

MORGAN STANLEY
Form 10-Q
May 04, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR

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

EXCHANGE ACT OF 1934

Commission File Number 1-11758

(Exact Name of Registrant as specified in its charter)

Delaware

1585 Broadway

36-3145972

(212) 761-4000

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

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

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

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

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Large Accelerated Filer

Non-Accelerated Filer

(Do not check if a smaller reporting company)

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

Accelerated Filer

Smaller reporting company

Emerging growth company

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

As of April 30, 2018, there were 1,770,260,439 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 March 31, 2018

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Available Information

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

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

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

- Amended and Restated Certificate of Incorporation;
- Amended and Restated Bylaws;
- Charters for our Audit Committee, Compensation, Management Development and Succession Committee, Nominating and Governance Committee, Operations and Technology Committee, and Risk Committee;
- Corporate Governance Policies;
- Policy Regarding Corporate Political Activities;
- Policy Regarding Shareholder Rights Plan;
- Equity Ownership Commitment;
- Code of Ethics and Business Conduct;
- Code of Conduct;
- Integrity Hotline Information; and
- Environmental and Social Policies.

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

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Morgan Stanley is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Wealth Management and Investment Management. Morgan Stanley, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Unless the context otherwise requires, the terms Morgan Stanley, Firm, us, we or our mean Morgan Stanley (the Parent Company) together with its consolidated subsidiaries. We define the following as part of our consolidated financial statements (financial statements): consolidated income statements (income statements), consolidated balance sheets (balance sheets), and consolidated cash flow statements (cash flow statements). See the Glossary of Common Acronyms for definitions of certain acronyms used throughout this Form 10-Q.

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

Institutional Securities provides investment banking, sales and trading, lending and other services to corporations, governments, financial institutions, and high to ultra-high net worth clients. Investment banking services consist of capital raising and financial advisory services, including services relating to the underwriting of debt, equity and other securities, as well as advice on mergers and acquisitions, restructurings, real estate and project finance. Sales and trading services include sales, financing, prime brokerage and market-making activities in equity and fixed income products, including foreign exchange and commodities. Lending services include originating and/or purchasing corporate loans, commercial and residential mortgage lending, asset-backed lending, financing extended to equities and commodities customers, and loans to municipalities. Other activities include investments and research.

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

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

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

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Business Competition and Business Supervision and Regulation, Risk Factors in the 2017 Form 10-K and Liquidity Capital Resources Regulatory Requirements herein.

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Management's Discussion and Analysis

Executive Summary

Overview of Financial Results

Consolidated Results

Net Revenues

(\$ in millions)

Net Income Applicable to Morgan Stanley

(\$ in millions)

Earnings per Common Share¹

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

We reported net revenues of \$11,077 million in the quarter ended March 31, 2018 (current quarter, or 1Q 2018), compared with \$9,745 million in the quarter ended March 31, 2017 (prior year quarter, or 1Q 2017). For the current quarter, net income applicable to Morgan Stanley was \$2,668 million, or \$1.45 per diluted common share, compared with \$1,930 million, or \$1.00 per diluted common share, in the prior year quarter.

Non-interest Expenses

(\$ in millions)

Compensation and benefits expenses of \$4,914 million in the current quarter increased 10% from \$4,466 million in the prior year quarter, primarily due to increases in discretionary incentive compensation across segments, the formulaic payout to Wealth Management representatives linked to higher revenues and salaries, partially offset by a decrease in the fair value of investments to which certain deferred compensation plans are referenced.

Non-compensation expenses were \$2,743 million in the current quarter compared with \$2,471 million in the prior year quarter representing an 11% increase. This increase was primarily a result of higher volume-related expenses and the gross presentation of certain expenses due to the adoption of the accounting update *Revenue from Contracts with Customers* (see Notes 2 and 20 to the financial statements for further information). These results were partially

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offset in the current quarter by the reversal of a portion of previously recorded provisions related to U.K. VAT matters.

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Management's Discussion and Analysis

Expense Efficiency Ratio¹

Return on Average Common Equity²

Return on Average Tangible Common Equity²

1. The expense efficiency ratio represents total non-interest expense as a percentage of net revenues.

2. Represents a non-GAAP measure. See Selected Non-GAAP Financial Information herein.

Business Segment Results

Net Revenues by Segment^{1, 2}

(\$ in millions)

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

(\$ in millions)

1. The percentages in the charts represent the contribution of each business segment to the total. Amounts do not necessarily total to 100% due to intersegment eliminations, where applicable.

2. The total amount of Net Revenues by Segment also includes intersegment eliminations of \$(115) million and \$(74) million in the current quarter and prior year quarter, respectively.

3. The total amount of Net Income Applicable to Morgan Stanley by Segment also includes intersegment eliminations of \$2 million in the prior year quarter.

Institutional Securities net revenues of \$6,100 million in the current quarter increased 18% from the prior year quarter, primarily reflecting higher sales and trading and Investment banking revenues across all regions.

Wealth Management net revenues of \$4,374 million in the current quarter increased 8% from the prior year quarter, primarily reflecting growth in Asset management revenues.

Investment Management net revenues of \$718 million in the current quarter increased 18% from the prior year quarter, primarily reflecting higher revenues from Asset management.

Table of Contents**Management's Discussion and Analysis****Net Revenues by Region¹**

(\$ in millions)

1. For a discussion of how the geographic breakdown for net revenues is determined, see Note 19 to the financial statements.

Selected Financial Information and Other Statistical Data

| <i>\$ in millions</i> | Three Months Ended March 31, | |
|---|---------------------------------|-----------------|
| | 2018 | 2017 |
| Income from continuing operations applicable to Morgan Stanley | \$ 2,670 | \$ 1,952 |
| Income (loss) from discontinued operations applicable to Morgan Stanley | (2) | (22) |
| Net income applicable to Morgan Stanley | 2,668 | 1,930 |
| Preferred stock dividends and other | 93 | 90 |
| Earnings applicable to Morgan Stanley common shareholders | \$ 2,575 | \$ 1,840 |

| <i>in millions, except per share and employee data</i> | At March 31, 2018 | At December 31, 2017 |
|--|----------------------|-------------------------|
| GLR ¹ | \$ 206,463 | \$ 192,660 |
| Loans ² | \$ 109,135 | \$ 104,126 |
| Total assets | \$ 858,495 | \$ 851,733 |
| Deposits | \$ 160,424 | \$ 159,436 |
| Borrowings | \$ 194,964 | \$ 192,582 |
| Common shareholders' equity | \$ 69,514 | \$ 68,871 |
| Common shares outstanding | 1,774 | 1,788 |
| Book value per common share ³ | \$ 39.19 | \$ 38.52 |
| Worldwide employees | 57,810 | 57,633 |

| <i>in millions, except per share and employee data</i> | At March 31, 2018 | At December 31, 2017 |
|--|----------------------|-------------------------|
| Capital ratios⁴ | | |
| Common Equity Tier 1 capital ratio | 15.5% | 16.5% |
| Tier 1 capital ratio | 17.7% | 18.9% |
| Total capital ratio | 20.3% | 21.7% |
| Tier 1 leverage ratio | 8.2% | 8.3% |

1. For a discussion of the GLR, see Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity Risk Management Framework—Global Liquidity Reserve in the

2017 Form 10-K.

2. Amounts include loans held for investment (net of allowance) and loans held for sale but exclude loans at fair value, which are included in Trading assets in the balance sheets (see Note 7 to the financial statements).
3. Book value per common share equals common shareholders' equity divided by common shares outstanding.
4. Beginning in 2018, our capital ratios are based on the Standardized Approach fully phased-in rules. At December 31, 2017, our capital ratios were based on the Standardized Approach transitional rules. For a discussion of our regulatory capital ratios, see Liquidity and Capital Resources Regulatory Requirements herein.

Selected Non-GAAP Financial Information

We prepare our financial statements using U.S. GAAP. From time to time, we may disclose certain non-GAAP financial measures in this document or in the course of our earnings releases, earnings and other conference calls, financial presentations, Definitive Proxy Statement and otherwise. A non-GAAP financial measure excludes, or includes, amounts from the most directly comparable measure calculated and presented in accordance with U.S. GAAP. We consider the non-GAAP financial measures we disclose to be useful to us, investors and analysts by providing further transparency about, or an alternate means of assessing, our financial condition, operating results, prospective regulatory capital requirements or capital adequacy. These measures are not in accordance with, or a substitute for, U.S. GAAP and may be different from or inconsistent with non-GAAP financial measures used by other companies. Whenever we refer to a non-GAAP financial measure, we will also generally define it or present the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, along with a reconciliation of the differences between the U.S. GAAP financial measure and the non-GAAP financial measure.

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

Table of Contents**Management's Discussion and Analysis****Reconciliations from U.S. GAAP to Non-GAAP Consolidated Financial Measures**

| <i>\$ in millions, except per share data</i> | Three Months Ended March 31, | |
|---|---------------------------------|-----------------|
| | 2018 | 2017 |
| Net income applicable to Morgan Stanley | \$ 2,668 | \$ 1,930 |
| Impact of adjustments | | 14 |
| Adjusted net income applicable to Morgan Stanley non-GAAP | \$ 2,668 | 1,944 |
| Earnings per diluted common share | \$ 1.45 | \$ 1.00 |
| Impact of adjustments | | 0.01 |
| Adjusted earnings per diluted common share non-GAAP | \$ 1.45 | \$ 1.01 |
| Effective income tax rate | 20.9% | 29.0% |
| Impact of adjustments | % | (0.5)% |
| Adjusted effective income tax rate non-GAAP | 20.9% | 28.5% |

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 | Average Monthly Balance Three Months Ended March 31, | |
|---|----------------------|-------------------------|---|-----------|
| | | | 2018 | 2017 |
| Tangible Equity | | | | |
| U.S. GAAP | | | | |
| Morgan Stanley shareholders equity | \$ 78,034 | \$ 77,391 | \$ 77,507 | \$ 77,259 |
| Less: Goodwill and net intangible assets | (9,129) | (9,042) | (9,043) | (9,262) |
| Morgan Stanley tangible shareholders equity non-GAAP | \$ 68,905 | \$ 68,349 | \$ 68,464 | \$ 67,997 |
| U.S. GAAP | | | | |
| Common equity | \$ 69,514 | \$ 68,871 | \$ 68,987 | \$ 68,989 |
| Less: Goodwill and net intangible assets | (9,129) | (9,042) | (9,043) | (9,262) |
| Tangible common equity non-GAAP | \$ 60,385 | \$ 59,829 | \$ 59,944 | \$ 59,727 |

Consolidated Non-GAAP Financial Measures

| <i>\$ in billions</i> | Three Months Ended March 31, | |
|-----------------------|---------------------------------|------|
| | 2018 | 2017 |

| | | |
|---------------------------------------|---------|---------|
| Average common equity | | |
| Unadjusted | \$ 69.0 | \$ 69.0 |
| Adjusted ¹ | 69.0 | 69.0 |
| ROE² | | |
| Unadjusted | 14.9% | 10.7% |
| Adjusted ^{1, 3} | 14.9% | 10.7% |
| Average tangible common equity | | |
| Unadjusted | \$ 59.9 | \$ 59.7 |
| Adjusted ¹ | 59.9 | 59.7 |
| ROTCE² | | |
| Unadjusted | 17.2% | 12.3% |
| Adjusted ^{1, 3} | 17.2% | 12.4% |

| | | |
|---|---------------------|-----------------|
| | At March 31, | At December 31, |
| | 2018 | 2017 |
| Tangible book value per common share ⁴ | \$ 34.04 | \$ 33.46 |

Non-GAAP Financial Measures by Business Segment

| | | |
|--|--------------------|---------|
| | Three Months Ended | |
| | March 31, | |
| <i>\$ in billions</i> | 2018 | 2017 |
| Pre-tax profit margin⁵ | | |
| Institutional Securities | 35% | 34% |
| Wealth Management | 27% | 24% |
| Investment Management | 21% | 17% |
| Consolidated | 31% | 29% |
| Average common equity⁶ | | |
| Institutional Securities | \$ 40.8 | \$ 40.2 |
| Wealth Management | 16.8 | 17.2 |
| Investment Management | 2.6 | 2.4 |
| Parent Company | 8.8 | 9.2 |
| Consolidated average common equity | \$ 69.0 | \$ 69.0 |
| Average tangible common equity⁶ | | |
| Institutional Securities | \$ 40.1 | \$ 39.6 |
| Wealth Management | 9.2 | 9.3 |
| Investment Management | 1.7 | 1.6 |
| Parent Company | 8.9 | 9.2 |
| Consolidated average tangible common equity | \$ 59.9 | \$ 59.7 |
| ROE^{2, 7} | | |
| Institutional Securities | 15.2% | 11.4% |
| Wealth Management | 21.3% | 14.6% |
| Investment Management | 19.3% | 11.1% |
| Consolidated | 14.9% | 10.7% |
| ROTCE^{2, 7} | | |
| Institutional Securities | 15.5% | 11.5% |

| | | |
|-----------------------|--------------|-------|
| Wealth Management | 38.9% | 27.0% |
| Investment Management | 30.3% | 16.3% |
| Consolidated | 17.2% | 12.3% |

- Adjusted amounts exclude intermittent net discrete tax provisions (benefits). Income tax consequences associated with employee share-based awards are recognized in Provision for income taxes in the income statements but are excluded from the intermittent net discrete tax provisions (benefits) adjustment as we anticipate conversion activity each quarter. For further information on the net discrete tax provisions (benefits), see Supplemental Financial Information and Disclosures Income Tax Matters herein.
- ROE and ROTCE equal net income applicable to Morgan Stanley less preferred dividends as a percentage of average common equity and average tangible common equity, on a consolidated basis as indicated. When excluding intermittent net discrete tax provisions (benefits), both the numerator and denominator are adjusted.
- The calculations used in determining the Firm's ROE and ROTCE Targets referred to below are the Adjusted ROE and Adjusted ROTCE amounts shown in this table.
- Tangible book value per common share equals tangible common equity divided by common shares outstanding.
- Pre-tax profit margin represents income from continuing operations before income taxes as a percentage of net revenues.
- Average common equity and average tangible common equity for each business segment are determined using our Required Capital framework (see Liquidity and Capital Resources Regulatory Requirements Attribution of Average Common Equity According to the Required Capital Framework herein).
- The calculation of ROE and ROTCE by segment uses net income applicable to Morgan Stanley by segment less preferred dividends allocated to each segment as a percentage of average common equity and average tangible common equity, allocated to each segment.

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Management's Discussion and Analysis

Return on Equity and Tangible Common Equity Targets

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

Our ROE and ROTCE Targets are forward-looking statements that may be materially affected by many factors, including, among other things: macroeconomic and market conditions; legislative and regulatory developments; industry trading and investment banking volumes; equity market levels; interest rate environment; outside legal expenses or penalties and the ability to maintain a reduced level of expenses; capital levels; and intermittent discrete tax items. For further information on our ROE and ROTCE Targets and related assumptions, see Management's Discussion and Analysis of Financial Condition and Results of Operations Executive Summary Return on Equity and Tangible Common Equity Targets in the 2017 Form 10-K.

Business Segments

Substantially all of our operating revenues and operating expenses are directly attributable to the business segments. Certain revenues and expenses have been allocated to each business segment, generally in proportion to its respective net revenues, non-interest expenses or other relevant measures.

As a result of treating certain intersegment transactions as transactions with external parties, we include an Intersegment Eliminations category to reconcile the business segment results to our consolidated results.

Net Revenues, Compensation Expense and Income Taxes

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

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

| <i>\$ in millions</i> | Three Months Ended March 31, | | % Change |
|---|---------------------------------|-----------------|------------|
| | 2018 | 2017 | |
| Revenues | | | |
| Investment banking | \$ 1,513 | \$ 1,417 | 7% |
| Trading | 3,643 | 3,012 | 21% |
| Investments | 49 | 66 | (26)% |
| Commissions and fees | 744 | 620 | 20% |
| Asset management | 110 | 91 | 21% |
| Other | 136 | 173 | (21)% |
| Total non-interest revenues | 6,195 | 5,379 | 15% |
| Interest income | 1,804 | 1,124 | 60% |
| Interest expense | 1,899 | 1,351 | 41% |
| Net interest | (95) | (227) | 58% |
| Net revenues | 6,100 | 5,152 | 18% |
| Compensation and benefits | 2,160 | 1,870 | 16% |
| Non-compensation expenses | 1,828 | 1,552 | 18% |
| Total non-interest expenses | 3,988 | 3,422 | 17% |
| Income from continuing operations before income taxes | 2,112 | 1,730 | 22% |
| Provision for income taxes | 449 | 459 | (2)% |
| Income from continuing operations | 1,663 | 1,271 | 31% |
| Income (loss) from discontinued operations, net of income taxes | (2) | (22) | 91% |
| Net income | 1,661 | 1,249 | 33% |
| Net income applicable to noncontrolling interests | 34 | 35 | (3)% |
| Net income applicable to Morgan Stanley | \$ 1,627 | \$ 1,214 | 34% |

Investment Banking**Investment Banking Revenues**

| <i>\$ in millions</i> | Three Months Ended March 31, | | % Change |
|-----------------------|---------------------------------|--------|----------|
| | 2018 | 2017 | |
| Advisory | \$ 574 | \$ 496 | 16% |

Underwriting:

| | | | |
|---------------------------------|-----------------|-----------------|-------------|
| Equity | 421 | 390 | 8% |
| Fixed income | 518 | 531 | (2)% |
| Total underwriting | 939 | 921 | 2% |
| Total investment banking | \$ 1,513 | \$ 1,417 | 7% |

Investment Banking Volumes

| \$ in billions | Three Months Ended March 31, | |
|---|---------------------------------|--------|
| | 2018 | 2017 |
| Completed mergers and acquisitions ¹ | \$ 145 | \$ 163 |
| Equity and equity-related offerings ^{2, 3} | 21 | 10 |
| Fixed income offerings ^{2, 4} | 54 | 75 |

Source: Thomson Reuters, data as of April 2, 2018. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or change in the value of a transaction.

1. Amounts include transactions of \$100 million or more. Completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction.
2. Equity and equity-related offerings and fixed income offerings are based on full credit for single book managers and equal credit for joint book managers.
3. Amounts include Rule 144A issuances and registered public offerings of common stock and convertible securities and rights offerings.
4. Amounts include non-convertible preferred stock, mortgage-backed and asset-backed securities, and taxable municipal debt. Amounts include publicly registered and Rule 144A issuances. Amounts exclude leveraged loans and self-led issuances.

Investment banking revenues are composed of fees from advisory services and revenues from the underwriting of securities offerings and syndication of loans, net of syndication expenses.

Investment banking revenues of \$1,513 million in the current quarter increased 7% from the prior year quarter. The adoption of the accounting update *Revenue from Contracts with Customers* had the effect of increasing the revenues reported in investment banking by approximately \$60 million compared with the prior year quarter (see Notes 2 and 20 to the financial statements for further information). The drivers of the increase in our Investment banking revenues, other than the effect of the above accounting update, were:

Advisory revenues increased in the current quarter primarily reflecting higher M&A fee realizations on larger transactions.

Equity underwriting revenues increased in the current quarter primarily as a result of higher market volumes (see Investment Banking Volumes table), partially offset by the effect of lower fee realizations.

Fixed income underwriting revenues decreased in the current quarter primarily due to lower market volumes, which resulted in lower bond fees, partially offset by higher loan fees.

Table of Contents**Management's Discussion and Analysis****Sales and Trading Net Revenues****By Income Statement Line Item**

| <i>\$ in millions</i> | Three Months Ended March 31, | | % Change |
|-----------------------|---------------------------------|-----------------|------------|
| | 2018 | 2017 | |
| Trading | \$ 3,643 | \$ 3,012 | 21% |
| Commissions and fees | 744 | 620 | 20% |
| Asset management | 110 | 91 | 21% |
| Net interest | (95) | (227) | 58% |
| Total | \$ 4,402 | \$ 3,496 | 26% |

By Business

| <i>\$ in millions</i> | Three Months Ended March 31, | | % Change |
|-----------------------|---------------------------------|-----------------|------------|
| | 2018 | 2017 | |
| Equity | \$ 2,558 | \$ 2,016 | 27% |
| Fixed income | 1,873 | 1,714 | 9% |
| Other | (29) | (234) | 88% |
| Total | \$ 4,402 | \$ 3,496 | 26% |

Sales and Trading Revenues Equity and Fixed Income

| <i>\$ in millions</i> | Three Months Ended March 31, 2018 | | | |
|---------------------------|--------------------------------------|-------------------|---------------------------|-----------------|
| | Trading | Fees ¹ | Net Interest ² | Total |
| Financing | \$ 1,234 | \$ 107 | \$ (146) | \$ 1,195 |
| Execution services | 791 | 664 | (92) | 1,363 |
| Total Equity | \$ 2,025 | \$ 771 | \$ (238) | \$ 2,558 |
| Total Fixed income | \$ 1,715 | \$ 83 | \$ 75 | \$ 1,873 |

| <i>\$ in millions</i> | Three Months Ended March 31, 2017 | | | |
|-----------------------|--------------------------------------|-------------------|---------------------------|--------|
| | Trading | Fees ¹ | Net Interest ² | Total |
| Financing | \$ 931 | \$ 89 | \$ (188) | \$ 832 |
| Execution services | 664 | 568 | (48) | 1,184 |

| | | | | |
|---------------------------|----------|--------|----------|----------|
| Total Equity | \$ 1,595 | \$ 657 | \$ (236) | \$ 2,016 |
| Total Fixed income | \$ 1,598 | \$ 54 | \$ 62 | \$ 1,714 |

1. Includes Commissions and fees and Asset management revenues.

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

As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments Net Revenues by Segment in the 2017 Form 10-K, we manage each of the sales and trading businesses based on its aggregate net revenues. We provide qualitative commentary in the discussion of results that follow on the key drivers of period over period variances, as the quantitative impact of the various market dynamics typically cannot be disaggregated.

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

Equity

Equity sales and trading net revenues of \$2,558 million in the current quarter increased 27% from the prior year quarter, reflecting higher results in both our financing businesses and execution services.

Financing revenues increased from the prior year quarter, primarily reflecting higher client activity across all products as reflected in Trading revenues.

Execution services increased from the prior year quarter, primarily reflecting higher Trading revenues driven by higher client activity in derivatives products. In addition, Commissions and fees increased from higher client activity in cash equities products.

Fixed Income

Fixed income net revenues of \$1,873 million in the current quarter were 9% higher than in the prior year quarter, driven by higher results in global macro products and commodities products and other, partially offset by lower results in credit products.

Global macro products increased due to higher Trading revenues in foreign exchange driven by inventory management and client activity, partially offset by lower client activity in structured rates.

Credit products Trading revenues decreased primarily due to the effect of the widening of corporate credit spreads on inventory prices.

Commodities products and other increased primarily due to higher Trading revenues from hedging counterparty risk and increased Commodities structured transactions and customer flow in power and natural gas products.

Other

Other sales and trading net losses of \$29 million in the current quarter decreased from the prior year quarter, primarily reflecting higher revenues on economic hedges related to our long-term debt and lower losses associated with

corporate loan hedging activity.

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Management's Discussion and Analysis

Investments, Other Revenues and Non-interest Expenses

Investments

Net investment gains of \$49 million in the current quarter decreased from the prior year quarter as a result of losses on investments to which certain deferred compensation plans are referenced in the current quarter compared with gains in the prior year quarter.

Other Revenues

Other revenues of \$136 million in the current quarter decreased from the prior year quarter, primarily reflecting lower gains associated with held-for-sale corporate loans.

Non-interest Expenses

Non-interest expenses of \$3,988 million in the current quarter increased from the prior year quarter, primarily reflecting a 16% increase in Compensation and benefits expenses and an 18% increase in Non-compensation expenses in the current quarter.

Compensation and benefits expenses increased in the current quarter, primarily due to increases in discretionary incentive compensation driven by higher revenues and salaries.

Non-compensation expenses increased in the current quarter, primarily as a result of higher volume-related expenses and the gross presentation of certain expenses due to the adoption of the accounting update *Revenue from Contracts with Customers* (see Notes 2 and 20 to the financial statements for further information). These results were partially offset in the current quarter by the reversal of a portion of previously recorded provisions related to U.K. VAT matters.

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

| <i>\$ in millions</i> | Three Months Ended March 31, | | % Change |
|---|---------------------------------|---------------|------------|
| | 2018 | 2017 | |
| Revenues | | | |
| Investment banking | \$ 140 | \$ 145 | (3)% |
| Trading | 109 | 238 | (54)% |
| Investments | | 1 | N/M |
| Commissions and fees | 498 | 440 | 13% |
| Asset management | 2,495 | 2,184 | 14% |
| Other | 63 | 56 | 13% |
| Total non-interest revenues | 3,305 | 3,064 | 8% |
| Interest income | 1,280 | 1,079 | 19% |
| Interest expense | 211 | 85 | 148% |
| Net interest | 1,069 | 994 | 8% |
| Net revenues | 4,374 | 4,058 | 8% |
| Compensation and benefits | 2,450 | 2,317 | 6% |
| Non-compensation expenses | 764 | 768 | (1)% |
| Total non-interest expenses | 3,214 | 3,085 | 4% |
| Income from continuing operations before income taxes | 1,160 | 973 | 19% |
| Provision for income taxes | 246 | 326 | (25)% |
| Net income applicable to Morgan Stanley | \$ 914 | \$ 647 | 41% |

Financial Information and Statistical Data

| <i>\$ in billions</i> | At | At |
|--|-------------------|----------------------|
| | March 31, 2018 | December 31, 2017 |
| Client assets | \$ 2,371 | \$ 2,373 |
| Fee-based client assets ¹ | \$ 1,058 | \$ 1,045 |
| Fee-based client assets as a percentage of total client assets | 45% | 44% |
| Client liabilities ² | \$ 80 | \$ 80 |
| Investment securities portfolio | \$ 60.7 | \$ 59.2 |
| Loans and lending commitments | \$ 78.7 | \$ 77.3 |
| Wealth Management representatives | 15,682 | 15,712 |

Three Months Ended
March 31,

| | 2018 | 2017 |
|---|----------|----------|
| Per representative: | | |
| Annualized revenues (\$ in thousands) ³ | \$ 1,115 | \$ 1,029 |
| Client assets (\$ in millions) ⁴ | \$ 151 | \$ 139 |
| Fee-based asset flows (\$ in billions) ⁵ | \$ 18.2 | \$ 18.8 |

1. Fee-based client assets represent the amount of assets in client accounts where the basis of payment for services is a fee calculated on those assets.
2. Client liabilities include securities-based and tailored lending, residential real estate loans and margin lending.
3. Annualized revenues per representative equal Wealth Management's annualized revenues divided by the average representative headcount.
4. Client assets per representative equal total period-end client assets divided by period-end representative headcount.
5. Fee-based asset flows include net new fee-based assets, net account transfers, dividends, interest and client fees and exclude institutional cash management-related activity.

Transactional Revenues

| <i>\$ in millions</i> | Three Months Ended | | % Change |
|---|--------------------|---------------|-------------|
| | March 31, | | |
| | 2018 | 2017 | |
| Investment banking | \$ 140 | \$ 145 | (3)% |
| Trading | 109 | 238 | (54)% |
| Commissions and fees | 498 | 440 | 13% |
| Total | \$ 747 | \$ 823 | (9)% |
| Transactional revenues as a % of Net revenues | 17% | 20% | |

Net Revenues

Transactional Revenues

Transactional revenues of \$747 million in the current quarter decreased 9% from the prior year quarter primarily as a result of decreased Trading revenues, partially offset by increased Commissions and fees.

Investment banking revenues were relatively unchanged in the current quarter compared with prior year quarter.

Trading revenues decreased in the current quarter primarily as a result of losses related to investments associated with certain employee deferred compensation plans and lower client activity in fixed income products.

Commissions and fees increased in the current quarter primarily as a result of higher client trading activity in equities.

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

Asset management revenues of \$2,495 million in the current quarter increased 14% from the prior year quarter primarily due to the effect of market appreciation and net positive flows on average fee-based client assets.

See Fee-Based Client Assets Rollforwards herein.

Net Interest

Net interest of \$1,069 million in the current quarter increased 8% from the prior year quarter primarily as a result of higher interest rates and higher loan balances.

Non-interest Expenses

Non-interest expenses of \$3,214 million in the current quarter increased 4% from the prior year quarter.

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

Non-compensation expenses were relatively unchanged in the current quarter compared with prior year quarter.

Fee-Based Client Assets

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

Fee-Based Client Assets Rollforwards

| | At | | | At | |
|---------------------------------|----------------------|---------|----------|------------------|-------------------|
| <i>\$ in billions</i> | December 31, 2017 | Inflows | Outflows | Market Impact | March 31, 2018 |
| Separately managed ¹ | \$ 252 | \$ 10 | \$ (6) | \$ 4 | \$ 260 |
| Unified managed | 250 | 14 | (8) | (2) | 254 |
| Mutual fund advisory | 21 | | (1) | | 20 |
| Advisor | 149 | 9 | (9) | (2) | 147 |
| Portfolio manager | 353 | 21 | (12) | (6) | 356 |
| Subtotal | \$ 1,025 | \$ 54 | \$ (36) | \$ (6) | \$ 1,037 |
| Cash management | 20 | 4 | (3) | | 21 |

Total fee-based client assets \$ 1,045 \$ 58 \$ (39) \$ (6) \$ 1,058

| | At | | | At | |
|--------------------------------------|----------------------|---------|----------|------------------|-------------------|
| <i>\$ in billions</i> | December 31, 2016 | Inflows | Outflows | Market Impact | March 31, 2017 |
| Separately managed ¹ | \$ 222 | \$ 9 | \$ (5) | \$ 4 | \$ 230 |
| Unified managed | 204 | 13 | (9) | 9 | 217 |
| Mutual fund advisory | 21 | | (1) | 1 | 21 |
| Advisor | 125 | 10 | (7) | 5 | 133 |
| Portfolio manager | 285 | 20 | (11) | 11 | 305 |
| Subtotal | \$ 857 | \$ 52 | \$ (33) | \$ 30 | \$ 906 |
| Cash management | 20 | 3 | (2) | | 21 |
| Total fee-based client assets | \$ 877 | \$ 55 | \$ (35) | \$ 30 | \$ 927 |

Average Fee Rates

| | Three Months Ended March 31, | |
|--------------------------------------|---------------------------------|-----------|
| <i>Fee rate in bps</i> | 2018 | 2017 |
| Separately managed | 16 | 16 |
| Unified managed | 98 | 100 |
| Mutual fund advisory | 119 | 120 |
| Advisor | 85 | 86 |
| Portfolio manager | 96 | 98 |
| Subtotal | 76 | 77 |
| Cash management | 6 | 6 |
| Total fee-based client assets | 75 | 75 |

1. Includes non-custody account values reflecting prior quarter-end balances due to a lag in the reporting of asset values by third-party custodians.

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

| \$ in millions | Three Months Ended | | % Change |
|--|--------------------|-------------------|------------|
| | 2018 | March 31, 2017 | |
| Revenues | | | |
| Trading | \$ 5 | \$ (11) | 145% |
| Investments | 77 | 98 | (21)% |
| Asset management | 626 | 517 | 21% |
| Other | 10 | 4 | 150% |
| Total non-interest revenues | 718 | 608 | 18% |
| Interest income | 1 | 1 | % |
| Interest expense | 1 | | N/M |
| Net interest | | 1 | N/M |
| Net revenues | 718 | 609 | 18% |
| Compensation and benefits | 304 | 279 | 9% |
| Non-compensation expenses | 266 | 227 | 17% |
| Total non-interest expenses | 570 | 506 | 13% |
| Income from continuing operations before income taxes | 148 | 103 | 44% |
| Provision for income taxes | 19 | 30 | (37)% |
| Net income | 129 | 73 | 77% |
| Net income (loss) applicable to noncontrolling interests | 2 | 6 | (67)% |
| Net income applicable to Morgan Stanley | \$ 127 | \$ 67 | 90% |
| Net Revenues | | | |

Investments

Investments gains of \$77 million in the current quarter decreased 21% from the prior year quarter primarily as a result of lower carried interest in certain private equity funds.

