

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, 2019*

Commission File Number 1-11758

**Morgan Stanley**

(Exact Name of Registrant as specified in its charter)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>1585 Broadway</b> <b>New York, NY 10036</b> (Address of principal executive offices, including zip code)	<b>36-3145972</b> (I.R.S. Employer Identification No.)	<b>(212) 761-4000</b> (Registrant's telephone number, including area code)
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**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, \$0.01 par value	MS	New York Stock Exchange
Depository Shares, each representing 1/1,000th interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series A, \$0.01 par value	MS/PA	New York Stock Exchange
Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series E, \$0.01 par value	MS/PE	New York Stock Exchange
Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series F, \$0.01 par value	MS/PF	New York Stock Exchange
Depository Shares, each representing 1/1,000th interest in a share of 6.625% Non-Cumulative Preferred Stock, Series G, \$0.01 par value	MS/PG	New York Stock Exchange
Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I, \$0.01 par value	MS/PI	New York Stock Exchange
Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series K, \$0.01 par value	MS/PK	New York Stock Exchange
Global Medium-Term Notes, Series A, Fixed Rate Step-Up Senior Notes Due 2026 of Morgan Stanley Finance LLC (and Registrant's guarantee with respect thereto)	MS/26C	New York Stock Exchange
Market Vectors ETNs due March 31, 2020 (two issuances)	URR/DDR	NYSE Arca, Inc.
Market Vectors ETNs due April 30, 2020 (two issuances)	CNY/INR	NYSE Arca, Inc.
Morgan Stanley Cushing® MLP High Income Index ETNs due March 21, 2031	MLPY	NYSE Arca, Inc.

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

Indicate by check mark whether the Registrant has submitted electronically 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, 2019, there were 1,618,597,895 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

## QUARTERLY REPORT ON FORM 10-Q

For the quarter ended September 30, 2019

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### Available Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains a website, [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 website.

Our website 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 website, 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 website. 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 website is not incorporated by reference into this report.

## 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 the definition 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 activities include originating corporate loans, commercial mortgage lending, providing secured lending facilities and extending financing to sales and trading customers. 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; securities-based lending, residential real estate loans 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 served through intermediaries, including affiliated and non-affiliated distributors.

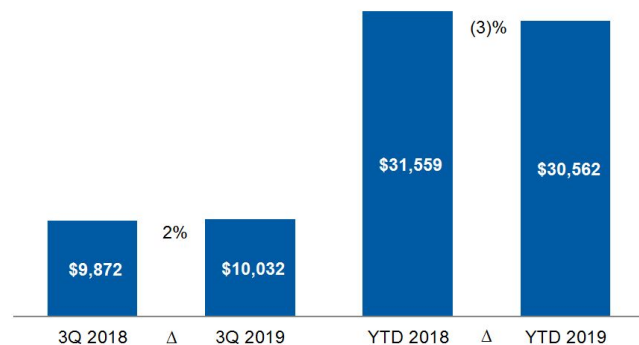
The results of operations in the past have been, and in the future may continue to be, materially affected by competition; risk factors; and legislative, legal and regulatory developments; as well as other factors. These factors also may have an adverse impact on our ability to achieve our strategic 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,” “Business—Competition,” “Business—Supervision and Regulation,” and “Risk Factors” in the 2018 Form 10-K, and “Liquidity and Capital Resources—Regulatory Requirements” herein.

**Executive Summary**

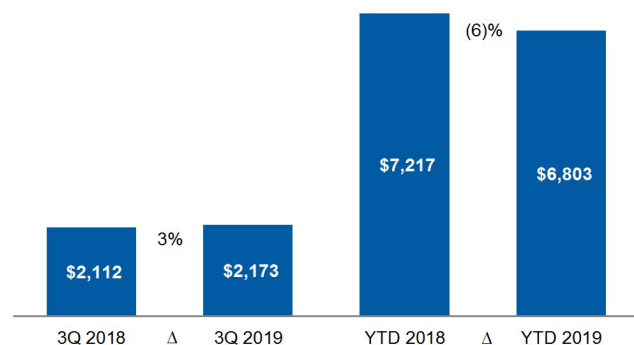
**Overview of Financial Results**

*Consolidated Results*

**Net Revenues**  
(\$ in millions)



**Net Income Applicable to Morgan Stanley**  
(\$ in millions)



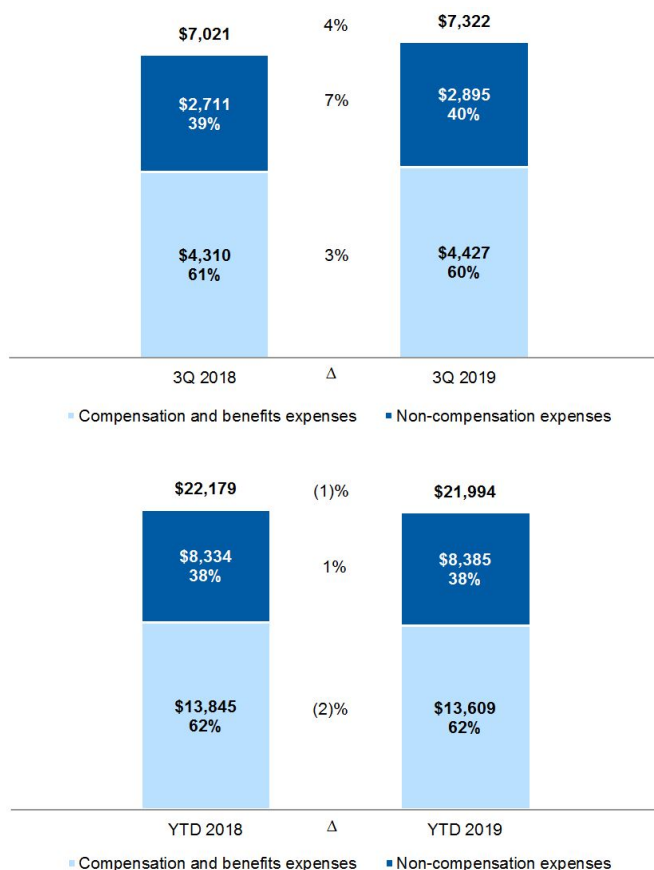
**Earnings per Common Share<sup>1</sup>**



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

- We reported net revenues of \$10,032 million in the quarter ended September 30, 2019 (“current quarter,” or “3Q 2019”), compared with \$9,872 million in the quarter ended September 30, 2018 (“prior year quarter,” or “3Q 2018”). For the current quarter, net income applicable to Morgan Stanley was \$2,173 million, or \$1.27 per diluted common share, compared with \$2,112 million or \$1.17 per diluted common share, in the prior year quarter.
- We reported net revenues of \$30,562 million in the nine months ended September 30, 2019 (“current year period,” or “YTD 2019”), compared with \$31,559 million in the period ended September 30, 2018 (“prior year period,” or “YTD 2018”). For the current year period, net income applicable to Morgan Stanley was \$6,803 million, or \$3.89 per diluted common share, compared with \$7,217 million or \$3.92 per diluted common share, in the prior year period.

**Non-interest Expenses<sup>1</sup>**  
 (\$ in millions)



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

- Compensation and benefits expenses of \$4,427 million in the current quarter and \$13,609 million in the current year period increased 3% from \$4,310 million in the prior year quarter and decreased 2% from \$13,845 million in the prior year period. In the current quarter, the increase was primarily attributed to higher discretionary incentive compensation and salaries, partially offset by decreases in the fair value of investments to which certain deferred compensation plans are referenced. In the current year period, the decrease was primarily attributed to lower discretionary incentive compensation and the roll-off of certain acquisition-related employee retention loans, partially offset by higher salaries, increases in the fair value of investments to which certain deferred compensation plans are referenced, and higher deferred compensation associated with carried interest.
- Non-compensation expenses of \$2,895 million in the current quarter and \$8,385 million in the current year period increased 7% from \$2,711 million in the prior year quarter and increased 1% from \$8,334 million in the prior year period. The current quarter increase was primarily due to higher litigation costs, volume-related expenses and investments in technology, partially offset by decreases in professional services expenses. In the current year period, investments in technology were partially offset by a decrease in professional services expenses.

**Income Taxes**

The current quarter included intermittent net discrete tax benefits of \$89 million primarily associated with the filing of the 2018 federal tax return and the remeasurement of reserves and related interest due to new information with regard to multi-jurisdiction tax examinations. The current year period and prior year period included intermittent net discrete tax benefits of \$190 million and \$92 million, respectively, primarily associated with the remeasurement of reserves and related interest due to new information with regard to multi-jurisdiction tax examinations and other matters. For further information, see “Supplemental Financial Information and Disclosures—Income Tax Matters” herein.

## Management's Discussion and Analysis

## Selected Financial Information and Other Statistical Data

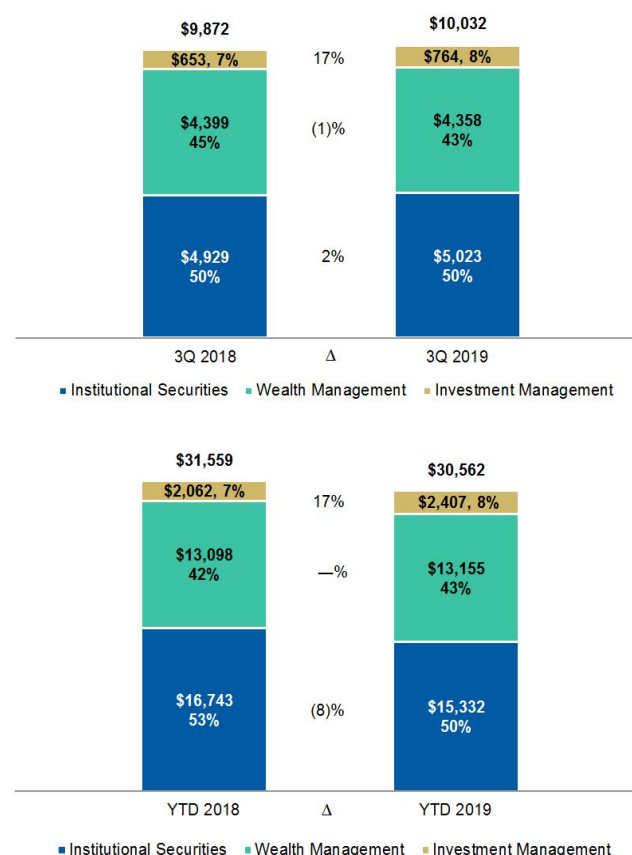
\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income applicable to Morgan Stanley	\$ 2,173	\$ 2,112	\$ 6,803	\$ 7,217
Preferred stock dividends and other	113	93	376	356
<b>Earnings applicable to Morgan Stanley common shareholders</b>	<b>\$ 2,060</b>	<b>\$ 2,019</b>	<b>\$ 6,427</b>	<b>\$ 6,861</b>
Expense efficiency ratio <sup>1</sup>	73.0%	71.1%	72.0%	70.3%
ROE <sup>2</sup>	11.2%	11.5%	11.8%	13.1%
ROTCE <sup>2</sup>	12.9%	13.2%	13.5%	15.1%

in millions, except per share and employee data	At September 30, 2019	At December 31, 2018
GLR <sup>3</sup>	\$ 226,923	\$ 249,735
Loans <sup>4</sup>	\$ 125,522	\$ 115,579
Total assets	\$ 902,604	\$ 853,531
Deposits	\$ 180,738	\$ 187,820
Borrowings	\$ 193,659	\$ 189,662
Common shares outstanding	1,624	1,700
Common shareholders' equity	\$ 73,862	\$ 71,726
Tangible common shareholders' equity <sup>2</sup>	\$ 64,512	\$ 62,879
Book value per common share <sup>5</sup>	\$ 45.49	\$ 42.20
Tangible book value per common share <sup>2,5</sup>	\$ 39.73	\$ 36.99
Worldwide employees	60,532	60,348

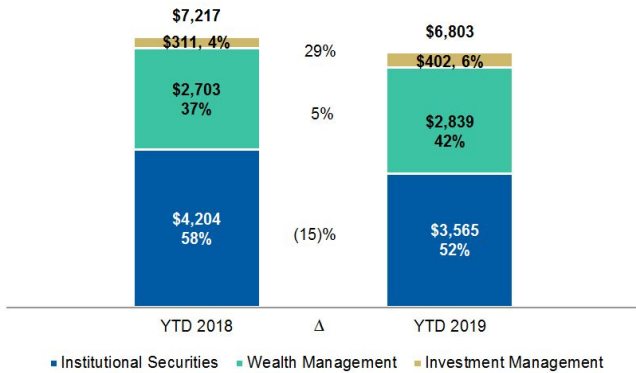
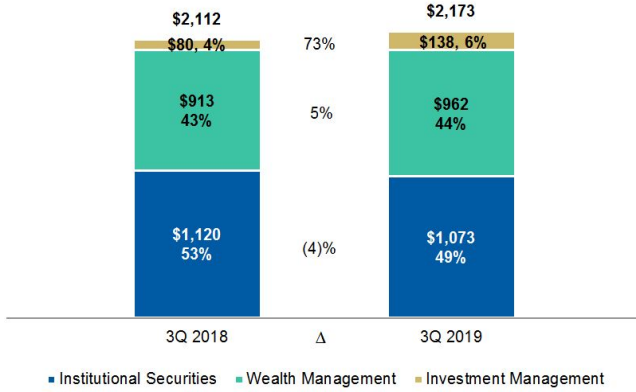
	At September 30, 2019	At December 31, 2018
<b>Capital ratios<sup>6</sup></b>		
Common Equity Tier 1 capital	16.3%	16.9%
Tier 1 capital	18.5%	19.2%
Total capital	20.9%	21.8%
Tier 1 leverage	8.2%	8.4%
SLR	6.3%	6.5%

- The expense efficiency ratio represents total non-interest expenses as a percentage of net revenues.
- Represents a non-GAAP measure. See "Selected Non-GAAP Financial Information" herein.
- For a discussion of the GLR, see "Liquidity and Capital Resources—Liquidity Risk Management Framework—Global Liquidity Reserve" herein.
- 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).
- 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.
- At September 30, 2019 and December 31, 2018, our risk-based capital ratios are based on the Standardized Approach rules. For a discussion of our capital ratios, see "Liquidity and Capital Resources—Regulatory Requirements" herein.

## Business Segment Results

Net Revenues by Segment<sup>1</sup>  
(\$ in millions)

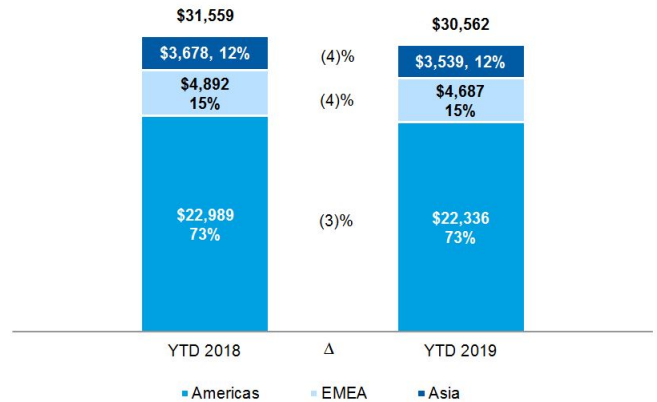
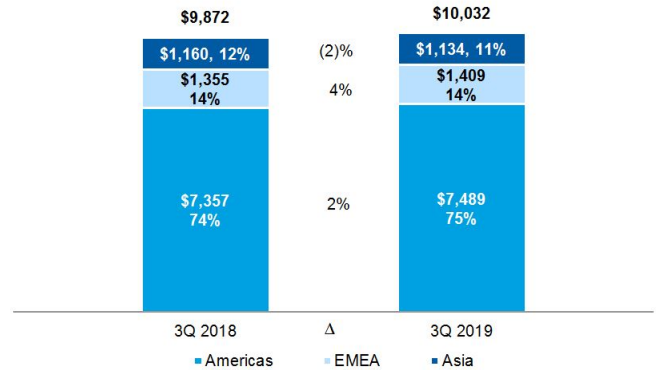
**Net Income Applicable to Morgan Stanley by Segment<sup>1</sup>**  
 (\$ in millions)



1. The percentages on the bars in the charts represent the contribution of each business segment to the total of the applicable financial category and may not total to 100% due to intersegment eliminations. See Note 18 to the financial statements for details of intersegment eliminations.

- Institutional Securities net revenues of \$5,023 million in the current quarter increased 2% from the prior year quarter primarily reflecting higher revenues in Fixed income sales and trading, partially offset by a decrease in Other revenues. Net revenues of \$15,332 million in the current year period decreased 8% from the prior year period, primarily reflecting lower revenues from Equity sales and trading and Investment banking.
- Wealth Management net revenues of \$4,358 million in the current quarter and \$13,155 million in the current year period were relatively unchanged compared with the prior year periods.
- Investment Management net revenues of \$764 million in the current quarter and \$2,407 million in the current year period each increased 17% from the prior year periods. The current quarter results primarily reflected higher Investments and Asset Management revenues. The current year period results increased primarily due to higher Investments revenues.

**Net Revenues by Region<sup>1, 2</sup>**  
 (\$ in millions)



1. For a discussion of how the geographic breakdown of net revenues is determined, see Note 18 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, analysts, investors and other stakeholders by providing further transparency about, or an alternate means of assessing, our financial condition, operating results or capital adequacy.

These measures are not in accordance with, or a substitute for, U.S. GAAP and may be different from or inconsistent with non-GAAP financial measures used by other companies. Whenever we refer to a non-GAAP financial measure, we will also generally define it or present the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, along with a reconciliation of the differences between the U.S. GAAP financial measure and the non-GAAP financial measure.

The principal non-GAAP financial measures presented in this document are set forth in the following tables.

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

\$ in millions, except per share data	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 2,173</b>	\$ 2,112	<b>\$ 6,803</b>	\$ 7,217
Impact of adjustments	(89)	(4)	(190)	(92)
Adjusted net income applicable to Morgan Stanley—non-GAAP <sup>1</sup>	<b>\$ 2,084</b>	\$ 2,108	<b>\$ 6,613</b>	\$ 7,125
<b>Earnings per diluted common share</b>	<b>\$ 1.27</b>	\$ 1.17	<b>\$ 3.89</b>	\$ 3.92
Impact of adjustments	(0.06)	—	(0.12)	(0.05)
Adjusted earnings per diluted common share—non-GAAP <sup>1</sup>	<b>\$ 1.21</b>	\$ 1.17	<b>\$ 3.77</b>	\$ 3.87
<b>Effective income tax rate</b>	<b>18.2%</b>	24.4%	<b>19.1%</b>	21.9%
Impact of adjustments	3.2%	0.2%	2.2%	0.9%
Adjusted effective income tax rate—non-GAAP <sup>1</sup>	<b>21.4%</b>	24.6%	<b>21.3%</b>	22.8%

\$ in millions	At September 30, 2019		At December 31, 2018	
<b>Tangible equity</b>				
<b>U.S. GAAP</b>				
Morgan Stanley shareholders' equity	\$	<b>82,382</b>	\$	80,246
Less: Goodwill and net intangible assets		(9,350)		(8,847)
<b>Tangible Morgan Stanley shareholders' equity—non-GAAP</b>	<b>\$</b>	<b>73,032</b>	<b>\$</b>	71,399
<b>U.S. GAAP</b>				
Common shareholders' equity	\$	<b>73,862</b>	\$	71,726
Less: Goodwill and net intangible assets		(9,350)		(8,847)
<b>Tangible common shareholders' equity—non-GAAP</b>	<b>\$</b>	<b>64,512</b>	<b>\$</b>	62,879

## Consolidated Non-GAAP Financial Measures

\$ in millions	Average Monthly Balance			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Tangible equity</b>				
Morgan Stanley shareholders' equity	\$ 81,912	\$ 78,760	\$ 81,028	\$ 78,165
Less: Goodwill and net intangible assets	(9,389)	(8,970)	(9,097)	(9,020)
<b>Tangible Morgan Stanley shareholders' equity</b>	<b>\$ 72,523</b>	\$ 69,790	<b>\$ 71,931</b>	\$ 69,145
Common shareholders' equity	\$ 73,392	\$ 70,240	\$ 72,508	\$ 69,645
Less: Goodwill and net intangible assets	(9,389)	(8,970)	(9,097)	(9,020)
<b>Tangible common shareholders' equity</b>	<b>\$ 64,003</b>	\$ 61,270	<b>\$ 63,411</b>	\$ 60,625

\$ in billions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Average common equity</b>				
Unadjusted	\$ 73.4	\$ 70.2	\$ 72.5	\$ 69.6
Adjusted <sup>1</sup>	73.4	70.2	72.4	69.6
<b>ROE<sup>2</sup></b>				
Unadjusted	11.2%	11.5%	11.8%	13.1%
Adjusted <sup>1,3</sup>	10.7%	11.5%	11.5%	13.0%
<b>Average tangible common equity</b>				
Unadjusted	\$ 64.0	\$ 61.3	\$ 63.4	\$ 60.6
Adjusted <sup>1</sup>	64.0	61.3	63.3	60.6
<b>ROTCE<sup>2</sup></b>				
Unadjusted	12.9%	13.2%	13.5%	15.1%
Adjusted <sup>1,3</sup>	12.3%	13.2%	13.1%	14.9%

## Management's Discussion and Analysis

## Non-GAAP Financial Measures by Business Segment

\$ in billions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Pre-tax margin<sup>4</sup></b>				
Institutional Securities	26%	32%	28%	33%
Wealth Management	28%	27%	28%	27%
Investment Management	22%	16%	22%	19%
Consolidated	27%	29%	28%	30%
<b>Average common equity<sup>5</sup></b>				
Institutional Securities	\$ 40.4	\$ 40.8	\$ 40.4	\$ 40.8
Wealth Management	18.2	16.8	18.2	16.8
Investment Management	2.5	2.6	2.5	2.6
Parent Company	12.3	10.0	11.4	9.4
<b>Consolidated average common equity</b>	<b>\$ 73.4</b>	<b>\$ 70.2</b>	<b>\$ 72.5</b>	<b>\$ 69.6</b>
<b>Average tangible common equity<sup>5</sup></b>				
Institutional Securities	\$ 39.9	\$ 40.1	\$ 39.9	\$ 40.1
Wealth Management	10.2	9.2	10.2	9.2
Investment Management	1.5	1.7	1.5	1.7
Parent Company	12.4	10.3	11.8	9.6
<b>Consolidated average tangible common equity</b>	<b>\$ 64.0</b>	<b>\$ 61.3</b>	<b>\$ 63.4</b>	<b>\$ 60.6</b>
<b>ROE<sup>2, 6</sup></b>				
Institutional Securities	9.8%	10.3%	10.8%	12.8%
Wealth Management	20.6%	21.3%	20.2%	20.9%
Investment Management	22.1%	12.0%	21.5%	15.7%
Consolidated	11.2%	11.5%	11.8%	13.1%
<b>ROTCE<sup>2, 6</sup></b>				
Institutional Securities	9.9%	10.4%	10.9%	13.0%
Wealth Management	36.9%	38.9%	36.2%	38.1%
Investment Management	35.6%	18.8%	34.7%	24.5%
Consolidated	12.9%	13.2%	13.5%	15.1%

- Adjusted amounts exclude net discrete tax provisions (benefits) that are intermittent and include those that are recurring. Provisions or (benefits) related to conversion of employee share-based awards are expected to occur every year and are considered recurring discrete tax items. For further information on the net discrete tax provisions (benefits), see "Supplemental Financial Information and Disclosures—Income Tax Matters" herein.
- ROE and ROTCE represent annualized net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity and average tangible common equity, respectively. When excluding intermittent net discrete tax provisions (benefits), both the numerator and average denominator are adjusted.
- 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.
- Pre-tax margin represents income from continuing operations before income taxes as a percentage of net revenues.
- 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).
- The calculation of ROE and ROTCE by segment uses 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

We have an ROE Target of 10% to 13% and an ROTCE Target of 11.5% to 14.5%.

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; outsized 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 2018 Form 10-K.

## Business Segments

Substantially all of our operating revenues and operating expenses are directly attributable to our 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.

For an overview of the components of our business segments, net revenues, compensation expense and income taxes, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Segments" in the 2018 Form 10-K.

With respect to Institutional Securities sales and trading activities, Commodities products and Other also includes Trading revenues from managing derivative counterparty credit risk on behalf of clients, in addition to results from the centralized management of our fixed income derivative counterparty exposures.

## Institutional Securities

## Income Statement Information

<i>\$ in millions</i>	Three Months Ended September 30,		
	2019	2018	% Change
<b>Revenues</b>			
Investment banking	\$ 1,535	\$ 1,459	5 %
Trading	2,533	2,573	(2)%
Investments	(18)	96	(119)%
Commissions and fees	643	589	9 %
Asset management	100	112	(11)%
Other	51	244	(79)%
Total non-interest revenues	4,844	5,073	(5)%
Interest income	3,112	2,425	28 %
Interest expense	2,933	2,569	14 %
Net interest	179	(144)	N/M
<b>Net revenues</b>	<b>5,023</b>	<b>4,929</b>	<b>2 %</b>
Compensation and benefits	1,768	1,626	9 %
Non-compensation expenses	1,948	1,747	12 %
<b>Total non-interest expenses</b>	<b>3,716</b>	<b>3,373</b>	<b>10 %</b>
Income from continuing operations before income taxes	1,307	1,556	(16)%
Provision for income taxes	189	397	(52)%
Income from continuing operations	1,118	1,159	(4)%
Income (loss) from discontinued operations, net of income taxes	—	(3)	100 %
Net income	1,118	1,156	(3)%
Net income applicable to noncontrolling interests	45	36	25 %
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 1,073</b>	<b>\$ 1,120</b>	<b>(4)%</b>

<i>\$ in millions</i>	Nine Months Ended September 30,		
	2019	2018	% Change
<b>Revenues</b>			
Investment banking	\$ 4,158	\$ 4,671	(11)%
Trading	8,221	9,344	(12)%
Investments	257	234	10 %
Commissions and fees	1,889	2,007	(6)%
Asset management	310	324	(4)%
Other	416	548	(24)%
Total non-interest revenues	15,251	17,128	(11)%
Interest income	9,457	6,424	47 %
Interest expense	9,376	6,809	38 %
Net interest	81	(385)	121 %
<b>Net revenues</b>	<b>15,332</b>	<b>16,743</b>	<b>(8)%</b>
Compensation and benefits	5,376	5,779	(7)%
Non-compensation expenses	5,591	5,484	2 %
<b>Total non-interest expenses</b>	<b>10,967</b>	<b>11,263</b>	<b>(3)%</b>
Income from continuing operations before income taxes	4,365	5,480	(20)%
Provision for income taxes	703	1,169	(40)%
Income from continuing operations	3,662	4,311	(15)%
Income (loss) from discontinued operations, net of income taxes	—	(7)	100 %
Net income	3,662	4,304	(15)%
Net income applicable to noncontrolling interests	97	100	(3)%
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 3,565</b>	<b>\$ 4,204</b>	<b>(15)%</b>

## Management's Discussion and Analysis

## Investment Banking

## Investment Banking Revenues

\$ in millions	Three Months Ended September 30,		
	2019	2018	% Change
Advisory	\$ 550	\$ 510	8 %
Underwriting:			
Equity	401	441	(9)%
Fixed income	584	508	15 %
Total Underwriting	985	949	4 %
<b>Total Investment banking</b>	<b>\$ 1,535</b>	<b>\$ 1,459</b>	<b>5 %</b>

\$ in millions	Nine Months Ended September 30,		
	2019	2018	% Change
Advisory	\$ 1,462	\$ 1,702	(14)%
Underwriting:			
Equity	1,286	1,403	(8)%
Fixed income	1,410	1,566	(10)%
Total Underwriting	2,696	2,969	(9)%
<b>Total Investment banking</b>	<b>\$ 4,158</b>	<b>\$ 4,671</b>	<b>(11)%</b>

## Investment Banking Volumes

\$ in billions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Completed mergers and acquisitions <sup>1</sup>	\$ 214	\$ 170	\$ 580	\$ 674
Equity and equity-related offerings <sup>2,3</sup>	17	15	47	52
Fixed income offerings <sup>2,4</sup>	78	68	196	193

Source: Refinitiv (formerly Thomson Reuters Financial & Risk), data as of October 1, 2019. 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, change in value, or change in timing of certain transactions.

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, 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 of \$1,535 million in the current quarter increased 5% from the prior year quarter, reflecting higher results in both our underwriting and advisory businesses. Investment banking revenues of \$4,158 million in the current year period decreased 11% from the prior year period, reflecting lower results in both our underwriting and advisory businesses.

- Advisory revenues increased in the current quarter primarily reflecting higher volumes of completed M&A activity, partially offset by the effect of lower fee realizations. In the current year period revenues decreased primarily as a result of lower volumes of completed M&A activity.
- Equity underwriting revenues decreased in the current quarter primarily reflecting lower revenues in initial public offerings and follow-on offerings, partially offset by an increase in convertible issuances. In the current year period, overall volumes were lower, with revenues decreasing primarily in initial public offerings and convertible issuances, partially offset by an increase in secondary block share trades.
- Fixed income underwriting revenues increased in the current quarter primarily due to higher overall volumes, with higher revenues in non-investment grade bond and investment grade loan issuance fees. In the current year period, fixed income underwriting revenues decreased, primarily in non-investment grade loan issuance fees, reflecting lower loan market volumes.

See "Investment Banking Volumes" herein.

## Sales and Trading Net Revenues

## By Income Statement Line Item

\$ in millions	Three Months Ended September 30,		
	2019	2018	% Change
Trading	\$ 2,533	\$ 2,573	(2)%
Commissions and fees	643	589	9 %
Asset management	100	112	(11)%
Net interest	179	(144)	N/M
<b>Total</b>	<b>\$ 3,455</b>	<b>\$ 3,130</b>	<b>10 %</b>

\$ in millions	Nine Months Ended September 30,		
	2019	2018	% Change
Trading	\$ 8,221	\$ 9,344	(12)%
Commissions and fees	1,889	2,007	(6)%
Asset Management	310	324	(4)%
Net interest	81	(385)	121 %
<b>Total</b>	<b>\$ 10,501</b>	<b>\$ 11,290</b>	<b>(7)%</b>

## Management's Discussion and Analysis

## By Business

\$ in millions	Three Months Ended September 30,		
	2019	2018	% Change
Equity	\$ 1,991	\$ 2,019	(1)%
Fixed income	1,430	1,179	21 %
Other	34	(68)	150 %
<b>Total</b>	<b>\$ 3,455</b>	<b>\$ 3,130</b>	<b>10 %</b>

\$ in millions	Nine Months Ended September 30,		
	2019	2018	% Change
Equity	\$ 6,136	\$ 7,047	(13)%
Fixed income	4,273	4,441	(4)%
Other	92	(198)	146 %
<b>Total</b>	<b>\$ 10,501</b>	<b>\$ 11,290</b>	<b>(7)%</b>

## Sales and Trading Revenues—Equity and Fixed Income

\$ in millions	Three Months Ended September 30, 2019			
	Trading	Fees <sup>1</sup>	Net Interest <sup>2</sup>	Total
Financing	\$ 1,049	\$ 88	\$ (90)	\$ 1,047
Execution services	446	564	(66)	944
<b>Total Equity</b>	<b>\$ 1,495</b>	<b>\$ 652</b>	<b>\$ (156)</b>	<b>\$ 1,991</b>
<b>Total Fixed income</b>	<b>\$ 1,329</b>	<b>\$ 90</b>	<b>\$ 11</b>	<b>\$ 1,430</b>

\$ in millions	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>

\$ in millions	Nine Months Ended September 30, 2019			
	Trading	Fees <sup>1</sup>	Net Interest <sup>2</sup>	Total
Financing	\$ 3,249	\$ 280	\$ (500)	\$ 3,029
Execution services	1,597	1,671	(161)	3,107
<b>Total Equity</b>	<b>\$ 4,846</b>	<b>\$ 1,951</b>	<b>\$ (661)</b>	<b>\$ 6,136</b>
<b>Total Fixed income</b>	<b>\$ 4,200</b>	<b>\$ 249</b>	<b>\$ (176)</b>	<b>\$ 4,273</b>

\$ in millions	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>

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 2018 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 18 to the financial statements.

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

Equity sales and trading net revenues of \$1,991 million in the current quarter were essentially unchanged compared to the prior year quarter.

