MORGAN STANLEY
Form 10-Q
August 03, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

OR

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

EXCHANGE ACT OF 1934

Commission File Number 1-11758

(Exact Name of Registrant as specified in its charter)

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

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

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

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

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

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

As of July 29, 2016, there were 1,911,808,935 shares of the Registrant s Common Stock, par value $0.01 per share, outstanding.

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QUARTERLY REPORT ON FORM 10-Q

For the quarter ended June 30, 2016

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Available Information.

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

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

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

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

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

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Part I Financial Information

Item 1. Financial Statements

MORGAN STANLEY

Consolidated Statements of Income

(in millions, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Revenues:				
Investment banking	**$ 1,224**	$ 1,614	**$ 2,331**	$ 2,971
Trading	**2,746**	2,973	**4,811**	6,623
Investments	**126**	261	**92**	527
Commissions and fees	**1,020**	1,158	**2,075**	2,344
Asset management, distribution and administration fees	**2,637**	2,742	**5,257**	5,423
Other	**243**	297	**323**	468
Total non-interest revenues	**7,996**	9,045	**14,889**	18,356
Interest income	**1,667**	1,386	**3,414**	2,870
Interest expense	**754**	688	**1,602**	1,576
Net interest	**913**	698	**1,812**	1,294
Net revenues	**8,909**	9,743	**16,701**	19,650

Non-interest expenses:								
Compensation and benefits		**4,015**		4,405		**7,698**		8,929
Occupancy and equipment		**329**		351		**658**		693
Brokerage, clearing and exchange fees		**484**		487		**949**		950
Information processing and communications		**429**		438		**871**		853
Marketing and business development		**154**		179		**288**		329
Professional services		**547**		598		**1,061**		1,084
Other		**468**		558		**955**		1,230
Total non-interest expenses		**6,426**		7,016		**12,480**		14,068
Income from continuing operations before income taxes		**2,483**		2,727		**4,221**		5,582
Provision for income taxes		**833**		894		**1,411**		1,281
Income from continuing operations		**1,650**		1,833		**2,810**		4,301
Income (loss) from discontinued operations, net of income taxes		**(4)**		(2)		**(7)**		(7)
Net income	**$**	**1,646**	$	1,831	**$**	**2,803**	$	4,294
Net income applicable to noncontrolling interests		**64**		24		**87**		93
Net income applicable to Morgan Stanley	**$**	**1,582**	$	1,807	**$**	**2,716**	$	4,201
Preferred stock dividends and other		**157**		142		**235**		222
Earnings applicable to Morgan Stanley common shareholders	**$**	**1,425**	$	1,665	**$**	**2,481**	$	3,979
Earnings per basic common share:								
Income from continuing operations	**$**	**0.77**	$	0.87	**$**	**1.33**	$	2.07
Income (loss) from discontinued operations		**(0.01)**				**(0.01)**		
Earnings per basic common share	**$**	**0.76**	$	0.87	**$**	**1.32**	$	2.07

Earnings per diluted common share:								
Income from continuing operations	**$**	**0.75**	$	0.85	**$**	**1.30**	$	2.03
Income (loss) from discontinued operations								
Earnings per diluted common share	**$**	**0.75**	$	0.85	**$**	**1.30**	$	2.03
Dividends declared per common share	**$**	**0.15**	$	0.15	**$**	**0.30**	$	0.25
Average common shares outstanding:								
Basic		**1,866**		1,919		**1,875**		1,922
Diluted		**1,899**		1,960		**1,907**		1,962

See Notes to Consolidated Financial Statements.

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MORGAN STANLEY

Consolidated Statements of Comprehensive Income

(dollars in millions)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Net income	**$ 1,646**	$ 1,831	**$ 2,803**	$ 4,294
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments(1)	**$ 131**	$ 34	**$ 317**	$ (188)
Change in net unrealized gains (losses) on available for sale securities(2)	**143**	(228)	**538**	(28)
Pension, postretirement and other	**(5)**	(3)	**(4)**	(1)
Change in net debt valuation adjustments(3)	**145**		**348**	
Total other comprehensive income (loss)	**$ 414**	$ (197)	**$ 1,199**	$ (217)
Comprehensive income	**$ 2,060**	$ 1,634	**$ 4,002**	$ 4,077
Net income applicable to noncontrolling interests	**64**	24	**87**	93
Other comprehensive income (loss) applicable to noncontrolling interests	**81**	(16)	**136**	(18)
Comprehensive income applicable to Morgan Stanley	**$ 1,915**	$ 1,626	**$ 3,779**	$ 4,002

(1) Amounts include Provision for (benefit from) income taxes of **$(59) million** and $(54) million in the quarter ended June 30, 2016 (current quarter) and the quarter ended June 30, 2015 (prior year quarter), respectively, and **$(174) million** and $120 million in the six months ended June 30, 2016 (current year period) and the six months ended June 30, 2015 (prior year period), respectively.

(2)

Amounts include Provision for (benefit from) income taxes of **$84 million** and $(137) million in the current quarter and prior year quarter, respectively, and **$314 million** and $(16) million in the current year period and prior year period, respectively.

(3) Debt valuation adjustments (DVA) represent the change in the fair value resulting from fluctuations in the Firm s credit spreads and other credit factors related to liabilities carried at fair value, primarily certain Long-term and Short-term borrowings. Amounts include Provision for (benefit from) income taxes of **$80 million** and **$200 million** in the current quarter and current year period, respectively. See Notes 2 and 14 for further information.

See Notes to Consolidated Financial Statements.

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MORGAN STANLEY

Consolidated Balance Sheets

(dollars in millions, except share data)

(unaudited)

	At June 30, 2016	At December 31, 2015
Assets		
Cash and due from banks	**$ 27,597**	$ 19,827
Interest bearing deposits with banks	**28,536**	34,256
Trading assets, at fair value (**$141,543** and $127,627 were pledged to various parties)	**256,794**	239,505
Investment securities (includes **$67,726** and $66,759 at fair value)	**80,144**	71,983
Securities purchased under agreements to resell (includes **$555** and $806 at fair value)	**97,589**	87,657
Securities borrowed	**131,281**	142,416
Customer and other receivables	**52,827**	45,407
Loans:		
Held for investment (net of allowances of **$323** and $225)	**77,283**	72,559
Held for sale	**15,882**	13,200
Goodwill	**6,581**	6,584
Intangible assets (net of accumulated amortization of **$2,279** and $2,130) (includes **$3** and $5 at fair value)	**2,833**	2,984
Other assets	**51,526**	51,087
Total assets	**$ 828,873**	$ 787,465
Liabilities		
Deposits (includes **$95** and $125 at fair value)	**$ 152,693**	$ 156,034
Short-term borrowings (includes **$511** and $1,648 at fair value)	**880**	2,173
Trading liabilities, at fair value	**140,662**	128,455
Securities sold under agreements to repurchase (includes **$699** and $683 at fair value)	**50,328**	36,692
Securities loaned	**17,241**	19,358
Other secured financings (includes **$2,921** and $2,854 at fair value)	**9,901**	9,464
Customer and other payables	**201,189**	186,626

Other liabilities and accrued expenses		**14,112**		18,711
Long-term borrowings (includes **$37,804** and $33,045 at fair value)		**163,492**		153,768
Total liabilities		**750,498**		711,281
Commitments and contingent liabilities (see Note 11)				
Equity				
Morgan Stanley shareholders equity:				
Preferred stock (see Note 14)		**7,520**		7,520
Common stock, $0.01 par value:				
Shares authorized: **3,500,000,000**; Shares issued: **2,038,893,979**; Shares outstanding: **1,917,509,492** and 1,920,024,027		**20**		20
Additional paid-in capital		**22,697**		24,153
Retained earnings		**51,410**		49,204
Employee stock trusts		**2,873**		2,409
Accumulated other comprehensive income (loss)		**(905)**		(1,656)
Common stock held in treasury, at cost, $0.01 par value (**121,384,487** and 118,869,952 shares)		**(3,626)**		(4,059)
Common stock issued to employee stock trusts		**(2,873)**		(2,409)
Total Morgan Stanley shareholders equity		**77,116**		75,182
Noncontrolling interests		**1,259**		1,002
Total equity		**78,375**		76,184
Total liabilities and equity	**$**	**828,873**	$	787,465

See Notes to Consolidated Financial Statements.

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MORGAN STANLEY

Consolidated Statements of Changes in Total Equity

Six Months Ended June 30, 2016 and 2015

(dollars in millions)

(unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Employee Stock Trusts	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Stock Trusts	Non-controlling Interests	
E AT ER	$ 7,520	$ 20	$ 24,153	$ 49,204	$ 2,409	$ (1,656)	$ (4,059)	$ (2,409)	$ 1,002	$
e for ated to				**312**		**(312)**				
ment ting ated to on(2)									**106**	
e to anley				**2,716**						
e to ling									**87**	
				(822)						
ed oyee elated			**(1,456)**		**464**		**2,062**	**(464)**		
es of ock yee dings							**(1,629)**			

s in ed sive ss)						**1,063**			**136**	
									(72)	
E AT 2016	**$ 7,520**	**$ 20**	**$ 22,697**	**$ 51,410**	**$ 2,873**	**$ (905)**	**$ (3,626)**	**$ (2,873)**	**$ 1,259**	**$**
E AT ER	$ 6,020	$ 20	$ 24,249	$ 44,625	$ 2,127	$ (1,248)	$ (2,766)	$ (2,127)	$ 1,204	$
e to anley				4,201						
e to ling									93	
				(720)						
ed oyee elated			(577)		314		1,423	(314)		
es of ock yee dings							(1,473)			
s in ed sive ss)						(199)			(18)	
r tock	1,500		(7)							
lation egal with a fund									(191)	
			(10)						(59)	
E AT 2015	$ 7,520	$ 20	$ 23,655	$ 48,106	$ 2,441	$ (1,447)	$ (2,816)	$ (2,441)	$ 1,029	$

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

(2) In accordance with the accounting update *Amendments to the Consolidation Analysis*, a net adjustment was recorded as of January 1, 2016 to consolidate or deconsolidate certain entities under the new guidance. See Note 2 for further information.

See Notes to Consolidated Financial Statements.

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MORGAN STANLEY

Consolidated Statements of Cash Flows

(dollars in millions)

(unaudited)

	Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 2,803**	$ 4,294
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Income from equity method investments	**(1)**	(83)
Compensation payable in common stock and options	**492**	611
Depreciation and amortization	**879**	654
Net gain on sale of available for sale securities	**(82)**	(55)
Impairment charges	**67**	83
Provision for credit losses on lending activities	**131**	38
Other operating adjustments	**218**	37
Changes in assets and liabilities:		
Trading assets, net of Trading liabilities	**(333)**	25,115
Securities borrowed	**11,135**	(7,261)
Securities loaned	**(2,117)**	(2,068)
Customer and other receivables and other assets	**(10,537)**	(601)
Customer and other payables and other liabilities	**9,907**	(1,482)
Securities purchased under agreements to resell	**(9,932)**	(23,472)
Securities sold under agreements to repurchase	**13,636**	(4,263)
Net cash provided by (used for) operating activities	**16,266**	(8,453)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (payments for):		
Other assets Premises, equipment and software, net	**(645)**	(620)
Changes in loans, net	**(4,724)**	(9,082)

Investment securities:				
Purchases		**(30,700)**		(26,832)
Proceeds from sales		**20,274**		26,501
Proceeds from paydowns and maturities		**3,507**		2,796
Other investing activities		**(126)**		(97)
Net cash used for investing activities		**(12,414)**		(7,334)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from (payments for):				
Short-term borrowings		**(1,293)**		861
Noncontrolling interests		**(43)**		(60)
Other secured financings		**(69)**		(280)
Deposits		**(3,341)**		5,659
Proceeds from:				
Excess tax benefits associated with stock-based awards		**42**		176
Derivatives financing activities				312
Issuance of preferred stock, net of issuance costs				1,493
Issuance of long-term borrowings		**20,628**		22,909
Payments for:				
Long-term borrowings		**(15,900)**		(12,963)
Derivatives financing activities		**(120)**		(257)
Repurchases of common stock and employee tax withholdings		**(1,629)**		(1,473)
Cash dividends		**(791)**		(673)
Net cash provided by (used for) financing activities		**(2,516)**		15,704
Effect of exchange rate changes on cash and cash equivalents		**714**		(542)
Net increase (decrease) in cash and cash equivalents		**2,050**		(625)
Cash and cash equivalents, at beginning of period		**54,083**		46,984
Cash and cash equivalents, at end of period	**$**	**56,133**	$	46,359
Cash and cash equivalents include:				
Cash and due from banks	**$**	**27,597**	$	19,145

Interest bearing deposits with banks		**28,536**		27,214
Cash and cash equivalents, at end of period	**$**	**56,133**	$	46,359

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were **$1,082 million** and $1,027 million.

Cash payments for income taxes, net of refunds, were **$340 million** and $342 million.

See Notes to Consolidated Financial Statements.

MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Introduction and Basis of Presentation

The Firm

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

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

Basis of Financial Information

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

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

interim period. The results of operations for interim periods are not necessarily indicative of results for the entire year.

Consolidation

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

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

Consolidated Statements of Cash Flows Presentation

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

Global Oil Merchanting Business

As a result of entering into a definitive agreement to sell the global oil merchanting unit of the commodities division to Castleton Commodities International LLC, on May 11, 2015, the Firm recognized an impairment charge of $59 million in Other revenues during the prior quarter and prior year period, to reduce the carrying amount of the unit to its estimated fair value less costs to sell. The Firm closed the

transaction on November 1, 2015. The transaction did not meet the criteria for discontinued operations and did not have a material impact on the Firm s financial results.

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

2. Significant Accounting Policies

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

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

Accounting Standards Adopted

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

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

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

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

Simplifying the Presentation of Debt Issuance Costs. In April 2015, the FASB issued an accounting update that requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts, instead of as an asset as was previously required. This guidance became effective for the Firm beginning January 1, 2016 and did not have a material impact in the consolidated financial statements.

The Firm adopted the following accounting updates as of January 1, 2016, which did not have an impact in the consolidated financial statements.

Simplifying the Accounting for Measurement-Period Adjustments.

Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity.

Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

3. Fair Values

Fair Value Measurements

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting	Balance at June 30, 2016
			(dollars in millions)		
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 24,565	$	$	$	$ 24,565
U.S. agency securities	795	22,085	20		22,900
Total U.S. government and agency securities	25,360	22,085	20		47,465
Other sovereign government obligations	20,942	6,607	2		27,551
Corporate and other debt:					
		1,943	10		1,953

State and municipal securities					
Residential mortgage-backed securities		586	216		802
Commercial mortgage-backed securities		961	51		1,012
Asset-backed securities		142	88		230
Corporate bonds		11,751	276		12,027
Collateralized debt and loan obligations		443	109		552
Loans and lending commitments(1)		3,879	5,418		9,297
Other debt		827	528		1,355
Total corporate and other debt		20,532	6,696		27,228
Corporate equities(2)	100,018	367	572		100,957
Securities received as collateral	10,121	7			10,128
Derivative and other contracts:					
Interest rate contracts	791	462,243	540		463,574
Credit contracts		16,157	304		16,461
Foreign exchange contracts	140	76,264	101		76,505
Equity contracts	1,368	40,524	637		42,529
Commodity contracts	2,847	8,605	4,057		15,509
Other		16			16
Netting(3)	(4,184)	(505,871)	(2,537)	(63,844)	(576,436)
Total derivative and other contracts	962	97,938	3,102	(63,844)	38,158
Investments(4):					
Principal investments	21	19	769		809
Other	295	559	205		1,059

Total investments		316		578		974			1,868
Physical commodities				193					193
Total trading assets(4)		157,719		148,307		11,366		(63,844)	253,548
AFS securities		31,062		36,664					67,726
Securities purchased under agreements to resell				555					555
Intangible assets				3					3
Total assets measured at fair value	$	188,781	$	185,529	$	11,366	$	(63,844)	$ 321,832

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting	Balance at June 30, 2016
			(dollars in millions)		
Liabilities at Fair Value					
Deposits	$	$ 65	$ 30	$	$ 95
Short-term borrowings		511			511
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	12,983				12,983
U.S. agency securities	358	111			469
Total U.S. government and agency securities	13,341	111			13,452
Other sovereign government obligations	15,885	2,668			18,553
Corporate and other debt:					
State and municipal securities		3			3
		449			449

Asset-backed securities					
Corporate bonds		5,578	6		5,584
Other debt		15	3		18
Total corporate and other debt		6,045	9		6,054
Corporate equities(2)	46,440	76	26		46,542
Obligation to return securities received as collateral	18,731	7			18,738
Derivative and other contracts:					
Interest rate contracts	969	436,022	775		437,766
Credit contracts		16,403	1,418		17,821
Foreign exchange contracts	82	78,441	102		78,625
Equity contracts	1,262	43,177	2,110		46,549
Commodity contracts	2,368	7,652	2,759		12,779
Other		91	11		102
Netting(3)	(4,184)	(505,871)	(2,537)	(43,727)	(556,319)
Total derivative and other contracts	497	75,915	4,638	(43,727)	37,323
Total trading liabilities	94,894	84,822	4,673	(43,727)	140,662
		549	150		699

Securities sold under agreements to repurchase										
Other secured financings				2,480		441				2,921
Long-term borrowings		44		35,831		1,929				37,804
Total liabilities measured at fair value	$	94,938	$	124,258	$	7,223	$	(43,727)	$	182,692

