized in the previous table, the change is composed of transactions which are now presented on a gross basis within both Non-interest revenues and Non-interest expenses as well as transactions where revenues are recognized with different timing compared to the previous GAAP. For example, timing impacts shown as negative amounts in the previous table represent revenues for which recognition has been deferred to future periods under the new standard.

**Table of Contents****Notes to Consolidated Financial Statements****(Unaudited)****Receivables from Contracts with Customers**

<i>\$ in millions</i>	<b>At September 30, 2018</b>	<b>At January 1, 2018</b>
Customer and other receivables	<b>\$ 2,418</b>	<b>\$ 2,805</b>

Receivables from contracts with customers, which are included within Customer and other receivables in the balance sheets, arise when the Firm has both recorded revenues and has the right per the contract to bill customers.

**20. Subsequent Events**

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

**Table of Contents****Financial Data Supplement (Unaudited)  
Average Balances and Interest Rates and Net Interest Income**

Three Months Ended September 30,

	2018			2017		
	Average Daily Balance	Interest	Annualized Average Rate	Average Daily Balance	Interest	Annualized Average Rate
<i>\$ in millions</i>						
<b>Interest earning assets<sup>1</sup></b>						
Investment securities <sup>2</sup>	\$ 82,594	\$ 440	2.1 %	\$ 73,599	\$ 313	1.7 %
Loans <sup>2</sup>	110,592	1,085	3.9	99,655	853	3.4
Securities purchased under agreements to resell and Securities borrowed <sup>3</sup> :						
U.S.	139,418	637	1.8	128,127	190	0.6
Non-U.S.	89,825	(62)	(0.3)	99,019	(114)	(0.5)
Trading assets, net of Trading liabilities <sup>4</sup> :						
U.S.	55,399	508	3.6	58,000	463	3.2
Non-U.S.	8,637	63	2.9	5,826	43	3.0
Customer receivables and Other <sup>5</sup> :						
U.S.	75,627	716	3.8	70,331	447	2.5
Non-U.S.	33,099	240	2.9	28,210	145	2.1
<b>Total</b>	<b>\$ 595,191</b>	<b>\$ 3,627</b>	<b>2.4 %</b>	<b>\$ 562,767</b>	<b>\$ 2,340</b>	<b>1.7 %</b>
<b>Interest bearing liabilities</b>						
Deposits <sup>2</sup>	\$ 173,921	\$ 377	0.9 %	\$ 150,116	\$ 63	0.2 %
Borrowings <sup>2, 6</sup>	191,606	1,287	2.7	192,575	1,109	2.3
Securities sold under agreements to repurchase and Securities loaned <sup>7</sup> :						
U.S.	24,386	346	5.6	30,027	234	3.1
Non-U.S.	34,960	132	1.5	38,536	91	0.9
Customer payables and Other <sup>8</sup> :						
U.S.	120,958	321	1.1	129,365	(13)	
Non-U.S.	71,998	228	1.3	66,697	73	0.4
<b>Total</b>	<b>\$ 617,829</b>	<b>\$ 2,691</b>	<b>1.7 %</b>	<b>\$ 607,316</b>	<b>\$ 1,557</b>	<b>1.0 %</b>
<b>Net interest income and net interest rate spread</b>		<b>\$ 936</b>	<b>0.7 %</b>		<b>\$ 783</b>	<b>0.7 %</b>



**Table of Contents****Financial Data Supplement (Unaudited)****Average Balances and Interest Rates and Net Interest Income**