- Financing remained consistent with the prior year quarter as lower Trading revenues were offset by higher Net interest revenues.
- Execution services was relatively unchanged from the prior year quarter, reflecting lower Trading revenues in derivatives products as a result of less favorable inventory management, partially offset by increased client activity. Higher Commissions and fees were driven by higher client activity in cash equities products.

*Fixed Income*

Fixed income net revenues of \$1,430 million in the current quarter were 21% higher than the prior year quarter, primarily driven by higher results in credit products and commodities products and other, partially offset by lower results in global macro products.

- Global macro products revenues decreased in foreign exchange products, partially offset by an increase in rates products. Trading revenues were lower overall, reflecting unfavorable inventory management as a result of a decline in interest rates and movements in foreign exchange volatility, partially offset by higher levels of client activity, including structured transactions.
- Credit products Trading revenues increased primarily in securitized and corporate credit products due to improved inventory management and higher client activity.
- Commodities products and Other Trading revenues increased primarily due to gains from counterparty risk management.

## Management's Discussion and Analysis

Fixed income Net interest increased compared to the prior year quarter primarily reflecting changes in funding mix.

### *Other*

- Other sales and trading revenues of \$34 million in the current quarter increased from the prior year quarter reflecting changes in funding mix, higher gains on economic hedges related to certain of the Firm's Borrowings and lower losses on hedges associated with corporate loans. Partially offsetting these increases was a decrease in the fair value of investments to which certain deferred compensation plans are referenced.

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

#### *Equity*

Equity sales and trading net revenues of \$6,136 million in the current year period decreased 13% from the prior year period, reflecting lower results in both our financing and execution services businesses.

- Financing decreased from the prior year period, mainly due to lower average client balances and lower realized spreads, primarily reflected in lower Trading revenues.
- Execution services decreased from the prior year period, reflecting lower Trading revenues as a result of less favorable inventory management in derivatives products. In addition, Commission and fees decreased due to lower client activity in cash equities products.

#### *Fixed Income*

Fixed income net revenues of \$4,273 million in the current year period were 4% lower than the prior year period, primarily driven by lower results in global macro products, offset by higher results in credit products.

- Global macro products Trading revenues decreased in both foreign exchange and rates products as a result of unfavorable inventory management as a result of a decline in interest rates and movements in foreign exchange volatility, partially offset by higher levels of client activity.
- Credit products Trading revenues increased primarily in corporate credit and securitized products due to improved inventory management and higher client activity.
- Commodities products and Other Trading revenues remained relatively unchanged as gains from counterparty risk management were offset by lower client activity in structured transactions within commodities products.

Fixed income Net interest decreased compared to the prior year period primarily reflecting changes in funding mix and lower net spreads in securitized products.

### *Other*

- Other sales and trading revenues of \$92 million in the current year period increased from the prior year period reflecting lower costs due to changes in funding mix and balance sheet composition and an increase in the in the fair value of investments to which certain deferred compensation plans are referenced, partially offset by higher losses on hedges associated with corporate loans.

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

#### *Investments*

- Net investment losses of \$18 million in the current quarter were driven by mark-to-market losses on remaining holdings subsequent to certain investments' initial public offerings, compared with net investment gains of \$96 million in the prior year quarter. In the current year period net investment gains of \$257 million were higher compared to the prior year period, primarily as a result of realized gains associated with an investment's public offering in the current year period.

#### *Other Revenues*

- Other revenues of \$51 million in the current quarter decreased from the prior year quarter, primarily as a result of mark-to-market losses on held for sale loans and an increase in the provision for loan losses. Other revenues of \$416 million in the current year period decreased from the prior year period, primarily as a result of an increase in the provision for loan losses compared to the prior year period, which included the recovery of a previously charged off loan. Additionally, lower results from certain equity method investments were partially offset by higher mark-to-market gains on held-for-sale loans in the current year period.

#### *Non-interest Expenses*

Non-interest expenses of \$3,716 million in the current quarter increased from the prior year quarter, reflecting a 9% increase in Compensation and benefits expenses and a 12% increase in Non-compensation expenses. Non-interest expenses of \$10,967 million in the current year period decreased from the prior year period, reflecting a 7% decrease in Compensation and benefits expenses and a 2% increase in Non-compensation expenses.

- Compensation and benefits expenses increased in the current quarter primarily due to increases in discretionary incentive compensation driven by higher revenues as well as higher salaries, partially offset by a decrease in the fair value of

## Management's Discussion and Analysis

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

- Non-compensation expenses increased in the current quarter primarily due to higher litigation costs, volume-related expenses and investments in technology. In the current year period, Non-compensation expenses increased primarily due to investments in technology.

### *Income Tax Items*

The current quarter and current year period included intermittent net discrete tax benefits of \$67 million and \$168 million, respectively. The prior year period included intermittent net discrete tax benefits of \$88 million. For further information, see "Supplemental Financial Information and Disclosures—Income Tax Matters" herein.

## Management's Discussion and Analysis

## Wealth Management

## Income Statement Information

\$ in millions	Three Months Ended September 30,		% Change
	2019	2018	
<b>Revenues</b>			
Investment banking	\$ 118	\$ 129	(9)%
Trading	61	160	(62)%
Commissions and fees	416	409	2 %
Asset management	2,639	2,573	3 %
Other	81	58	40 %
Total non-interest revenues	3,315	3,329	—%
Interest income	1,378	1,412	(2)%
Interest expense	335	342	(2)%
Net interest	1,043	1,070	(3)%
<b>Net revenues</b>	<b>4,358</b>	<b>4,399</b>	<b>(1)%</b>
Compensation and benefits	2,340	2,415	(3)%
Non-compensation expenses	780	790	(1)%
<b>Total non-interest expenses</b>	<b>3,120</b>	<b>3,205</b>	<b>(3)%</b>
Income from continuing operations before income taxes	\$ 1,238	\$ 1,194	4 %
Provision for income taxes	276	281	(2)%
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 962</b>	<b>\$ 913</b>	<b>5 %</b>

\$ in millions	Nine Months Ended September 30,		% Change
	2019	2018	
<b>Revenues</b>			
Investment banking	\$ 365	\$ 383	(5)%
Trading	525	404	30 %
Investments	1	3	(67)%
Commissions and fees	1,250	1,349	(7)%
Asset management	7,544	7,582	(1)%
Other	281	195	44 %
Total non-interest revenues	9,966	9,916	1 %
Interest income	4,139	4,012	3 %
Interest expense	950	830	14 %
Net interest	3,189	3,182	—%
<b>Net revenues</b>	<b>13,155</b>	<b>13,098</b>	<b>—%</b>
Compensation and benefits	7,184	7,221	(1)%
Non-compensation expenses	2,302	2,366	(3)%
<b>Total non-interest expenses</b>	<b>9,486</b>	<b>9,587</b>	<b>(1)%</b>
Income from continuing operations before income taxes	\$ 3,669	\$ 3,511	5 %
Provision for income taxes	830	808	3 %
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 2,839</b>	<b>\$ 2,703</b>	<b>5 %</b>

## Financial Information and Statistical Data

\$ in billions, except employee data	At September 30, 2019	At December 31, 2018
	Client assets	\$ 2,565
Fee-based client assets <sup>1</sup>	\$ 1,186	\$ 1,046
Fee-based client assets as a percentage of total client assets	46%	45%
Client liabilities <sup>2</sup>	\$ 86	\$ 83
Investment securities portfolio	\$ 69.8	\$ 68.6
Loans and lending commitments	\$ 88.3	\$ 82.9
Wealth Management representatives	15,553	15,694
		Three Months Ended September 30,
		2019
Per representative:		2018
Annualized revenues (\$ in thousands) <sup>3</sup>	\$ 1,118	\$ 1,125
Client assets (\$ in millions) <sup>4</sup>	\$ 165	\$ 159
Fee-based asset flows (\$ in billions) <sup>5</sup>	\$ 15.5	\$ 16.2
		Nine Months Ended September 30,
		2019
Per representative:		2018
Annualized revenues (\$ in thousands) <sup>3</sup>	\$ 1,121	\$ 1,114
Client assets (\$ in millions) <sup>4</sup>	\$ 165	\$ 159
Fee-based asset flows (\$ in billions) <sup>5</sup>	\$ 40.1	\$ 49.7

1. Fee-based client assets represent the amount of assets in client accounts where the fee for services is calculated based on those assets.
2. Client liabilities include securities-based and tailored lending, residential real estate loans and margin lending.
3. Revenues per representative equal Wealth Management's annualized net revenues divided by the average number of representatives.
4. Client assets per representative equal total period-end client assets divided by period-end number of representatives.
5. For a description of the Inflows and Outflows included within Fee-based asset flows, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Segments—Wealth Management—Fee-Based Client Assets" in the 2018 Form 10-K. Excludes institutional cash management-related activity.



## Management's Discussion and Analysis

### Transactional Revenues

\$ in millions	Three Months Ended September 30,		
	2019	2018	% Change
Investment banking	\$ 118	\$ 129	(9)%
Trading	61	160	(62)%
Commissions and fees	416	409	2 %
<b>Total</b>	<b>\$ 595</b>	<b>\$ 698</b>	<b>(15)%</b>
Transactional revenues as a % of Net revenues	14%	16%	

\$ in millions	Nine Months Ended September 30,		
	2019	2018	% Change
Investment banking	\$ 365	\$ 383	(5)%
Trading	525	404	30 %
Commissions and fees	1,250	1,349	(7)%
<b>Total</b>	<b>\$ 2,140</b>	<b>\$ 2,136</b>	<b>N/M</b>
Transactional revenues as a % of Net revenues	16%	16%	

### Net Revenues

#### Transactional Revenues

Transactional revenues of \$595 million in the current quarter decreased 15% from the prior year quarter primarily as a result of lower Trading revenues. Transactional revenues of \$2,140 million in the current year period were relatively unchanged from the prior year period as a result of higher Trading revenues, offset by lower Commissions and fees.

- Investment banking revenues decreased in the current year periods, with lower revenues from structured product issuances, partially offset by higher revenues from closed-end fund issuances.
- Trading revenues decreased in the current quarter primarily due to losses related to investments associated with certain employee deferred compensation plans. In the current year period, Trading revenues increased primarily due to higher gains in these investments.
- Commissions and fees in the current quarter remained relatively unchanged. In the current year period, Commissions and fees decreased primarily due to changes in the mix of client activity in equities.

#### Asset Management

Asset management revenues of \$2,639 million in the current quarter increased 3% from the prior year quarter primarily due to higher fee-based assets levels at the beginning of the current quarter due to market appreciation and positive net flows, partially offset by lower average fee rates predominantly driven by shifts in the mix of fee-based client assets and lower mutual fund distribution fees.

Asset management revenues of \$7,544 million in the current year period decreased 1% from the prior year period primarily due to lower average fee rates predominantly driven by shifts in the mix of fee-based client assets and lower mutual fund distribution fees, partially offset by the effect of positive net flows.

See "Fee-Based Client Assets—Rollforwards" herein.

#### Other

Other revenues of \$81 million in the current quarter and \$281 million in the current year period increased 40% and 44%, respectively, from the prior year periods, primarily due to higher realized gains from the AFS securities portfolio.

#### Net Interest

Net interest of \$1,043 million in the current quarter decreased due to changes in our funding mix, partially offset by higher balances of and higher interest rates on Investment securities and Loans.

Net interest of \$3,189 million in the current year period was marginally higher than prior year period. The impact of higher interest rates on and higher balances of Investment securities and Loans was partially offset by changes in our funding mix and higher prepayment amortization expense related to mortgage-backed securities.

In addition, we centralized certain internal treasury activities as of January 1, 2019, which partially offset Interest income and Interest expense compared with the prior year periods. This impact is expected to continue in future periods. The effect on Net interest income was not significant in the current quarter or the current year period, nor is it expected to be for the full year 2019.

#### Non-interest Expenses

Non-interest expenses of \$3,120 million in the current quarter decreased from the prior year quarter primarily as a result of Compensation and benefits expenses. Non-interest expenses of \$9,486 million in the current year period decreased from the prior year period primarily as a result of Non-compensation expenses.

- Compensation and benefits expenses decreased in the current quarter reflecting decreases in the fair value of investments to which certain deferred compensation plans are referenced and the roll-off of certain acquisition-related employee retention loans, partially offset by higher salaries and the formulaic payout to Wealth Management representatives driven by the mix of revenues. Compensation and benefits expenses decreased in the current year period reflecting the roll-off of certain acquisition-related employee retention loans and a lower formulaic payout to Wealth

## Management's Discussion and Analysis

Management representatives driven by the mix of revenues, partially offset by higher salaries and increases in the fair value of investments to which certain deferred compensation plans are referenced.

- Non-compensation expenses decreased in the current quarter and current year period primarily as a result of lower professional services expenses. In addition, in the current year period, Non-compensation expenses decreased as a result of lower deposit insurance expense.

### Fee-Based Client Assets

#### Rollforwards

<i>\$ in billions</i>	At June 30, 2019	Inflows	Outflows	Market Impact	At September 30, 2019
Separately managed <sup>1</sup>	\$ 296	\$ 15	\$ (5)	\$ 6	\$ 312
Unified managed <sup>2</sup>	292	12	(10)	1	295
Advisor	149	7	(8)	—	148
Portfolio manager	400	19	(14)	2	407
Subtotal	\$ 1,137	\$ 53	\$ (37)	\$ 9	\$ 1,162
Cash management	22	4	(3)	1	24
<b>Total fee-based client assets</b>	<b>\$ 1,159</b>	<b>\$ 57</b>	<b>\$ (40)</b>	<b>\$ 10</b>	<b>\$ 1,186</b>

<i>\$ in billions</i>	At June 30, 2018	Inflows	Outflows	Market Impact	At September 30, 2018
Separately managed <sup>1</sup>	\$ 267	\$ 14	\$ (6)	\$ (3)	\$ 272
Unified managed <sup>2</sup>	279	12	(9)	5	287
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>

<i>\$ in billions</i>	At December 31, 2018	Inflows	Outflows	Market Impact	At September 30, 2019
Separately managed <sup>1</sup>	\$ 279	\$ 38	\$ (15)	\$ 10	\$ 312
Unified managed <sup>2</sup>	257	35	(30)	33	295
Advisor	137	20	(24)	15	148
Portfolio manager	353	54	(38)	38	407
Subtotal	\$ 1,026	\$ 147	\$ (107)	\$ 96	\$ 1,162
Cash management	20	12	(12)	4	24
<b>Total fee-based client assets</b>	<b>\$ 1,046</b>	<b>\$ 159</b>	<b>\$ (119)</b>	<b>\$ 100</b>	<b>\$ 1,186</b>

<i>\$ in billions</i>	At December 31, 2017	Inflows	Outflows	Market Impact	At September 30, 2018
Separately managed <sup>1</sup>	\$ 252	\$ 30	\$ (15)	\$ 5	\$ 272
Unified managed <sup>2</sup>	271	36	(25)	5	287
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>	<b>\$ 1,045</b>	<b>\$ 157</b>	<b>\$ (105)</b>	<b>\$ 23</b>	<b>\$ 1,120</b>

### Average Fee Rates<sup>3</sup>

<i>Fee rate in bps</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Separately managed	15	15	15	16
Unified managed <sup>2</sup>	99	98	100	99
Advisor	86	84	87	84
Portfolio manager	96	95	95	95
Subtotal	74	75	74	76
Cash management	6	6	6	6
Total fee-based client assets	73	74	73	74

1. Includes non-custody account values reflecting prior quarter-end balances due to a lag in the reporting of asset values by third-party custodians.
2. Includes Mutual fund advisory accounts. Prior periods have been recast to conform to the current presentation.
3. The calculation of average fee rates was changed in the current year period to more closely align with the recognition of the related fee revenue. Prior period rates were not changed due to immateriality.

For a description of fee-based client assets and rollforward items in the previous tables, see “Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Segments—Wealth Management—Fee-Based Client Assets” in the 2018 Form 10-K.

## Investment Management

## Income Statement Information

\$ in millions	Three Months Ended September 30,		
	2019	2018	% Change
<b>Revenues</b>			
Investment banking	\$ —	\$ —	—%
Trading	2	2	—%
Investments	105	40	163 %
Commissions and fees	1	—	N/M
Asset management	664	604	10 %
Other	—	(3)	100 %
Total non-interest revenues	772	643	20 %
Interest income	4	19	(79)%
Interest expense	12	9	33 %
Net interest	(8)	10	(180)%
<b>Net revenues</b>	<b>764</b>	<b>653</b>	<b>17 %</b>
Compensation and benefits	319	269	19 %
Non-compensation expenses	280	282	(1)%
<b>Total non-interest expenses</b>	<b>599</b>	<b>551</b>	<b>9 %</b>
Income from continuing operations before income taxes	\$ 165	\$ 102	62 %
Provision for income taxes	27	18	50 %
Income from continuing operations	138	84	64 %
Income (loss) from discontinued operations, net of income taxes	—	2	(100)%
Net income	138	86	60 %
Net income applicable to noncontrolling interests	—	6	(100)%
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 138</b>	<b>\$ 80</b>	<b>73 %</b>

\$ in millions	Nine Months Ended September 30,		
	2019	2018	% Change
<b>Revenues</b>			
Investment banking	\$ (1)	\$ —	N/M
Trading	(2)	23	(109)%
Investments	543	172	N/M
Commissions and fees	1	—	N/M
Asset management	1,893	1,840	3 %
Other	(6)	10	(160)%
Total non-interest revenues	2,428	2,045	19 %
Interest income	14	37	(62)%
Interest expense	35	20	75 %
Net interest	(21)	17	N/M
<b>Net revenues</b>	<b>2,407</b>	<b>2,062</b>	<b>17 %</b>
Compensation and benefits	1,049	845	24 %
Non-compensation expenses	820	827	(1)%
<b>Total non-interest expenses</b>	<b>1,869</b>	<b>1,672</b>	<b>12 %</b>
Income from continuing operations before income taxes	\$ 538	\$ 390	38 %
Provision for income taxes	104	73	42 %
Income from continuing operations	434	317	37 %
Income (loss) from discontinued operations, net of income taxes	—	2	(100)%
Net income	434	319	36 %
Net income applicable to noncontrolling interests	32	8	N/M
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 402</b>	<b>\$ 311</b>	<b>29 %</b>

## Net Revenues

## Investments

Investments gains of \$105 million in the current quarter and \$543 million in the current year period compared with \$40 million and \$172 million, respectively, in the prior year periods. The increase in the current quarter reflects higher carried interest from Asia private equity and multi-manager private equity funds. The increase in the current year period reflects higher carried interest and investment gains from Asia private equity, infrastructure and real estate funds.

## Asset Management

Asset management revenues of \$664 million in the current quarter and \$1,893 million in the current year period increased 10% and 3%, respectively, from the prior year periods primarily as a result of higher average AUM and the recognition of performance fees in the current quarter related to the monetization of a client asset.

See "Assets Under Management or Supervision" herein.

## Management's Discussion and Analysis

## Non-interest Expenses

Non-interest expenses of \$599 million in the current quarter and \$1,869 million in the current year period increased 9% and 12%, respectively, from the prior year periods primarily as a result of increased Compensation and benefits expenses.

- Compensation and benefits expenses increased in the current quarter and current year period primarily due to higher deferred compensation associated with carried interest.
- Non-compensation expenses in the current quarter and current year period were relatively unchanged from the prior year periods.

## Assets Under Management or Supervision

## Rollforwards

<i>\$ in billions</i>	At June 30, 2019	Inflows	Outflows	Market Impact	Other	At September 30, 2019
Equity	\$ 128	\$ 10	\$ (8)	\$ (4)	\$ —	\$ 126
Fixed income	71	6	(4)	2	(1)	74
Alternative/ Other	135	5	(4)	2	(3)	135
Long-term AUM subtotal	334	21	(16)	—	(4)	335
Liquidity	163	311	(301)	(1)	—	172
<b>Total AUM</b>	<b>\$ 497</b>	<b>\$ 332</b>	<b>\$ (317)</b>	<b>\$ (1)</b>	<b>\$ (4)</b>	<b>\$ 507</b>
Shares of minority stake assets	6					6

<i>\$ in billions</i>	At June 30, 2018	Inflows	Outflows	Market Impact	Other	At September 30, 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	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

<i>\$ in billions</i>	At December 31, 2018	Inflows	Outflows	Market Impact	Other	At September 30, 2019
Equity	\$ 103	\$ 28	\$ (23)	\$ 18	\$ —	\$ 126
Fixed income	68	17	(15)	5	(1)	74
Alternative/ Other	128	17	(14)	8	(4)	135
Long-term AUM subtotal	299	62	(52)	31	(5)	335
Liquidity	164	965	(956)	1	(2)	172
<b>Total AUM</b>	<b>\$ 463</b>	<b>\$ 1,027</b>	<b>\$ (1,008)</b>	<b>\$ 32</b>	<b>\$ (7)</b>	<b>\$ 507</b>
Shares of minority stake assets	7					6

<i>\$ in billions</i>	At December 31, 2017	Inflows	Outflows	Market Impact	Other <sup>1</sup>	At September 30, 2018
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	176	1,013	(1,039)	2	(2)	150
<b>Total AUM</b>	<b>\$ 482</b>	<b>\$ 1,079</b>	<b>\$ (1,095)</b>	<b>\$ 9</b>	<b>\$ (4)</b>	<b>\$ 471</b>
Shares of minority stake assets	7					7

1. Includes the impact of the Mesa West Capital, LLC acquisition.

## Average AUM

<i>\$ in billions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Equity	\$ 127	\$ 116	\$ 120	\$ 112
Fixed income	73	70	70	72
Alternative/Other	135	133	133	131
Long-term AUM subtotal	335	319	323	315
Liquidity	169	153	166	159
<b>Total AUM</b>	<b>\$ 504</b>	<b>472</b>	<b>\$ 489</b>	<b>474</b>
Shares of minority stake assets	6	7	6	7

## Average Fee Rates

<i>Fee rate in bps</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Equity	76	76	76	76
Fixed income	32	33	32	34
Alternative/Other	62	65	65	67
Long-term AUM	61	62	62	62
Liquidity	17	17	17	18
<b>Total AUM</b>	<b>46</b>	<b>47</b>	<b>47</b>	<b>47</b>

For a description of the asset classes and rollforward items in the previous 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 2018 Form 10-K.

## Management's Discussion and Analysis

## Supplemental Financial Information and Disclosures

## Income Tax Matters

## Effective Tax Rate from Continuing Operations

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
U.S. GAAP	18.2%	24.4%	19.1%	21.9%
Adjusted effective income tax rate—non-GAAP <sup>1</sup>	21.4%	24.6%	21.3%	22.8%
<b>Net discrete tax provisions/(benefits)</b>				
Recurring <sup>2</sup>	\$ —	\$ —	\$ (127)	\$ (164)
Intermittent <sup>3</sup>	\$ (89)	\$ (4)	\$ (190)	\$ (92)

1. The adjusted effective income tax rate is a non-GAAP measure that excludes net discrete tax provisions (benefits) that are intermittent and includes those that are recurring ("Recurring"). For further information on non-GAAP measures, see "Selected Non-GAAP Financial Information" herein.
2. Provisions or (benefits) related to conversion of employee share-based awards are expected to occur every year and are considered Recurring discrete tax items.
3. Includes all tax provisions (benefits) that have been determined to be discrete, other than Recurring items as defined above.

The current quarter included intermittent net discrete tax benefits primarily associated with the filing of the 2018 federal tax return and the remeasurement of reserves and related interest due to new information with regard to multi-jurisdiction tax examinations. The current year period and prior year period included intermittent net discrete tax benefits primarily associated with the remeasurement of reserves and related interest due to new information with regard to multi-jurisdiction tax examinations and other matters. See Note 17 to the financial statements for further information.

## 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 a further discussion

about loans and lending commitments, see Notes 7 and 11 to the financial statements.

U.S. Bank Subsidiaries' Supplemental Financial Information<sup>1</sup>

\$ in billions	At September 30, 2019	At December 31, 2018
Assets	\$ 211.0	\$ 216.9
Investment securities portfolio:		
Investment securities—AFS	44.0	45.5
Investment securities—HTM	26.7	23.7
<b>Total investment securities</b>	<b>\$ 70.7</b>	<b>\$ 69.2</b>
Deposits <sup>2</sup>	\$ 179.6	\$ 187.1
<b>Wealth Management Loans</b>		
Securities-based lending and other <sup>3</sup>	\$ 47.4	\$ 44.7
Residential real estate	29.2	27.5
<b>Total</b>	<b>\$ 76.6</b>	<b>\$ 72.2</b>
<b>Institutional Securities Loans<sup>4</sup></b>		
Corporate <sup>5</sup> :		
Corporate relationship and event-driven lending	\$ 6.9	\$ 7.4
Secured lending facilities	25.0	17.5
Securities-based lending and other	5.7	6.0
Commercial and residential real estate	9.8	10.5
<b>Total</b>	<b>\$ 47.4</b>	<b>\$ 41.4</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.
4. Prior periods have been conformed to the current presentation.
5. For a further discussion of corporate loans in the Institutional Securities business segment, see "Credit Risk—Institutional Securities Corporate Loans" herein.

## 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 either determined to be not applicable or are not expected to have a significant impact on our financial statements.

The following accounting update is currently being evaluated to determine the ultimate impact of adoption:

- *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

## Management's Discussion and Analysis

other receivables carried at amortized cost, such as employee loans.

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.

For certain portfolios, we have determined that there are no expected credit losses, for example based on collateral arrangements for lending and financing transactions such as Securities borrowed, Securities purchased under agreements to resell and certain other portfolios. Also, we have a zero loss expectation for certain financial assets based on the credit quality of the borrower or issuer such as U.S. government and agency securities.

We expect the following portfolios to be primarily impacted: employee loans, commercial real estate, corporate and residential real estate. The models we expect to use for these portfolios upon adoption have been validated and approved for use, and during 2019 we are performing the CECL process quarterly in preparation for adoption on January 1, 2020. Based on preliminary analyses and estimates, we do not expect that the increase in the allowance for credit losses, resulting from the adoption of this standard, will be significant to our financial statements. The ultimate impact will depend upon a number of factors, including macroeconomic conditions, forecasts, and our portfolios at the adoption date.

### 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 2018 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 2018 Form 10-K.

## Liquidity and Capital Resources

Senior management, with oversight by the Asset/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. Our Treasury department, Firm Risk Committee, Asset/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 and 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

\$ in millions	At September 30, 2019			
	IS	WM	IM	Total
<b>Assets</b>				
Cash and cash equivalents <sup>1</sup>	\$ 68,089	\$ 11,453	\$ 114	\$ 79,656
Trading assets at fair value	274,602	54	2,767	277,423
Investment securities	36,020	69,770	—	105,790
Securities purchased under agreements to resell	86,177	7,190	—	93,367
Securities borrowed	132,123	278	—	132,401
Customer and other receivables	44,036	14,830	648	59,514
Loans, net of allowance <sup>2</sup>	48,952	76,565	5	125,522
Other assets <sup>3</sup>	13,869	13,073	1,989	28,931
<b>Total assets</b>	<b>\$ 703,868</b>	<b>\$ 193,213</b>	<b>\$ 5,523</b>	<b>\$ 902,604</b>

## Management's Discussion and Analysis

\$ in millions	At December 31, 2018			
	IS	WM	IM	Total
<b>Assets</b>				
Cash and cash equivalents <sup>1</sup>	\$ 69,526	\$ 17,621	\$ 49	\$ 87,196
Trading assets at fair value	263,870	60	2,369	266,299
Investment securities	23,273	68,559	—	91,832
Securities purchased under agreements to resell	80,660	17,862	—	98,522
Securities borrowed	116,207	106	—	116,313
Customer and other receivables	35,777	16,865	656	53,298
Loans, net of allowance <sup>2</sup>	43,380	72,194	5	115,579
Other assets <sup>3</sup>	13,734	9,125	1,633	24,492
<b>Total assets</b>	<b>\$ 646,427</b>	<b>\$ 202,392</b>	<b>\$ 4,712</b>	<b>\$ 853,531</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 and Intangible assets, premises, equipment and software, ROU assets related to leases, 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 \$903 billion at September 30, 2019 from \$854 billion at December 31, 2018, driven by the Institutional Securities business segment. Within Institutional Securities, the primary increases were: Securities borrowed, due to higher period-end client balances within Equity Financing; Investment securities, primarily U.S. Treasuries; Trading assets, primarily other sovereign government obligations and derivatives; and Loan balances. Wealth Management assets were lower primarily due to decreased Securities purchased under agreements to resell as a result of lower Deposits, partially offset by increased Loan balances.

## Liquidity Risk Management Framework

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 a 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 2018 Form 10-K.

At September 30, 2019 and December 31, 2018, we maintained sufficient liquidity to meet current and contingent funding obligations as modeled in our Liquidity Stress Tests.

## Global Liquidity Reserve

We maintain sufficient liquidity reserves to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. For a further discussion of our 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 2018 Form 10-K. For further information on regulatory developments that may impact our GLR, see "Liquidity and Capital Resources—Regulatory Requirements—Regulatory Developments" herein.

## GLR by Type of Investment

\$ in millions	At September 30, 2019	At December 31, 2018
Cash deposits with banks <sup>1</sup>	\$ 12,026	\$ 10,441
Cash deposits with central banks <sup>1</sup>	32,177	36,109
Unencumbered highly liquid securities:		
U.S. government obligations	102,083	119,138
U.S. agency and agency mortgage-backed securities	47,568	41,473
Non-U.S. sovereign obligations <sup>2</sup>	30,317	39,869
Other investment grade securities	2,752	2,705
<b>Total</b>	<b>\$ 226,923</b>	<b>\$ 249,735</b>

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

2. Primarily composed of unencumbered Japanese, U.K., French, German and Brazilian government obligations.

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

\$ in millions	At September 30, 2019	At December 31, 2018	Average Daily Balance Three Months Ended September 30, 2019
<b>Bank legal entities</b>			
Domestic	\$ 74,227	\$ 88,809	\$ 75,436
Foreign	5,412	4,896	5,163
Total Bank legal entities	79,639	93,705	80,599
<b>Non-Bank legal entities</b>			
Domestic:			
Parent Company	57,882	64,262	58,023
Non-Parent Company	32,121	40,936	34,210
Total Domestic	90,003	105,198	92,233
Foreign	57,281	50,832	54,202
Total Non-Bank legal entities	147,284	156,030	146,435
<b>Total</b>	<b>\$ 226,923</b>	<b>\$ 249,735</b>	<b>\$ 227,034</b>

GLR may fluctuate from period to period based on the overall size and composition of our balance sheet, the maturity profile of our unsecured debt and estimates of funding needs in a stressed environment, among other factors.

## Management's Discussion and Analysis

### 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.

The regulatory definition of HQLA is substantially the same as our GLR, with the primary difference being the treatment of certain cash balances and unencumbered securities.

As of September 30, 2019, we and our U.S. Bank Subsidiaries are compliant with the minimum required LCR of 100%. For further information on regulatory developments that may impact our LCR, see "Liquidity and Capital Resources—Regulatory Requirements—Regulatory Developments" herein.

#### HQLA by Type of Asset and LCR

\$ in millions	Average Daily Balance Three Months Ended	
	September 30, 2019	June 30, 2019
<b>HQLA</b>		
Cash deposits with central banks	\$ 33,053	\$ 32,552
Securities <sup>1</sup>	141,806	141,613
<b>Total</b>	<b>\$ 174,859</b>	<b>\$ 174,165</b>
LCR	140%	154%

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

The decrease in the LCR in the current quarter is primarily due to higher net outflows related to derivatives and lending commitments.

#### Net Stable Funding Ratio

The Basel Committee on Banking Supervision ("Basel Committee") has previously finalized the NSFR framework. In 2016, the U.S. banking agencies issued a proposal to implement the NSFR in the U.S.; however, a final rule has not yet been issued. 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 2018 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 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 2018 Form 10-K.

#### Collateralized Financing Transactions

\$ in millions	At September 30, 2019	At December 31, 2018
Securities purchased under agreements to resell and Securities borrowed	\$ 225,768	\$ 214,835
Securities sold under agreements to repurchase and Securities loaned	\$ 69,153	\$ 61,667
Securities received as collateral <sup>1</sup>	\$ 7,785	\$ 7,668

\$ in millions	Average Daily Balance Three Months Ended	
	September 30, 2019	December 31, 2018
Securities purchased under agreements to resell and Securities borrowed	\$ 223,449	\$ 213,974
Securities sold under agreements to repurchase and Securities loaned	\$ 66,446	\$ 57,677

1. Securities received as collateral are included in Trading assets in the balance sheets.

See Note 2 to the financial statements in the 2018 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 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 transactions, 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, which limit our credit exposure to customers and liquidity reserves held against this risk exposure.