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

Derivative and other contracts:									
Interest rate contracts		406		323,586		2,052			326,044
Credit contracts				22,258		661			22,919
Foreign exchange contracts		55		64,608		292			64,955
Equity contracts		653		38,552		1,084			40,289
Commodity contracts		3,140		10,654		3,358			17,152
Other				219					219
Netting(3)		(3,840)		(380,443)		(3,120)		(55,562)	(442,965)
Total derivative and other contracts		414		79,434		4,327		(55,562)	28,613
Investments(4):									
Principal investments		20		44		486			550
Other		163		310		221			694
Total investments		183		354		707			1,244
Physical commodities				321					321
Total trading assets(4)		150,128		128,086		13,010		(55,562)	235,662
AFS securities		34,351		32,408					66,759
Securities purchased under agreements to resell				806					806
Intangible assets						5			5
Total assets measured at fair value	$	184,479	$	161,300	$	13,015	$	(55,562)	$ 303,232
Liabilities at Fair Value									
Deposits	$		$	106	$	19	$		$ 125
Short-term borrowings				1,647		1			1,648
Trading liabilities:									
U.S. government and agency securities:									
U.S. Treasury securities		12,932							12,932
U.S. agency securities		854		127					981
Total U.S. government and agency securities		13,786		127					13,913
Other sovereign government obligations		10,970		2,558					13,528
Corporate and other debt:									
				2					2

Commercial mortgage-backed securities					
Corporate bonds		5,035			5,035
Lending commitments		3			3
Other debt		5	4		9
Total corporate and other debt		5,045	4		5,049
Corporate equities(2)	47,123	35	17		47,175
Obligation to return securities received as collateral	19,312	3	1		19,316
Derivative and other contracts:					
Interest rate contracts	466	305,151	1,792		307,409
Credit contracts		22,160	1,505		23,665
Foreign exchange contracts	22	65,177	151		65,350
Equity contracts	570	42,447	3,115		46,132
Commodity contracts	3,012	9,431	2,308		14,751
Other		43			43
Netting(3)	(3,840)	(380,443)	(3,120)	(40,473)	(427,876)
Total derivative and other contracts	230	63,966	5,751	(40,473)	29,474
Total trading liabilities	91,421	71,734	5,773	(40,473)	128,455
Securities sold under agreements to repurchase		532	151		683
Other secured financings		2,393	461		2,854
Long-term borrowings		31,058	1,987		33,045
Total liabilities measured at fair value	$ 91,421	$ 107,470	$ 8,392	$ (40,473)	$ 166,810

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

AFS Available for sale

(1) At June 30, 2016, Loans and lending commitments held at fair value consisted of $7,114 million of corporate loans, $1,721 million of residential real estate loans and $462 million of wholesale real estate loans. At December 31, 2015, Loans and lending commitments held at fair value consisted of $7,286 million of corporate loans, $1,885 million of residential real estate loans and $1,447 million of wholesale real estate loans.
(2) For trading purposes, the Firm holds or sells short equity securities issued by entities in diverse industries and of varying sizes.
(3) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled Counterparty and Cash Collateral Netting. For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that shared level. For further information on derivative instruments and hedging activities, see Note 4.
(4) Amounts exclude certain investments that are measured at fair value using the net asset value (NAV) per share, which are not classified in the fair value hierarchy. At June 30, 2016 and December 31, 2015, the fair value of these investments was $3,246 million and $3,843 million, respectively. For additional disclosure about such investments, see Fair Value of Investments Measured at Net Asset Value herein.

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

	Beginning Balance at March 31, 2016	Total Realized and Unrealized Gains (Losses)	Purchases (1)	Sales	Issuances	Settlements	Net Transfers	Ending Balance at June 30, 2016	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at June 30, 2016
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$ 8	$	$	$ (18)	$	$	$ 30	$ 20	$
Other sovereign government obligations	8			(3)			(3)	2	
Corporate and other debt:									
State and municipal securities	5	1	4					10	2
Residential mortgage-backed securities	292	3		(82)			3	216	(5)
Commercial mortgage-backed securities	59	(3)	1	(4)			(2)	51	(5)
Asset-backed securities	4	(4)	6	(1)			83	88	(4)
Corporate bonds	224	17	116	(35)			(46)	276	17
Collateralized debt and loan obligations	348	18	3	(178)			(82)	109	18
Loans and lending commitments	6,185	(46)	360	(484)		(596)	(1)	5,418	(55)
Other debt	527	4	13	(19)			3	528	2
Total corporate and other debt	7,644	(10)	503	(803)		(596)	(42)	6,696	(30)
Corporate equities	430	(63)	273	(82)			14	572	(63)

Net derivative and other contracts(2):									
Interest rate contracts	169	(159)	2		(7)	42	(282)	(235)	(157)
Credit contracts	(723)	65	1			93	(550)	(1,114)	53
Foreign exchange contracts	126	(58)				(94)	25	(1)	(47)
Equity contracts	(1,832)	168	50		(140)	263	18	(1,473)	(106)
Commodity contracts	1,200	211	5		(4)	(88)	(26)	1,298	130
Other							(11)	(11)	
Total net derivative and other contracts	(1,060)	227	58		(151)	216	(826)	(1,536)	(127)
Investments:									
Principal investments	743	4	33	(11)				769	6
Other	179	1	25					205	1
Total investments	922	5	58	(11)				974	7
Intangible assets	4						(4)		
Liabilities at Fair Value									
Deposits	$ 23	$ (1)	$	$	$ 8	$	$ (2)	$ 30	$ (1)
Trading liabilities:									
Corporate and other debt:									
Corporate bonds	6	(1)	(5)	29			(25)	6	(1)
Lending commitments	1	1							
Other debt	4		(1)					3	
Total corporate and other debt	11		(6)	29			(25)	9	(1)
Corporate equities	31	(28)	(33)	5			(5)	26	
Obligation to return securities received as collateral	1		(1)						
Securities sold under agreements to repurchase	151	1						150	1
Other secured financings	454	(14)			23	(22)	(28)	441	(14)
Long-term borrowings	1,798	21			164	(131)	119	1,929	26

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Beginning Balance at December 31, 2015	Total Realized and Unrealized Gains (Losses)	Purchases (1)	Sales	Issuances	Settlements	Net Transfers	Ending Balance at June 30, 2016	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at June 30, 2016
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$	$ 1	$	$ (19)	$	$	$ 38	$ 20	$ 1
Other sovereign government obligations	4			(5)			3	2	1
Corporate and other debt:									
State and municipal securities	19	1	4	(15)			1	10	1
Residential mortgage-backed securities	341	(19)	19	(133)			8	216	(14)
Commercial mortgage-backed securities	72	(10)		(19)			8	51	(11)
Asset-backed securities	25	(7)	7	(18)			81	88	(8)
Corporate bonds	267	62	113	(128)			(38)	276	61
Collateralized debt and loan obligations	430	5	22	(224)			(124)	109	17
Loans and lending commitments	5,936	(111)	970	(720)		(672)	15	5,418	(121)
Other debt	448	(2)	133	(63)			12	528	(2)
Total corporate and other debt	7,538	(81)	1,268	(1,320)		(672)	(37)	6,696	(77)
Corporate equities	433	(45)	296	(119)			7	572	(64)
Securities received as collateral	1			(1)					

Net derivative and other contracts(2):									
Interest rate contracts	260	305	3		(21)	(60)	(722)	(235)	205
Credit contracts	(844)	(343)	1			153	(81)	(1,114)	(360)
Foreign exchange contracts	141	(109)				(201)	168	(1)	(82)
Equity contracts	(2,031)	(321)	71		(184)	1,121	(129)	(1,473)	(434)
Commodity contracts	1,050	297	7		(4)	(176)	124	1,298	210
Other							(11)	(11)	
Total net derivative and other contracts	(1,424)	(171)	82		(209)	837	(651)	(1,536)	(461)
Investments:									
Principal investments	486	(39)	403	(40)		(41)		769	(37)
Other	221	(17)	1					205	(16)
Total investments	707	(56)	404	(40)		(41)		974	(53)
Intangible assets	5						(5)		
Liabilities at Fair Value									
Deposits	$ 19	$ (2)	$	$	$ 13	$	$ (4)	$ 30	$ (2)
Short-term borrowings	1					(1)			
Trading liabilities:									
Corporate and other debt:									
Corporate bonds		(5)	(7)	10			(2)	6	(5)
Other debt	4	2	(3)	4				3	2
Total corporate and other debt	4	(3)	(10)	14			(2)	9	(3)
Corporate equities	17	(3)	(22)	18			10	26	(3)
Obligation to return securities received as collateral	1		(1)						
Securities sold under agreements to repurchase	151	1						150	1
Other secured financings	461	(32)			69	(43)	(78)	441	(32)
Long-term borrowings	1,987	(12)			276	(167)	(179)	1,929	(6)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Beginning Balance at March 31, 2015	Total Realized and Unrealized Gains (Losses)	Purchases (1)	Sales	Issuances	Settlements	Net Transfers	Ending Balance at June 30, 2015	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at June 30, 2015
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$	$	$	$ (3)	$	$	$ 6	$ 3	$
Other sovereign government obligations	11		5	(1)			(3)	12	
Corporate and other debt:									
State and municipal securities		1	4	(9)			11	7	1
Residential mortgage-backed securities	296	2	138	(32)			(26)	378	2
Commercial mortgage-backed securities	180	(4)	5	(9)			(88)	84	(5)
Asset-backed securities	67	5	11	(64)				19	1
Corporate bonds	424	(4)	228	(150)		(2)	(17)	479	(16)
Collateralized debt and loan obligations	822	68	300	(439)		(78)	(13)	660	(10)
Loans and lending commitments	4,789	31	1,615	(351)		(491)	(81)	5,512	26
Other debt	486	(1)	130	(51)				564	(1)
Total corporate and other debt	7,064	98	2,431	(1,105)		(571)	(214)	7,703	(2)
Corporate equities	230	38	266	(92)			44	486	26
Securities received as collateral	33			(30)				3	
Net derivative and other contracts(2):									

Interest rate contracts	(496)	95	4		(13)	14	160	(236)	135
Credit contracts	(984)	(24)	4		(24)	23	16	(989)	(29)
Foreign exchange contracts	297	57			(1)	43	50	446	82
Equity contracts	(2,472)	(23)	39		(54)	206	202	(2,102)	(161)
Commodity contracts	1,345	4	2		(112)	(34)		1,205	(27)
Total net derivative and other contracts	(2,310)	109	49		(204)	252	428	(1,676)	
Investments:									
Principal investments	829	(21)	5	(12)		(205)	(15)	581	(21)
Other	391	(4)					(87)	300	
Total investments	1,220	(25)	5	(12)		(205)	(102)	881	(21)
Intangible assets	5	1						6	1
Liabilities at Fair Value									
Trading liabilities:									
Corporate and other debt:									
Corporate bonds	$ 23	$	$ (21)	$ 15	$	$	$ (2)	$ 15	$
Other debt	23			10		(29)		4	
Total corporate and other debt	46		(21)	25		(29)	(2)	19	
Corporate equities	50	240	(49)	2			349	112	240
Obligation to return securities received as collateral	33		(30)					3	
Securities sold under agreements to repurchase	154							154	
Other secured financings	133	2			37			168	2
Long-term borrowings	1,738	51			549	(88)	73	2,221	51

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Beginning Balance at December 31, 2014	Total Realized and Unrealized Gains (Losses)	Purchases (1)	Sales	Issuances	Settlements	Net Transfers	Ending Balance at June 30, 2015	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at June 30, 2015
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$	$	$ 3	$	$	$	$	$ 3	$
Other sovereign government obligations	41	1	6	(32)			(4)	12	1
Corporate and other debt:									
State and municipal securities		1	4				2	7	1
Residential mortgage-backed securities	175	21	163	(51)			70	378	12
Commercial mortgage-backed securities	96	(6)	16	(22)				84	(9)
Asset-backed securities	76	(4)	11	(29)			(35)	19	2
Corporate bonds	386	10	213	(126)		(1)	(3)	479	9
Collateralized debt and loan obligations	1,152	145	404	(682)		(331)	(28)	660	(6)
Loans and lending commitments	5,874	35	2,082	(209)		(2,078)	(192)	5,512	30
Other debt	285	(8)	12			(1)	276	564	6
	8,044	194	2,905	(1,119)		(2,411)	90	7,703	45

Total corporate and other debt									
Corporate equities	272	64	260	(147)			37	486	49
Securities received as collateral			3					3	
Net derivative and other contracts(2):									
Interest rate contracts	(173)	188	9		(20)	124	(364)	(236)	197
Credit contracts	(743)	(276)	17		(54)	31	36	(989)	(284)
Foreign exchange contracts	151	121			(1)	144	31	446	120
Equity contracts	(2,165)	(73)	69		(225)	156	136	(2,102)	(160)
Commodity contracts	1,146	299	3		(112)	(72)	(59)	1,205	234
Total net derivative and other contracts	(1,784)	259	98		(412)	383	(220)	(1,676)	107
Investments:									
Principal investments	835	(4)	15	(46)		(205)	(14)	581	(26)
Other	323	(16)	2	(6)			(3)	300	(12)
Total investments	1,158	(20)	17	(52)		(205)	(17)	881	(38)
Intangible assets	6	1				(1)		6	1
Liabilities at Fair Value									
Trading liabilities:									
Corporate and other debt:									
Corporate bonds	$ 78	$ (2)	$ (12)	$ 14	$	$	$ (67)	$ 15	$ (2)
Lending commitments	5	5							5
Other debt	38			6		(39)	(1)	4	
Total corporate and other debt	121	3	(12)	20		(39)	(68)	19	3
Corporate equities	45	19	(75)	25			136	112	20
Obligation to return securities received as collateral				3				3	
Securities sold under agreements to repurchase	153	(1)						154	(1)
Other secured financings	149	(6)			37	(24)		168	2
Long-term borrowings	1,934	65			612	(300)	40	2,221	59

(1) Loan originations and consolidations of VIEs are included in purchases.

(2) Net derivative and other contracts represent Trading assets Derivative and other contracts, net of Trading liabilities Derivative and other contracts. For further information on derivative instruments and hedging activities, see Note 4.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements

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

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

	Balance at June 30, 2016 (dollars in millions)	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Assets at Fair Value				
Trading assets:				
Corporate and other debt:				
Residential mortgage-backed securities	$ 216	Comparable pricing:		
		Comparable bond price / (A)	0 to 79 points	20 points
Commercial mortgage-backed securities	51	Comparable pricing:		
		Comparable bond price / (A)	0 to 7 points	1 point
	88	Comparable pricing:		

Asset-backed securities				
		Comparable bond price / (A)	45 to 55 points	46 points
Corporate bonds	276	Comparable pricing(3):		
		Comparable bond price / (A)	3 to 135 points	91 points
		Comparable pricing:		
		EBITDA multiple / (A)	5 to 10 times	7 times
Collateralized debt and loan obligations	109	Comparable pricing(3):		
		Comparable bond price / (A)	20 to 95 points	57 points
		Correlation model:		
		Credit correlation / (B)	29% to 61%	42%
Loans and lending commitments	5,418	Corporate loan model:		
		Credit spread / (C)	482 to 898 bps	596 bps
		Margin loan model(3):		
		Credit spread / (C)(D)	31 to 102 bps	86 bps
		Volatility skew / (C)(D)	20% to 46%	32%
		Discount rate / (C)(D)	1% to 8%	3%
		Expected recovery:		
		Asset coverage / (A)	47% to 99%	90%
		Option model:		
		Volatility skew / (C)	-1%	-1%
		Comparable pricing:		
		Comparable loan price / (A)	43 to 100 points	87 points
		Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	5% to 6%	6%
		Capitalization rate / (C)(D)	4% to 10%	4%

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	Balance at June 30, 2016 (dollars in millions)	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Other debt	528	Comparable pricing:		
		Comparable loan price / (A)	3 to 84 points	66 points
		Comparable pricing:		
		Comparable bond price / (A)	7 points	7 points
		Option model:		
		At the money volatility / (C)	16% to 53%	53%
		Margin loan model(3):		
		Discount rate / (C)	1% to 2%	2%
		Discounted cash flow:		
		Discount rate / (C)	10% to 13%	12%
Corporate equities	572	Comparable pricing:		
		Comparable equity price / (A)	100%	100%
Net derivative and other contracts(4):				
Interest rate contracts	(235)	Option model(3):		
		Interest rate - Foreign exchange correlation / (A)(D)	25% to 55%	42% / 42% (5)
		Interest rate volatility skew / (A)(D)	34% to 143%	78% / 77% (5)
		Interest rate quanto correlation / (A)(D)	-8% to 35%	2% / -7% (5)
		Interest rate curve correlation / (C)(D)	19% to 95%	71% / 76% (5)
		Inflation volatility / (A)(D)	0% to 1%	1% / 1% (5)
		Interest rate - Inflation correlation / (A)(D)	-24% to -44%	-34% / -33% (5)
		Interest rate curve / (C)(D)	0% to 1%	1% / 1% (5)

		Foreign exchange volatility skew / (C)(D)	0% to 11%	4% / 6% (5)
		Comparable pricing:		
		Comparable bond price / (C)	95 to 100 points	96 points
Credit contracts	(1,114)	Comparable pricing:		
		Cash synthetic basis / (C)(D)	5 to 12 points	10 points
		Comparable bond price / (C)(D)	0 to 85 points	26 points
		Correlation model(3):		
		Credit correlation / (B)	29% to 92%	49%
Foreign exchange contracts(6)	(1)	Option model:		
		Interest rate - Foreign exchange correlation / (A)(D)	25% to 55%	42% / 42% (5)
		Interest rate volatility skew / (A)(D)	34% to 143%	78% / 77% (5)
		Interest rate curve / (A)(D)	0%	0% / 0% (5)
		Interest rate curve correlation / (C)(D)	19% to 94%	73% / 81% (5)
Equity contracts(6)	(1,473)	Option model:		
		At the money volatility / (A)(D)	6% to 81%	35%
		Volatility skew / (A)(D)	-4% to 0%	-1%
		Equity - Equity correlation / (A)(D)	40% to 98%	79%
		Equity - Foreign exchange correlation / (C)(D)	-70% to -31%	-42%
		Equity - Interest rate correlation / (C)(D)	-7% to 50%	19% / 12% (5)
Commodity contracts	1,298	Option model:		
		Forward power price / (C)(D)	$2 to $95 per megawatt hour	$34 per megawatt hour
		Commodity volatility / (C)(D)	6% to 90%	18%
		Cross commodity correlation / (C)(D)	5% to 99%	93%