	Nine Months Ended September 30,					
	2018			2017		
<i>\$ in millions</i>	Average Daily Balance	Interest	Annualized Average Rate	Average Daily Balance	Interest	Annualized Average Rate
<b>Interest earning assets<sup>1</sup></b>						
Investment securities <sup>2</sup>	\$ 80,886	\$ 1,281	2.1 %	\$ 76,356	\$ 943	1.7 %
Loans <sup>2</sup>	109,001	3,097	3.8	97,099	2,399	3.3
Securities purchased under agreements to resell and Securities borrowed <sup>3</sup> :						
U.S.	133,208	1,410	1.4	126,738	406	0.4
Non-U.S.	89,699	(254)	(0.4)	96,419	(320)	(0.4)
Trading assets, net of Trading liabilities <sup>4</sup> :						
U.S.	55,162	1,520	3.7	58,260	1,385	3.2
Non-U.S.	7,045	167	3.2	3,701	76	2.7
Customer receivables and Other <sup>5</sup> :						
U.S.	71,293	1,880	3.5	68,611	1,128	2.2
Non-U.S.	33,747	680	2.7	26,743	394	2.0
<b>Total</b>	<b>\$ 580,041</b>	<b>\$ 9,781</b>	<b>2.3 %</b>	<b>\$ 553,927</b>	<b>\$ 6,411</b>	<b>1.5 %</b>
<b>Interest bearing liabilities</b>						
Deposits <sup>2</sup>	\$ 166,384	\$ 809	0.7 %	\$ 150,244	\$ 88	0.1 %
Borrowings <sup>2, 6</sup>	192,746	3,683	2.6	181,544	3,197	2.4
Securities sold under agreements to repurchase and Securities loaned <sup>7</sup> :						
U.S.	24,871	952	5.1	31,958	651	2.7
Non-U.S.	38,248	374	1.3	39,449	261	0.9
Customer payables and Other <sup>8</sup> :						
U.S.	121,556	577	0.6	128,420	(196)	(0.2)
Non-U.S.	71,382	569	1.1	64,257	105	0.2
<b>Total</b>	<b>\$ 615,187</b>	<b>\$ 6,964</b>	<b>1.5 %</b>	<b>\$ 595,872</b>	<b>\$ 4,106</b>	<b>0.9 %</b>
<b>Net interest income and net interest rate spread</b>						
		<b>\$ 2,817</b>	<b>0.8 %</b>		<b>\$ 2,305</b>	<b>0.6 %</b>

1. Prior period amounts have been revised to conform to the current presentation.

2. Amounts include primarily U.S. balances.
3. Includes fees paid on Securities borrowed.
4. Trading assets, net of Trading liabilities exclude non-interest earning assets and non-interest bearing liabilities, such as equity securities.
5. Includes interest from Customer receivables and Cash and cash equivalents.
6. The Firm also issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities, which are recorded within Trading revenues (see Notes 3 and 11 to the financial statements in the 2017 Form 10-K).
7. Includes fees received on Securities loaned. The annualized average rate was calculated using (a) interest expense incurred on all securities sold under agreements to repurchase and securities loaned transactions, whether or not such transactions were reported in the balance sheets and (b) net average on-balance sheet balances, which exclude certain securities-for-securities transactions.
8. Includes fees received from prime brokerage customers for stock loan transactions incurred to cover customers short positions.



**Table of Contents****Financial Data Supplement (Unaudited)  
Effect of Volume and Rate Changes on Net Interest Income**

	Current Quarter			Current Year Period		
	versus			versus		
	Prior Year Quarter			Prior Year Period		
	Increase (Decrease)			Increase (Decrease)		
	Due to Change in:			Due to Change in:		
<i>\$ in millions</i>	Volume	Rate	Net Change	Volume	Rate	Net Change
<b>Interest earning assets</b>						
Investment securities	\$ 38	\$ 89	\$ 127	\$ 56	\$ 282	\$ 338
Loans	94	138	232	295	403	698
Securities purchased under agreements to resell and Securities borrowed:						
U.S.	17	430	447	25	979	1,004
Non-U.S.	11	41	52	21	45	66
Trading assets, net of Trading liabilities:						
U.S.	(21)	66	45	(65)	200	135
Non-U.S.	21	(1)	20	51	40	91
Customer receivables and Other:						
U.S.	34	235	269	52	700	752
Non-U.S.	25	70	95	95	191	286
Change in interest income	\$ 219	\$ 1,068	\$ 1,287	\$ 530	\$ 2,840	\$ 3,370
<b>Interest bearing liabilities</b>						
Deposits	\$ 10	\$ 304	\$ 314	\$ 12	\$ 709	\$ 721
Borrowings	(6)	184	178	201	285	486
Securities sold under agreements to repurchase and Securities loaned:						
U.S.	(44)	156	112	(160)	461	301
Non-U.S.	(8)	49	41	1	112	113
Customer payables and Other:						
U.S.	1	333	334	8	765	773
Non-U.S.	6	149	155	11	453	464
Change in interest expense	\$ (41)	\$ 1,175	\$ 1,134	\$ 73	\$ 2,785	\$ 2,858
<b>Change in net interest income</b>	\$ 260	\$ (107)	\$ 153	\$ 457	\$ 55	\$ 512