## Management's Discussion and Analysis

### 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 2018 Form 10-K.

### Deposits

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Savings and demand deposits:		
Brokerage sweep deposits <sup>1</sup>	\$ 116,649	\$ 141,255
Savings and other	24,695	13,642
Total Savings and demand deposits	141,344	154,897
Time deposits	39,394	32,923
<b>Total</b>	<b>\$ 180,738</b>	<b>\$ 187,820</b>

1. Amounts represent balances swept from client brokerage accounts.

Deposits are primarily sourced from our Wealth Management clients and are considered to have stable, low-cost funding characteristics. Total deposits at September 30, 2019 decreased compared with December 31, 2018, primarily driven by a reduction in Brokerage sweep deposits due to client redeployment of cash into investments and client tax payments, partially offset by higher savings and time deposits.

### Borrowings by Remaining Maturity at September 30, 2019<sup>1</sup>

<i>\$ in millions</i>	Parent Company	Subsidiaries	Total
Original maturities of one year or less	\$ —	\$ 1,297	\$ 1,297
Original maturities greater than one year			
2019	\$ 3,224	\$ 1,724	\$ 4,948
2020	15,942	4,853	20,795
2021	21,310	4,261	25,571
2022	15,983	3,173	19,156
2023	11,766	2,779	14,545
Thereafter	83,535	23,812	107,347
Total	\$ 151,760	\$ 40,602	\$ 192,362
Total Borrowings	\$ 151,760	\$ 41,899	\$ 193,659
Maturities over next 12 months <sup>2</sup>		\$ 23,498	

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 \$193,659 million as of September 30, 2019 increased modestly when compared with \$189,662 million at December 31, 2018.

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.

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.

### Parent Company and U.S. Bank Subsidiaries' Senior Unsecured Ratings at October 31, 2019

	Parent Company		
	Short-Term Debt	Long-Term Debt	Rating 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>Positive</b>
S&P Global Ratings	<b>A-2</b>	<b>BBB+</b>	<b>Stable</b>

	MSBNA		
	Short-Term Debt	Long-Term Debt	Rating 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>

## Management's Discussion and Analysis

	MSPBNA		
	Short-Term Debt	Long-Term Debt	Rating Outlook
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 other things, 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. In the future, we may expand or contract our capital base to address the changing needs of our businesses.

### Common Stock Repurchases

<i>in millions, except for per share data</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Number of shares	36	24	90	70
Average price per share	\$ 41.92	\$ 49.33	\$ 42.77	\$ 52.51
<b>Total</b>	<b>\$ 1,500</b>	<b>\$ 1,180</b>	<b>\$ 3,860</b>	<b>\$ 3,680</b>

For further information on our common stock repurchases, see Note 14 to the financial statements.

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 17, 2019
Amount per share	\$0.35
Date to be paid	November 15, 2019
Shareholders of record as of	October 31, 2019

### Preferred Stock Dividend Announcement

Announcement date	September 16, 2019
Date paid	October 15, 2019
Shareholders of record as of	September 30, 2019

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

### 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 a further discussion of our lending commitments, see "Quantitative and Qualitative Disclosures about Risk—Credit Risk—Loans and Lending Commitments."

#### 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 2018 Form 10-K.

## Management's Discussion and Analysis

### Regulatory Requirements

#### Regulatory Capital Framework

We are an 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 capital, leverage-based capital and TLAC ratios. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Capital Requirements" in the 2018 Form 10-K. For additional information on TLAC, see Total Loss-Absorbing Capacity herein.

*Risk-Based Regulatory Capital.* Minimum risk-based capital requirements apply to Common Equity Tier 1 capital, Tier 1 capital and Total capital (which includes Tier 2 capital). Capital standards require certain adjustments to, and deductions from, capital for purposes of determining these ratios.

In addition to the minimum risk-based capital ratio requirements, we are subject to the following buffers in 2019:

- 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 these buffers was 75% of the fully phased-in 2019 requirement noted above. 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 2018 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"). The credit risk RWA calculations between the two approaches differ in that the Standardized Approach requires calculation of RWA using prescribed risk weights, whereas the Advanced Approach utilizes models to calculate exposure amounts and risk weights. At September 30, 2019 and December 31, 2018, our ratios for determining regulatory compliance are based on the Standardized Approach rules.

*Leverage-Based Regulatory Capital.* Minimum leverage-based capital requirements include a Tier 1 leverage ratio and an SLR. We are required to maintain a Tier 1 SLR of 5%, inclusive of an enhanced SLR capital buffer of at least 2% in order to avoid potential limitations on capital distributions, including dividends and stock repurchases, and discretionary bonus payments to executive officers.

## Regulatory Capital Ratios

\$ in millions	At September 30, 2019		
	Required Ratio <sup>1</sup>	Standardized	Advanced
<b>Risk-based capital</b>			
Common Equity Tier 1 capital		\$ 64,348	\$ 64,348
Tier 1 capital		72,937	72,937
Total capital		82,661	82,397
Total RWA		394,875	387,424
Common Equity Tier 1 capital ratio	10.0%	16.3%	16.6%
Tier 1 capital ratio	11.5%	18.5%	18.8%
Total capital ratio	13.5%	20.9%	21.3%

\$ in millions	Required Ratio <sup>1</sup>	At September 30, 2019	
<b>Leverage-based capital</b>			
Adjusted average assets <sup>2</sup>		\$ 892,912	
Tier 1 leverage ratio	4.0%	8.2%	
Supplementary leverage exposure <sup>3</sup>		\$ 1,155,497	
SLR	5.0%	6.3%	

\$ in millions	At December 31, 2018		
	Required Ratio <sup>1</sup>	Standardized	Advanced
<b>Risk-based capital</b>			
Common Equity Tier 1 capital		\$ 62,086	\$ 62,086
Tier 1 capital		70,619	70,619
Total capital		80,052	79,814
Total RWA		367,309	363,054
Common Equity Tier 1 capital ratio	8.6%	16.9%	17.1%
Tier 1 capital ratio	10.1%	19.2%	19.5%
Total capital ratio	12.1%	21.8%	22.0%

\$ in millions	Required Ratio <sup>1</sup>	At December 31, 2018	
<b>Leverage-based capital</b>			
Adjusted average assets <sup>2</sup>		\$ 843,074	
Tier 1 leverage ratio	4.0%	8.4%	
Supplementary leverage exposure <sup>3</sup>		\$ 1,092,672	
SLR	5.0%	6.5%	

- Required ratios are inclusive of any buffers applicable as of the date presented. For 2018, the minimum required regulatory capital ratios for risk-based capital are under the transitional rules.
- 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 during the quarters ended September 30, 2019 and December 31, 2018, reduced by disallowed goodwill, intangible assets, investments in covered funds, defined benefit pension plan assets, after-tax gain on sale from assets sold into securitizations, investments in our own capital instruments, certain deferred tax assets 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) for derivatives: potential future exposure 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 Capital

\$ in millions	At September 30, 2019		At December 31, 2018		Change
<b>Common Equity Tier 1 capital</b>					
Common stock and surplus	\$	6,389	\$	9,843	\$ (3,454)
Retained earnings		69,071		64,175	4,896
AOCI		(1,598)		(2,292)	694
Regulatory adjustments and deductions:					
Net goodwill		(7,090)		(6,661)	(429)
Net intangible assets (other than goodwill and mortgage servicing assets)		(2,104)		(2,158)	54
Other adjustments and deductions <sup>1</sup>		(320)		(821)	501
<b>Total Common Equity Tier 1 capital</b>	<b>\$</b>	<b>64,348</b>	<b>\$</b>	<b>62,086</b>	<b>\$ 2,262</b>
<b>Additional Tier 1 capital</b>					
Preferred stock	\$	8,520	\$	8,520	\$ —
Noncontrolling interests		483		454	29
Additional Tier 1 capital	\$	9,003	\$	8,974	\$ 29
Deduction for investments in covered funds		(414)		(441)	27
<b>Total Tier 1 capital</b>	<b>\$</b>	<b>72,937</b>	<b>\$</b>	<b>70,619</b>	<b>\$ 2,318</b>
<b>Standardized Tier 2 capital</b>					
Subordinated debt	\$	9,080	\$	8,923	\$ 157
Noncontrolling interests		114		107	7
Eligible allowance for credit losses		531		440	91
Other adjustments and deductions		(1)		(37)	36
<b>Total Standardized Tier 2 capital</b>	<b>\$</b>	<b>9,724</b>	<b>\$</b>	<b>9,433</b>	<b>\$ 291</b>
<b>Total Standardized capital</b>	<b>\$</b>	<b>82,661</b>	<b>\$</b>	<b>80,052</b>	<b>\$ 2,609</b>
<b>Advanced Tier 2 capital</b>					
Subordinated debt	\$	9,080	\$	8,923	\$ 157
Noncontrolling interests		114		107	7
Eligible credit reserves		267		202	65
Other adjustments and deductions		(1)		(37)	36
<b>Total Advanced Tier 2 capital</b>	<b>\$</b>	<b>9,460</b>	<b>\$</b>	<b>9,195</b>	<b>\$ 265</b>
<b>Total Advanced capital</b>	<b>\$</b>	<b>82,397</b>	<b>\$</b>	<b>79,814</b>	<b>\$ 2,583</b>

- Other adjustments and deductions used in the calculation of Common Equity Tier 1 capital primarily includes net after-tax DVA, the credit spread premium over risk-free rate for derivative liabilities, defined benefit pension plan assets, after-tax gain on sale from assets sold into securitizations, investments in our own capital instruments and certain deferred tax assets.

RWA Rollforward<sup>1</sup>

\$ in millions	Nine Months Ended September 30, 2019	
	Standardized	Advanced
<b>Credit risk RWA</b>		
Beginning balance	\$ 305,531	\$ 190,595
Change related to the following items:		
Derivatives	9,202	20,346
Securities financing transactions	11,788	1,093
Securitized assets	2,210	2,831
Investment securities	2,103	4,749
Commitments, guarantees and loans	5,896	9,564
Cash	(364)	(28)
Equity investments	818	852
Other credit risk <sup>2</sup>	3,785	3,195
Total change in credit risk RWA	\$ 35,438	\$ 42,602
<b>Ending balance</b>	<b>\$ 340,969</b>	<b>\$ 233,197</b>
<b>Market risk RWA</b>		
Beginning balance	\$ 61,778	\$ 61,857
Change related to the following items:		
Regulatory VaR	(137)	(137)
Regulatory stressed VaR	(5,417)	(5,417)
Incremental risk charge	(5,227)	(5,227)
Comprehensive risk measure	(115)	(129)
Specific risk:		
Non-securitized assets	3,003	3,003
Securitized assets	21	21
Total change in market risk RWA	\$ (7,872)	\$ (7,886)
<b>Ending balance</b>	<b>\$ 53,906</b>	<b>\$ 53,971</b>
<b>Operational risk RWA</b>		
Beginning balance	N/A	\$ 110,602
Change in operational risk RWA	N/A	(10,346)
<b>Ending balance</b>	<b>N/A</b>	<b>\$ 100,256</b>
<b>Total RWA at September 30, 2019</b>	<b>\$ 394,875</b>	<b>\$ 387,424</b>

Regulatory VaR—VaR for regulatory capital requirements

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

Credit risk RWA increased in the current year period under the Standardized and Advanced Approaches primarily due to increased exposures in Derivatives and lending commitments, as well as an increase in Other credit risk driven by the Firm's adoption of the *Leases* accounting update on January 1, 2019. RWA under the Standardized Approach also increased due to higher exposures for Securities financing transactions, while under the Advanced Approach, in Derivatives, increased exposure also led to increased RWA related to CVA.

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 equity and interest rate risk, and also a decrease in Incremental risk charge mainly as a result of the improved alignment of hedges in credit products.

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

**Total Loss-Absorbing Capacity.** The Federal Reserve has established external TLAC, long-term debt ("LTD") and clean holding company requirements for top-tier BHCs of U.S. G-SIBs ("covered BHCs"), including the Parent Company. These requirements include various 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. A covered BHC is required to maintain minimum levels of external TLAC and eligible LTD, as well as certain TLAC buffer requirements. Failure to maintain the TLAC buffers would result in restrictions on capital distributions and discretionary bonus payments to executive officers.

## Required and Actual TLAC and Eligible LTD Ratios

\$ in millions	At September 30, 2019	
	Required Ratio <sup>1</sup>	Actual Amount/Ratio
<b>Total Loss-Absorbing Capacity</b>		
External TLAC <sup>2</sup>	\$	196,659
External TLAC as a % of RWA	21.5%	49.8%
External TLAC as a % of leverage exposure	9.5%	17.0%
Eligible LTD <sup>3</sup>	\$	116,116
Eligible LTD as a % of RWA	9.0%	29.4%
Eligible LTD as a % of leverage exposure	4.5%	10.0%

- Required ratios are inclusive of applicable buffers.
- External TLAC consists of Common Equity Tier 1 capital and Additional Tier 1 capital (each excluding any noncontrolling minority interests), as well as eligible LTD.
- Consists of TLAC-eligible LTD reduced by 50% for amounts of unpaid principal due to be paid in more than one year but less than two years from September 30, 2019.

For a further discussion of TLAC and related requirements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Requirements—Regulatory Capital Requirements" in the 2018 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 2019 Capital Plan ("Capital Plan") and company-run stress test results to the Federal Reserve on April 5, 2019. On June 21, 2019, the Federal Reserve published summary results of the Dodd-Frank Act supervisory stress tests of each large BHC, including us. On June 27, 2019, the Federal

## Management's Discussion and Analysis

Reserve published summary results of CCAR and announced it did not object to our 2019 Capital Plan. Our 2019 Capital Plan includes the repurchase of up to \$6.0 billion of outstanding common stock for the period beginning July 1, 2019 through June 30, 2020, and an increase in our quarterly common stock dividend to \$0.35 per share from \$0.30 per share, beginning with the common stock dividend announced on July 18, 2019. We disclosed a summary of the results of our company-run stress tests on June 21, 2019 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 28, 2019 disclosed a summary of the results on our Investor Relations webpage.

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 2018 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. 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). 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 common equity. We generally hold Parent common equity for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

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>

\$ in billions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Institutional Securities	\$ 40.4	\$ 40.8	\$ 40.4	\$ 40.8
Wealth Management	18.2	16.8	18.2	16.8
Investment Management	2.5	2.6	2.5	2.6
Parent	12.3	10.0	11.4	9.4
<b>Total</b>	<b>\$ 73.4</b>	<b>\$ 70.2</b>	<b>\$ 72.5</b>	<b>\$ 69.6</b>

1. The attribution of 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. We submitted our 2019 resolution plan on June 28, 2019.

Our preferred resolution strategy is an SPOE strategy. In line with our SPOE strategy, the Parent Company has transferred, and has agreed to transfer on an ongoing basis, certain assets to its wholly owned, direct subsidiary MS Holdings LLC (the "Funding IHC"). In addition, the Parent Company has entered into an amended and restated support agreement with its material entities (including the Funding IHC) and certain other subsidiaries. In the event of a resolution scenario, the Parent Company would be obligated to contribute all of its contributable material assets, other than shares in subsidiaries of the Parent Company and certain other assets, to the Funding IHC. The Funding IHC would then be obligated to provide capital and liquidity, as applicable, to our material entities.

The obligations of the Parent Company and the Funding IHC under the 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), and the assets of the Funding IHC. As a result, claims of our material entities, including the Funding IHC, 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.

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 2018 Form 10-K.

## Management's Discussion and Analysis

### Regulatory Developments

#### *Final Rules Amending Liquidity Standards*

The Federal Reserve has adopted a final rule to amend the liquidity buffer standards applicable to internal liquidity stress-testing to more closely align those standards with certain requirements under the LCR rule. Additionally, in connection with the adoption of a related final rule, the U.S. banking agencies described HQLA standards under the LCR rule as including a “continuously available” operational requirement. We are currently evaluating these developments, which may result in future changes to our GLR and HQLA calculations.

#### *Final Rule on Revisions to Stress Testing Requirements*

The Federal Reserve has adopted a final rule to reduce the number of scenarios in its supervisory stress test from three to two and to modify our existing obligation to perform company-run stress-tests from semiannually to annually. The final rule implements a change required by the Economic Growth, Regulatory Relief and Consumer Protection Act and takes effect for the 2020 stress test cycle.

#### *Final Rule on Revisions to Resolution Planning Requirements*

The Federal Reserve and the FDIC have issued a final rule that changes our resolution planning obligations under the Dodd-Frank Act. The rule requires us to file resolution plans once every two years, with interim updates required in certain limited circumstances. The rule also allows us to alternate between submitting a full, detailed resolution plan and a streamlined, targeted resolution plan; our next resolution plan submission is expected to be a targeted resolution plan in 2021. The rule also clarifies the information required to be included in our resolution plan.

#### *Final Rule on Revisions to Volcker Rule Implementing Regulations*

The federal financial regulatory agencies responsible for the Volcker Rule's implementing regulations have finalized revisions to certain elements of those regulations. The changes simplify the application of the Volcker Rule, and focus on proprietary trading and certain requirements imposed in connection with permitted market-making, underwriting and risk-mitigating hedging activities. These revisions become effective on January 1, 2020, with compliance required by January 1, 2021. While simplifying elements of our compliance obligations, we do not expect these revisions to have a material impact on the way we conduct business under the current rule.

#### *Final Rule on Security-Based Swap Capital, Margin and Segregation Requirements*

The SEC has adopted capital, margin and segregation requirements for security-based swap dealers and amendments to capital and segregation requirements for certain broker-dealers. We expect to register one or more subsidiaries in the future as security-based swap dealers. The compliance date for these security-based swap dealer requirements and broker-dealer amendments is expected to be no earlier than 2021.

#### *Final Rules on Retail Investor Protections*

The SEC has released a package of final rules and interpretations relating to the provision of advice by broker-dealers and investment advisers. The package includes new rules on the standards of conduct and required disclosures for broker-dealers when making securities-related recommendations to retail investors, and a new formal interpretation of the fiduciary duty owed by investment advisers. One of the final rules, entitled “Regulation Best Interest,” requires 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. Another new rule requires that both broker-dealers and investment advisers provide to retail investors a brief summary document containing information about the relationship between the parties (“Form CRS”). The compliance date for Regulation Best Interest and Form CRS is June 30, 2020.

#### *Proposed Revisions to the Regulatory Capital Treatment for Investments in Certain Unsecured Debt Instruments Issued by G-SIBs*

The Federal Reserve, the OCC and the FDIC have issued a proposed rule that would, among other things, modify the regulatory capital framework for Advanced Approach banking organizations, including us. Such firms would be required to make certain deductions from regulatory capital for their investments in certain unsecured debt instruments (including eligible LTD in the TLAC framework) issued by the Parent Company and other G-SIBs.

For a discussion of other regulatory developments, see “Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Requirements—Regulatory Developments” in the 2018 Form 10-K.

### Other Matters

#### *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, and is currently scheduled to leave the E.U., with or

## Management's Discussion and Analysis

without a withdrawal agreement in place, on or before January 31, 2020. We have prepared the structure of our European operations for a range of potential outcomes, including for the possibility that the U.K. leaves the E.U. without ratifying a withdrawal agreement, and we expect to be able to continue to serve our clients and customers under each of these potential outcomes.

For more information on the U.K.'s withdrawal from the E.U., our related preparations and the potential impact on our operations, see "Quantitative and Qualitative Disclosures about Risk—Country Risk" herein, and see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Requirements—Other Matters" and "Risk Factors—International Risk" in the 2018 Form 10-K.

### ***Planned Replacement of London Interbank Offered Rate and Replacement or Reform of Other Interest Rates***

Central banks around the world, including the Federal Reserve, have commissioned committees and working groups of market participants and official sector representatives with the goal of finding suitable replacements for LIBOR and replacements or reforms of other interest rate benchmarks (collectively, the "IBORs").

Our transition plan includes a number of key steps, including continued engagement with central bank and industry working groups and regulators (including participation and leadership on key committees), active client engagement, internal operational readiness, and risk management, among other things, to promote the transition to alternative reference rates. As part of our firm-wide initiative, we are identifying, assessing and monitoring risks associated with the expected discontinuation or unavailability of IBORs and/or reform of interest rate benchmarks. This also includes taking steps to update operational processes (including to support alternative reference rates) and models, as well as evaluating legacy contracts for any changes that may be required, including the determination of applicable fallbacks. In addition, as part of the transition to alternative reference rates, in 2019 we began issuing debt linked to the Secured Overnight Financing Rate, or SOFR, the alternative rate to U.S. dollar LIBOR selected by the Alternative Reference Rates Committee convened by the Federal Reserve Board and the Federal Reserve Bank of New York.

For a further discussion of the expected replacement of the IBORs and/or reform of interest rate benchmarks, and the related risks and our transition plan, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Requirements—Regulatory Developments" and "Risk Factors—Risk Management," respectively, in the 2018 Form 10-K.



## 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 Risk—Risk Management” in the 2018 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 Risk—Market Risk” in the 2018 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.

For information regarding our VaR methodology, assumptions and limitations, see “Quantitative and Qualitative Disclosures about Risk—Market Risk—Trading Risks—Value-at-Risk” in the 2018 Form 10-K. On July 1, 2019, we began using a new VaR model. Whereas the previous model used four years of historical data with a volatility adjustment to reflect current market conditions, we now use one year of unadjusted historical data. The difference between the old and new model was not significant. The following tables show VaR under the new model for the current and prior quarter.

We utilize the same VaR model for risk management purposes and for regulatory capital calculations. Our regulators have approved our VaR model for use in regulatory calculations. The portfolio of positions used for our VaR for risk management purposes (“Management VaR”) differs from that used for regulatory capital requirements (“Regulatory VaR”). Management VaR contains certain positions that are excluded from Regulatory VaR. Examples include counterparty 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 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

\$ in millions	Three Months Ended			
	September 30, 2019			
	Period End	Average	High <sup>2</sup>	Low <sup>2</sup>
Interest rate and credit spread	\$ 28	\$ 27	\$ 29	\$ 25
Equity price	15	16	22	12
Foreign exchange rate	8	13	19	8
Commodity price	18	15	20	12
Less: Diversification benefit <sup>1</sup>	(29)	(34)	N/A	N/A
Primary Risk Categories <sup>3</sup>	\$ 40	\$ 37	\$ 42	\$ 33
Credit Portfolio	16	16	19	15
Less: Diversification benefit <sup>1</sup>	(14)	(11)	N/A	N/A
Total Management VaR <sup>3</sup>	\$ 42	\$ 42	\$ 46	\$ 37

\$ in millions	Three Months Ended			
	June 30, 2019 <sup>4</sup>			
	Period End	Average	High <sup>2</sup>	Low <sup>2</sup>
Interest rate and credit spread	\$ 28	\$ 29	\$ 34	\$ 26
Equity price	15	15	19	12
Foreign exchange rate	17	17	20	13
Commodity price	12	12	13	10
Less: Diversification benefit <sup>1</sup>	(35)	(36)	N/A	N/A
Primary Risk Categories	\$ 37	\$ 37	\$ 41	\$ 33
Credit Portfolio	16	17	19	15
Less: Diversification benefit <sup>1</sup>	(8)	(12)	N/A	N/A
Total Management VaR	\$ 45	\$ 42	\$ 47	\$ 39

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.
3. For the current quarter, under the VaR model in place prior to July 1, 2019, Average total Management VaR was \$43 million and average Management VaR for the Primary Risk Categories was \$40 million.
4. Prior period amounts have been revised to conform to the current presentation.

Average total Management VaR and average Management VaR for the Primary Risk Categories were unchanged from the three-months ended June 30, 2019.

### 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

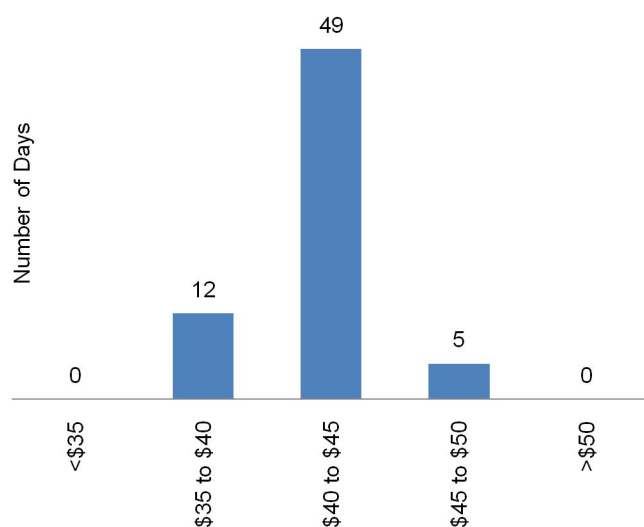
## Risk Disclosures

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 three days with trading losses in the current quarter, none of which exceeded VaR.

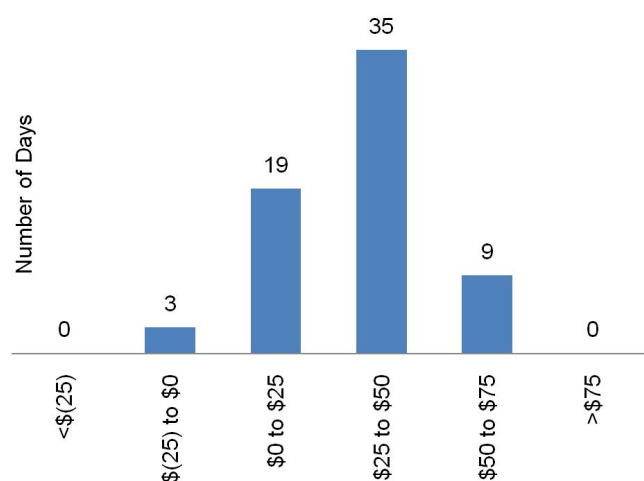
### Daily 95%/One-Day Total Management VaR for the Current Quarter

(\$ in millions)



### Daily Net Trading Revenues for the Current Quarter

(\$ in millions)



The previous histogram shows the distribution for the current quarter of daily net trading revenues. Daily net trading revenues include 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. Certain items such as fees, commissions and net interest income are excluded from daily net trading revenues and the VaR model. Revenues required for Regulatory VaR backtesting further exclude intraday trading.

### 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.

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

\$ in millions	At September 30, 2019	At June 30, 2019
Derivatives	\$ 6	\$ 6
Funding liabilities <sup>2</sup>	40	40

1. Amounts represent the potential gain for each 1 bps widening of our credit spread.

2. Relates to Borrowings carried at fair value.

#### U.S. Bank Subsidiaries' Net Interest Income Sensitivity Analysis

\$ in millions	At September 30, 2019	At June 30, 2019
<b>Basis point change</b>		
+100	\$ 256	\$ 273
-100	(751)	(722)

The previous 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.

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 repricing behavior and other factors. The change in sensitivity to interest rates between September 30, 2019 and June 30, 2019 is primarily driven by lower market interest rates.

## Risk Disclosures

## Investments Sensitivity, Including Related Carried Interest

\$ in millions	Loss from 10% Decline	
	At September 30, 2019	At June 30, 2019
Investments related to Investment Management activities	\$ 341	\$ 333
Other investments:		
MUMSS	168	169
Other Firm investments	186	194

MUMSS—Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

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 is 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 the related impact on carried interest.

## 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 Risk—Credit Risk" in the 2018 Form 10-K.

## Loans and Lending Commitments

\$ in millions	At September 30, 2019			
	IS	WM	IM <sup>1</sup>	Total
Corporate	\$ 27,709	\$ 17,403	\$ 5	\$ 45,117
Consumer	—	30,010	—	30,010
Residential real estate	—	29,184	—	29,184
Commercial real estate	6,801	—	—	6,801
<b>Loans held for investment, gross of allowance</b>	<b>34,510</b>	<b>76,597</b>	<b>5</b>	<b>111,112</b>
<b>Allowance for loan losses</b>	<b>(248)</b>	<b>(49)</b>	<b>—</b>	<b>(297)</b>
<b>Loans held for investment, net of allowance</b>	<b>34,262</b>	<b>76,548</b>	<b>5</b>	<b>110,815</b>
Corporate	13,525	—	—	13,525
Residential real estate	—	17	—	17
Commercial real estate	1,165	—	—	1,165
<b>Loans held for sale</b>	<b>14,690</b>	<b>17</b>	<b>—</b>	<b>14,707</b>
Corporate	7,349	—	38	7,387
Residential real estate	1,206	—	—	1,206
Commercial real estate	1,431	—	—	1,431
<b>Loans held at fair value</b>	<b>9,986</b>	<b>—</b>	<b>38</b>	<b>10,024</b>
<b>Total loans</b>	<b>58,938</b>	<b>76,565</b>	<b>43</b>	<b>135,546</b>
<b>Lending commitments<sup>2</sup></b>	<b>108,536</b>	<b>11,771</b>	<b>—</b>	<b>120,307</b>
<b>Total loans and lending commitments<sup>2</sup></b>	<b>\$ 167,474</b>	<b>\$ 88,336</b>	<b>\$ 43</b>	<b>\$ 255,853</b>

\$ in millions	At December 31, 2018			
	IS	WM	IM <sup>1</sup>	Total
Corporate	\$ 20,020	\$ 16,884	\$ 5	\$ 36,909
Consumer	—	27,868	—	27,868
Residential real estate	—	27,466	—	27,466
Commercial real estate <sup>3</sup>	7,810	—	—	7,810
<b>Loans held for investment, gross of allowance</b>	<b>27,830</b>	<b>72,218</b>	<b>5</b>	<b>100,053</b>
<b>Allowance for loan losses</b>	<b>(193)</b>	<b>(45)</b>	<b>—</b>	<b>(238)</b>
<b>Loans held for investment, net of allowance</b>	<b>27,637</b>	<b>72,173</b>	<b>5</b>	<b>99,815</b>
Corporate	13,886	—	—	13,886
Residential real estate	1	21	—	22
Commercial real estate <sup>3</sup>	1,856	—	—	1,856
<b>Loans held for sale</b>	<b>15,743</b>	<b>21</b>	<b>—</b>	<b>15,764</b>
Corporate	9,150	—	21	9,171
Residential real estate	1,153	—	—	1,153
Commercial real estate <sup>3</sup>	601	—	—	601
<b>Loans held at fair value</b>	<b>10,904</b>	<b>—</b>	<b>21</b>	<b>10,925</b>
<b>Total loans</b>	<b>54,284</b>	<b>72,194</b>	<b>26</b>	<b>126,504</b>
<b>Lending commitments<sup>2</sup></b>	<b>95,065</b>	<b>10,663</b>	<b>—</b>	<b>105,728</b>
<b>Total loans and lending commitments<sup>2</sup></b>	<b>\$ 149,349</b>	<b>\$ 82,857</b>	<b>\$ 26</b>	<b>\$ 232,232</b>

- Investment Management business segment loans are related to certain of our activities as an investment advisor and manager. At September 30, 2019, loans held at fair value are the result of the consolidation of an investment vehicle related to these activities.
- Due to the nature of our obligations under the commitments, these amounts include certain commitments participated to third parties.
- Beginning in 2019, loans previously referred to as Wholesale real estate are referred to as Commercial real estate.

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

## Risk Disclosures

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. Total loans and lending commitments increased by approximately \$24 billion since December 31, 2018 primarily in Corporate within the Institutional Securities business segment due to increases in event-driven lending commitments and growth in secured lending facilities. Also contributing to the increase was growth in Consumer securities-based lending and Residential real estate loans within the Wealth Management 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, industry, facility structure, loan-to-value ratio, debt service ratio, collateral and covenants. 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.

See Notes 3, 7 and 11 to the financial statements for further information.

### Allowance for Loans and Lending Commitments Held for Investment

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Loans	\$ 297	\$ 238
Lending commitments	234	203
Total allowance for loans and lending commitments	\$ 531	\$ 441

The aggregate allowance for loans and lending commitments increased in the current year period primarily within the Institutional Securities business segment due to loan and lending commitment growth, deterioration of select credits, and certain environmental factors. See Notes 7 and 11 to the financial statements for further information.