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	Balance at June 30, 2016 (dollars in millions)	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Investments: Principal investments	769	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	13% to 16%	15%
		Exit multiple / (A)(D)	8 to 23 times	9 times
		Market approach(3):		
		EBITDA multiple / (A)(D)	6 to 25 times	12 times
		Forward capacity price / (A)(D)	$4 to $9	$7
		Comparable pricing:		
		Comparable equity price / (A)	43% to 100%	82%
Other	205	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	9%	9%
		Exit multiple / (A)(D)	13 times	13 times
		Market approach:		
		EBITDA multiple / (A)(D)	6 to 13 times	12 times
		Comparable pricing(3):		
		Comparable equity price / (A)	100%	100%
Liabilities at Fair Value				
Securities sold under agreements to repurchase	150	Discounted cash flow:		
		Funding spread / (A)	117 to 123 bps	120 bps
Other secured financings	441	Option model:		
		Volatility skew / (C)	-1%	-1%
		Discounted cash flow(3):		
		Discount rate / (C)	4%	4%

		Discounted cash flow:		
		Funding spread / (A)	101 to 126 bps	114 bps
Long-term borrowings	1,929	Option model(3):		
		At the money volatility / (C)(D)	6% to 48%	29%
		Volatility skew / (C)(D)	-2% to 0%	-1%
		Equity - Equity correlation / (C)(D)	50% to 98%	75%
		Equity - Foreign exchange correlation / (C)(D)	-50% to 11%	-25%
		Option model:		
		Interest rate - credit spread correlation / (A)(D)	-52% to 3%	-24% / -23% (5)
		Interest rate - Foreign exchange correlation / (A)(D)	53%	53% / 53% (5)
		Interest rate - equity correlation / (A)(D)	7% to 44%	26% / 26% (5)
		Interest rate curve correlation / (C)(D)	40% to 87%	73% / 78% (5)
		Correlation model:		
		Credit correlation / (B)	33% to 61%	44%
		Comparable pricing:		
		Comparable equity price / (A)	100%	100%

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	Balance at December 31, 2015 (dollars in millions)	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Assets at Fair Value				
Trading assets:				
Corporate and other debt:				
Residential mortgage-backed securities	$ 341	Comparable pricing:		
		Comparable bond price / (A)	0 to 75 points	32 points
Commercial mortgage-backed securities	72	Comparable pricing:		
		Comparable bond price / (A)	0 to 9 points	2 points
Corporate bonds	267	Comparable pricing(3):		
		Comparable bond price / (A)	3 to 119 points	90 points
		Comparable pricing:		
		EBITDA multiple / (A)	7 to 9 times	8 times
		Structured bond model:		
		Discount rate / (C)	15%	15%
Collateralized debt and loan obligations	430	Comparable pricing(3):		
		Comparable bond price / (A)	47 to 103 points	67 points
		Correlation model:		
		Credit correlation / (B)	39% to 60%	49%
Loans and lending commitments	5,936	Corporate loan model:		
		Credit spread / (C)	250 to 866 bps	531 bps
		Margin loan model(3):		
		Credit spread / (C)(D)	62 to 499 bps	145 bps
		Volatility skew / (C)(D)	14% to 70%	33%
		Discount rate / (C)(D)	1% to 4%	2%
		Option model:		
		Volatility skew / (C)	-1%	-1%
		Comparable pricing:		

		Comparable loan price / (A)	35 to 100 points	88 points
		Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	6% to 8%	7%
		Capitalization rate / (C)(D)	4% to 10%	4%
Other debt	448	Comparable pricing:		
		Comparable loan price / (A)	4 to 84 points	59 points
		Comparable pricing:		
		Comparable bond price / (A)	8 points	8 points
		Option model:		
		At the money volatility / (C)	16% to 53%	53%
		Margin loan model(3):		
		Discount rate / (C)	1%	1%
Corporate equities	433	Comparable pricing:		
		Comparable price / (A)	50% to 80%	72%
		Comparable pricing(3):		
		Comparable equity price / (A)	100%	100%
		Market approach:		
		EBITDA multiple / (A)	9 times	9 times

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Balance at December 31, 2015 (dollars in millions)	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Net derivative and other contracts(4):				
Interest rate contracts	260	Option model:		
		Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 3 times	2 times
		Interest rate - Foreign exchange correlation / (C)(D)	25% to 62%	43% / 43%(5)
		Interest rate volatility skew / (A)(D)	29% to 82%	43% / 40%(5)
		Interest rate quanto correlation / (A)(D)	-8% to 36%	5% / -6%(5)
		Interest rate curve correlation / (C)(D)	24% to 95%	60% / 69%(5)
		Inflation volatility / (A)(D)	58%	58% / 58%(5)
		Interest rate - Inflation correlation / (A)(D)	-41% to -39%	-41% / -41%(5)
Credit contracts	(844)	Comparable pricing:		
		Cash synthetic basis / (C)(D)	5 to 12 points	9 points
		Comparable bond price / (C)(D)	0 to 75 points	24 points
		Correlation model(3):		
		Credit correlation / (B)	39% to 97%	57%
Foreign exchange contracts(6)	141	Option model:		
		Interest rate - Foreign exchange correlation / (C)(D)	25% to 62%	43% / 43%(5)
		Interest rate volatility skew / (A)(D)	29% to 82%	43% / 40%(5)
		Interest rate curve / (A)(D)	0%	0% / 0%(5)
Equity contracts(6)	(2,031)	Option model:		
		At the money volatility / (A)(D)	16% to 65%	32%
		Volatility skew / (A)(D)	-3% to 0%	-1%
		Equity - Equity correlation / (C)(D)	40% to 99%	71%

		Equity - Foreign exchange correlation / (A)(D)	-60% to -11%	-39%
		Equity - Interest rate correlation / (C)(D)	-29% to 50%	16% / 8%(5)
Commodity contracts	1,050	Option model:		
		Forward power price / (C)(D)	$3 to $91 per megawatt hour	$32 per megawatt hour
		Commodity volatility / (A)(D)	10% to 92%	18%
		Cross commodity correlation / (C)(D)	43% to 99%	93%
Investments:				
Principal investments	486	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	16%	16%
		Exit multiple / (A)(D)	8 to 14 times	9 times
		Capitalization rate / (C)(D)	5% to 9%	6%
		Equity discount rate / (C)(D)	20% to 35%	26%
		Market approach(3):		
		EBITDA multiple / (A)(D)	8 to 20 times	11 times
		Forward capacity price / (A)(D)	$5 to $9	$7
		Comparable pricing:		
		Comparable equity price / (A)	43% to 100%	81%
Other	221	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	10%	10%
		Exit multiple / (A)(D)	13 times	13 times
		Market approach:		
		EBITDA multiple / (A)	7 to 14 times	12 times
		Comparable pricing(3):		
		Comparable equity price / (A)	100%	100%

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Balance at December 31, 2015 (dollars in millions)		Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Liabilities at Fair Value				
Securities sold under agreements to repurchase	$ 151	Discounted cash flow:		
		Funding spread / (A)	86 to 116 bps	105 bps
Other secured financings	461	Option model:		
		Volatility skew / (C)	-1%	-1%
		Discounted cash flow(3):		
		Discount rate / (C)	4% to 13%	4%
		Discounted cash flow:		
		Funding spread / (A)	95 to 113 bps	104 bps
Long-term borrowings	1,987	Option model(3):		
		At the money volatility / (C)(D)	20% to 50%	29%
		Volatility skew / (A)(D)	-1% to 0%	-1%
		Equity - Equity correlation / (A)(D)	40% to 97%	77%
		Equity - Foreign exchange correlation / (C)(D)	-70% to -11%	-39%
		Option model:		
		Interest rate volatility skew / (A)(D)	50%	50%
		Equity volatility discount / (A)(D)	10%	10%
		Correlation model:		
		Credit correlation / (B)	40% to 60%	52%
		Comparable pricing:		
		Comparable equity price / (A)	100%	100%

bps Basis points

EBITDA Earnings before interest, taxes, depreciation and amortization

(1)

The range of significant unobservable inputs is represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 79 points would be 79% of par. A basis point equals 1/100th of 1%; for example, 898 bps would equal 8.98%.

(2) Amounts represent weighted averages except where simple averages and the median of the inputs are provided (see footnote 5 below). Weighted averages are calculated by weighting each input by the fair value of the respective financial instruments except for collateralized debt and loan obligations, principal investments, other debt, corporate bonds, long-term borrowings and derivative instruments where some or all inputs are weighted by risk.

(3) This is the predominant valuation technique for this major asset or liability class.

(4) Credit valuation adjustments (CVA) and funding valuation adjustments (FVA) are included in the balance but excluded from the Valuation Technique(s) and Significant Unobservable Input(s) in the previous table. CVA is a Level 3 input when the underlying counterparty credit curve is unobservable. FVA is a Level 3 input in its entirety given the lack of observability of funding spreads in the principal market.

(5) The data structure of the significant unobservable inputs used in valuing interest rate contracts, foreign exchange contracts, certain equity contracts and certain long-term borrowings may be in a multi-dimensional form, such as a curve or surface, with risk distributed across the structure. Therefore, a simple average and median, together with the range of data inputs, may be more appropriate measurements than a single point weighted average.

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

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

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

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

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

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

For a description of the Firm s significant unobservable inputs for all major categories of assets and liabilities, see Note 3 to the consolidated financial statements in the 2015 Form 10-K. The following provides a description of an update to significant unobservable inputs included in the 2015 Form 10-K.

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

During the current quarter and current year period, there were no other significant updates made to the Firm s significant unobservable inputs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)   (Continued)

Fair Value of Investments Measured at Net Asset Value

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

Investments in Certain Funds Measured at NAV per Share

	At June 30, 2016		At December 31, 2015	
	Fair Value	Commitment	Fair Value	Commitment
	(dollars in millions)			
Private equity funds	$ 1,698	$ 395	$ 1,917	$ 538
Real estate funds	1,228	111	1,337	128
Hedge funds	320	4	589	4
Total	$ 3,246	$ 510	$ 3,843	$ 670

Fair Value of Non-Redeemable Funds by Projected Distribution

	At June 30, 2016	
	Private Equity Funds	Real Estate Funds
	(dollars in millions)	
Less than 5 years	$ 128	$ 94
5-10 years	911	669
Over 10 years	659	465
Total	$ 1,698	$ 1,228

Restrictions

Investments in hedge funds may be subject to initial period lock-up restrictions or gates. A hedge fund lock-up provision restricts an investor from making a withdrawal from the fund. The purpose of a gate is to restrict the level of redemptions that an investor in a particular hedge fund can demand on any redemption date.

Redemption Frequency as Percentage of Hedge Fund Fair Value

	At June 30, 2016
Hedge Funds(1)	
Quarterly	55%
Every Six Months	20%
Greater than Six Months	19%

(1) The redemption notice period was primarily three months or greater.

Hedge fund investments representing approximately 6% of the fair value cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments was primarily over three years at June 30, 2016. Hedge fund investments representing approximately 26% of the fair value cannot be redeemed as of June 30, 2016 because an exit restriction has been imposed by the hedge fund manager primarily for indefinite periods.

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Fair Value Option

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

Impact on Earnings of Transactions Under the Fair Value Option Election

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

	Trading Revenues	Interest Income (Expense)	Gains (Losses) Included in Net Revenues
		(dollars in millions)	
Three Months Ended June 30, 2016			
Securities purchased under agreements to resell	$ (1)	$ 2	$ 1
Deposits(1)	(1)	(1)	(2)
Short-term borrowings(1)	(9)		(9)
Securities sold under agreements to repurchase(1)	(3)	(3)	(6)
Long-term borrowings(1)	(1,289)	(130)	(1,419)
Six Months Ended June 30, 2016			
Securities purchased under agreements to resell	$ (1)	$ 4	$ 3
Deposits(1)	(3)	(1)	(4)
Short-term borrowings(1)	36		36
Securities sold under agreements to repurchase(1)	(12)	(5)	(17)
Long-term borrowings(1)	(2,254)	(269)	(2,523)
Three Months Ended June 30, 2015			
Securities purchased under agreements to resell	$ (2)	$ 5	$ 3
Short-term borrowings(2)	(2)		(2)
Securities sold under agreements to repurchase(2)	6	(2)	4
Long-term borrowings(2)	152	(138)	14
Six Months Ended June 30, 2015			
Securities purchased under agreements to resell	$ (3)	$ 5	$ 2
Short-term borrowings(2)	(42)		(42)
Securities sold under agreements to repurchase(2)	4	(3)	1
Long-term borrowings(2)	1,089	(270)	819

(1) Gains (losses) are mainly attributable to changes in foreign currency rates or interest rates or movements in the reference price or index for short-term and long-term borrowings before the impact of related hedges. In accordance with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, unrealized DVA gains of $225 million and $548 million are recorded within OCI in the consolidated statements of comprehensive income and not included in this table for the current quarter and current year period, respectively. See Notes 2 and 14 for further information.

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

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

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015		Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	Trading Revenues	OCI	Trading Revenues	OCI	Trading Revenues	OCI	Trading Revenues	OC
	(dollars in millions)							
rt-term and long-term borrowings(1)	$	$ 226	$ 182	$	$ 41	$ 545	$ 307	$
urities sold under agreements to repurchase(1)		(1)				3		
ns and other debt(2)	(14)		(6)		(114)		71	
ding commitments(3)	2		(1)		3		8	

(1) In accordance with the early adoption of a provision of the accounting update, *Recognition and Measurement of Financial Assets and Financial Liabilities*, for the current quarter and current year period DVA gains (losses) are recorded in OCI when unrealized and in Trading revenues when realized. In the prior year quarter and prior year period, the realized and unrealized DVA gains (losses) are recorded in Trading revenues. The cumulative impact of changes in the Firm s DVA and the pre-tax amount recognized in AOCI is a gain of $87 million at June 30, 2016. See Notes 2 and 14 for further information.
(2) Loans and other debt instrument-specific credit gains (losses) were determined by excluding the non-credit components of gains and losses, such as those due to changes in interest rates.
(3) Gains (losses) on lending commitments were generally determined based on the differential between estimated expected client yields and contractual yields at each respective period-end.

Net Difference of Contractual Principal Amount Over Fair Value

	At June 30, 2016	At December 31, 2015
	(dollars in millions)	
Loans and other debt(1)	$ 15,046	$ 14,095
Loans 90 or more days past due and/or on nonaccrual status(1)	12,867	11,651
Short-term and long-term borrowings(2)	311	508

(1) The majority of the difference between principal and fair value amounts for loans and other debt emanates from the distressed debt trading business, which purchases distressed debt at amounts well below par.
(2) Short-term and long-term borrowings do not include structured notes where the repayment of the initial principal amount fluctuates based on changes in the reference price or index.

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

Business Unit Responsible for Risk Management	**At June 30, 2016**	**At December 31, 2015**
	(dollars in millions)	
Equity	$ 19,696	$ 17,789
Interest rates	16,728	14,255
Credit and foreign exchange	1,570	2,266
Commodities	321	383
Total	$ 38,315	$ 34,693

Fair Value of Loans in Nonaccrual Status

	At June 30, 2016	**At December 31, 2015**
	(dollars in millions)	
Aggregate fair value of loans in nonaccrual status(1)	$ 1,717	$ 1,853

(1) Includes all loans 90 or more days past due in the amount of $514 million and $885 million at June 30, 2016 and December 31, 2015, respectively.

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

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

Certain assets and liabilities were measured at fair value on a non-recurring basis and are not included in the previous tables.

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

	Carrying Value at June 30, 2016(1)	Fair Value by Level Level 1	Level 2	Level 3	Total Gains (Losses) for the Three Months Ended June 30, 2016(2)	Total Gains (Losses) for Six Months Ended June 30, 2016(2)
			(dollars in millions)			
Assets:						
Loans(3)	$ 6,700	$	$ 4,276	$ 2,424	$ (34)	$ (131)
Other assets Other investments(4)	82			82	(38)	(40)
Other assets Premises, equipment and software costs(5)					(22)	(27)
Total assets	$ 6,782	$	$ 4,276	$ 2,506	$ (94)	$ (198)
Liabilities:						
Other liabilities and accrued expenses(3)	$ 402	$	$ 331	$ 71	$ 13	$ 24
Total liabilities	$ 402	$	$ 331	$ 71	$ 13	$ 24

	Carrying Value at June 30, 2015(1)	Fair Value by Level Level 1	Level 2	Level 3	Total Gains (Losses) for the Three Months Ended June 30, 2015(2)	Total Gains (Losses) for the Six Months Ended June 30, 2015(2)
			(dollars in millions)			

Assets:										
Loans(3)	$ 3,244	$	$	2,458	$	786	$	47	$	8
Other assets Other investments(4)										(2)
Other assets Premises, equipment and software costs(5)								(2)		(22)
Total assets	$ 3,244	$	$	2,458	$	786	$	45	$	(16)
Liabilities:										
Other liabilities and accrued expenses(3)	$ 283	$	$	244	$	39	$	(45)		(48)
Total liabilities	$ 283	$	$	244	$	39	$	(45)		(48)

(1) Carrying values relate only to those assets that had fair value adjustments during the current quarter and prior year quarter.

(2) Changes in the fair value of Loans and losses related to Other assets Other investments are recorded within Other revenues in the consolidated statements of income. Losses related to Other assets Premises, equipment and software costs are recorded within Other expenses if not held for sale and within Other revenues if held for sale. Changes in the fair value of lending commitments reported in Other liabilities and accrued expenses that are designated as held for sale are recorded within Other revenues, whereas, changes in the fair value related to held for investment lending commitments are recorded within Other expenses.