Asset Management

Asset management revenues of \$626 million in the current quarter increased 21% from the prior year quarter primarily as a result of higher average AUM across all asset classes. In addition, Asset management revenues increased as a result of the gross presentation of distribution fees due to the adoption of the accounting update *Revenue from Contracts with Customers* (see Notes 2 and 20 to the financial statements for further details).

In addition to the gross presentation described above, the timing of the recognition of certain performance fees not in the form of carried interest is generally expected to be deferred within a fiscal year until the fees are no longer probable of being reversed. Thus, the recognition of a greater portion of such revenues is expected to be recognized in

the second half of each fiscal year based on current fee arrangements.

See Assets Under Management or Supervision herein.

Non-interest Expenses

Non-interest expenses of \$570 million in the current quarter increased 13% from the prior year quarter primarily as a result of increases in both Compensation and benefits expenses and Non-compensation expenses.

Compensation and benefits expenses increased in the current quarter primarily as a result of increases in discretionary incentive compensation driven mainly by higher revenues, increases in salaries, and deferred compensation associated with carried interest.

Non-compensation expenses increased in the current quarter primarily as a result of the gross presentation of distribution fees due to adoption of the accounting update *Revenue from Contracts with Customers* along with higher fee sharing on increased AUM balances. See Asset Management above.

Assets Under Management or Supervision

For a description of the asset classes and rollforward items in the following tables, see Management's Discussion and Analysis of Financial Condition and Results of Operations Business Segments Investment Management Assets Under Management or Supervision in the 2017 Form 10-K.

AUM Rollforwards

| \$ in billions | At | | Inflows | Outflows | Market Impact | Other ¹ | At |
|---------------------------------|-------------------|----------------|----------|----------|---------------|--------------------|--------|
| | December 31, 2017 | March 31, 2018 | | | | | |
| Equity | \$ 105 | \$ 9 | \$ (7) | \$ 1 | \$ 1 | \$ 1 | \$ 109 |
| Fixed income | 73 | 7 | (8) | (1) | 1 | | 72 |
| Alternative/Other | 128 | 4 | (4) | | 3 | | 131 |
| Long-term AUM subtotal | 306 | 20 | (19) | | 5 | | 312 |
| Liquidity | 176 | 325 | (344) | | | | 157 |
| Total AUM | \$ 482 | \$ 345 | \$ (363) | \$ | \$ 5 | | \$ 469 |
| Shares of minority stake assets | 7 | | | | | | 7 |

| \$ in billions | At | | Inflows | Outflows | Market Impact | Other ¹ | At |
|---------------------------------|-------------------|----------------|----------|----------|---------------|--------------------|--------|
| | December 31, 2016 | March 31, 2017 | | | | | |
| Equity | \$ 79 | \$ 5 | \$ (5) | \$ 8 | \$ | \$ | \$ 87 |
| Fixed income | 60 | 5 | (5) | 1 | 1 | | 62 |
| Alternative/Other | 115 | 7 | (4) | 1 | | | 119 |
| Long-term AUM subtotal | 254 | 17 | (14) | 10 | 1 | | 268 |
| Liquidity | 163 | 328 | (338) | | | | 153 |
| Total AUM | \$ 417 | \$ 345 | \$ (352) | \$ 10 | \$ 1 | | \$ 421 |
| Shares of minority stake assets | 8 | | | | | | 7 |

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1. Includes distributions and foreign currency impact for both periods and the impact of the Mesa West Capital, LLC acquisition in the current quarter.

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

| <i>\$ in billions</i> | Three Months Ended March 31, | |
|------------------------------------|---------------------------------|---------------|
| | 2018 | 2017 |
| Equity | \$ 109 | \$ 83 |
| Fixed income | 73 | 62 |
| Alternative/Other | 129 | 117 |
| Long-term AUM subtotal | 311 | 262 |
| Liquidity | 163 | 157 |
| Total AUM | \$ 474 | \$ 419 |
| Shares of minority stake assets | 7 | 7 |

Average Fee Rate

| <i>Fee rate in bps</i> | Three Months Ended March 31, | |
|------------------------|---------------------------------|-----------|
| | 2018 | 2017 |
| Equity | 76 | 74 |
| Fixed income | 35 | 33 |
| Alternative/Other | 68 | 71 |
| Long-term AUM | 63 | 63 |
| Liquidity | 18 | 18 |
| Total AUM | 47 | 46 |

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-------|
| | 2018 | 2017 |
| U.S. GAAP | 20.9% | 29.0% |
| Adjusted effective income tax rate - non-GAAP | 20.9% | 28.5% |

1. Adjusted amounts exclude an intermittent net discrete tax provision of \$14 million in the prior year quarter. Income tax consequences associated with employee share-based awards are recognized in Provision for income taxes in the income statements but are excluded from the intermittent net discrete tax provisions (benefits) adjustment as we anticipate conversion activity each quarter. For further information on non-GAAP measures, see [Selected Non-GAAP Financial Information](#) herein.

The effective tax rates include recurring-type discrete tax benefits associated with employee share-based payments of \$147 million and \$112 million in the current quarter and prior year quarter, respectively.

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

Our estimates may change as additional clarification and implementation guidance continue to be received from the U.S. Treasury Department and as the interpretation of the Tax Act evolves over time. Taking into account continuing developments related to provisions of the Tax Act such as the modified territorial tax system and GILTI, we expect our effective tax rate from continuing operations for 2018 to be approximately 22% to 25% (see [Forward-Looking Statements](#) in the 2017 Form 10-K).

U.S. Bank Subsidiaries

We provide loans to a variety of customers, from large corporate and institutional clients to high net worth individuals, primarily through our U.S. bank subsidiaries, Morgan Stanley Bank N.A. (MSBNA) and Morgan Stanley Private Bank, National Association (MSPBNA) (collectively, U.S. Bank Subsidiaries). The lending activities in the Institutional Securities business segment primarily include loans and lending commitments to corporate clients. The lending activities in the Wealth Management business segment primarily include: securities-based lending, which

allows clients to borrow money against the value of qualifying securities; and residential real estate loans.

We expect our lending activities to continue to grow through further market penetration of the client base. For a further discussion of our credit risks, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk. For further discussion about loans and lending commitments, see Notes 7 and 11 to the financial statements.

U.S. Bank Subsidiaries Supplemental Financial Information

| <i>\$ in billions</i> | At March 31, 2018 | At December 31, 2017 |
|---|-------------------------|----------------------------|
| Assets | \$ 188.3 | \$ 185.3 |
| Investment securities portfolio: | | |
| Investment securities AFS | 43.1 | 42.0 |
| Investment securities HTM | 18.0 | 17.5 |
| Total investment securities | \$ 61.1 | \$ 59.5 |
| Deposits ² | \$ 160.1 | \$ 159.1 |
| Wealth Management | | |
| Securities-based lending and other loans ³ | \$ 41.7 | \$ 41.2 |
| Residential real estate loans | 26.6 | 26.7 |
| Total | \$ 68.3 | \$ 67.9 |
| Institutional Securities | | |
| Corporate loans | \$ 27.4 | \$ 24.2 |
| Wholesale real estate loans | 12.4 | 12.2 |
| Total | \$ 39.8 | \$ 36.4 |

1. Amounts exclude transactions with the Parent Company and between the bank subsidiaries.

2. For further information on deposits, see Liquidity and Capital Resources Funding Management Unsecured Financing herein.

3. Other loans primarily include tailored lending.

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Management's Discussion and Analysis

Accounting Development Updates

The Financial Accounting Standards Board has issued certain accounting updates that apply to us. Accounting updates not listed below were assessed and determined to be either not applicable or are not expected to have a significant impact on our financial statements.

The following accounting updates are currently being evaluated to determine the potential impact of adoption:

Leases. This accounting update requires lessees to recognize in the balance sheet all leases with terms exceeding one year, which results in the recognition of a right of use asset and corresponding lease liability, including for those leases that we currently classify as operating leases. The accounting for leases where we are the lessor is largely unchanged.

The right of use asset and lease liability will initially be measured using the present value of the remaining rental payments. This change to the accounting for leases where we are lessee requires modifications to our lease accounting systems and determining the present value of the remaining rental payments. Key aspects of the latter include concluding upon the discount rate and determining whether to include non-lease components in rental payments. This update is effective as of January 1, 2019 with early adoption permitted.

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

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

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

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

Critical Accounting Policies

Our financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions (see Note 1 to the financial statements). We believe that of our significant accounting policies (see Note 2 to the financial statements in the 2017 Form 10-K and Note 2 to the financial statements), the fair value, goodwill and intangible assets, legal and regulatory contingencies and income taxes policies involve a higher degree of judgment and complexity. For a further discussion about our critical accounting policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in the 2017 Form 10-K.

Liquidity and Capital Resources

Senior management, with oversight by the Asset and Liability Management Committee and the Board of Directors (Board), establishes and maintains our liquidity and capital policies. Through various risk and control committees, senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity, interest rate and currency sensitivity of our asset and liability position. The Treasury department, Firm Risk Committee, Asset and Liability Management Committee, and other committees and control groups assist in evaluating, monitoring and controlling the impact that our business activities have on our balance sheet, liquidity and capital structure. Liquidity and capital matters are reported regularly to the Board and the Risk Committee of the Board.

Balance Sheet

We monitor and evaluate the composition and size of our balance sheet on a regular basis. Our balance sheet management process includes quarterly planning, business-specific thresholds, monitoring of business-specific usage versus key performance metrics and new business impact assessments.

We establish balance sheet thresholds at the consolidated and business segment levels. We monitor balance sheet utilization and review variances resulting from business activity or market fluctuations. On a regular basis, we review current performance versus established thresholds and assess the need to re-allocate our balance sheet based on business unit needs. We also monitor key metrics, including asset and liability size and capital usage.

Table of Contents**Management's Discussion and Analysis****Total Assets by Business Segment**

| <i>\$ in millions</i> | At March 31, 2018 | | | |
|---|-------------------|-------------------|-----------------|-------------------|
| | IS | WM | IM | Total |
| Assets | | | | |
| Cash and cash equivalents ¹ | \$ 74,096 | \$ 13,173 | \$ 75 | \$ 87,344 |
| Trading assets at fair value | 269,200 | 85 | 3,759 | 273,044 |
| Investment securities | 19,913 | 60,728 | | 80,641 |
| Securities purchased under agreements to resell | 72,460 | 7,786 | | 80,246 |
| Securities borrowed | 135,608 | 227 | | 135,835 |
| Customer and other receivables | 48,257 | 17,973 | 605 | 66,835 |
| Loans, net of allowance ² | 40,804 | 68,326 | 5 | 109,135 |
| Other assets ³ | 14,447 | 9,305 | 1,663 | 25,415 |
| Total assets | \$ 674,785 | \$ 177,603 | \$ 6,107 | \$ 858,495 |

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

IS Institutional Securities

WM Wealth Management

IM Investment Management

1. Cash and cash equivalents includes Cash and due from banks, Interest bearing deposits with banks and Restricted cash.
2. Amounts include loans held for investment (net of allowance) and loans held for sale but exclude loans at fair value, which are included in Trading assets in the balance sheets (see Note 7 to the financial statements).
3. Other assets primarily includes Goodwill, Intangible assets, premises, equipment, software, other investments, and deferred tax assets.

A substantial portion of total assets consists of liquid marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business segment. Total assets increased to \$858.5 billion at March 31, 2018 from \$851.7 billion at December 31, 2017, primarily driven by an increase in Customer and other receivables and growth within the Institutional Securities loan portfolios. Trading Assets within

the Institutional Securities business segment declined as we sold inventory in Equities to support increased demand and changes in client positioning. This was offset by increases in Securities borrowed and GLR cash deposits. For further information regarding our GLR, see [Global Liquidity Reserve](#) herein.

Securities Repurchase Agreements and Securities Lending

Securities borrowed or securities purchased under agreements to resell and securities loaned or securities sold under agreements to repurchase are treated as collateralized financings (see Note 2 to the financial statements in the 2017 Form 10-K and Note 6 to the financial statements).

Collateralized Financing Transactions

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|---|-------------------------|----------------------------|
| Securities purchased under agreements to resell and Securities borrowed | \$ 216,081 | \$ 208,268 |
| Securities sold under agreements to repurchase and Securities loaned | \$ 65,131 | \$ 70,016 |
| Securities received as collateral ¹ | \$ 8,693 | \$ 13,749 |

| <i>\$ in millions</i> | Average Daily Balance Three Months Ended | |
|---|---|----------------------|
| | March 31, 2018 | December 31, 2017 |
| Securities purchased under agreements to resell and Securities borrowed | \$ 211,753 | \$ 214,343 |
| Securities sold under agreements to repurchase and Securities loaned | \$ 65,684 | \$ 66,879 |

1. Included in Trading assets in the balance sheets.

Customer Securities Financing

The customer receivable portion of securities financing transactions primarily includes customer margin loans, collateralized by customer-owned securities, which are segregated in accordance with regulatory requirements. The customer payable portion of securities financing transactions primarily includes payables to our prime brokerage customers. Our risk exposure on these transactions is mitigated by collateral maintenance policies that limit our credit exposure to customers and liquidity reserves held against this risk exposure.

Liquidity Risk Management Framework

The primary goal of our Liquidity Risk Management Framework is to ensure that we have access to adequate funding across a wide range of market conditions and time horizons. The framework is designed to enable us to fulfill our financial obligations and support the execution of our business strategies.

The core components of our Liquidity Risk Management Framework are the Required Liquidity Framework, Liquidity Stress Tests and the GLR, which support our target liquidity profile. For further discussion about the Firm's Required Liquidity Framework and Liquidity Stress Tests, see [Management's Discussion and Analysis of Financial](#)

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

Condition and Results of Operations Liquidity and Capital Resources Liquidity Risk Management Framework in the 2017 Form 10-K.

At March 31, 2018 and December 31, 2017, we maintained sufficient liquidity to meet current and contingent funding obligations as modeled in our Liquidity Stress Tests.

Global Liquidity Reserve

We maintain sufficient global liquidity reserves pursuant to our Required Liquidity Framework. For further discussion of our GLR, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Risk Management Framework Global Liquidity Reserve in the 2017 Form 10-K.

GLR by Type of Investment

| <i>\$ in millions</i> | At | At |
|---|-------------------|----------------------|
| | March 31, 2018 | December 31, 2017 |
| Cash deposits with banks ¹ | \$ 9,930 | \$ 7,167 |
| Cash deposits with central banks ¹ | 37,243 | 33,791 |
| Unencumbered highly liquid securities: | | |
| U.S. government obligations | 84,155 | 73,422 |
| U.S. agency and agency mortgage-backed securities | 51,805 | 55,750 |
| Non-U.S. sovereign obligations ² | 20,334 | 19,424 |
| Other investment grade securities | 2,996 | 3,106 |
| Total | \$ 206,463 | \$ 192,660 |

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

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

GLR Managed by Bank and Non-Bank Legal Entities

| <i>\$ in millions</i> | At | At | Average Daily |
|----------------------------|-------------------|----------------------|---|
| | March 31, 2018 | December 31, 2017 | Balance Three Months Ended March 31, 2018 |
| Bank legal entities | | | |
| Domestic | \$ 68,826 | \$ 70,364 | \$ 69,955 |

| | | | |
|--------------------------------|-------------------|-------------------|-------------------|
| Foreign | 4,602 | 4,756 | 4,263 |
| Total Bank legal entities | 73,428 | 75,120 | 74,218 |
| Non-Bank legal entities | | | |
| Domestic: | | | |
| Parent Company | 48,998 | 41,642 | 44,184 |
| Non-Parent Company | 32,415 | 35,264 | 32,356 |
| Total Domestic | 81,413 | 76,906 | 76,540 |
| Foreign | 51,622 | 40,634 | 44,216 |
| Total Non-Bank legal entities | 133,035 | 117,540 | 120,756 |
| Total | \$ 206,463 | \$ 192,660 | \$ 194,974 |

Regulatory Liquidity Framework**Liquidity Coverage Ratio**

We and our U.S. Bank Subsidiaries are subject to the LCR requirements including a requirement to calculate each entity's LCR on each business day. The requirements are designed to ensure that banking organizations have sufficient HQLA to cover net cash outflows arising from significant stress over 30 calendar days, thus promoting the short-term resilience of the liquidity risk profile of banking organizations. We and our U.S. Bank Subsidiaries are compliant with the minimum required LCR of 100%.

HQLA by Type of Asset and LCR

| <i>\$ in millions</i> | Average Daily Balance Three Months Ended | |
|----------------------------------|---|-------------------|
| | March 31, 2018 | December 31, 2017 |
| HQLA | | |
| Cash deposits with central banks | \$ 33,350 | \$ 33,450 |
| Securities ¹ | 125,015 | 125,269 |
| Total | \$ 158,365 | \$ 158,719 |
| LCR | 121% | 128% |

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

The decrease in the LCR in the current quarter is due to an increase in net outflows (the denominator of the ratio) driven by the impact of an increase in lending commitments, primarily within the Institutional Securities business segment.

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

Net Stable Funding Ratio

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

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The Basel Committee on Banking Supervision (Basel Committee) has previously finalized the NSFR framework. In May 2016, the U.S. banking agencies issued a proposal to implement the NSFR in the U.S., which would apply to us and our U.S. Bank Subsidiaries. Our preliminary estimates, based on the current proposal, indicate that actions will be necessary to meet the requirement, which we would expect to

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accomplish by the effective date of any final rule. Our preliminary estimates are subject to risks and uncertainties that may cause actual results based on the final rule to differ materially from estimates. For an additional discussion of the NSFR, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Liquidity Framework Net Stable Funding Ratio in the 2017 Form 10-K.

Funding Management

We manage our funding in a manner that reduces the risk of disruption to our operations. We pursue a strategy of diversification of secured and unsecured funding sources (by product, investor and region) and attempt to ensure that the tenor of our liabilities equals or exceeds the expected holding period of the assets being financed.

We fund our balance sheet on a global basis through diverse sources. These sources may include our equity capital, borrowings, Securities sold under agreements to repurchase, securities lending, deposits, letters of credit and lines of credit. We have active financing programs for both standard and structured products targeting global investors and currencies.

Secured Financing

For a discussion of our secured financing activities, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Funding Management Secured Financing in the 2017 Form 10-K.

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

Unsecured Financing

For a discussion of our unsecured financing activities, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Funding Management Unsecured Financing in the 2017 Form 10-K and see Note 4 to the financial statements.

Deposits

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|---------------------------------------|------------------------------|-------------------------------------|
| Savings and demand deposits: | | |
| Brokerage sweep deposits ¹ | \$ 129,177 | \$ 135,946 |
| Savings and other | 9,181 | 8,541 |
| Total Savings and demand deposits | 138,358 | 144,487 |
| Time deposits ² | 22,066 | 14,949 |
| Total | \$ 160,424 | \$ 159,436 |

1. Represents balances swept from client brokerage accounts.
2. Certain time deposit accounts are carried at fair value under the fair value option (see Note 3 to the financial statements).

Deposits are primarily sourced from our Wealth Management clients and are considered to have stable, low-cost funding characteristics. Total deposits at March 31, 2018 were up slightly compared with December 31, 2017, primarily driven by measures to increase Time deposits and Savings and other deposits, partially offset by a reduction in Brokerage sweep deposits due to client deployment of cash into investments.

Borrowings

We believe that accessing debt investors through multiple distribution channels helps provide consistent access to the unsecured markets. In addition, the issuance of borrowings with original maturities greater than one year allows us to reduce reliance on short-term credit sensitive instruments. Borrowings with original maturities greater than one year are generally managed to achieve staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients across regions, currencies and product types.

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

Table of Contents**Management's Discussion and Analysis****Borrowings by Remaining Maturity at March 31, 2018¹**

| <i>\$ in millions</i> | Parent Company | Subsidiaries | Total |
|---|-------------------|--------------|------------|
| Original maturities of one year or less | \$ | \$ 1,256 | \$ 1,256 |
| Original maturities greater than one year | | | |
| 2018 | \$ 12,783 | \$ 3,318 | \$ 16,101 |
| 2019 | 21,765 | 3,769 | 25,534 |
| 2020 | 18,775 | 2,284 | 21,059 |
| 2021 | 20,163 | 2,650 | 22,813 |
| 2022 | 15,261 | 1,985 | 17,246 |
| Thereafter | 78,873 | 12,082 | 90,955 |
| Total | \$ 167,620 | \$ 26,088 | \$ 193,708 |
| Total Borrowings | \$ 167,620 | \$ 27,344 | \$ 194,964 |
| Maturities over next 12 months ² | | | \$ 23,029 |

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

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

Borrowings increased to \$194,964 million as of March 31, 2018 compared with \$192,582 million at December 31, 2017. This increase is a result of issuances, partially offset primarily by maturities and retirements as presented in the following table.

| <i>\$ in millions</i> | Three Months Ended March 31, 2018 |
|-----------------------|--------------------------------------|
| Issued | \$ 15,370 |
| Matured or retired | 11,377 |

For further information on Borrowings, see Note 10 to the financial statements.

Credit Ratings

We rely on external sources to finance a significant portion of our daily operations. The cost and availability of financing generally are impacted by our credit ratings, among other things. In addition, our credit ratings can have an impact on certain trading revenues, particularly in those businesses where longer-term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate swaps. When determining credit ratings, rating agencies consider company-specific factors, other industry factors such as regulatory or legislative changes, and the macroeconomic environment, among other things.

Our credit ratings do not include any uplift from perceived government support from any rating agency given the significant progress of U.S. financial reform legislation and regulations. Some rating agencies have stated that they

currently incorporate various degrees of credit rating uplift from non-governmental third-party sources of potential support.

Parent Company and MSBNA Senior Unsecured Ratings at April 30, 2018

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

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

In connection with certain OTC trading agreements and certain other agreements where we are a liquidity provider to certain financing vehicles associated with the Institutional Securities business segment, we may be required to provide additional collateral, immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain clearing organizations in the event of a future credit rating downgrade irrespective of whether we are in a net asset or net liability position.

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's Investors Service, Inc. (Moody's) and S&P Global Ratings. The following table shows the future potential collateral amounts and termination payments that could be called or required by counterparties and clearing organizations in the event of one-notch or two-notch downgrade scenarios, from the lowest of Moody's ratings or S&P Global Ratings, based on the relevant contractual downgrade triggers.

Incremental Collateral or Terminating Payments upon

Potential Future Rating Downgrade

| | At March 31, | At December 31, |
|-----------------------|-----------------|--------------------|
| | 2018 | 2017 |
| <i>\$ in millions</i> | | |
| One-notch downgrade | \$ 806 | \$ 822 |
| Two-notch downgrade | 611 | 596 |

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

Capital Management

We view capital as an important source of financial strength and actively manage our consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract our capital base to address the changing needs of our businesses. We attempt to maintain total capital, on a consolidated basis, at least equal to the sum of our operating subsidiaries' required equity.

Common Stock

| <i>\$ in millions</i> | Three Months Ended | |
|--|--------------------|--------|
| | March 31, | |
| | 2018 | 2017 |
| Repurchases of common stock under our share repurchase program | \$ 1,250 | \$ 750 |

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

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

Common Stock Dividend Announcement

| | |
|------------------------------|----------------|
| Announcement date | April 18, 2018 |
| Amount per share | \$0.25 |
| Date to be paid | May 15, 2018 |
| Shareholders of record as of | April 30, 2018 |

Preferred Stock**Preferred Stock Dividend Announcement**

| | |
|------------------------------|----------------|
| Announcement date | March 15, 2018 |
| Date paid | April 16, 2018 |
| Shareholders of record as of | March 29, 2018 |

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

Regulatory Requirements

Regulatory Capital Framework

We are a financial holding company (FHC) under the Bank Holding Company Act of 1956, as amended (BHC Act), and are subject to the regulation and oversight of the Board of Governors of the Federal Reserve System (Federal Reserve). The Federal Reserve establishes capital requirements for us, including well-capitalized standards, and evaluates our compliance with such capital requirements. The OCC establishes similar capital requirements and standards for our U.S. Bank Subsidiaries. The regulatory capital requirements are largely based on the Basel III capital standards established by the Basel Committee and also implement certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

Regulatory Capital Requirements

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

Regulatory Capital. Minimum risk-based capital ratio requirements apply to Common Equity Tier 1 capital, Tier 1 capital and Total capital (which includes Tier 2 capital). Certain adjustments to and deductions from capital are required for purposes of determining these ratios, such as goodwill, intangible assets, certain deferred tax assets, other amounts in AOCI and investments in the capital instruments of unconsolidated financial institutions.

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

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

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

Up to a 2.5% Common Equity Tier 1 CCyB, currently set by U.S. banking agencies at zero.

In 2017 and 2018, each of the buffers is 50% and 75%, respectively, of the 2019 requirement noted above. Failure to maintain the buffers would result in restrictions on our ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers. For a further discussion of the G-SIB capital surcharge, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements G-SIB Capital Surcharge in the 2017 Form 10-K.

Our risk-based capital ratios for purposes of determining regulatory compliance are the lower of the capital ratios computed under (i) the standardized approaches for calculating credit risk and market risk RWA (Standardized Approach) and (ii) the applicable advanced approaches for calculating credit risk, market risk and operational risk RWA (Advanced Approach). At March 31, 2018 and December 31, 2017, our ratios are based on the Standardized Approach rules.

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

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

Regulatory Capital Ratios

| <i>\$ in millions</i> | Required Ratio | At March 31, 2018 Fully Phased-In | |
|------------------------------------|-------------------|--------------------------------------|-----------|
| | | Standardized | Advanced |
| Risk-based capital | | | |
| Common Equity Tier 1 capital | | \$ 60,568 | \$ 60,568 |
| Tier 1 capital | | 69,213 | 69,213 |
| Total capital | | 79,363 | 79,138 |
| Total RWA | | 390,390 | 378,442 |
| Common Equity Tier 1 capital ratio | 8.6% | 15.5% | 16.0% |
| Tier 1 capital ratio | 10.1% | 17.7% | 18.3% |
| Total capital ratio | 12.1% | 20.3% | 20.9% |

| Leverage-based capital | | | | |
|--------------------------------------|------|--|------------|-----|
| Adjusted average assets ¹ | | | \$ 846,868 | N/A |
| Tier 1 leverage ratio | 4.0% | | 8.2% | N/A |

| <i>\$ in millions</i> | Required Ratio | At December 31, 2017 | | | |
|--------------------------------------|-------------------|---------------------------|-----------|-----------------|-----------|
| | | Transitional ² | | Fully Phased-In | |
| | | Standardized | Advanced | Standardized | Advanced |
| Risk-based capital | | | | | |
| Common Equity | | | | | |
| Tier 1 capital | | \$ 61,134 | \$ 61,134 | \$ 60,564 | \$ 60,564 |
| Tier 1 capital | | 69,938 | 69,938 | 69,120 | 69,120 |
| Total capital | | 80,275 | 80,046 | 79,470 | 79,240 |
| Total RWA | | 369,578 | 350,212 | 377,241 | 358,324 |
| Common Equity Tier 1 capital ratio | 7.3% | 16.5% | 17.5% | 16.1% | 16.9% |
| Tier 1 capital ratio | 8.8% | 18.9% | 20.0% | 18.3% | 19.3% |
| Total capital ratio | 10.8% | 21.7% | 22.9% | 21.1% | 22.1% |
| Leverage-based capital | | | | | |
| Adjusted average assets ¹ | | \$ 842,270 | N/A | \$ 841,756 | N/A |
| Tier 1 leverage ratio | 4.0% | 8.3% | N/A | 8.2% | N/A |

1. Adjusted average assets represent the denominator of the Tier 1 leverage ratio and are composed of the average daily balance of consolidated on-balance sheet assets under U.S. GAAP during the current quarter and the quarter ended December 31, 2017 adjusted for disallowed goodwill, intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments.

2. Regulatory compliance was determined based on capital ratios calculated under transitional rules until December 31, 2017.

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

Table of Contents**Management's Discussion and Analysis****Well-Capitalized Regulatory Capital Ratio Requirements for U.S. Bank Subsidiaries**

| | At March 31, 2018 |
|---|--------------------------|
| Common Equity Tier 1 risk-based capital ratio | 6.5% |
| Tier 1 risk-based capital ratio | 8.0% |
| Total risk-based capital ratio | 10.0% |
| Tier 1 leverage ratio | 5.0% |
| SLR | 6.0% |

For us to remain an FHC, our U.S. Bank Subsidiaries must qualify as well-capitalized by maintaining the ratio requirements set forth in the previous table. The Federal Reserve has not yet revised the well-capitalized standard for FHCs to reflect the higher capital standards required of us under the capital rules. Assuming that the Federal Reserve would apply the same or very similar well-capitalized standards to FHCs, each of our risk-based capital ratios, Tier 1 leverage ratio and SLR at March 31, 2018 would have exceeded the revised well-capitalized standard. The Federal Reserve may require an FHC to maintain risk- and leverage-based capital ratios substantially in excess of mandated well-capitalized levels, depending upon general economic conditions and the FHC's particular condition, risk profile and growth plans.

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

Fully Phased-In Regulatory Capital

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 ¹ |
|---|-----------------------------|--------------------------------------|
| Common Equity Tier 1 capital | | |
| Common stock and surplus | \$ 12,911 | \$ 14,354 |
| Retained earnings | 60,009 | 57,577 |
| AOCI | (3,406) | (3,060) |
| Regulatory adjustments and deductions: | | |
| Net goodwill | (6,716) | (6,599) |
| Net intangible assets (other than goodwill and mortgage servicing assets) | (2,424) | (2,446) |
| Other adjustments and deductions ² | 194 | 738 |
| Total Common Equity Tier 1 capital | \$ 60,568 | \$ 60,564 |
| Additional Tier 1 capital | | |
| Preferred stock | \$ 8,520 | \$ 8,520 |
| Noncontrolling interests | 482 | 415 |
| Other adjustments and deductions | (23) | (23) |

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| | | | | |
|--|----|---------------|----|---------------|
| Additional Tier 1 capital | \$ | 8,979 | \$ | 8,912 |
| Deduction for investments in covered funds | | (334) | | (356) |
| Total Tier 1 capital | \$ | 69,213 | \$ | 69,120 |
| Standardized Tier 2 capital | | | | |
| Subordinated debt | \$ | 9,612 | \$ | 9,839 |
| Noncontrolling interests | | 113 | | 98 |
| Eligible allowance for credit losses | | 448 | | 423 |
| Other adjustments and deductions | | (23) | | (10) |
| Total Standardized Tier 2 capital | \$ | 10,150 | \$ | 10,350 |
| Total Standardized capital | \$ | 79,363 | \$ | 79,470 |
| Advanced Tier 2 capital | | | | |
| Subordinated debt | \$ | 9,612 | \$ | 9,839 |
| Noncontrolling interests | | 113 | | 98 |
| Eligible credit reserves | | 223 | | 193 |
| Other adjustments and deductions | | (23) | | (10) |
| Total Advanced Tier 2 capital | \$ | 9,925 | \$ | 10,120 |
| Total Advanced capital | \$ | 79,138 | \$ | 79,240 |

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

| <i>\$ in millions</i> | Three Months Ended March 31, 2018 |
|---|--|
| Common Equity Tier 1 capital | |
| Common Equity Tier 1 capital at December 31, 2017 ¹ | \$ 60,564 |
| Change related to the following items: | |
| Value of shareholders' common equity | 643 |
| Net goodwill | (117) |
| Net intangible assets (other than goodwill and mortgage servicing assets) | 22 |
| Other adjustments and deductions ² | (544) |
| Common Equity Tier 1 capital at March 31, 2018 | \$ 60,568 |
| Additional Tier 1 capital | |
| Additional Tier 1 capital at December 31, 2017 ¹ | \$ 8,912 |
| Change related to the following items: | |
| Noncontrolling interests | 67 |
| Other adjustments and deductions | 8,979 |
| Additional Tier 1 capital at March 31, 2018 | (356) |
| Deduction for investments in covered funds at December 31, 2017 | 22 |
| Change in deduction for investments in covered funds | (334) |
| Deduction for investments in covered funds at March 31, 2018 | 69,213 |
| Tier 1 capital at March 31, 2018 | \$ 69,213 |
| Standardized Tier 2 capital | |
| Tier 2 capital at December 31, 2017 ¹ | \$ 10,350 |
| Change related to the following items: | |
| Eligible allowance for credit losses | 25 |
| Other changes, adjustments and deductions ³ | (225) |
| Standardized Tier 2 capital at March 31, 2018 | \$ 10,150 |
| Total Standardized capital at March 31, 2018 | \$ 79,363 |
| Advanced Tier 2 capital | |
| Tier 2 capital at December 31, 2017 ¹ | \$ 10,120 |
| Change related to the following items: | |
| Eligible credit reserves | 30 |
| Other changes, adjustments and deductions ³ | (225) |
| Advanced Tier 2 capital at March 31, 2018 | \$ 9,925 |
| Total Advanced capital at March 31, 2018 | \$ 79,138 |

1. The pro forma fully phased-in estimates as of December 31, 2017 are non-GAAP financial measures. See "Selected Non-GAAP Financial Information" herein.