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**Glossary of Common Acronyms**

**2017 Form 10-K** Annual Report on Form 10-K for year ended December 31, 2017 filed with the SEC

**ABS** Asset-backed securities

**AFS** Available-for-sale

**AML** Anti-money laundering

**AOCI** Accumulated other comprehensive income (loss)

**AUM** Assets under management or supervision

**BHC** Bank holding company

**bps** Basis points; one basis point equals 1/100th of 1%

**CCAR** Comprehensive Capital Analysis and Review

**CCyB** Countercyclical capital buffer

**CDO** Collateralized debt obligations, including collateralized loan obligations

**CDS** Credit default swaps

**CECL** Current expected credit loss

**CFTC** U.S. Commodity Futures Trading Commission

**CLN** Credit-linked notes

**CLO** Collateralized loan obligations

**CMBS** Commercial mortgage-backed securities

**CMO** Collateralized mortgage obligations

**CVA** Credit valuation adjustment

**DVA** Debt valuation adjustment

**EBITDA** Earnings before interest, taxes, depreciation and amortization

**ELN** Equity-linked note

**EMEA** Europe, Middle East and Africa

**EPS** Earnings per common share

**ERISA** Employee Retirement Income Security Act of 1974

**E.U.** European Union

**FDIC** Federal Deposit Insurance Corporation

**FFELP** Federal Family Education Loan Program

**FVA** Funding valuation adjustment

**GLR** Global liquidity reserve

**G-SIB** Global systemically important banks

**HQLA** High-quality liquid assets

**HTM** Held-to-maturity

**I/E** Intersegment eliminations

**IM** Investment Management

**IRS** Internal Revenue Service

**IS** Institutional Securities

**LCR** Liquidity coverage ratio, as adopted by the U.S. banking agencies

**LIBOR** London Interbank Offered Rate

**M&A** Merger, acquisition and restructuring transaction

**MSBNA** Morgan Stanley Bank, N.A.

**MS&Co.** Morgan Stanley & Co. LLC

**MSIP** Morgan Stanley & Co. International plc

**MSMS** Morgan Stanley MUFG Securities Co., Ltd.

**MSPBNA** Morgan Stanley Private Bank, National Association

**MSSB LLC** Morgan Stanley Smith Barney LLC

**MUFG** Mitsubishi UFJ Financial Group, Inc.

**MUMSS** Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

**MWh** Megawatt hour

**N/A** Not Applicable

**NAV** Net asset value

**N/M** Not Meaningful

**Non-GAAP** Non-generally accepted accounting principles

**NSFR** Net stable funding ratio, as proposed by the U.S. banking agencies

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**Glossary of Common Acronyms**

**OCC** Office of the Comptroller of the Currency

**OCI** Other comprehensive income (loss)

**OTC** Over-the-counter

**PRA** Prudential Regulation Authority

**RMBS** Residential mortgage-backed securities

**ROE** Return on average common equity

**ROTCE** Return on average tangible common equity

**RSU** Restricted stock unit

**RWA** Risk-weighted assets

**SEC** U.S. Securities and Exchange Commission

**SLR** Supplementary leverage ratio

**S&P** Standard & Poor's

**SPE** Special purpose entity

**SPOE** Single point of entry

**TDR** Troubled debt restructuring

**TLAC** Total loss-absorbing capacity

**U.K.** United Kingdom

**UPB** Unpaid principal balance

**U.S.** United States of America

**U.S. DOL** U.S. Department of Labor

**U.S. GAAP** Accounting principles generally accepted in the United States of America

**VaR** Value-at-Risk

**VAT** Value-added tax

**VIE** Variable interest entity

**WACC** Implied weighted average cost of capital

**WM** Wealth Management

September 2018 Form 10-Q

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### **Other Information**

#### **Legal Proceedings**

The following new matters and developments have occurred since previously reporting certain matters in the Firm's 2017 Form 10-K, the Firm's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (the First Quarter Form 10-Q) and the Firm's Quarterly Report on Form 10-Q for the period ending June 30, 2018 (the Second Quarter Form 10-Q). See also the disclosures set forth under Legal Proceedings in the 2017 Form 10-K and Part II, Item 1 of the First Quarter Form 10-Q and the Second Quarter Form 10-Q.