(3) Non-recurring changes in the fair value of loans and lending commitments held for investment were calculated using the value of the underlying collateral. Loans and lending commitments held for sale were calculated using recently executed transactions; market price quotations; valuation models that incorporate market observable inputs where possible, such as comparable loan or debt prices and credit default swap spread levels adjusted for any basis difference between cash and derivative instruments; or default recovery analysis where such transactions and quotations are unobservable.

(4) Losses related to Other assets Other investments were determined primarily using discounted cash flow models and methodologies that incorporate multiples of certain comparable companies.

(5) Losses related to Other assets Premises, equipment and software costs were determined primarily using a default recovery analysis.

Included in the losses within the previous table for the current quarter and current year period, there was a loss of approximately $35 million (related to Other assets Other investments) in connection with the sale of solar invest-

ments and impairments of the remaining unsold solar investments accounted for under the equity method. The fair value of these investments was determined based on the sales price.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Financial Instruments Not Measured at Fair Value

For a further discussion of financial instruments not measured at fair value, see Note 3 to the consolidated financial statements in the 2015 Form 10-K. The carrying values of the remaining assets and liabilities not measured at fair value in the following tables approximate fair value due to their short-term nature. The following 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.

	At June 30, 2016		Fair Value by Level		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(dollars in millions)				
Financial Assets:					
Cash and due from banks	$ 27,597	$ 27,597	$ 27,597	$	$
Interest bearing deposits with banks	28,536	28,536	28,536		
Investment securities HTM securities	12,418	12,567	3,758	8,809	
Securities purchased under agreements to resell	97,034	97,042		95,140	1,902
Securities borrowed	131,281	131,282		131,156	126
Customer and other receivables(1)	48,910	48,815		44,033	4,782
Loans(2)	93,165	94,151		25,289	68,862
Other assets Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	32,771	32,771	32,771		
Financial Liabilities:					
Deposits	$ 152,598	$ 152,788	$	$ 152,788	$
Short-term borrowings	369	369		369	
Securities sold under agreements to repurchase	49,629	49,692		48,033	1,659
Securities loaned	17,241	17,262		17,262	
Other secured financings	6,980	6,991		5,596	1,395
Customer and other payables(1)	197,978	197,978		197,978	
Long-term borrowings	125,688	127,189		127,189	

	At December 31, 2015		Fair Value by Level		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(dollars in millions)				

Financial Assets:					
Cash and due from banks	$ 19,827	$ 19,827	$ 19,827	$	$
Interest bearing deposits with banks	34,256	34,256	34,256		
Investment securities HTM securities	5,224	5,188	998	4,190	
Securities purchased under agreements to resell	86,851	86,837		86,186	651
Securities borrowed	142,416	142,414		142,266	148
Customer and other receivables(1)	41,676	41,576		36,752	4,824
Loans(2)	85,759	86,423		19,241	67,182
Other assets Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	31,469	31,469	31,469		
Financial Liabilities:					
Deposits	$ 155,909	$ 156,163	$	$ 156,163	$
Short-term borrowings	525	525		525	
Securities sold under agreements to repurchase	36,009	36,060		34,150	1,910
Securities loaned	19,358	19,382		19,192	190
Other secured financings	6,610	6,610		5,333	1,277
Customer and other payables(1)	183,895	183,895		183,895	
Long-term borrowings	120,723	123,219		123,219	

HTM Held to maturity

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

At June 30, 2016 and December 31, 2015, notional amounts of approximately $93.8 billion and $99.5 billion, respectively, of the Firm s lending commitments were held for investment and held for sale, which are not included in the previous table. The estimated fair value of such lending commitments was a liability of $1,841 million and $2,172

million, respectively, at June 30, 2016 and December 31, 2015. Had these commitments been accounted for at fair value, $1,610 million would have been categorized in Level 2 and $231 million in Level 3 at June 30, 2016, and $1,791 million would have been categorized in Level 2 and $381 million in Level 3 at December 31, 2015.

4. Derivative Instruments and Hedging Activities

For a discussion of the Firm s derivative instruments and hedging activities, see Note 4 to the consolidated financial statements in the 2015 Form 10-K.

Fair Value, Notional and Offsetting of Derivative Assets and Liabilities

Derivative Assets at June 30, 2016

	Fair Value				Notional			
	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 3,325	$ 3,798	$	$ 7,123	$ 34,003	$ 58,245	$	$ 92,248
Foreign exchange contracts	88			88	2,795	59		2,854
Total derivatives designated as accounting hedges	3,413	3,798		7,211	36,798	58,304		95,102
Derivatives not designated								

as accounting hedges(1):								
Interest rate contracts	287,757	168,366	328	456,451	3,940,102	6,615,199	1,636,768	12,192,069
Credit contracts	13,734	2,727		16,461	434,478	133,037		567,515
Foreign exchange contracts	75,891	386	140	76,417	1,851,368	16,653	21,279	1,889,300
Equity contracts	22,043		20,486	42,529	341,039		259,453	600,492
Commodity contracts	11,785		3,724	15,509	72,700		83,156	155,856
Other	16			16	1,135			1,135
Total derivatives not designated as accounting hedges	411,226	171,479	24,678	607,383	6,640,822	6,764,889	2,000,656	15,406,367
Total gross derivatives(2)	$ 414,639	$ 175,277	$ 24,678	$ 614,594	$ 6,677,620	$ 6,823,193	$ 2,000,656	$ 15,501,469
Amounts offset:								
Counterparty netting	(321,553)	(173,222)	(21,214)	(515,989)				
Cash collateral netting	(60,352)	(95)		(60,447)				
Total derivative assets at fair value included in Trading assets	$ 32,734	$ 1,960	$ 3,464	$ 38,158				
Amounts not offset(3):								
Financial instruments collateral	(12,011)			(12,011)				
Other cash collateral	(23)			(23)				
Net exposure	$ 20,700	$ 1,960	$ 3,464	$ 26,124				

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Derivative Liabilities at June 30, 2016							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$	$	$	$	$	$ 32	$	$ 32
Foreign exchange contracts	$ 492	$ 23	$	$ 515	$ 8,348	$ 689	$	$ 9,037
Total derivatives designated as accounting hedges	492	23		515	8,348	721		9,069
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	265,270	172,084	412	437,766	3,654,941	6,558,339	760,822	10,974,102
Credit contracts	14,888	2,933		17,821	489,656	115,979		605,635
Foreign exchange contracts	77,614	414	82	78,110	1,837,572	15,817	10,511	1,863,900
Equity contracts	25,633		20,916	46,549	342,625		261,986	604,611
Commodity contracts	9,390		3,389	12,779	68,095		64,896	132,991
Other	102			102	4,817			4,817
Total derivatives not designated as accounting	392,897	175,431	24,799	593,127	6,397,706	6,690,135	1,098,215	14,186,056

	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
hedges								
Total gross derivatives(2)	$ 393,389	$ 175,454	$ 24,799	$ 593,642	$ 6,406,054	$ 6,690,856	$ 1,098,215	$ 14,195,125
Amounts offset:								
Counterparty netting	(321,553)	(173,222)	(21,214)	(515,989)				
Cash collateral netting	(38,378)	(1,952)		(40,330)				
Total derivative liabilities at fair value included in Trading liabilities	$ 33,458	$ 280	$ 3,585	$ 37,323				
Amounts not offset(3):								
Financial instruments collateral	(11,509)		(514)	(12,023)				
Other cash collateral	(10)	(41)		(51)				
Net exposure	$ 21,939	$ 239	$ 3,071	$ 25,249				

Derivative Assets at December 31, 2015

	Fair Value				Notional			
	Bilateral OTC	**Cleared OTC**	**Exchange Traded**	**Total**	**Bilateral OTC**	**Cleared OTC**	**Exchange Traded**	**Total**
				(dollars in millions)				
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 2,825	$ 1,442	$	$ 4,267	$ 36,999	$ 35,362	$	$ 72,361
Foreign exchange contracts	166	1		167	5,996	167		6,163
Total derivatives designated as accounting	2,991	1,443		4,434	42,995	35,529		78,524

hedges								
Derivatives not designated as accounting hedges(4):								
Interest rate contracts	220,289	101,276	212	321,777	4,348,002	5,748,525	1,218,645	11,315,172
Credit contracts	19,310	3,609		22,919	585,731	139,301		725,032
Foreign exchange contracts	64,438	295	55	64,788	1,907,290	13,402	7,715	1,928,407
Equity contracts	20,212		20,077	40,289	316,770		229,859	546,629
Commodity contracts	13,114		4,038	17,152	67,449		82,313	149,762
Other	219			219	5,684			5,684
Total derivatives not designated as accounting hedges	337,582	105,180	24,382	467,144	7,230,926	5,901,228	1,538,532	14,670,686
Total gross derivatives(2)	$ 340,573	$ 106,623	$ 24,382	$ 471,578	$ 7,273,921	$ 5,936,757	$ 1,538,532	$ 14,749,210
Amounts offset:								
Counterparty netting	(265,707)	(104,294)	(21,592)	(391,593)				
Cash collateral netting	(50,335)	(1,037)		(51,372)				
Total derivative assets at fair value included in Trading assets	$ 24,531	$ 1,292	$ 2,790	$ 28,613				
Amounts not offset(3):								
Financial instruments collateral	(9,190)			(9,190)				
Other cash collateral	(9)			(9)				

Net exposure	$ 15,332	$ 1,292	$ 2,790	$ 19,414

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

hedges																
Total gross derivatives(2)	$	324,671	$	108,063	$	24,616	$	457,350	$	6,864,262	$	5,837,356	$	1,372,605	$	14,074,223
Amounts offset:																
Counterparty netting		(265,707)		(104,294)		(21,592)		(391,593)								
Cash collateral netting		(33,332)		(2,951)				(36,283)								
Total derivative liabilities at fair value included in Trading liabilities	$	25,632	$	818	$	3,024	$	29,474								
Amounts not offset(3):																
Financial instruments collateral		(5,384)				(405)		(5,789)								
Other cash collateral		(5)						(5)								
Net exposure	$	20,243	$	818	$	2,619	$	23,680								

OTC Over-the-counter

(1) Notional amounts include gross notionals related to open long and short futures contracts of $1,300.0 billion and $372.8 billion, respectively. The unsettled fair value on these futures contracts (excluded from this table) of $1,631 million and $153 million is included in Customer and other receivables and Customer and other payables, respectively, in the consolidated balance sheets.
(2) Amounts include transactions which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Firm has not determined the agreements to be legally enforceable as follows: $4.8 billion of derivative assets and $6.3 billion of derivative liabilities at June 30, 2016, and $4.2 billion of derivative assets and $5.2 billion of derivative liabilities at December 31, 2015.
(3) Amounts relate to master netting agreements and collateral agreements that have been determined by the Firm to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.
(4) Notional amounts include gross notionals related to open long and short futures contracts of $1,009.5 billion and $653.0 billion, respectively. The unsettled fair value on these futures contracts (excluded from this table) of $1,145 million and $437 million is included in Customer and other receivables and Customer and other payables, respectively, in the consolidated balance sheets.

For information related to offsetting of certain collateralized transactions, see Note 6.

Gains (Losses) on Fair Value Hedges

Product Type	Gains (Losses) Recognized in Interest Expense Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
	(dollars in millions)			
Derivatives	$ 969	$ (1,899)	$ 3,119	$ (1,141)
Borrowings	(993)	1,861	(3,282)	1,018
Total	$ (24)	$ (38)	$ (163)	$ (123)

Gains (Losses) on Derivatives Designated as Net Investment Hedges

Product Type	Gains (Losses) Recognized in OCI (effective portion) Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
	(dollars in millions)			
Foreign exchange contracts(1)	$ (112)	$ (81)	$ (336)	$ 181

(1) Losses of $19 million and $39 million related to the forward points on the hedging instruments were excluded from hedge effectiveness testing and recognized in Interest income during the current quarter and current year period, respectively. Losses of $36 million and $80 million related to the forward points on the hedging instruments were excluded from hedge effectiveness testing and recognized in Interest income during the prior year quarter and prior year period, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Gains (Losses) on Trading Instruments

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

	Gains (Losses) Recognized in Trading Revenues			
	Three Months Ended June 30,		Six Months Ended June 30,	
Product Type	**2016**	**2015**	**2016**	**2015**
	(dollars in millions)			
Interest rate contracts	$ 320	$ 355	$ 626	$ 925
Foreign exchange contracts	362	170	599	515
Equity security and index contracts(1)	1,615	1,746	2,945	3,341
Commodity and other contracts(2)	20	140	(124)	816
Credit contracts	429	380	765	719
Subtotal	$ 2,746	$ 2,791	$ 4,811	$ 6,316
Debt valuation adjustments(3)		182		307
Total trading revenue	$ 2,746	$ 2,973	$ 4,811	$ 6,623

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

OTC Derivative Products Trading Assets

Counterparty Credit Rating and Remaining Maturity of OTC Derivative Assets

	Fair Value at June 30, 2016(1)						
Credit Rating(2)	Contractual Years to Maturity Less than 1	1 - 3	3 - 5	Over 5	Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-cash Collateral	Net Exposure Post-collateral(4)
	(dollars in millions)						
AAA	$ 137	$ 396	$ 1,312	$ 4,360	$ (4,953)	$ 1,252	$ 1,175
AA	3,156	1,502	1,814	12,226	(12,717)	5,981	3,771
A	11,078	7,607	5,336	28,058	(38,694)	13,385	7,784
BBB	5,794	4,489	2,622	15,861	(19,993)	8,773	6,808
Non-investment grade	3,923	2,505	996	5,370	(7,514)	5,280	3,122
Total	$ 24,088	$ 16,499	$ 12,080	$ 65,875	$ (83,871)	$ 34,671	$ 22,660

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

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

Credit Risk-Related Contingencies

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

Net Derivative Liabilities and Collateral Posted

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

At June 30, 2016
(dollars in millions)

Net derivative liabilities	$	28,999
Collateral posted		24,217

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody s Investors Service, Inc. (Moody s) and Standard & Poor s Ratings Services (S&P). The following table shows the future potential collateral amounts and

termination payments that could be called or required by counterparties or exchange and clearing organizations in the event of one-notch or two-notch downgrade scenarios based on the relevant contractual downgrade triggers.

Incremental Collateral or Termination Payments upon Potential Future Ratings Downgrade

		At June 30, 2016(1) (dollars in millions)
One-notch downgrade	$	1,075
Two-notch downgrade		1,233

(1) Amounts include $1,481 million related to bilateral arrangements between the Firm and other parties where upon the downgrade of one party, the downgraded party must deliver collateral to the other party. These bilateral downgrade arrangements are used by the Firm to manage the risk of counterparty downgrades.

Credit Derivatives and Other Credit Contracts

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Notional and Fair Value of Protection Sold and Protection Purchased through Credit Default Swaps

	At June 30, 2016			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$ 347,624	$ 463	$ 338,727	$ (453)
Index and basket credit default swaps	176,009	726	143,734	(771)
Tranched index and basket credit default swaps	43,657	(793)	123,399	2,188
Total	$ 567,290	$ 396	$ 605,860	$ 964

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

Credit Ratings of Reference Obligation and Maturities of Credit Protection Sold

	At June 30, 2016					
	Maximum Potential Payout/Notional					Fair Value (Asset)/ Liability(1)
	Years to Maturity					
	Less than 1	1-3	3-5	Over 5	Total	
	(dollars in millions)					

Single name credit default swaps(2):												
Investment grade	$	92,734	$	94,348	$	48,928	$	11,097	$	247,107	$	(1,079)
Non-investment grade		42,370		38,348		18,381		1,418		100,517		1,542
Total	$	135,104	$	132,696	$	67,309	$	12,515	$	347,624	$	463
Index and basket credit default swaps(2):												
Investment grade	$	24,110	$	39,948	$	42,887	$	4,060	$	111,005	$	(1,222)
Non-investment grade		51,914		28,315		13,761		14,671		108,661		1,155
Total	$	76,024	$	68,263	$	56,648	$	18,731	$	219,666	$	(67)
Total credit default swaps sold	$	211,128	$	200,959	$	123,957	$	31,246	$	567,290	$	396
Other credit contracts		43		25				276		344		(17)
Total credit derivatives and other credit contracts	$	211,171	$	200,984	$	123,957	$	31,522	$	567,634	$	379

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	At December 31, 2015 Maximum Potential Payout/Notional Years to Maturity					Fair Value (Asset)/ Liability(1)
	Less than 1	1-3	3-5	Over 5	Total	
			(dollars in millions)			
Single name credit default swaps(2):						
Investment grade	$ 84,543	$ 138,467	$ 63,754	$ 12,906	$ 299,670	$ (1,831)
Non-investment grade	38,054	56,261	24,432	2,389	121,136	3,811
Total	$ 122,597	$ 194,728	$ 88,186	$ 15,295	$ 420,806	$ 1,980
Index and basket credit default swaps(2):						
Investment grade	$ 33,507	$ 59,403	$ 45,505	$ 5,327	$ 143,742	$ (1,977)
Non-investment grade	52,590	43,899	15,480	13,002	124,971	782
Total	$ 86,097	$ 103,302	$ 60,985	$ 18,329	$ 268,713	$ (1,195)
Total credit default swaps sold	$ 208,694	$ 298,030	$ 149,171	$ 33,624	$ 689,519	$ 785
Other credit contracts	19	107	2	332	460	(24)
Total credit derivatives and other credit contracts	$ 208,713	$ 298,137	$ 149,173	$ 33,956	$ 689,979	$ 761

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

Purchased Credit Protection with Identical Underlying Reference Obligations

For single name and non-tranched index and basket credit default swaps, the Firm has purchased protection with a notional amount of approximately $480.1 billion and $577.7 billion at June 30, 2016 and December 31, 2015, respectively, compared with a notional amount of approximately

$521.9 billion and $619.5 billion (included in the previous tables) at June 30, 2016 and December 31, 2015, respectively, of credit protection sold with identical underlying reference obligations.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

5. Investment Securities

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

AFS and HTM Securities

	At June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in millions)			
AFS debt securities:				
U.S. government and agency securities:				
U.S. Treasury securities	$ 29,923	$ 213	$ 8	$ 30,128
U.S. agency securities(1)	23,221	208	22	23,407
Total U.S. government and agency securities	53,144	421	30	53,535
Corporate and other debt:				
Commercial mortgage-backed securities:				
Agency	2,139	5	31	2,113
Non-agency	2,159	36	10	2,185
Auto loan asset-backed securities	2,071	7		2,078
Corporate bonds	4,009	66	2	4,073
Collateralized loan obligations	502		7	495
FFELP student loan asset-backed securities(2)	3,345		105	3,240
Total corporate and other debt	14,225	114	155	14,184
Total AFS debt securities	67,369	535	185	67,719
AFS equity securities	15		8	7
Total AFS securities	67,384	535	193	67,726
HTM securities:				
U.S. government securities:				
U.S. Treasury securities	3,705	53		3,758
U.S. agency securities(1)	8,713	96		8,809
Total HTM securities	12,418	149		12,567

Total Investment securities	$	79,802	$	684	$	193	$	80,293

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	At December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in millions)			
AFS debt securities:				
U.S. government and agency securities:				
U.S. Treasury securities	$ 31,555	$ 5	$ 143	$ 31,417
U.S. agency securities(1)	21,103	29	156	20,976
Total U.S. government and agency securities	52,658	34	299	52,393
Corporate and other debt:				
Commercial mortgage-backed securities:				
Agency	1,906	1	60	1,847
Non-agency	2,220	3	25	2,198
Auto loan asset-backed securities	2,556		9	2,547
Corporate bonds	3,780	5	30	3,755
Collateralized loan obligations	502		7	495
FFELP student loan asset-backed securities(2)	3,632		115	3,517
Total corporate and other debt	14,596	9	246	14,359
Total AFS debt securities	67,254	43	545	66,752
AFS equity securities	15		8	7
Total AFS securities	67,269	43	553	66,759
HTM securities:				
U.S. government securities:				
U.S. Treasury securities	1,001		3	998
U.S. agency securities(1)	4,223	1	34	4,190
Total HTM securities	5,224	1	37	5,188
Total Investment securities	$ 72,493	$ 44	$ 590	$ 71,947

(1) U.S. agency securities consist mainly of agency-issued debt, agency mortgage pass-through pool securities and collateralized mortgage obligations.