### Status of Loans Held for Investment

	At September 30, 2019		At December 31, 2018	
	IS	WM	IS	WM
Current	99.2%	99.9%	99.8%	99.9%
Nonaccrual <sup>1</sup>	0.8%	0.1%	0.2%	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 Loans and Lending Commitments<sup>1</sup>

<i>\$ in millions</i>	At September 30, 2019				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
<b>Loans</b>					
AA	\$ 308	\$ 41	\$ —	\$ 5	\$ 354
A	814	733	748	363	2,658
BBB	3,095	4,886	3,106	569	11,656
NIG	9,453	16,223	11,709	5,143	42,528
Unrated <sup>2</sup>	66	76	119	1,481	1,742
<b>Total loans</b>	<b>13,736</b>	<b>21,959</b>	<b>15,682</b>	<b>7,561</b>	<b>58,938</b>
<b>Lending commitments</b>					
AAA	90	50	—	—	140
AA	2,405	1,362	2,121	—	5,888
A	4,334	6,506	9,600	715	21,155
BBB	10,843	13,710	20,949	546	46,048
NIG	4,261	10,914	15,933	4,140	35,248
Unrated <sup>2</sup>	2	26	22	7	57
<b>Total lending commitments</b>	<b>21,935</b>	<b>32,568</b>	<b>48,625</b>	<b>5,408</b>	<b>108,536</b>
<b>Total exposure</b>	<b>\$ 35,671</b>	<b>\$ 54,527</b>	<b>\$ 64,307</b>	<b>\$ 12,969</b>	<b>\$ 167,474</b>

<i>\$ in millions</i>	At December 31, 2018				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
<b>Loans</b>					
AA	\$ 7	\$ 430	\$ —	\$ 19	\$ 456
A	565	1,580	858	267	3,270
BBB	3,775	4,697	4,251	495	13,218
NIG	7,151	12,882	9,313	5,889	35,235
Unrated <sup>2</sup>	88	95	160	1,762	2,105
<b>Total loans</b>	<b>11,586</b>	<b>19,684</b>	<b>14,582</b>	<b>8,432</b>	<b>54,284</b>
<b>Lending commitments</b>					
AAA	90	75	—	—	165
AA	2,491	1,177	2,863	—	6,531
A	2,892	6,006	9,895	502	19,295
BBB	2,993	11,825	19,461	638	34,917
NIG	1,681	10,604	16,075	5,751	34,111
Unrated <sup>2</sup>	8	—	38	—	46
<b>Total lending commitments</b>	<b>10,155</b>	<b>29,687</b>	<b>48,332</b>	<b>6,891</b>	<b>95,065</b>
<b>Total exposure</b>	<b>\$ 21,741</b>	<b>\$ 49,371</b>	<b>\$ 62,914</b>	<b>\$ 15,323</b>	<b>\$ 149,349</b>

NIG—Non-investment grade

- Obligor credit ratings are internally determined by the Credit Risk Management Department ("CRM").
- 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 "Market Risk" herein.

## Risk Disclosures

## Institutional Securities Loans and Lending Commitments by Industry

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
<b>Industry</b>		
Financials	\$ 38,935	\$ 32,655
Real estate	26,299	24,133
Healthcare	20,219	10,158
Industrials	13,079	13,701
Communications Services	12,563	11,244
Consumer discretionary	9,814	8,314
Energy	9,704	9,847
Utilities	9,675	9,856
Information technology	8,920	9,896
Consumer staples	7,257	7,921
Materials	5,108	5,969
Insurance	3,714	3,744
Other	2,187	1,911
<b>Total</b>	<b>\$ 167,474</b>	<b>\$ 149,349</b>

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. We also purchase a variety of loans in the secondary market. Our 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- 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 overcollateralization. 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.

Institutional Securities Corporate Loans<sup>1</sup>

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Corporate relationship and event-driven lending <sup>2</sup>	\$ 13,432	\$ 13,317
Secured lending facilities <sup>3</sup>	27,834	21,408
Securities-based lending and other <sup>4</sup>	7,317	8,331
<b>Total Corporate</b>	<b>\$ 48,583</b>	<b>\$ 43,056</b>

1. Amounts include loans held for investment, loans held for sale and loans measured at fair value. Loans at fair value are included in Trading assets in the balance sheets.
2. Relationship and event-driven loans typically consist of revolving lines of credit, term loans and bridge loans. For additional information on event-driven loans, see "Institutional Securities Event-Driven Loans and Lending Commitments" herein.
3. Secured lending facilities includes loans provided to clients to warehouse loans secured by underlying real estate and other assets.
4. Securities-based lending and other includes financing extended to sales and trading customers and corporate loans purchased in the secondary market.

## Institutional Securities Event-Driven Loans and Lending Commitments

<i>\$ in millions</i>	At September 30, 2019				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Loans	\$ 1,198	\$ 516	\$ 797	\$ 2,543	\$ 5,054
Lending commitments	10,022	3,278	3,086	3,453	19,839
<b>Total loans and lending commitments</b>	<b>\$ 11,220</b>	<b>\$ 3,794</b>	<b>\$ 3,883</b>	<b>\$ 5,996</b>	<b>\$ 24,893</b>

<i>\$ in millions</i>	At December 31, 2018				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Loans	\$ 2,582	\$ 287	\$ 656	\$ 1,618	\$ 5,143
Lending commitments	1,506	2,456	2,877	3,658	10,497
<b>Total loans and lending commitments</b>	<b>\$ 4,088</b>	<b>\$ 2,743</b>	<b>\$ 3,533</b>	<b>\$ 5,276</b>	<b>\$ 15,640</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 or project finance activities. Event-driven loans and lending commitments typically consist of revolving lines of credit, term loans and bridge loans. Balances may fluctuate as such lending is related to transactions that vary in timing and size from period to period. In the current year period, the increase in Lending commitments is primarily attributable to client transactions in the healthcare industry.

## Risk Disclosures

## Wealth Management Loans and Lending Commitments

<i>\$ in millions</i>	At September 30, 2019				
	Contractual Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Securities-based lending and other loans	\$ 40,174	\$ 3,342	\$ 2,625	\$ 1,247	\$47,388
Residential real estate loans	9	18	—	29,150	29,177
Total loans	\$ 40,183	\$ 3,360	\$ 2,625	\$30,397	\$76,565
Lending commitments	9,467	1,792	195	317	11,771
<b>Total loans and lending commitments</b>	<b>\$ 49,650</b>	<b>\$ 5,152</b>	<b>\$ 2,820</b>	<b>\$30,714</b>	<b>\$88,336</b>
Securities-based lending—LAL platform loans	\$35,549				

<i>\$ in millions</i>	At December 31, 2018				
	Contractual Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Securities-based lending and other loans	\$ 38,144	\$ 3,573	\$ 2,004	\$ 1,006	\$44,727
Residential real estate loans	—	30	1	27,436	27,467
Total loans	\$ 38,144	\$ 3,603	\$ 2,005	\$28,442	\$72,194
Lending commitments	9,197	1,151	42	273	10,663
<b>Total loans and lending commitments</b>	<b>\$ 47,341</b>	<b>\$ 4,754</b>	<b>\$ 2,047</b>	<b>\$28,715</b>	<b>\$82,857</b>
Securities-based lending—LAL platform loans	\$33,247				

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 (“LAL”) platform. For more information about our securities-based lending and residential real estate loans, see “Quantitative and Qualitative Disclosures about Risk—Credit Risk—Wealth Management” in the 2018 Form 10-K.

For the current year period, Loans and Lending commitments associated with the Wealth Management business segment increased due to growth in Securities-based lending and Residential real estate loans.

## Customer and Other Receivables

## Margin Loans

<i>\$ in millions</i>	At September 30, 2019		
	IS	WM	Total
Customer receivables representing margin loans	\$ 18,321	\$ 9,747	\$ 28,068

<i>\$ in millions</i>	At December 31, 2018		
	IS	WM	Total
Customer receivables representing margin loans	\$ 14,842	\$ 11,383	\$ 26,225

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. Amounts may fluctuate from period to period as overall client balances change as a result of market levels, client positioning and leverage.

## Employee Loans

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Balance	\$ 2,990	\$ 3,415
Allowance for loan losses	(61)	(63)
Balance, net	\$ 2,929	\$ 3,352
Remaining repayment term, weighted average in years	4.7	4.3

Employee loans are granted in conjunction with a program established primarily to recruit certain Wealth Management representatives, are full recourse and generally require periodic repayments. We establish an allowance for loan amounts we do not consider recoverable, and the related provision is recorded in Compensation and benefits expense.

## Risk Disclosures

## Derivatives

## Fair Value of OTC Derivative Assets

\$ in millions	Counterparty Credit Rating <sup>1</sup>					Total
	AAA	AA	A	BBB	NIG	
<b>At September 30, 2019</b>						
<1 year	\$ 537	\$ 4,735	\$ 36,673	\$ 21,372	\$ 6,481	\$ 69,798
1-3 years	346	2,454	24,447	15,364	8,278	50,889
3-5 years	456	2,629	13,795	8,774	2,900	28,554
Over 5 years	3,749	17,709	94,707	47,846	17,387	181,398
Total, gross	\$ 5,088	\$ 27,527	\$ 169,622	\$ 93,356	\$ 35,046	\$ 330,639
Counterparty netting	(2,025)	(17,592)	(138,116)	(71,427)	(21,422)	(250,582)
Cash and securities collateral	(2,735)	(8,114)	(26,764)	(16,578)	(9,377)	(63,568)
Total, net	\$ 328	\$ 1,821	\$ 4,742	\$ 5,351	\$ 4,247	\$ 16,489

\$ in millions	Counterparty Credit Rating <sup>1</sup>					Total
	AAA	AA	A	BBB	NIG	
<b>At December 31, 2018</b>						
<1 year	\$ 878	\$ 7,430	\$ 38,718	\$ 15,009	\$ 7,183	\$ 69,218
1-3 years	664	2,362	22,239	10,255	7,097	42,617
3-5 years	621	2,096	11,673	6,014	2,751	23,155
Over 5 years	3,535	9,725	67,166	36,087	11,112	127,625
Total, gross	\$ 5,698	\$ 21,613	\$ 139,796	\$ 67,365	\$ 28,143	\$ 262,615
Counterparty netting	(2,325)	(13,771)	(113,045)	(49,658)	(16,681)	(195,480)
Cash and securities collateral	(3,214)	(5,766)	(21,931)	(12,702)	(8,269)	(51,882)
Total, net	\$ 159	\$ 2,076	\$ 4,820	\$ 5,005	\$ 3,193	\$ 15,253

\$ in millions	At September 30, 2019	At December 31, 2018
<b>Industry</b>		
Utilities	\$ 4,550	\$ 4,324
Financials	3,903	4,480
Industrials	1,313	1,335
Healthcare	1,298	787
Regional governments	864	779
Not-for-profit organizations	742	583
Energy	616	199
Sovereign governments	587	385
Information technology	569	695
Consumer discretionary	494	188
Materials	453	275
Communications services	314	373
Real estate	275	283
Insurance	243	235
Consumer staples	173	216
Other	95	116
<b>Total</b>	<b>\$ 16,489</b>	<b>\$ 15,253</b>

1. Obligor credit ratings are determined internally by CRM.

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. For more information on derivatives, see “Quantitative and Qualitative Disclosures about Risk—Credit Risk—Derivatives” in the 2018 Form 10-K and Note 4 to the financial statements.

## Country Risk

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. For a further discussion of our country risk exposure see, “Quantitative and Qualitative Disclosures about Risk—Country Risk” in the 2018 Form 10-K.

Our sovereign exposures consist of financial contracts and obligations entered into with sovereign and local governments. Our non-sovereign exposures consist of financial contracts and 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 or 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 row based on the country of the CDS issuer. Further, the notional amount of the CDS adjusted for the fair value of the receivable or payable is reflected in the Net Inventory row based on the country of the underlying reference entity.

## Top 10 Non-U.S. Country Exposures at September 30, 2019

\$ in millions	United Kingdom		Total
	Sovereigns	Non-sovereigns	
Net inventory <sup>1</sup>	\$ (879)	\$ 718	\$ (161)
Net counterparty exposure <sup>2</sup>	4	10,262	10,266
Loans	—	2,583	2,583
Lending commitments	—	5,608	5,608
Exposure before hedges	(875)	19,171	18,296
Hedges <sup>3</sup>	(311)	(1,211)	(1,522)
Net exposure	\$ (1,186)	\$ 17,960	\$ 16,774

\$ in millions	Japan		Total
	Sovereigns	Non-sovereigns	
Net inventory <sup>1</sup>	\$ 5,621	\$ 662	\$ 6,283
Net counterparty exposure <sup>2</sup>	47	3,560	3,607
Loans	—	324	324
Exposure before hedges	5,668	4,546	10,214
Hedges <sup>3</sup>	(77)	(116)	(193)
Net exposure	\$ 5,591	\$ 4,430	\$ 10,021

## Risk Disclosures

## Spain

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ 15	\$ (124)	\$ (109)
Net counterparty exposure <sup>2</sup>	—	218	218
Loans	—	3,671	3,671
Lending commitments	—	617	617
Exposure before hedges	15	4,382	4,397
Hedges <sup>3</sup>	—	(125)	(125)
Net exposure	\$ 15	\$ 4,257	\$ 4,272

## Germany

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ (2,378)	\$ 1	\$ (2,377)
Net counterparty exposure <sup>2</sup>	96	2,643	2,739
Loans	—	1,097	1,097
Lending commitments	—	3,792	3,792
Exposure before hedges	(2,282)	7,533	5,251
Hedges <sup>3</sup>	(231)	(811)	(1,042)
Net exposure	\$ (2,513)	\$ 6,722	\$ 4,209

## Brazil

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ 3,730	\$ 49	\$ 3,779
Net counterparty exposure <sup>2</sup>	—	178	178
Loans	—	37	37
Lending commitments	—	235	235
Exposure before hedges	3,730	499	4,229
Hedges <sup>3</sup>	(12)	(32)	(44)
Net exposure	\$ 3,718	\$ 467	\$ 4,185

## China

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ (284)	\$ 964	\$ 680
Net counterparty exposure <sup>2</sup>	126	237	363
Loans	—	1,866	1,866
Lending commitments	—	865	865
Exposure before hedges	(158)	3,932	3,774
Hedges <sup>3</sup>	(82)	(80)	(162)
Net exposure	\$ (240)	\$ 3,852	\$ 3,612

## Canada

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ (168)	\$ 101	\$ (67)
Net counterparty exposure <sup>2</sup>	107	1,944	2,051
Loans	—	218	218
Lending commitments	—	1,473	1,473
Exposure before hedges	(61)	3,736	3,675
Hedges <sup>3</sup>	—	(140)	(140)
Net exposure	\$ (61)	\$ 3,596	\$ 3,535

## France

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ (1,367)	\$ (784)	\$ (2,151)
Net counterparty exposure <sup>2</sup>	—	2,585	2,585
Loans	—	595	595
Lending commitments	—	2,851	2,851
Exposure before hedges	(1,367)	5,247	3,880
Hedges <sup>3</sup>	(6)	(553)	(559)
Net exposure	\$ (1,373)	\$ 4,694	\$ 3,321

## India

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ 1,624	\$ 592	\$ 2,216
Net counterparty exposure <sup>2</sup>	—	655	655
Loans	—	242	242
Exposure before hedges	1,624	1,489	3,113
Net exposure	\$ 1,624	\$ 1,489	\$ 3,113

## Ireland

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory <sup>1</sup>	\$ (23)	\$ 223	\$ 200
Net counterparty exposure <sup>2</sup>	3	220	223
Loans	—	2,177	2,177
Lending commitments	—	361	361
Exposure before hedges	(20)	2,981	2,961
Hedges <sup>3</sup>	(30)	—	(30)
Net exposure	\$ (50)	\$ 2,981	\$ 2,931

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 (*e.g.*, repurchase transactions, securities lending and OTC derivatives) takes into consideration legally enforceable master netting agreements and collateral. Net counterparty exposure is net of the benefit of collateral received. For more information, see "Additional Information—Top 10 Non-U.S. Country Exposures" herein.
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 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 Risk—Credit Risk—Derivatives" in the 2018 Form 10-K.

## Additional Information—Top 10 Non-U.S. Country Exposures

## Benefit of Collateral Received against Net Counterparty Exposure

<i>\$ in millions</i>		At September 30, 2019
Counterparty credit exposure	Collateral <sup>1</sup>	
	Germany	\$ 12,964
	United Kingdom	10,416
	Other	19,298

1. Collateral primarily consists of cash and government obligations.



## Risk Disclosures

### *Country Risk Exposures Related to the U.K.*

At September 30, 2019, our country risk exposure in the U.K. included net exposures of \$16,774 million (as shown in the Top 10 Country Exposures table) and overnight deposits of \$6,013 million. The \$17,960 million of exposures to non-sovereigns were diversified across both names and sectors and include \$6,445 million to U.K.-focused counterparties that generate more than one-third of their revenues in the U.K., \$4,864 million to geographically diversified counterparties, and \$5,970 million to exchanges and clearinghouses.

### **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 Risk—Operational Risk” in the 2018 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 a 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 Risk—Model Risk” in the 2018 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 Risk—Liquidity Risk” in the 2018 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, terrorist financing, and anti-corruption rules and regulations. For a further discussion about our legal and compliance risk, see “Quantitative and Qualitative Disclosures about Risk—Legal and Compliance Risk” in the 2018 Form 10-K.

## 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, 2019, and the related condensed consolidated income statements, comprehensive income statements and statements of changes in total equity for the three-month and nine-month periods ended September 30, 2019 and 2018, and the cash flow statements for the nine-month periods ended September 30, 2019 and 2018, 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, 2018, 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 26, 2019, 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, 2018 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York

November 5, 2019

### 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.

**Consolidated Income Statements  
(Unaudited)**

Morgan Stanley

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<i>in millions, except per share data</i>				
<b>Revenues</b>				
Investment banking	\$ 1,635	\$ 1,567	\$ 4,467	\$ 4,994
Trading	2,608	2,752	8,781	9,815
Investments	87	136	801	409
Commissions and fees	990	932	2,935	3,144
Asset management	3,363	3,251	9,632	9,632
Other	131	298	685	748
Total non-interest revenues	8,814	8,936	27,301	28,742
Interest income	4,350	3,627	13,146	9,781
Interest expense	3,132	2,691	9,885	6,964
Net interest	1,218	936	3,261	2,817
<b>Net revenues</b>	<b>10,032</b>	<b>9,872</b>	<b>30,562</b>	<b>31,559</b>
<b>Non-interest expenses</b>				
Compensation and benefits	4,427	4,310	13,609	13,845
Occupancy and equipment	353	351	1,053	1,033
Brokerage, clearing and exchange fees	637	559	1,860	1,795
Information processing and communications	557	513	1,627	1,487
Marketing and business development	157	152	460	471
Professional services	531	570	1,582	1,660
Other	660	566	1,803	1,888
<b>Total non-interest expenses</b>	<b>7,322</b>	<b>7,021</b>	<b>21,994</b>	<b>22,179</b>
Income from continuing operations before income taxes	2,710	2,851	8,568	9,380
Provision for income taxes	492	696	1,636	2,050
Income from continuing operations	2,218	2,155	6,932	7,330
Income (loss) from discontinued operations, net of income taxes	—	(1)	—	(5)
Net income	\$ 2,218	\$ 2,154	\$ 6,932	\$ 7,325
Net income applicable to noncontrolling interests	45	42	129	108
Net income applicable to Morgan Stanley	\$ 2,173	\$ 2,112	\$ 6,803	\$ 7,217
Preferred stock dividends	113	93	376	356
<b>Earnings applicable to Morgan Stanley common shareholders</b>	<b>\$ 2,060</b>	<b>\$ 2,019</b>	<b>\$ 6,427</b>	<b>\$ 6,861</b>
<b>Earnings per common share</b>				
Basic	\$ 1.28	\$ 1.19	\$ 3.94	\$ 3.99
Diluted	\$ 1.27	\$ 1.17	\$ 3.89	\$ 3.92
<b>Average common shares outstanding</b>				
Basic	1,604	1,697	1,632	1,719
Diluted	1,627	1,727	1,653	1,749

## Consolidated Comprehensive Income Statements (Unaudited)

Morgan Stanley

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 2,218	\$ 2,154	\$ 6,932	\$ 7,325
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	\$ (99)	\$ (79)	\$ (56)	\$ (154)
Change in net unrealized gains (losses) on available-for-sale securities	214	(171)	1,252	(707)
Pension, postretirement and other	3	5	7	16
Change in net debt valuation adjustment	337	(743)	(529)	347
Total other comprehensive income (loss)	\$ 455	\$ (988)	\$ 674	\$ (498)
Comprehensive income	\$ 2,673	\$ 1,166	\$ 7,606	\$ 6,827
Net income applicable to noncontrolling interests	45	42	129	108
Other comprehensive income (loss) applicable to noncontrolling interests	2	(59)	(20)	4
<b>Comprehensive income applicable to Morgan Stanley</b>	<b>\$ 2,626</b>	<b>\$ 1,183</b>	<b>\$ 7,497</b>	<b>\$ 6,715</b>

## Consolidated Balance Sheets

Morgan Stanley

	(Unaudited) At September 30, 2019	At December 31, 2018
<i>\$ in millions, except share data</i>		
<b>Assets</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 35,721	\$ 30,541
Interest bearing deposits with banks	13,196	21,299
Restricted cash	30,739	35,356
Trading assets at fair value (\$116,506 and \$120,437 were pledged to various parties)	277,423	266,299
Investment securities (includes \$64,714 and \$61,061 at fair value)	105,790	91,832
Securities purchased under agreements to resell (includes \$4 and \$— at fair value)	93,367	98,522
Securities borrowed	132,401	116,313
Customer and other receivables	59,514	53,298
Loans:		
Held for investment (net of allowance of \$297 and \$238)	110,815	99,815
Held for sale	14,707	15,764
Goodwill	7,139	6,688
Intangible assets (net of accumulated amortization of \$3,124 and \$2,877)	2,211	2,163
Other assets	19,581	15,641
<b>Total assets</b>	<b>\$ 902,604</b>	<b>\$ 853,531</b>
<b>Liabilities</b>		
Deposits (includes \$1,622 and \$442 at fair value)	\$ 180,738	\$ 187,820
Trading liabilities at fair value	143,405	126,747
Securities sold under agreements to repurchase (includes \$732 and \$812 at fair value)	59,462	49,759
Securities loaned	9,691	11,908
Other secured financings (includes \$6,352 and \$5,245 at fair value)	9,836	9,466
Customer and other payables	202,915	179,559
Other liabilities and accrued expenses	19,348	17,204
Borrowings (includes \$61,654 and \$51,184 at fair value)	193,659	189,662
<b>Total liabilities</b>	<b>819,054</b>	<b>772,125</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: 1,623,587,078 and 1,699,828,943	20	20
Additional paid-in capital	23,649	23,794
Retained earnings	69,071	64,175
Employee stock trusts	2,865	2,836
Accumulated other comprehensive income (loss)	(1,598)	(2,292)
Common stock held in treasury at cost, \$0.01 par value (415,306,901 and 339,065,036 shares)	(17,280)	(13,971)
Common stock issued to employee stock trusts	(2,865)	(2,836)
<b>Total Morgan Stanley shareholders' equity</b>	<b>82,382</b>	<b>80,246</b>
Noncontrolling interests	1,168	1,160
<b>Total equity</b>	<b>83,550</b>	<b>81,406</b>
<b>Total liabilities and equity</b>	<b>\$ 902,604</b>	<b>\$ 853,531</b>

## Consolidated Statements of Changes in Total Equity (Unaudited)

Morgan Stanley

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Preferred Stock</b>				
Beginning and ending balance	\$ 8,520	\$ 8,520	\$ 8,520	\$ 8,520
<b>Common Stock</b>				
Beginning and ending balance	20	20	20	20
<b>Additional Paid-in Capital</b>				
Beginning balance	23,446	23,454	23,794	23,545
Share-based award activity	196	210	(154)	119
Other net increases	7	—	9	—
Ending balance	23,649	23,664	23,649	23,664
<b>Retained Earnings</b>				
Beginning balance	67,588	61,835	64,175	57,577
Cumulative adjustments for accounting changes <sup>1</sup>	—	—	63	306
Net income applicable to Morgan Stanley	2,173	2,112	6,803	7,217
Preferred stock dividends <sup>2</sup>	(113)	(93)	(376)	(356)
Common stock dividends <sup>2</sup>	(577)	(524)	(1,594)	(1,414)
Ending balance	69,071	63,330	69,071	63,330
<b>Employee Stock Trusts</b>				
Beginning balance	2,889	2,829	2,836	2,907
Share-based award activity	(24)	(32)	29	(110)
Ending balance	2,865	2,797	2,865	2,797
<b>Accumulated Other Comprehensive Income (Loss)</b>				
Beginning balance	(2,051)	(3,070)	(2,292)	(3,060)
Cumulative adjustments for accounting changes <sup>1</sup>	—	—	—	(437)
Net change in Accumulated other comprehensive income (loss)	453	(929)	694	(502)
Ending balance	(1,598)	(3,999)	(1,598)	(3,999)
<b>Common Stock Held In Treasury at Cost</b>				
Beginning balance	(15,799)	(11,650)	(13,971)	(9,211)
Share-based award activity	57	25	1,138	759
Repurchases of common stock and employee tax withholdings	(1,538)	(1,207)	(4,447)	(4,380)
Ending balance	(17,280)	(12,832)	(17,280)	(12,832)
<b>Common Stock Issued to Employee Stock Trusts</b>				
Beginning balance	(2,889)	(2,829)	(2,836)	(2,907)
Share-based award activity	24	32	(29)	110
Ending balance	(2,865)	(2,797)	(2,865)	(2,797)
<b>Non-Controlling Interests</b>				
Beginning balance	1,121	1,397	1,160	1,075
Net income applicable to non-controlling interests	45	42	129	108
Net change in Accumulated other comprehensive income (loss)	2	(59)	(20)	4
Other net increases (decreases)	—	(9)	(101)	184
Ending balance	1,168	1,371	1,168	1,371
<b>Total Equity</b>	<b>\$ 83,550</b>	<b>\$ 80,074</b>	<b>\$ 83,550</b>	<b>\$ 80,074</b>

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

2. See Note 14 for information regarding dividends per share for common stock and each class of preferred stock.

## Consolidated Cash Flow Statements (Unaudited)

Morgan Stanley

Nine Months Ended  
September 30,

<i>\$ in millions</i>	2019	2018
<b>Cash flows from operating activities</b>		
Net income	\$ 6,932	\$ 7,325
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Stock-based compensation expense	825	743
Depreciation and amortization	1,987	1,375
(Release of) Provision for credit losses on lending activities	104	(27)
Other operating adjustments	(114)	(27)
Changes in assets and liabilities:		
Trading assets, net of Trading liabilities	17,036	10,039
Securities borrowed	(16,088)	(18,479)
Securities loaned	(2,217)	(1,759)
Customer and other receivables and other assets	(5,135)	(4,092)
Customer and other payables and other liabilities	22,721	310
Securities purchased under agreements to resell	5,155	15,172
Securities sold under agreements to repurchase	9,703	3,904
<b>Net cash provided by (used for) operating activities</b>	<b>40,909</b>	<b>14,484</b>
<b>Cash flows from investing activities</b>		
Proceeds from (payments for):		
Other assets—Premises, equipment and software, net	(1,460)	(1,361)
Changes in loans, net	(10,079)	(7,697)
Investment securities:		
Purchases	(35,078)	(16,836)
Proceeds from sales	13,561	2,947
Proceeds from paydowns and maturities	8,183	9,126
Other investing activities	(848)	(245)
<b>Net cash provided by (used for) investing activities</b>	<b>(25,721)</b>	<b>(14,066)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from (payments for):		
Other secured financings	(587)	(1,874)
Deposits	(7,084)	15,749
Proceeds from issuance of Borrowings	23,697	34,233
Payments for:		
Borrowings	(30,391)	(28,235)
Repurchases of common stock and employee tax withholdings	(4,447)	(4,380)
Cash dividends	(2,082)	(1,788)
Other financing activities	(286)	(343)
<b>Net cash provided by (used for) financing activities</b>	<b>(21,180)</b>	<b>13,362</b>
Effect of exchange rate changes on cash and cash equivalents	(1,548)	(1,694)
Net increase (decrease) in cash and cash equivalents	(7,540)	12,086
Cash and cash equivalents, at beginning of period	87,196	80,395
<b>Cash and cash equivalents, at end of period</b>	<b>\$ 79,656</b>	<b>\$ 92,481</b>
Cash and cash equivalents:		
Cash and due from banks	\$ 35,721	\$ 36,641
Interest bearing deposits with banks	13,196	22,638
Restricted cash	30,739	33,202
<b>Cash and cash equivalents, at end of period</b>	<b>\$ 79,656</b>	<b>\$ 92,481</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash payments for:		
Interest	\$ 9,760	\$ 6,818
Income taxes, net of refunds	1,603	1,009

## 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 activities include originating corporate loans, commercial mortgage lending, providing secured lending facilities and extending financing to sales and trading customers. 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; securities-based lending, residential real estate loans 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 served 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 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.

The accompanying financial statements should be read in conjunction with the Firm’s financial statements and notes thereto included in the 2018 Form 10-K. Certain footnote disclosures included in the 2018 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 not 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 significant regulated U.S. and international subsidiaries and its involvement with VIEs, see Note 1 to the financial statements in the 2018 Form 10-K.



## Notes to Consolidated Financial Statements (Unaudited)

### 2. Significant Accounting Policies

For a detailed discussion about the Firm's significant accounting policies and for further information on accounting updates adopted in the prior year, see Note 2 to the financial statements in the 2018 Form 10-K.

During the nine months ended September 30, 2019 ("current year period"), there were no significant revisions to the Firm's significant accounting policies, other than for the accounting updates adopted.

#### Accounting Updates Adopted

The Firm adopted the following accounting updates on January 1, 2019. Prior periods are presented under previous policies.

#### Leases

Upon the adoption of *Leases*, the Firm began recognizing in the balance sheet leases with terms exceeding one year as right-of-use ("ROU") assets and corresponding liabilities. The adoption resulted in an increase to Retained earnings of approximately \$63 million, net of tax, related to deferred revenue from previously recorded sale-leaseback transactions. At transition on January 1, 2019, the adoption also resulted in a balance sheet gross-up of approximately \$4 billion reflected in Other assets and Other liabilities and accrued expenses. See Note 11 for lease disclosures, including amounts reflected in the September 30, 2019 balance sheet. Prior period amounts were not restated.

As allowed by the guidance, the Firm elected not to reassess the following at transition: whether existing contracts are or contain leases, and for existing leases, lease classification and initial direct costs. In addition, the Firm continues to account for existing land easements as service contracts.

Both at transition and for new leases thereafter, ROU assets and lease liabilities are initially recognized based on the present value of the future minimum lease payments over the lease term, including non-lease components such as fixed common area maintenance costs and other fixed costs such as real estate taxes and insurance.

The discount rates used in determining the present value of leases are the Firm's incremental borrowing rates, developed based upon each lease's term and currency of payment. The lease term includes options to extend or terminate the lease when it is reasonably certain that the Firm will exercise that option. For operating leases, the ROU assets also include any prepaid lease payments and initial direct costs incurred and are reduced by lease incentives. For these leases, lease expense is recognized on a straight-line basis over the lease term if the ROU asset has not been impaired or abandoned.

### Derivatives and Hedging (ASU 2018-16)

The amendments in this update permit use of the OIS rate based on the Secured Overnight Financing Rate as a U.S. benchmark interest rate for hedge accounting purposes. The Firm adopted this update on a prospective basis for qualifying new or redesignated hedging relationships. This update did not impact the Firm's pre-existing hedges.

#### Goodwill

The Firm completed its annual goodwill impairment testing as of July 1, 2019. 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.