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

related to AOCI.

3. Other changes, adjustments and deductions used in the calculations of Standardized and Advanced Tier 2 capital include changes in subordinated debt and noncontrolling interests.

Fully Phased-In RWA Rollforward

| \$ in millions | Three Months Ended | |
|--|--------------------|-------------------|
| | Standardized | Advanced |
| Credit risk RWA | | |
| Balance at December 31, 2017 ² | \$ 301,946 | \$ 170,754 |
| Change related to the following items: | | |
| Derivatives | (229) | 3,568 |
| Securities financing transactions | 177 | 2,242 |
| Securitizations | (357) | (1,277) |
| Investment securities | (270) | 320 |
| Commitments, guarantees and loans | 12,934 | 15,090 |
| Cash | 784 | 294 |
| Equity investments | 2,726 | 2,887 |
| Other credit risk ³ | 634 | 236 |
| Total change in credit risk RWA | \$ 16,399 | \$ 23,360 |
| Balance at March 31, 2018 | \$ 318,345 | \$ 194,114 |
| Market risk RWA | | |
| Balance at December 31, 2017 ² | \$ 75,295 | \$ 74,907 |
| Change related to the following items: | | |
| Regulatory VaR | 1,187 | 1,187 |
| Regulatory stressed VaR | 235 | 235 |
| Incremental risk charge | 2,968 | 2,968 |
| Comprehensive risk measure | (2,135) | (1,947) |
| Specific risk: | | |
| Non-securitizations | (2,590) | (2,590) |
| Securitizations | (2,915) | (2,917) |
| Total change in market risk RWA | \$ (3,250) | \$ (3,064) |
| Balance at March 31, 2018 | \$ 72,045 | \$ 71,843 |
| Operational risk RWA | | |
| Balance at December 31, 2017 ² | \$ N/A | \$ 112,663 |
| Change in operational risk RWA | N/A | (178) |
| Balance at March 31, 2018 | \$ N/A | \$ 112,485 |
| Total RWA | \$ 390,390 | \$ 378,442 |
| Regulatory VaR VaR for regulatory capital requirements | | |

1. The RWA for each category in the table reflects both on- and off-balance sheet exposures, where appropriate.
2. The pro forma fully phased-in estimates as of December 31, 2017 are non-GAAP financial measures. See Selected Non-GAAP Financial Information herein.
3. Amount reflects assets not in a defined category, non-material portfolios of exposures and unsettled transactions, as applicable.

Credit risk RWA increased in the current quarter under the Standardized and Advanced Approaches primarily due to increased exposures in corporate lending within the Institutional Securities business segment. Credit risk RWA also increased under the Advanced Approach due to increased exposures in derivatives.

Market risk RWA decreased in the current quarter under the Standardized and Advanced Approaches primarily due to a decrease in standardized specific risk charges.

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The decrease in operational risk RWA under the Advanced Approach reflects a reduction in the internal loss frequency related to litigation utilized in the operational risk capital model.

Supplementary Leverage Ratio**Supplementary Leverage Exposure and Ratio**

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 | |
|-----------------------------------|----------------------|------------------------------------|---------------------------------|
| | Fully Phased-in | Transitional Basis ¹ | Fully Phased-in ² |
| Average total assets ³ | \$ 856,738 | \$ 851,510 | \$ 851,510 |
| Adjustments ^{4, 5} | 234,780 | 231,173 | 230,660 |
| Supplementary leverage exposure | \$ 1,091,518 | \$ 1,082,683 | \$ 1,082,170 |
| SLR | 6.3% | 6.5% | 6.4% |

1. Transitional provisions applied until December 31, 2017.
2. Estimated amounts utilize fully phased-in Tier 1 capital, including the fully phased-in Tier 1 capital deductions that apply beginning January 1, 2018.
3. Computed as the average daily balance of consolidated total assets under U.S. GAAP during the current quarter and the quarter ended December 31, 2017.
4. Computed as the average of the month-end balances over the current quarter and the quarter ended December 31, 2017.
5. Adjustments are to: (i) incorporate derivative exposures, including adding the related potential future exposure (including for derivatives cleared for clients), grossing up cash collateral netting where qualifying criteria are not met and adding the effective notional principal amount of sold credit protection offset by qualifying purchased credit protection; (ii) reflect the counterparty credit risk for repo-style transactions; (iii) add the credit equivalent amount for off-balance sheet exposures; and (iv) apply other adjustments to Tier 1 capital, including disallowed goodwill, intangible assets, certain deferred tax assets and certain investments in the capital instruments of unconsolidated financial institutions.

The SLR became effective as a capital standard on January 1, 2018. We are required to maintain a Tier 1 supplementary leverage ratio of 3% as well as an enhanced SLR capital buffer of at least 2% (for a total of at least 5%) in order to avoid limitations on capital distributions, including dividends and stock repurchases, and discretionary bonus payments to executive officers. In addition, our U.S. Bank Subsidiaries must maintain an SLR of 6% to be considered well-capitalized.

U.S. Bank Subsidiaries Fully Phased-In Supplementary Leverage Ratios

| | At March 31, 2018 | At December 31, 2017 ¹ |
|-------|-------------------|-----------------------------------|
| MSBNA | 9.0% | 9.1% |

MSPBNA

9.3%

9.3%

1. Estimated amounts utilize fully phased-in Tier 1 capital, including the fully phased-in Tier 1 capital deductions that apply beginning January 1, 2018.

The pro forma transitional and fully phased-in supplementary leverage exposures and ratios are non-GAAP financial measures because they were not yet effective at December 31, 2017.

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

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

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

For a further discussion of TLAC and LTD requirements, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements Total Loss-Absorbing Capacity, Long-Term Debt and Clean Holding Company Requirements in the 2017 Form 10-K. For discussions about the interaction between the SPOE resolution strategy and the TLAC and LTD requirements, see Business Supervision and Regulation Financial Holding Company Resolution and Recovery Planning and Risk Factors Legal, Regulatory and Compliance Risk in the 2017 Form 10-K.

Capital Plans and Stress Tests

Pursuant to the Dodd-Frank Act, the Federal Reserve has adopted capital planning and stress test requirements for large BHCs, including us, which form part of the Federal Reserve's annual CCAR framework.

We submitted our 2018 Capital Plan (Capital Plan) and company-run stress test results to the Federal Reserve on April 5, 2018. We expect that the Federal Reserve will provide its response to our 2018 Capital Plan by June 30, 2018. There could be a range of potential outcomes to our Capital Plan whereby the Federal Reserve could object to, or otherwise require us to modify, such plan. See Risk Factors in the 2017 Form 10-K. The Federal Reserve is expected to publish summary results of the CCAR and Dodd-Frank Act supervisory stress tests of each large BHC, including us, by

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

June 30, 2018. We are required to disclose a summary of the results of our company-run stress tests within 15 days of the date the Federal Reserve discloses the results of the supervisory stress tests. In addition, we must submit the results of our mid-cycle company-run stress test to the Federal Reserve by October 5, 2018 and disclose a summary of the results between October 5, 2018 and November 4, 2018.

The Dodd-Frank Act also requires each of our U.S. Bank Subsidiaries to conduct an annual stress test. MSBNA and MSPBNA submitted their 2018 annual company-run stress tests to the OCC on April 5, 2018 and must publish a summary of their stress test results between June 15, 2018 and July 15, 2018.

For a further discussion of our capital plans and stress tests, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulatory Requirements Capital Plans and Stress Tests in the 2017 Form 10-K.

Attribution of Average Common Equity According to the Required Capital Framework

Our required capital (Required Capital) estimation is based on the Required Capital framework, an internal capital adequacy measure. Common equity attribution to the business segments is based on capital usage calculated under the Required Capital framework, as well as each business segment's relative contribution to our total Required Capital.

The Required Capital framework is a risk-based and leverage use-of-capital measure, which is compared with our regulatory capital to ensure that we maintain an amount of going concern capital after absorbing potential losses from stress events, where applicable, at a point in time. We define the difference between our total average common equity and the sum of the average common equity amounts allocated to our business segments as Parent Company equity. We generally hold Parent Company equity for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

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

The Required Capital framework is expected to evolve over time in response to changes in the business and regulatory environment, for example, to incorporate changes in stress

testing or enhancements to modeling techniques. We will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

Average Common Equity Attribution¹

| | Three Months Ended March 31, | |
|-----------------------|---------------------------------|------|
| <i>\$ in billions</i> | 2018 | 2017 |

| | | | | |
|--------------------------|----|-------------|----|-------------|
| Institutional Securities | \$ | 40.8 | \$ | 40.2 |
| Wealth Management | | 16.8 | | 17.2 |
| Investment Management | | 2.6 | | 2.4 |
| Parent Company | | 8.8 | | 9.2 |
| Total | \$ | 69.0 | \$ | 69.0 |

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

Regulatory Developments

Resolution and Recovery Planning

Pursuant to the Dodd-Frank Act, we are required to periodically submit to the Federal Reserve and the FDIC a resolution plan that describes our strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of our material financial distress or failure.

Our preferred resolution strategy, which is set out in our 2017 resolution plan, is an SPOE strategy. The Parent Company has amended and restated its support agreement with its material entities, as defined in our 2017 resolution plan. Under the secured amended and restated support agreement, upon the occurrence of a resolution scenario, the Parent Company would be obligated to contribute or loan on a subordinated basis all of its contributable material assets, other than shares in subsidiaries of the Parent Company and certain intercompany receivables, to provide capital and liquidity, as applicable, to our material entities.

The obligations of the Parent Company under the secured amended and restated support agreement are in most cases secured on a senior basis by the assets of the Parent Company (other than shares in subsidiaries of the Parent Company). As a result, claims of our material entities against the assets of the Parent Company (other than shares in subsidiaries of the Parent Company) are effectively senior to unsecured obligations of the Parent Company.

For more information about resolution and recovery planning requirements and our activities in these areas, including the implications of such activities in a resolution scenario, see [Business Supervision and Regulation](#) [Financial Holding Company](#) [Resolution and Recovery Planning](#) and [Risk Factors](#) [Legal, Regulatory and Compliance Risk](#) in the 2017 Form 10-K.

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

The Volcker Rule prohibits banking entities, including us and our affiliates, from engaging in certain proprietary trading activities, as defined in the Volcker Rule, subject to exemptions for underwriting, market-making-related activities, risk-mitigating hedging and certain other activities. The Volcker Rule also prohibits certain investments and relationships by banking entities with covered funds, with a number of exemptions and exclusions. For more information about the Volcker Rule, see Business Supervision and Regulation Activities Restrictions under the Volcker Rule in the 2017 Form 10-K.

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

The U.S. DOL's final Conflict of Interest Rule under ERISA went into effect on June 9, 2017, with certain aspects subject to phased-in compliance. Full compliance with the rule's related exemptions was scheduled to be required by July 1, 2019. However, on March 15, 2018, the U.S. Court of Appeals for the Fifth Circuit vacated the Conflict of Interest Rule and accompanying exemptions in their entirety. While the U.S. DOL could appeal to the U.S. Supreme Court, the order to vacate the rule could take effect as soon as May 7, 2018. For a discussion of the U.S. DOL Conflict of Interest Rule, see Business Supervision and Regulation Institutional Securities and Wealth Management in the 2017 Form 10-K.

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

Proposed Stress Buffer Requirements

On April 10, 2018, the Federal Reserve issued a proposal to integrate its annual capital planning and stress testing requirements with certain ongoing regulatory capital requirements. The proposal, which would apply to certain BHCs, including us, would introduce a stress capital buffer and a stress leverage buffer (collectively, Stress Buffer

Requirements) and related changes to the capital planning and stress testing processes. Under the proposal, Stress Buffer Requirements would apply only with respect to the Standardized Approach and Tier 1 leverage regulatory capital requirements and would generally be effective on October 1, 2019.

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

capital surcharge and any applicable Common Equity Tier 1 CCyB.

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

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

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

Table of Contents**Management's Discussion and Analysis*****Proposed Modifications to the Enhanced SLR and to the SLR Applicable to Our U.S. Bank Subsidiaries***

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

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

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

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

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

U.K. Withdrawal from the E.U.

Following the U.K. electorate vote to leave the E.U., the U.K. invoked Article 50 of the Lisbon Treaty on March 29, 2017, which triggered a two-year period, subject to extension

(which would need the unanimous approval of the E.U. Member States), during which the U.K. government has been negotiating its withdrawal agreement with the E.U. For further discussion of the potential impact of the U.K.'s withdrawal from the E.U. on our operations, see Risk Factors International Risk in the 2017 Form 10-K. For further information regarding our exposure to the U.K., see also Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Country Risk Exposure.

Expected Replacement of London Interbank Offered Rate

Central banks around the world, including the Federal Reserve, have commissioned working groups of market participants and official sector representatives with the goal of finding suitable replacements for LIBOR based on observable market transactions. It is expected that a transition away from the widespread use of LIBOR to alternative

rates will occur over the course of the next few years. The U.K. Financial Conduct Authority (FCA), which regulates LIBOR, has announced that it has commitments from panel banks to continue to contribute to LIBOR through the end of 2021, but that it will not use its powers to compel contributions beyond such date. Accordingly, there is considerable uncertainty regarding the publication of such rates beyond 2021.

On April 3, 2018, the Federal Reserve Bank of New York commenced publication of three reference rates based on overnight U.S. Treasury repurchase agreement transactions, including the Secured Overnight Financing Rate (SOFR), which has been recommended as an alternative to U.S. dollar LIBOR by the Alternative Reference Rates Committee. Further, the Bank of England has commenced publication of a reformed Sterling Overnight Index Average (reformed SONIA), comprised of a broader set of overnight Sterling money market transactions, as of April 23, 2018. Reformed SONIA has been recommended as the alternative to Sterling LIBOR by the Working Group on Sterling Risk-Free Reference Rates.

Although the full impact of such reforms and actions, together with any transition away from LIBOR, including the potential or actual discontinuance of LIBOR publication, remains unclear, these changes may have an adverse impact on the value of, return on and trading markets for a broad array of financial products, including any LIBOR-based securities, loans and derivatives that are included in our financial assets and liabilities. Such reforms and actions may also require extensive changes to the contracts that govern these LIBOR-based products, as well as our systems and processes.

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Management's Discussion and Analysis

Effects of Inflation and Changes in Interest and Foreign Exchange Rates

For a discussion of the effects of inflation and changes in interest and foreign exchange rates on our business and financial results and strategies to mitigate potential exposures, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Effects of Inflation and Changes in Interest and Foreign Exchange Rates in the 2017 Form 10-K.

Off-Balance Sheet Arrangements and Contractual Obligations

Off-Balance Sheet Arrangements

We enter into various off-balance sheet arrangements, including through unconsolidated SPEs and lending-related financial instruments (*e.g.*, guarantees and commitments), primarily in connection with the Institutional Securities and Investment Management business segments.

We utilize SPEs primarily in connection with securitization activities. For information on our securitization activities, see Note 12 to the financial statements.

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

Contractual Obligations

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

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Quantitative and Qualitative Disclosures about Market Risk

Management believes effective risk management is vital to the success of our business activities. For a discussion of our risk management functions, see **Quantitative and Qualitative Disclosures about Market Risk Risk Management** in the 2017 Form 10-K.

Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, we incur market risk as a result of trading, investing and client facilitation activities, principally within the Institutional Securities business segment where the substantial majority of our VaR for market risk exposures is generated. In addition, we incur market risk within the Wealth Management and Investment Management business segments. The Wealth Management business segment primarily incurs non-trading market risk from lending and deposit-taking activities. The Investment Management business segment primarily incurs non-trading market risk from capital investments in alternative and other funds. For a further discussion of market risk, see **Quantitative and Qualitative Disclosures about Market Risk Risk Management Market Risk** in the 2017 Form 10-K.

Value-at-Risk

The statistical technique known as VaR is one of the tools we use to measure, monitor and review the market risk exposures of our trading portfolios. The Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management.

VaR Methodology, Assumptions and Limitations. For information regarding our VaR methodology, assumptions and limitations, see **Quantitative and Qualitative Disclosures about Market Risk Risk Management Market Risk Sales and Trading and Related Activities VaR Methodology, Assumptions and Limitations** in the 2017 Form 10-K.

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

The portfolio of positions used for our VaR for risk management purposes (**Management VaR**) differs from that used for regulatory capital requirements (**Regulatory VaR**). Management VaR contains certain positions that are excluded from Regulatory VaR. Examples include CVA and related hedges, as well as loans that are carried at fair value and associated hedges.

The following table presents the Management VaR for the Trading portfolio, on a period-end, quarterly average and quarterly high and low basis. To further enhance the transparency of the traded market risk, the Credit Portfolio VaR has been disclosed as a separate category from the Primary Risk Categories. The Credit Portfolio includes counterparty CVA and related hedges, as well as loans that are carried at fair value and associated hedges.

Trading Risks

95%/One-Day Management VaR

| <i>\$ in millions</i> | 95%/One-Day VaR for the Three Months Ended March 31, 2018 | | | |
|---|--|--------------|--------------|--------------|
| | Period End | Average | High | Low |
| Interest rate and credit spread | \$ 41 | \$ 35 | \$ 46 | \$ 30 |
| Equity price | 16 | 14 | 17 | 11 |
| Foreign exchange rate | 10 | 9 | 13 | 7 |
| Commodity price | 10 | 9 | 11 | 7 |
| Less: Diversification benefit ^{1, 2} | (27) | (25) | N/A | N/A |
| Primary Risk Categories | \$ 50 | \$ 42 | \$ 51 | \$ 36 |
| Credit Portfolio | 11 | 10 | 11 | 9 |
| Less: Diversification benefit ^{1, 2} | (7) | (6) | N/A | N/A |
| Total Management VaR | \$ 54 | \$ 46 | \$ 55 | \$ 40 |

| <i>\$ in millions</i> | 95%/One-Day VaR for the Three Months Ended December 31, 2017 | | | |
|---|--|--------------|--------------|--------------|
| | Period End | Average | High | Low |
| Interest rate and credit spread | \$ 32 | \$ 29 | \$ 36 | \$ 24 |
| Equity price | 11 | 13 | 15 | 10 |
| Foreign exchange rate | 9 | 8 | 11 | 6 |
| Commodity price | 7 | 8 | 11 | 6 |
| Less: Diversification benefit ^{1, 2} | (20) | (23) | N/A | N/A |
| Primary Risk Categories | \$ 39 | \$ 35 | \$ 41 | \$ 30 |
| Credit Portfolio | 9 | 9 | 10 | 8 |
| Less: Diversification benefit ^{1, 2} | (5) | (6) | N/A | N/A |
| Total Management VaR | \$ 43 | \$ 38 | \$ 44 | \$ 34 |

1. Diversification benefit equals the difference between the total Management VaR and the sum of the component VaRs. This benefit arises because the simulated one-day losses for each of the components occur on different days; similar diversification benefits also are taken into account within each component.

2. The high and low VaR values for the total Management VaR and each of the component VaRs might have occurred on different days during the quarter, and therefore, the diversification benefit is not an applicable measure.

Average total Management VaR and average Management VaR for the Primary Risk Categories of \$46 million and \$42 million, respectively, increased from the three-months ended December 31, 2017, primarily as a result of increases in trading inventory across the Fixed Income Macro and Credit trading businesses in the Institutional Securities business segment and increased market volatility, particularly in Equities.

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Risk Disclosures

Distribution of VaR Statistics and Net Revenues for the current quarter. One method of evaluating the reasonableness of our VaR model as a measure of our potential volatility of net revenues is to compare VaR with corresponding actual trading revenues. Assuming no intraday trading, for a 95%/one-day VaR, the expected number of times that trading losses should exceed VaR during the year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the adequacy of the VaR model would be questioned.

We evaluate the reasonableness of our VaR model by comparing the potential declines in portfolio values generated by the model with corresponding actual trading results for the Firm, as well as individual business units. For days where losses exceed the VaR statistic, we examine the drivers of trading losses to evaluate the VaR model's accuracy relative to realized trading results. During the current quarter, we experienced net trading losses on one day, which was not in excess of the 95%/one-day Total Management VaR.

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

Total Trading. As shown in the 95%/One-Day Management VaR table, the average 95%/one-day total Management VaR for the current quarter was \$46 million. The following histogram presents the distribution of the daily 95%/one-day total Management VaR for the current quarter.

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

(\$ in millions)

The following histogram shows the distribution for the current quarter of daily net trading revenues, including profits and losses from Interest rate and credit spread, Equity price, Foreign exchange rate, Commodity price, and Credit Portfolio positions and intraday trading activities, for our

Trading businesses. Daily net trading revenues also include intraday trading activities but exclude certain items not captured in the VaR model, such as fees, commissions and net interest income. Daily net trading revenues differ from the definition of revenues required for Regulatory VaR backtesting, which further excludes intraday trading.

Daily Net Trading Revenues for the Current Quarter

(\$ in millions)

Non-Trading Risks

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

Exposure Related to Our Own Credit Spread.

Credit Spread Risk Sensitivity¹

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|----------------------------------|-----------------------------|-------------------------|
| Derivatives | \$ 6 | \$ 6 |
| Funding liabilities ² | 31 | 29 |

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

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

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

Table of Contents**Risk Disclosures****U.S. Bank Subsidiaries Net Interest Income Sensitivity Analysis**

| | At | At |
|---------------------------|----------------|-------------------|
| <i>\$ in millions</i> | March 31, 2018 | December 31, 2017 |
| Basis point change | | |
| +200 | \$ 438 | \$ 489 |
| +100 | 226 | 367 |
| -100 | (464) | (500) |

We do not manage to any single rate scenario but rather manage net interest income in our U.S. Bank Subsidiaries to optimize across a range of possible outcomes, including non-parallel rate change scenarios. The sensitivity analysis assumes that we take no action in response to these scenarios, assumes there are no changes in other macroeconomic variables normally correlated with changes in interest rates, and includes subjective assumptions regarding customer and market re-pricing behavior and other factors. The change in sensitivity to interest rates between March 31, 2018 and December 31, 2017 is related to overall changes in our asset-liability profile and higher market rates.

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

Investments Sensitivity, Including Related Performance Fees

| | Loss from 10% Decline | |
|---|-----------------------|--------------|
| | At | At |
| <i>\$ in millions</i> | March 31, | December 31, |
| | 2018 | 2017 |
| Investments related to Investment Management activities | \$ 321 | \$ 316 |
| Other investments: | | |
| MUMSS | 172 | 168 |
| Other Firm investments | 187 | 178 |

MUMSS Mitsubishi UFJ Morgan Stanley Securities Co., LTD.

Equity Market Sensitivity. In the Wealth Management and Investment Management business segments, certain fee-based revenue streams are driven by the value of clients' equity holdings. The overall level of revenues for these streams also depends on multiple additional factors that include, but are not limited to, the level and duration of the equity market increase or decline, price volatility, the geographic and industry mix of client assets, the rate and

magnitude of client investments and redemptions, and the impact of such market

increase or decline and price volatility on client behavior. Therefore, overall revenues do not correlate completely with changes in the equity markets.

Credit Risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to us. We primarily incur credit risk exposure to institutions and individuals through our Institutional Securities and Wealth Management business segments. For a further discussion of our credit risks, see *Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk* in the 2017 Form 10-K. Also, see Notes 7 and 11 to the financial statements for additional information about our loans and lending commitments, respectively.

Lending Activities Included in Loans and Trading Assets

We provide loans and lending commitments to a variety of customers, from large corporate and institutional clients to high net worth individuals. In addition, we purchase loans in the secondary market. In the balance sheets, these loans and lending commitments are carried as held for investment, which are recorded at amortized cost; as held for sale, which are recorded at the lower of cost or fair value; or at fair value with changes in fair value recorded in earnings. Loans held for investment and loans held for sale are classified in Loans, and loans held at fair value are classified in Trading assets in the balance sheets. See Notes 3, 7 and 11 to the financial statements for further information.

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

| <i>\$ in millions</i> | At March 31, 2018 | | | |
|---|-------------------|------------------|-----------------|-------------------|
| | IS | WM | IM ¹ | Total |
| Corporate loans | \$ 17,005 | \$ 14,893 | \$ 5 | \$ 31,903 |
| Consumer loans | | 26,877 | | 26,877 |
| Residential real estate loans | | 26,566 | | 26,566 |
| Wholesale real estate loans | 10,021 | | | 10,021 |
| Loans held for investment, gross of allowance | 27,026 | 68,336 | 5 | 95,367 |
| Allowance for loan losses | (201) | (42) | | (243) |
| Loans held for investment, net of allowance | 26,825 | 68,294 | 5 | 95,124 |
| Corporate loans | 12,000 | | | 12,000 |
| Residential real estate loans | 1 | 32 | | 33 |
| Wholesale real estate loans | 1,978 | | | 1,978 |
| Loans held for sale | 13,979 | 32 | | 14,011 |
| Corporate loans | 9,323 | | 23 | 9,346 |
| Residential real estate loans | 706 | | | 706 |
| Wholesale real estate loans | 1,770 | | 1,171 | 2,941 |
| Loans held at fair value | 11,799 | | 1,194 | 12,993 |
| Total loans | 52,603 | 68,326 | 1,199 | 122,128 |
| Lending commitments^{2, 3} | 109,025 | 10,404 | 187 | 119,616 |
| Total loans and lending commitments^{2, 3} | \$ 161,628 | \$ 78,730 | \$ 1,386 | \$ 241,744 |

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

Total loans and lending commitments^{2,3} \$ 139,571 \$ 77,333 \$ 27 \$ 216,931

1. Investment Management business segment loans are entered into in conjunction with certain investment advisory activities. The increase in fair value loans in the current quarter is a result of the consolidation of a fund managed by Mesa West Capital, LLC that primarily invests in commercial real estate loans with remaining maturities of less than 5 years.
2. Lending commitments represent the notional amount of legally binding obligations to provide funding to clients for lending transactions. Since commitments associated with these business activities may expire unused or may not be utilized to full capacity, they do not necessarily reflect the actual future cash funding requirements.
3. For syndications led by us, any lending commitments accepted by the borrower but not yet closed are net of amounts syndicated. For syndications that we participate in and do not lead, any lending commitments accepted by the borrower but not yet closed include only the amount that we expect will be allocated from the lead syndicate bank. Due to the nature of our obligations under the commitments, these amounts include certain commitments participated to third parties.

Total loans and lending commitments increased by approximately \$25 billion in the current quarter, primarily due to increases in Corporate lending commitments within the Institutional Securities business segment.

Our credit exposure from our loans and lending commitments is measured in accordance with our internal risk management standards. Risk factors considered in determining the aggregate allowance for loan and commitment losses include the borrower's financial strength, seniority of the loan, collateral type, volatility of collateral value, debt cushion, loan-to-value ratio, debt service ratio, covenants and counterparty type. Qualitative and environmental factors such as economic and business conditions, nature and volume of the portfolio and lending terms, and volume and severity of past due loans may also be considered.

Allowance for Loans and Lending Commitments Held for Investment

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|-----------------------|-------------------------|----------------------------|
| Loans | \$ 243 | \$ 224 |
| Lending commitments | 205 | 198 |

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

Status of Loans Held for Investment

| | At March 31, 2018 | | At December 31, 2017 | |
|--------------------------|-------------------|-------|----------------------|-------|
| | IS | WM | IS | WM |
| Current | 99.7% | 99.9% | 99.5% | 99.9% |
| Non-accrual ¹ | 0.3% | 0.1% | 0.5% | 0.1% |

1. These loans are on nonaccrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

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Table of Contents**Risk Disclosures***Institutional Securities*

In connection with certain Institutional Securities business segment activities, we provide loans and lending commitments to a diverse group of corporate and other institutional clients. These activities include originating and purchasing corporate loans, commercial and residential mortgage lending, asset-backed lending, financing extended to equities and commodities customers and loans to municipalities. These loans and lending commitments may have varying terms; may be senior or subordinated; may be secured or unsecured; are generally contingent upon representations, warranties and contractual conditions applicable to the borrower; and may be syndicated, traded or hedged by us.

We also participate in securitization activities, whereby we extend short-term or long-term funding to clients through loans and lending commitments that are secured by the assets of the borrower and generally provide for over-collateralization, including commercial real estate loans, loans secured by loan pools, corporate loans and secured lines of revolving credit. Credit risk with respect to these loans and lending commitments arises from the failure of a borrower to perform according to the terms of the loan agreement or a decline in the underlying collateral value. See Note 12 to the financial statements for information about our securitization activities. In addition, a collateral management group monitors collateral levels against requirements and oversees the administration of the collateral function. See Note 6 to the financial statements for additional information about our collateralized transactions.

Institutional Securities Loans and Lending Commitments¹

| \$ in millions | At March 31, 2018 | | | | Total |
|----------------------------------|-------------------|------------------|------------------|------------------|-------------------|
| | Years to Maturity | | | | |
| | Less than 1 | 1-3 | 3-5 | Over 5 | |
| Loans | | | | | |
| AA | \$ | \$ 450 | \$ 28 | \$ 5 | \$ 483 |
| A | 1,435 | 2,262 | 1,287 | 389 | 5,373 |
| BBB | 3,626 | 8,398 | 3,709 | 875 | 16,608 |
| NIG | 6,213 | 10,940 | 7,521 | 3,199 | 27,873 |
| Unrated ² | 59 | 98 | 262 | 1,847 | 2,266 |
| Total loans | 11,333 | 22,148 | 12,807 | 6,315 | 52,603 |
| Lending commitments | | | | | |
| AAA | | 165 | | | 165 |
| AA | 3,127 | 1,348 | 2,707 | | 7,182 |
| A | 4,374 | 14,521 | 11,316 | 425 | 30,636 |
| BBB | 4,865 | 14,276 | 18,546 | 166 | 37,853 |
| NIG | 1,436 | 11,241 | 13,636 | 6,801 | 33,114 |
| Unrated ² | 1 | 25 | 10 | 39 | 75 |
| Total lending commitments | 13,803 | 41,576 | 46,215 | 7,431 | 109,025 |
| Total exposure | \$ 25,136 | \$ 63,724 | \$ 59,022 | \$ 13,746 | \$ 161,628 |

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At December 31, 2017

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

NIG Non-investment grade

- Obligor credit ratings are determined by the Credit Risk Management department.
- Unrated loans and lending commitments are primarily trading positions that are measured at fair value and risk managed as a component of Market Risk. For a further discussion of our Market Risk, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Market Risk herein.

Institutional Securities Loans and Lending Commitments by Industry

| \$ in millions | At | At |
|-----------------------------|-------------------|-------------------|
| | March 31, | December 31, |
| | 2018 | 2017 |
| Industry | | |
| Real estate | \$ 28,847 | \$ 28,426 |
| Financials | 27,224 | 22,112 |
| Consumer discretionary | 15,706 | 11,555 |
| Industrials | 13,768 | 11,090 |
| Information technology | 12,434 | 11,862 |
| Insurance | 10,747 | 4,739 |
| Healthcare | 10,456 | 9,956 |
| Energy | 10,354 | 10,233 |
| Utilities | 10,296 | 9,592 |
| Consumer staples | 10,054 | 8,315 |
| Materials | 5,123 | 5,069 |
| Telecommunications services | 4,533 | 4,172 |
| Other | 2,086 | 2,450 |
| Total | \$ 161,628 | \$ 139,571 |

Institutional Securities business segment loans and lending commitments are mainly related to relationship-based and event-driven lending to select corporate clients. Relationship-based loans and lending commitments are used for general corporate purposes, working capital and liquidity purposes by our investment banking clients and typically consist of

Table of Contents**Risk Disclosures**

revolving lines of credit, letter of credit facilities and term loans. In connection with the relationship-based lending activities, we enter into hedges, as detailed below.