(2) FFELP Federal Family Education Loan Program. Amounts are backed by a guarantee from the U.S. Department of Education of at least 95% of the principal balance and interest on such loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Investment Securities in an Unrealized Loss Position

	At June 30, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(dollars in millions)					
AFS debt securities:						
U.S. government and agency securities:						
U.S. Treasury securities	$ 3,028	$ 8	$	$	$ 3,028	$ 8
U.S. agency securities	5,731	10	1,225	12	6,956	22
Total U.S. government and agency securities	8,759	18	1,225	12	9,984	30
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	31		1,181	31	1,212	31
Non-agency	216		625	10	841	10
Auto loan asset-backed securities	83		204		287	
Corporate bonds	172	1	175	1	347	2
Collateralized loan obligations			494	7	494	7
FFELP student loan asset-backed securities	583	12	2,637	93	3,220	105
Total corporate and other debt	1,085	13	5,316	142	6,401	155
Total AFS debt securities	9,844	31	6,541	154	16,385	185
AFS equity securities	7	8			7	8
Total AFS securities	9,851	39	6,541	154	16,392	193
HTM securities:						
U.S. government and agency securities:						
U.S. agency securities	72				72	
Total HTM securities	72				72	
Total Investment securities	$ 9,923	$ 39	$ 6,541	$ 154	$ 16,464	$ 193

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

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

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

For AFS debt securities, the Firm does not intend to sell the securities and is not likely to be required to sell the securities prior to recovery of amortized cost basis. For AFS and HTM debt securities, the securities have not experienced credit losses as the net unrealized losses reported in the previous table are primarily due to higher interest rates since those securities were purchased. Additionally, the Firm does not expect to experience a credit loss based on consideration of the relevant information (as discussed in Note 2

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Amortized Cost, Fair Value and Annualized Average Yield of Investment Securities by Contractual Maturity Dates

	At June 30, 2016		
	Amortized Cost	Fair Value	Annualized Average Yield
	(dollars in millions)		
AFS debt securities:			
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	$ 2,698	$ 2,702	0.7%
After 1 year through 5 years	22,137	22,317	1.0%
After 5 years through 10 years	5,088	5,109	1.4%
Total	29,923	30,128	
U.S. agency securities:			
Due within 1 year	200	200	0.7%
After 1 year through 5 years	2,629	2,632	0.5%
After 5 years through 10 years	1,327	1,357	1.9%
After 10 years	19,065	19,218	1.6%
Total	23,221	23,407	
Total U.S. government and agency securities	53,144	53,535	1.2%
Corporate and other debt:			
Commercial mortgage-backed securities:			
Agency:			
Due within 1 year	73	74	0.8%
After 1 year through 5 years	404	406	1.0%
After 5 years through 10 years	639	641	1.3%
After 10 years	1,023	992	1.6%
Total	2,139	2,113	
Non-agency:			
After 10 years	2,159	2,185	1.9%
Total	2,159	2,185	

Auto loan asset-backed securities:			
Due within 1 year	4	4	0.9%
After 1 year through 5 years	1,902	1,909	1.3%
After 5 years through 10 years	165	165	1.6%
Total	2,071	2,078	
Corporate bonds:			
Due within 1 year	638	640	1.3%
After 1 year through 5 years	2,655	2,695	1.8%
After 5 years through 10 years	716	738	2.6%
Total	4,009	4,073	
Collateralized loan obligations:			
After 5 years through 10 years	502	495	1.5%
Total	502	495	

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	At June 30, 2016				
	Amortized Cost		Fair Value		Annualized Average Yield
	(dollars in millions)				
FFELP student loan asset-backed securities:					
After 1 year through 5 years		59		59	0.6%
After 5 years through 10 years		922		897	0.9%
After 10 years		2,364		2,284	0.9%
Total		3,345		3,240	
Total corporate and other debt		14,225		14,184	1.5%
Total AFS debt securities		67,369		67,719	1.3%
AFS equity securities		15		7	%
Total AFS securities		67,384		67,726	1.3%
HTM securities:					
U.S. government securities:					
U.S. Treasury securities:					
Due within 1 year		200		201	0.7%
After 1 year through 5 years		1,408		1,422	1.1%
After 5 years through 10 years		1,693		1,719	1.7%
After 10 years		404		416	2.5%
Total		3,705		3,758	
U.S. agency securities:					
After 10 years		8,713		8,809	2.0%
Total		8,713		8,809	
Total HTM securities		12,418		12,567	1.8%
Total Investment securities	$	79,802	$	80,293	1.4%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(dollars in millions)			
Gross realized gains	$ 71	$ 40	$ 85	$ 69
Gross realized (losses)	(1)	(10)	(3)	(14)
Total	$ 70	$ 30	$ 82	$ 55

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

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6. Collateralized Transactions

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

Offsetting of Certain Collateralized Transactions

	At June 30, 2016				
	Gross Amounts(1)	Amounts Offset	Net Amounts Presented	Amounts Not Offset(2)	Net Exposure
	(dollars in millions)				
Assets					
Securities purchased under agreements to resell	$ 162,813	$ (65,224)	$ 97,589	$ (91,746)	$ 5,843
Securities borrowed	138,436	(7,155)	131,281	(124,773)	6,508
Liabilities					
Securities sold under agreements to repurchase	$ 115,552	$ (65,224)	$ 50,328	$ (42,541)	$ 7,787
Securities loaned	24,396	(7,155)	17,241	(16,724)	517

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

(1) Amounts include transactions which are either not subject to master netting agreements or are subject to such agreements but the Firm has not determined the agreements to be legally enforceable as follows: $5.5 billion of

Securities purchased under agreements to resell, $3.7 billion of Securities borrowed, $7.2 billion of Securities sold under agreements to repurchase and $0.4 billion of Securities loaned at June 30, 2016, and $2.6 billion of Securities purchased under agreements to resell, $3.0 billion of Securities borrowed and $4.9 billion of Securities sold under agreements to repurchase at December 31, 2015.

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

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

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Secured Financing Transactions Maturities and Collateral Pledged

Gross Secured Financing Balances by Remaining Contractual Maturity

	At June 30, 2016				
	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days	Total
	(dollars in millions)				
Securities sold under agreements to repurchase(1)	$ 38,732	$ 30,586	$ 20,309	$ 25,925	$ 115,552
Securities loaned(1)	13,085	50	1,336	9,925	24,396
Gross amount of secured financing included in the offsetting disclosure	$ 51,817	$ 30,636	$ 21,645	$ 35,850	$ 139,948
Obligation to return securities received as collateral	18,738				18,738
Total	$ 70,555	$ 30,636	$ 21,645	$ 35,850	$ 158,686

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Gross Secured Financing Balances by Class of Collateral Pledged

	At June 30, 2016	At December 31, 2015
	(dollars in millions)	
Securities sold under agreements to repurchase(1)		
U.S. government and agency securities	$ 39,920	$ 36,609
State and municipal securities	2,104	173
Other sovereign government obligations	42,329	24,820
Asset-backed securities	745	441
Corporate and other debt	8,638	4,020
Corporate equities	21,515	18,473
Other	301	213
Total securities sold under agreements to repurchase	$ 115,552	$ 84,749
Securities loaned(1)		
U.S. government and agency securities	$ 182	$
Other sovereign government obligations	7,454	7,336
Corporate and other debt	123	71
Corporate equities	16,602	16,972
Other	35	8
Total securities loaned	$ 24,396	$ 24,387
Gross amount of secured financing included in the offsetting disclosure	$ 139,948	$ 109,136
Obligation to return securities received as collateral		
Corporate and other debt		3
Corporate equities	18,737	19,313
Other	1	
Total obligation to return securities received as collateral	$ 18,738	$ 19,316
Total	$ 158,686	$ 128,452

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

Trading Assets Pledged

The Firm pledges its trading assets to collateralize repurchase agreements and other secured financings. Pledged financial instruments that can be sold or repledged by the secured party are identified as Trading assets (pledged to various parties) in the consolidated balance sheets. At June 30, 2016 and December 31, 2015, the carrying value of Trading assets that have been loaned or pledged to counterparties, where those counterparties do not have the right to sell or repledge the collateral, were $41.1 billion and $35.0 billion, respectively.

Collateral Received

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

positions. The Firm additionally receives securities as collateral in connection with certain securities-for-securities transactions in which it is the lender. In instances where the Firm is permitted to sell or repledge these securities, it reports the fair value of the collateral received and the related obligation to return the collateral included in Trading assets and Trading liabilities, respectively, in its consolidated balance sheets. At June 30, 2016 and December 31, 2015, the total fair value of financial instruments received as collateral where the Firm is permitted to sell or repledge the securities was $528.0 billion and $522.6 billion, respectively, and the fair value of the portion that had been sold or repledged was $407.0 billion and $398.1 billion, respectively.

Other

The Firm also engages in margin lending to clients that allows the client to borrow against the value of qualifying securities and is included within Customer and other receivables in the consolidated balance sheets. Under these agreements and transactions, the Firm receives collateral,

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including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. Customer receivables generated from margin lending activities are collateralized by customer-owned securities held by the Firm. The Firm monitors required margin levels and established credit terms daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary. At June 30, 2016 and December 31, 2015,

the amounts related to margin lending were approximately $23.2 billion and $25.3 billion, respectively.

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

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

Cash and Securities Deposited with Clearing Organizations or Segregated

	At June 30, 2016	At December 31, 2015
	(dollars in millions)	
Securities(1)	$ 23,710	$ 14,390
Other assets Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	32,771	31,469
Total	$ 56,481	$ 45,859

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

7. Loans and Allowance for Credit Losses

Loans

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

Loans Held for Investment and Held for Sale

Loans by Product Type	At June 30, 2016 Loans Held for Investment	Loans Held for Sale	Total Loans(1)(2)	At December 31, 2015 Loans Held for Investment	Loans Held for Sale	Total Loans(1)(2)
			(dollars in millions)			
Corporate loans	$ 24,186	$ 14,448	$ 38,634	$ 23,554	$ 11,924	$ 35,478
Consumer loans	23,337		23,337	21,528		21,528
Residential real estate loans	22,668	84	22,752	20,863	104	20,967
Wholesale real estate loans	7,415	1,350	8,765	6,839	1,172	8,011
Total loans, gross of allowance for loan losses	77,606	15,882	93,488	72,784	13,200	85,984
Allowance for loan losses	(323)		(323)	(225)		(225)
Total loans, net of allowance for loan losses	$ 77,283	$ 15,882	$ 93,165	$ 72,559	$ 13,200	$ 85,759

(1) Amounts include loans that are made to non-U.S. borrowers of $8,104 million and $9,789 million at June 30, 2016 and December 31, 2015, respectively.

(2) Loans at fixed interest rates and floating or adjustable interest rates were $10,102 million and $83,063 million, respectively, at June 30, 2016 and $8,471 million and $77,288 million, respectively, at December 31, 2015.

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Credit Quality

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

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

	At June 30, 2016				
	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
	(dollars in millions)				
Pass	$ 22,183	$ 23,337	$ 22,627	$ 7,191	$ 75,338
Special mention	539			224	763
Substandard	1,308		41		1,349
Doubtful	156				156
Loss					
Total loans	$ 24,186	$ 23,337	$ 22,668	$ 7,415	$ 77,606

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

Allowance for Credit Losses and Impaired Loans

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

Loans by Product Type

	At June 30, 2016			At December 31, 2015		
	Corporate	Residential Real Estate	Total	Corporate	Residential Real Estate	Total
	(dollars in millions)					
Impaired loans with allowance	$ 244	$ —	$ 244	$ 39	$ —	$ 39
Impaired loans without allowance(1)	338	30	368	89	17	106
Impaired loans unpaid principal balance(2)	593	32	625	130	19	149
Past due 90 days loans and on nonaccrual	1	20	21	1	21	22

(1) At June 30, 2016 and December 31, 2015, no allowance was outstanding for these loans as the present value of the expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral held) equaled or exceeded the carrying value.

(2) The impaired loans unpaid principal balance differs from the aggregate amount of impaired loan balances with and without allowance due to various factors, including charge-offs and net deferred loan fees or costs.

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Loans by Region

	At June 30, 2016				At December 31, 2015			
	Americas	EMEA	Asia-Pacific	Total	Americas	EMEA	Asia-Pacific	Total
	(dollars in millions)							
Impaired loans	$ 589	$ 23	$	$ 612	$ 108	$ 12	$ 25	$ 145
Past due 90 days loans and on nonaccrual	21			21	22			22
Allowance for loan losses	277	43	3	323	183	34	8	225

EMEA Europe, Middle East and Africa

Allowance for Credit Losses on Lending Activities

	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
	(dollars in millions)				
Allowance for Loan Losses					
Balance at December 31, 2015	$ 166	$ 5	$ 17	$ 37	$ 225
Gross charge-offs					
Gross recoveries					
Net recoveries/(charge-offs)					
Provision for (release of) loan losses(1)	116	(1)	1	12	128
Other(2)	(30)				(30)
Balance at June 30, 2016	$ 252	$ 4	$ 18	$ 49	$ 323
Allowance for Loan Losses by Impairment Methodology					
Inherent	$ 147	$ 4	$ 18	$ 49	$ 218

Specific	105				105
Total allowance for loan losses at June 30, 2016	$ 252	$ 4	$ 18	$ 49	$ 323
Loans Evaluated by Impairment Methodology(3)					
Inherent	$ 23,604	$ 23,337	$ 22,638	$ 7,415	$ 76,994
Specific	582		30		612
Total loans evaluated at June 30, 2016	$ 24,186	$ 23,337	$ 22,668	$ 7,415	$ 77,606
Allowance for Lending Commitments					
Balance at December 31, 2015	$ 180	$ 1	$	$ 4	$ 185
Provision for lending commitments(4)	1			2	3
Other		(1)			(1)
Balance at June 30, 2016	$ 181	$	$	$ 6	$ 187
Allowance for Lending Commitments by Impairment Methodology					
Inherent	$ 173	$	$	$ 6	$ 179
Specific	8				8
Total allowance for lending commitments at June 30, 2016	$ 181	$	$	$ 6	$ 187
Lending Commitments Evaluated by Impairment Methodology(3)					
Inherent	$ 63,120	$ 5,264	$ 327	$ 496	$ 69,207
Specific	64				64
Total lending commitments evaluated at June 30, 2016	$ 63,184	$ 5,264	$ 327	$ 496	$ 69,271

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Corporate	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Allowance for Loan Losses					
Balance at December 31, 2014	$ 118	$ 2	$ 8	$ 21	$ 149
Gross charge-offs			(1)		(1)
Gross recoveries	1				1
Net recoveries/(charge-offs)	1		(1)		
Provision for loan losses(1)	26		2	2	30
Other(2)	(10)				(10)
Balance at June 30, 2015	$ 135	$ 2	$ 9	$ 23	$ 169
Allowance for Loan Losses by Impairment Methodology					
Inherent	$ 130	$ 2	$ 9	$ 23	$ 164
Specific	5				5
Total allowance for loan losses at June 30, 2015	$ 135	$ 2	$ 9	$ 23	$ 169
Loans Evaluated by Impairment Methodology(3)					
Inherent	$ 22,479	$ 19,464	$ 18,214	$ 6,388	$ 66,545
Specific	21		27		48
Total loans evaluated at June 30, 2015	$ 22,500	$ 19,464	$ 18,241	$ 6,388	$ 66,593
Allowance for Lending Commitments					
Balance at December 31, 2014	$ 147	$	$	$ 2	$ 149
Provision for lending commitments(4)	6			2	8
Balance at June 30, 2015	$ 153	$	$	$ 4	$ 157
Allowance for Lending Commitments by Impairment Methodology					
Inherent	$ 153	$	$	$ 4	$ 157
Specific					

Total allowance for lending commitments at June 30, 2015	$	153	$		$		$	4	$	157
Lending Commitments Evaluated by Impairment Methodology(3)										
Inherent	$	65,183	$	4,235	$	289	$	623	$	70,330
Specific										
Total lending commitments evaluated at June 30, 2015	$	65,183	$	4,235	$	289	$	623	$	70,330

(1) The Firm recorded provisions of $16 million and $4 million for loan losses for the current quarter and prior year quarter, respectively.
(2) Amount includes the impact related to the transfer to loans held for sale and foreign currency translation adjustments.
(3) Loan balances are gross of the allowance for loan losses, and lending commitments are gross of the allowance for lending commitments.
(4) The Firm recorded a release of $13 million and $29 million for commitments for the current quarter and prior year quarter, respectively.