### 3. Fair Values

#### Recurring Fair Value Measurements

##### Assets and Liabilities Measured at Fair Value on a Recurring Basis

\$ in millions	At September 30, 2019				
	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	\$ 44,129	\$ 25,280	\$ 18	\$ —	\$ 69,427
Other sovereign government obligations	33,333	5,512	12	—	38,857
State and municipal securities	—	3,080	1	—	3,081
MABS	—	1,593	401	—	1,994
Loans and lending commitments <sup>2</sup>	—	5,155	4,869	—	10,024
Corporate and other debt	—	21,646	1,390	—	23,036
Corporate equities <sup>3</sup>	92,191	459	103	—	92,753
Derivative and other contracts:					
Interest rate	1,965	220,709	1,502	—	224,176
Credit	—	6,870	849	—	7,719
Foreign exchange	55	64,477	100	—	64,632
Equity	982	46,836	1,082	—	48,900
Commodity and other	1,305	6,866	3,099	—	11,270
Netting <sup>1</sup>	(3,686)	(265,103)	(1,122)	(54,162)	(324,073)
Total derivative and other contracts	621	80,655	5,510	(54,162)	32,624
Investments <sup>4</sup>	514	200	785	—	1,499
Physical commodities	—	1,022	—	—	1,022
Total trading assets	170,788	144,602	13,089	(54,162)	274,317
Investment securities—AFS	34,931	29,783	—	—	64,714
Securities purchased under agreements to resell	—	4	—	—	4
<b>Total assets at fair value</b>	<b>\$205,719</b>	<b>\$174,389</b>	<b>\$13,089</b>	<b>\$(54,162)</b>	<b>\$339,035</b>

# Notes to Consolidated Financial Statements (Unaudited)

	At September 30, 2019				
<i>\$ in millions</i>	Level 1	Level 2	Level 3	Netting <sup>1</sup>	Total
<b>Liabilities at fair value</b>					
Deposits	\$ —	\$ 1,477	\$ 145	\$ —	\$ 1,622
Trading liabilities:					
U.S. Treasury and agency securities	12,826	194	1	—	13,021
Other sovereign government obligations	22,090	1,593	3	—	23,686
Corporate and other debt	—	7,968	4	—	7,972
Corporate equities <sup>3</sup>	63,197	95	32	—	63,324
Derivative and other contracts:					
Interest rate	1,730	211,860	714	—	214,304
Credit	—	7,361	744	—	8,105
Foreign exchange	13	66,223	48	—	66,284
Equity	987	46,484	2,463	—	49,934
Commodity and other	1,324	6,456	1,125	—	8,905
Netting <sup>1</sup>	(3,686)	(265,103)	(1,122)	(42,219)	(312,130)
Total derivative and other contracts	368	73,281	3,972	(42,219)	35,402
Total trading liabilities	98,481	83,131	4,012	(42,219)	143,405
Securities sold under agreements to repurchase	—	732	—	—	732
Other secured financings	—	6,242	110	—	6,352
Borrowings	—	58,116	3,538	—	61,654
<b>Total liabilities at fair value</b>	<b>\$ 98,481</b>	<b>\$ 149,698</b>	<b>\$ 7,805</b>	<b>\$ (42,219)</b>	<b>\$ 213,765</b>

	At December 31, 2018				
<i>\$ in millions</i>	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	\$ 38,767	\$ 29,594	\$ 54	\$ —	\$ 68,415
Other sovereign government obligations	28,395	5,529	17	—	33,941
State and municipal securities	—	3,161	148	—	3,309
MABS	—	2,154	354	—	2,508
Loans and lending commitments <sup>2</sup>	—	4,055	6,870	—	10,925
Corporate and other debt	—	18,129	1,076	—	19,205
Corporate equities <sup>3</sup>	93,626	522	95	—	94,243
Derivative and other contracts:					
Interest rate	2,793	155,027	1,045	—	158,865
Credit	—	5,707	421	—	6,128
Foreign exchange	62	63,023	161	—	63,246
Equity	1,256	45,596	1,022	—	47,874
Commodity and other	963	8,517	2,992	—	12,472
Netting <sup>1</sup>	(4,151)	(210,190)	(896)	(44,175)	(259,412)
Total derivative and other contracts	923	67,680	4,745	(44,175)	29,173
Investments <sup>4</sup>	412	293	757	—	1,462
Physical commodities	—	536	—	—	536
Total trading assets	162,123	131,653	14,116	(44,175)	263,717
Investment securities—AFS	36,399	24,662	—	—	61,061
Intangible assets	—	5	—	—	5
<b>Total assets at fair value</b>	<b>\$ 198,522</b>	<b>\$ 156,320</b>	<b>\$ 14,116</b>	<b>\$ (44,175)</b>	<b>\$ 324,783</b>

# Notes to Consolidated Financial Statements (Unaudited)

\$ in millions	At December 31, 2018				
	Level 1	Level 2	Level 3	Netting <sup>1</sup>	Total
<b>Liabilities at fair value</b>					
Deposits	\$ —	\$ 415	\$ 27	\$ —	\$ 442
Trading liabilities:					
U.S. Treasury and agency securities	11,272	543	—	—	11,815
Other sovereign government obligations	21,391	1,454	—	—	22,845
Corporate and other debt	—	8,550	1	—	8,551
Corporate equities <sup>3</sup>	56,064	199	15	—	56,278
Derivative and other contracts:					
Interest rate	2,927	142,746	427	—	146,100
Credit	—	5,772	381	—	6,153
Foreign exchange	41	63,379	86	—	63,506
Equity	1,042	47,091	2,507	—	50,640
Commodity and other	1,228	6,872	940	—	9,040
Netting <sup>1</sup>	(4,151)	(210,190)	(896)	(32,944)	(248,181)
Total derivative and other contracts	1,087	55,670	3,445	(32,944)	27,258
Total trading liabilities	89,814	66,416	3,461	(32,944)	126,747
Securities sold under agreements to repurchase	—	812	—	—	812
Other secured financings	—	5,037	208	—	5,245
Borrowings	—	47,378	3,806	—	51,184
<b>Total liabilities at fair value</b>	<b>\$ 89,814</b>	<b>\$ 120,058</b>	<b>\$ 7,502</b>	<b>\$ (32,944)</b>	<b>\$ 184,430</b>

MABS—Mortgage- and asset-backed securities

- For positions with the same counterparty classified in different 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 the column for that level. For further information on derivative instruments and hedging activities, see Note 4.
- For a further breakdown by type, see the following Breakdown of Loans and Lending Commitments at Fair Value table.
- For trading purposes, the Firm holds or sells short equity securities issued by entities in diverse industries and of varying sizes.
- 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 "Net Asset Value Measurements—Fund Interests" herein.

## Breakdown of Loans and Lending Commitments at Fair Value

\$ in millions	At	At
	September 30, 2019	December 31, 2018
Corporate	\$ 7,387	\$ 9,171
Residential real estate	1,206	1,153
Commercial real estate	1,431	601
Total	\$ 10,024	\$ 10,925

## Unsettled Fair Value of Futures Contracts<sup>1</sup>

\$ in millions	At	At
	September 30, 2019	December 31, 2018
Customer and other receivables, net	\$ 501	\$ 615

- 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 2018 Form 10-K. During the current year period, there were no significant revisions made to the Firm's valuation techniques.

## Rollforward of Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Assets at Fair value</b>				
<b>U.S. Treasury and agency securities</b>				
Beginning balance	\$ 5	\$ —	\$ 54	\$ —
Purchases	11	5	18	5
Sales	—	—	(54)	—
Net transfers	2	—	—	—
Ending balance	\$ 18	\$ 5	\$ 18	\$ 5
Unrealized gains (losses)	\$ —	\$ —	\$ —	\$ —
<b>Other sovereign government obligations</b>				
Beginning balance	\$ 10	\$ 5	\$ 17	\$ 1
Realized and unrealized gains (losses)	(3)	—	(2)	—
Purchases	2	32	13	35
Sales	(2)	(2)	(6)	—
Settlements	—	—	—	—
Net transfers	5	1	(10)	—
Ending balance	\$ 12	\$ 36	\$ 12	\$ 36
Unrealized gains (losses)	\$ (3)	\$ —	\$ (2)	\$ —
<b>State and municipal securities</b>				
Beginning balance	\$ 16	\$ 2	\$ 148	\$ 8
Realized and unrealized gains (losses)	—	—	—	—
Purchases	—	2	—	3
Sales	(2)	—	(43)	(7)
Net transfers	(13)	—	(104)	—
Ending balance	\$ 1	\$ 4	\$ 1	\$ 4
Unrealized gains (losses)	\$ —	\$ —	\$ —	\$ —
<b>MABS</b>				
Beginning balance	\$ 480	\$ 327	\$ 354	\$ 423
Realized and unrealized gains (losses)	(10)	(1)	(9)	88
Purchases	5	23	66	73
Sales	(58)	(46)	(157)	(317)
Settlements	—	(14)	(39)	(16)
Net transfers	(16)	27	186	65
Ending balance	\$ 401	\$ 316	\$ 401	\$ 316
Unrealized gains (losses)	\$ (8)	\$ (8)	\$ (38)	\$ (6)
<b>Loans and lending commitments</b>				
Beginning balance	\$ 5,604	\$ 6,923	\$ 6,870	\$ 5,945
Realized and unrealized gains (losses)	(51)	17	3	16
Purchases and originations	852	2,076	1,934	4,030
Sales	(464)	(1,184)	(1,541)	(978)
Settlements	(811)	(777)	(2,130)	(1,926)
Net transfers	(261)	(320)	(267)	(352)
Ending balance	\$ 4,869	\$ 6,735	\$ 4,869	\$ 6,735
Unrealized gains (losses)	\$ (55)	\$ 12	\$ 283	\$ (8)

# Notes to Consolidated Financial Statements (Unaudited)

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Corporate and other debt</b>				
Beginning balance	\$ 1,364	\$ 701	\$ 1,076	\$ 701
Realized and unrealized gains (losses)	157	(4)	269	51
Purchases	341	109	632	276
Sales	(474)	(153)	(587)	(227)
Settlements	—	(6)	(7)	(8)
Net transfers	2	63	7	(83)
Ending balance	\$ 1,390	\$ 710	\$ 1,390	\$ 710
Unrealized gains (losses)	\$ 114	\$ 9	\$ 217	\$ 16
<b>Corporate equities</b>				
Beginning balance	\$ 98	\$ 171	\$ 95	\$ 166
Realized and unrealized gains (losses)	1	(7)	(41)	17
Purchases	5	15	44	69
Sales	(16)	(50)	(268)	(134)
Net transfers	15	(23)	273	(12)
Ending balance	\$ 103	\$ 106	\$ 103	\$ 106
Unrealized gains (losses)	\$ 7	\$ 5	\$ (38)	\$ 14
<b>Investments</b>				
Beginning balance	\$ 785	\$ 941	\$ 757	\$ 1,020
Realized and unrealized gains (losses)	(15)	5	19	5
Purchases	7	72	28	134
Sales	(7)	(103)	(43)	(209)
Net transfers	15	(97)	24	(132)
Ending balance	\$ 785	\$ 818	\$ 785	\$ 818
Unrealized gains (losses)	\$ (12)	\$ 2	\$ 22	\$ 5
<b>Net derivative and other contracts:</b>				
<b>Interest rate</b>				
Beginning balance	\$ 816	\$ 567	\$ 618	\$ 1,218
Realized and unrealized gains (losses)	(40)	(3)	143	(46)
Purchases	69	12	132	84
Issuances	(11)	(9)	(22)	(38)
Settlements	2	(2)	16	(92)
Net transfers	(48)	12	(99)	(549)
Ending balance	\$ 788	\$ 577	\$ 788	\$ 577
Unrealized gains (losses)	\$ 120	\$ 24	\$ 214	\$ (47)
<b>Credit</b>				
Beginning balance	\$ (138)	\$ (2)	\$ 40	\$ 41
Realized and unrealized gains (losses)	(183)	(39)	36	(17)
Purchases	44	4	103	9
Issuances	(19)	—	(162)	(40)
Settlements	389	58	90	30
Net transfers	12	—	(2)	(2)
Ending balance	\$ 105	\$ 21	\$ 105	\$ 21
Unrealized gains (losses)	\$ 20	\$ (41)	\$ 41	\$ (20)

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Foreign exchange</b>				
Beginning balance	\$ (29)	\$ (26)	\$ 75	\$ (112)
Realized and unrealized gains (losses)	67	(35)	(83)	71
Purchases	—	—	—	2
Issuances	—	—	—	(48)
Settlements	5	2	—	43
Net transfers	9	15	60	—
Ending balance	\$ 52	\$ (44)	\$ 52	\$ (44)
Unrealized gains (losses)	\$ 79	\$ (9)	\$ 26	\$ 1
<b>Equity</b>				
Beginning balance	\$ (1,715)	\$ (1,535)	\$ (1,485)	\$ 1,208
Realized and unrealized gains (losses)	(61)	(149)	59	83
Purchases	36	29	75	120
Issuances	(207)	(138)	(227)	(1,052)
Settlements	(56)	84	(173)	319
Net transfers	622	38	370	(2,349)
Ending balance	\$ (1,381)	\$ (1,671)	\$ (1,381)	\$ (1,671)
Unrealized gains (losses)	\$ (86)	\$ (132)	\$ 81	\$ 19
<b>Commodity and other</b>				
Beginning balance	\$ 1,861	\$ 2,032	\$ 2,052	\$ 1,446
Realized and unrealized gains (losses)	120	(29)	35	332
Purchases	126	—	145	80
Issuances	(36)	(11)	(71)	(18)
Settlements	(107)	(1)	(307)	17
Net transfers	10	29	120	163
Ending balance	\$ 1,974	\$ 2,020	\$ 1,974	\$ 2,020
Unrealized gains (losses)	\$ 33	\$ (105)	\$ (89)	\$ 33
<b>Liabilities at Fair Value</b>				
<b>Deposits</b>				
Beginning balance	\$ 138	\$ 37	\$ 27	\$ 47
Realized and unrealized losses (gains)	5	2	16	(1)
Issuances	23	11	70	27
Settlements	(8)	—	(12)	(2)
Net transfers	(13)	23	44	2
Ending balance	\$ 145	\$ 73	\$ 145	\$ 73
Unrealized losses (gains)	\$ 5	\$ 2	\$ 16	\$ (1)
<b>Nonderivative trading liabilities</b>				
Beginning balance	\$ 36	\$ 25	\$ 16	\$ 25
Realized and unrealized losses (gains)	(7)	—	(37)	(4)
Purchases	(13)	(12)	(31)	(15)
Sales	6	3	36	12
Net transfers	18	(2)	56	(4)
Ending balance	\$ 40	\$ 14	\$ 40	\$ 14
Unrealized losses (gains)	\$ (7)	\$ —	\$ (37)	\$ (4)

# Notes to Consolidated Financial Statements (Unaudited)

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Securities sold under agreements to repurchase</b>				
Beginning balance	\$ —	\$ —	\$ —	\$ 150
Net transfers	—	—	—	(150)
Ending balance	\$ —	\$ —	\$ —	\$ —
Unrealized losses (gains)	\$ —	\$ —	\$ —	\$ —
<b>Other secured financings</b>				
Beginning balance	\$ 154	\$ 170	\$ 208	\$ 239
Realized and unrealized losses (gains)	(1)	2	5	(16)
Issuances	—	—	—	8
Settlements	—	—	(8)	(18)
Net transfers	(43)	—	(95)	(41)
Ending balance	\$ 110	\$ 172	\$ 110	\$ 172
Unrealized losses (gains)	\$ (1)	\$ 2	\$ 5	\$ (16)
<b>Borrowings</b>				
Beginning balance	\$ 3,939	\$ 3,295	\$ 3,806	\$ 2,984
Realized and unrealized losses (gains)	88	56	498	(156)
Issuances	201	344	610	1,275
Settlements	(260)	(81)	(438)	(339)
Net transfers	(430)	6	(938)	(144)
Ending balance	\$ 3,538	\$ 3,620	\$ 3,538	\$ 3,620
Unrealized losses (gains)	\$ 91	\$ 55	\$ 459	\$ (168)
Portion of Unrealized losses (gains) recorded in OCI— Change in net DVA	(23)	82	68	(45)

Level 3 instruments may be hedged with instruments classified in Level 1 and/or Level 2. The realized and unrealized gains (losses) for assets and liabilities within the Level 3 category presented in the previous 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.

The unrealized gains (losses) during the period for assets and liabilities within the Level 3 category 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.

Additionally, in the previous tables, consolidations of VIEs are included in Purchases and deconsolidations of VIEs are included in Settlements.

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

### Valuation Techniques and Unobservable Inputs

\$ in millions, except inputs	Balance / Range (Average) <sup>1</sup>	
	At September 30, 2019	At December 31, 2018
<b>Assets Measured at Fair Value on a Recurring Basis</b>		
<b>MABS</b>	\$ 401	\$ 354
Comparable pricing:		
Bond price	0 to 97 points (47 points)	0 to 97 points (38 points)
<b>Loans and lending commitments</b>		
\$ 4,869	\$ 6,870	
Margin loan model:		
Discount rate	1% to 7% (2%)	1% to 7% (2%)
Volatility skew	17% to 73% (27%)	19% to 56% (28%)
Credit Spread	9 to 41 bps (26 bps)	14 to 90 bps (36 bps)
Comparable pricing:		
Loan price	70 to 100 points (93 points)	60 to 101 points (95 points)
<b>Corporate and other debt</b>		
\$ 1,390	\$ 1,076	
Comparable pricing:		
Bond price	12 to 105 points (82 points)	12 to 100 points (72 points)
Discounted cash flow:		
Recovery rate	36%	20%
Discount rate	N/M	15% to 21% (16%)
Option model:		
At the money volatility	21%	24% to 78% (50%)
<b>Corporate equities</b>		
\$ 103	\$ 95	
Comparable pricing:		
Equity price	100%	100%
<b>Investments</b>		
\$ 785	\$ 757	
Discounted cash flow:		
WACC	15% to 16% (15%)	9% to 15% (10%)
Exit multiple	7 to 16 times (11 times)	7 to 10 times (10 times)
Market approach:		
EBITDA multiple	7 to 25 times (11 times)	6 to 24 times (12 times)
Comparable pricing:		
Equity price	75% to 100% (99%)	75% to 100% (96%)
<b>Net derivative and other contracts:</b>		
<b>Interest rate</b>	\$ 788	\$ 618
Option model:		
IR volatility skew	34% to 163% (71% / 71%)	22% to 95% (48% / 51%)
Contingency probability	95%	N/M
IR curve correlation	37% to 89% (66% / 67%)	N/M
Bond volatility	4% to 19% (14% / 14%)	N/M
Inflation volatility	23% to 62% (43% / 40%)	23% to 65% (44% / 40%)
IR curve	1%	1%

# Notes to Consolidated Financial Statements (Unaudited)

\$ in millions, except inputs	Balance / Range (Average) <sup>1</sup>	
	At September 30, 2019	At December 31, 2018
<b>Credit</b>	\$ 105	\$ 40
Comparable pricing:		
Cash-synthetic basis	6 points	8 to 9 points (9 points)
Bond price	0 to 103 points (55 points)	0 to 75 points (26 points)
Credit spread	9 to 507 bps (91 bps)	246 to 499 bps (380 bps)
Funding spread	69 to 131 bps (100 bps)	47 to 98 bps (93 bps)
Correlation model:		
Credit correlation	32% to 62% (36%)	36% to 69% (44%)
<b>Foreign exchange<sup>2</sup></b>	\$ 52	\$ 75
Option model:		
IR - FX correlation	29% to 56% (47% / 47%)	53% to 56% (55% / 55%)
IR volatility skew	34% to 163% (71% / 71%)	22% to 95% (48% / 51%)
IR curve	10% to 11% (10% / 10%)	N/M
Contingency probability	85% to 95% (92% / 95%)	90% to 95% (93% / 95%)
<b>Equity<sup>2</sup></b>	\$ (1,381)	\$ (1,485)
Option model:		
At the money volatility	13% to 81% (35%)	17% to 63% (38%)
Volatility skew	-2% to 0% (-1%)	-2% to 0% (-1%)
Equity correlation	5% to 96% (68%)	5% to 96% (71%)
FX correlation	-60% to 55% (-25%)	-60% to 55% (-26%)
IR correlation	-8% to 44% (17% / 15%)	-7% to 45% (15% / 12%)
<b>Commodity and other</b>	\$ 1,974	\$ 2,052
Option model:		
Forward power price	\$5 to \$178 (\$28) per MWh	3 to \$185 (\$31) per MWh
Commodity volatility	1% to 96% (19%)	7% to 187% (17%)
Cross-commodity correlation	43% to 99% (93%)	5% to 99% (93%)
<b>Liabilities Measured at Fair Value on a Recurring Basis</b>		
<b>Deposits</b>	\$ 145	\$ 27
Option Model:		
At the money volatility	20% to 39% (21%)	N/M
<b>Other secured financings</b>	\$ 110	\$ 208
Discounted cash flow:		
Funding spread	107 to 122 bps (115 bps)	103 to 193 bps (148 bps)
Option model:		
Volatility skew	N/M	-1%
At the money volatility	25% to 28% (28%)	10% to 40% (25%)
<b>Borrowings</b>	\$ 3,538	\$ 3,806
Option model:		
At the money volatility	6% to 45% (22%)	5% to 35% (22%)
Volatility skew	-2% to 0% (0%)	-2% to 0% (0%)
Equity correlation	39% to 94% (80%)	45% to 98% (85%)
Equity - FX correlation	-70% to 30% (-22%)	-75% to 50% (-27%)
IR Correlation	N/M	58% to 97% (85% / 91%)
IR - FX Correlation	-33% to 7% (-8% / -8%)	28% to 58% (44% / 44%)

\$ in millions, except inputs	Balance / Range (Average) <sup>1</sup>	
	At September 30, 2019	At December 31, 2018
<b>Nonrecurring Fair Value Measurement</b>		
<b>Loans</b>	\$ 1,665	\$ 1,380
Corporate loan model:		
Credit spread	54 to 435 bps (220 bps)	97 to 434 bps (181 bps)
Warehouse model:		
Credit spread	183 to 317 bps (220 bps)	223 to 313 bps (247 bps)

Points—Percentage of par

IR—Interest rate

FX—Foreign exchange

1. A single amount is disclosed for range and average when there is no significant difference between the minimum, maximum and average. Amounts represent weighted averages except where simple averages and the median of the inputs are more relevant.

2. Includes derivative contracts with multiple risks (i.e., hybrid products).

The previous tables provide information 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. In general, there are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique.

For a description of the Firm's significant unobservable inputs and qualitative information about the effect of hypothetical changes in the values of those inputs, see Note 3 to the financial statements in the 2018 Form 10-K. During the current year period, there were no significant revisions made to the descriptions of the Firm's significant unobservable inputs.

## Net Asset Value Measurements

### Fund Interests

\$ in millions	At September 30, 2019		At December 31, 2018	
	Carrying Value	Commitment	Carrying Value	Commitment
Private equity	\$ 1,542	\$ 363	\$ 1,374	\$ 316
Real estate	1,469	153	1,105	161
Hedge <sup>1</sup>	95	4	103	4
<b>Total</b>	<b>\$ 3,106</b>	<b>\$ 520</b>	<b>\$ 2,582</b>	<b>\$ 481</b>

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 2018 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 carried interest. The carrying

## Notes to Consolidated Financial Statements (Unaudited)

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 the fund investments are accounted for under the equity method or fair value.

See Note 11 for information regarding general partner guarantees, which include potential obligations to return performance-based fees in the form of carried interest previously received. See Note 18 for information regarding carried interest at risk of reversal.

### Nonredeemable Funds by Contractual Maturity

<i>\$ in millions</i>	Carrying Value at September 30, 2019	
	Private Equity	Real Estate
Less than 5 years	\$ 765	\$ 1,151
5-10 years	753	230
Over 10 years	24	88
<b>Total</b>	<b>\$ 1,542</b>	<b>\$ 1,469</b>

### Fair Value Option

The Firm has 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 the complexities of applying certain accounting models.

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

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
<b>Business Unit Responsible for Risk Management</b>		
Equity	\$ 29,508	\$ 24,494
Interest rates	26,427	22,343
Commodities	3,973	2,735
Credit	1,229	856
Foreign exchange	517	756
<b>Total</b>	<b>\$ 61,654</b>	<b>\$ 51,184</b>

### Net Revenues from Borrowings under the Fair Value Option

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Trading revenues	\$ (795)	\$ 449	\$ (5,888)	\$ 1,334
Interest expense	93	59	280	234
<b>Net revenues<sup>1</sup></b>	<b>\$ (888)</b>	<b>\$ 390</b>	<b>\$ (6,168)</b>	<b>\$ 1,100</b>

1. Amounts do not reflect any gains or losses from related economic hedges.

Gains (losses) from changes in fair value are recorded in Trading revenues and are mainly attributable to movements in the reference price or index, interest rates or foreign exchange rates.

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

<i>\$ in millions</i>	Three Months Ended September 30,			
	2019		2018	
	Trading Revenues	OCI	Trading Revenues	OCI
Borrowings	\$ (2)	\$ 442	\$ (4)	\$ (1,010)
Loans and other debt <sup>1</sup>	(3)	—	55	—
Lending commitments	—	—	(6)	—
Other	—	1	(32)	28

<i>\$ in millions</i>	Nine Months Ended September 30,			
	2019		2018	
	Trading Revenues	OCI	Trading Revenues	OCI
Borrowings	\$ (9)	\$ (702)	\$ (22)	\$ 425
Loans and other debt <sup>1</sup>	148	—	199	—
Lending commitments	(2)	—	(3)	—
Other	—	(2)	(32)	32

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Cumulative pre-tax DVA gain (loss) recognized in AOCI	\$ (532)	\$ 172

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

### Difference Between Contractual Principal and Fair Value<sup>1</sup>

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Loans and other debt <sup>2</sup>	\$ 13,154	\$ 13,094
Nonaccrual loans <sup>2</sup>	10,919	10,831
Borrowings <sup>3</sup>	(986)	2,657

1. Amounts indicate contractual principal greater than or (less than) fair value.

2. 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.

3. 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.

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.

### Fair Value Loans on Nonaccrual Status

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Nonaccrual loans	\$ 839	\$ 1,497
Nonaccrual loans 90 or more days past due	\$ 452	\$ 812

# Notes to Consolidated Financial Statements (Unaudited)

## Nonrecurring Fair Value Measurements

### Carrying and Fair Values

\$ in millions	At September 30, 2019		
	Fair Value		
	Level 2	Level 3 <sup>1</sup>	Total
<b>Assets</b>			
Loans	\$ 1,513	\$ 1,665	\$ 3,178
Other assets—Other investments	—	26	26
Other assets—Premises, equipment and software	—	—	—
<b>Total</b>	<b>\$ 1,513</b>	<b>\$ 1,691</b>	<b>\$ 3,204</b>
<b>Liabilities</b>			
Other liabilities and accrued expenses—Lending commitments	\$ (161)	\$ (64)	\$ (225)
<b>Total</b>	<b>\$ (161)</b>	<b>\$ (64)</b>	<b>\$ (225)</b>
\$ in millions	At December 31, 2018		
	Fair Value		
	Level 2	Level 3 <sup>1</sup>	Total
<b>Assets</b>			
Loans	\$ 2,307	\$ 1,380	\$ 3,687
Other assets—Other investments	14	100	114
Other assets—Premises, equipment and software	—	—	—
<b>Total</b>	<b>\$ 2,321</b>	<b>\$ 1,480</b>	<b>\$ 3,801</b>
<b>Liabilities</b>			
Other liabilities and accrued expenses—Lending commitments	\$ 292	\$ 65	\$ 357
<b>Total</b>	<b>\$ 292</b>	<b>\$ 65</b>	<b>\$ 357</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>

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Assets</b>				
Loans <sup>2</sup>	\$ (27)	\$ (5)	\$ (12)	\$ 1
Other assets—Other investments	(3)	(2)	(8)	(9)
Other assets—Premises, equipment and software	(4)	(3)	(8)	(13)
<b>Total</b>	<b>\$ (34)</b>	<b>\$ (10)</b>	<b>\$ (28)</b>	<b>\$ (21)</b>
<b>Liabilities</b>				
Other liabilities and accrued expenses—Lending commitments <sup>2</sup>	\$ (19)	\$ 31	\$ 82	\$ 41
<b>Total</b>	<b>\$ (19)</b>	<b>\$ 31</b>	<b>\$ 82</b>	<b>\$ 41</b>

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 they are recorded 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.



# Notes to Consolidated Financial Statements (Unaudited)

## Financial Instruments Not Measured at Fair Value

### Carrying and Fair Values

\$ in millions	At September 30, 2019				
	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Cash and cash equivalents:					
Cash and due from banks	\$ 35,721	\$ 35,721	\$ —	\$ —	\$ 35,721
Interest bearing deposits with banks	13,196	13,196	—	—	13,196
Restricted cash	30,739	30,739	—	—	30,739
Investment securities—HTM	41,076	27,816	13,513	662	41,991
Securities purchased under agreements to resell	93,363	—	91,966	1,374	93,340
Securities borrowed	132,401	—	132,406	—	132,406
Customer and other receivables <sup>1</sup>	54,784	—	51,855	2,880	54,735
Loans <sup>2</sup>	125,522	—	23,119	102,403	125,522
Other assets	474	—	474	—	474
<b>Financial liabilities</b>					
Deposits	\$ 179,116	\$ —	\$ 179,536	\$ —	\$ 179,536
Securities sold under agreements to repurchase	58,730	—	58,724	—	58,724
Securities loaned	9,691	—	9,694	—	9,694
Other secured financings	3,484	—	3,488	—	3,488
Customer and other payables <sup>1</sup>	199,944	—	199,944	—	199,944
Borrowings	132,005	—	135,409	10	135,419
		Commitment Amount			
Lending commitments <sup>3</sup>	\$ 118,524	\$ —	\$ 889	\$ 348	\$ 1,237

\$ in millions	At December 31, 2018				
	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Cash and cash equivalents:					
Cash and due from banks	\$ 30,541	\$ 30,541	\$ —	\$ —	\$ 30,541
Interest bearing deposits with banks	21,299	21,299	—	—	21,299
Restricted cash	35,356	35,356	—	—	35,356
Investment securities—HTM	30,771	17,473	12,018	474	29,965
Securities purchased under agreements to resell	98,522	—	97,611	866	98,477
Securities borrowed	116,313	—	116,312	—	116,312
Customer and other receivables <sup>1</sup>	47,972	—	44,620	3,219	47,839
Loans <sup>2</sup>	115,579	—	25,604	90,121	115,725
Other assets	461	—	461	—	461
<b>Financial liabilities</b>					
Deposits	\$ 187,378	\$ —	\$ 187,372	\$ —	\$ 187,372
Securities sold under agreements to repurchase	48,947	—	48,385	525	48,910
Securities loaned	11,908	—	11,906	—	11,906
Other secured financings	4,221	—	3,233	994	4,227
Customer and other payables <sup>1</sup>	176,561	—	176,561	—	176,561
Borrowings	138,478	—	140,085	30	140,115
		Commitment Amount			
Lending commitments <sup>3</sup>	\$ 104,844	\$ —	\$ 1,249	\$ 321	\$ 1,570

1. Accrued interest and dividend receivables and payables, where carrying value approximates fair value, have been excluded as these are not financial instruments.
2. Amounts include loans measured at fair value on a nonrecurring basis.
3. Represents Lending Commitments accounted for as Held for investment and Held for sale. For a 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.