#### **Residential Mortgage and Credit Crisis Related Matters**

On August 13, 2018, the Firm filed a motion to renew its motion to dismiss in *U.S. Bank National Association, solely in its capacity as Trustee of the Morgan Stanley Mortgage Loan Trust 2007-2AX (MSM 2007-2AX) v. Morgan Stanley Mortgage Capital Holdings LLC, et al.*

On September 13, 2018, the court affirmed the lower court's order denying the Firm's motion to dismiss the complaint relating to a securitization issued by Basket of Aggregated Residential NIMS 2007-I Ltd. in *Financial Guaranty Insurance Company v. Morgan Stanley ABS Capital I Inc. et al.*

On September 13, 2018, the court affirmed in part and reversed in part the lower court's order denying the Firm's motion to dismiss the complaint relating to the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4 in *Financial Guaranty Insurance Company v. Morgan Stanley ABS Capital I Inc. et al.* On October 15, 2018, the plaintiff filed a motion for leave to appeal the decision of the Appellate Division, First Department, to the New York Court of Appeals or, in the alternative, for reargument.

On October 8, 2018, the parties in the litigation styled *Morgan Stanley Mortgage Loan Trust 2006-14SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC*, filed a joint stipulation of discontinuance with prejudice.

On October 9, 2018, the Appellate Division, First Department affirmed the lower court's order dismissing the amended complaint in *Royal Park SA/NV v. Morgan Stanley et al.*

On October 19, 2018, the court granted the Firm's motion for leave to amend its answer in *Deutsche Bank National Trust Company solely in its capacity as Trustee of the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4 v. Morgan Stanley Mortgage Capital Holdings LLC, et al.*, and to stay the case pending resolution of Deutsche Bank National Trust Company's appeal to the New York Court of Appeals in another case.

#### **European Matters**

On September 11, 2018, in the matter styled *Banco Popolare Società Cooperativa v. Morgan Stanley & Co. International plc et al.*, the court dismissed in full the claim against the Firm.



On September 20, 2018, the Court of Accounts for the Republic of Italy in the matter styled *Case number 2012/00406/MNV* scheduled the hearing of the public prosecutor's appeal for January 10, 2019.

**Other Litigation**

In August of 2017, the Firm was named as a defendant in a purported antitrust class action in the United States District Court for the SDNY styled *Iowa Public Employees Retirement System et al. v. Bank of America Corporation et al.* Plaintiffs allege, inter alia, that the Firm, together with a number of other financial institution defendants, violated U.S. antitrust laws and New York state law in connection with their alleged efforts to prevent the development of electronic exchange-based platforms for securities lending. The class action complaint was filed on behalf of a purported class of borrowers and lenders who entered into stock loan transactions with the defendants. The class action complaint seeks, among other relief, certification of the class of plaintiffs and treble damages. On September 27, 2018, the court denied the defendants' motion to dismiss the class action complaint.

Table of Contents**Unregistered Sales of Equity Securities and Use of Proceeds**

The following table sets forth the information with respect to purchases made by or on behalf of the Firm of its common stock during the current quarter ended September 30, 2018.

**Issuer Purchases of Equity Securities**

<i>\$ in millions, except per share data</i>	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>1</sup>	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
<b>Month #1 (July 1, 2018 July 31, 2018)</b>				
Share Repurchase Program <sup>2</sup>	4,855,200	\$ 50.77	4,855,200	\$ 4,473
Employee transactions <sup>3</sup>	492,295	\$ 50.33		
<b>Month #2 (August 1, 2018 August 31, 2018)</b>				
Share Repurchase Program <sup>2</sup>	9,539,000	\$ 49.18	9,539,000	\$ 4,004
Employee transactions <sup>3</sup>	12,162	\$ 50.38		
<b>Month #3 (September 1, 2018 September 30, 2018)</b>				
Share Repurchase Program <sup>2</sup>	9,525,673	\$ 48.75	9,525,673	\$ 3,540
Employee transactions <sup>3</sup>	16,632	\$ 48.47		
<b>Quarter ended at September 30, 2018</b>				
Share Repurchase Program <sup>2</sup>	23,919,873	\$ 49.33	23,919,873	\$ 3,540
Employee transactions <sup>3</sup>	521,089	\$ 50.27		