Troubled Debt Restructurings

At June 30, 2016 and December 31, 2015, the impaired loans and lending commitments within held for investment include TDRs of $137.2 million and $44.0 million related to loans and $18.7 million and $34.8 million related to lending commitments, respectively, within corporate loans. At June 30, 2016 and December 31, 2015, the Firm recorded an allowance of $12.1 million and $5.1 million, respectively, against these TDRs. These restructurings

typically include modifications of interest rates, collateral requirements, other loan covenants, and payment extensions.

Employee Loans

Employee loans are granted primarily in conjunction with a program established in the Wealth Management business segment to retain and recruit certain employees. These loans are recorded in Customer and other receivables in the

MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

consolidated balance sheets. These loans are full recourse, generally require periodic payments and have repayment terms ranging from 1 to 12 years. The Firm establishes an allowance for loan amounts it does not consider recoverable, which is recorded in Compensation and benefits expense. At June 30, 2016, the Firm had $4,877 million of employee loans, net of an allowance of approximately $100 million. At December 31, 2015, the Firm had $4,923 million of employee loans, net of an allowance of approximately $108 million.

8. Equity Method Investments

Overview

The Firm has investments accounted for under the equity method of accounting (see Note 1 to the consolidated financial statements in the 2015 Form 10-K) of $3,235 million and $3,144 million at June 30, 2016 and December 31, 2015, respectively, included in Other assets Other investments in the consolidated balance sheets. Income (loss) from equity method investments was $(14) million and $45 million for the current quarter and prior year quarter, respectively and $1 million and $83 million for the current year period and prior year period, respectively, and is included in Other revenues in the consolidated statements of income. In addition, a loss of $35 million was recognized in the current quarter in connection with the sale of solar investments and impairments of the remaining unsold solar investments accounted for under the equity method.

Japanese Securities Joint Venture

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

method investment in MUMSS within the Institutional Securities business segment. During the current quarter and prior year quarter, the Firm recorded income from its 40% interest in MUMSS of $23 million and $71 million, respectively, and income of $57 million and $140 million in the current year period and prior year period, respectively, within Other revenues in the consolidated statements of income.

In June 2015, MUMSS paid a dividend of approximately $291 million, of which the Firm received approximately $116 million for its proportionate share of MUMSS.

9. Deposits

Deposits

	At June 30, 2016(1)		At December 31, 2015(1)	
	(dollars in millions)			
Savings and demand deposits	$	151,014	$	153,346
Time deposits(2)		1,679		2,688
Total(3)	$	152,693	$	156,034

(1) Total deposits subject to the FDIC insurance at June 30, 2016 and December 31, 2015 were $110 billion and $113 billion, respectively. Of the total time deposits subject to the FDIC insurance at June 30, 2016 and December 31, 2015, $20 million and $14 million, respectively, met or exceeded the FDIC insurance limit.
(2) Certain time deposit accounts are carried at fair value under the fair value option (see Note 3).
(3) Deposits were primarily held in the U.S.

Interest bearing deposits at June 30, 2016 included $151,008 million of savings deposits payable upon demand and $1,043 million of time deposits maturing in 2016, $578 million of time deposits maturing in 2017 and $11 million of time deposits maturing in 2018.

10. Long-Term Borrowings and Other Secured Financings

Long-Term Borrowings

Components of Long-term Borrowings

	At June 30, 2016		At December 31, 2015	
	(dollars in millions)			
Senior debt	$	149,519	$	140,494
Subordinated debt		11,120		10,404
Junior subordinated debentures		2,853		2,870
Total	$	163,492	$	153,768

During the current year period and prior year period, the Firm issued notes with a principal amount of approximately $20.6 billion and $22.9 billion, respectively, and approximately $15.9 billion and $13.0 billion, respectively, in aggregate long-term borrowings matured or were retired.

The weighted average maturity of long-term borrowings, based upon stated maturity dates, was approximately 6.3 years and 6.1 years at June 30, 2016 and December 31, 2015, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Other Secured Financings

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

Components of Other Secured Financings

	At June 30, 2016	At December 31, 2015
	(dollars in millions)	
Secured financings with original maturities greater than one year	$ 8,159	$ 7,629
Secured financings with original maturities one year or less	1,444	1,435
Failed sales(1)	298	400
Total	$ 9,901	$ 9,464

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

11. Commitments, Guarantees and Contingencies
Commitments

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

Commitments

Years to Maturity at June 30, 2016

	Less than 1	1-3	3-5	Over 5	Total
			(dollars in millions)		
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 125	$	$ 1	$ 42	$ 168
Investment activities	598	93	16	290	997
Corporate lending commitments(1)	15,625	24,405	47,248	1,501	88,779
Consumer lending commitments	5,255	5		4	5,264
Residential real estate lending commitments	52	43	87	236	418
Wholesale real estate lending commitments	127	266	137	69	599
Forward-starting reverse repurchase agreements and securities borrowing agreements(2)	69,990				69,990
Underwriting commitments	25				25
Total	$ 91,797	$ 24,812	$ 47,489	$ 2,142	$ 166,240

(1) Due to the nature of the Firm s obligations under the commitments, these amounts include certain commitments participated to third parties of $3.9 billion.
(2) The Firm enters into forward-starting reverse repurchase and securities borrowing agreements that primarily settle within three business days of the trade date, and of the total amount at June 30, 2016, $59.7 billion settled within three business days.

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Guarantees

Obligations Under Guarantee Arrangements at June 30, 2016

	Maximum Potential Payout/Notional						
	Years to Maturity					Carrying Amount (Asset)/ Liability	Collateral/ Recourse
	Less than 1	1-3	3-5	Over 5	Total		
	(dollars in millions)						
Credit derivative contracts(1)	$ 211,128	$ 200,959	$ 123,957	$ 31,246	$ 567,290	$ 396	$
Other credit contracts	43	25		276	344	(17)	
Non-credit derivative contracts(1)	1,087,106	638,791	290,370	540,112	2,556,379	81,420	
Standby letters of credit and other financial guarantees issued(2)	803	1,091	1,250	5,888	9,032	(123)	6,831
Market value guarantees	63	250	96	15	424	2	6
Liquidity facilities	3,001				3,001	(5)	5,406
Whole loan sales guarantees			2	23,396	23,398	9	
Securitization representations and warranties				62,180	62,180	103	
General partner guarantees	35	39	53	308	435	85	

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

(2)

These amounts include certain issued standby letters of credit participated to third parties totaling $0.7 billion due to the nature of the Firm s obligations under these arrangements.

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

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

Other Guarantees and Indemnities

In the normal course of business, the Firm provides guarantees and indemnifications in a variety of transactions. These provisions generally are standard contractual terms. Certain of these guarantees and indemnifications related to trust preferred securities, indemnities and exchange/

clearinghouse member guarantees are described in Note 12 to the consolidated financial statements in the 2015 Form 10-K.

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

Trust Preferred Securities

The Firm has established Morgan Stanley Capital Trusts for the limited purpose of issuing trust preferred securities to third parties and lending such proceeds to the Firm in exchange for junior subordinated debentures. The Morgan Stanley Capital Trusts are SPEs, and only the Parent provides a guarantee for the trust preferred securities. The Firm has directly guaranteed the repayment of the trust preferred securities to the holders in accordance with the terms thereof. See Note 11 to the consolidated financial statements in the 2015 Form 10-K for details on the Firm s junior subordinated debentures. Additionally, see Note 20 for further information about subsequent events.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Finance Subsidiary

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

Contingencies

Legal. In the normal course of business, the Firm has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or are in financial distress. These actions have included, but are not limited to, residential mortgage and credit crisis related matters. Over the last several years, the level of litigation and investigatory activity (both formal and informal) by governmental and self-regulatory agencies has increased materially in the financial services industry. As a result, the Firm expects that it may become the subject of increased claims for damages and other relief and, while the Firm has identified below any individual proceedings where the Firm believes a material loss to be reasonably possible and reasonably estimable, there can be no assurance that material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be probable or possible and reasonably estimable losses.

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

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

For certain legal proceedings and investigations, the Firm cannot reasonably estimate such losses, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or governmental entities seek substantial or indeterminate damages,

restitution, disgorgement or penalties. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional range of loss can be reasonably estimated for a proceeding or investigation.

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

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

On January 25, 2011, the Firm was named as a defendant in *The Bank of New York Mellon Trust, National Association v. Morgan Stanley Mortgage Capital, Inc.*, a litigation pending in the United States District Court for the Southern District of New York (SDNY). The suit, brought by the trustee of a series of commercial mortgage pass-through certificates, alleges that the Firm breached certain representations and warranties with respect to an $81 million commercial mortgage loan that was originated and transferred to the trust by the Firm. The complaint seeks, among other things, to have the Firm repurchase the loan and pay additional monetary damages. On June 16, 2014, the court granted the Firm s supplemental motion for summary judgment, which was appealed by plaintiff. On April 27, 2016, the United States Court of Appeals for the Second

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Circuit vacated the judgment of the SDNY and remanded the case to the SDNY for further proceedings consistent with its opinion. Based on currently available information, the Firm believes it could incur a loss in this action of up to approximately $81 million, plus pre-judgment interest, fees and costs.

On August 7, 2012, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-4SL and Mortgage Pass-Through Certificates, Series 2006-4SL against the Firm. The matter is styled *Morgan Stanley Mortgage Loan Trust 2006-4SL, et al. v. Morgan Stanley Mortgage Capital Inc.* and is pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $303 million, breached various representations and warranties. The complaint seeks, among other relief, rescission of the mortgage loan purchase agreement underlying the transaction, specific performance and unspecified damages and interest. On August 8, 2014, the court granted in part and denied in part the Firm s motion to dismiss. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately $149 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

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

On September 28, 2012, U.S. Bank, in its capacity as trustee, filed a complaint on behalf of Morgan Stanley Mortgage Loan Trust 2006-13ARX against the Firm styled *Morgan Stanley Mortgage Loan Trust 2006-13ARX v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.*, pending in the Supreme Court of NY. The plaintiff filed an amended complaint on January 17, 2013, which asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $609 million, breached various representations and warranties. The amended complaint seeks, among other relief, declaratory judgment relief, specific performance and unspecified damages and interest. By order dated September 30, 2014, the court granted in part and denied in part the Firm s motion to dismiss the amended complaint. On July 13, 2015, the plaintiff perfected its appeal from the court s September 30, 2014 decision. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately $170 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Firm to plaintiff currently at issue in this action was approximately $644 million. The complaint alleges causes of action against the Firm for common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission and seeks, among other things, compensatory and punitive damages. On June 10, 2014, the court granted in part and denied in part the Firm s motion to dismiss the complaint. The Firm perfected its appeal from that decision on June 12, 2015. At June 25, 2016, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately $258 million, and the certificates had incurred actual losses of approximately $84 million. Based on currently available information, the Firm believes it could incur a loss in this action up to the difference between the $258 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Firm, or upon sale, plus pre- and post-judgment interest, fees and costs. The Firm may be entitled to be indemnified for some of these losses.

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

On December 30, 2013, Wilmington Trust Company, in its capacity as trustee, filed a complaint against the Firm. The matter is styled *Wilmington Trust Company v. Morgan*

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

On April 28, 2014, Deutsche Bank National Trust Company, in its capacity as trustee for Morgan Stanley Structured Trust I 2007-1, filed a complaint against the Firm styled *Deutsche Bank National Trust Company v. Morgan Stanley*

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

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

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

12. Variable Interest Entities and Securitization Activities

Overview

The Firm is involved with various special purpose entities (SPE) in the normal course of business. In most cases, these entities are deemed to be VIEs. The Firm s transactions with VIEs primarily include securitizations, municipal tender option bond trusts, credit protection purchased through credit-linked notes, other structured financings, collateralized loan and debt obligations, equity-linked notes, partnership investments and certain investment management funds. The Firm s continuing involvement in VIEs that it does not consolidate can include ownership of retained interests in Firm-sponsored transactions, interests purchased in the secondary market (both for Firm-sponsored transactions and transactions sponsored by third parties), and derivatives with securitization SPEs (primarily

interest rate derivatives in commercial mortgage and residential mortgage securitizations and credit derivatives in which the Firm has purchased protection in synthetic CDOs).

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

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

Consolidated VIEs

Assets and Liabilities by Type of Activity

	At June 30, 2016		At December 31, 2015	
	VIE Assets	VIE Liabilities	VIE Assets	VIE Liabilities
	(dollars in millions)			
Credit-linked notes	$ 901	$	$ 900	$
Other structured financings	924	240	787	13
Asset-backed securitizations(1)	319	191	668	423
Other(2)	931	29	245	
Total	$ 3,075	$ 460	$ 2,600	$ 436

(1) The value of assets is determined based on the fair value of the liabilities of and the interests owned by the Firm in such VIEs, because the fair values for the liabilities and interests owned are more observable.
(2) Other primarily includes certain operating entities, investment funds and structured transactions.

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Assets and Liabilities by Balance Sheet Caption

	At June 30, 2016	At December 31, 2015
	(dollars in millions)	
Assets		
Cash and due from banks	$ 62	$ 14
Trading assets, at fair value	1,973	1,842
Customer and other receivables	3	3
Goodwill	18	
Intangible assets	141	
Other assets	878	741
Total assets	$ 3,075	$ 2,600
Liabilities		
Other secured financings, at fair value	$ 430	$ 431
Other liabilities and accrued expenses	30	5
Total liabilities	$ 460	$ 436

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

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

In general, the Firm s exposure to loss in consolidated VIEs is limited to losses that would be absorbed on the VIE s net assets recognized in its financial statements, net of amounts absorbed by third-party variable interest holders. At June 30, 2016 and December 31, 2015, noncontrolling interests in the consolidated financial statements related to consolidated VIEs were $257 million and $37 million, respectively. The Firm also had additional maximum exposure to losses of approximately $76 million and $72 million at June 30, 2016 and December 31, 2015, respectively, primarily related to certain derivatives, commitments, guarantees and other forms of involvement.

Non-consolidated VIEs

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

	At June 30, 2016				
	Mortgage- and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
	(dollars in millions)				
VIE assets that the Firm does not consolidate (unpaid principal balance)	$ 115,088	$ 6,825	$ 4,999	$ 4,081	$ 39,281
Maximum exposure to loss:					
Debt and equity interests	$ 12,670	$ 955	$ 31	$ 1,712	$ 4,706
Derivative and other contracts			3,001		73
Commitments, guarantees and other	612	350		363	300
Total maximum exposure to loss	$ 13,282	$ 1,305	$ 3,032	$ 2,075	$ 5,079
Carrying value of exposure to loss Assets:					
Debt and equity interests	$ 12,670	$ 955	$ 3	$ 1,324	$ 4,706
Derivative and other contracts			5		27
Total carrying value of exposure to loss Assets	$ 12,670	$ 955	$ 8	$ 1,324	$ 4,733
Carrying value of exposure to loss Liabilities:					
Derivative and other contracts	$	$	$	$	$ 31
Commitments, guarantees and other				2	10
Total carrying value of exposure to loss Liabilities	$	$	$	$ 2	$ 41

	At December 31, 2015				
	Mortgage- and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
			(dollars in millions)		
VIE assets that the Firm does not consolidate (unpaid principal balance)	$ 126,872	$ 8,805	$ 4,654	$ 2,201	$ 20,775
Maximum exposure to loss:					
Debt and equity interests	$ 13,361	$ 1,259	$ 1	$ 1,129	$ 3,854
Derivative and other contracts			2,834		67
Commitments, guarantees and other	494	231		361	222
Total maximum exposure to loss	$ 13,855	$ 1,490	$ 2,835	$ 1,490	$ 4,143
Carrying value of exposure to loss Assets:					
Debt and equity interests	$ 13,361	$ 1,259	$ 1	$ 685	$ 3,854
Derivative and other contracts			5		13
Total carrying value of exposure to loss Assets	$ 13,361	$ 1,259	$ 6	$ 685	$ 3,867
Carrying value of exposure to loss Liabilities:					
Derivative and other contracts	$	$	$	$	$ 15
Commitments, guarantees and other				3	
Total carrying value of exposure to loss Liabilities	$	$	$	$ 3	$ 15

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

	At June 30, 2016		At December 31, 2015	
	Unpaid Principal Balance	Debt and Equity Interests	Unpaid Principal Balance	Debt and Equity Interests
	(dollars in millions)			
Residential mortgages	$ 3,708	$ 410	$ 13,787	$ 1,012
Commercial mortgages	55,158	2,576	57,313	2,871
U.S. agency collateralized mortgage obligations	20,853	3,766	13,236	2,763
Other consumer or commercial loans	35,369	5,918	42,536	6,715
Total mortgage- and asset-backed securitization assets	$ 115,088	$ 12,670	$ 126,872	$ 13,361