# Notes to Consolidated Financial Statements (Unaudited)

## 4. Derivative Instruments and Hedging Activities

### Fair Values of Derivative Contracts

At September 30, 2019

\$ in millions	Assets			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
<b>Designated as accounting hedges</b>				
Interest rate	\$ 761	\$ 2	\$ —	\$ 763
Foreign exchange	114	8	—	122
Total	875	10	—	885
<b>Not designated as accounting hedges</b>				
Interest rate	216,358	6,090	965	223,413
Credit	4,932	2,787	—	7,719
Foreign exchange	63,326	1,069	115	64,510
Equity	26,395	—	22,505	48,900
Commodity and other	8,797	—	2,473	11,270
Total	319,808	9,946	26,058	355,812
<b>Total gross derivatives</b>	<b>\$ 320,683</b>	<b>\$ 9,956</b>	<b>\$ 26,058</b>	<b>\$ 356,697</b>
<b>Amounts offset</b>				
Counterparty netting	(242,002)	(8,580)	(24,298)	(274,880)
Cash collateral netting	(47,994)	(1,199)	—	(49,193)
<b>Total in Trading assets</b>	<b>\$ 30,687</b>	<b>\$ 177</b>	<b>\$ 1,760</b>	<b>\$ 32,624</b>
<b>Amounts not offset<sup>1</sup></b>				
Financial instruments collateral	(14,340)	—	—	(14,340)
Other cash collateral	(35)	—	—	(35)
<b>Net amounts</b>	<b>\$ 16,312</b>	<b>\$ 177</b>	<b>\$ 1,760</b>	<b>\$ 18,249</b>
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				\$ 2,132

\$ in millions	Liabilities			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
<b>Designated as accounting hedges</b>				
Interest rate	\$ —	\$ 1	\$ —	\$ 1
Foreign exchange	26	19	—	45
Total	26	20	—	46
<b>Not designated as accounting hedges</b>				
Interest rate	208,515	4,956	832	214,303
Credit	4,649	3,456	—	8,105
Foreign exchange	65,081	1,092	66	66,239
Equity	27,820	—	22,114	49,934
Commodity and other	6,690	—	2,215	8,905
Total	312,755	9,504	25,227	347,486
<b>Total gross derivatives</b>	<b>\$ 312,781</b>	<b>\$ 9,524</b>	<b>\$ 25,227</b>	<b>\$ 347,532</b>
<b>Amounts offset</b>				
Counterparty netting	(242,002)	(8,580)	(24,298)	(274,880)
Cash collateral netting	(36,520)	(730)	—	(37,250)
<b>Total in Trading liabilities</b>	<b>\$ 34,259</b>	<b>\$ 214</b>	<b>\$ 929</b>	<b>\$ 35,402</b>
<b>Amounts not offset<sup>1</sup></b>				
Financial instruments collateral	(15,526)	—	(323)	(15,849)
Other cash collateral	(26)	(27)	—	(53)
<b>Net amounts</b>	<b>\$ 18,707</b>	<b>\$ 187</b>	<b>\$ 606</b>	<b>\$ 19,500</b>
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				\$ 3,054

At December 31, 2018

\$ in millions	Assets			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
<b>Designated as accounting hedges</b>				
Interest rate	\$ 512	\$ 1	\$ —	\$ 513
Foreign exchange	27	8	—	35
Total	539	9	—	548
<b>Not designated as accounting hedges</b>				
Interest rate	153,768	3,887	697	158,352
Credit	4,630	1,498	—	6,128
Foreign exchange	61,846	1,310	55	63,211
Equity	24,590	—	23,284	47,874
Commodity and other	10,538	—	1,934	12,472
Total	255,372	6,695	25,970	288,037
<b>Total gross derivatives</b>	<b>\$ 255,911</b>	<b>\$ 6,704</b>	<b>\$ 25,970</b>	<b>\$ 288,585</b>
<b>Amounts offset</b>				
Counterparty netting	(190,220)	(5,260)	(24,548)	(220,028)
Cash collateral netting	(38,204)	(1,180)	—	(39,384)
<b>Total in Trading assets</b>	<b>\$ 27,487</b>	<b>\$ 264</b>	<b>\$ 1,422</b>	<b>\$ 29,173</b>
<b>Amounts not offset<sup>1</sup></b>				
Financial instruments collateral	(12,467)	—	—	(12,467)
Other cash collateral	(31)	—	—	(31)
<b>Net amounts</b>	<b>\$ 14,989</b>	<b>\$ 264</b>	<b>\$ 1,422</b>	<b>\$ 16,675</b>
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				\$ 2,206

\$ in millions	Liabilities			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
<b>Designated as accounting hedges</b>				
Interest rate	\$ 176	\$ —	\$ —	\$ 176
Foreign exchange	62	24	—	86
Total	238	24	—	262
<b>Not designated as accounting hedges</b>				
Interest rate	142,592	2,669	663	145,924
Credit	4,545	1,608	—	6,153
Foreign exchange	62,099	1,302	19	63,420
Equity	27,119	—	23,521	50,640
Commodity and other	6,983	—	2,057	9,040
Total	243,338	5,579	26,260	275,177
<b>Total gross derivatives</b>	<b>\$ 243,576</b>	<b>\$ 5,603</b>	<b>\$ 26,260</b>	<b>\$ 275,439</b>
<b>Amounts offset</b>				
Counterparty netting	(190,220)	(5,260)	(24,548)	(220,028)
Cash collateral netting	(27,860)	(293)	—	(28,153)
<b>Total in Trading liabilities</b>	<b>\$ 25,496</b>	<b>\$ 50</b>	<b>\$ 1,712</b>	<b>\$ 27,258</b>
<b>Amounts not offset<sup>1</sup></b>				
Financial instruments collateral	(4,709)	—	(766)	(5,475)
Other cash collateral	(53)	(1)	—	(54)
<b>Net amounts</b>	<b>\$ 20,734</b>	<b>\$ 49</b>	<b>\$ 946</b>	<b>\$ 21,729</b>
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				\$ 4,773

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.

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.

**Notes to Consolidated Financial Statements  
(Unaudited)**

**Notionals of Derivative Contracts**

At September 30, 2019

\$ in billions	Assets			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
<b>Designated as accounting hedges</b>				
Interest rate	\$ 11	\$ 142	\$ —	\$ 153
Foreign exchange	5	1	—	6
<b>Total</b>	<b>16</b>	<b>143</b>	<b>—</b>	<b>159</b>
<b>Not designated as accounting hedges</b>				
Interest rate	4,465	8,357	858	13,680
Credit	138	92	—	230
Foreign exchange	3,030	119	17	3,166
Equity	404	—	432	836
Commodity and other	105	—	69	174
<b>Total</b>	<b>8,142</b>	<b>8,568</b>	<b>1,376</b>	<b>18,086</b>
<b>Total gross derivatives</b>	<b>\$ 8,158</b>	<b>\$ 8,711</b>	<b>\$ 1,376</b>	<b>\$ 18,245</b>

\$ in billions	Liabilities			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
<b>Designated as accounting hedges</b>				
Interest rate	\$ —	\$ 17	\$ —	\$ 17
Foreign exchange	5	2	—	7
<b>Total</b>	<b>5</b>	<b>19</b>	<b>—</b>	<b>24</b>
<b>Not designated as accounting hedges</b>				
Interest rate	4,462	8,189	794	13,445
Credit	149	105	—	254
Foreign exchange	2,985	119	15	3,119
Equity	525	—	493	1,018
Commodity and other	84	—	66	150
<b>Total</b>	<b>8,205</b>	<b>8,413</b>	<b>1,368</b>	<b>17,986</b>
<b>Total gross derivatives</b>	<b>\$ 8,210</b>	<b>\$ 8,432</b>	<b>\$ 1,368</b>	<b>\$ 18,010</b>

At December 31, 2018

\$ in billions	Assets			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
<b>Designated as accounting hedges</b>				
Interest rate	\$ 15	\$ 52	\$ —	\$ 67
Foreign exchange	5	1	—	6
<b>Total</b>	<b>20</b>	<b>53</b>	<b>—</b>	<b>73</b>
<b>Not designated as accounting hedges</b>				
Interest rate	4,807	6,708	1,157	12,672
Credit	162	74	—	236
Foreign exchange	2,436	118	14	2,568
Equity	373	—	371	744
Commodity and other	97	—	67	164
<b>Total</b>	<b>7,875</b>	<b>6,900</b>	<b>1,609</b>	<b>16,384</b>
<b>Total gross derivatives</b>	<b>\$ 7,895</b>	<b>\$ 6,953</b>	<b>\$ 1,609</b>	<b>\$ 16,457</b>

\$ in billions	Liabilities			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
<b>Designated as accounting hedges</b>				
Interest rate	\$ 2	\$ 107	\$ —	\$ 109
Foreign exchange	5	1	—	6
<b>Total</b>	<b>7</b>	<b>108</b>	<b>—</b>	<b>115</b>
<b>Not designated as accounting hedges</b>				
Interest rate	4,946	5,735	781	11,462
Credit	162	73	—	235
Foreign exchange	2,451	114	17	2,582
Equity	389	—	602	991
Commodity and other	72	—	65	137
<b>Total</b>	<b>8,020</b>	<b>5,922</b>	<b>1,465</b>	<b>15,407</b>
<b>Total gross derivatives</b>	<b>\$ 8,027</b>	<b>\$ 6,030</b>	<b>\$ 1,465</b>	<b>\$ 15,522</b>

The Firm believes that the notional amounts of derivative contracts generally overstate its exposure. In most circumstances notional amounts are only used as a reference point from which to calculate amounts owed between the parties to the contract. Furthermore, notional amounts do not reflect the benefit of legally enforceable netting arrangements or risk mitigating transactions.

For a discussion of the Firm's derivative instruments and hedging activities, see Note 4 to the financial statements in the 2018 Form 10-K.

## Notes to Consolidated Financial Statements (Unaudited)

### Gains (Losses) on Accounting Hedges

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Fair Value Hedges—Recognized in Interest Income<sup>1</sup></b>				
Interest rate contracts	\$ (7)	\$ —	\$ (26)	\$ —
Investment Securities—AFS	8	—	27	—
<b>Fair Value Hedges—Recognized in Interest Expense</b>				
Interest rate contracts	\$ 1,999	\$ (1,124)	\$ 6,046	\$ (3,584)
Borrowings	(1,996)	1,124	(6,111)	3,563
<b>Net Investment Hedges—Foreign exchange contracts</b>				
Recognized in OCI, net of tax	\$ 251	\$ 107	\$ 201	\$ 354
Forward points excluded from hedge effectiveness testing—Recognized in Interest income	30	13	107	44

### Fair Value Hedges—Hedged Items

\$ in millions	At September 30, 2019		At December 31, 2018	
	<b>Investment Securities—AFS</b>			
Carrying amount <sup>2</sup> currently or previously hedged	\$	689	\$	201
Basis adjustments included in carrying amount <sup>3</sup>	\$	30	\$	4
<b>Borrowings</b>				
Carrying amount <sup>2</sup> currently or previously hedged	\$	103,659	\$	102,899
Basis adjustments included in carrying amount <sup>2</sup>	\$	4,393	\$	(1,689)

- The Firm began designating interest rate swaps as fair value hedges of certain AFS securities in the third quarter of 2018.
- Carrying amount represents amortized cost basis.
- Hedge accounting basis adjustments for AFS securities and Borrowings are primarily related to outstanding hedges.

### Net Derivative Liabilities and Collateral Posted

\$ in millions	At September 30, 2019		At December 31, 2018	
	Net derivative liabilities with credit risk-related contingent features	\$	27,319	\$
Collateral posted		22,154		11,981

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 and Termination Payments upon Potential Future Ratings Downgrade

\$ in millions	At September 30, 2019	
	One-notch downgrade	\$
Two-notch downgrade		308
Bilateral downgrade agreements included in the amounts above <sup>1</sup>	\$	699

- 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.

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

\$ in billions	Years to Maturity at September 30, 2019					Total
	< 1	1-3	3-5	Over 5		
<b>Single-name CDS</b>						
Investment grade	\$ 16	\$ 18	\$ 26	\$ 16	\$ 76	
Non-investment grade	8	9	12	5	34	
Total	\$ 24	\$ 27	\$ 38	\$ 21	\$ 110	
<b>Index and basket CDS</b>						
Investment grade	\$ 5	\$ 10	\$ 40	\$ 22	\$ 77	
Non-investment grade	5	3	17	17	42	
Total	\$ 10	\$ 13	\$ 57	\$ 39	\$ 119	
<b>Total CDS sold</b>	<b>\$ 34</b>	<b>\$ 40</b>	<b>\$ 95</b>	<b>\$ 60</b>	<b>\$ 229</b>	
Other credit contracts	—	—	—	—	—	
<b>Total credit protection sold</b>	<b>\$ 34</b>	<b>\$ 40</b>	<b>\$ 95</b>	<b>\$ 60</b>	<b>\$ 229</b>	
CDS protection sold with identical protection purchased					\$ 219	

\$ in billions	Years to Maturity at December 31, 2018					Total
	< 1	1-3	3-5	Over 5		
<b>Single-name CDS</b>						
Investment grade	\$ 22	\$ 24	\$ 19	\$ 8	\$ 73	
Non-investment grade	10	11	9	1	31	
Total	\$ 32	\$ 35	\$ 28	\$ 9	\$ 104	
<b>Index and basket CDS</b>						
Investment grade	\$ 5	\$ 10	\$ 61	\$ 7	\$ 83	
Non-investment grade	5	6	13	13	37	
Total	\$ 10	\$ 16	\$ 74	\$ 20	\$ 120	
<b>Total CDS sold</b>	<b>\$ 42</b>	<b>\$ 51</b>	<b>\$ 102</b>	<b>\$ 29</b>	<b>\$ 224</b>	
Other credit contracts	—	—	—	—	—	
<b>Total credit protection sold</b>	<b>\$ 42</b>	<b>\$ 51</b>	<b>\$ 102</b>	<b>\$ 29</b>	<b>\$ 224</b>	
CDS protection sold with identical protection purchased					\$ 210	

**Fair Value Asset (Liability) of Credit Protection Sold<sup>1</sup>**

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
<b>Single-name CDS</b>		
Investment grade	\$ 663	\$ 118
Non-investment grade	(959)	(403)
<b>Total</b>	<b>\$ (296)</b>	<b>\$ (285)</b>
<b>Index and basket CDS</b>		
Investment grade	\$ 1,040	\$ 314
Non-investment grade	45	(1,413)
<b>Total</b>	<b>\$ 1,085</b>	<b>\$ (1,099)</b>
<b>Total CDS sold</b>	<b>\$ 789</b>	<b>\$ (1,384)</b>
Other credit contracts	(18)	(14)
<b>Total credit protection sold</b>	<b>\$ 771</b>	<b>\$ (1,398)</b>

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

**Protection Purchased with CDS**

<i>\$ in millions</i>	Fair Value Asset (Liability)	
	At September 30, 2019	At December 31, 2018
Single name	\$ 147	\$ 277
Index and basket	(977)	1,333
Tranched index and basket	(345)	(251)
<b>Total</b>	<b>\$ (1,175)</b>	<b>\$ 1,359</b>
Notional		
<i>\$ in billions</i>	At September 30, 2019	At December 31, 2018
Single name	\$ 119	\$ 116
Index and basket	120	117
Tranched index and basket	16	14
<b>Total</b>	<b>\$ 255</b>	<b>\$ 247</b>

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.

The fair value amounts as shown in the previous tables are prior to cash collateral or counterparty netting. For further information on credit derivatives and other contracts, see Note 4 to the financial statements in the 2018 Form 10-K.

# Notes to Consolidated Financial Statements (Unaudited)

## 5. Investment Securities

### AFS and HTM Securities

\$ in millions	At September 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>AFS securities</b>				
U.S. government and agency securities:				
U.S. Treasury securities	\$ 34,422	\$ 274	\$ 88	\$ 34,608
U.S. agency securities <sup>1</sup>	21,423	248	88	21,583
Total U.S. government and agency securities	55,845	522	176	56,191
Corporate and other debt:				
Agency CMBS	4,512	104	36	4,580
Corporate bonds	2,022	14	4	2,032
State and municipal securities	252	13	—	265
FFELP student loan ABS <sup>2</sup>	1,660	3	17	1,646
Total corporate and other debt	8,446	134	57	8,523
Total AFS securities	64,291	656	233	64,714
<b>HTM securities</b>				
U.S. government and agency securities:				
U.S. Treasury securities	27,062	764	10	27,816
U.S. agency securities <sup>1</sup>	13,381	170	38	13,513
Total U.S. government and agency securities	40,443	934	48	41,329
Corporate and other debt:				
Non-agency CMBS	633	29	—	662
Total HTM securities	41,076	963	48	41,991
<b>Total investment securities</b>	<b>\$ 105,367</b>	<b>\$ 1,619</b>	<b>\$ 281</b>	<b>\$ 106,705</b>

\$ in millions	At December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>AFS securities</b>				
U.S. government and agency securities:				
U.S. Treasury securities	\$ 36,268	\$ 40	\$ 656	\$ 35,652
U.S. agency securities <sup>1</sup>	20,740	10	497	20,253
Total U.S. government and agency securities	57,008	50	1,153	55,905
Corporate and other debt:				
Agency CMBS	1,054	—	62	992
Non-agency CMBS	461	—	14	447
Corporate bonds	1,585	—	32	1,553
State and municipal securities	200	2	—	202
FFELP student loan ABS <sup>2</sup>	1,967	10	15	1,962
Total corporate and other debt	5,267	12	123	5,156
Total AFS securities	62,275	62	1,276	61,061
<b>HTM securities</b>				
U.S. government and agency securities:				
U.S. Treasury securities	17,832	44	403	17,473
U.S. agency securities <sup>1</sup>	12,456	8	446	12,018
Total U.S. government and agency securities	30,288	52	849	29,491
Corporate and other debt:				
Non-agency CMBS	483	—	9	474
Total HTM securities	30,771	52	858	29,965
<b>Total investment securities</b>	<b>\$ 93,046</b>	<b>\$ 114</b>	<b>\$ 2,134</b>	<b>\$ 91,026</b>

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.

# Notes to Consolidated Financial Statements (Unaudited)

## Investment Securities in an Unrealized Loss Position

	At September 30, 2019					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>\$ in millions</i>						
<b>AFS securities</b>						
U.S. government and agency securities:						
U.S. Treasury securities	\$ 4,233	\$ 13	\$ 9,318	\$ 75	\$ 13,551	\$ 88
U.S. agency securities	3,064	15	7,283	73	10,347	88
Total U.S. government and agency securities	7,297	28	16,601	148	23,898	176
Corporate and other debt:						
Agency CMBS	837	6	719	30	1,556	36
Corporate bonds	477	3	262	1	739	4
FFELP student loan ABS	490	4	751	13	1,241	17
Total corporate and other debt	1,804	13	1,732	44	3,536	57
Total AFS securities	9,101	41	18,333	192	27,434	233
<b>HTM securities</b>						
U.S. government and agency securities:						
U.S. Treasury securities	2,811	8	950	2	3,761	10
U.S. agency securities	2,496	7	2,572	31	5,068	38
Total U.S. government and agency securities	5,307	15	3,522	33	8,829	48
Total HTM securities	5,307	15	3,522	33	8,829	48
<b>Total investment securities</b>	<b>\$ 14,408</b>	<b>\$ 56</b>	<b>\$ 21,855</b>	<b>\$ 225</b>	<b>\$ 36,263</b>	<b>\$ 281</b>

	At December 31, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>\$ in millions</i>						
<b>AFS securities</b>						
U.S. government and agency securities:						
U.S. Treasury securities	\$ 19,937	\$ 541	\$ 5,994	\$ 115	\$ 25,931	\$ 656
U.S. agency securities	12,904	383	4,142	114	17,046	497
Total U.S. government and agency securities	32,841	924	10,136	229	42,977	1,153
Corporate and other debt:						
Agency CMBS	808	62	—	—	808	62
Non-agency CMBS	—	—	446	14	446	14
Corporate bonds	470	7	1,010	25	1,480	32
FFELP student loan ABS	1,366	15	—	—	1,366	15
Total corporate and other debt	2,644	84	1,456	39	4,100	123
Total AFS securities	35,485	1,008	11,592	268	47,077	1,276
<b>HTM securities</b>						
U.S. government and agency securities:						
U.S. Treasury securities	—	—	11,161	403	11,161	403
U.S. agency securities	410	1	10,004	445	10,414	446
Total U.S. government and agency securities	410	1	21,165	848	21,575	849
Corporate and other debt:						
Non-agency CMBS	206	1	216	8	422	9
Total HTM securities	616	2	21,381	856	21,997	858
<b>Total investment securities</b>	<b>\$ 36,101</b>	<b>\$ 1,010</b>	<b>\$ 32,973</b>	<b>\$ 1,124</b>	<b>\$ 69,074</b>	<b>\$ 2,134</b>

**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 2018 Form 10-K. For AFS 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 both AFS and HTM securities, the securities have not experienced credit losses as the 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 and FFELP student loan ABS.

**Investment Securities by Contractual Maturity**

<i>\$ in millions</i>	At September 30, 2019		
	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	\$ 6,278	\$ 6,294	2.1%
After 1 year through 5 years	23,285	23,415	1.8%
After 5 years through 10 years	4,859	4,899	1.7%
<b>Total</b>	<b>34,422</b>	<b>34,608</b>	
U.S. agency securities:			
Due within 1 year	61	61	2.1%
After 1 year through 5 years	644	641	1.1%
After 5 years through 10 years	1,416	1,409	1.8%
After 10 years	19,302	19,472	2.4%
<b>Total</b>	<b>21,423</b>	<b>21,583</b>	
<b>Total U.S. government and agency securities</b>	<b>55,845</b>	<b>56,191</b>	<b>2.0%</b>
Corporate and other debt:			
Agency CMBS:			
After 1 year through 5 years	615	613	1.8%
After 5 years through 10 years	2,942	3,029	2.5%
After 10 years	955	938	2.0%
<b>Total</b>	<b>4,512</b>	<b>4,580</b>	
Corporate bonds:			
Due within 1 year	109	110	2.3%
After 1 year through 5 years	1,498	1,509	2.6%
After 5 years through 10 years	415	413	3.0%
<b>Total</b>	<b>2,022</b>	<b>2,032</b>	

<i>\$ in millions</i>	At September 30, 2019		
	Amortized Cost	Fair Value	Annualized Average Yield
State and municipal securities:			
After 1 year through 5 years	\$ 10	\$ 10	2.2%
After 5 years through 10 years	25	26	2.8%
After 10 Years	217	229	4.4%
<b>Total</b>	<b>252</b>	<b>265</b>	
FFELP student loan ABS:			
After 1 year through 5 years	74	72	0.8%
After 5 years through 10 years	389	382	0.8%
After 10 years	1,197	1,192	1.2%
<b>Total</b>	<b>1,660</b>	<b>1,646</b>	
<b>Total corporate and other debt</b>	<b>8,446</b>	<b>8,523</b>	<b>2.2%</b>
<b>Total AFS securities</b>	<b>64,291</b>	<b>64,714</b>	<b>2.1%</b>
<b>HTM securities</b>			
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	1,742	1,750	2.2%
After 1 year through 5 years	15,514	15,778	2.2%
After 5 years through 10 years	8,722	9,117	2.2%
After 10 years	1,084	1,171	2.5%
<b>Total</b>	<b>27,062</b>	<b>27,816</b>	
U.S. agency securities:			
After 5 years through 10 years	25	25	1.9%
After 10 years	13,356	13,488	2.6%
<b>Total</b>	<b>13,381</b>	<b>13,513</b>	
<b>Total U.S. government and agency securities</b>	<b>40,443</b>	<b>41,329</b>	<b>2.3%</b>
Corporate and other debt:			
Non-agency CMBS:			
Due within 1 year	93	93	4.8%
After 1 year through 5 years	85	85	4.0%
After 5 years through 10 years	374	399	4.1%
After 10 years	81	85	3.7%
<b>Total corporate and other debt</b>	<b>633</b>	<b>662</b>	<b>4.1%</b>
<b>Total HTM securities</b>	<b>41,076</b>	<b>41,991</b>	<b>2.4%</b>
<b>Total investment securities</b>	<b>\$ 105,367</b>	<b>\$ 106,705</b>	<b>2.2%</b>

**Gross Realized Gains (Losses) on Sales of AFS Securities**

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Gross realized gains	\$ 27	\$ 5	\$ 99	\$ 11
Gross realized (losses)	(1)	—	(10)	(3)
<b>Total<sup>1</sup></b>	<b>\$ 26</b>	<b>\$ 5</b>	<b>\$ 89</b>	<b>\$ 8</b>

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



# Notes to Consolidated Financial Statements (Unaudited)

## 6. Collateralized Transactions

### Offsetting of Certain Collateralized Transactions

\$ in millions	At September 30, 2019				
	Gross Amounts	Amounts Offset	Net Amounts Presented	Amounts Not Offset <sup>1</sup>	Net Amounts
<b>Assets</b>					
Securities purchased under agreements to resell	\$263,485	\$(170,118)	\$ 93,367	\$ (91,505)	\$ 1,862
Securities borrowed	142,723	(10,322)	132,401	(126,161)	6,240
<b>Liabilities</b>					
Securities sold under agreements to repurchase	\$229,626	\$(170,164)	\$ 59,462	\$ (42,091)	\$ 17,371
Securities loaned	19,967	(10,276)	9,691	(9,660)	31
<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					\$ 1,390
Securities borrowed					1,578
Securities sold under agreements to repurchase					15,695
Securities loaned					20

\$ in millions	At December 31, 2018				
	Gross Amounts	Amounts Offset	Net Amounts Presented	Amounts Not Offset <sup>1</sup>	Net Amounts
<b>Assets</b>					
Securities purchased under agreements to resell	\$262,976	\$(164,454)	\$ 98,522	\$ (95,610)	\$ 2,912
Securities borrowed	134,711	(18,398)	116,313	(112,551)	3,762
<b>Liabilities</b>					
Securities sold under agreements to repurchase	\$214,213	\$(164,454)	\$ 49,759	\$ (41,095)	\$ 8,664
Securities loaned	30,306	(18,398)	11,908	(11,677)	231
<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					\$ 2,579
Securities borrowed					724
Securities sold under agreements to repurchase					6,762
Securities loaned					191

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 further discussion of the Firm's collateralized transactions, see Note 6 to the financial statements in the 2018 Form 10-K. For information related to offsetting of derivatives, see Note 4.

### Gross Secured Financing Balances by Remaining Contractual Maturity

\$ in millions	At September 30, 2019				
	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days	Total
Securities sold under agreements to repurchase	\$ 78,896	\$ 74,832	\$31,794	\$ 44,104	\$229,626
Securities loaned	9,780	4,540	611	5,036	19,967
Total included in the offsetting disclosure	\$ 88,676	\$ 79,372	\$32,405	\$ 49,140	\$249,593
Trading liabilities—Obligation to return securities received as collateral	21,440	—	—	—	21,440
<b>Total</b>	<b>\$ 110,116</b>	<b>\$ 79,372</b>	<b>\$32,405</b>	<b>\$ 49,140</b>	<b>\$271,033</b>

\$ in millions	At December 31, 2018				
	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days	Total
Securities sold under agreements to repurchase	\$ 56,503	\$ 93,427	\$35,692	\$ 28,591	\$214,213
Securities loaned	18,397	3,609	1,985	6,315	30,306
Total included in the offsetting disclosure	\$ 74,900	\$ 97,036	\$37,677	\$ 34,906	\$244,519
Trading liabilities—Obligation to return securities received as collateral	17,594	—	—	—	17,594
<b>Total</b>	<b>\$ 92,494</b>	<b>\$ 97,036</b>	<b>\$37,677</b>	<b>\$ 34,906</b>	<b>\$262,113</b>

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

\$ in millions	At September 30, 2019		At December 31, 2018	
<b>Securities sold under agreements to repurchase</b>				
U.S. Treasury and agency securities	\$	81,642	\$	68,487
State and municipal securities		1,164		925
Other sovereign government obligations		117,949		120,432
ABS		2,338		3,017
Corporate and other debt		7,718		8,719
Corporate equities		18,279		12,079
Other		536		554
<b>Total</b>	<b>\$</b>	<b>229,626</b>	<b>\$</b>	<b>214,213</b>
<b>Securities loaned</b>				
Other sovereign government obligations	\$	10,667	\$	19,021
Corporate equities		9,242		10,800
Other		58		485
<b>Total</b>	<b>\$</b>	<b>19,967</b>	<b>\$</b>	<b>30,306</b>
Total included in the offsetting disclosure	\$	249,593	\$	244,519
<b>Trading liabilities—Obligation to return securities received as collateral</b>				
Corporate equities	\$	21,432	\$	17,594
Other		8		—
<b>Total</b>	<b>\$</b>	<b>21,440</b>	<b>\$</b>	<b>17,594</b>
<b>Total</b>	<b>\$</b>	<b>271,033</b>	<b>\$</b>	<b>262,113</b>

## Notes to Consolidated Financial Statements (Unaudited)

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

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Trading assets	\$ 38,325	\$ 39,430
Loans (gross of allowance for loan losses)	300	—
<b>Total</b>	<b>\$ 38,625</b>	<b>\$ 39,430</b>

The Firm pledges its trading assets and loans to collateralize securities sold under agreements to repurchase, securities loaned, other secured financings and derivatives and to 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.

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

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Collateral received with right to sell or repledge	\$ 724,356	\$ 639,610
Collateral that was sold or repledged <sup>1</sup>	577,354	487,983

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

### Restricted Cash and Segregated Securities

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Restricted cash	\$ 30,739	\$ 35,356
Segregated securities <sup>1</sup>	24,838	26,877
<b>Total</b>	<b>\$ 55,577</b>	<b>\$ 62,233</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.

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.

### Customer Margin Lending

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Customer receivables representing margin loans	\$ 28,068	\$ 26,225

The Firm provides margin lending arrangements which allow customers to borrow against the value of qualifying securities. Receivables under margin lending arrangements 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 2018 Form 10-K.

The Firm has additional secured liabilities. For a further discussion of other secured financings, see Notes 10 and 12.

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

### Loans by Type

<i>\$ in millions</i>	At September 30, 2019		
	Loans Held for Investment	Loans Held for Sale	Total Loans
Corporate	\$ 45,117	\$ 13,525	\$ 58,642
Consumer	30,010	—	30,010
Residential real estate	29,184	17	29,201
Commercial real estate	6,801	1,165	7,966
Total loans, gross	111,112	14,707	125,819
Allowance for loan losses	(297)	—	(297)
<b>Total loans, net</b>	<b>\$ 110,815</b>	<b>\$ 14,707</b>	<b>\$ 125,522</b>
Fixed rate loans, net		\$	20,233
Floating or adjustable rate loans, net			105,289
Loans to non-U.S. borrowers, net			20,722

<i>\$ in millions</i>	At December 31, 2018		
	Loans Held for Investment	Loans Held for Sale	Total Loans
Corporate	\$ 36,909	\$ 13,886	\$ 50,795
Consumer	27,868	—	27,868
Residential real estate	27,466	22	27,488
Commercial real estate <sup>1</sup>	7,810	1,856	9,666
Total loans, gross	100,053	15,764	115,817
Allowance for loan losses	(238)	—	(238)
<b>Total loans, net</b>	<b>\$ 99,815</b>	<b>\$ 15,764</b>	<b>\$ 115,579</b>
Fixed rate loans, net		\$	15,632
Floating or adjustable rate loans, net			99,947
Loans to non-U.S. borrowers, net			17,568

1. Beginning in 2019, loans previously referred to as Wholesale real estate are referred to as Commercial real estate.

## Notes to Consolidated Financial Statements (Unaudited)

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

At September 30, 2019					
<i>\$ in millions</i>	Corporate	Consumer	Residential Real Estate	Commercial Real Estate	Total
Pass	\$ 44,152	\$ 30,005	\$ 29,051	\$ 6,618	\$ 109,826
Special mention	373	—	27	80	480
Substandard	592	5	106	103	806
Doubtful	—	—	—	—	—
Loss	—	—	—	—	—
<b>Total</b>	<b>\$ 45,117</b>	<b>\$ 30,010</b>	<b>\$ 29,184</b>	<b>\$ 6,801</b>	<b>\$ 111,112</b>

At December 31, 2018					
<i>\$ in millions</i>	Corporate	Consumer	Residential Real Estate	Commercial Real Estate	Total
Pass	\$ 36,217	\$ 27,863	\$ 27,387	\$ 7,378	\$ 98,845
Special mention	492	5	—	312	809
Substandard	200	—	79	120	399
Doubtful	—	—	—	—	—
Loss	—	—	—	—	—
<b>Total</b>	<b>\$ 36,909</b>	<b>\$ 27,868</b>	<b>\$ 27,466</b>	<b>\$ 7,810</b>	<b>\$ 100,053</b>

### Impaired Loans and Lending Commitments before Allowance

At September 30, 2019				
<i>\$ in millions</i>	Corporate	Consumer	Residential Real Estate	Total
<b>Loans</b>				
With allowance	\$ 232	\$ —	\$ —	\$ 232
Without allowance <sup>1</sup>	28	5	92	125
<b>Total impaired loans</b>	<b>\$ 260</b>	<b>\$ 5</b>	<b>\$ 92</b>	<b>\$ 357</b>
UPB	267	5	94	366
<b>Lending commitments</b>				
With allowance	\$ 5	\$ —	\$ —	\$ 5
Without allowance <sup>1</sup>	37	—	—	37
<b>Total impaired lending commitments</b>	<b>\$ 42</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 42</b>

At December 31, 2018				
<i>\$ in millions</i>	Corporate	Consumer	Residential Real Estate	Total
<b>Loans</b>				
With allowance	\$ 24	\$ —	\$ —	\$ 24
Without allowance <sup>1</sup>	32	—	69	101
<b>Total impaired loans</b>	<b>\$ 56</b>	<b>\$ —</b>	<b>\$ 69</b>	<b>\$ 125</b>
UPB	63	—	70	133
<b>Lending commitments</b>				
With allowance	\$ 19	\$ —	\$ —	\$ 19
Without allowance <sup>1</sup>	34	—	—	34
<b>Total impaired lending commitments</b>	<b>\$ 53</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 53</b>

1. No allowance was recorded for these loans and lending commitments as the present value of the expected future cash flows or value of the collateral 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

At September 30, 2019				
<i>\$ in millions</i>	Americas	EMEA	Asia	Total
Impaired loans	\$ 357	\$ —	\$ —	\$ 357
Total Allowance for loan losses	227	64	6	297

At December 31, 2018				
<i>\$ in millions</i>	Americas	EMEA	Asia	Total
Impaired loans	\$ 125	\$ —	\$ —	\$ 125
Total Allowance for loan losses	193	42	3	238

### Troubled Debt Restructurings

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Loans	\$ 46	\$ 38
Lending commitments	49	45
Allowance for loan losses and lending commitments	5	4

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

### Allowance for Loan Losses Rollforward

<i>\$ in millions</i>	Corporate	Consumer	Residential Real Estate	Commercial Real Estate	Total
December 31, 2018	\$ 144	\$ 7	\$ 20	\$ 67	\$ 238
Gross charge-offs	—	—	(1)	—	(1)
Provision (release) <sup>1</sup>	69	—	5	(6)	68
Other	(7)	—	—	(1)	(8)
<b>September 30, 2019</b>	<b>\$ 206</b>	<b>\$ 7</b>	<b>\$ 24</b>	<b>\$ 60</b>	<b>\$ 297</b>
Inherent	\$ 188	\$ 7	\$ 24	\$ 60	\$ 279
Specific	18	—	—	—	18

## Notes to Consolidated Financial Statements (Unaudited)

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

- The Firm recorded a provision for loan losses of \$34 million in the current quarter and \$1 million in the prior year quarter.
- The prior year period release was primarily due to the recovery of a previously charged off energy industry related loan.