Relationship-based Lending Activities Hedges Notional Amounts

| | At March 31, 2018 | At December 31, 2017 |
|---------------------------|-------------------------|----------------------------|
| <i>\$ in billions</i> | | |
| Single-name and index CDS | \$ 15.0 | \$ 16.6 |

Event-Driven Loans and Lending Commitments

| <i>\$ in millions</i> | At March 31, 2018 | | | | Total |
|--|-------------------|------------------|-----------------|-----------------|------------------|
| | Years to Maturity | | | | |
| | Less than 1 | 1-3 | 3-5 | Over 5 | |
| Loans | \$ 2,631 | \$ 689 | \$ 518 | \$ 1,835 | \$ 5,673 |
| Lending commitments | 2,902 | 11,963 | 3,262 | 3,982 | 22,109 |
| Total loans and lending commitments | \$ 5,533 | \$ 12,652 | \$ 3,780 | \$ 5,817 | \$ 27,782 |

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

Event-driven loans and lending commitments are associated with a particular event or transaction, such as to support client merger, acquisition, recapitalization and project finance activities. Event-driven loans and lending commitments typically consist of revolving lines of credit, term loans and bridge loans. The increase in event-driven lending commitments in the current quarter is primarily due to an increase in held-for-sale commitments driven by new client transactions in the latter part of the quarter.

Wealth Management

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

Securities-based lending provided to our retail clients is primarily conducted through our Liquidity Access Line platform. For more information about our securities-based lending and residential real estate loans, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Lending Activities in the 2017 Form

10-K.

Wealth Management Loans and Lending Commitments

| <i>\$ in millions</i> | At March 31, 2018 | | | | Total |
|---|-------------------------------|-----------------|-----------------|------------------|------------------|
| | Contractual Years to Maturity | | | | |
| | Less than 1 | 1-3 | 3-5 | Over 5 | |
| Securities-based lending and other loans ¹ | \$ 34,730 | \$ 3,789 | \$ 1,849 | \$ 1,382 | \$ 41,750 |
| Residential real estate loans | | 30 | 10 | 26,536 | 26,576 |
| Total loans | \$ 34,730 | \$ 3,819 | \$ 1,859 | \$ 27,918 | \$ 68,326 |
| Lending commitments | 7,392 | 2,283 | 444 | 285 | 10,404 |
| Total loans and lending commitments | \$ 42,122 | \$ 6,102 | \$ 2,303 | \$ 28,203 | \$ 78,730 |

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

1. The Liquidity Access Line platform had an outstanding loan balance of \$32.1 billion and \$32.2 billion at March 31, 2018 and December 31, 2017, respectively.

For the current quarter, loans and lending commitments associated with the Wealth Management business segment lending activities increased by approximately 2%, primarily due to growth in securities-based lending and other loans.

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

| <i>\$ in millions</i> | At March 31, 2018 | | |
|--|--------------------------|-----------|-----------|
| | IS | WM | Total |
| Net customer receivables representing margin loans | \$ 22,396 | \$ 11,986 | \$ 34,382 |

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

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

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

| | At March 31, 2018 | At December 31, 2017 |
|--------------------------------|-------------------------|----------------------------|
| <i>\$ in millions</i> | | |
| Employee loans: | | |
| Balance | \$ 3,687 | \$ 4,185 |
| Allowance for loan losses | (75) | (77) |
| Balance, net | \$ 3,612 | \$ 4,108 |
| Repayment term range, in years | 1 to 20 | 1 to 20 |

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

Credit Exposure Derivatives

We incur credit risk as a dealer in OTC derivatives. Credit risk with respect to derivative instruments arises from the possibility that a counterparty may fail to perform according to the terms of the contract. In connection with our OTC derivative activities, we generally enter into master netting agreements and collateral arrangements with counterparties. These agreements provide us with the ability to demand collateral, as well as to liquidate collateral and offset receivables and payables covered under the same master netting agreement in the event of counterparty default.

We manage our trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options). For a discussion of our credit exposure and related credit derivative contracts, see [Quantitative and Qualitative disclosures about Market Risk Risk Management Credit Risk Credit Exposure Derivatives](#) in the 2017 Form 10-K.

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

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

| <i>\$ in millions</i> | Credit Rating | | | | | Non- investment grade | Total |
|-----------------------|---------------|----|---|-----|--|-----------------------------|-------|
| | AAA | AA | A | BBB | | | |
| | | | | | | | |

| At March 31, 2018 | | | | | | |
|--------------------------------|---------------|-----------------|-----------------|-----------------|-----------------|------------------|
| < 1 year | \$ 543 | \$ 5,281 | \$ 37,768 | \$ 12,570 | \$ 6,192 | \$ 62,354 |
| 1-3 years | 690 | 3,687 | 22,356 | 7,981 | 4,425 | 39,139 |
| 3-5 years | 767 | 2,907 | 15,236 | 5,093 | 4,989 | 28,992 |
| Over 5 years | 4,813 | 11,955 | 77,582 | 36,990 | 12,395 | 143,735 |
| Total, gross | \$ 6,813 | \$ 23,830 | \$ 152,942 | \$ 62,634 | \$ 28,001 | \$ 274,220 |
| Counterparty Netting | (3,339) | (15,278) | (123,256) | (44,638) | (15,195) | (201,706) |
| Cash and Securities collateral | (3,158) | (6,512) | (24,812) | (12,055) | (9,077) | (55,614) |
| Total, net | \$ 316 | \$ 2,040 | \$ 4,874 | \$ 5,941 | \$ 3,729 | \$ 16,900 |

Credit Rating¹

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

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

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

| <i>\$ in millions</i> | At | At |
|------------------------------|-------------------|----------------------|
| | March 31, 2018 | December 31, 2017 |
| Industry | | |
| Utilities | \$ 4,912 | \$ 4,382 |
| Financials | 4,245 | 3,330 |
| Industrials | 1,335 | 1,124 |
| Regional governments | 1,002 | 1,005 |
| Information technology | 869 | 715 |
| Healthcare | 842 | 882 |
| Energy | 656 | 646 |
| Not-for-profit organizations | 633 | 703 |
| Sovereign governments | 502 | 1,084 |
| Consumer discretionary | 463 | 464 |
| Real estate | 378 | 374 |
| Materials | 276 | 329 |

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| | | |
|--------------------------|------------------|------------------|
| Insurance | 243 | 206 |
| Consumer staples | 118 | 161 |
| Other | 426 | 270 |
| Total¹ | \$ 16,900 | \$ 15,675 |

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

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Risk Disclosures

For additional credit exposure information on our credit derivative portfolio, see Note 4 to the financial statements.

Country Risk Exposure

Country risk exposure is the risk that events in, or that affect, a foreign country (any country other than the U.S.) might adversely affect us. We actively manage country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals and allows us to effectively identify, monitor and limit country risk. Country risk exposure before and after hedging is monitored and managed. For a further discussion of our country risk exposure see, [Quantitative and Qualitative Disclosures about Market Risk](#) [Risk Management](#) [Country Risk Exposure](#) in the 2017 Form 10-K.

Our sovereign exposures consist of financial instruments entered into with sovereign and local governments. Our non-sovereign exposures consist of financial instruments

entered into primarily with corporations and financial institutions. The following table shows our 10 largest non-U.S. country risk net exposures at March 31, 2018. Index credit derivatives are included in the country risk exposure table. Each reference entity within an index is allocated to that reference entity's country of risk. Index exposures are allocated to the underlying reference entities in proportion to the notional weighting of each reference entity in the index, adjusted for any fair value receivable/payable for that reference entity. Where credit risk crosses multiple jurisdictions, for example, a CDS purchased from an issuer in a specific country that references bonds issued by an entity in a different country, the fair value of the CDS is reflected in the Net Counterparty Exposure column based on the country of the CDS issuer. Further, the notional amount of the CDS adjusted for the fair value of the receivable/payable is reflected in the Net Inventory column based on the country of the underlying reference entity.

Table of Contents**Risk Disclosures****Top Ten Country Exposures at March 31, 2018**

| <i>\$ in millions</i> | Net | | Counterparty | | Lending Exposure | | Hedges ³ | Net Exposure |
|-----------------------|----------------------------|-----------------------|--------------|-------------|------------------|------------|---------------------|--------------|
| | Net Inventory ¹ | Exposure ² | Loans | Commitments | before Hedges | | | |
| Country | | | | | | | | |
| U.K.: | | | | | | | | |
| Sovereigns | \$ (836) | \$ 53 | \$ | \$ | \$ (783) | \$ (357) | \$ (1,140) | |
| Non-sovereigns | 1,003 | 10,249 | 2,533 | 7,022 | 20,807 | (1,875) | 18,932 | |
| Total | \$ 167 | \$ 10,302 | \$ 2,533 | \$ 7,022 | \$ 20,024 | \$ (2,232) | \$ 17,792 | |
| Germany: | | | | | | | | |
| Sovereigns | \$ 1,645 | \$ 460 | \$ | \$ | \$ 2,105 | \$ (858) | \$ 1,247 | |
| Non-sovereigns | 328 | 2,200 | 1,132 | 3,787 | 7,447 | (1,317) | 6,130 | |
| Total | \$ 1,973 | \$ 2,660 | \$ 1,132 | \$ 3,787 | \$ 9,552 | \$ (2,175) | \$ 7,377 | |
| France: | | | | | | | | |
| Sovereigns | \$ (924) | \$ 2 | \$ | \$ | \$ (922) | \$ (50) | \$ (972) | |
| Non-sovereigns | 9 | 1,862 | 294 | 4,100 | 6,265 | (748) | 5,517 | |
| Total | \$ (915) | \$ 1,864 | \$ 294 | \$ 4,100 | \$ 5,343 | \$ (798) | \$ 4,545 | |
| Spain: | | | | | | | | |
| Sovereigns | \$ (1,648) | \$ | \$ | \$ | \$ (1,648) | \$ | \$ (1,648) | |
| Non-sovereigns | 54 | 283 | 3,249 | 2,748 | 6,334 | (193) | 6,141 | |
| Total | \$ (1,594) | \$ 283 | \$ 3,249 | \$ 2,748 | \$ 4,686 | \$ (193) | \$ 4,493 | |
| Japan: | | | | | | | | |
| Sovereigns | \$ 164 | \$ 84 | \$ | \$ | \$ 248 | \$ (118) | \$ 130 | |
| Non-sovereigns | 476 | 3,783 | | | 4,259 | (118) | 4,141 | |
| Total | \$ 640 | \$ 3,867 | \$ | \$ | \$ 4,507 | \$ (236) | \$ 4,271 | |
| Canada: | | | | | | | | |
| Sovereigns | \$ (326) | \$ 48 | \$ | \$ | \$ (278) | \$ | \$ (278) | |
| Non-sovereigns | 574 | 2,033 | 92 | 1,417 | 4,116 | (278) | 3,838 | |
| Total | \$ 248 | \$ 2,081 | \$ 92 | \$ 1,417 | \$ 3,838 | \$ (278) | \$ 3,560 | |
| China: | | | | | | | | |
| Sovereigns | \$ 659 | \$ 188 | \$ | \$ | \$ 847 | \$ (54) | \$ 793 | |
| Non-sovereigns | 737 | 228 | 1,291 | 434 | 2,690 | (10) | 2,680 | |
| Total | \$ 1,396 | \$ 416 | \$ 1,291 | \$ 434 | \$ 3,537 | \$ (64) | \$ 3,473 | |
| Brazil: | | | | | | | | |
| Sovereigns | \$ 2,561 | \$ | \$ | \$ | \$ 2,561 | \$ (12) | \$ 2,549 | |
| Non-sovereigns | 69 | 167 | 26 | 451 | 713 | (16) | 697 | |
| Total | \$ 2,630 | \$ 167 | \$ 26 | \$ 451 | \$ 3,274 | \$ (28) | \$ 3,246 | |
| Netherlands: | | | | | | | | |
| Sovereigns | \$ (75) | \$ | \$ | \$ | \$ (75) | \$ (20) | \$ (95) | |
| Non-sovereigns | 374 | 733 | 1,150 | 1,153 | 3,410 | (305) | 3,105 | |

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| | | | | | | | |
|----------------|----------|--------|----------|----------|----------|----------|----------|
| Total | \$ 299 | \$ 733 | \$ 1,150 | \$ 1,153 | \$ 3,335 | \$ (325) | \$ 3,010 |
| India: | | | | | | | |
| Sovereigns | \$ 1,744 | \$ | \$ | \$ | \$ 1,744 | \$ | \$ 1,744 |
| Non-sovereigns | 696 | 534 | | | 1,230 | | 1,230 |
| Total | \$ 2,440 | \$ 534 | \$ | \$ | \$ 2,974 | \$ | \$ 2,974 |

1. Net inventory represents exposure to both long and short single-name and index positions (*i.e.*, bonds and equities at fair value and CDS based on a notional amount assuming zero recovery adjusted for any fair value receivable or payable).
2. Net counterparty exposure (*i.e.*, repurchase transactions, securities lending and OTC derivatives) takes into consideration legally enforceable master netting agreements and collateral.
3. Amounts represent CDS hedges (purchased and sold) on net counterparty exposure and lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for us. Amounts are based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable. For a further description of the contractual terms for purchased credit protection and whether they may limit the effectiveness of our hedges, see Credit Exposure Derivatives herein.

Table of Contents**Risk Disclosures**

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

Credit Derivatives Included in Net Inventory

| | At March 31, 2018 |
|----------------------------|-------------------------|
| <i>\$ in millions</i> | |
| Gross purchased protection | \$ (78,994) |
| Gross written protection | 76,135 |
| Net exposure | \$ (2,859) |

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

Benefit of Collateral Received against Counterparty Credit Exposure

| | At March 31, 2018 |
|-------------------------------------|-----------------------------------|
| <i>\$ in millions</i> | |
| | Collateral ¹ |
| Counterparty credit exposure | |
| U.K. | U.K., U.S. and Japan \$ 9,215 |
| Germany | Belgium and Germany 9,193 |
| Other | Japan, France and Spain 14,696 |

1. Collateral primarily consists of cash and government obligations.

Country Risk Exposures Related to the U.K. At March 31, 2018, our country risk exposures in the U.K. included net exposures of \$17,792 million as shown in the Top Ten Country Exposures table, and overnight deposits of \$7,047 million. The \$18,932 million of exposures to non-sovereigns were diversified across both names and sectors. Of these exposures, \$6,168 million were to U.K.-focused counterparties that generate more than one-third of their revenues in the U.K., \$5,562 million were to geographically diversified counterparties, and \$6,248 million were to exchanges and clearinghouses.

Country Risk Exposures Related to Brazil. At March 31, 2018, our country risk exposures in Brazil included net exposures of \$3,246 million as shown in the Top Ten Country Exposures table. Our sovereign net exposures in Brazil were principally in the form of local currency government bonds held onshore to support client activity. The \$697 million of exposures to non-sovereigns were diversified across both names and sectors.

Operational Risk

Operational risk refers to the risk of loss, or of damage to our reputation, resulting from inadequate or failed processes or systems, from human factors or from external events (*e.g.*, fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). We may incur operational risk

across the full scope of our business activities, including revenue-generating activities (*e.g.*, sales and trading) and support and control groups (*e.g.*, information technology and trade processing). For a further discussion about our operational risk, see [Quantitative and Qualitative Disclosures about Market Risk Risk Management Operational Risk](#) in the 2017 Form 10-K.

Model Risk

Model risk refers to the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model risk can lead to financial loss, poor business and strategic decision making, or damage to the Firm's reputation. The risk inherent in a model is a function of the materiality, complexity and uncertainty around inputs and assumptions. Model risk is generated from the use of models impacting financial statements, regulatory filings, capital adequacy assessments and the formulation of strategy. For a further discussion about our model risk, see [Quantitative and Qualitative Disclosures about Market Risk Risk Management Model Risk](#) in the 2017 Form 10-K.

Liquidity Risk

Liquidity risk refers to the risk that we will be unable to finance our operations due to a loss of access to the capital markets or difficulty in liquidating our assets. Liquidity risk also encompasses our ability (or perceived ability) to meet our financial obligations without experiencing significant business disruption or reputational damage that may threaten our viability as a going concern. For a further discussion about our liquidity risk, see [Quantitative and Qualitative Disclosures about Market Risk Risk Management Liquidity Risk](#) in the 2017 Form 10-K and [Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources](#).

Legal and Compliance Risk

Legal and compliance risk includes the risk of legal or regulatory sanctions, material financial loss, including fines, penalties, judgments, damages and/or settlements, or loss to reputation that we may suffer as a result of failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with AML and terrorist financing rules and regulations. For a further discussion about our legal and compliance risk, see [Quantitative and Qualitative Disclosures about Market Risk Risk Management Legal and Compliance Risk](#) in the 2017 Form 10-K.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Morgan Stanley:

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated balance sheet of Morgan Stanley and subsidiaries (the Firm) as of March 31, 2018, and the related condensed consolidated income statements, comprehensive income statements, cash flow statements and statements of changes in total equity for the three-month periods ended March 31, 2018 and 2017, and the related notes (collectively referred to as the interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Firm as of December 31, 2017, and the related consolidated income statement, comprehensive income statement, cash flow statement and statement of changes in total equity for the year then ended (not presented herein) included in the Firm s Annual Report on Form 10-K; and in our report dated February 27, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2017 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

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

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

/s/ Deloitte & Touche LLP

New York, New York

May 4, 2018

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

| <i>in millions, except per share data</i> | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2018 | 2017 |
| Revenues | | |
| Investment banking | \$ 1,634 | \$ 1,545 |
| Trading | 3,770 | 3,235 |
| Investments | 126 | 165 |
| Commissions and fees | 1,173 | 1,033 |
| Asset management | 3,192 | 2,767 |
| Other | 207 | 229 |
| Total non-interest revenues | 10,102 | 8,974 |
| Interest income | 2,860 | 1,965 |
| Interest expense | 1,885 | 1,194 |
| Net interest | 975 | 771 |
| Net revenues | 11,077 | 9,745 |
| Non-interest expenses | | |
| Compensation and benefits | 4,914 | 4,466 |
| Occupancy and equipment | 336 | 327 |
| Brokerage, clearing and exchange fees | 627 | 509 |
| Information processing and communications | 478 | 428 |
| Marketing and business development | 140 | 136 |
| Professional services | 510 | 527 |
| Other | 652 | 544 |
| Total non-interest expenses | 7,657 | 6,937 |
| Income from continuing operations before income taxes | 3,420 | 2,808 |
| Provision for income taxes | 714 | 815 |
| Income from continuing operations | 2,706 | 1,993 |
| Income (loss) from discontinued operations, net of income taxes | (2) | (22) |
| Net income | \$ 2,704 | \$ 1,971 |
| Net income applicable to noncontrolling interests | 36 | 41 |
| Net income applicable to Morgan Stanley | \$ 2,668 | \$ 1,930 |
| Preferred stock dividends and other | 93 | 90 |
| Earnings applicable to Morgan Stanley common shareholders | \$ 2,575 | \$ 1,840 |
| Earnings per basic common share | | |
| Income from continuing operations | \$ 1.48 | \$ 1.03 |
| Income (loss) from discontinued operations | | (0.01) |
| Earnings per basic common share | \$ 1.48 | \$ 1.02 |
| Earnings per diluted common share | | |

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| | | |
|--|----------------|----------------|
| Income from continuing operations | \$ 1.46 | \$ 1.01 |
| Income (loss) from discontinued operations | (0.01) | (0.01) |
| Earnings per diluted common share | \$ 1.45 | \$ 1.00 |
| Dividends declared per common share | \$ 0.25 | \$ 0.20 |
| Average common shares outstanding | | |
| Basic | 1,740 | 1,801 |
| Diluted | 1,771 | 1,842 |

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See Notes to Consolidated Financial Statements

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

| <i>\$ in millions</i> | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2018 | 2017 |
| Net income | \$ 2,704 | \$ 1,971 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments | \$ 117 | \$ 150 |
| Change in net unrealized gains (losses) on available-for-sale securities | (410) | 84 |
| Pension, postretirement and other | 5 | |
| Change in net debt valuation adjustment | 451 | 9 |
| Total other comprehensive income (loss) | \$ 163 | \$ 243 |
| Comprehensive income | \$ 2,867 | \$ 2,214 |
| Net income applicable to noncontrolling interests | 36 | 41 |
| Other comprehensive income (loss) applicable to noncontrolling interests | 72 | 50 |
| Comprehensive income applicable to Morgan Stanley | \$ 2,759 | \$ 2,123 |

See Notes to Consolidated Financial Statements

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Table of Contents**Consolidated Balance Sheets**

| | (Unaudited) | |
|---|-------------------------|----------------------------|
| | At March 31, 2018 | At December 31, 2017 |
| <i>\$ in millions, except share data</i> | | |
| Assets | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | \$ 29,073 | \$ 24,816 |
| Interest bearing deposits with banks | 22,980 | 21,348 |
| Restricted cash | 35,291 | 34,231 |
| Trading assets at fair value (\$163,158 and \$169,735 were pledged to various parties) | 273,044 | 298,282 |
| Investment securities (includes \$56,749 and \$55,203 at fair value) | 80,641 | 78,802 |
| Securities purchased under agreements to resell | 80,246 | 84,258 |
| Securities borrowed | 135,835 | 124,010 |
| Customer and other receivables | 66,835 | 56,187 |
| Loans: | | |
| Held for investment (net of allowance of \$243 and \$224) | 95,124 | 92,953 |
| Held for sale | 14,011 | 11,173 |
| Goodwill | 6,706 | 6,597 |
| Intangible assets (net of accumulated amortization of \$2,817 and \$2,730) | 2,427 | 2,448 |
| Other assets | 16,282 | 16,628 |
| Total assets | \$ 858,495 | \$ 851,733 |
| Liabilities | | |
| Deposits (includes \$242 and \$204 at fair value) | \$ 160,424 | \$ 159,436 |
| Trading liabilities at fair value | 139,023 | 131,295 |
| Securities sold under agreements to repurchase (includes \$792 and \$800 at fair value) | 51,575 | 56,424 |
| Securities loaned | 13,556 | 13,592 |
| Other secured financings (includes \$3,423 and \$3,863 at fair value) | 10,275 | 11,271 |
| Customer and other payables | 194,924 | 191,510 |
| Other liabilities and accrued expenses | 14,265 | 17,157 |
| Borrowings (includes \$47,533 and \$46,912 at fair value) | 194,964 | 192,582 |
| Total liabilities | 779,006 | 773,267 |
| Commitments and contingent liabilities (see Note 11) | | |
| Equity | | |
| Morgan Stanley shareholders' equity: | | |
| Preferred stock | 8,520 | 8,520 |
| Common stock, \$0.01 par value: | | |
| Shares authorized: 3,500,000,000; Shares issued: 2,038,893,979; Shares outstanding: 1,773,934,393 and 1,788,086,805 | 20 | 20 |
| Additional paid-in capital | 23,260 | 23,545 |
| Retained earnings | 60,009 | 57,577 |
| Employee stock trusts | 2,907 | 2,907 |

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| | | |
|--|-------------------|-------------------|
| Accumulated other comprehensive income (loss) | (3,406) | (3,060) |
| Common stock held in treasury at cost, \$0.01 par value (264,959,586 and 250,807,174 shares) | (10,369) | (9,211) |
| Common stock issued to employee stock trusts | (2,907) | (2,907) |
| Total Morgan Stanley shareholders equity | 78,034 | 77,391 |
| Noncontrolling interests | 1,455 | 1,075 |
| Total equity | 79,489 | 78,466 |
| Total liabilities and equity | \$ 858,495 | \$ 851,733 |

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See Notes to Consolidated Financial Statements

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

| | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Employee Stock Trusts | Accumulated Other Comprehensive Income (Loss) | Common Stock Held in Treasury at Cost | Common Stock Issued to Employee Stock Trusts | Non-controlling Interests | Total Equity |
|---|-----------------|--------------|----------------------------|-------------------|-----------------------|---|---------------------------------------|--|---------------------------|--------------|
| Balance at December 31, 2017 | \$ 8,520 | \$ 20 | \$ 23,545 | \$ 57,577 | \$ 2,907 | \$ (3,060) | \$ (9,211) | \$ (2,907) | \$ 1,075 | \$ 78,407 |
| Cumulative adjustment for accounting changes ¹ | | | | 306 | | (437) | | | | (131) |
| Income attributable to Morgan Stanley | | | | 2,668 | | | | | | 2,668 |
| Income attributable to non-controlling interests | | | | | | | | | 36 | 36 |
| Dividends | | | | (542) | | | | | | (542) |
| Shares issued under employee plans | | | (285) | | | | 710 | | | 425 |
| Purchases of common stock by employee | | | | | | | (1,868) | | | (1,868) |
| Change in accumulated other comprehensive income (loss) | | | | | | 91 | | | 72 | 163 |
| Other net increases | | | | | | | | | 272 | 272 |
| | \$ 8,520 | \$ 20 | \$ 23,260 | \$ 60,009 | \$ 2,907 | \$ (3,406) | \$ (10,369) | \$ (2,907) | \$ 1,455 | \$ 79,419 |

| Balance at March 31, 2018 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
|---|----------|-------|-----------|-----------|----------|------------|------------|------------|----------|-----------|------|---------|
| Balance at September 30, 2017 | \$ 7,520 | \$ 20 | \$ 23,271 | \$ 53,679 | \$ 2,851 | \$ (2,643) | \$ (5,797) | \$ (2,851) | \$ 1,127 | \$ 77,100 | | |
| Cumulative adjustment for accounting changes ¹ | | | 45 | (35) | | | | | | | | |
| Income attributable to Morgan Stanley | | | | 1,930 | | | | | | | | 1,930 |
| Income attributable to controlling interests | | | | | | | | | 41 | | | 41 |
| Dividends paid | | | | (465) | | | | | | | | (465) |
| Shares issued under employee plans | | | (430) | | 186 | | 803 | (186) | | | | 373 |
| Purchases of common stock under employee shareholdings | | | | | | | (1,161) | | | | | (1,161) |
| Change in accumulated other comprehensive income (loss) | | | | | | 193 | | | 50 | | | 243 |
| Balance of deferred stock | 1,000 | | (6) | | | | | | | | | 994 |
| Other net changes | | | | | | | | | (58) | | | (58) |
| Balance at March 31, 2017 | \$ 8,520 | \$ 20 | \$ 22,880 | \$ 55,109 | \$ 3,037 | \$ (2,450) | \$ (6,155) | \$ (3,037) | \$ 1,160 | \$ 79,000 | | |

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

See Notes to Consolidated Financial Statements

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

| <i>\$ in millions</i> | Three Months Ended March 31, | |
|--|---------------------------------|----------------|
| | 2018 | 2017 |
| Cash flows from operating activities | | |
| Net income | \$ 2,704 | \$ 1,971 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | |
| (Income) loss from equity method investments | (50) | (9) |
| Stock-based compensation expense | 321 | 269 |
| Depreciation and amortization | 390 | 434 |
| Net gain on sale of available-for-sale securities | | (2) |
| Impairment charges | 8 | 5 |
| Provision for credit losses on lending activities | 26 | 25 |
| Other operating adjustments | 5 | (74) |
| Changes in assets and liabilities: | | |
| Trading assets, net of Trading liabilities | 33,832 | (12,838) |
| Securities borrowed | (11,825) | 13,433 |
| Securities loaned | (36) | 3,090 |
| Customer and other receivables and other assets | (13,019) | (1,687) |
| Customer and other payables and other liabilities | 1,129 | (3,556) |
| Securities purchased under agreements to resell | 4,012 | (2,868) |
| Securities sold under agreements to repurchase | (4,849) | 1,897 |
| Net cash provided by (used for) operating activities | 12,648 | 90 |
| Cash flows from investing activities | | |
| Proceeds from (payments for): | | |
| Other assets Premises, equipment and software, net | (410) | (350) |
| Changes in loans, net | (3,801) | (1,105) |
| Investment securities: | | |
| Purchases | (5,482) | (6,449) |
| Proceeds from sales | 810 | 3,604 |
| Proceeds from paydowns and maturities | 2,125 | 2,071 |
| Other investing activities | (164) | 61 |
| Net cash provided by (used for) investing activities | (6,922) | (2,168) |
| Cash flows from financing activities | | |
| Net proceeds from (payments for): | | |
| Noncontrolling interests | (5) | (2) |
| Other secured financings | (2,101) | 199 |
| Deposits | 988 | (3,754) |
| Proceeds from: | | |
| Derivatives financing activities | | 48 |
| Issuance of preferred stock, net of issuance costs | | 994 |
| Issuance of Borrowings | 15,370 | 18,433 |

| | | |
|--|------------------|------------------|
| Payments for: | | |
| Borrowings | (11,377) | (11,538) |
| Repurchases of common stock and employee tax withholdings | (1,868) | (1,161) |
| Cash dividends | (599) | (511) |
| Other financing activities | (45) | 14 |
| Net cash provided by (used for) financing activities | 363 | 2,722 |
| Effect of exchange rate changes on cash and cash equivalents | 860 | 877 |
| Net increase (decrease) in cash and cash equivalents | 6,949 | 1,521 |
| Cash and cash equivalents, at beginning of period | 80,395 | 77,360 |
| Cash and cash equivalents, at end of period | \$ 87,344 | \$ 78,881 |
| Cash and cash equivalents: | | |
| Cash and due from banks | \$ 29,073 | \$ 22,081 |
| Interest bearing deposits with banks | 22,980 | 20,773 |
| Restricted cash | 35,291 | 36,027 |
| Cash and cash equivalents, at end of period | \$ 87,344 | \$ 78,881 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash payments for: | | |
| Interest | \$ 1,407 | \$ 737 |
| Income taxes, net of refunds | 250 | 262 |

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Notes to Consolidated Financial Statements

(Unaudited)

1. Introduction and Basis of Presentation

The Firm

Morgan Stanley is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Wealth Management and Investment Management. Morgan Stanley, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Unless the context otherwise requires, the terms Morgan Stanley or the Firm mean Morgan Stanley (the Parent Company) together with its consolidated subsidiaries. See the Glossary of Common Acronyms for definitions of certain acronyms used throughout this Form 10-Q.

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

Institutional Securities provides investment banking, sales and trading, lending and other services to corporations, governments, financial institutions, and high to ultra-high net worth clients. Investment banking services consist of capital raising and financial advisory services, including services relating to the underwriting of debt, equity and other securities, as well as advice on mergers and acquisitions, restructurings, real estate and project finance. Sales and trading services include sales, financing, prime brokerage and market-making activities in equity and fixed income products, including foreign exchange and commodities. Lending services include originating and/or purchasing corporate loans, commercial and residential mortgage lending, asset-backed lending, financing extended to equities and commodities customers, and loans to municipalities. Other activities include investments and research.

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

Investment Management provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets to a diverse group of clients across institutional and intermediary channels. Strategies and products include equity, fixed

income, liquidity and alternative/other products. Institutional clients include defined benefit/defined contribution plans, foundations, endowments, government entities, sovereign wealth funds, insurance companies, third-party fund sponsors and corporations. Individual clients are serviced through intermediaries, including affiliated and non-affiliated distributors.

Basis of Financial Information

The unaudited consolidated financial statements (financial statements) are prepared in accordance with U.S. GAAP, which requires the Firm to make estimates and assumptions regarding the valuations of certain financial instruments, the valuation of goodwill and intangible assets, compensation, deferred tax assets, the outcome of legal and tax matters, allowance for credit losses and other matters that affect its financial statements and related disclosures. The

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

The accompanying financial statements should be read in conjunction with the Firm's financial statements and notes thereto included in the 2017 Form 10-K. Certain footnote disclosures included in the 2017 Form 10-K have been condensed or omitted from these financial statements as they are not required for interim reporting under U.S. GAAP. The financial statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the interim period. The results of operations for interim periods are not necessarily indicative of results for the entire year.

Consolidation

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

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Notes to Consolidated Financial Statements

(Unaudited)

For a discussion of the Firm's involvement with VIEs and its significant regulated U.S. and international subsidiaries, see Notes 1 and 2 to the financial statements in the 2017 Form 10-K.

2. Significant Accounting Policies

For a detailed discussion about the Firm's significant accounting policies, see Note 2 to the financial statements in the 2017 Form 10-K.