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

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

Securitization transactions generally involve VIEs. Primarily as a result of its secondary market-making activities, the Firm owned additional VIE assets mainly issued by securi-

tization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional assets totaled $12.7 billion and $12.9 billion at June 30, 2016 and December 31, 2015, respectively. These assets were either retained in connection with transfers of assets by the Firm, acquired in connection with secondary market-making activities or held as AFS securities in its Investment securities portfolio (see Note 5) or held as investments in funds. At June 30, 2016 and December 31, 2015, these assets consisted of securities backed by residential mortgage loans, commercial mortgage loans or other consumer loans, such as credit card receivables, automobile loans and student loans, CDOs or CLOs, and investment funds. The Firm s primary risk exposure is to the securities issued by the SPE owned by the Firm, with the risk highest on the most subordinate class of beneficial interests. These assets generally are included in Trading assets Corporate and other debt, Trading assets Investments or AFS securities within its Investment securities portfolio and are measured at fair value (see Note 3). The Firm does not provide additional support in these transactions through contractual facilities, such as liquidity facilities, guarantees or similar derivatives. The Firm s maximum exposure to loss generally equals the fair value of the assets owned.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Transfers of Assets with Continuing Involvement

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

	At June 30, 2016			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other(1)
	(dollars in millions)			
SPE assets (unpaid principal balance)(2)	$ 21,239	$ 51,025	$ 11,116	$ 11,668
Retained interests (fair value):				
Investment grade	$	$ 43	$ 755	$
Non-investment grade	54	64		974
Total retained interests (fair value)	$ 54	$ 107	$ 755	$ 974
Interests purchased in the secondary market (fair value):				
Investment grade	$	$ 32	$ 142	$
Non-investment grade	53	47		
Total interests purchased in the secondary market (fair value)	$ 53	$ 79	$ 142	$
Derivative assets (fair value)	$	$ 291	$	$ 206
Derivative liabilities (fair value)				449

	At December 31, 2015			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized	Credit-Linked Notes and Other(1)

			Mortgage Obligations	
		(dollars in millions)		
SPE assets (unpaid principal balance)(2)	$ 22,440	$ 72,760	$ 17,978	$ 12,235
Retained interests (fair value):				
Investment grade	$	$ 238	$ 649	$
Non-investment grade	160	63		1,136
Total retained interests (fair value)	$ 160	$ 301	$ 649	$ 1,136
Interests purchased in the secondary market (fair value):				
Investment grade	$	$ 88	$ 99	$
Non-investment grade	60	63		10
Total interests purchased in the secondary market (fair value)	$ 60	$ 151	$ 99	$ 10
Derivative assets (fair value)	$	$ 343	$	$ 151
Derivative liabilities (fair value)				449

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	At June 30, 2016			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$	$ 798	$	$ 798
Non-investment grade		15	1,077	1,092
Total retained interests (fair value)	$	$ 813	$ 1,077	$ 1,890
Interests purchased in the secondary market (fair value):				
Investment grade	$	$ 174	$	$ 174
Non-investment grade		85	15	100
Total interests purchased in the secondary market (fair value)	$	$ 259	$ 15	$ 274
Derivative assets (fair value)	$	$ 482	$ 15	$ 497
Derivative liabilities (fair value)		102	347	449

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

Transferred assets are carried at fair value prior to securitization, and any changes in fair value are recognized in the consolidated statements of income. The Firm may act as underwriter of the beneficial interests issued by these securitization vehicles. Investment banking underwriting net revenues are recognized in connection with these

transactions. The Firm may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in the consolidated balance sheets at fair value. Any changes in the fair value of such retained interests are recognized in the consolidated statements of income.

Proceeds from New Securitization Transactions and Retained Interests in Securitization Transactions

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
	(dollars in millions)			
Proceeds received from new securitization transactions	$ 4,163	$ 6,273	$ 6,876	$ 11,164
Proceeds from retained interests in securitization transactions	502	658	1,133	1,606

Net gains on sale of assets in securitization transactions at the time of the sale were not material in the current quarter, current year period, prior year quarter and prior year period. 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).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Proceeds from Sales to CLO Entities Sponsored by Non-Affiliates

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(dollars in millions)			
Proceeds from sale of corporate loans sold to those SPEs	$	$ 621	$ 31	$ 966

Net gains on sale of corporate loans to CLO transactions at the time of sale were not material in the current quarter, current year period, prior year quarter and prior year period.

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

	At June 30, 2016	At December 31, 2015
	(dollars in millions)	
Carrying value of assets derecognized at the time of sale and gross cash proceeds	$ 9,524	$ 7,878
Fair value of assets sold	9,692	7,935
Fair value of derivative assets recognized in the consolidated balance sheets	218	97
Fair value of derivative liabilities recognized in the consolidated balance sheets	50	40

Failed Sales

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

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

Carrying Value of Assets and Liabilities Related to Failed Sales

	At June 30, 2016		At December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
	(dollars in millions)			
Failed sales	$ 298	$ 298	$ 400	$ 400

13. Regulatory Requirements

Regulatory Capital Framework

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

Risk-Based Capital Requirement

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

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

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

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

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

In 2016, the phase-in amount for each of the buffers is 25% of the fully phased-in buffer requirement. Failure to maintain the buffers will result in restrictions on the Firm s

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers.

The methods for calculating each of the Firm s risk-based capital ratios will change through January 1, 2022 as aspects of the capital rules are phased in. These changes may result in differences in the Firm s reported capital

ratios from one reporting period to the next that are independent of changes to its capital base, asset composition, off-balance sheet exposures or risk profile.

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

The Firm s Regulatory Capital and Capital Ratios

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

Regulatory Capital Measures and Minimum Regulatory Capital Ratios

	At June 30, 2016			At December 31, 2015		
	Amount	**Ratio**	**Minimum Ratio(1)**	**Amount**	**Ratio**	**Minimum Ratio(1)**
	(dollars in millions)					
Regulatory capital and capital ratios:						
Common Equity Tier 1 capital	$ 59,796	16.8%	5.9%	$ 59,409	15.5%	4.5%
Tier 1 capital	66,782	18.8%	7.4%	66,722	17.4%	6.0%
Total capital	79,830	22.4%	9.4%	79,403	20.7%	8.0%
Tier 1 leverage(2)		8.3%	4.0%		8.3%	4.0%
Assets:						
Total RWAs	$ 355,982	N/A	N/A	$ 384,162	N/A	N/A
Adjusted average assets(3)	804,511	N/A	N/A	803,574	N/A	N/A

N/A Not Applicable

(1) Percentages represent minimum regulatory capital ratios under the transitional rules.

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

U.S. Bank Subsidiaries Regulatory Capital and Capital Ratios

Morgan Stanley Bank, N.A. (MSBNA) and Morgan Stanley Private Bank, National Association (MSPBNA) (collectively, U.S. Bank Subsidiaries) are subject to similar regulatory capital requirements as the Firm. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Firm s U.S. Bank Subsidiaries financial statements. Under

capital adequacy guidelines and the regulatory framework for prompt corrective action, each of the Firm s U.S. Bank Subsidiaries must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

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

U.S. Bank Subsidiaries Regulatory Capital Measures and Required Capital Ratios

	Morgan Stanley Bank, N.A.					
	At June 30, 2016			At December 31, 2015		
	Amount	Ratio	Required Capital Ratio(1)	Amount	Ratio	Required Capital Ratio(1)
	(dollars in millions)					
Common Equity Tier 1 capital	$ 14,523	16.8%	6.5%	$ 13,333	15.1%	6.5%
Tier 1 capital	14,523	16.8%	8.0%	13,333	15.1%	8.0%
Total capital	16,321	18.9%	10.0%	15,097	17.1%	10.0%
Tier 1 leverage	14,523	10.9%	5.0%	13,333	10.2%	5.0%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Morgan Stanley Private Bank, National Association					
	At June 30, 2016			At December 31, 2015		
	Amount	Ratio	Required Capital Ratio(1)	Amount	Ratio	Required Capital Ratio(1)
	(dollars in millions)					
Common Equity Tier 1 capital	$ 5,153	28.0%	6.5%	$ 4,197	26.5%	6.5%
Tier 1 capital	5,153	28.0%	8.0%	4,197	26.5%	8.0%
Total capital	5,186	28.2%	10.0%	4,225	26.7%	10.0%
Tier 1 leverage	5,153	11.4%	5.0%	4,197	10.5%	5.0%

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

Under regulatory capital requirements adopted by the U.S. federal banking agencies, U.S. depository institutions, in order to be considered well-capitalized, must maintain certain minimum capital ratios. Each U.S. depository institution subsidiary of the Firm must be well-capitalized in order for the Firm to continue to qualify as a financial holding company and to continue to engage in the broadest range of financial activities permitted for financial holding companies. At June 30, 2016 and December 31, 2015, the Firm s U.S. Bank Subsidiaries maintained capital at levels sufficiently in excess of the universally mandated well-capitalized requirements to address any additional capital needs and requirements identified by the U.S. federal banking regulators.

Broker-Dealer Regulatory Capital Requirements

Morgan Stanley & Co. LLC (MS&Co.) is a registered broker-dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the U.S. Securities and Exchange Commission (SEC) and the U.S. Commodity Futures Trading Commission (CFTC). MS&Co. has consistently operated with capital in excess of its regulatory capital requirements. MS&Co. s net capital totaled $10,353 million and $10,254 million at June 30, 2016 and December 31, 2015, respectively, which exceeded the amount required by $8,397 million and $8,458 million, respectively. MS&Co. is required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of SEC Rule 15c3-1. In addition, MS&Co. is required to notify the SEC in the event that its tentative net capital is less than $5 billion. At June 30, 2016 and December 31, 2015, MS&Co. had tentative net capital in excess of the minimum and the notification requirements.

Morgan Stanley Smith Barney LLC (MSSB LLC) is a registered broker-dealer and introducing broker for the futures business and, accordingly, is subject to the minimum net capital requirements of the SEC and the CFTC. MSSB LLC has consistently operated with capital in excess of its regulatory capital requirements. MSSB LLC s net capital totaled $3,752 million and $3,613 million at

June 30, 2016 and December 31, 2015, respectively, which exceeded the amount required by $3,595 million and $3,459 million, respectively.

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

Other Regulated Subsidiaries

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

14. Total Equity

Dividends and Share Repurchases

The Firm repurchased approximately $625 million of our outstanding common stock as part of our share repurchase program during the current quarter and $1,250 million during the current year period. The Firm repurchased approximately $625 million during the prior year quarter and $875 million in the prior year period.

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

In June 2016, the Firm received a conditional non-objection from the Federal Reserve to its 2016 capital plan. The capital plan included a share repurchase of up to $3.5 billion of the Firm s outstanding common stock during the period beginning July 1, 2016 through June 30, 2017. Additionally, the capital plan included an increase in the quarterly common stock dividend to $0.20 per share from

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

$0.15 per share during the period beginning with the dividend declared on July 20, 2016 (see Note 20). The Federal Reserve Board also asked the Firm to submit an additional capital plan by December 29, 2016 addressing weaknesses identified in the Firm s capital planning process.

Preferred Stock

For a description of Series A through Series J preferred stock issuances, see Note 15 to the consolidated financial statements in the 2015 Form 10-K. Dividends declared on the Firm s outstanding preferred stock were $156 million during the current

quarter and $141 million during the prior year quarter, and $234 million during the current year period and $219 million during the prior year period. On June 15, 2016, the Firm announced that the Board declared a quarterly dividend for preferred stock shareholders of record on June 30, 2016 that was paid on July 15, 2016. The Firm is authorized to issue 30 million shares of preferred stock. The preferred stock has a preference over the common stock upon liquidation. The Firm s preferred stock qualifies as Tier 1 capital in accordance with regulatory capital requirements (see Note 13).

Preferred Stock Outstanding

Series	Shares Outstanding At June 30, 2016	Liquidation Preference per Share	Carrying Value At June 30, 2016	Carrying Value At December 31, 2015
	(shares in millions)		(dollars in millions)	
A	44,000	$ 25,000	$ 1,100	$ 1,100
C(1)	519,882	1,000	408	408
E	34,500	25,000	862	862
F	34,000	25,000	850	850
G	20,000	25,000	500	500
H	52,000	25,000	1,300	1,300
I	40,000	25,000	1,000	1,000
J	60,000	25,000	1,500	1,500
Total			$ 7,520	$ 7,520

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Translation Adjustments	AFS Securities	Pensions, Postretirement and Other	DVA	Total
			(dollars in millions)		
Balance at March 31, 2016	$ (831)	$ 76	$ (373)	$ (110)	$ (1,238)
Change in OCI before reclassifications	52	188	(5)	143	378
Amounts reclassified from AOCI(2)(3)		(45)			(45)
Net OCI during the period	52	143	(5)	143	333
Balance at June 30, 2016	$ (779)	$ 219	$ (378)	$ 33	$ (905)
Balance at March 31, 2015	$ (883)	$ 127	$ (510)	$	(1,266)
Change in OCI before reclassifications	50	(208)	(4)		(162)
Amounts reclassified from AOCI(3)		(20)	1		(19)
Net OCI during the period	50	(228)	(3)		(181)
Balance at June 30, 2015	$ (833)	$ (101)	$ (513)	$	(1,447)
Balance at December 31, 2015	$ (963)	$ (319)	$ (374)	$	$ (1,656)
Cumulative adjustment for accounting change related to DVA(1)				(312)	(312)
Change in OCI before reclassifications	184	590	(3)	371	1,142
Amounts reclassified from AOCI(2)(3)		(52)	(1)	(26)	(79)
Net OCI during the period	184	538	(4)	345	1,063
Balance at June 30, 2016	$ (779)	$ 219	$ (378)	$ 33	$ (905)
Balance at December 31, 2014	$ (663)	$ (73)	$ (512)	$	$ (1,248)

Change in OCI before reclassifications		(170)		7		(4)			(167)
Amounts reclassified from AOCI(3)				(35)		3			(32)
Net OCI during the period		(170)		(28)		(1)			(199)
Balance at June 30, 2015	$	(833)	$	(101)	$	(513)	$	$	(1,447)

(1) In accordance with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, a cumulative catch up adjustment was recorded as of January 1, 2016 to move the cumulative DVA amount, net of noncontrolling interest and tax, related to outstanding liabilities under the fair value option election from Retained earnings into AOCI. See Note 2 for further information.
(2) Amounts reclassified from AOCI related to realization of DVA are classified within Trading revenues in the consolidated statements of income. The tax impact in Provision for (benefit from) income taxes resulting from such reclassifications was $(15) million related to DVA in the current year period. See Note 2 for further information.
(3) Amounts reclassified from AOCI related to realized gains and losses from sales of AFS securities are classified within Other revenues in the consolidated statements of income. The tax impact in Provision for (benefit from) income taxes resulting from such reclassifications was $(26) million in the current quarter and $(30) million in the current year period, and $(11) million in the prior quarter and $(20) million for the prior year period.

Noncontrolling Interests

Noncontrolling interests were $1,259 million and $1,002 million at June 30, 2016 and December 31, 2015, respectively. The increase in noncontrolling interests was primarily due to the consolidation of certain investment management funds sponsored by the Firm. See Note 2 for further information on the adoption of the accounting update *Amendments to the Consolidation Analysis*.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

15. Earnings per Common Share

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(in millions, except for per share data)			
Basic EPS:				
Income from continuing operations	$ 1,650	$ 1,833	$ 2,810	$ 4,301
Income (loss) from discontinued operations	(4)	(2)	(7)	(7)
Net income	1,646	1,831	2,803	4,294
Net income applicable to noncontrolling interests	64	24	87	93
Net income applicable to Morgan Stanley	1,582	1,807	2,716	4,201
Less: Preferred stock dividends	(156)	(141)	(234)	(219)
Less: Allocation of (earnings) loss to participating RSUs(1)	(1)	(1)	(1)	(3)
Earnings applicable to Morgan Stanley common shareholders	$ 1,425	$ 1,665	$ 2,481	$ 3,979
Weighted average common shares outstanding	1,866	1,919	1,875	1,922
Earnings per basic common share:				
Income from continuing operations	$ 0.77	$ 0.87	$ 1.33	$ 2.07
Income (loss) from discontinued operations	(0.01)		(0.01)	
Earnings per basic common share	$ 0.76	$ 0.87	$ 1.32	$ 2.07
Diluted EPS:				
Earnings applicable to Morgan Stanley common shareholders	$ 1,425	$ 1,665	$ 2,481	$ 3,979
Weighted average common shares outstanding	1,866	1,919	1,875	1,922
Effect of dilutive securities: Stock options and RSUs(1)	33	41	32	40
Weighted average common shares outstanding and common stock equivalents	1,899	1,960	1,907	1,962
Earnings per diluted common share:				
Income from continuing operations	$ 0.75	$ 0.85	$ 1.30	$ 2.03
Income (loss) from discontinued operations				

Earnings per diluted common share	$	0.75	$	0.85	$	1.30	$	2.03

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

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

16. Interest Income and Interest Expense

Interest Income and Interest Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(dollars in millions)			
Interest income(1):				
Trading assets(2)	$ 526	$ 555	$ 1,109	$ 1,149
Investment securities	237	238	473	438
Loans	680	529	1,327	1,004
Interest bearing deposits with banks	52	22	105	45
Securities purchased under agreements to resell and Securities borrowed(3)	(120)	(200)	(198)	(305)
Customer receivables and Other(4)	292	242	598	539
Total interest income	$ 1,667	$ 1,386	$ 3,414	$ 2,870
Interest expense(1):				
Deposits	$ 15	$ 17	$ 37	$ 35
Short-term borrowings	7	5	14	9
Long-term borrowings	844	915	1,804	1,841
Securities sold under agreements to repurchase and Securities loaned(5)	259	235	513	543
Customer payables and Other(6)	(371)	(484)	(766)	(852)
Total interest expense	$ 754	$ 688	$ 1,602	$ 1,576
Net interest	$ 913	$ 698	$ 1,812	$ 1,294

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

(6) Includes fees received from prime brokerage customers for stock loan transactions incurred to cover customers short positions.