### Allowance for Lending Commitments Rollforward

<i>\$ in millions</i>	Corporate	Consumer	Residential Real Estate	Commercial Real Estate	Total
December 31, 2018	\$ 198	\$ 2	\$ —	\$ 3	\$203
Provision (release) <sup>1</sup>	34	—	—	2	36
Other	(4)	(1)	—	—	(5)
September 30, 2019	\$ 228	\$ 1	\$ —	\$ 5	\$234
Inherent	\$ 224	\$ 1	\$ —	\$ 5	\$230
Specific	4	—	—	—	4

<i>\$ in millions</i>	Corporate	Consumer	Residential Real Estate	Commercial Real Estate	Total
December 31, 2017	\$ 194	\$ 1	\$ —	\$ 3	\$198
Provision (release) <sup>1</sup>	5	—	—	1	6
Other	(2)	—	—	(1)	(3)
September 30, 2018	\$ 197	\$ 1	\$ —	\$ 3	\$201
Inherent	\$ 190	\$ 1	\$ —	\$ 3	\$194
Specific	7	—	—	—	7

- The Firm recorded a provision for lending commitments of \$16 million in the current quarter and \$1 million in the prior year quarter.

For a further discussion of the Firm's loans, including loan types and categories, as well as the Firm's allowance methodology, refer to Notes 2 and 7 to the financial statements in the 2018 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.

### Employee Loans

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Balance	\$ 2,990	\$ 3,415
Allowance for loan losses	(61)	(63)
Balance, net	\$ 2,929	\$ 3,352
Remaining repayment term, weighted average in years	4.7	4.3

Employee loans are granted in conjunction with a program established primarily to recruit certain Wealth Management representatives, 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

### Equity Method Investment Balances

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Investments	\$ 2,391	\$ 2,432

<i>\$ in millions</i>	Three Months Ended September 30, 2019	2018	Nine Months Ended September 30, 2019	2018
Income (loss)	\$ (13)	\$ 8	\$ (39)	\$ 62

Equity method investments, other than investments in certain fund interests, are summarized above and are included in Other assets in the balance sheets with related income or loss included in Other revenues in the income statements. See "Net Asset Value Measurements—Fund Interests" 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 carried interest.

### Japanese Securities Joint Venture

<i>\$ in millions</i>	Three Months Ended September 30, 2019	2018	Nine Months Ended September 30, 2019	2018
Income (loss) from investment in MUMSS	\$ (4)	\$ 17	\$ 5	\$ 99

The Firm and Mitsubishi UFJ Financial Group, Inc. ("MUFG") formed a joint venture in Japan comprising their respective investment banking and securities businesses by forming two joint venture companies, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("MUMSS") and Morgan Stanley MUFG Securities Co., Ltd. ("MSMS") (the "Joint Venture"). The Firm

## Notes to Consolidated Financial Statements (Unaudited)

owns a 40% economic interest in the Joint Venture and MUFG owns the other 60%.

The Firm's 40% voting interest in MUMSS is accounted for under the equity method within the Institutional Securities business segment, and is included in the equity method investment balances above. The Firm consolidates MSMS into the Institutional Securities business segment, based on its 51% voting interest.

The Firm engages in transactions in the ordinary course of business with MUFG and its affiliates, for example investment banking, financial advisory, sales and trading, derivatives, investment management, lending, securitization and other financial services transactions. Such transactions are on substantially the same terms as those that would be available to unrelated third parties for comparable transactions.

### 9. Deposits

#### Deposits

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Savings and demand deposits	\$ 141,344	\$ 154,897
Time deposits	39,394	32,923
<b>Total</b>	<b>\$ 180,738</b>	<b>\$ 187,820</b>
Deposits subject to FDIC insurance	\$ 143,697	\$ 144,515
Time deposits that equal or exceed the FDIC insurance limit	\$ 18	\$ 11

#### Time Deposit Maturities

<i>\$ in millions</i>	At September 30, 2019
2019	\$ 5,394
2020	18,091
2021	8,274
2022	2,783
2023	2,704
Thereafter	2,148
<b>Total</b>	<b>\$ 39,394</b>

### 10. Borrowings and Other Secured Financings

#### Borrowings

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Original maturities of one year or less	\$ 1,297	\$ 1,545
<b>Original maturities greater than one year</b>		
Senior	\$ 181,668	\$ 178,027
Subordinated	10,694	10,090
<b>Total</b>	<b>\$ 192,362</b>	<b>\$ 188,117</b>
<b>Total borrowings</b>	<b>\$ 193,659</b>	<b>\$ 189,662</b>
Weighted average stated maturity, in years <sup>1</sup>	6.9	6.5

1. Only includes borrowings with original maturities greater than one year.

#### Other Secured Financings

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Original maturities:		
Greater than one year	\$ 4,476	\$ 6,772
One year or less	4,089	2,036
Failed sales	1,271	658
<b>Total</b>	<b>\$ 9,836</b>	<b>\$ 9,466</b>

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.

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.

# Notes to Consolidated Financial Statements (Unaudited)

## 11. Commitments, Leases, Guarantees and Contingencies

### Commitments

\$ in millions	Years to Maturity at September 30, 2019					Total
	Less than 1	1-3	3-5	Over 5		
Lending:						
Corporate	\$ 23,252	\$33,207	\$48,734	\$ 5,447		\$110,640
Consumer	7,769	6	12	—		7,787
Residential and commercial real estate	380	1,148	75	277		1,880
Forward-starting secured financing receivables	75,785	635	—	11,612		88,032
Underwriting	561	—	—	—		561
Investment activities	508	131	50	250		939
Letters of credit and other financial guarantees	189	2	—	2		193
<b>Total</b>	<b>\$108,444</b>	<b>\$35,129</b>	<b>\$48,871</b>	<b>\$17,588</b>		<b>\$210,032</b>
Corporate lending commitments participated to third parties						\$ 7,867
Forward-starting secured financing receivables settled within three business days						\$ 60,893

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 2018 Form 10-K.

### Leases

#### Balance Sheet Amounts Related to Leases

\$ in millions	At September 30, 2019
Other assets—ROU assets	\$ 3,825
Other liabilities and accrued expenses—	
Lease liabilities	4,535
Weighted average:	
Remaining lease term, in years	9.6
Discount rate	3.7%

### Lease Liabilities

\$ in millions	At September 30, 2019
Remainder of 2019	\$ 185
2020	719
2021	659
2022	606
2023	554
Thereafter	2,817
<b>Total undiscounted cash flows</b>	<b>\$ 5,540</b>
Imputed interest	(1,005)
<b>Amount on balance sheet</b>	<b>\$ 4,535</b>

### Lease Costs

\$ in millions	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Fixed costs	\$ 173	\$ 499
Variable costs <sup>1</sup>	33	115
Less: Sublease income	(1)	(3)
<b>Total lease cost, net</b>	<b>\$ 205</b>	<b>\$ 611</b>

1. Includes common area maintenance charges and other variable costs not included in the measurement of ROU assets and lease liabilities.

### Cash Flows Statement Supplemental Information

\$ in millions	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Cash outflows—		
Lease liabilities	\$ 177	\$ 509
Non-cash—ROU assets recorded for new and modified leases	104	215

### Minimum Future Lease Commitments (under Previous GAAP)

\$ in millions	At December 31, 2018
2019	\$ 677
2020	657
2021	602
2022	555
2023	507
Thereafter	2,639
<b>Total undiscounted cash flows</b>	<b>\$ 5,637</b>
Minimum rental income to be received in the future under non-cancelable operating subleases	\$ 7

The Firm's leases are principally non-cancelable operating real estate leases.

## Notes to Consolidated Financial Statements (Unaudited)

### Guarantees

#### Obligations under Guarantee Arrangements at September 30, 2019

\$ in millions	Maximum Potential Payout/Notional				
	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Credit derivatives	\$ 33,594	\$ 40,198	\$ 96,188	\$ 59,432	\$ 229,412
Other credit contracts	—	—	—	116	116
Non-credit derivatives	1,715,003	1,467,985	434,155	673,378	4,290,521
Standby letters of credit and other financial guarantees issued <sup>1</sup>	1,018	886	1,410	4,217	7,531
Market value guarantees	85	89	1	—	175
Liquidity facilities	4,545	—	—	—	4,545
Whole loan sales guarantees	—	—	—	23,196	23,196
Securitization representations and warranties	—	—	—	66,530	66,530
General partner guarantees	65	127	12	71	275
Client clearing guarantees	9,746	—	—	—	9,746

\$ in millions	Carrying Amount Asset (Liability)	Collateral/Recourse
Credit derivatives <sup>2</sup>	\$ 789	\$ —
Other credit contracts	(18)	—
Non-credit derivatives <sup>2</sup>	(76,165)	—
Standby letters of credit and other financial guarantees issued <sup>1</sup>	224	6,488
Market value guarantees	—	72
Liquidity facilities	6	7,925
Whole loan sales guarantees	—	—
Securitization representations and warranties <sup>3</sup>	(42)	—
General partner guarantees	(44)	—
Client clearing guarantees	—	9,745

- 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.
- The carrying amounts of derivative contracts that meet the accounting definition of a guarantee are shown on a gross basis. Therefore the collateral or recourse available to the firm in the form of cash collateral and counterparty netting is not reflected in the Collateral/Recourse amounts above. For further information on derivative contracts, including the effects of cash collateral and counterparty netting, see Note 4.
- Primarily related to residential mortgage securitizations.

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 2018 Form 10-K, except for Clearing member guarantees, which are described below.

*Client Clearing Guarantees.* In the second quarter of 2019, the Firm became a sponsoring member of the Government Securities Division of the FICC's Sponsored Clearing Model. Clients of the Firm, as sponsored members, can transact in overnight securities repurchase and resale agreements, which are cleared through FICC. As sponsoring member, the Firm guarantees to FICC the prompt and full payment and performance of its clients' obligations. The amount included in the previous table represents the maximum potential payout the Firm could be responsible for through the guarantee it provides. The Firm minimizes credit exposure under this guarantee by obtaining a security interest in its sponsored member clients' collateral and their contractual rights under sponsored member transactions. Therefore, the Firm's exposure is estimated to be an amount substantially lower than the maximum potential payout amount.

#### 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 and clearinghouse member guarantees and merger and acquisition guarantees are described in Note 12 to the financial statements in the 2018 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.

## Notes to Consolidated Financial Statements (Unaudited)

### 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.

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 December 21, 2018, the court denied the Firm's motion for summary judgment and granted in part the Firm's motion for sanctions relating to spoliation of evidence. On January 24, 2019, CDIB filed a notice of appeal from the court's December 21, 2018 order, and on January 25, 2019, the Firm filed a notice of appeal from the same order. On March 7, 2019, the court denied the relief that CDIB sought in a motion to clarify and resettle the portion of the court's December 21, 2018 order granting spoliation sanctions. 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



## Notes to Consolidated Financial Statements (Unaudited)

procedures in the transaction documents, unspecified damages and interest. On November 24, 2014, the court granted in part and denied in part the Firm's motion to dismiss the complaint. On April 4, 2019, the court denied the Firm's 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.

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 December 20, 2018, the Appellate Division denied plaintiff's motion for leave to appeal the decision of the Appellate Division, First Department, to the New York Court of Appeals ("Court of Appeals") or, in the alternative, for re-argument. 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 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 Court of Appeals in another case. On January 17, 2019, the First Department reversed the trial court's order to the extent that it had granted in part the Firm's motion to dismiss the complaint. On June 4, 2019, the Appellate Division, First Department, granted Morgan Stanley's motion for leave to appeal to the Court of Appeals. 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") has challenged, in the District Court in Amsterdam, the prior set-off by the Firm of approximately €124 million (approximately \$135 million) plus accrued interest of withholding tax credits

## Notes to Consolidated Financial Statements (Unaudited)

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 4, 2018, the Dutch Authority filed an appeal before the Court of Appeal in Amsterdam in matters re-styled *Case number 18/00318* and *Case number 18/00319*. On June 26 and July 2, 2019, a hearing of the Dutch Authority's appeal was held in the matters styled *Case number 15/3637* and *Case number 15/4353*. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately €124 million (approximately \$135 million) plus accrued interest.

## 12. Variable Interest Entities and Securitization Activities

### Consolidated VIEs

#### Assets and Liabilities by Type of Activity

\$ in millions	At September 30, 2019		At December 31, 2018	
	VIE Assets	VIE Liabilities	VIE Assets	VIE Liabilities
OSF	\$ 281	\$ —	\$ 267	\$ —
MABS <sup>1</sup>	13	4	59	38
Other <sup>2</sup>	879	69	809	48
<b>Total</b>	<b>\$ 1,173</b>	<b>\$ 73</b>	<b>\$ 1,135</b>	<b>\$ 86</b>

OSF—Other structured financings

- 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.
- Other primarily includes certain operating entities, investment funds and structured transactions.

#### Assets and Liabilities by Balance Sheet Caption

\$ in millions	At September 30, 2019	At December 31, 2018
<b>Assets</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 104	\$ 77
Restricted cash	173	171
Trading assets at fair value	374	314
Customer and other receivables	10	25
Goodwill	—	18
Intangible assets	114	128
Other assets	398	402
<b>Total</b>	<b>\$ 1,173</b>	<b>\$ 1,135</b>
<b>Liabilities</b>		
Other secured financings	\$ 32	\$ 64
Other liabilities and accrued expenses	41	22
<b>Total</b>	<b>\$ 73</b>	<b>\$ 86</b>
Noncontrolling interests	\$ 160	\$ 106

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.

# Notes to Consolidated Financial Statements (Unaudited)

## Non-consolidated VIEs

\$ in millions	At September 30, 2019				
	MABS <sup>1</sup>	CDO	MTOB	OSF	Other <sup>2</sup>
VIE assets (UPB)	\$ 115,498	\$ 1,475	\$ 7,011	\$ 2,298	\$ 42,383
<b>Maximum exposure to loss<sup>3</sup></b>					
Debt and equity interests	\$ 15,538	\$ 157	\$ 62	\$ 965	\$ 10,393
Derivative and other contracts	—	—	4,545	—	2,979
Commitments, guarantees and other	660	—	—	—	783
<b>Total</b>	<b>\$ 16,198</b>	<b>\$ 157</b>	<b>\$ 4,607</b>	<b>\$ 965</b>	<b>\$ 14,155</b>
<b>Carrying value of variable interests—Assets</b>					
Debt and equity interests	\$ 15,538	\$ 157	\$ 62	\$ 964	\$ 10,393
Derivative and other contracts	—	—	6	—	208
<b>Total</b>	<b>\$ 15,538</b>	<b>\$ 157</b>	<b>\$ 68</b>	<b>\$ 964</b>	<b>\$ 10,601</b>
Additional VIE assets owned <sup>4</sup>					\$ 11,192
<b>Carrying value of variable interests—Liabilities</b>					
Derivative and other contracts	\$ —	\$ —	\$ —	\$ —	\$ 211

\$ in millions	At December 31, 2018 <sup>5</sup>				
	MABS <sup>1</sup>	CDO	MTOB	OSF	Other <sup>2</sup>
VIE assets (UPB)	\$ 106,197	\$ 10,848	\$ 7,014	\$ 3,314	\$ 38,603
<b>Maximum exposure to loss<sup>3</sup></b>					
Debt and equity interests	\$ 15,671	\$ 1,169	\$ —	\$ 1,622	\$ 7,967
Derivative and other contracts	—	—	4,449	—	1,768
Commitments, guarantees and other	1,073	3	—	235	509
<b>Total</b>	<b>\$ 16,744</b>	<b>\$ 1,172</b>	<b>\$ 4,449</b>	<b>\$ 1,857</b>	<b>\$ 10,244</b>
<b>Carrying value of variable interests—Assets</b>					
Debt and equity interests	\$ 15,671	\$ 1,169	\$ —	\$ 1,205	\$ 7,967
Derivative and other contracts	—	—	6	—	87
<b>Total</b>	<b>\$ 15,671</b>	<b>\$ 1,169</b>	<b>\$ 6</b>	<b>\$ 1,205</b>	<b>\$ 8,054</b>
Additional VIE assets owned <sup>4</sup>					\$ 12,059
<b>Carrying value of variable interests—Liabilities</b>					
Derivative and other contracts	\$ —	\$ —	\$ —	\$ —	\$ 185

MTOB—Municipal tender option bonds

- MABS includes loan- and security-form interests collateralized by pools of residential and commercial mortgages.
- Other primarily includes exposures to commercial real estate property and investment funds.
- 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.
- 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. The Firm's primary risk exposure is to the most subordinate class of beneficial interest and maximum exposure to loss generally equals the fair value of the assets owned. These assets are primarily included in Trading assets and Investment securities and are measured at fair value (see Note 3). The Firm does not provide additional support in these transactions through contractual facilities, guarantees or similar derivatives.
- The carrying value and maximum exposure to loss of variable interests related to MABS and Other have been revised to reflect the addition of approximately \$11 billion in loans to VIEs that were previously excluded. The VIE asset (UPB) amounts have also been revised by approximately \$54 billion. This disclosure-only revision did not impact the Firm's balance sheets.

The majority of the VIEs included in the previous tables are sponsored by unrelated parties; examples of the Firm's involvement with these VIEs include its secondary market-making activities and the securities held in its Investment securities portfolio (see Note 5).

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

The Firm's maximum exposure to loss in the previous tables does not include the offsetting benefit of hedges or 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.

## Mortgage- and Asset-Backed Securitization Assets

\$ in millions	At September 30, 2019		At December 31, 2018 <sup>1</sup>	
	UPB	Debt and Equity Interests	UPB	Debt and Equity Interests
Residential mortgages	\$ 28,005	\$ 4,144	\$ 27,594	\$ 4,581
Commercial mortgages	49,354	3,969	55,501	4,327
U.S. agency collateralized mortgage obligations	31,997	5,341	14,969	3,443
Other consumer or commercial loans	6,142	2,084	8,133	3,320
<b>Total</b>	<b>\$ 115,498</b>	<b>\$ 15,538</b>	<b>\$ 106,197</b>	<b>\$ 15,671</b>

1. The balances as of December 31, 2018 were revised as noted in the Non-consolidated VIEs table herein.

## Transfers of Assets with Continuing Involvement

\$ in millions	At September 30, 2019 <sup>1</sup>			
	RML	CML	U.S. Agency CMO	CLN and Other <sup>2</sup>
SPE assets (UPB) <sup>3</sup>	\$ 12,726	\$ 77,431	\$ 14,841	\$ 6,637
<b>Retained interests</b>				
Investment grade	\$ 27	\$ 620	\$ 1,463	\$ 1
Non-investment grade	18	199	—	89
<b>Total</b>	<b>\$ 45</b>	<b>\$ 819</b>	<b>\$ 1,463</b>	<b>\$ 90</b>
<b>Interests purchased in the secondary market (fair value)</b>				
Investment grade	\$ 7	\$ 244	\$ 15	\$ 5
Non-investment grade	35	22	—	—
<b>Total</b>	<b>\$ 42</b>	<b>\$ 266</b>	<b>\$ 15</b>	<b>\$ 5</b>
Derivative assets (fair value)	\$ —	\$ —	\$ —	\$ 201
Derivative liabilities (fair value)	—	—	—	69

# Notes to Consolidated Financial Statements (Unaudited)

\$ in millions	At December 31, 2018			
	RML	CML	U.S. Agency CMO	CLN and Other <sup>2</sup>
SPE assets (UPB) <sup>3</sup>	\$ 14,376	\$ 68,593	\$ 16,594	\$ 14,608
<b>Retained interests</b>				
Investment grade	\$ 17	\$ 483	\$ 1,573	\$ 3
Non-investment grade (fair value)	4	212	—	210
<b>Total</b>	<b>\$ 21</b>	<b>\$ 695</b>	<b>\$ 1,573</b>	<b>\$ 213</b>
<b>Interests purchased in the secondary market (fair value)</b>				
Investment grade	\$ 7	\$ 91	\$ 102	\$ —
Non-investment grade	28	71	—	—
<b>Total</b>	<b>\$ 35</b>	<b>\$ 162</b>	<b>\$ 102</b>	<b>\$ —</b>
Derivative assets (fair value)	\$ —	\$ —	\$ —	\$ 216
Derivative liabilities (fair value)	—	—	—	178

\$ in millions	Fair Value At September 30, 2019		
	Level 2	Level 3	Total
<b>Retained interests</b>			
Investment grade	\$ 1,475	\$ 17	\$ 1,492
Non-investment grade	11	107	118
<b>Total</b>	<b>\$ 1,486</b>	<b>\$ 124</b>	<b>\$ 1,610</b>
<b>Interests purchased in the secondary market</b>			
Investment grade	\$ 268	\$ 3	\$ 271
Non-investment grade	37	20	57
<b>Total</b>	<b>\$ 305</b>	<b>\$ 23</b>	<b>\$ 328</b>
Derivative assets	\$ 163	\$ 38	\$ 201
Derivative liabilities	65	4	69

\$ in millions	Fair Value At December 31, 2018		
	Level 2	Level 3	Total
<b>Retained interests</b>			
Investment grade	\$ 1,580	\$ 13	\$ 1,593
Non-investment grade	174	252	426
<b>Total</b>	<b>\$ 1,754</b>	<b>\$ 265</b>	<b>\$ 2,019</b>
<b>Interests purchased in the secondary market</b>			
Investment grade	\$ 193	\$ 7	\$ 200
Non-investment grade	83	16	99
<b>Total</b>	<b>\$ 276</b>	<b>\$ 23</b>	<b>\$ 299</b>
Derivative assets	\$ 121	\$ 95	\$ 216
Derivative liabilities	175	3	178

RML—Residential mortgage loans

CML—Commercial mortgage loans

1. As permitted by applicable guidance, certain transfers of assets where the Firm's only continuing involvement is a derivative are only reported in the following Assets Sold with Retained Exposure table, and are no longer also included in this table. At December 31, 2018 these transactions were included in CLN and Other and comprised approximately \$8 billion in UPB, \$20 million in Derivative assets and \$119 million in Derivative liabilities.

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

3. Amounts include assets transferred by unrelated transferors.

The transfers of assets with continuing involvement 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

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
New transactions <sup>1</sup>	\$ 8,651	\$ 7,299	\$ 20,897	\$ 19,056
Retained interests	902	584	4,424	2,222
Sales of corporate loans to CLO SPEs <sup>2</sup>	—	17	—	253

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

\$ in millions	At September 30, 2019	At December 31, 2018
Gross cash proceeds from sale of assets <sup>1</sup>	\$ 35,328	\$ 27,121
<b>Fair value</b>		
Assets sold	\$ 35,600	\$ 26,524
Derivative assets recognized in the balance sheets	534	164
Derivative liabilities recognized in the balance sheets	250	763

1. The carrying value of assets derecognized at the time of sale approximates gross cash proceeds.

The Firm enters into transactions in which it sells securities, primarily equities and contemporaneously enters into bilateral OTC derivatives with the purchasers of the securities, through which it retains exposure to the sold securities.

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 2018 Form 10-K.

## 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 2018 Form 10-K.

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

Minimum risk-based capital ratio requirements apply to Common Equity Tier 1 capital, Tier 1 capital and Total capital (which includes Tier 2 capital). Capital standards require certain adjustments to, and deductions from, capital for purposes of determining these ratios.

In addition to the minimum risk-based capital ratio requirements, the Firm is subject to the following buffers in 2019:

- 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 these buffers was 75% of the fully phased-in 2019 requirement noted above. 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.

## The Firm's Regulatory Capital and Capital Ratios

\$ in millions	At September 30, 2019		
	Required Ratio <sup>1</sup>	Amount	Ratio
<b>Risk-based capital</b>			
Common Equity Tier 1 capital	10.0%	\$ 64,348	16.3%
Tier 1 capital	11.5%	72,937	18.5%
Total capital	13.5%	82,661	20.9%
Total RWA		394,875	
<b>Leverage-based capital</b>			
Tier 1 leverage	4.0%	\$ 72,937	8.2%
Adjusted average assets <sup>2</sup>		892,912	
SLR	5.0%	72,937	6.3%
Supplementary leverage exposure <sup>3</sup>		1,155,497	

At December 31, 2018

\$ in millions	Required Ratio <sup>1</sup>	Amount	Ratio
<b>Risk-based capital</b>			
Common Equity Tier 1 capital	8.6%	\$ 62,086	16.9%
Tier 1 capital	10.1%	70,619	19.2%
Total capital	12.1%	80,052	21.8%
Total RWA		367,309	
<b>Leverage-based capital</b>			
Tier 1 leverage	4.0%	\$ 70,619	8.4%
Adjusted average assets <sup>2</sup>		843,074	
SLR	5.0%	70,619	6.5%
Supplementary leverage exposure <sup>3</sup>		1,092,672	

1. Required ratios are inclusive of any buffers applicable as of the date presented. For 2018, the minimum required regulatory capital ratios for risk-based capital 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 during the quarters ended September 30, 2019 and December 31, 2018, reduced by disallowed goodwill, intangible assets, investments in covered funds, defined benefit pension plan assets, after-tax gain on sale from assets sold into securitizations, investments in the Firm's own capital instruments, certain deferred tax assets and other capital deductions.
3. Supplementary leverage exposure is the sum of Adjusted average assets used in the Tier 1 leverage ratio and other adjustments, primarily (i) for derivatives: potential future exposure 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.

At September 30, 2019 and December 31, 2018, 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 the Firm's U.S. Bank Subsidiaries and evaluates their compliance with such capital requirements. Regulatory capital requirements for the 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 the 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 the Firm to remain an FHC, the U.S. Bank Subsidiaries must remain well-capitalized in accordance with the OCC's PCA standards. In addition, failure by the 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.

## Notes to Consolidated Financial Statements (Unaudited)

At September 30, 2019 and December 31, 2018, the U.S. Bank Subsidiaries' risk-based capital ratios are based on the Standardized Approach rules, and in each period, the ratios exceeded well-capitalized requirements.

### MSBNA's Regulatory Capital

At September 30, 2019			
<i>\$ in millions</i>	Required Ratio <sup>1</sup>	Amount	Ratio
<b>Risk-based capital</b>			
Common Equity Tier 1 capital	6.5%	\$ 16,641	19.9%
Tier 1 capital	8.0%	16,641	19.9%
Total capital	10.0%	16,953	20.3%
<b>Leverage-based capital</b>			
Tier 1 leverage	5.0%	\$ 16,641	11.9%
SLR	6.0%	16,641	9.2%

At December 31, 2018			
<i>\$ in millions</i>	Required Ratio <sup>1</sup>	Amount	Ratio
<b>Risk-based capital</b>			
Common Equity Tier 1 capital	6.5%	\$ 15,221	19.5%
Tier 1 capital	8.0%	15,221	19.5%
Total capital	10.0%	15,484	19.8%
<b>Leverage-based capital</b>			
Tier 1 leverage	5.0%	\$ 15,221	10.5%
SLR	6.0%	15,221	8.2%

### MSPBNA's Regulatory Capital

At September 30, 2019			
<i>\$ in millions</i>	Required Ratio <sup>1</sup>	Amount	Ratio
<b>Risk-based capital</b>			
Common Equity Tier 1 capital	6.5%	\$ 8,281	27.3%
Tier 1 capital	8.0%	8,281	27.3%
Total capital	10.0%	8,331	27.5%
<b>Leverage-based capital</b>			
Tier 1 leverage	5.0%	\$ 8,281	10.8%
SLR	6.0%	8,281	10.3%

At December 31, 2018			
<i>\$ in millions</i>	Required Ratio <sup>1</sup>	Amount	Ratio
<b>Risk-based capital</b>			
Common Equity Tier 1 capital	6.5%	\$ 7,183	25.2%
Tier 1 capital	8.0%	7,183	25.2%
Total capital	10.0%	7,229	25.4%
<b>Leverage-based capital</b>			
Tier 1 leverage	5.0%	\$ 7,183	10.0%
SLR	6.0%	7,183	9.6%

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

## U.S. Broker-Dealer Regulatory Capital Requirements

### MS&Co. Regulatory Capital

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Net capital	\$ 13,358	\$ 13,797
Excess net capital	10,453	11,333

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, 2019 and December 31, 2018, 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, 2019	At December 31, 2018
Net capital	\$ 3,772	\$ 3,455
Excess net capital	3,634	3,313

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.

# Notes to Consolidated Financial Statements (Unaudited)

## 14. Total Equity

### Share Repurchases

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Repurchases of common stock under our Share Repurchase Program	\$ 1,500	\$ 1,180	\$ 3,860	\$ 3,680

The Firm's 2019 Capital Plan ("Capital Plan") includes the share repurchase of up to \$6.0 billion of outstanding common stock for the period beginning July 1, 2019 through June 30, 2020. Additionally, the Capital Plan includes quarterly common stock dividends of up to \$0.35 per share, beginning with the common stock dividend announced on July 18, 2019. For information about the Firm's 2018 Capital Plan, see Note 15 to the financial statements in the 2018 Form 10-K.

A portion of common stock repurchases was conducted under a sales plan with MUFG, whereby MUFG sold 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 has no impact on the strategic alliance between MUFG and the Firm, including the joint ventures in Japan.

### Common Stock Dividends Per Share

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Dividends declared per common share	\$ 0.35	\$ 0.30	\$ 0.95	\$ 0.80

### Preferred Stock

\$ in millions, except per share data	Shares Outstanding		Carrying Value	
	At September 30, 2019	Liquidation Preference per Share	At September 30, 2019	At December 31, 2018
<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>			\$ 8,520	\$ 8,520
Shares authorized				30,000,000

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.

For a description of Series A through Series K preferred stock issuances, see Note 15 to the financial statements in the 2018 Form 10-K. Preferred stock has a preference over 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 Dividends

\$ in millions, except per share data	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
	Per Share <sup>1</sup>	Total	Per Share <sup>1</sup>	Total
<b>Series</b>				
A	\$ 256	\$ 11	\$ 256	\$ 11
C	25	13	25	13
E	445	15	445	15
F	430	15	430	15
G	414	8	414	8
H	378	20	—	—
I	398	16	398	16
J	—	—	—	—
K	366	15	366	15
<b>Total</b>		\$ 113		\$ 93

# Notes to Consolidated Financial Statements (Unaudited)

\$ in millions, except per share data	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
	Per Share <sup>1</sup>	Total	Per Share <sup>1</sup>	Total
<b>Series</b>				
A	\$ 758	\$ 33	\$ 758	\$ 33
C	75	39	75	39
E	1,336	45	1,336	45
F	1,289	45	1,289	45
G	1,242	24	1,242	24
H	1,059	55	681	35
I	1,195	48	1,195	48
J	694	42	694	42
K	1,097	45	1,097	45
<b>Total</b>	<b>\$ 376</b>		<b>\$ 356</b>	

1. Dividends on preferred stock are payable quarterly, except for Series H, which was payable semiannually until July 15, 2019 and is now payable quarterly, and Series J, which is payable semiannually until July 15, 2020, and quarterly thereafter.