During the three months ended March 31, 2018 (current quarter), there were no significant revisions to the Firm's significant accounting policies, other than the following and the accounting updates adopted.

Carried Interest

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

Accounting Updates Adopted

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

Revenue from Contracts with Customers

On January 1, 2018, we adopted *Revenue from Contracts with Customers* using the modified retrospective method, which resulted in a net decrease to Retained earnings of \$32 million, net of tax. Prior period amounts were not restated. See Note 20 for new disclosures related to the adoption of this standard.

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

Revenue Recognition

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

Investment Banking

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

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

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

Commissions and Fees

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

Asset Management Revenues

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

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Notes to Consolidated Financial Statements

(Unaudited)

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

Sales commissions paid by the Firm in connection with the sale of certain classes of shares of its open-end mutual fund products are accounted for as deferred commission assets and amortized to expense over the expected life of the contract. The Firm periodically tests deferred commission assets for recoverability based on cash flows expected to be received in future periods. Other asset management and distribution costs are recognized as incurred in the relevant non-compensation expense line items.

Other Items

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

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

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

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

Derivatives and Hedging Targeted Improvements to Accounting for Hedging Activities

This accounting update aims to better align the hedge accounting requirements with an entity's risk management strategies and improve the financial reporting of hedging relationships. It also results in simplification of the application of hedge accounting related to the assessment of hedge effectiveness.

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

Effective January 1, 2018, in accordance with this adoption, the Firm has updated its accounting policies to permit the hedged item in a fair value hedge of interest rate risk to be defined as including only the benchmark rate component of contractual coupon cash flows, and to allow for hedging part of the contractual term of the hedged instrument. The accounting policy also requires the entire gain or loss from revaluing hedges of net investments in foreign operations at the spot rate to be reported within AOCI.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

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

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

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

| <i>\$ in millions</i> | At March 31, 2018 | | | | Total |
|--|-------------------|-------------------|------------------|----------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Netting ¹ | |
| Assets at fair value | | | | | |
| Trading assets: | | | | | |
| U.S. Treasury and agency securities | \$ 22,675 | \$ 23,430 | \$ | \$ | \$ 46,105 |
| Other sovereign government obligations | 18,185 | 9,371 | 7 | | 27,563 |
| State and municipal securities | | 3,235 | 2 | | 3,237 |
| MABS | | 1,799 | 342 | | 2,141 |
| Loans and lending commitments ² | | 4,865 | 8,128 | | 12,993 |
| Corporate and other debt | | 21,392 | 814 | | 22,206 |
| Corporate equities ³ | 120,280 | 494 | 233 | | 121,007 |
| Derivative and other contracts: | | | | | |
| Interest rate | 989 | 176,030 | 1,250 | | 178,269 |
| Credit | | 6,971 | 362 | | 7,333 |
| Foreign exchange | 45 | 53,504 | 29 | | 53,578 |
| Equity | 1,165 | 44,506 | 3,871 | | 49,542 |
| Commodity and other | 383 | 6,908 | 4,576 | | 11,867 |
| Netting ¹ | (1,665) | (216,759) | (1,581) | (47,436) | (267,441) |
| Total derivative and other contracts | 917 | 71,160 | 8,507 | (47,436) | 33,148 |
| Investments ⁴ | 482 | 372 | 1,012 | | 1,866 |
| Physical commodities | | 205 | | | 205 |
| Total trading assets ⁴ | 162,539 | 136,323 | 19,045 | (47,436) | 270,471 |
| Investment securities AFS | 29,979 | 26,770 | | | 56,749 |
| Intangible assets | | 3 | | | 3 |
| Total assets at fair value | \$ 192,518 | \$ 163,096 | \$ 19,045 | \$ (47,436) | \$ 327,223 |

| <i>\$ in millions</i> | At March 31, 2018 | | | | Total |
|-------------------------------------|-------------------|---------|---------|----------------------|--------|
| | Level 1 | Level 2 | Level 3 | Netting ¹ | |
| Liabilities at fair value | | | | | |
| Deposits | \$ | \$ 198 | \$ 44 | \$ | \$ 242 |
| Trading liabilities: | | | | | |
| U.S. Treasury and agency securities | 20,182 | 32 | | | 20,214 |

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| | | | | | |
|--|-------------------|-------------------|-----------------|--------------------|-------------------|
| Other sovereign government obligations | 24,281 | 3,890 | 3 | | 28,174 |
| Corporate and other debt | | 7,886 | 4 | | 7,890 |
| Corporate equities ³ | 56,667 | 60 | 32 | | 56,759 |
| Derivative and other contracts: | | | | | |
| Interest rate | 1,043 | 159,538 | 580 | | 161,161 |
| Credit | | 7,456 | 392 | | 7,848 |
| Foreign exchange | 31 | 53,408 | 62 | | 53,501 |
| Equity | 1,054 | 46,616 | 2,856 | | 50,526 |
| Commodity and other | 543 | 5,680 | 2,916 | | 9,139 |
| Netting ¹ | (1,665) | (216,759) | (1,581) | (36,184) | (256,189) |
| Total derivative and other contracts | 1,006 | 55,939 | 5,225 | (36,184) | 25,986 |
| Total trading liabilities | 102,136 | 67,807 | 5,264 | (36,184) | 139,023 |
| Securities sold under agreements to repurchase | | 792 | | | 792 |
| Other secured financings | | 3,203 | 220 | | 3,423 |
| Borrowings | | 43,907 | 3,626 | | 47,533 |
| Total liabilities at fair value | \$ 102,136 | \$ 115,907 | \$ 9,154 | \$ (36,184) | \$ 191,013 |

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

| <i>\$ in millions</i> | At December 31, 2017 | | | | |
|--|----------------------|-------------------|------------------|----------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Netting ¹ | Total |
| Assets at fair value | | | | | |
| Trading assets: | | | | | |
| U.S. Treasury and agency securities | \$ 22,077 | \$ 26,888 | \$ | \$ | \$ 48,965 |
| Other sovereign government obligations | 20,234 | 7,825 | 1 | | 28,060 |
| State and municipal securities | | 3,592 | 8 | | 3,600 |
| MABS | | 2,364 | 423 | | 2,787 |
| Loans and lending commitments ² | | 4,791 | 5,945 | | 10,736 |
| Corporate and other debt | | 16,837 | 701 | | 17,538 |
| Corporate equities ³ | 149,697 | 492 | 166 | | 150,355 |
| Derivative and other contracts: | | | | | |
| Interest rate | 472 | 178,704 | 1,763 | | 180,939 |
| Credit | | 7,602 | 420 | | 8,022 |
| Foreign exchange | 58 | 53,724 | 15 | | 53,797 |
| Equity | 1,101 | 40,359 | 3,530 | | 44,990 |
| Commodity and other | 1,126 | 5,390 | 4,147 | | 10,663 |
| Netting ¹ | (2,088) | (216,764) | (1,575) | (47,171) | (267,598) |
| Total derivative and other contracts | 669 | 69,015 | 8,300 | (47,171) | 30,813 |
| Investments ⁴ | 297 | 523 | 1,020 | | 1,840 |
| Physical commodities | | 1,024 | | | 1,024 |
| Total trading assets ⁴ | 192,974 | 133,351 | 16,564 | (47,171) | 295,718 |
| Investment securities AFS | 27,522 | 27,681 | | | 55,203 |
| Intangible assets | | 3 | | | 3 |
| Total assets at fair value | \$ 220,496 | \$ 161,035 | \$ 16,564 | \$ (47,171) | \$ 350,924 |
| At December 31, 2017 | | | | | |
| <i>\$ in millions</i> | Level 1 | Level 2 | Level 3 | Netting ¹ | Total |
| Liabilities at fair value | | | | | |
| Deposits | \$ | \$ 157 | \$ 47 | \$ | \$ 204 |
| Trading liabilities: | | | | | |
| U.S. Treasury and agency securities | 17,802 | 24 | | | 17,826 |
| Other sovereign government obligations | 24,857 | 2,016 | | | 26,873 |
| Corporate and other debt | | 7,141 | 3 | | 7,144 |
| Corporate equities ³ | 52,653 | 82 | 22 | | 52,757 |
| Derivative and other contracts: | | | | | |
| Interest rate | 364 | 162,239 | 545 | | 163,148 |
| Credit | | 8,166 | 379 | | 8,545 |
| Foreign exchange | 23 | 55,118 | 127 | | 55,268 |
| Equity | 1,001 | 44,666 | 2,322 | | 47,989 |
| Commodity and other | 1,032 | 5,156 | 2,701 | | 8,889 |
| Netting ¹ | (2,088) | (216,764) | (1,575) | (36,717) | (257,144) |
| Total derivative and other contracts | 332 | 58,581 | 4,499 | (36,717) | 26,695 |
| Total trading liabilities | 95,644 | 67,844 | 4,524 | (36,717) | 131,295 |

| | | | | | |
|--|-----------|------------|----------|-------------|------------|
| Securities sold under agreements to repurchase | | 650 | 150 | | 800 |
| Other secured financings | | 3,624 | 239 | | 3,863 |
| Borrowings | | 43,928 | 2,984 | | 46,912 |
| Total liabilities at fair value | \$ 95,644 | \$ 116,203 | \$ 7,944 | \$ (36,717) | \$ 183,074 |

MABS Mortgage and asset-backed securities

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

Loans and Lending Commitments at Fair Value

| <i>\$ in millions</i> | At | At |
|-------------------------|----------------|-------------------|
| | March 31, 2018 | December 31, 2017 |
| Corporate | \$ 9,346 | \$ 8,358 |
| Residential real estate | 706 | 799 |
| Wholesale real estate | 2,941 | 1,579 |
| Total | \$ 12,993 | \$ 10,736 |

Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****Unsettled Fair Value of Futures Contracts¹**

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|-------------------------------------|-----------------------------|-------------------------|
| Customer and other receivables, net | \$ 714 | \$ 831 |

1. These contracts are primarily Level 1, actively traded, valued based on quoted prices from the exchange and are excluded from the previous recurring fair value tables.

For a description of the valuation techniques applied to the Firm's major categories of assets and liabilities measured at fair value on a recurring basis, see Note 3 to the financial statements in the 2017 Form 10-K. During the current quarter, there were no significant revisions made to the Firm's valuation techniques.

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

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

| <i>\$ in millions</i> | Beginning Balance at December 31, | Realized and Unrealized Gains (Losses) | Purchases ¹ | Sales and Issuances ² | Settlements Net Transfers | Ending Balance at March 31, 2018 | Unrealized Gains (Losses) |
|-----------------------|--|---|------------------------|--|------------------------------|---|------------------------------|
|-----------------------|--|---|------------------------|--|------------------------------|---|------------------------------|

2017

| Assets at fair value | | | | | | | | | | | | | | | | | | | | |
|---|----|-------|----|----|-------|----|----|-------|----|-------|----|---------|----|-------|------|--|--|-------|----|-------|
| Trading assets: | | | | | | | | | | | | | | | | | | | | |
| Other sovereign government obligations | | | | | | | | | | | | | | | | | | | | |
| | \$ | 1 | \$ | \$ | 7 | \$ | \$ | (1) | \$ | 7 | \$ | | | | | | | | | |
| State and municipal securities | | | | | | | | | | | | | | | | | | | | |
| | | 8 | | | 1 | | | (7) | | 2 | | | | | | | | | | |
| MABS | | 423 | | | 77 | | | 64 | | (238) | | (16) | | | 32 | | | 342 | | 2 |
| Loans and lending commitments | | | | | | | | | | | | | | | | | | | | |
| | | 5,945 | | | 28 | | | 3,740 | | (283) | | (1,218) | | | (84) | | | 8,128 | | (9) |
| Corporate and other debt | | | | | | | | | | | | | | | | | | | | |
| | | 701 | | | 1 | | | 350 | | (243) | | | | | 5 | | | 814 | | (1) |
| Corporate equities | | | | | | | | | | | | | | | | | | | | |
| | | 166 | | | | | | 166 | | (132) | | | | | 33 | | | 233 | | (9) |
| Net derivative and other contracts ³ : | | | | | | | | | | | | | | | | | | | | |
| Interest rate | | | | | | | | | | | | | | | | | | | | |
| | | 1,218 | | | 52 | | | 32 | | (41) | | (81) | | (510) | | | | 670 | | 75 |
| Credit | | | | | | | | | | | | | | | | | | | | |
| | | 41 | | | (107) | | | | | | | 38 | | (2) | | | | (30) | | (109) |
| Foreign exchange | | | | | | | | | | | | | | | | | | | | |
| | | (112) | | | 57 | | | (31) | | | | 33 | | 20 | | | | (33) | | (9) |
| Equity | | | | | | | | | | | | | | | | | | | | |
| | | 1,208 | | | 356 | | | 142 | | (799) | | 159 | | (51) | | | | 1,015 | | 315 |
| Commodity and other | | | | | | | | | | | | | | | | | | | | |
| | | 1,446 | | | 217 | | | 13 | | (6) | | (57) | | 47 | | | | 1,660 | | 149 |
| Total net derivative and other contracts | | | | | | | | | | | | | | | | | | | | |
| | | 3,801 | | | 575 | | | 187 | | (877) | | 92 | | (496) | | | | 3,282 | | 421 |
| Investments | | | | | | | | | | | | | | | | | | | | |
| | | 1,020 | | | 44 | | | 21 | | (78) | | | | 5 | | | | 1,012 | | 22 |
| Liabilities at fair value | | | | | | | | | | | | | | | | | | | | |
| Deposits | | | | | | | | | | | | | | | | | | | | |
| | \$ | 47 | \$ | \$ | 1 | \$ | \$ | 9 | \$ | (1) | \$ | (10) | \$ | 44 | \$ | | | 1 | \$ | 1 |
| Trading liabilities: | | | | | | | | | | | | | | | | | | | | |
| Other sovereign government obligations | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | 3 | | | | | | | | | | 3 | | |
| Corporate and other debt | | | | | | | | | | | | | | | | | | | | |
| | | 3 | | | | | | (2) | | 1 | | | | 2 | | | | 4 | | |
| Corporate equities | | | | | | | | | | | | | | | | | | | | |
| | | 22 | | | 4 | | | (5) | | 11 | | | | 8 | | | | 32 | | 4 |
| Securities sold under agreements to repurchase | | | | | | | | | | | | | | | | | | | | |
| | | 150 | | | | | | | | | | | | (150) | | | | | | |
| Other secured financings | | | | | | | | | | | | | | | | | | | | |
| | | 239 | | | 13 | | | 4 | | (10) | | | | | | | | 220 | | 13 |
| Borrowings | | | | | | | | | | | | | | | | | | | | |
| | | 2,984 | | | 102 | | | 640 | | (83) | | | | 187 | | | | 3,626 | | 99 |

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

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

| <i>\$ in millions</i> | Beginning Balance at December 31, 2016 | Realized and Unrealized Gains (Losses) | Purchases ¹ | Sales and Issuances ² | Settlements ³ | Net Transfers | Ending Balance at March 31, 2017 | Unrealized Gains (Losses) |
|---|--|---|------------------------|--|--------------------------|---------------|---|------------------------------|
| Assets at fair value | | | | | | | | |
| Trading assets: | | | | | | | | |
| U.S. Treasury and agency securities | \$ 74 | \$ | \$ 42 | \$ (241) | \$ | \$ 167 | \$ 42 | \$ |
| Other sovereign government obligations | 6 | | 61 | (2) | | | 65 | |
| State and municipal securities | 250 | | 2 | (2) | | (195) | 55 | |
| MABS | 217 | 7 | 39 | (56) | (11) | 20 | 216 | (1) |
| Loans and lending commitments | 5,122 | 53 | 757 | (555) | (985) | 87 | 4,479 | 39 |
| Corporate and other debt | 475 | 21 | 262 | (142) | (1) | 102 | 717 | 3 |
| Corporate equities | 446 | (1) | 41 | (105) | | (71) | 310 | 3 |
| Net derivative and other contracts ³ : | | | | | | | | |
| Interest rate | 420 | (114) | 46 | (24) | 16 | (46) | 298 | (127) |
| Credit | (373) | (25) | 6 | (5) | 41 | 5 | (351) | (33) |
| Foreign exchange | (43) | (36) | 1 | | 11 | (4) | (71) | (20) |
| Equity | 184 | (144) | 83 | (121) | 231 | (16) | 217 | (81) |
| Commodity and other | 1,600 | 127 | 6 | (28) | (69) | (133) | 1,503 | 34 |
| Total net derivative and other contracts | 1,788 | (192) | 142 | (178) | 230 | (194) | 1,596 | (227) |
| Investments | 958 | 8 | 62 | (3) | (66) | 2 | 961 | 8 |
| Liabilities at fair value | | | | | | | | |
| Deposits | \$ 42 | \$ (1) | \$ | \$ 13 | \$ | \$ | \$ 56 | \$ (1) |
| Trading liabilities: | | | | | | | | |
| Corporate and other debt | 36 | (1) | (119) | 101 | | 17 | 36 | (1) |
| Corporate equities | 35 | 12 | (68) | 26 | | 21 | 2 | |
| | 149 | 1 | | | | | 148 | 1 |

| | | | | | | | |
|--|-------|------|-----|-------|------|-------|------|
| Securities sold under agreements to repurchase | | | | | | | |
| Other secured financings | 434 | (19) | 13 | (220) | (43) | 203 | (12) |
| Borrowings | 2,014 | (59) | 270 | (165) | (86) | 2,092 | (58) |

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

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

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

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Notes to Consolidated Financial Statements

(Unaudited)

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

| | | Range (Weighted Average or Simple Average/Median) ¹ | |
|---|--|--|------------------------------|
| | | At March 31, 2018 | At December 31, 2017 |
| <i>\$ in millions, except inputs</i> | Predominant Valuation Techniques/ Significant Unobservable Inputs | | |
| Recurring Fair Value Measurement | | | |
| Assets at fair value | | | |
| MABS (\$342 and \$423) | | | |
| Comparable pricing: | Comparable bond price | 0 to 95 points (41 points) | 0 to 95 points (26 points) |
| Loans and lending commitments (\$8,128 and \$5,945) | | | |
| Margin loan model: | Discount rate | 0% to 3% (1%) | 0% to 3% (1%) |
| | Volatility skew | 9% to 67% (28%) | 7% to 41% (22%) |
| Comparable pricing: | | 55 to 101 points (97 points) | 55 to 102 points (95 points) |
| | Comparable loan price | | |
| Corporate and other debt (\$814 and \$701) | | | |
| Comparable pricing: | | 3 to 100 points (70 points) | 3 to 134 points (59 points) |
| | Comparable bond price | | |
| Discounted cash flow: | Recovery rate | 16% | 6% to 36% (27%) |
| | Discount rate | 7% to 20% (15%) | 7% to 20% (14%) |
| Option model: | At the money volatility | 15% to 52% (33%) | 17% to 52% (52%) |
| Corporate equities (\$233 and \$166) | | | |
| Comparable pricing: | Comparable equity price | 100% | 100% |
| Net derivative and other contracts ² : | | | |
| Interest rate (\$670 and \$1,218) | | | |
| Option model: | | 29% to 106% (40% / 43%) | 31% to 97% (41% / 47%) |
| | Interest rate volatility skew | 23% to 61% (44% / 41%) | 23% to 63% (44% / 41%) |
| | Inflation volatility | | |
| | Interest rate curve | 1% to 2% (2% / 2%) | 2% |
| Credit (\$30 and \$41) | | | |
| Comparable pricing: | Cash synthetic basis | 10 to 11 points (11 points) | 12 to 13 points (12 points) |
| | Comparable bond price | 0 to 75 points (25 points) | 0 to 75 points (25 points) |
| Correlation model: | Credit correlation | 39% to 67% (50%) | 38% to 100% (48%) |
| Foreign exchange ³ (\$33 and \$(112)) | | | |
| Option model: | | 55% to 57% (56% / 56%) | 54% to 57% (56% / 56%) |
| | Interest rate - Foreign exchange correlation | | |

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| | | | |
|---|---------------------------------------|------------------------------------|-----------------------------|
| | | 29% to 106% (40% / 43%) | 31% to 97% (41% / 47%) |
| | Interest rate volatility skew | | |
| | | 90% to 95% (93% / 93%) | 95% to 100% (96% / 95%) |
| | Contingency probability | | |
| Equity ³ (\$1,015 and \$1,208) | | | |
| Option model: | At the money volatility | 14% to 55% (35%) | 7% to 54% (32%) |
| | Volatility skew | -3% to 0% (-1%) | -5% to 0% (-1%) |
| | Equity - Equity correlation | 5% to 99% (76%) | 5% to 99% (76%) |
| | Equity - Foreign exchange correlation | -62% to 55% (-42%) | -55% to 40% (36%) |
| | | -7% to 48% (18% / 14%) | -7% to 49% (18% / 20%) |
| | Equity - Interest rate correlation | | |
| Commodity and other (\$1,660 and \$1,446) | | | |
| Option model: | | \$2 to \$212 (\$30) per MWh | \$4 to \$102 (\$31) per MWh |
| | Forward power price | | |
| | Commodity volatility | 5% to 167% (14%) | 7% to 205% (17%) |
| | Cross-commodity correlation | 5% to 99% (92%) | 5% to 99% (92%) |
| Investments (\$1,012 and \$1,020) | | | |
| Discounted cash flow: | WACC | 9% to 15% (9%) | 8% to 15% (9%) |
| | | 8 to 10 times (10 times) | 8 to 11 times (10 times) |
| | Exit multiple | | |
| Market approach: | | 6 to 24 times (11 times) | 6 to 25 times (11 times) |
| | EBITDA multiple | | |
| Comparable pricing: | Comparable equity price | 35% to 100% (93%) | 45% to 100% (92%) |

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

| <i>\$ in millions, except inputs</i> | Predominant Valuation Techniques/ Significant Unobservable Inputs | Range (Weighted Average or Simple Average/Median) ¹ | |
|---|--|---|--------------------------|
| | | At March 31, 2018 | At December 31, 2017 |
| Liabilities at Fair Value | | | |
| Securities sold under agreements to repurchase (\$ and \$150) | | | |
| Discounted cash flow: | | | 107 to 126 bps (120 bps) |
| | Funding spread | N/A | |
| Other secured financings (\$220 and \$239) | | | |
| Discounted cash flow: | Funding spread | 54 to 93 bps (74 bps) | 39 to 76 bps (57 bps) |
| Option model: | Volatility skew | -1% | -1% |
| | At the money volatility | 10% to 40% (26%) | 10% to 40% (26%) |
| Borrowings (\$3,626 and \$2,984) | | | |
| Option model: | At the money volatility | 5% to 33% (23%) | 5% to 35% (22%) |
| | Volatility skew | -2% to 0% (0%) | -2% to 0% (0%) |
| | Equity - Equity correlation | 45% to 95% (81%) | 39% to 95% (86%) |
| | Equity - Foreign exchange correlation | -43% to 30% (-26%) | -55% to 10% (-18%) |
| Nonrecurring Fair Value Measurement | | | |
| Assets at fair value | | | |
| Loans (\$1,057 and \$924) | | | |
| Corporate loan model: | | 94 to 432 bps (206 bps) | 93 to 563 bps (239 bps) |
| Expected recovery: | Credit spread | | |
| | Asset coverage | 95% to 99% (95%) | 95% to 99% (95%) |

Points of par

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

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

Measured Based on Net Asset Value

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

| <i>\$ in millions</i> | At March 31, 2018 | | At December 31, 2017 | |
|-----------------------|--------------------------|---------------|-----------------------------|------------|
| | Carrying Value | Commitment | Carrying Value | Commitment |
| Private equity | \$ 1,678 | \$ 304 | \$ 1,674 | \$ 308 |
| Real estate | 796 | 181 | 800 | 183 |
| Hedge ¹ | 99 | 4 | 90 | 4 |
| Total | \$ 2,573 | \$ 489 | \$ 2,564 | \$ 495 |

1. Investments in hedge funds may be subject to initial period lock-up or gate provisions, which restrict an investor from withdrawing from the fund during a certain initial period or restrict the redemption amount on any redemption date, respectively.

Amounts in the previous table represent the Firm's carrying value of general and limited partnership interests in fund investments, as well as any related performance fees in the form of carried interest. The carrying amounts are measured

based on the NAV of the fund taking into account the distribution terms applicable to the interest held. This same measurement applies whether investments are accounted for under the equity method or fair value.

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

Nonredeemable Funds by Contractual Maturity

| <i>\$ in millions</i> | Carrying Value at March 31, 2018 | |
|-----------------------|---|---------------|
| | Private Equity | Real Estate |
| Less than 5 years | \$ 430 | \$ 60 |
| 5-10 years | 1,054 | 527 |
| Over 10 years | 194 | 209 |
| Total | \$ 1,678 | \$ 796 |

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.

Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****Earnings Impact of Instruments under the Fair Value Option**

| <i>\$ in millions</i> | Trading Revenues | Interest Income (Expense) | Net Revenues |
|--|------------------|---------------------------|--------------|
| Three Months Ended March 31, 2018 | | | |
| Borrowings | \$ 26 | \$ (102) | \$ (76) |
| Three Months Ended March 31, 2017 | | | |
| Borrowings | \$ (1,625) | \$ (119) | \$ (1,744) |

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

The amounts in the previous table are included within Net revenues and do not reflect any gains or losses on related hedging instruments.

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

| <i>\$ in millions</i> | Three Months Ended March 31, | | | |
|--|------------------------------|--------|------------------|-------|
| | 2018 | | 2017 | |
| | Trading Revenues | OCI | Trading Revenues | OCI |
| Borrowings | \$ (15) | \$ 593 | \$ (4) | \$ 14 |
| Securities sold under agreements to repurchase | | 2 | | (3) |
| Loans and other debt ¹ | 81 | | (3) | |
| Lending commitments ² | 2 | | | |

| <i>\$ in millions</i> | At | |
|---|----------------|-------------------|
| | March 31, 2018 | December 31, 2017 |
| Cumulative pre-tax DVA gain (loss) recognized in AOCI | \$ (1,236) | \$ (1,831) |

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

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

Borrowings Measured at Fair Value on a Recurring Basis

| <i>\$ in millions</i> | At | At |
|--|-------------------|----------------------|
| | March 31, 2018 | December 31, 2017 |
| Business Unit Responsible for Risk Management | | |
| Equity | \$ 25,181 | \$ 25,903 |
| Interest rates | 19,744 | 19,230 |
| Foreign exchange | 622 | 666 |
| Credit | 855 | 815 |
| Commodities | 1,131 | 298 |
| Total | \$ 47,533 | \$ 46,912 |

Excess of Contractual Principal Amount Over Fair Value

| <i>\$ in millions</i> | At | At |
|---|-------------------|----------------------|
| | March 31, 2018 | December 31, 2017 |
| Loans and other debt ¹ | \$ 14,843 | \$ 13,481 |
| Loans 90 or more days past due and/or on nonaccrual status ¹ | 11,834 | 11,253 |
| Borrowings ² | 897 | 71 |

1. The majority of the difference between principal and fair value amounts for loans and other debt relates to distressed debt positions purchased at amounts well below par.

2. Borrowings do not include structured notes where the repayment of the initial principal amount fluctuates based on changes in a reference price or index.

Fair Value Loans on Nonaccrual Status

| <i>\$ in millions</i> | At | At |
|---|-------------------|----------------------|
| | March 31, 2018 | December 31, 2017 |
| Nonaccrual loans | \$ 1,315 | \$ 1,240 |
| Nonaccrual loans 90 or more days past due | \$ 654 | \$ 779 |

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

Measured at Fair Value on a Nonrecurring Basis

Carrying and Fair Values

| <i>\$ in millions</i> | At March 31, 2018 | | |
|--|--------------------------|------------------------------------|-----------------|
| | Level 2 | Fair Value Level 3 ¹ | Total |
| Assets | | | |
| Loans | \$ 1,352 | \$ 1,057 | \$ 2,409 |
| Other assets Premises, equipment and software | | | |
| Total | \$ 1,352 | \$ 1,057 | \$ 2,409 |
| Liabilities | | | |
| Other liabilities and accrued expenses Lending commitments | \$ 173 | \$ 40 | \$ 213 |
| Total | \$ 173 | \$ 40 | \$ 213 |

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

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

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

Gains (Losses) from Fair Value Remeasurements¹

| <i>\$ in millions</i> | Three Months Ended March 31, | |
|---|---------------------------------|-------|
| | 2018 | 2017 |
| Assets | | |
| Loans ² | \$ 8 | \$ 32 |
| Other assets Premises, equipment and software ² | (8) | (5) |
| Total | \$ | \$ 27 |
| Liabilities | | |
| Other liabilities and accrued expenses Lending commitments ² | \$ 6 | \$ 11 |
| Total | \$ 6 | \$ 11 |

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

Financial Instruments Not Measured at Fair Value

| <i>\$ in millions</i> | Carrying Value | At March 31, 2018 | | | Total |
|---|----------------|-------------------|------------|---------|------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial Assets | | | | | |
| Cash and cash equivalents: | | | | | |
| Cash and due from banks | \$ 29,073 | \$ 29,073 | \$ | \$ | \$ 29,073 |
| Interest bearing deposits with banks | 22,980 | 22,980 | | | 22,980 |
| Restricted cash | 35,291 | 35,291 | | | 35,291 |
| Investment securities HTM | 23,892 | 11,327 | 11,270 | 322 | 22,919 |
| Securities purchased under agreements to resell | 80,246 | | 80,175 | 16 | 80,191 |
| Securities borrowed | 135,835 | | 135,781 | | 135,781 |
| Customer and other receivables ¹ | 61,017 | | 57,405 | 3,433 | 60,838 |
| Loans ² | 109,135 | | 25,687 | 83,146 | 108,833 |
| Other assets | 438 | | 438 | | 438 |
| Financial Liabilities | | | | | |
| Deposits | \$ 160,182 | \$ | \$ 160,172 | \$ | \$ 160,172 |
| Securities sold under agreements to repurchase | 50,783 | | 50,763 | 1 | 50,764 |
| Securities loaned | 13,556 | | 13,623 | | 13,623 |
| Other secured financings | 6,852 | | 6,265 | 607 | 6,872 |
| Customer and other payables ¹ | 191,332 | | 191,332 | | 191,332 |
| Borrowings | 147,431 | | 151,664 | 27 | 151,691 |

| <i>\$ in millions</i> | Carrying Value | At December 31, 2017 | | | Total |
|---|----------------|----------------------|------------|---------|------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial Assets | | | | | |
| Cash and cash equivalents: | | | | | |
| Cash and due from banks | \$ 24,816 | \$ 24,816 | \$ | \$ | \$ 24,816 |
| Interest bearing deposits with banks | 21,348 | 21,348 | | | 21,348 |
| Restricted cash | 34,231 | 34,231 | | | 34,231 |
| Investment securities HTM | 23,599 | 11,119 | 11,673 | 289 | 23,081 |
| Securities purchased under agreements to resell | 84,258 | | 78,239 | 5,978 | 84,217 |
| Securities borrowed | 124,010 | | 124,018 | 1 | 124,019 |
| Customer and other receivables ¹ | 51,269 | | 47,159 | 3,984 | 51,143 |
| Loans ² | 104,126 | | 21,290 | 82,928 | 104,218 |
| Other assets | 433 | | 433 | | 433 |
| Financial Liabilities | | | | | |
| Deposits | \$ 159,232 | \$ | \$ 159,232 | \$ | \$ 159,232 |
| Securities sold under agreements to repurchase | 55,624 | | 51,752 | 3,867 | 55,619 |
| Securities loaned | 13,592 | | 13,191 | 401 | 13,592 |
| Other secured financings | 7,408 | | 5,987 | 1,431 | 7,418 |

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| | | | | |
|--|---------|---------|----|---------|
| Customer and other payables ¹ | 188,464 | 188,464 | | 188,464 |
| Borrowings | 145,670 | 151,692 | 30 | 151,722 |

1. Accrued interest and dividend receivables and payables where carrying value approximates fair value have been excluded.
2. Amounts include loans measured at fair value on a nonrecurring basis.

Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****Commitments Held for Investment and Held for Sale**

| <i>\$ in millions</i> | Commitment | Fair Value | | |
|-----------------------|---------------------|---------------|---------------|---------------|
| | Amount ¹ | Level 2 | Level 3 | Total |
| March 31, 2018 | \$ 117,582 | \$ 643 | \$ 185 | \$ 828 |
| December 31, 2017 | 100,151 | 620 | 174 | 794 |

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

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

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Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****4. Derivative Instruments and Hedging Activities****Derivative Fair Values***At March 31, 2018*

| <i>\$ in millions</i> | Assets | | | Total |
|--|-------------------|-----------------|---------------------|-------------------|
| | Bilateral OTC | Cleared OTC | Exchange- Traded | |
| Designated as accounting hedges | | | | |
| Interest rate contracts | \$ 804 | \$ 1 | \$ | \$ 805 |
| Foreign exchange contracts | 43 | 7 | | 50 |
| Total | 847 | 8 | | 855 |
| Not designated as accounting hedges | | | | |
| Interest rate contracts | 175,200 | 1,742 | 522 | 177,464 |
| Credit contracts | 5,352 | 1,981 | | 7,333 |
| Foreign exchange contracts | 52,711 | 764 | 53 | 53,528 |
| Equity contracts | 25,320 | | 24,222 | 49,542 |
| Commodity and other contracts | 10,295 | | 1,572 | 11,867 |
| Total | 268,878 | 4,487 | 26,369 | 299,734 |
| Total gross derivatives | \$ 269,725 | \$ 4,495 | \$ 26,369 | \$ 300,589 |
| Amounts offset | | | | |
| Counterparty netting | (198,282) | (3,424) | (22,787) | (224,493) |
| Cash collateral netting | (42,284) | (664) | | (42,948) |
| Total in Trading assets | \$ 29,159 | \$ 407 | \$ 3,582 | \$ 33,148 |
| Amounts not offset¹ | | | | |
| Financial instruments collateral | (12,646) | | | (12,646) |
| Other cash collateral | (20) | | | (20) |
| Net amounts | \$ 16,493 | \$ 407 | \$ 3,582 | \$ 20,482 |
| Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable | | | | \$ 3,876 |

| <i>\$ in millions</i> | Liabilities | | | Total |
|--|------------------|----------------|---------------------|---------|
| | Bilateral OTC | Cleared OTC | Exchange- Traded | |
| Designated as accounting hedges | | | | |
| Interest rate contracts | \$ 174 | \$ 1 | \$ | \$ 175 |
| Foreign exchange contracts | 107 | 22 | | 129 |
| Total | 281 | 23 | | 304 |
| Not designated as accounting hedges | | | | |
| Interest rate contracts | 159,276 | 1,267 | 443 | 160,986 |

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| | | | | |
|--|-------------------|-----------------|------------------|-------------------|
| Credit contracts | 5,723 | 2,125 | | 7,848 |
| Foreign exchange contracts | 52,493 | 835 | 44 | 53,372 |
| Equity contracts | 26,778 | | 23,748 | 50,526 |
| Commodity and other contracts | 7,583 | | 1,556 | 9,139 |
| Total | 251,853 | 4,227 | 25,791 | 281,871 |
| Total gross derivatives | \$ 252,134 | \$ 4,250 | \$ 25,791 | \$ 282,175 |
| Amounts offset | | | | |
| Counterparty netting | (198,282) | (3,424) | (22,787) | (224,493) |
| Cash collateral netting | (31,280) | (416) | | (31,696) |
| Total in Trading liabilities | \$ 22,572 | \$ 410 | \$ 3,004 | \$ 25,986 |
| Amounts not offset¹ | | | | |
| Financial instruments collateral | (4,966) | | (374) | (5,340) |
| Other cash collateral | (38) | (26) | | (64) |
| Net amounts | \$ 17,568 | \$ 384 | \$ 2,630 | \$ 20,582 |
| Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable | | | | \$ 4,366 |

At December 31, 2017

| \$ in millions | Assets | | | Total |
|--|-------------------|-----------------|------------------|-------------------|
| | Bilateral OTC | Cleared OTC | Exchange-Traded | |
| Designated as accounting hedges | | | | |
| Interest rate contracts | \$ 1,057 | \$ | \$ | \$ 1,057 |
| Foreign exchange contracts | 57 | 6 | | 63 |
| Total | 1,114 | 6 | | 1,120 |
| Not designated as accounting hedges | | | | |
| Interest rate contracts | 177,948 | 1,700 | 234 | 179,882 |
| Credit contracts | 5,740 | 2,282 | | 8,022 |
| Foreign exchange contracts | 52,878 | 798 | 58 | 53,734 |
| Equity contracts | 24,452 | | 20,538 | 44,990 |
| Commodity and other contracts | 8,861 | | 1,802 | 10,663 |
| Total | 269,879 | 4,780 | 22,632 | 297,291 |
| Total gross derivatives | \$ 270,993 | \$ 4,786 | \$ 22,632 | \$ 298,411 |
| Amounts offset | | | | |
| Counterparty netting | (201,051) | (3,856) | (19,861) | (224,768) |
| Cash collateral netting | (42,141) | (689) | | (42,830) |
| Total in Trading assets | \$ 27,801 | \$ 241 | \$ 2,771 | \$ 30,813 |
| Amounts not offset¹ | | | | |
| Financial instruments collateral | (12,363) | | | (12,363) |
| Other cash collateral | (4) | | | (4) |
| Net amounts | \$ 15,434 | \$ 241 | \$ 2,771 | \$ 18,446 |
| Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable | | | | \$ 3,154 |

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

| Designated as accounting hedges | | | | | | | | |
|--|----|-----------|----|---------|----|----------|----|-----------|
| Interest rate contracts | \$ | 67 | \$ | 1 | \$ | | \$ | 68 |
| Foreign exchange contracts | | 72 | | 57 | | | | 129 |
| Total | | 139 | | 58 | | | | 197 |
| Not designated as accounting hedges | | | | | | | | |
| Interest rate contracts | | 161,758 | | 1,178 | | 144 | | 163,080 |
| Credit contracts | | 6,273 | | 2,272 | | | | 8,545 |
| Foreign exchange contracts | | 54,191 | | 925 | | 23 | | 55,139 |
| Equity contracts | | 27,993 | | | | 19,996 | | 47,989 |
| Commodity and other contracts | | 7,117 | | | | 1,772 | | 8,889 |
| Total | | 257,332 | | 4,375 | | 21,935 | | 283,642 |
| Total gross derivatives | \$ | 257,471 | \$ | 4,433 | \$ | 21,935 | \$ | 283,839 |
| Amounts offset | | | | | | | | |
| Counterparty netting | | (201,051) | | (3,856) | | (19,861) | | (224,768) |
| Cash collateral netting | | (31,892) | | (484) | | | | (32,376) |
| Total in Trading liabilities | \$ | 24,528 | \$ | 93 | \$ | 2,074 | \$ | 26,695 |
| Amounts not offset¹ | | | | | | | | |
| Financial instruments collateral | | (5,523) | | | | (412) | | (5,935) |
| Other cash collateral | | (18) | | (14) | | | | (32) |
| Net amounts | \$ | 18,987 | \$ | 79 | \$ | 1,662 | \$ | 20,728 |
| Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable | | | | | | | \$ | 3,751 |

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

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

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

Derivative Notionals*At March 31, 2018*

| <i>\$ in billions</i> | Assets | | | Total |
|--|------------------|-----------------|---------------------|------------------|
| | Bilateral OTC | Cleared OTC | Exchange- Traded | |
| Designated as accounting hedges | | | | |
| Interest rate contracts | \$ 20 | \$ 26 | \$ | \$ 46 |
| Foreign exchange contracts | 5 | | | 5 |
| Total | 25 | 26 | | 51 |
| Not designated as accounting hedges | | | | |
| Interest rate contracts | 4,449 | 7,472 | 3,477 | 15,398 |
| Credit contracts | 165 | 90 | | 255 |
| Foreign exchange contracts | 2,223 | 89 | 8 | 2,320 |
| Equity contracts | 402 | | 383 | 785 |
| Commodity and other contracts | 94 | | 61 | 155 |
| Total | 7,333 | 7,651 | 3,929 | 18,913 |
| Total gross derivatives | \$ 7,358 | \$ 7,677 | \$ 3,929 | \$ 18,964 |

| <i>\$ in billions</i> | Liabilities | | | Total |
|--|------------------|-----------------|---------------------|------------------|
| | Bilateral OTC | Cleared OTC | Exchange- Traded | |
| Designated as accounting hedges | | | | |
| Interest rate contracts | \$ 2 | \$ 133 | \$ | \$ 135 |
| Foreign exchange contracts | 4 | 2 | | 6 |
| Total | 6 | 135 | | 141 |
| Not designated as accounting hedges | | | | |
| Interest rate contracts | 4,614 | 7,074 | 1,181 | 12,869 |
| Credit contracts | 188 | 83 | | 271 |
| Foreign exchange contracts | 2,184 | 98 | 14 | 2,296 |
| Equity contracts | 425 | | 474 | 899 |
| Commodity and other contracts | 74 | | 53 | 127 |
| Total | 7,485 | 7,255 | 1,722 | 16,462 |
| Total gross derivatives | \$ 7,491 | \$ 7,390 | \$ 1,722 | \$ 16,603 |

At December 31, 2017

| <i>\$ in billions</i> | Assets | | | Total |
|--|------------------|-----------------|---------------------|------------------|
| | Bilateral OTC | Cleared OTC | Exchange- Traded | |
| Designated as accounting hedges | | | | |
| Interest rate contracts | \$ 2 | \$ 133 | \$ | \$ 135 |
| Foreign exchange contracts | 4 | 2 | | 6 |
| Total | 6 | 135 | | 141 |
| Not designated as accounting hedges | | | | |
| Interest rate contracts | 4,614 | 7,074 | 1,181 | 12,869 |
| Credit contracts | 188 | 83 | | 271 |
| Foreign exchange contracts | 2,184 | 98 | 14 | 2,296 |
| Equity contracts | 425 | | 474 | 899 |
| Commodity and other contracts | 74 | | 53 | 127 |
| Total | 7,485 | 7,255 | 1,722 | 16,462 |
| Total gross derivatives | \$ 7,491 | \$ 7,390 | \$ 1,722 | \$ 16,603 |

| | Bilateral OTC | Cleared OTC | Exchange- Traded | |
|--|------------------|-----------------|---------------------|------------------|
| Designated as accounting hedges | | | | |
| Interest rate contracts | \$ 20 | \$ 46 | \$ | \$ 66 |
| Foreign exchange contracts | 4 | | | 4 |
| Total | 24 | 46 | | 70 |
| Not designated as accounting hedges | | | | |
| Interest rate contracts | 3,999 | 6,458 | 2,714 | 13,171 |
| Credit contracts | 194 | 100 | | 294 |
| Foreign exchange contracts | 1,960 | 67 | 9 | 2,036 |
| Equity contracts | 397 | | 334 | 731 |
| Commodity and other contracts | 86 | | 72 | 158 |
| Total | 6,636 | 6,625 | 3,129 | 16,390 |
| Total gross derivatives | \$ 6,660 | \$ 6,671 | \$ 3,129 | \$ 16,460 |

| <i>\$ in billions</i> | Liabilities | | | Total |
|--|------------------|-----------------|---------------------|------------------|
| | Bilateral OTC | Cleared OTC | Exchange- Traded | |
| Designated as accounting hedges | | | | |
| Interest rate contracts | \$ 2 | \$ 102 | \$ | \$ 104 |
| Foreign exchange contracts | 4 | 2 | | 6 |
| Total | 6 | 104 | | 110 |
| Not designated as accounting hedges | | | | |
| Interest rate contracts | 4,199 | 6,325 | 1,089 | 11,613 |
| Credit contracts | 226 | 80 | | 306 |
| Foreign exchange contracts | 2,014 | 78 | 51 | 2,143 |
| Equity contracts | 394 | | 405 | 799 |
| Commodity and other contracts | 68 | | 61 | 129 |
| Total | 6,901 | 6,483 | 1,606 | 14,990 |
| Total gross derivatives | \$ 6,907 | \$ 6,587 | \$ 1,606 | \$ 15,100 |

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

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

Gains (Losses) on Accounting Hedges

| <i>\$ in millions</i> | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2018 | 2017 |
| Fair Value Hedges Recognized in Interest Expense | | |
| Interest rate contracts | \$ (1,841) | \$ (805) |
| Borrowings | 1,852 | 717 |
| Net Investment Hedges Foreign exchange contracts | | |
| Recognized in OCI | \$ (148) | \$ (205) |
| Forward points excluded from hedge effectiveness testing Interest income | 7 | \$ (9) |
| Borrowings under Fair Value Hedges | | |

| <i>\$ in millions</i> | At March 31, 2018 |
|--|------------------------------|
| Carrying amount of Borrowings currently or previously hedged | \$ 107,264 |
| Basis adjustments included in carrying amount outstanding hedges | 2,035 |
| Hedge accounting basis adjustments for Borrowings are primarily related to outstanding hedges. | |

Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****Trading Revenues by Product Type**

| <i>\$ in millions</i> | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2018 | 2017 |
| Interest rate contracts | \$ 871 | \$ 594 |
| Foreign exchange contracts | 261 | 235 |
| Equity security and index contracts ¹ | 1,877 | 1,641 |
| Commodity and other contracts | 435 | 189 |
| Credit contracts | 326 | 576 |
| Total | \$ 3,770 | \$ 3,235 |

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

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

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.

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.

Net Derivative Liabilities and Collateral Posted

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|---|-------------------------|----------------------------|
| Net derivative liabilities with credit risk-related contingent features | \$ 17,213 | \$ 20,675 |
| Collateral posted | 15,244 | 16,642 |

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

| <i>\$ in millions</i> | At March 31, 2018 |
|---|-------------------------|
| One-notch downgrade | \$ 618 |
| Two-notch downgrade | 409 |
| Bilateral downgrade agreements included in the amounts above ¹ | \$ 910 |

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

Credit Derivatives and Other Credit Contracts

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

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

Protection Sold and Purchased with CDS

| <i>\$ in millions</i> | At March 31, 2018 | | | |
|---|--------------------|-------------------------|------------------------------|-------------------------|
| | Notional | | Fair Value (Asset)/Liability | |
| | Protection Sold | Protection Purchased | Protection Sold | Protection Purchased |
| Single name | \$ 133,209 | \$ 152,446 | \$ (1,148) | \$ 1,580 |
| Index and basket | 103,531 | 98,822 | (163) | 5 |
| Tranched index and basket | 12,330 | 25,506 | (276) | 517 |
| Total | \$ 249,070 | \$ 276,774 | \$ (1,587) | \$ 2,102 |
| Single name and non-tranched index and basket with identical underlying reference obligations | \$ 233,572 | \$ 250,376 | | |

| At December 31, 2017 | | | |
|----------------------|------------|------------------------------|------------|
| Notional | | Fair Value (Asset)/Liability | |
| Protection | Protection | Protection | Protection |

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| <i>\$ in millions</i> | Sold | Purchased | Sold | Purchased |
|---|------------|------------|------------|-----------|
| Single name | \$ 146,948 | \$ 164,773 | \$ (1,277) | \$ 1,658 |
| Index and basket | 131,073 | 120,348 | (341) | 209 |
| Tranched index and basket | 11,864 | 24,498 | (342) | 616 |
| Total | \$ 289,885 | \$ 309,619 | \$ (1,960) | \$ 2,483 |
| Single name and non-tranched index and basket with identical underlying reference obligations | \$ 274,473 | \$ 281,162 | | |

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

Fair value amounts as shown in the table below are on a gross basis prior to cash collateral or counterparty netting. 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.

Credit Ratings of Reference Obligation and Maturities of Credit Protection Sold

| <i>\$ in millions</i> | At March 31, 2018 | | | | | Fair Value (Asset)/ Liability |
|--|-----------------------------------|------------------|------------------|------------------|-------------------|-------------------------------------|
| | Maximum Potential Payout/Notional | | | | | |
| | Years to Maturity | | | | | |
| | Less than 1 | 1-3 | 3-5 | Over 5 | Total | |
| Single name CDS | | | | | | |
| Investment grade | \$ 33,332 | \$ 35,927 | \$ 17,621 | \$ 10,658 | \$ 97,538 | \$ (1,124) |
| Non-investment grade | 12,994 | 13,871 | 6,813 | 1,993 | 35,671 | (24) |
| Total single name CDS | \$ 46,326 | \$ 49,798 | \$ 24,434 | \$ 12,651 | \$ 133,209 | \$ (1,148) |
| Index and basket CDS | | | | | | |
| Investment grade | \$ 29,448 | \$ 14,049 | \$ 16,003 | \$ 10,902 | \$ 70,402 | \$ (811) |
| Non-investment grade | 5,941 | 6,139 | 17,681 | 15,698 | 45,459 | 372 |
| Total index and basket CDS | \$ 35,389 | \$ 20,188 | \$ 33,684 | \$ 26,600 | \$ 115,861 | \$ (439) |
| Total CDS sold | \$ 81,715 | \$ 69,986 | \$ 58,118 | \$ 39,251 | \$ 249,070 | \$ (1,587) |
| Other credit contracts | | 2 | | 127 | 129 | 20 |
| Total credit derivatives and other credit contracts | \$ 81,715 | \$ 69,988 | \$ 58,118 | \$ 39,378 | \$ 249,199 | \$ (1,567) |

| <i>\$ in millions</i> | At December 31, 2017 | | | | | Fair Value (Asset)/ Liability |
|------------------------|-----------------------------------|-----------|-----------|----------|------------|-------------------------------------|
| | Maximum Potential Payout/Notional | | | | | |
| | Years to Maturity | | | | | |
| | Less than 1 | 1-3 | 3-5 | Over 5 | Total | |
| Single name CDS | | | | | | |
| Investment grade | \$ 39,721 | \$ 42,591 | \$ 18,157 | \$ 8,872 | \$ 109,341 | \$ (1,167) |
| Non-investment grade | 14,213 | 16,293 | 6,193 | 908 | 37,607 | (110) |

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| | | | | | | |
|--|-----------|-----------|-----------|-----------|------------|------------|
| Total single name CDS | \$ 53,934 | \$ 58,884 | \$ 24,350 | \$ 9,780 | \$ 146,948 | \$ (1,277) |
| Index and basket CDS | | | | | | |
| Investment grade | \$ 29,046 | \$ 15,418 | \$ 37,343 | \$ 6,807 | \$ 88,614 | \$ (1,091) |
| Non-investment grade | 5,246 | 7,371 | 32,417 | 9,289 | 54,323 | 408 |
| Total index and basket CDS | \$ 34,292 | \$ 22,789 | \$ 69,760 | \$ 16,096 | \$ 142,937 | \$ (683) |
| Total CDS sold | \$ 88,226 | \$ 81,673 | \$ 94,110 | \$ 25,876 | \$ 289,885 | \$ (1,960) |
| Other credit contracts | 2 | | | 134 | 136 | 16 |
| Total credit derivatives and other credit contracts | \$ 88,228 | \$ 81,673 | \$ 94,110 | \$ 26,010 | \$ 290,021 | \$ (1,944) |

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

| <i>\$ in millions</i> | At March 31, 2018 | | | Fair Value |
|---|--------------------------|------------------------------|-------------------------------|------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | |
| AFS securities | | | | |
| U.S. government and agency securities: | | | | |
| U.S. Treasury securities | \$ 30,032 | \$ | \$ 833 | \$ 29,199 |
| U.S. agency securities ¹ | 22,084 | 32 | 504 | 21,612 |
| Total U.S. government and agency securities | 52,116 | 32 | 1,337 | 50,811 |
| Corporate and other debt: | | | | |
| Agency CMBS | 1,302 | 2 | 59 | 1,245 |
| Non-agency CMBS | 857 | 2 | 17 | 842 |
| Corporate bonds | 1,346 | | 28 | 1,318 |
| CLO | 351 | 1 | | 352 |
| FFELP student loan ABS ² | 2,173 | 15 | 7 | 2,181 |
| Total corporate and other debt | 6,029 | 20 | 111 | 5,938 |
| Total AFS securities | 58,145 | 52 | 1,448 | 56,749 |
| HTM securities | | | | |
| U.S. government and agency securities: | | | | |
| U.S. Treasury securities | 11,817 | | 490 | 11,327 |
| U.S. agency securities ¹ | 11,747 | | 477 | 11,270 |
| Total U.S. government and agency securities | 23,564 | | 967 | 22,597 |
| Corporate and other debt: | | | | |
| Non-agency CMBS | 328 | | 6 | 322 |
| Total HTM securities | 23,892 | | 973 | 22,919 |
| Total investment securities | \$ 82,037 | \$ 52 | \$ 2,421 | \$ 79,668 |
| | | At December 31, 2017 | | |
| <i>\$ in millions</i> | Amortized Cost | Gross Unrealized | Gross Unrealized | Fair Value |

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

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

2. 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.

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

| <i>\$ in millions</i> | Less than 12 Months | | At March 31, 2018 12 Months or Longer | | Total | |
|---|---------------------|-----------------|--|---------------|------------------|-----------------|
| | Fair Value | Gross | Fair Value | Gross | Fair Value | Gross |
| | | Unrealized | | Unrealized | | Unrealized |
| | | Losses | | Losses | | Losses |
| AFS securities | | | | | | |
| U.S. government and agency securities: | | | | | | |
| U.S. Treasury securities | \$ 25,041 | \$ 711 | \$ 3,958 | \$ 122 | \$ 28,999 | \$ 833 |
| U.S. agency securities | 12,634 | 402 | 2,417 | 102 | 15,051 | 504 |
| Total U.S. government and agency securities | 37,675 | 1,113 | 6,375 | 224 | 44,050 | 1,337 |
| Corporate and other debt: | | | | | | |
| Agency CMBS | 910 | 59 | | | 910 | 59 |
| Non-agency CMBS | 309 | 7 | 242 | 10 | 551 | 17 |
| Corporate bonds | 809 | 13 | 383 | 15 | 1,192 | 28 |
| FFELP student loan ABS | 1,006 | 7 | | | 1,006 | 7 |
| Total corporate and other debt | 3,034 | 86 | 625 | 25 | 3,659 | 111 |
| Total AFS securities | 40,709 | 1,199 | 7,000 | 249 | 47,709 | 1,448 |
| HTM securities | | | | | | |
| U.S. government and agency securities: | | | | | | |
| U.S. Treasury securities | 6,585 | 177 | 4,742 | 313 | 11,327 | 490 |
| U.S. agency securities | 4,404 | 119 | 6,866 | 358 | 11,270 | 477 |
| Total U.S. government and agency securities | 10,989 | 296 | 11,608 | 671 | 22,597 | 967 |
| Corporate and other debt: | | | | | | |
| Non-agency CMBS | 220 | 6 | | | 220 | 6 |
| Total HTM securities | 11,209 | 302 | 11,608 | 671 | 22,817 | 973 |
| Total investment securities | \$ 51,918 | \$ 1,501 | \$ 18,608 | \$ 920 | \$ 70,526 | \$ 2,421 |

| <i>\$ in millions</i> | Less than 12 Months | | At December 31, 2017 12 Months or Longer | | Total | |
|------------------------------------|---------------------|------------|---|------------|------------|------------|
| | Fair Value | Gross | Fair Value | Gross | Fair Value | Gross |
| | | Unrealized | | Unrealized | | Unrealized |
| | | Losses | | Losses | | Losses |
| Total investment securities | | | | | | |

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

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

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

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

Investment Securities by Contractual Maturity

| | At March 31, 2018 | | Annualized |
|---|-------------------|------------|------------------|
| | Amortized Cost | Fair Value | Average Yield |
| <i>\$ in millions</i> | | | |
| AFS securities | | | |
| U.S. government and agency securities: | | | |
| U.S. Treasury securities: | | | |
| Due within 1 year | \$ 6,153 | \$ 6,132 | 0.9% |
| After 1 year through 5 years | 19,385 | 18,906 | 1.6% |
| After 5 years through 10 years | 4,494 | 4,161 | 1.4% |
| Total | 30,032 | 29,199 | |
| U.S. agency securities: | | | |
| Due within 1 year | 43 | 42 | 1.1% |
| After 1 year through 5 years | 1,899 | 1,883 | 1.0% |
| After 5 years through 10 years | 1,555 | 1,506 | 1.8% |
| After 10 years | 18,587 | 18,181 | 2.0% |
| Total | 22,084 | 21,612 | |
| Total U.S. government and agency securities | 52,116 | 50,811 | 1.6% |
| Corporate and other debt: | | | |
| Agency CMBS: | | | |
| Due within 1 year | 19 | 19 | 1.3% |
| After 1 year through 5 years | 431 | 430 | 1.3% |
| After 5 years through 10 years | 47 | 47 | 1.2% |
| After 10 years | 805 | 749 | 1.6% |
| Total | 1,302 | 1,245 | |

At March 31, 2018

| <i>\$ in millions</i> | Amortized Cost | Fair Value | Annualized Average Yield |
|---|-------------------|------------------|--------------------------------|
| Non-agency CMBS: | | | |
| After 5 years through 10 years | \$ 36 | \$ 35 | 2.5% |
| After 10 years | 821 | 807 | 1.9% |
| Total | 857 | 842 | |
| Corporate bonds: | | | |
| Due within 1 year | 97 | 97 | 1.6% |
| After 1 year through 5 years | 1,175 | 1,150 | 2.4% |
| After 5 years through 10 years | 74 | 71 | 2.5% |
| Total | 1,346 | 1,318 | |
| CLO: | | | |
| After 5 years through 10 years | 153 | 153 | 1.5% |
| After 10 years | 198 | 199 | 2.4% |
| Total | 351 | 352 | |
| FFELP student loan ABS: | | | |
| After 1 year through 5 years | 48 | 47 | 0.8% |
| After 5 years through 10 years | 390 | 388 | 0.8% |
| After 10 years | 1,735 | 1,746 | 1.1% |
| Total | 2,173 | 2,181 | |
| Total corporate and other debt | 6,029 | 5,938 | 1.6% |
| Total AFS securities | 58,145 | 56,749 | 1.6% |
| HTM securities | | | |
| U.S. government securities: | | | |
| U.S. Treasury securities: | | | |
| Due within 1 year | 2,027 | 2,012 | 1.2% |
| After 1 year through 5 years | 3,952 | 3,871 | 1.8% |
| After 5 years through 10 years | 5,112 | 4,807 | 1.9% |
| After 10 years | 726 | 637 | 2.3% |
| Total | 11,817 | 11,327 | |
| U.S. agency securities: | | | |
| After 5 years through 10 years | 34 | 33 | 1.9% |
| After 10 years | 11,713 | 11,237 | 2.6% |
| Total | 11,747 | 11,270 | |
| Total U.S. government and agency securities | 23,564 | 22,597 | 2.2% |
| Corporate and other debt: | | | |
| Non-agency CMBS: | | | |
| After 1 year through 5 years | 92 | 92 | 3.6% |
| After 5 years through 10 years | 217 | 212 | 3.9% |
| After 10 years | 19 | 18 | 4.1% |
| Total corporate and other debt | 328 | 322 | 3.8% |
| Total HTM securities | 23,892 | 22,919 | 2.2% |
| Total investment securities | \$ 82,037 | \$ 79,668 | 1.8% |

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

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

Offsetting of Certain Collateralized Transactions

| | At March 31, 2018 | | | | |
|---|--------------------------|-------------------|-----------------------------|----------------------------|----------------|
| | Gross Amounts | Amounts Offset | Net Amounts Presented | Not Offset ¹ | Net Amounts |
| <i>\$ in millions</i> | | | | | |
| Assets | | | | | |
| Securities purchased under agreements to resell | \$ 185,498 | \$ (105,252) | \$ 80,246 | \$ (74,843) | \$ 5,403 |
| Securities borrowed | 149,347 | (13,512) | 135,835 | (132,271) | 3,564 |
| Liabilities | | | | | |
| Securities sold under agreements to repurchase | \$ 156,827 | \$ (105,252) | \$ 51,575 | \$ (45,207) | \$ 6,368 |
| Securities loaned | 27,068 | (13,512) | 13,556 | (13,336) | 220 |
| Net amounts for which master netting agreements are not in place or may not be legally enforceable | | | | | |
| Securities purchased under agreements to resell | | | | | \$ 5,212 |
| Securities borrowed | | | | | 669 |
| Securities sold under agreements to repurchase | | | | | 5,118 |
| Securities loaned | | | | | 194 |

| | At December 31, 2017 | | | | |
|---|-----------------------------|-------------------|-----------------------------|----------------------------|----------------|
| | Gross Amounts | Amounts Offset | Net Amounts Presented | Not Offset ¹ | Net Amounts |
| <i>\$ in millions</i> | | | | | |
| Assets | | | | | |
| Securities purchased under agreements to resell | \$ 199,044 | \$ (114,786) | \$ 84,258 | \$ (78,009) | \$ 6,249 |
| Securities borrowed | 133,431 | (9,421) | 124,010 | (119,358) | 4,652 |

Liabilities

| | | | | | |
|---|------------|--------------|-----------|-------------|----------|
| Securities sold under agreements to repurchase | \$ 171,210 | \$ (114,786) | \$ 56,424 | \$ (48,067) | \$ 8,357 |
| Securities loaned | 23,014 | (9,422) | 13,592 | (13,271) | 321 |
| Net amounts for which master netting agreements are not in place or may not be legally enforceable | | | | | |
| Securities purchased under agreements to resell | | | | | \$ 5,687 |
| Securities borrowed | | | | | 572 |
| Securities sold under agreements to repurchase | | | | | 6,945 |
| Securities loaned | | | | | 307 |

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

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

Maturities and Collateral Pledged**Gross Secured Financing Balances by Remaining Contractual Maturity**

| | At March 31, 2018 | | | | |
|--|-----------------------|----------------------|------------------|------------------|-------------------|
| | Overnight and Open | Less than 30 Days | 30-90 Days | Over 90 Days | Total |
| <i>\$ in millions</i> | | | | | |
| Securities sold under agreements to repurchase | \$ 39,192 | \$ 49,822 | \$ 27,926 | \$ 39,887 | \$ 156,827 |
| Securities loaned | 16,869 | 603 | 2,045 | 7,551 | 27,068 |
| Total included in the offsetting disclosure | \$ 56,061 | \$ 50,425 | \$ 29,971 | \$ 47,438 | \$ 183,895 |
| Trading liabilities – Obligation to return securities received as collateral | 18,136 | | 610 | | 18,746 |
| Total | \$ 74,197 | \$ 50,425 | \$ 30,581 | \$ 47,438 | \$ 202,641 |

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

Gross Secured Financing Balances by Class of Collateral Pledged

| | At March 31, 2018 | At December 31, 2017 |
|---|-------------------------|----------------------------|
| <i>\$ in millions</i> | | |
| Securities sold under agreements to repurchase | | |
| U.S. government and agency securities | \$ 37,361 | \$ 43,346 |
| State and municipal securities | 1,643 | 2,451 |
| Other sovereign government obligations | 78,844 | 87,141 |
| ABS | 2,204 | 1,130 |
| Corporate and other debt | 10,063 | 7,737 |
| Corporate equities | 25,893 | 28,497 |
| Other | 819 | 908 |
| Total | \$ 156,827 | \$ 171,210 |
| Securities loaned | | |
| U.S. government and agency securities | \$ 6 | \$ 81 |
| Other sovereign government obligations | 14,077 | 9,489 |
| Corporate and other debt | 28 | 14 |
| Corporate equities | 12,770 | 13,174 |
| Other | 187 | 256 |
| Total | \$ 27,068 | \$ 23,014 |
| Total included in the offsetting disclosure | \$ 183,895 | \$ 194,224 |
| Trading liabilities Obligation to return securities received as collateral | | |
| Corporate equities | \$ 18,746 | \$ 22,555 |
| Total | \$ 202,641 | \$ 216,779 |

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

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

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

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

| | At March 31, 2018 | At December 31, 2017 |
|--|-------------------------|----------------------------|
| <i>\$ in millions</i> | | |
| Trading assets | \$ 34,590 | \$ 31,324 |
| Loans (gross of allowance for loan losses) | 342 | 228 |
| Total | \$ 34,932 | \$ 31,552 |

Collateral Received

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

Fair Value of Collateral Received with Right to Sell or Repledge

| | At March 31, 2018 | At December 31, 2017 |
|--|-------------------------|----------------------------|
| <i>\$ in millions</i> | | |
| Collateral received with right to sell or repledge | \$ 597,886 | \$ 599,244 |
| Collateral that was sold or repledged | 471,985 | 475,113 |
| Customer Margin Lending and Other | | |

| | At March 31, 2018 | At December 31, 2017 |
|--|-------------------------|----------------------------|
| <i>\$ in millions</i> | | |
| Net customer receivables representing margin loans | \$ 34,382 | \$ 32,112 |

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

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

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

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

Restricted Cash and Segregated Securities

| | At March 31, 2018 | At December 31, 2017 |
|------------------------------------|-------------------------|----------------------------|
| <i>\$ in millions</i> | | |
| Restricted cash | \$ 35,291 | \$ 34,231 |
| Segregated securities ¹ | 18,917 | 20,549 |
| Total | \$ 54,208 | \$ 54,780 |

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

7. Loans, Lending Commitments and Allowance for Credit Losses

Loans

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

Loans by Type

At March 31, 2018

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| <i>\$ in millions</i> | Loans Held for Investment | Loans Held for Sale | Total Loans |
|-------------------------------|------------------------------|------------------------|-------------------|
| Corporate loans | \$ 31,903 | \$ 12,000 | \$ 43,903 |
| Consumer loans | 26,877 | | 26,877 |
| Residential real estate loans | 26,566 | 33 | 26,599 |
| Wholesale real estate loans | 10,021 | 1,978 | 11,999 |
| Total loans, gross | 95,367 | 14,011 | 109,378 |
| Allowance for loan losses | (243) | | (243) |
| Total loans, net | \$ 95,124 | \$ 14,011 | \$ 109,135 |

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

| <i>\$ in millions</i> | At December 31, 2017 | | |
|-------------------------------|------------------------------|------------------------|-------------------|
| | Loans Held for Investment | Loans Held for Sale | Total Loans |
| Corporate loans | \$ 29,754 | \$ 9,456 | \$ 39,210 |
| Consumer loans | 26,808 | | 26,808 |
| Residential real estate loans | 26,635 | 35 | 26,670 |
| Wholesale real estate loans | 9,980 | 1,682 | 11,662 |
| Total loans, gross | 93,177 | 11,173 | 104,350 |
| Allowance for loan losses | (224) | | (224) |
| Total loans, net | \$ 92,953 | \$ 11,173 | \$ 104,126 |

Loans by Interest Rate Type

| <i>\$ in millions</i> | At | |
|-------------------------|-------------------|----------------------|
| | March 31, 2018 | December 31, 2017 |
| Fixed | \$ 14,252 | \$ 13,339 |
| Floating or adjustable | 94,883 | 90,787 |
| Total loans, net | \$ 109,135 | \$ 104,126 |

Loans to Non-U.S. Borrowers

| <i>\$ in millions</i> | At | |
|-----------------------|-------------------|----------------------|
| | March 31, 2018 | December 31, 2017 |
| Loans, net | \$ 16,110 | \$ 9,977 |
| Credit Quality | | |

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

Loans Held for Investment before Allowance by Credit Quality

| <i>\$ in millions</i> | At March 31, 2018 | | |
|-----------------------|-------------------|----------|-------|
| | Corporate | Consumer | Total |

| | | | Residential Real Estate | Wholesale Real Estate | |
|-----------------|------------------|------------------|----------------------------|--------------------------|------------------|
| Pass | \$ 31,327 | \$ 26,872 | \$ 26,492 | \$ 9,126 | \$ 93,817 |
| Special mention | 162 | 5 | | 460 | 627 |
| Substandard | 405 | | 74 | 435 | 914 |
| Doubtful | 9 | | | | 9 |
| Loss | | | | | |
| Total | \$ 31,903 | \$ 26,877 | \$ 26,566 | \$ 10,021 | \$ 95,367 |

At December 31, 2017

| | | | Residential Real Estate | Wholesale Real Estate | Total |
|-----------------------|------------------|------------------|----------------------------|--------------------------|------------------|
| <i>\$ in millions</i> | Corporate | Consumer | Real Estate | Real Estate | Total |
| Pass | \$ 29,166 | \$ 26,802 | \$ 26,562 | \$ 9,480 | \$ 92,010 |
| Special mention | 188 | 6 | | 200 | 394 |
| Substandard | 393 | | 73 | 300 | 766 |
| Doubtful | 7 | | | | 7 |
| Loss | | | | | |
| Total | \$ 29,754 | \$ 26,808 | \$ 26,635 | \$ 9,980 | \$ 93,177 |

The following loans and lending commitments have been evaluated for a specific allowance. All remaining loans and lending commitments are assessed under the inherent allowance methodology.