1. Share purchases under publicly announced programs are made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices the Firm deems appropriate and may be suspended at any time. On April 18, 2018, the Firm entered into a sales plan with Mitsubishi UFJ Financial Group, Inc. ( MUFG ) and Morgan Stanley & Co. LLC ( MS&Co. ) whereby MUFG will sell shares of the Firm's common stock to the Firm, through the Firm's agent MS&Co., as part of the Company's share repurchase program (as defined below). The sales plan is only intended to maintain MUFG's ownership percentage below 24.9% in order to comply with MUFG's passivity commitments to the Board

- of Governors of the Federal Reserve System (the Federal Reserve ) and will have no impact on the strategic alliance between MUFG and the Firm, including the joint ventures in Japan.
2. The Firm's Board of Directors has authorized the repurchase of the Firm's outstanding stock under a share repurchase program (the Share Repurchase Program ). The Share Repurchase Program is a program for capital management purposes that considers, among other things, business segment capital needs, as well as equity-based compensation and benefit plan requirements. The Share Repurchase Program has no set expiration or termination date. Share repurchases by the Firm are subject to regulatory approval. On June 28, 2018, the Federal Reserve published summary results of CCAR and the Firm received a conditional non-objection to its 2018 Capital Plan, where the only condition was that the Firm's capital distributions not exceed the greater of the actual distributions it made over the previous four calendar quarters or the annualized average of actual distributions over the previous eight calendar quarters. As a result, the Firm's 2018 Capital Plan includes a share repurchase of up to \$4.7 billion of its outstanding common stock during the period beginning July 1, 2018 through June 30, 2019. During the quarter ended September 30, 2018, the Firm repurchased approximately \$1.2 billion of the Firm's outstanding common stock as part of its Share Repurchase Program. For further information, see Liquidity and Capital Resources Capital Management.
  3. Includes shares acquired by the Firm in satisfaction of the tax withholding obligations on stock-based awards granted under the Firm's stock-based compensation plans.

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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.

**Exhibits**

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

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**Exhibit Index**

**Morgan Stanley**

**Quarter Ended September 30, 2018**

<b>Exhibit No.</b>	<b>Description</b>
15	<u>Letter of awareness from Deloitte &amp; Touche LLP, dated November 5, 2018, concerning unaudited interim financial information.</u>
31.1	<u>Rule 13a-14(a) Certification of Chief Executive Officer.</u>
31.2	<u>Rule 13a-14(a) Certification of Chief Financial Officer.</u>
32.1	<u>Section 1350 Certification of Chief Executive Officer.</u>
32.2	<u>Section 1350 Certification of Chief Financial Officer.</u>
101	Interactive data files pursuant to Rule 405 of Regulation S-T (unaudited): (i) the Consolidated Income Statements Three Months and Nine Months Ended September 30, 2018 and 2017, (ii) the Consolidated Comprehensive Income Statements Three Months and Nine Months Ended September 30, 2018 and 2017, (iii) the Consolidated Balance Sheets at September 30, 2018 and December 31, 2017, (iv) the Consolidated Statements of Changes in Total Equity Nine Months Ended September 30, 2018 and 2017, (v) the Consolidated Cash Flow Statements Nine Months Ended September 30, 2018 and 2017, and (vi) Notes to Consolidated Financial Statements.

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**SIGNATURES**

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

MORGAN STANLEY

**(Registrant)**

By: /s/ JONATHAN PRUZAN  
**Jonathan Pruzan**

**Executive Vice President and**

**Chief Financial Officer**

By: /s/ PAUL C. WIRTH  
**Paul C. Wirth**

**Deputy Chief Financial Officer**

Date: November 5, 2018

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