17. Employee Benefit Plans

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(dollars in millions)			
Service cost, benefits earned during the period	$ 4	$ 5	$ 8	$ 10
Interest cost on projected benefit obligation	39	38	77	77
Expected return on plan assets	(30)	(29)	(60)	(59)
Net amortization of prior service credit	(5)	(5)	(9)	(10)
Net amortization of actuarial loss	3	7	6	13
Net periodic benefit expense	$ 11	$ 16	$ 22	$ 31

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

18. Income Taxes

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

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

During 2016, the Firm expects to reach a conclusion with the U.K. tax authorities on substantially all issues through

tax year 2010, the resolution of which is not expected to have a material impact on the effective tax rate or the consolidated financial statements.

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

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

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

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

19. Segment and Geographic Information
Segment Information

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

Selected Financial Information

	Three Months Ended June 30, 2016				
	Institutional Securities(1)	Wealth Management	Investment Management	Intersegment Eliminations	Total
	(dollars in millions)				
Total non-interest revenues(2)(3)	$ 4,496	$ 2,982	$ 581	$ (63)	$ 7,996
Interest income	966	920	3	(222)	1,667
Interest expense	884	91	1	(222)	754
Net interest	82	829	2		913
Net revenues	$ 4,578	$ 3,811	$ 583	$ (63)	$ 8,909
Income from continuing operations before income taxes	$ 1,506	$ 859	$ 118	$	$ 2,483
Provision for income taxes	453	343	37		833
Income from continuing operations	1,053	516	81		1,650
Income (loss) from discontinued operations, net of income taxes	(4)				(4)
Net income	1,049	516	81		1,646
Net income applicable to noncontrolling interests	61		3		64
Net income applicable to Morgan Stanley	$ 988	$ 516	$ 78	$	$ 1,582

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Three Months Ended June 30, 2015				
	Institutional Securities(1)	Wealth Management	Investment Management	Intersegment Eliminations	Total
	(dollars in millions)				
Total non-interest revenues(2)(3)	$ 5,205	$ 3,138	$ 757	$ (55)	$ 9,045
Interest income	723	782		(119)	1,386
Interest expense	756	45	6	(119)	688
Net interest	(33)	737	(6)		698
Net revenues	$ 5,172	$ 3,875	$ 751	$ (55)	$ 9,743
Income from continuing operations before income taxes	$ 1,622	$ 885	$ 220	$	$ 2,727
Provision for income taxes	511	324	59		894
Income from continuing operations	1,111	561	161		1,833
Income (loss) from discontinued operations, net of income taxes	(2)				(2)
Net income	1,109	561	161		1,831
Net income applicable to noncontrolling interests	22		2		24
Net income applicable to Morgan Stanley	$ 1,087	$ 561	$ 159	$	$ 1,807

	Six Months Ended June 30, 2016				
	Institutional Securities(1)	Wealth Management	Investment Management	Intersegment Eliminations	Total
	(dollars in millions)				
Total non-interest revenues(2)(3)	$ 8,141	$ 5,819	$ 1,059	$ (130)	$ 14,889
Interest income	2,019	1,834	4	(443)	3,414
Interest expense	1,868	174	3	(443)	1,602
Net interest	151	1,660	1		1,812
Net revenues	$ 8,292	$ 7,479	$ 1,060	$ (130)	$ 16,701
	$ 2,414	$ 1,645	$ 162	$	$ 4,221

Income from continuing operations before income taxes					
Provision for income taxes	728	636	47		1,411
Income from continuing operations	1,686	1,009	115		2,810
Income (loss) from discontinued operations, net of income taxes	(7)				(7)
Net income	1,679	1,009	115		2,803
Net income applicable to noncontrolling interests	100		(13)		87
Net income applicable to Morgan Stanley	$ 1,579	$ 1,009	$ 128	$	$ 2,716

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Six Months Ended June 30, 2015				
	Institutional Securities(1)	Wealth Management	Investment Management	Intersegment Eliminations	Total
	(dollars in millions)				
Total non-interest revenues(2)(3)	$ 10,751	$ 6,283	$ 1,431	$ (109)	$ 18,356
Interest income	1,593	1,519	1	(243)	2,870
Interest expense	1,714	93	12	(243)	1,576
Net interest	(121)	1,426	(11)		1,294
Net revenues	$ 10,630	$ 7,709	$ 1,420	$ (109)	$ 19,650
Income from continuing operations before income taxes	$ 3,435	$ 1,740	$ 407	$	$ 5,582
Provision for income taxes(4)	517	644	120		1,281
Income from continuing operations	2,918	1,096	287		4,301
Income (loss) from discontinued operations, net of income taxes	(7)				(7)
Net income	2,911	1,096	287		4,294
Net income applicable to noncontrolling interests	74		19		93
Net income applicable to Morgan Stanley	$ 2,837	$ 1,096	$ 268	$	$ 4,201

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

(2) In certain management fee arrangements, the Firm is entitled to receive performance-based fees (also referred to as incentive fees and includes carried interest) when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fee revenues are accrued (or reversed) quarterly based on measuring account/fund performance to date versus the performance benchmark stated in the investment management agreement. The Firm s portion of unrealized cumulative amount of performance-based fee revenue (for which the Firm is not obligated to pay compensation) at risk of reversing if fund performance falls below stated investment management agreement benchmarks was approximately $421 million and $422 million at June 30, 2016 and December 31, 2015,

respectively. See Note 11 for information regarding general partner guarantees, which include potential obligations to return performance fee distributions previously received.

(3) The Firm waives a portion of its fees from certain registered money market funds that comply with the requirements of Rule 2a-7 of the Investment Company Act of 1940. These fee waivers resulted in a reduction of fees of approximately $12 million and $50 million for the current quarter and prior year quarter, respectively, and $35 million and $100 million for the current year period and prior year period, respectively.

(4) The Firm s effective tax rate from continuing operations for the prior year period included a net discrete tax benefit of $564 million, within Institutional Securities (see Note 18).

Total Assets by Business Segment

	At June 30, 2016	At December 31, 2015
	(dollars in millions)	
Institutional Securities	$ 641,373	$ 602,714
Wealth Management	182,801	179,708
Investment Management	4,699	5,043
Total(1)	$ 828,873	$ 787,465

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

MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Geographic Information

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

Net Revenues by Region

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(dollars in millions)			
Americas	$ 6,538	$ 6,777	$ 12,290	$ 13,707
EMEA	1,312	1,436	2,441	3,198
Asia-Pacific	1,059	1,530	1,970	2,745
Net revenues	$ 8,909	$ 9,743	$ 16,701	$ 19,650

20. Subsequent Events

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

Common Stock Dividend

On July 20, 2016, the Firm announced that its Board of Directors declared a quarterly dividend per common share of $0.20. The dividend is payable on August 15, 2016 to common shareholders of record on July 29, 2016.

Long-Term Borrowings

Subsequent to June 30, 2016 and through July 29, 2016, long-term borrowings increased by approximately $3.4 billion, net of redemptions. This amount includes the issuance of $3.0 billion of senior debt on July 25, 2016.

Trust Preferred Securities

On July 19, 2016, the Firm announced that Morgan Stanley Capital Trust III, Morgan Stanley Capital Trust IV and Morgan Stanley Capital Trust V will redeem all of their issued and outstanding Capital Securities on August 18, 2016, and that Morgan Stanley Capital Trust VIII will redeem all of its issued and outstanding Capital Securities on August 3, 2016, pursuant to the optional redemption provisions provided in the respective governing documents. In the aggregate, $2.8 billion will be redeemed. The Firm will concurrently redeem the related underlying junior subordinated debentures.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Morgan Stanley:

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

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

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

/s/ Deloitte & Touche LLP

New York, New York

August 3, 2016

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

Introduction

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

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

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

Wealth Management provides a comprehensive array of financial services and solutions to individual investors and small-to-medium sized businesses and institutions covering brokerage and investment advisory services, market-making activities in fixed income securities,

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

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

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

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cutive Summary

ness Segment Financial Information and Other Statistical Data

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(dollars in millions, except where noted and per share amounts)			
revenues:				
tutional Securities	$ 4,578	$ 5,172	$ 8,292	$ 10,6
lth Management	3,811	3,875	7,479	7,7
stment Management	583	751	1,060	1,4
segment Eliminations	(63)	(55)	(130)	(1
solidated net revenues	$ 8,909	$ 9,743	$ 16,701	$ 19,6
me from continuing operations applicable to Morgan Stanley:				
tutional Securities	$ 992	$ 1,089	$ 1,586	$ 2,8
lth Management	516	561	1,009	1,0
stment Management	78	159	128	2
me from continuing operations applicable to Morgan Stanley	$ 1,586	$ 1,809	$ 2,723	$ 4,2
me (loss) from discontinued operations applicable to Morgan ley	(4)	(2)	(7)	
income applicable to Morgan Stanley	$ 1,582	$ 1,807	$ 2,716	$ 4,2
erred stock dividend and other	157	142	235	2
nings applicable to Morgan Stanley common shareholders	$ 1,425	$ 1,665	$ 2,481	$ 3,9
nings per basic common share(1)	$ 0.76	$ 0.87	$ 1.32	$ 2.
nings per diluted common share(1)	$ 0.75	$ 0.85	$ 1.30	$ 2.
onal net revenues(2):				
ricas	$ 6,538	$ 6,777	$ 12,290	$ 13,7
EA	1,312	1,436	2,441	3,1
-Pacific	1,059	1,530	1,970	2,7
revenues	$ 8,909	$ 9,743	$ 16,701	$ 19,6
ctive income tax rate from continuing operations	33.5%	32.8%	33.4%	22.9

	At June 30, 2016	At December 31, 2015
	(dollars in millions, except where noted and	

		per share amounts)		
Total loans(3)	$	93,165	$	85,759
Total assets	$	828,873	$	787,465
Global Liquidity Reserve managed by bank and non-bank legal entities(4):				
Bank legal entities	$	91,062	$	94,328
Non-bank legal entities		116,393		108,936
Total	$	207,455	$	203,264
Total deposits	$	152,693	$	156,034
Long-term borrowings	$	163,492	$	153,768
Maturities of long-term borrowings outstanding (next 12 months)	$	24,244	$	22,396
Book value per common share(5)	$	36.29	$	35.24
Capital ratios (Transitional Advanced)(6):				
Common Equity Tier 1 capital ratio		16.8%		15.5%
Tier 1 capital ratio		18.8%		17.4%
Total capital ratio		22.4%		20.7%
Capital ratios (Transitional Standardized)(6):				
Tier 1 leverage ratio(7)		8.3%		8.3%
Worldwide employees		54,529		56,218

EMEA Europe, Middle East and Africa

(1) For the calculation of basic and diluted earnings per common share, see Note 15 to the consolidated financial statements in Item 1.
(2) For a discussion of how the geographic breakdown for net revenues is determined, see Note 21 to the consolidated financial statements in Item 8 of the 2015 Form 10-K.
(3) Amounts include loans held for investment (net of allowance) and loans held for sale but exclude loans at fair value, which are included in Trading assets in the consolidated balance sheets (see Note 7 to the consolidated financial statements in Item 1).
(4) For a discussion of Global Liquidity Reserve, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Risk Management Framework Global Liquidity Reserve in Part II, Item 7 of the 2015 Form 10-K.
(5) Book value per common share equals common shareholders equity of $69,596 million at June 30, 2016 and $67,662 million at December 31, 2015 divided by common shares outstanding of 1,918 million at June 30, 2016 and 1,920 million at December 31, 2015.
(6) For a discussion of our regulatory capital ratios, see Liquidity and Capital Resources Regulatory Requirements herein.
(7) See Note 13 to the consolidated financial statements in Item 1 for information on the Tier 1 leverage ratio.

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Overview of Financial Results

Consolidated Results for the Quarter Ended June 30, 2016

We reported net revenues of $8,909 million in the quarter ended June 30, 2016 (current quarter), compared with $9,743 million in the quarter ended June 30, 2015 (prior year quarter). For the current quarter, net income applicable to Morgan Stanley was $1,582 million, or $0.75 per diluted common share, compared with income of $1,807 million, or $0.85 per diluted common share, in the prior year quarter.

The prior year quarter included positive revenues due to the impact of debt valuation adjustments (DVA) of $182 million or $0.06 per diluted common share. Excluding DVA, net revenues were $9,561 million and net income applicable to Morgan Stanley was $1,688 million, or $0.79 per diluted common share, in the prior year quarter (see Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information herein).

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

Consolidated Results for the Six Months Ended June 30, 2016

We reported net revenues of $16,701 million in the six months ended June 30, 2016 (current year period), compared with $19,650 million in the six months ended June 30, 2015 (prior year period). For the current year period, net income applicable to Morgan Stanley was $2,716 million, or $1.30 per diluted common share, compared with income of $4,201 million, or $2.03 per diluted common share in the prior year period.

The prior year period included a net discrete tax benefit of $564 million or $0.29 per diluted common share, primarily associated with the repatriation of non-U.S. earnings at a cost lower than originally estimated, and positive revenues associated with DVA of $307 million or $0.10 per diluted common share. For a further discussion of the net discrete tax benefit, see Supplemental Financial Information and Disclosures Income Tax Matters herein.

Net revenues excluding DVA were $19,343 million in the prior year period, while net income applicable to Morgan Stanley was $4,002 million excluding DVA, or
$1.93 per diluted common share excluding DVA, in the prior year period. Excluding both DVA and the net discrete tax benefit, net income applicable to Morgan Stanley was $3,438 million, or $1.64 per diluted common share, in the prior year period (see Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information herein).

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

Institutional Securities net revenues of $4,578 million in the current quarter and $8,292 million in the current year period decreased 11% and 22% from the comparable periods reflecting lower underwriting and sales and trading results, partly offset by continued strength in merger, acquisition and restructuring transactions (M&A) advisory.

Wealth Management net revenues of $3,811 million in the current quarter and $7,479 million in the current year period decreased 2% and 3% from the comparable periods reflecting lower transactional revenues, partly offset by strong growth in net interest income.

Investment Management net revenues of $583 million in the current quarter and $1,060 million in the current year period decreased 22% and 25% from the comparable periods reflecting lower investment gains and carried interest in infrastructure and private equity investments. Asset management fees were relatively unchanged from the comparable periods.

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

Compensation and benefits expenses of $4,015 million in the current quarter and $7,698 million in the current year period decreased 9% and 14% from $4,405 million in the prior year quarter and $8,929 million in the prior year period, primarily due to a decrease in discretionary incentive compensation driven mainly by lower revenues, a decrease in the formulaic payout to Wealth Management representatives linked to lower revenues, and a decrease in salaries due to lower headcount. In the current year period, compensation and benefits expenses also reflected a decrease in the fair value of deferred compensation plan referenced investments and carried interest.

Non-compensation expenses were $2,411 million in the current quarter and $4,782 million in the current year period compared with $2,611 million in the prior year quarter and $5,139 million in the prior year period, representing an 8% and a 7% decrease, primarily due to lower litigation costs and expense reductions across Professional services, Marketing and business development and Occupancy and equipment.

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Return on Average Common Equity

The annualized return on average common equity was 8.3% in the current quarter and 7.2% in the current year period. For the prior year quarter, the annualized return on average common equity was 9.9%, or 9.1% excluding DVA. For the prior year period, the annualized return on average common equity was 12.0%, or 11.3% excluding DVA, and 9.6% excluding DVA and a net discrete tax benefit (see Selected Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Information herein).

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

We prepare our Consolidated Financial Statements using accounting principles generally accepted in the United States (U.S. GAAP). From time to time, we may disclose certain non-GAAP financial measures in the course of

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

Non-GAAP Financial Measures by Business Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(dollars in billions)			
Pre-tax profit margin(1):				
Institutional Securities	33%	31%	29%	32%
Wealth Management	23%	23%	22%	23%
Investment Management	20%	29%	15%	29%
Consolidated	28%	28%	25%	28%
Average common equity(2)(3):				
Institutional Securities	$ 43.2	$ 35.3	$ 43.2	$ 36.1
Wealth Management	15.3	11.3	15.3	10.9
Investment Management	2.8	2.3	2.8	2.3
Parent(2)	7.7	18.3	7.3	17.0

Consolidated average common equity	$	69.0	$	67.2	$	68.6	$	66.3
Return on average common equity(2)(3):								
Institutional Securities		8.0%		11.3%		6.4%		15.1%
Wealth Management		12.9%		18.2%		12.7%		18.4%
Investment Management		10.6%		27.7%		8.8%		23.5%
Consolidated		8.3%		9.9%		7.2%		12.0%

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Reconciliation of Financial Measures from a U.S. GAAP to a Non-GAAP Basis

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(dollars in millions, except per share amounts)			
Net revenues				
Net revenues U.S. GAAP	$ 8,909	$ 9,743	$ 16,701	$ 19,650
Impact of DVA(4)		(182)		(307)
Net revenues non-GAAP	$ 8,909	$ 9,561	$ 16,701	$ 19,343
Net income applicable to Morgan Stanley				
Net income applicable to Morgan Stanley U.S. GAAP	$ 1,582	$ 1,807	$ 2,716	$ 4,201
Impact of DVA(4)		(119)		(199)
Net income applicable to Morgan Stanley, excluding DVA non-GAAP	$ 1,582	$ 1,688	$ 2,716	$ 4,002
Impact of net discrete tax benefits(5)				(564)
Net income applicable to Morgan Stanley, excluding DVA and net discrete tax benefits non-GAAP	$ 1,582	$ 1,688	$ 2,716	$ 3,438
Earnings per diluted common share				
Earnings per diluted common share U.S. GAAP	$ 0.75	$ 0.85	$ 1.30	$ 2.03
Impact of DVA(4)		(0.06)		(0.10)
Earnings per diluted common share, excluding DVA non-GAAP	$ 0.75	$ 0.79	$ 1.30	$ 1.93
Impact of net discrete tax benefits(5)				(0.29)