Impaired Loans and Lending Commitments before Allowance

| | | At March 31, 2018 | | Total |
|--------------------------------|-----------|----------------------------|--|--------|
| <i>\$ in millions</i> | Corporate | Residential Real Estate | | |
| Loans | | | | |
| With allowance | \$ 15 | \$ | | \$ 15 |
| Without allowance ¹ | 69 | 49 | | 118 |
| UPB | 95 | 51 | | 146 |
| Lending Commitments | | | | |
| Without allowance ¹ | \$ 226 | \$ | | \$ 226 |

| | | At December 31, 2017 | | Total |
|--------------------------------|-----------|----------------------------|--|--------|
| <i>\$ in millions</i> | Corporate | Residential Real Estate | | |
| Loans | | | | |
| With allowance | \$ 16 | \$ | | \$ 16 |
| Without allowance ¹ | 118 | 45 | | 163 |
| UPB | 146 | 46 | | 192 |
| Lending Commitments | | | | |
| Without allowance ¹ | \$ 199 | \$ | | \$ 199 |

1.

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

Impaired Loans and Allowance by Region

| <i>\$ in millions</i> | At March 31, 2018 | | | |
|---------------------------|-------------------|-------|------|--------|
| | Americas | EMEA | Asia | Total |
| Impaired loans | \$ 129 | \$ | \$ 4 | \$ 133 |
| Allowance for loan losses | 199 | \$ 42 | \$ 2 | \$ 243 |

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

Troubled Debt Restructurings

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|---|-------------------------|----------------------------|
| Loans | \$ 52 | \$ 51 |
| Lending commitments | 25 | 28 |
| Allowance for loan losses and lending commitments | 6 | 10 |

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

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

| <i>\$ in millions</i> | Residential | | | | Total |
|-----------------------|---------------|-------------|--------------|-----------------------|---------------|
| | Corporate | Consumer | Real Estate | Wholesale Real Estate | |
| December 31, 2017 | \$ 126 | \$ 4 | \$ 24 | \$ 70 | \$ 224 |
| Provision (release) | 6 | | (1) | 14 | 19 |
| Other | (1) | | | 1 | |
| March 31, 2018 | \$ 131 | \$ 4 | \$ 23 | \$ 85 | \$ 243 |
| Inherent | \$ 126 | \$ 4 | \$ 23 | \$ 85 | \$ 238 |
| Specific | 5 | | | | 5 |

| <i>\$ in millions</i> | Residential | | | | Total |
|-----------------------|-------------|----------|-------------|-----------------------|--------|
| | Corporate | Consumer | Real Estate | Wholesale Real Estate | |
| December 31, 2016 | \$ 195 | \$ 4 | \$ 20 | \$ 55 | \$ 274 |
| Recoveries | 1 | | | | 1 |
| Provision (release) | 13 | | | 9 | 22 |
| March 31, 2017 | \$ 209 | \$ 4 | \$ 20 | \$ 64 | \$ 297 |
| Inherent | \$ 142 | \$ 4 | \$ 20 | \$ 64 | \$ 230 |
| Specific | 67 | | | | 67 |

Allowance for Lending Commitments Rollforward

| <i>\$ in millions</i> | Residential | | | | Total |
|-----------------------|-------------|----------|-------------|-----------------------|--------|
| | Corporate | Consumer | Real Estate | Wholesale Real Estate | |
| December 31, 2017 | \$ 194 | \$ 1 | \$ | \$ 3 | \$ 198 |
| Provision (release) | 7 | | | | 7 |
| Other | | | | | |
| March 31, 2018 | \$ 201 | \$ 1 | \$ | \$ 3 | \$ 205 |
| Inherent | \$ 200 | \$ 1 | \$ | \$ 3 | \$ 204 |
| Specific | 1 | | | | 1 |

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

| | | | | Real Estate | | |
|---------------------|----|-----|----|----------------|----|---|
| December 31, 2016 | \$ | 185 | \$ | 1 | \$ | 4 |
| Provision (release) | | 3 | | | | 3 |
| March 31, 2017 | \$ | 188 | \$ | 1 | \$ | 4 |
| Inherent | \$ | 186 | \$ | 1 | \$ | 4 |
| Specific | | 2 | | | | 2 |

Employee Loans

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|--------------------------------|----------------------|----------------------------|
| Balance | \$ 3,687 | \$ 4,185 |
| Allowance for loan losses | (75) | (77) |
| Balance, net | \$ 3,612 | \$ 4,108 |
| Repayment term range, in years | 1 to 20 | 1 to 20 |

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

8. Equity Method Investments

Overview

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

Equity Method Investment Balances

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|-----------------------|----------------------|-------------------------|
| Investments | \$ 2,662 | \$ 2,623 |

| <i>\$ in millions</i> | Three Months Ended March 31, 2018 | Three Months Ended March 31, 2017 |
|-----------------------|--------------------------------------|--------------------------------------|
| Income (loss) | \$ 50 | \$ 9 |

Japanese Securities Joint Venture

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

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| <i>\$ in millions</i> | Three Months Ended March 31, | |
|---------------------------------|------------------------------|-------|
| | 2018 | 2017 |
| Income from investment in MUMSS | \$ 56 | \$ 48 |

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

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|---|------------------------------|---------------------------------|
| Savings and demand deposits | \$ 138,358 | \$ 144,487 |
| Time deposits | 22,066 | 14,949 |
| Total | \$ 160,424 | \$ 159,436 |
| Deposits subject to FDIC insurance | \$ 129,968 | \$ 127,017 |
| Time deposits that equal or exceed the FDIC insurance limit | \$ 10 | \$ 38 |

Time Deposit Maturities

| <i>\$ in millions</i> | At March 31, 2018 |
|-----------------------|------------------------------|
| 2018 | \$ 13,164 |
| 2019 | 4,803 |
| 2020 | 2,257 |
| 2021 | 747 |
| 2022 | 418 |
| Thereafter | 677 |

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

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|--|----------------------------------|-------------------------------------|
| Original maturities of one year or less | \$ 1,256 | \$ 1,519 |
| Original maturities greater than one year | | |
| Senior | \$ 183,712 | \$ 180,835 |
| Subordinated | 9,996 | 10,228 |
| Total | \$ 193,708 | \$ 191,063 |

| | | |
|---|-------------------|-------------------|
| Total borrowings | \$ 194,964 | \$ 192,582 |
| Weighted average stated maturity, in years ¹ | 6.6 | 6.6 |

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

Other Secured Financings

Other secured financings include the liabilities related to pledged commodities, certain ELNs, 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 and other secured borrowings. These liabilities are generally payable from the cash flows of the related assets accounted for as Trading assets. See Note 12 for further information on other secured financings related to VIEs and securitization activities.

Other Secured Financings by Original Maturity and Type

| <i>\$ in millions</i> | At | At |
|---------------------------|-------------------|----------------------|
| | March 31, 2018 | December 31, 2017 |
| Original maturities: | | |
| Greater than one year | \$ 8,159 | \$ 8,685 |
| One year or less | 1,406 | 2,034 |
| Failed sales ¹ | 710 | 552 |
| Total | \$ 10,275 | \$ 11,271 |

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.

| <i>\$ in millions</i> | Years to Maturity at March 31, 2018 | | | | |
|---|-------------------------------------|-----------|-----------|----------|------------|
| | Less than 1 | 1-3 | 3-5 | Over 5 | Total |
| Lending: | | | | | |
| Corporate | \$ 14,447 | \$ 43,086 | \$ 46,618 | \$ 7,454 | \$ 111,605 |
| Consumer | 6,598 | | 8 | 3 | 6,609 |
| Residential real estate | 5 | 64 | 33 | 259 | 361 |
| Wholesale real estate | 183 | 833 | 25 | | 1,041 |
| Forward-starting secured financing receivables | 85,399 | | | 1,177 | 86,576 |

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| | | | | | |
|---|-------------------|------------------|------------------|-----------------|-------------------|
| Underwriting | 344 | | | | 344 |
| Investment activities | 527 | 96 | 62 | 230 | 915 |
| Letters of credit and other financial guarantees | 195 | | 1 | 41 | 237 |
| Total | \$ 107,698 | \$ 44,079 | \$ 46,747 | \$ 9,164 | \$ 207,688 |
| Corporate lending commitments participated to third parties | | | | | \$ 6,877 |
| Forward-starting secured financing receivables settled within three business days | | | | | \$ 72,754 |

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

Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****Guarantees****Obligations under Guarantee Arrangements at March 31, 2018**

| <i>\$ in millions</i> | Maximum Potential Payout/Notional Years to Maturity | | | | Total |
|---|--|-----------|-----------|-----------|------------|
| | Less than 1 | 1-3 | 3-5 | Over 5 | |
| Credit derivatives | \$ 81,715 | \$ 69,986 | \$ 58,118 | \$ 39,251 | \$ 249,070 |
| Other credit contracts | | 2 | | 127 | 129 |
| Non-credit derivatives | 1,903,988 | 1,196,331 | 379,171 | 639,749 | 4,119,239 |
| Standby letters of credit and other financial guarantees issued ¹ | 806 | 1,114 | 1,272 | 4,903 | 8,095 |
| Market value guarantees | 40 | 62 | 58 | | 160 |
| Liquidity facilities | 3,367 | | | | 3,367 |
| Whole loan sales guarantees | | 1 | 1 | 23,223 | 23,225 |
| Securitization representations and warranties | | | | 60,861 | 60,861 |
| General partner guarantees | 33 | 52 | 324 | 27 | 436 |

| <i>\$ in millions</i> | Carrying Amount (Asset)/ Liability | Collateral/ Recourse |
|--|---|-------------------------|
| Credit derivatives ² | \$ (1,587) | \$ |
| Other credit contracts | 20 | |
| Non-credit derivatives ² | 45,314 | |
| Standby letters of credit and other financial guarantees issued ¹ | (182) | 6,588 |
| Market value guarantees | | |
| Liquidity facilities | (5) | 5,475 |
| Whole loan sales guarantees | 8 | |
| Securitization representations and warranties | 91 | |
| General partner guarantees | 59 | |

1. These amounts include certain issued standby letters of credit participated to third parties, totaling \$0.7 billion of notional and collateral/recourse, due to the nature of the Firm's obligations under these arrangements.

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

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

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

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

Other Guarantees and Indemnities

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

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

Finance Subsidiary

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

Contingencies

Legal. In addition to the matters described below, in the normal course of business, the Firm has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or

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Notes to Consolidated Financial Statements

(Unaudited)

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 will continue to be the subject of elevated claims for damages and other relief and, while the Firm has identified below any individual proceedings where the Firm believes a material loss to be reasonably possible and reasonably estimable, there can be no assurance that material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be probable or possible and reasonably estimable losses.

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

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

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

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

On July 15, 2010, China Development Industrial Bank (CDIB) filed a complaint against the Firm, styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated et al.*, which is pending in the Supreme Court of the State of New York, New York County (Supreme Court of NY). The complaint relates to a \$275 million CDS referencing the super senior portion of the STACK 2006-1 CDO. The complaint asserts claims for common law fraud, fraudulent inducement and fraudulent concealment and alleges that the Firm misrepresented the risks of the STACK 2006-1 CDO to CDIB, and that the Firm knew that the assets backing the CDO were of poor quality when it entered into the CDS with CDIB. The complaint seeks compensatory damages related to the approximately \$228 million that CDIB alleges it has already lost under the CDS, rescission of CDIB's obligation to pay an additional \$12 million,

punitive damages, equitable relief, fees and costs. On February 28, 2011, the court denied the Firm's motion to dismiss the complaint. 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 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 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 was approximately \$634 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. On June 20, 2017 the Appellate Division affirmed the lower court's June 10, 2014 order. On October 3, 2017, the Appellate Division denied the Firm's motion for leave to appeal to the New York Court of Appeals. At March 25, 2018, the current unpaid balance of the mortgage pass-through certificates at issue in this action was approximately \$211 million, and the certificates had incurred

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actual losses of approximately \$89 million. Based on currently available information, the Firm believes it could incur a loss in this action up to the difference between the \$211 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, 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 for Morgan Stanley Mortgage Loan Trust 2007-12, filed a complaint against the Firm styled *Wilmington Trust Company v. Morgan Stanley Mortgage Capital Holdings LLC et al.*, 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, interest and costs. 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. On July 11, 2017, the Appellate Division affirmed in part and reversed in part the trial court's order that granted in part the Firm's motion to dismiss. On September 26, 2017, the Appellate Division denied plaintiff's motion for leave to appeal to the New York Court of Appeals. 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 September 19, 2014, Financial Guaranty Insurance Company (FGIC) filed a complaint against the Firm in the Supreme Court of NY, styled *Financial Guaranty Insurance Company v. Morgan Stanley ABS Capital I Inc. et al.* relating to a securitization issued by Basket of Aggregated Residential NIMS 2007-1 Ltd. The complaint asserts claims for breach of contract and alleges, among other things, that the net interest margin securities (NIMS) in the trust breached various representations and warranties. FGIC issued a financial guaranty policy with respect to certain notes that had an original balance of approximately \$475 million. The complaint seeks, among other relief, specific performance of the NIMS breach remedy procedures in the transaction documents, unspecified damages, reimbursement of certain payments made pursuant to the transaction documents, attorneys' fees and interest. On

November 24, 2014, the Firm filed a motion to dismiss the complaint, which the court denied on January 19, 2017. On February 24, 2017, the Firm filed a notice of appeal of the denial of its motion to dismiss the complaint and perfected its appeal on November 22, 2017. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately \$126 million, the unpaid balance of these notes, plus pre- and post-judgment interest, fees and costs, as well as claim payments that FGIC has made and will make in the future.

On September 23, 2014, FGIC filed a complaint against the Firm in the Supreme Court of NY styled *Financial Guaranty Insurance Company v. Morgan Stanley ABS Capital I Inc. et al.* relating to the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4. The complaint asserts claims for breach of contract and fraudulent inducement and alleges, among other things, that the loans in the trust breached various representations and warranties and defendants made untrue statements and material omissions to induce FGIC to issue a financial guaranty policy on certain classes of certificates that had an original balance of approximately \$876 million. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, compensatory, consequential and punitive damages, attorneys' fees and interest. On January 23, 2017, the court denied the Firm's motion to dismiss the complaint. On February 24, 2017, the Firm filed a notice of appeal of the court's order and perfected its appeal on November 22, 2017. Based on currently available information, the Firm believes

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that it could incur a loss in this action of up to approximately \$277 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands from a certificate holder and FGIC that the Firm did not repurchase, plus pre- and post-judgment interest, fees and costs, as well as claim payments that FGIC has made and will make in the future. In addition, plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On January 23, 2015, Deutsche Bank National Trust Company, in its capacity as trustee, filed a complaint against the Firm styled *Deutsche Bank National Trust Company solely in its capacity as Trustee of the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4 v. Morgan Stanley Mortgage Capital Holdings LLC as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc., and Morgan Stanley ABS Capital I Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately \$1.05 billion, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, compensatory, consequential, rescissory, equitable and punitive damages, attorneys' fees, costs and other related expenses, and interest. On December 11, 2015, the court granted in part and denied in part the Firm's motion to dismiss the complaint. On February 11, 2016, plaintiff filed a notice of appeal of that order, and the appeal was fully briefed on August 19, 2016. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately \$277 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands from a certificate holder and a monoline insurer that the Firm did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

In matters styled *Case number 15/3637* and *Case number 15/4353*, the Dutch Tax Authority (Dutch Authority) is challenging, in the District Court in Amsterdam, the prior set-off by the Firm of approximately 124 million (approximately \$152 million) plus accrued interest of withholding tax credits against the Firm's corporation tax liabilities for the tax years 2007 to 2013. The Dutch Authority alleges that the Firm was not entitled to receive the withholding tax credits on the basis, inter alia, that a Firm subsidiary did not hold legal title to certain securities subject to withholding tax on the relevant dates. The Dutch Authority has also alleged that the Firm failed to provide certain information to the Dutch Authority and keep adequate books

and records. A hearing took place in this matter on September 19, 2017. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately 124 million (approximately \$152 million) plus accrued interest. On April 26, 2018, the District Court in Amsterdam issued a decision in matters styled *Case number 15/3637* and *Case number 15/4353* dismissing the Dutch Authority's claims. The Dutch Authority has until June 7, 2018 to file any appeal.

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

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

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

| <i>\$ in millions</i> | At March 31, 2018 | | At December 31, 2017 | |
|-----------------------|--------------------------|-----------------|-----------------------------|-----------------|
| | VIE Assets | VIE Liabilities | VIE Assets | VIE Liabilities |
| OSF | \$ 361 | \$ 1 | \$ 378 | \$ 3 |
| MABS ¹ | 234 | 197 | 249 | 210 |
| Other ² | 2,718 | 1,131 | 1,174 | 250 |
| Total | \$ 3,313 | \$ 1,329 | \$ 1,801 | \$ 463 |

OSF Other structured financings

1. Amounts include transactions backed by residential mortgage loans, commercial mortgage loans and other types of assets, including consumer or commercial assets. The value of assets is determined based on the fair value of the liabilities and the interests owned by the Firm in such VIEs as the fair values for the liabilities and interests owned are more observable.
2. Other primarily includes investment funds, certain operating entities, CLOs and structured transactions. At March 31, 2018, Other includes the consolidation of a fund managed by Mesa West Capital, LLC, which was acquired in the current quarter.

Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****Assets and Liabilities by Balance Sheet Caption**

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|--|------------------------------|---------------------------------|
| Assets | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | \$ 103 | \$ 69 |
| Restricted cash | 223 | 222 |
| Trading assets at fair value | 2,345 | 833 |
| Customer and other receivables | 21 | 19 |
| Goodwill | 18 | 18 |
| Intangible assets | 149 | 155 |
| Other assets | 454 | 485 |
| Total | \$ 3,313 | \$ 1,801 |
| Liabilities | | |
| Other secured financings | \$ 1,305 | \$ 438 |
| Other liabilities and accrued expenses | 24 | 25 |
| Total | \$ 1,329 | \$ 463 |

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

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

Select Information Related to Consolidated VIEs

| <i>\$ in millions</i> | At March 31, 2018 | At December 31, 2017 |
|------------------------------|------------------------------|---------------------------------|
| Noncontrolling interests | \$ 494 | \$ 189 |
| Non-consolidated VIEs | | |

The following tables include non-consolidated VIEs in which the Firm has determined that its maximum exposure to loss is greater than specific thresholds or meets certain other criteria and exclude exposure to loss from liabilities due to immateriality. 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.

Non-consolidated VIEs

| | At March 31, 2018 | | | | |
|---|-------------------|-----------|----------|----------|-----------|
| <i>\$ in millions</i> | MABS | CDO | MTOB | OSF | Other |
| VIE assets (UPB) | \$ 76,854 | \$ 14,445 | \$ 5,439 | \$ 3,307 | \$ 19,959 |
| Maximum exposure to loss | | | | | |
| Debt and equity interests | \$ 9,075 | \$ 2,163 | \$ 81 | \$ 1,589 | \$ 4,654 |
| Derivative and other contracts | | | 3,367 | | 2,317 |
| Commitments, guarantees and other | 882 | 902 | | 161 | 327 |
| Total | \$ 9,957 | \$ 3,065 | \$ 3,448 | \$ 1,750 | \$ 7,298 |
| Carrying value of exposure to loss | | | | | |
| Assets | | | | | |
| Debt and equity interests | \$ 9,075 | \$ 2,163 | \$ 51 | \$ 1,185 | \$ 4,654 |
| Derivative and other contracts | | | 5 | | 111 |
| Total | \$ 9,075 | \$ 2,163 | \$ 56 | \$ 1,185 | \$ 4,765 |

| | At December 31, 2017 | | | | |
|---|----------------------|----------|----------|----------|-----------|
| <i>\$ in millions</i> | MABS | CDO | MTOB | OSF | Other |
| VIE assets (UPB) | \$ 89,288 | \$ 9,807 | \$ 5,306 | \$ 3,322 | \$ 31,934 |
| Maximum exposure to loss | | | | | |
| Debt and equity interests | \$ 10,657 | \$ 1,384 | \$ 80 | \$ 1,628 | \$ 4,730 |
| Derivative and other contracts | | | 3,333 | | 1,686 |
| Commitments, guarantees and other | 1,214 | 668 | | 164 | 433 |
| Total | \$ 11,871 | \$ 2,052 | \$ 3,413 | \$ 1,792 | \$ 6,849 |
| Carrying value of exposure to loss | | | | | |
| Assets | | | | | |
| Debt and equity interests | \$ 10,657 | \$ 1,384 | \$ 43 | \$ 1,202 | \$ 4,730 |
| Derivative and other contracts | | | 5 | | 184 |
| Total | \$ 10,657 | \$ 1,384 | \$ 48 | \$ 1,202 | \$ 4,914 |

MTOB Municipal tender option bonds

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

The Firm's maximum exposure to loss presented in the previous table often differs from the carrying value of the variable interests held by the Firm. The maximum exposure to loss presented in the previous table is dependent on the nature of the Firm's variable interest in the VIE and is limited to the notional amounts of certain liquidity facilities, 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 VIE. Liabilities issued by VIEs generally are non-recourse to the Firm. Where notional amounts are utilized in quantifying the 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 presented in the previous table 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 presented in the previous table 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.

Non-consolidated VIEs Mortgage- and Asset-Backed Securitization Assets

| <i>\$ in millions</i> | At March 31, 2018 | | At December 31, 2017 | |
|---|--------------------------|---------------------------------|-----------------------------|---------------------------------|
| | UPB | Debt and Equity Interests | UPB | Debt and Equity Interests |
| Residential mortgages | \$ 13,564 | \$ 782 | \$ 15,636 | \$ 1,272 |
| Commercial mortgages | 35,886 | 1,934 | 46,464 | 2,331 |
| U.S. agency collateralized mortgage obligations | 14,405 | 3,150 | 16,223 | 3,439 |
| Other consumer or commercial loans | 12,999 | 3,209 | 10,965 | 3,615 |
| Total | \$ 76,854 | \$ 9,075 | \$ 89,288 | \$ 10,657 |

Securitization transactions generally involve VIEs. Primarily as a result of its secondary market-making activities, the Firm owned additional VIE assets mainly issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds.

Additional VIE Assets Owned

| <i>\$ in millions</i> | At March 31, | At December 31, |
|-----------------------|---------------------|------------------------|
| | 2018 | 2017 |
| VIE assets | \$ 12,314 | \$ 11,318 |

These assets were either retained in connection with transfers of assets by the Firm, acquired in connection with secondary market-making activities, held as AFS securities in its Investment securities portfolio (see Note 5), or held

as investments in funds. At March 31, 2018 and December 31, 2017, 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 SPEs owned by the Firm, with the highest risk 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.

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

Transfers of Assets with Continuing Involvement

| | At March 31, 2018 | | | |
|---|-------------------|-----------|--------------------|-------------------------------|
| <i>\$ in millions</i> | RML | CML | U.S. Agency CMO | CLN and Other ¹ |
| SPE assets (UPB) ² | \$ 14,978 | \$ 59,607 | \$ 14,751 | \$ 16,823 |
| Retained interests | | | | |
| Investment grade | \$ | \$ 324 | \$ 825 | \$ 5 |
| Non-investment grade (fair value) | 1 | 107 | | 308 |
| Total | \$ 1 | \$ 431 | \$ 825 | \$ 313 |
| Interests purchased in the secondary market (fair value) | | | | |
| Investment grade | \$ | \$ 112 | \$ 71 | \$ |
| Non-investment grade | 16 | 57 | | 15 |
| Total | \$ 16 | \$ 169 | \$ 71 | \$ 15 |
| Derivative assets (fair value) | \$ | \$ | \$ | \$ 191 |
| Derivative liabilities (fair value) | | | | 119 |

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

| At December 31, 2017 | | | | |
|---|--------------|---------------|-----------------------|----------------------------------|
| <i>\$ in millions</i> | RML | CML | U.S. Agency CMO | CLN and Other ¹ |
| SPE assets(UPB) ² | \$ 15,555 | \$ 62,744 | \$ 11,612 | \$ 17,060 |
| Retained interests | | | | |
| Investment grade | \$ | \$ 293 | \$ 407 | \$ 4 |
| Non-investment grade (fair value) | 1 | 98 | | 478 |
| Total | \$ 1 | \$ 391 | \$ 407 | \$ 482 |
| Interests purchased in the secondary market (fair value) | | | | |
| Investment grade | \$ | \$ 94 | \$ 439 | \$ |
| Non-investment grade | 16 | 66 | | 4 |
| Total | \$ 16 | \$ 160 | \$ 439 | \$ 4 |
| Derivative assets (fair value) | \$ 1 | \$ | \$ | \$ 226 |
| Derivative liabilities (fair value) | | | | 85 |

RML Residential mortgage loans

CML Commercial mortgage loans

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

2. Amounts include assets transferred by unrelated transferors.

| Fair Value at March 31, 2018 | | | |
|--|---------------|---------------|-----------------|
| <i>\$ in millions</i> | Level 2 | Level 3 | Total |
| Retained interests | | | |
| Investment grade | \$ 831 | \$ 5 | \$ 836 |
| Non-investment grade | 13 | 403 | 416 |
| Total | \$ 844 | \$ 408 | \$ 1,252 |
| Interests purchased in the secondary market | | | |
| Investment grade | \$ 182 | \$ 1 | \$ 183 |
| Non-investment grade | 52 | 36 | 88 |
| Total | \$ 234 | \$ 37 | \$ 271 |
| Derivative assets | \$ 50 | \$ 141 | \$ 191 |
| Derivative liabilities | 114 | 5 | 119 |

| Fair Value at December 31, 2017 | | | |
|---------------------------------|---------|---------|--------|
| <i>\$ in millions</i> | Level 2 | Level 3 | Total |
| Retained interests | | | |
| Investment grade | \$ 407 | \$ 4 | \$ 411 |
| Non-investment grade | 22 | 555 | 577 |

| | | | | | | |
|--|----|-----|----|-----|----|-----|
| Total | \$ | 429 | \$ | 559 | \$ | 988 |
| Interests purchased in the secondary market | | | | | | |
| Investment grade | \$ | 531 | \$ | 2 | \$ | 533 |
| Non-investment grade | | 57 | | 29 | | 86 |
| Total | \$ | 588 | \$ | 31 | \$ | 619 |
| Derivative assets | \$ | 78 | \$ | 149 | \$ | 227 |
| Derivative liabilities | | 81 | | 4 | | 85 |

Transferred assets are carried at fair value prior to securitization, and any changes in fair value are recognized in the income statements. The Firm may act as underwriter of the beneficial interests issued by these securitization vehicles. 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 generally carried at fair value in the balance sheets with changes in fair value recognized in the income statements.

Proceeds from New Securitization Transactions and Sales of Loans

Three Months Ended

| <i>\$ in millions</i> | March 31, | | | |
|--|-----------|-------|----|-------|
| | 2018 | 2017 | | |
| New transactions ¹ | \$ | 6,134 | \$ | 5,997 |
| Retained interests | | 481 | | 430 |
| Sales of corporate loans to CLO SPEs ^{1, 2} | | 94 | | 179 |

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

2. Sponsored by non-affiliates.

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

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.

Assets Sold with Retained Exposure

| <i>\$ in millions</i> | At March 31, | | At December 31, | |
|---|--------------|--------|-----------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Carrying value of assets derecognized at the time of sale and gross cash proceeds | \$ | 26,800 | \$ | 19,115 |
| Fair value | | | | |
| Assets sold | \$ | 26,566 | \$ | 19,138 |

| | | |
|---|------------|-----|
| Derivative assets recognized in the balance sheets | 2 | 176 |
| Derivative liabilities recognized in the balance sheets | 236 | 153 |

Failed Sales

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

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

Carrying Value of Assets and Liabilities Related to Failed Sales

| <i>\$ in millions</i> | At March 31, 2018 | | At December 31, 2017 | |
|-----------------------|--------------------------|---------------|-----------------------------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| Failed sales | \$ 710 | \$ 710 | \$ 552 | \$ 552 |

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Notes to Consolidated Financial Statements

(Unaudited)

13. Regulatory Requirements

Regulatory Capital Framework and Requirements

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

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

The Firm's risk-based capital ratios for purposes of determining regulatory compliance are the lower of the capital ratios computed under (i) the standardized approaches for calculating credit risk and market risk RWA (Standardized Approach) and (ii) the applicable advanced approaches for calculating credit risk, market risk and operational risk RWA (Advanced Approach).