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

\$ in millions	Foreign Currency Translation Adjustments	AFS Securities	Pension, Postretirement and Other	DVA	Total
OCI during the period	(96)	214	3	332	453
<b>September 30, 2019</b>	<b>\$ (961)</b>	<b>\$ 322</b>	<b>\$ (571)</b>	<b>\$ (388)</b>	<b>\$ (1,598)</b>
June 30, 2018	\$ (864)	\$ (1,194)	\$ (704)	\$ (308)	\$ (3,070)
OCI during the period	(54)	(171)	5	(709)	(929)
September 30, 2018	\$ (918)	\$ (1,365)	\$ (699)	\$ (1,017)	\$ (3,999)
December 31, 2018	\$ (889)	\$ (930)	\$ (578)	\$ 105	\$ (2,292)
OCI during the period	(72)	1,252	7	(493)	694
<b>September 30, 2019</b>	<b>\$ (961)</b>	<b>\$ 322</b>	<b>\$ (571)</b>	<b>\$ (388)</b>	<b>\$ (1,598)</b>
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)
September 30, 2018	\$ (918)	\$ (1,365)	\$ (699)	\$ (1,017)	\$ (3,999)

1. Amounts are net of tax and exclude 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 the corporate income tax rate to 21%. See Note 2 for further information.

## Components of Period Changes in OCI

\$ in millions	Three Months Ended September 30, 2019				
	Pre-tax Gain (Loss)	Income Tax Benefit (Provision)	After-tax Gain (Loss)	Non-controlling Interests	Net
<b>Foreign currency translation adjustments</b>					
OCI activity	\$ (26)	\$ (73)	\$ (99)	\$ (3)	\$ (96)
Reclassified to earnings	—	—	—	—	—
<b>Net OCI</b>	<b>\$ (26)</b>	<b>\$ (73)</b>	<b>\$ (99)</b>	<b>\$ (3)</b>	<b>\$ (96)</b>
<b>Change in net unrealized gains (losses) on AFS securities</b>					
OCI activity	\$ 307	\$ (73)	\$ 234	—	\$ 234
Reclassified to earnings	(26)	6	(20)	—	(20)
<b>Net OCI</b>	<b>\$ 281</b>	<b>\$ (67)</b>	<b>\$ 214</b>	<b>—</b>	<b>\$ 214</b>
<b>Pension, postretirement and other</b>					
OCI activity	\$ —	\$ —	\$ —	\$ —	\$ —
Reclassified to earnings	4	(1)	3	—	3
<b>Net OCI</b>	<b>\$ 4</b>	<b>\$ (1)</b>	<b>\$ 3</b>	<b>—</b>	<b>\$ 3</b>
<b>Change in net DVA</b>					
OCI activity	\$ 441	\$ (106)	\$ 335	\$ 5	\$ 330
Reclassified to earnings	2	—	2	—	2
<b>Net OCI</b>	<b>\$ 443</b>	<b>\$ (106)</b>	<b>\$ 337</b>	<b>\$ 5</b>	<b>\$ 332</b>
<b>Three Months Ended September 30, 2018</b>					
\$ in millions	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>



# Notes to Consolidated Financial Statements (Unaudited)

\$ in millions	Nine Months Ended September 30, 2019 <sup>1</sup>					Net
	Pre-tax Gain (Loss)	Income Tax Benefit (Provision)	After-tax Gain (Loss)	Non- controlling Interests		
<b>Foreign currency translation adjustments</b>						
OCI activity	\$ 2	\$ (58)	\$ (56)	\$ 16	\$ (72)	
Reclassified to earnings	—	—	—	—	—	
<b>Net OCI</b>	<b>\$ 2</b>	<b>\$ (58)</b>	<b>\$ (56)</b>	<b>\$ 16</b>	<b>\$ (72)</b>	
<b>Change in net unrealized gains (losses) on AFS securities</b>						
OCI activity	\$ 1,726	\$ (406)	\$ 1,320	\$ —	\$ 1,320	
Reclassified to earnings	(89)	21	(68)	—	(68)	
<b>Net OCI</b>	<b>\$ 1,637</b>	<b>\$ (385)</b>	<b>\$ 1,252</b>	<b>\$ —</b>	<b>\$ 1,252</b>	
<b>Pension, postretirement and other</b>						
OCI activity	\$ —	\$ (1)	\$ (1)	\$ —	\$ (1)	
Reclassified to earnings	10	(2)	8	—	8	
<b>Net OCI</b>	<b>\$ 10</b>	<b>\$ (3)</b>	<b>\$ 7</b>	<b>\$ —</b>	<b>\$ 7</b>	
<b>Change in net DVA</b>						
OCI activity	\$ (713)	\$ 177	\$ (536)	\$ (36)	\$ (500)	
Reclassified to earnings	9	(2)	7	—	7	
<b>Net OCI</b>	<b>\$ (704)</b>	<b>\$ 175</b>	<b>\$ (529)</b>	<b>\$ (36)</b>	<b>\$ (493)</b>	

\$ in millions	Nine Months Ended September 30, 2018 <sup>1</sup>					Net
	Pre-tax Gain (Loss)	Income Tax Benefit (Provision)	After-tax Gain (Loss)	Non- controlling Interests		
<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>	

1. Exclusive of cumulative adjustments related to the adoption of certain accounting updates. Refer to the following table and Note 2 for further information.

## Cumulative Adjustments to Retained Earnings Related to the Adoption of Accounting Updates<sup>1</sup>

\$ in millions	Nine Months Ended September 30, 2019
Leases	\$ 63
Nine Months Ended September 30, 2018	
Revenues from contracts with customers <sup>2</sup>	\$ (32)
Derivatives and hedging—targeted improvements to accounting for hedging activities <sup>2</sup>	(99)
Reclassification of certain tax effects from AOCI <sup>2</sup>	443
Other <sup>3</sup>	(6)
<b>Total</b>	<b>\$ 306</b>

- There were no cumulative adjustments to retained earnings related to the adoption of accounting updates for the three months ended September 30, 2019 and 2018.
- See Note 2 to the financial statements in the 2018 Form 10-K for further information.
- 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.

## 15. Earnings per Common Share

in millions, except for per share data	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Earnings applicable to Morgan Stanley common shareholders</b>	<b>\$ 2,060</b>	<b>\$ 2,019</b>	<b>\$ 6,427</b>	<b>\$ 6,861</b>
<b>Basic EPS</b>				
Weighted average common shares outstanding	1,604	1,697	1,632	1,719
<b>Earnings per basic common share</b>	<b>\$ 1.28</b>	<b>\$ 1.19</b>	<b>\$ 3.94</b>	<b>\$ 3.99</b>
<b>Diluted EPS</b>				
Weighted average common shares outstanding	1,604	1,697	1,632	1,719
Effect of dilutive RSUs and PSUs	23	30	21	30
Weighted average common shares outstanding and common stock equivalents	1,627	1,727	1,653	1,749
<b>Earnings per diluted common share</b>	<b>\$ 1.27</b>	<b>\$ 1.17</b>	<b>\$ 3.89</b>	<b>\$ 3.92</b>
Weighted average antidilutive RSUs (excluded from the computation of diluted EPS)	—	1	2	1

## 16. Interest Income and Interest Expense

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Interest income</b>				
Investment securities	\$ 579	\$ 440	\$ 1,563	\$ 1,281
Loans	1,208	1,085	3,599	3,097
Securities purchased under agreements to resell and Securities borrowed <sup>1</sup>	871	575	2,865	1,156
Trading assets, net of Trading liabilities	728	571	2,188	1,687
Customer receivables and Other <sup>2</sup>	964	956	2,931	2,560
<b>Total interest income</b>	<b>\$ 4,350</b>	<b>\$ 3,627</b>	<b>\$ 13,146</b>	<b>\$ 9,781</b>
<b>Interest expense</b>				
Deposits	\$ 505	\$ 377	\$ 1,460	\$ 809
Borrowings	1,219	1,287	3,941	3,683
Securities sold under agreements to repurchase and Securities loaned <sup>3</sup>	681	478	2,016	1,326
Customer payables and Other <sup>2</sup>	727	549	2,468	1,146
<b>Total interest expense</b>	<b>\$ 3,132</b>	<b>\$ 2,691</b>	<b>\$ 9,885</b>	<b>\$ 6,964</b>
<b>Net interest</b>	<b>\$ 1,218</b>	<b>\$ 936</b>	<b>\$ 3,261</b>	<b>\$ 2,817</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 entered into 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. 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 and localities 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.

## Net Discrete Tax Provisions/(Benefits)

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Recurring <sup>1</sup>	\$ —	\$ —	\$ (127)	\$ (164)
Intermittent	(89)	(4)	(190)	(92)

1. Recurring discrete tax items are related to conversion of employee share-based awards.

The Firm's effective tax rate for the current quarter included intermittent net discrete tax benefits primarily associated with the filing of the 2018 federal tax return and the remeasurement of reserves and related interest due to new information with regard to multi-jurisdiction tax examinations. The Firm's effective tax rates for the current year period and prior year period included intermittent net discrete tax benefits primarily associated with the remeasurement of reserves and related interest due to new information with regard to multi-jurisdiction tax examinations and other matters.

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

18. Segment, Geographic and Revenue Information

Selected Financial Information by Business Segment

<i>\$ in millions</i>	Three Months Ended September 30, 2019				
	IS	WM	IM	I/E	Total
Investment banking <sup>1</sup>	\$ 1,535	\$ 118	\$ —	\$ (18)	\$ 1,635
Trading	2,533	61	2	12	2,608
Investments	(18)	—	105	—	87
Commissions and fees <sup>1</sup>	643	416	1	(70)	990
Asset management <sup>1</sup>	100	2,639	664	(40)	3,363
Other	51	81	—	(1)	131
Total non-interest revenues	4,844	3,315	772	(117)	8,814
Interest income	3,112	1,378	4	(144)	4,350
Interest expense	2,933	335	12	(148)	3,132
Net interest	179	1,043	(8)	4	1,218
<b>Net revenues</b>	<b>\$ 5,023</b>	<b>\$ 4,358</b>	<b>\$ 764</b>	<b>\$ (113)</b>	<b>\$10,032</b>
Income from continuing operations before income taxes	\$ 1,307	\$ 1,238	\$ 165	\$ —	\$ 2,710
Provision for income taxes	189	276	27	—	492
Income from continuing operations	1,118	962	138	—	2,218
Net income	1,118	962	138	—	2,218
Net income applicable to noncontrolling interests	45	—	—	—	45
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 1,073</b>	<b>\$ 962</b>	<b>\$ 138</b>	<b>\$ —</b>	<b>\$ 2,173</b>

<i>\$ in millions</i>	Three Months Ended September 30, 2018				
	IS	WM	IM	I/E	Total
Investment banking <sup>1</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	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>

# Notes to Consolidated Financial Statements (Unaudited)

\$ in millions	Nine Months Ended September 30, 2019				
	IS	WM	IM	I/E	Total
Investment banking <sup>1</sup>	\$ 4,158	\$ 365	\$ (1)	\$ (55)	\$ 4,467
Trading	8,221	525	(2)	37	8,781
Investments	257	1	543	—	801
Commissions and fees <sup>1</sup>	1,889	1,250	1	(205)	2,935
Asset management <sup>1</sup>	310	7,544	1,893	(115)	9,632
Other	416	281	(6)	(6)	685
Total non-interest revenues	15,251	9,966	2,428	(344)	27,301
Interest income	9,457	4,139	14	(464)	13,146
Interest expense	9,376	950	35	(476)	9,885
Net interest	81	3,189	(21)	12	3,261
<b>Net revenues</b>	<b>\$15,332</b>	<b>\$13,155</b>	<b>\$2,407</b>	<b>\$ (332)</b>	<b>\$30,562</b>
Income from continuing operations before income taxes	\$ 4,365	\$ 3,669	\$ 538	\$ (4)	\$ 8,568
Provision for income taxes	703	830	104	(1)	1,636
Income from continuing operations	3,662	2,839	434	(3)	6,932
Net income	3,662	2,839	434	(3)	6,932
Net income applicable to noncontrolling interests	97	—	32	—	129
<b>Net income applicable to Morgan Stanley</b>	<b>\$ 3,565</b>	<b>\$ 2,839</b>	<b>\$ 402</b>	<b>\$ (3)</b>	<b>\$ 6,803</b>

\$ in millions	Nine Months Ended September 30, 2018				
	IS	WM	IM	I/E	Total
Investment banking <sup>1</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	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>

## I/E—Intersegment Eliminations

1. Approximately 85% of Investment Banking revenues in the current quarter, 90% in the current year period and approximately 85% of Investment banking revenues in the prior year periods were accounted for as *Revenues from Contracts with Customers*. In all periods presented, substantially all of Commissions and fees and Asset management revenues were accounted for under this guidance.

For a discussion about the Firm's business segments, see Note 21 to the financial statements in the 2018 Form 10-K.

### Institutional Securities—Investment Banking Revenues

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Advisory	\$ 550	\$ 510	\$ 1,462	\$ 1,702
Underwriting	985	949	2,696	2,969

### Trading Revenues by Product Type

\$ in millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest rate	\$ 894	\$ 744	\$ 2,283	\$ 2,396
Foreign exchange	69	223	383	622
Equity security and index <sup>1</sup>	1,076	1,432	4,005	5,094
Commodity and other	300	254	986	1,047
Credit	269	99	1,124	656
<b>Total</b>	<b>\$ 2,608</b>	<b>\$ 2,752</b>	<b>\$ 8,781</b>	<b>\$ 9,815</b>

1. Dividend income is included within equity security and index contracts.

## Notes to Consolidated Financial Statements (Unaudited)

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.

### Investment Management Investments Revenues—Net Unrealized Carried Interest

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Net cumulative unrealized carried interest at risk of reversing	\$ 553	\$ 434

The Firm's portion of net cumulative unrealized carried interest (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-based fees in the form of carried interest previously received.

### Investment Management Asset Management Revenues—Reduction of Fees due to Fee Waivers

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Fee waivers	\$ 11	\$ 11	\$ 32	\$ 45

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.

Separately, the Firm's employees, including its senior officers, may participate on the same terms and conditions as other investors in certain funds that the Firm sponsors primarily for client investment, and the Firm may waive or lower applicable fees and charges for its employees.

### Net Revenues by Region

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Americas	\$ 7,489	\$ 7,357	\$ 22,336	\$ 22,989
EMEA	1,409	1,355	4,687	4,892
Asia	1,134	1,160	3,539	3,678
<b>Total</b>	<b>\$ 10,032</b>	<b>\$ 9,872</b>	<b>\$ 30,562</b>	<b>\$ 31,559</b>

For a discussion about the Firm's geographic net revenues, see Note 21 to the financial statements in the 2018 Form 10-K.

### Revenue Recognized From Prior Services

<i>\$ in millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Non-interest revenues	\$ 841	\$ 804	\$ 1,995	\$ 2,192

The previous table includes revenue from contracts with customers recognized where some or all services were performed in prior periods and is primarily composed of investment banking advisory fees and distribution fees.

### Certain Future Expected Revenues

<i>\$ in millions</i>	At September 30, 2019			
	2019	2020	2021 - 2025	thereafter
Non-interest revenues	\$ 57	\$ 132	\$ 63 - \$ 89	\$ 239

The previous table reflects contracts with customers that are longer than one year in duration and the amounts invoiced do not necessarily correspond directly to the value transferred to the customer. These contracts are primarily for the future sale and transport of commodity related products.

### Receivables related to Revenues from Contracts with Customers

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Customer and other receivables	\$ 2,114	\$ 2,308

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 the customer.

### Assets by Business Segment

<i>\$ in millions</i>	At September 30, 2019	At December 31, 2018
Institutional Securities	\$ 703,868	\$ 646,427
Wealth Management <sup>1</sup>	193,213	202,392
Investment Management	5,523	4,712
<b>Total<sup>2</sup></b>	<b>\$ 902,604</b>	<b>\$ 853,531</b>

1. The Firm acquired Solium Capital Inc. in the second quarter of 2019 and as a result recorded Goodwill of approximately \$469 million and Intangible assets of approximately \$268 million.

2. Parent assets have been fully allocated to the business segments.

## Average Balances and Interest Rates and Net Interest Income

<i>\$ in millions</i>	Three Months Ended September 30,					
	2019			2018		
	Average Daily Balance	Interest	Annualized Average Rate	Average Daily Balance	Interest	Annualized Average Rate
<b>Interest earning assets</b>						
Investment securities <sup>1</sup>	\$ 104,700	\$ 579	2.2%	\$ 82,594	\$ 440	2.1%
Loans <sup>1</sup>	122,320	1,208	3.9	110,592	1,085	3.9
Securities purchased under agreements to resell and Securities borrowed <sup>2</sup> :						
U.S.	146,578	835	2.3	139,418	637	1.8
Non-U.S.	76,871	36	0.2	89,825	(62)	(0.3)
Trading assets, net of Trading liabilities <sup>3</sup> :						
U.S.	78,169	630	3.2	55,399	508	3.6
Non-U.S.	17,104	98	2.3	8,637	63	2.9
Customer receivables and Other <sup>4</sup> :						
U.S.	62,113	703	4.5	78,025	716	3.6
Non-U.S.	60,073	261	1.7	56,770	240	1.7
<b>Total</b>	<b>\$ 667,928</b>	<b>\$ 4,350</b>	<b>2.6%</b>	<b>\$ 621,260</b>	<b>\$ 3,627</b>	<b>2.3%</b>
<b>Interest bearing liabilities</b>						
Deposits <sup>1</sup>	\$ 179,715	\$ 505	1.1%	\$ 173,921	\$ 377	0.9%
Borrowings <sup>1, 5</sup>	196,777	1,219	2.5	191,606	1,287	2.7
Securities sold under agreements to repurchase and Securities loaned <sup>6</sup> :						
U.S.	36,335	505	5.5	24,386	346	5.6
Non-U.S.	30,111	176	2.3	34,960	132	1.5
Customer payables and Other <sup>7</sup> :						
U.S.	121,800	448	1.5	120,958	321	1.1
Non-U.S.	65,036	279	1.7	71,998	228	1.3
<b>Total</b>	<b>\$ 629,774</b>	<b>\$ 3,132</b>	<b>2.0%</b>	<b>\$ 617,829</b>	<b>\$ 2,691</b>	<b>1.7%</b>
<b>Net interest income and net interest rate spread</b>		<b>\$ 1,218</b>	<b>0.6%</b>		<b>\$ 936</b>	<b>0.6%</b>

## Average Balances and Interest Rates and Net Interest Income

<i>\$ in millions</i>	Nine Months Ended September 30,					
	2019			2018		
	Average Daily Balance	Interest	Annualized Average Rate	Average Daily Balance	Interest	Annualized Average Rate
<b>Interest earning assets</b>						
Investment securities <sup>1</sup>	\$ 99,782	\$ 1,563	2.1%	\$ 80,886	\$ 1,281	2.1%
Loans <sup>1</sup>	118,926	3,599	4.0	109,001	3,097	3.8
Securities purchased under agreements to resell and Securities borrowed <sup>2</sup> :						
U.S.	144,686	2,774	2.6	133,208	1,410	1.4
Non-U.S.	76,814	91	0.2	89,699	(254)	(0.4)
Trading assets, net of Trading liabilities <sup>3</sup> :						
U.S.	77,434	1,922	3.3	55,162	1,520	3.7
Non-U.S.	14,362	266	2.5	7,045	167	3.2
Customer receivables and Other <sup>4</sup> :						
U.S.	61,479	2,110	4.6	73,792	1,880	3.4
Non-U.S.	59,033	821	1.9	56,891	680	1.6
<b>Total</b>	<b>\$ 652,516</b>	<b>\$ 13,146</b>	<b>2.7%</b>	<b>\$ 605,684</b>	<b>\$ 9,781</b>	<b>2.2%</b>
<b>Interest bearing liabilities</b>						
Deposits <sup>1</sup>	\$ 178,894	\$ 1,460	1.1%	\$ 166,384	\$ 809	0.7%
Borrowings <sup>1, 5</sup>	192,854	3,941	2.7	192,746	3,683	2.6
Securities sold under agreements to repurchase and Securities loaned <sup>6</sup> :						
U.S.	32,479	1,489	6.1	24,871	952	5.1
Non-U.S.	31,555	527	2.2	38,248	374	1.3
Customer payables and Other <sup>7</sup> :						
U.S.	116,383	1,587	1.8	121,556	577	0.6
Non-U.S.	65,331	881	1.8	71,382	569	1.1
<b>Total</b>	<b>\$ 617,496</b>	<b>\$ 9,885</b>	<b>2.1%</b>	<b>\$ 615,187</b>	<b>\$ 6,964</b>	<b>1.5%</b>
<b>Net interest income and net interest rate spread</b>		<b>\$ 3,261</b>	<b>0.6%</b>		<b>\$ 2,817</b>	<b>0.7%</b>

1. Amounts include primarily U.S. balances.

2. Includes fees paid on Securities borrowed.

3. Excludes non-interest earning assets and non-interest bearing liabilities, such as equity securities.

4. Includes Cash and cash equivalents. Prior period amounts have been revised to conform to the current presentation.

5. Includes structured notes, whose interest expense is considered part of its value and therefore is recorded within Trading revenues.

6. 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.

7. Includes fees received from prime brokerage customers for stock loan transactions entered into to cover customers' short positions.

## Glossary of Common Acronyms

<b>2018 Form 10-K</b>	Annual Report on Form 10-K for year ended December 31, 2018 filed with the SEC	<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>ABS</b>	Asset-backed securities	<b>FFELP</b>	Federal Family Education Loan Program
<b>AFS</b>	Available-for-sale	<b>FFIEC</b>	Federal Financial Institutions Examination Council
<b>AML</b>	Anti-money laundering	<b>FHC</b>	Financial Holding Company
<b>AOCI</b>	Accumulated other comprehensive income (loss)	<b>FICC</b>	Fixed Income Clearing Corporation
<b>AUM</b>	Assets under management or supervision	<b>FICO</b>	Fair Isaac Corporation
<b>BEAT</b>	Base erosion and anti-abuse tax	<b>FVA</b>	Funding valuation adjustment
<b>BHC</b>	Bank holding company	<b>GILTI</b>	Global Intangible Low-Taxed Income
<b>bps</b>	Basis points; one basis point equals 1/100th of 1%	<b>GLR</b>	Global liquidity reserve
<b>CCAR</b>	Comprehensive Capital Analysis and Review	<b>G-SIB</b>	Global systemically important banks
<b>CCyB</b>	Countercyclical capital buffer	<b>HELOC</b>	Home Equity Line of Credit
<b>CDO</b>	Collateralized debt obligation(s), including Collateralized loan obligation (s)	<b>HQLA</b>	High-quality liquid assets
<b>CDS</b>	Credit default swaps	<b>HTM</b>	Held-to-maturity
<b>CECL</b>	Current expected credit loss	<b>I/E</b>	Intersegment eliminations
<b>CFTC</b>	U.S. Commodity Futures Trading Commission	<b>IHC</b>	Intermediate holding company
<b>CLN</b>	Credit-linked note(s)	<b>IM</b>	Investment Management
<b>CLO</b>	Collateralized loan obligation(s)	<b>IRS</b>	Internal Revenue Service
<b>CMBS</b>	Commercial mortgage-backed securities	<b>IS</b>	Institutional Securities
<b>CMO</b>	Collateralized mortgage obligation(s)	<b>LCR</b>	Liquidity coverage ratio, as adopted by the U.S. banking agencies
<b>CVA</b>	Credit valuation adjustment	<b>LIBOR</b>	London Interbank Offered Rate
<b>DVA</b>	Debt valuation adjustment	<b>M&amp;A</b>	Merger, acquisition and restructuring transaction
<b>EBITDA</b>	Earnings before interest, taxes, depreciation and amortization	<b>MSBNA</b>	Morgan Stanley Bank, N.A.
<b>ELN</b>	Equity-linked note(s)	<b>MS&amp;Co.</b>	Morgan Stanley & Co. LLC
<b>EMEA</b>	Europe, Middle East and Africa	<b>MSIP</b>	Morgan Stanley & Co. International plc
<b>EPS</b>	Earnings per common share	<b>MSMS</b>	Morgan Stanley MUFG Securities Co., Ltd.
<b>E.U.</b>	European Union	<b>MSPBNA</b>	Morgan Stanley Private Bank, National Association
		<b>MSSB LLC</b>	Morgan Stanley Smith Barney LLC
		<b>MUFG</b>	Mitsubishi UFJ Financial Group, Inc.



<b>MUMSS</b>	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	<b>RWA</b>	Risk-weighted assets
<b>MWh</b>	Megawatt hour	<b>SEC</b>	U.S. Securities and Exchange Commission
<b>N/A</b>	Not Applicable	<b>SLR</b>	Supplementary leverage ratio
<b>NAV</b>	Net asset value	<b>S&amp;P</b>	Standard & Poor's
<b>N/M</b>	Not Meaningful	<b>SPE</b>	Special purpose entity
<b>Non-GAAP</b>	Non-generally accepted accounting principles	<b>SPOE</b>	Single point of entry
<b>NSFR</b>	Net stable funding ratio, as proposed by the U.S. banking agencies	<b>TDR</b>	Troubled debt restructuring
<b>OCC</b>	Office of the Comptroller of the Currency	<b>TLAC</b>	Total loss-absorbing capacity
<b>OCI</b>	Other comprehensive income (loss)	<b>U.K.</b>	United Kingdom
<b>OIS</b>	Overnight index swap	<b>UPB</b>	Unpaid principal balance
<b>OTC</b>	Over-the-counter	<b>U.S.</b>	United States of America
<b>PRA</b>	Prudential Regulation Authority	<b>U.S. DOL</b>	U.S. Department of Labor
<b>PSU</b>	Performance-based stock unit	<b>U.S. GAAP</b>	Accounting principles generally accepted in the United States of America
<b>RMBS</b>	Residential mortgage-backed securities	<b>VaR</b>	Value-at-Risk
<b>ROE</b>	Return on average common equity	<b>VAT</b>	Value-added tax
<b>ROTCE</b>	Return on average tangible common equity	<b>VIE</b>	Variable interest entity
<b>ROU</b>	Right-of-use	<b>WACC</b>	Implied weighted average cost of capital
<b>RSU</b>	Restricted stock unit	<b>WM</b>	Wealth Management

## Other Information

### Legal Proceedings

The following development has occurred since previously reporting certain matters in the Firm's 2018 Form 10-K and the Firm's Quarterly Reports on Form 10-Q for the quarterly period ended March 31, 2019 (the "First Quarter Form 10-Q") and the quarterly period ended June 30, 2019 (the "Second Quarter Form 10-Q"). See also the disclosures set forth under "Legal Proceedings" in the 2018 Form 10-K, First Quarter Form 10-Q and Second Quarter Form 10-Q.

### Antitrust Related Matter

On August 29, 2019, the court in *In re GSE Bonds Antitrust Litigation* denied the Firm's motion to dismiss. The case is set for trial in May 2020.

### Unregistered Sales of Equity Securities and Use of Proceeds

#### Issuer Purchases of Equity Securities

Three Months Ended September 30, 2019

<i>\$ in millions, except per share data</i>	Total Number of Shares Purchased <sup>1</sup>	Average Price Paid Per Share	Total Shares Purchased as Part of Share Repurchase Program <sup>2-3</sup>	Dollar Value of Remaining Authorized Repurchase
July	6,671,014	\$ 44.95	5,885,400	\$ 5,735
August	15,912,294	\$ 40.75	15,892,000	\$ 5,087
September	14,026,315	\$ 41.95	14,003,465	\$ 4,500
<b>Total</b>	<b>36,609,623</b>	<b>\$ 41.98</b>	<b>35,780,865</b>	

- Includes 828,758 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 during the three months ended September 30, 2019.
- 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"). See Note 14 to the financial statements for further information on the sales plan.
- 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 27, 2019, the Federal Reserve published summary results of CCAR and the Firm received a non-objection to its 2019 Capital Plan. The Firm's 2019 Capital Plan includes a share repurchase of up to \$6.0 billion of its outstanding common stock during the period beginning July 1, 2019 through June 30, 2020. For further information, see "Liquidity and Capital Resources—Capital Plans and Stress Tests."

## Controls and Procedures

Under the supervision and with the participation of the Firm's management, including the Chief Executive Officer and Chief Financial Officer, the Firm 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, the Chief Executive Officer and Chief Financial Officer concluded that the Firm's 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.

**Exhibit Index**  
**Morgan Stanley**  
**Quarter Ended September 30, 2019**

<b>Exhibit No.</b>	<b>Description</b>
15	<a href="#"><u>Letter of awareness from Deloitte &amp; Touche LLP, dated November 5, 2019, concerning unaudited interim financial information.</u></a>
31.1	<a href="#"><u>Rule 13a-14(a) Certification of Chief Executive Officer.</u></a>
31.2	<a href="#"><u>Rule 13a-14(a) Certification of Chief Financial Officer.</u></a>
32.1	<a href="#"><u>Section 1350 Certification of Chief Executive Officer.</u></a>
32.2	<a href="#"><u>Section 1350 Certification of Chief Financial Officer.</u></a>
101	Interactive Data Files pursuant to Rule 405 of Regulation S-T formatted in Inline eXtensible Business Reporting Language (“Inline XBRL”).
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101).



To the Board of Directors and Shareholders of Morgan Stanley:

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited condensed consolidated interim financial statements of Morgan Stanley and subsidiaries (the “Firm”) for the three-month and nine-month periods ended September 30, 2019 and 2018, as indicated in our report dated November 5, 2019; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, is incorporated by reference in the following Registration Statements of the Firm:

**Filed on Form S-3:**

Registration Statement No. 33-57202  
 Registration Statement No. 33-60734  
 Registration Statement No. 33-89748  
 Registration Statement No. 33-92172  
 Registration Statement No. 333-07947  
 Registration Statement No. 333-27881  
 Registration Statement No. 333-27893  
 Registration Statement No. 333-27919  
 Registration Statement No. 333-46403  
 Registration Statement No. 333-46935  
 Registration Statement No. 333-76111  
 Registration Statement No. 333-75289  
 Registration Statement No. 333-34392  
 Registration Statement No. 333-47576  
 Registration Statement No. 333-83616  
 Registration Statement No. 333-106789  
 Registration Statement No. 333-117752  
 Registration Statement No. 333-129243  
 Registration Statement No. 333-131266  
 Registration Statement No. 333-155622  
 Registration Statement No. 333-156423  
 Registration Statement No. 333-178081  
 Registration Statement No. 333-200365  
 Registration Statement No. 333-200365-12  
 Registration Statement No. 333-221595  
 Registration Statement No. 333-221595-01

**Filed on Form S-4:**

Registration Statement No. 333-25003

**Filed on Form S-8:**

Registration Statement No. 33-63024  
 Registration Statement No. 33-63026  
 Registration Statement No. 33-78038  
 Registration Statement No. 33-79516  
 Registration Statement No. 33-82240  
 Registration Statement No. 33-82242  
 Registration Statement No. 33-82244  
 Registration Statement No. 333-04212  
 Registration Statement No. 333-28141  
 Registration Statement No. 333-28263  
 Registration Statement No. 333-62869  
 Registration Statement No. 333-78081  
 Registration Statement No. 333-95303  
 Registration Statement No. 333-55972  
 Registration Statement No. 333-85148  
 Registration Statement No. 333-85150  
 Registration Statement No. 333-108223  
 Registration Statement No. 333-142874  
 Registration Statement No. 333-146954  
 Registration Statement No. 333-159503  
 Registration Statement No. 333-159504  
 Registration Statement No. 333-159505  
 Registration Statement No. 333-168278  
 Registration Statement No. 333-172634  
 Registration Statement No. 333-177454  
 Registration Statement No. 333-183595  
 Registration Statement No. 333-188649  
 Registration Statement No. 333-192448  
 Registration Statement No. 333-204504  
 Registration Statement No. 333-211723  
 Registration Statement No. 333-218377  
 Registration Statement No. 333-231913

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statements prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP

New York, New York

November 5, 2019

## Certification

I, James P. Gorman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Morgan Stanley;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

/s/ JAMES P. GORMAN

James P. Gorman

Chairman of the Board and Chief Executive Officer

## Certification

I, Jonathan Pruzan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Morgan Stanley;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

/s/ JONATHAN PRUZAN

Jonathan Pruzan

Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Morgan Stanley (the “Firm”) on Form 10-Q for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James P. Gorman, Chairman of the Board and Chief Executive Officer of the Firm, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Firm.

/s/ JAMES P. GORMAN

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James P. Gorman  
Chairman of the Board and  
Chief Executive Officer

Date: November 5, 2019



CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Morgan Stanley (the “Firm”) on Form 10-Q for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jonathan Pruzan, Executive Vice President and Chief Financial Officer of the Firm, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Firm.

/s/ JONATHAN PRUZAN

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Jonathan Pruzan  
Executive Vice President and  
Chief Financial Officer

Date: November 5, 2019