Minimum risk-based capital ratio requirements apply to Common Equity Tier 1 capital, Tier 1 capital and Total capital (which includes Tier 2 capital). Certain adjustments to and deductions from capital are required for purposes of determining these ratios, such as goodwill, intangible assets, certain deferred tax assets, other amounts in AOCI and investments in the capital instruments of unconsolidated financial institutions.

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

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

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

Up to a 2.5% Common Equity Tier 1 CCyB, currently set by U.S. banking agencies at zero.

In 2017 and 2018, each of the buffers is 50% and 75%, respectively, of the 2019 requirement noted above. Failure to maintain the buffers will result in restrictions on the Firm's ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers.

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

The Firm's Regulatory Capital and Capital Ratios

At March 31, 2018 and December 31, 2017, the Firm's ratios are based on the Standardized Approach rules.

Regulatory Capital

| At March 31, 2018 | | | |
|--------------------------------------|-----------|-------|-----------------------------|
| <i>\$ in millions</i> | Amount | Ratio | Required Ratio ¹ |
| Common Equity Tier 1 capital | \$ 60,568 | 15.5% | 8.6% |
| Tier 1 capital | 69,213 | 17.7% | 10.1% |
| Total capital | 79,363 | 20.3% | 12.1% |
| Total RWA | 390,390 | N/A | N/A |
| Tier 1 leverage | 69,213 | 8.2% | 4.0% |
| Adjusted average assets ² | 846,868 | N/A | N/A |
| SLR ³ | 69,213 | 6.3% | 5.0% |
| Supplementary leverage exposure | 1,091,518 | N/A | N/A |

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

1. Percentages represent minimum required regulatory capital ratios under the transitional rules. Regulatory compliance was determined based on capital ratios calculated under the transitional rules until December 31, 2017.
2. Adjusted average assets represent the denominator of the Tier 1 leverage ratio and are composed of the average daily balance of consolidated on-balance sheet assets under U.S. GAAP during the current quarter and the quarter ended December 31, 2017, respectively, adjusted for disallowed goodwill, intangible assets, certain deferred tax assets, certain investments in the capital instruments of unconsolidated financial institutions and other adjustments
3. The SLR became effective as a capital standard on January 1, 2018.

U.S. Bank Subsidiaries Regulatory Capital and Capital Ratios

The Firm's 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 U.S. Bank Subsidiaries and the Firm's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, each of the 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.

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

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. Under regulatory capital requirements adopted by the U.S. federal banking agencies, U.S. depository institutions must maintain certain minimum capital ratios in order to be considered well-capitalized. At March 31, 2018 and December 31, 2017, 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.

At March 31, 2018 and December 31, 2017, the U.S. Bank Subsidiaries' ratios are based on the Standardized Approach rules.

MSBNA's Regulatory Capital

| <i>\$ in millions</i> | At March 31, 2018 | | |
|------------------------------|--------------------------|-------|-----------------------------|
| | Amount | Ratio | Required Ratio ¹ |
| Common Equity Tier 1 capital | \$ 15,514 | 19.7% | 6.5% |
| Tier 1 capital | 15,514 | 19.7% | 8.0% |
| Total capital | 15,785 | 20.1% | 10.0% |
| Tier 1 leverage | 15,514 | 11.8% | 5.0% |
| SLR ² | | 9.0% | 6.0% |

| <i>\$ in millions</i> | At December 31, 2017 | | |
|------------------------------|-----------------------------|-------|-----------------------------|
| | Amount | Ratio | Required Ratio ¹ |
| Common Equity Tier 1 capital | \$ 15,196 | 20.5% | 6.5% |
| Tier 1 capital | 15,196 | 20.5% | 8.0% |
| Total capital | 15,454 | 20.8% | 10.0% |
| Tier 1 leverage | 15,196 | 11.8% | 5.0% |

MSPBNA's Regulatory Capital

| <i>\$ in millions</i> | At March 31, 2018 | | |
|------------------------------|--------------------------|-------|-----------------------------|
| | Amount | Ratio | Required Ratio ¹ |
| Common Equity Tier 1 capital | \$ 6,382 | 24.2% | 6.5% |
| Tier 1 capital | 6,382 | 24.2% | 8.0% |
| Total capital | 6,425 | 24.4% | 10.0% |
| Tier 1 leverage | 6,382 | 9.7% | 5.0% |
| SLR ² | | 9.3% | 6.0% |

At December 31, 2017

| <i>\$ in millions</i> | Amount | Ratio | Required Ratio ¹ |
|------------------------------|----------|-------|-----------------------------|
| Common Equity Tier 1 capital | \$ 6,215 | 24.4% | 6.5% |
| Tier 1 capital | 6,215 | 24.4% | 8.0% |
| Total capital | 6,258 | 24.6% | 10.0% |
| Tier 1 leverage | 6,215 | 9.7% | 5.0% |

1. Ratios that are required in order to be considered well-capitalized for U.S. regulatory purposes. Regulatory compliance was determined based on capital ratios calculated under the transitional rules until December 31, 2017.
2. The SLR became effective as a capital standard on January 1, 2018.

U.S. Broker-Dealer Regulatory Capital Requirements

MS&Co. Regulatory Capital

| <i>\$ in millions</i> | At March 31, 2018 | | At December 31, 2017 | |
|-----------------------|-------------------|--------|----------------------|--------|
| Net capital | \$ | 12,661 | \$ | 10,142 |
| Excess net capital | | 10,303 | | 8,018 |

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

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

MSSB LLC Regulatory Capital

| <i>\$ in millions</i> | At March 31, 2018 | | At December 31, 2017 | |
|-----------------------|-------------------|-------|----------------------|-------|
| Net capital | \$ | 2,919 | \$ | 2,567 |
| Excess net capital | | 2,759 | | 2,400 |

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

Other Regulated Subsidiaries

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

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

Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****14. Total Equity****Share Repurchases**

| <i>\$ in millions</i> | Three Months Ended March 31, | |
|---|---------------------------------|--------|
| | 2018 | 2017 |
| Repurchases of common stock under the Firm's share repurchase program | \$ 1,250 | \$ 750 |

The Firm's 2017 Capital Plan (Capital Plan) includes the share repurchase of up to \$5.0 billion of outstanding common stock for the period beginning July 1, 2017 through June 30, 2018, an increase from \$3.5 billion in the 2016 Capital Plan. Additionally, the Capital Plan includes quarterly common stock dividends of up to \$0.25 per share.

Preferred Stock

| <i>\$ in millions</i> | Three Months Ended March 31, | |
|-----------------------|---------------------------------|-------|
| | 2018 | 2017 |
| Dividends declared | \$ 93 | \$ 90 |

For a description of Series A through Series K preferred stock issuances, see Note 15 to the financial statements in the 2017 Form 10-K. The Firm is authorized to issue 30 million shares of preferred stock. The preferred stock has a preference over the common stock upon liquidation. The Firm's preferred stock qualifies as Tier 1 capital in accordance with regulatory capital requirements (see Note 13).

Preferred Stock Outstanding

| <i>\$ in millions, except per share data</i> | Shares Outstanding At March 31, 2018 | Liquidation Preference per Share | Carrying Value | |
|--|---|-------------------------------------|-------------------------|----------------------------|
| | | | At March 31, 2018 | At December 31, 2017 |
| Series | | | | |
| 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 |
| K | 40,000 | 25,000 | 1,000 | 1,000 |
| Total | | | \$ 8,520 | \$ 8,520 |

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

Comprehensive Income (Loss)

Accumulated Other Comprehensive Income (Loss)¹

| <i>\$ in millions</i> | Foreign Currency Translation Adjustments | AFS Securities | Pension, Postretirement and Other | DVA | Total |
|--|---|-------------------|---|-----------------|-------------------|
| December 31, 2017 | \$ (767) | \$ (547) | \$ (591) | \$ (1,155) | \$ (3,060) |
| Cumulative adjustment for accounting changes ² | (8) | (111) | (124) | (194) | (437) |
| OCI during the period | 60 | (410) | 5 | 436 | 91 |
| March 31, 2018 | \$ (715) | \$ (1,068) | \$ (710) | \$ (913) | \$ (3,406) |
| December 31, 2016 | \$ (986) | \$ (588) | \$ (474) | \$ (595) | \$ (2,643) |
| OCI during the period | 107 | 84 | | 2 | 193 |
| March 31, 2017 | \$ (879) | \$ (504) | \$ (474) | \$ (593) | \$ (2,450) |

1. Amounts net of tax and noncontrolling interests.

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

Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****Components of Period Changes in OCI**

| | Three Months Ended | | | | |
|--|-----------------------------------|---|------------------------------|----------------------------------|-----------------|
| | March 31, 2018¹ | | | | |
| <i>\$ in millions</i> | Pre-tax Gain (Loss) | Income Tax Benefit (Provision) | After- tax Gain (Loss) | Non- controlling Interests | Net |
| Foreign currency translation adjustments | | | | | |
| OCI activity | \$ 78 | \$ 39 | \$ 117 | \$ 57 | \$ 60 |
| Reclassified to earnings | | | | | |
| Net OCI | \$ 78 | \$ 39 | \$ 117 | \$ 57 | \$ 60 |
| Change in net unrealized gains (losses) on AFS securities | | | | | |
| OCI activity | \$ (535) | \$ 125 | \$ (410) | \$ | \$ (410) |
| Reclassified to earnings | | | | | |
| Net OCI | \$ (535) | \$ 125 | \$ (410) | \$ | \$ (410) |
| Pension, postretirement and other | | | | | |
| OCI activity | \$ | \$ | \$ | \$ | \$ |
| Reclassified to earnings | 6 | (1) | 5 | \$ | 5 |
| Net OCI | \$ 6 | \$ (1) | \$ 5 | \$ | \$ 5 |
| Change in net DVA | | | | | |
| OCI activity | \$ 580 | \$ (140) | \$ 440 | \$ 15 | \$ 425 |
| Reclassified to earnings | 15 | (4) | 11 | \$ | 11 |
| Net OCI | \$ 595 | \$ (144) | \$ 451 | \$ 15 | \$ 436 |

Three Months Ended

| | March 31, 2017 | | | | |
|-----------------------|---------------------------|---|------------------------------|----------------------------------|-----|
| <i>\$ in millions</i> | Pre-tax Gain (Loss) | Income Tax Benefit (Provision) | After- tax Gain (Loss) | Non- controlling Interests | Net |

| Foreign currency translation adjustments | | | | | | | | | | |
|--|----|-----|----|------|----|-----|----|----|----|-----|
| OCI activity | \$ | 43 | \$ | 107 | \$ | 150 | \$ | 43 | \$ | 107 |
| Reclassified to earnings | | | | | | | | | | |
| Net OCI | \$ | 43 | \$ | 107 | \$ | 150 | \$ | 43 | \$ | 107 |
| Change in net unrealized gains (losses) on AFS securities | | | | | | | | | | |
| OCI activity | \$ | 137 | \$ | (52) | \$ | 85 | \$ | | \$ | 85 |
| Reclassified to earnings | | (2) | | 1 | | (1) | | | | (1) |
| Net OCI | \$ | 135 | \$ | (51) | \$ | 84 | \$ | | \$ | 84 |
| Change in net DVA | | | | | | | | | | |
| OCI activity | \$ | 7 | \$ | (1) | \$ | 6 | \$ | 7 | \$ | (1) |
| Reclassified to earnings | | 4 | | (1) | | 3 | | | | 3 |
| Net OCI | \$ | 11 | \$ | (2) | \$ | 9 | \$ | 7 | \$ | 2 |

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

Cumulative Adjustments to Retained Earnings

| | Three Months Ended | |
|--|---------------------------|-------------|
| <i>\$ in millions</i> | March 31, 2018 | |
| Revenue from contracts with customers | \$ | (32) |
| Derivatives and hedging targeted improvements to accounting for hedging activities | | (99) |
| Reclassification of certain tax effects from AOCI | | 443 |
| Other ¹ | | (6) |
| Total | \$ | 306 |
| | Three Months Ended | |
| <i>\$ in millions</i> | March 31, 2017 | |
| Improvements to employee share-based payment accounting ² | | (30) |
| Intra-entity transfers of assets other than inventory | | (5) |
| Total | \$ | (35) |

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

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

Amounts in the previous table represent cumulative adjustments related to the adoption of the accounting updates during the current and prior year quarters. See Note 2 for further information.

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

| | Three Months Ended | |
|--|--------------------|-------------------|
| | 2018 | March 31, 2017 |
| <i>in millions, except for per share data</i> | | |
| Basic EPS | | |
| Income from continuing operations | \$ 2,706 | \$ 1,993 |
| Income (loss) from discontinued operations | (2) | (22) |
| Net income | 2,704 | 1,971 |
| Net income applicable to noncontrolling interests | 36 | 41 |
| Net income applicable to Morgan Stanley | 2,668 | 1,930 |
| Preferred stock dividends and other | 93 | 90 |
| Earnings applicable to Morgan Stanley common shareholders | \$ 2,575 | \$ 1,840 |
| Weighted average common shares outstanding | 1,740 | 1,801 |
| Earnings per basic common share | | |
| Income from continuing operations | \$ 1.48 | \$ 1.03 |
| Income (loss) from discontinued operations | | (0.01) |
| Earnings per basic common share | \$ 1.48 | \$ 1.02 |
| Diluted EPS | | |
| Earnings applicable to Morgan Stanley common shareholders | \$ 2,575 | \$ 1,840 |
| Weighted average common shares outstanding | 1,740 | 1,801 |
| Effect of dilutive securities: Stock options and RSUs ¹ | 31 | 41 |
| Weighted average common shares outstanding and common stock equivalents | 1,771 | 1,842 |
| Earnings per diluted common share | | |
| Income from continuing operations | \$ 1.46 | \$ 1.01 |
| Income (loss) from discontinued operations | (0.01) | (0.01) |
| Earnings per diluted common share | \$ 1.45 | \$ 1.00 |
| Weighted average antidilutive RSUs and stock options (excluded from the computation of diluted EPS) ¹ | 1 | |

1. 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 computation.

16. Interest Income and Interest Expense

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

| <i>\$ in millions</i> | Three Months Ended | |
|--|--------------------|-----------------|
| | 2018 | 2017 |
| | March 31, | |
| | 2018 | 2017 |
| Interest income | | |
| Investment securities | \$ 424 | \$ 326 |
| Loans | 938 | 748 |
| Securities purchased under agreements to resell and Securities borrowed ¹ | 215 | (18) |
| Trading assets, net of Trading liabilities | 540 | 463 |
| Customer receivables and Other ² | 743 | 446 |
| Total interest income | \$ 2,860 | \$ 1,965 |
| Interest expense | | |
| Deposits | \$ 159 | \$ 11 |
| Borrowings | 1,138 | 1,022 |
| Securities sold under agreements to repurchase and Securities loaned ³ | 402 | 248 |
| Customer payables and Other ⁴ | 186 | (87) |
| Total interest expense | \$ 1,885 | \$ 1,194 |
| Net interest | \$ 975 | \$ 771 |

1. Includes fees paid on Securities borrowed.

2. Includes interest from Customer receivables, Restricted cash and Interest bearing deposits with banks.

3. Includes fees received on Securities loaned.

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

17. Employee Benefit Plans

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

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

| <i>\$ in millions</i> | Three Months Ended | |
|---|--------------------|-------------|
| | 2018 | 2017 |
| | March 31, | |
| | 2018 | 2017 |
| Service cost, benefits earned during the period | \$ 4 | \$ 4 |
| Interest cost on projected benefit obligation | 34 | 37 |

| | | |
|--|--------------|--------------|
| Expected return on plan assets | (28) | (29) |
| Net amortization of prior service credit | | (4) |
| Net amortization of actuarial loss | 6 | 4 |
| Net periodic benefit expense (income) | \$ 16 | \$ 12 |

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Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****18. Income Taxes**

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

During the fourth quarter of 2017, the Firm agreed to proposed adjustments associated with the expected closure of the IRS field audits for tax years 2006-2008. The Firm expects final closure of these tax years in the second quarter of 2018. 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 2007-2014, respectively.

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

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

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

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

19. Segment and Geographic Information**Segment Information**

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

Selected Financial Information by Business Segment

| <i>\$ in millions</i> | Three Months Ended March 31, 2018 | | | | |
|-----------------------------|--|-----------------|---------------|-----------------|------------------|
| | IS | WM | IM | I/E | Total |
| Total non-interest revenues | \$ 6,195 | \$ 3,305 | \$ 718 | \$ (116) | \$ 10,102 |
| Interest income | 1,804 | 1,280 | 1 | (225) | 2,860 |

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| | | | | | |
|---|-----------------|-----------------|---------------|-----------------|------------------|
| Interest expense | 1,899 | 211 | 1 | (226) | 1,885 |
| Net interest | (95) | 1,069 | | 1 | 975 |
| Net revenues | \$ 6,100 | \$ 4,374 | \$ 718 | \$ (115) | \$ 11,077 |
| Income from continuing operations before income taxes | \$ 2,112 | \$ 1,160 | \$ 148 | \$ | \$ 3,420 |
| Provision for income taxes | 449 | 246 | 19 | | 714 |
| Income from continuing operations | 1,663 | 914 | 129 | | 2,706 |
| Income (loss) from discontinued operations, net of income taxes | (2) | | | | (2) |
| Net income | 1,661 | 914 | 129 | | 2,704 |
| Net income applicable to noncontrolling interests | 34 | | 2 | | 36 |
| Net income applicable to Morgan Stanley | \$ 1,627 | \$ 914 | \$ 127 | \$ | \$ 2,668 |

Three Months Ended March 31, 2017

| <i>\$ in millions</i> | IS | WM | IM | I/E | Total |
|---|-----------------|-----------------|---------------|----------------|-----------------|
| Total non-interest revenues | \$ 5,379 | \$ 3,064 | \$ 608 | \$ (77) | \$ 8,974 |
| Interest income | 1,124 | 1,079 | 1 | (239) | 1,965 |
| Interest expense | 1,351 | 85 | | (242) | 1,194 |
| Net interest | (227) | 994 | 1 | 3 | 771 |
| Net revenues | \$ 5,152 | \$ 4,058 | \$ 609 | \$ (74) | \$ 9,745 |
| Income from continuing operations before income taxes | \$ 1,730 | \$ 973 | \$ 103 | \$ 2 | \$ 2,808 |
| Provision for income taxes | 459 | 326 | 30 | | 815 |
| Income from continuing operations | 1,271 | 647 | 73 | 2 | 1,993 |
| Income (loss) from discontinued operations, net of income taxes | (22) | | | | (22) |
| Net income | 1,249 | 647 | 73 | 2 | 1,971 |
| Net income applicable to noncontrolling interests | 35 | | 6 | | 41 |
| Net income applicable to Morgan Stanley | \$ 1,214 | \$ 647 | \$ 67 | \$ 2 | \$ 1,930 |

I/E Intersegment Eliminations

Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****Total Assets by Business Segment**

| <i>\$ in millions</i> | At | |
|--------------------------|-------------------|----------------------------|
| | March 31, 2018 | At December 31, 2017 |
| Institutional Securities | \$ 674,785 | \$ 664,974 |
| Wealth Management | 177,603 | 182,009 |
| Investment Management | 6,107 | 4,750 |
| Total¹ | \$ 858,495 | \$ 851,733 |

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

Additional Information Investment Management**Net Unrealized Performance-based Fees**

| <i>\$ in millions</i> | At | |
|---|-------------------|----------------------------|
| | March 31, 2018 | At December 31, 2017 |
| Net cumulative unrealized performance-based fees at risk of reversing | \$ 441 | \$ 442 |

The Firm's portion of net cumulative unrealized performance-based fees (for which the Firm is not obligated to pay compensation) are at risk of reversing if the fund performance falls below the stated investment management agreement benchmarks. See Note 11 for information regarding general partner guarantees, which include potential obligations to return performance fee distributions previously received.

Reduction of Fees due to Fee Waivers

| <i>\$ in millions</i> | Three Months Ended March 31, | |
|-----------------------|------------------------------|-------|
| | 2018 | 2017 |
| Fee waivers | \$ 18 | \$ 23 |

The Firm waives a portion of its fees in the Investment Management business segment from certain registered money market funds that comply with the requirements of Rule 2a-7 of the Investment Company Act of 1940.

Geographic Information

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

Net Revenues by Region

| \$ in millions | Three Months Ended March 31, | |
|----------------|------------------------------|-----------------|
| | 2018 | 2017 |
| Americas | \$ 8,018 | \$ 7,088 |
| EMEA | 1,708 | 1,489 |
| Asia | 1,351 | 1,168 |
| Total | \$ 11,077 | \$ 9,745 |

20. Revenues from Contracts with Customers

These disclosures are made in accordance with the adoption of the accounting update *Revenue from Contracts with Customers*, as such, they relate only to the subset of revenues generated from contracts with customers, which excludes certain revenues primarily reflected in Trading and Interest income.

For a detailed discussion about the Firm's revenue recognition accounting policies, see Note 2. For further segment and geographic information of the Firm's total revenues, see Note 19. For a discussion about the Firm's business segments, see Note 21 to the financial statements in the 2017 Form 10-K.

Customer Contract Revenue by Business Segment

| \$ in millions | Three Months Ended March 31, 2018 | | | | Total |
|---|-----------------------------------|----------|--------|----------|----------|
| | IS | WM | IM | I/E | |
| Investment banking ¹ | \$ 1,308 | \$ 140 | \$ | \$ (19) | \$ 1,429 |
| Commissions and fees | 744 | 498 | | (69) | 1,173 |
| Asset management | 110 | 2,495 | 626 | (39) | 3,192 |
| Other customer contract revenues ² | 59 | 59 | | (2) | 116 |
| Total revenues from contracts with customers ³ | \$ 2,221 | \$ 3,192 | \$ 626 | \$ (129) | \$ 5,910 |

1. Investment banking includes revenues from underwriting equity and fixed income securities and advisory fees.

2. Includes Trading and Other revenues from contracts with customers.

3. Includes \$902 million in total consolidated revenue recognized in the current quarter from services performed over multiple periods related primarily to investment banking advisory fees, and distribution fees.

Customer Contract Revenue by Region

| \$ in millions | Three Months Ended | |
|----------------|--------------------|--------------|
| | March 31, 2018 | |
| Americas | \$ | 4,738 |
| EMEA | | 622 |
| Asia | | 550 |
| Total | \$ | 5,910 |

Change in Revenue as a Result of Application of the New Revenue Recognition Standard¹

| <i>\$ in millions</i> | Three Months Ended March 31, 2018 | |
|----------------------------------|--|-----------|
| Investment banking ² | \$ | 60 |
| Commissions and fees | | 2 |
| Asset management | | 9 |
| Other customer contract revenues | | 12 |
| Total change | \$ | 83 |

1. The accounting update requires, among other things, a gross presentation of certain costs that were previously netted against revenues. As a result, the Firm recorded an increase to net revenues and noncompensation expenses of \$79 million, which was reported as follows: \$72 million in the Institutional Securities business segment; \$23 million in the Investment. Management business segment; and \$(16) million in Intersegment Eliminations related to intersegment activity.
2. The effect of changing to a gross presentation on advisory fees and total underwriting fees within the Institutional Securities business segment in the current quarter was \$15 million and \$45 million, respectively.

Table of Contents**Notes to Consolidated Financial Statements****(Unaudited)****Balance Sheet Amounts Related to Customer Contracts Revenue**

| <i>\$ in millions</i> | At March 31, 2018 | At January 1, 2018 |
|---|----------------------------------|-----------------------------------|
| Customer and other receivables | \$ 2,697 | \$ 2,805 |
| Other Liabilities Contract Liabilities Rollforward | | |

| <i>\$ in millions</i> | Three Months Ended March 31, 2018 |
|--|--|
| January 1, 2018 | \$ 155 |
| Recognized contract liabilities | 184 |
| Contract liabilities recognized into revenue | (160) |
| March 31, 2018 | \$ 179 |

Current quarter activity in contract liabilities relates primarily to Wealth Management advisory and managed account fees that are billed in advance and recognized into revenue as the underlying services are provided.

Certain Future Expected Revenues

| <i>\$ in millions</i> | At March 31, 2018 | | | | |
|---|--------------------------|--------|-------|------------|--------|
| | 2018 | 2019 | 2020 | Thereafter | Total |
| Other customer contract revenues ¹ | \$ 89 | \$ 118 | \$ 95 | \$ 310 | \$ 612 |

1. Primarily includes commodities-related contracts with customers.

The previous table presents expected revenues from current obligations to perform services in the future. It excludes the following: revenue subject to potentially significant reversal, revenues from contracts shorter than one year, and revenues from billings that are commensurate with the value of the services performed at each stage of the contract.

21. Subsequent Events

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

Table of Contents**Financial Data Supplement (Unaudited)****Average Balances and Interest Rates and Net Interest Income**

| <i>\$ in millions</i> | Three Months Ended March 31, | | | | | |
|--|------------------------------|-----------------|-------------------------|-----------------------|-----------------|-------------------------|
| | 2018 | | | 2017 | | |
| | Average Daily Balance | Interest | Annualized Average Rate | Average Daily Balance | Interest | Annualized Average Rate |
| Interest earning assets¹ | | | | | | |
| Investment securities ² | \$ 80,532 | \$ 424 | 2.1% | \$ 80,693 | \$ 326 | 1.6% |
| Loans ² | 104,407 | 938 | 3.6 | 95,364 | 748 | 3.2 |
| Securities purchased under agreements to resell and Securities borrowed ³ : | | | | | | |
| U.S. | 124,172 | 309 | 1.0 | 124,809 | 77 | 0.2 |
| Non-U.S. | 87,581 | (94) | (0.4) | 97,415 | (95) | (0.4) |
| Trading assets, net of Trading liabilities ⁴ : | | | | | | |
| U.S. | 53,488 | 487 | 3.7 | 54,498 | 445 | 3.3 |
| Non-U.S. | 5,059 | 53 | 4.2 | 3,201 | 18 | 2.3 |
| Customer receivables and Other ⁵ : | | | | | | |
| U.S. | 71,382 | 542 | 3.1 | 68,918 | 336 | 2.0 |
| Non-U.S. | 34,131 | 201 | 2.4 | 24,851 | 110 | 1.8 |
| Total | \$ 560,752 | \$ 2,860 | 2.1% | \$ 549,749 | \$ 1,965 | 1.4% |
| Interest bearing liabilities¹ | | | | | | |
| Deposits ² | \$ 159,948 | \$ 159 | 0.4% | \$ 153,674 | \$ 11 | % |
| Borrowings ^{2, 6} | 194,558 | 1,138 | 2.4 | 171,000 | 1,022 | 2.4 |
| Securities sold under agreements to repurchase and Securities loaned ⁷ : | | | | | | |
| U.S. | 25,009 | 286 | 4.6 | 33,900 | 172 | 2.1 |
| Non-U.S. | 40,675 | 116 | 1.2 | 39,774 | 76 | 0.8 |
| Customer payables and Other ⁸ : | | | | | | |
| U.S. | 121,438 | 49 | 0.2 | 121,923 | (86) | (0.3) |
| Non-U.S. | 69,646 | 137 | 0.8 | 58,556 | (1) | |
| Total | \$ 611,274 | \$ 1,885 | 1.3% | \$ 578,827 | \$ 1,194 | 0.8% |
| Net interest income and net interest rate spread | | \$ 975 | 0.8% | | \$ 771 | 0.6% |

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

2. Amounts include primarily U.S. balances.

3. Includes fees paid on Securities borrowed.

4. Trading assets, net of Trading liabilities exclude non-interest earning assets and non-interest bearing liabilities, such as equity securities.

5. Includes interest from Customer receivables, Restricted cash and Interest bearing deposits with banks.

6. The Firm also issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities, which are recorded within Trading revenues (see Note 3 to the financial statements).

7.

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Includes fees received on Securities loaned. The annualized average rate was calculated using (a) interest expense incurred on all securities sold under agreements to repurchase and securities loaned transactions, whether or not such transactions were reported in the balance sheets and (b) net average on-balance sheet balances, which exclude certain securities-for-securities transactions.

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

Table of Contents**Financial Data Supplement (Unaudited)****Rate/Volume Analysis****Effect of Volume and Rate Changes on Net Interest Income**

| | Three Months Ended March 31, 2018 | | |
|--|--|--------|------------|
| | versus | | |
| | Three Months Ended March 31, 2017 | | |
| | Increase (Decrease) | | |
| | Due to Change in: | | |
| <i>\$ in millions</i> | Volume | Rate | Net Change |
| Interest earning assets | | | |
| Investment securities | \$ (1) | \$ 99 | \$ 98 |
| Loans | 71 | 119 | 190 |
| Securities purchased under agreements to resell and Securities borrowed: | | | |
| U.S. | | 232 | 232 |
| Non-U.S. | 10 | (9) | 1 |
| Trading assets, net of Trading liabilities: | | | |
| U.S. | (8) | 50 | 42 |
| Non-U.S. | 10 | 25 | 35 |
| Customer receivables and Other: | | | |
| U.S. | 12 | 194 | 206 |
| Non-U.S. | 41 | 50 | 91 |
| Change in interest income | \$ 135 | \$ 760 | \$ 895 |
| Interest bearing liabilities | | | |
| Deposits | \$ | \$ 148 | \$ 148 |
| Borrowings | 141 | (25) | 116 |
| Securities sold under agreements to repurchase and Securities loaned: | | | |
| U.S. | (45) | 159 | 114 |
| Non-U.S. | 2 | 38 | 40 |
| Customer payables and Other: | | | |
| U.S. | | 135 | 135 |
| Non-U.S. | | 138 | 138 |
| Change in interest expense | \$ 98 | \$ 593 | \$ 691 |
| Change in net interest income | \$ 37 | \$ 167 | \$ 204 |

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Glossary of Common Acronyms

2017 Form 10-K Annual Report on Form 10-K for year ended December 31, 2017 filed with the SEC

ABS Asset-backed securities

AFS Available-for-sale

AML Anti-money laundering

AOCI Accumulated other comprehensive income (loss)

AUM Assets under management or supervision

BHC Bank holding company

bps Basis points; one basis point equals 1/100th of 1%

CCAR Comprehensive Capital Analysis and Review

CCyB Countercyclical capital buffer

CDO Collateralized debt obligations, including collateralized loan obligations

CDS Credit default swaps

CECL Current expected credit loss

CFTC U.S. Commodity Futures Trading Commission

CLN Credit-linked notes

CLO Collateralized loan obligations

CMBS Commercial mortgage-backed securities

CMO Collateralized mortgage obligations

CVA Credit valuation adjustment

DVA Debt valuation adjustment

EBITDA Earnings before interest, taxes, depreciation and amortization

ELN Equity-linked notes

EMEA Europe, Middle East and Africa

EPS Earnings per common share

ERISA Employee Retirement Income Security Act of 1974

E.U. European Union

FDIC Federal Deposit Insurance Corporation

FFELP Family Education Loan Program

FVA Funding valuation adjustment

GLR Global liquidity reserve

G-SIB Global systemically important banks

HQLA High-quality liquid assets

HTM Held-to-maturity

I/E Intersegment eliminations

IM Investment Management

IRS Internal Revenue Service

IS Institutional Securities

LCR Liquidity coverage ratio, as adopted by the U.S. banking agencies

LIBOR London Interbank Offered Rate

M&A Merger, acquisition and restructuring transaction

MSBNA Morgan Stanley Bank, N.A.

MS&Co. Morgan Stanley & Co. LLC

MSIP Morgan Stanley & Co. International plc

MSMS Morgan Stanley MUFG Securities Co., Ltd.

MSPBNA Morgan Stanley Private Bank, National Association

MSSB LLC Morgan Stanley Smith Barney LLC

MUFG Mitsubishi UFJ Financial Group, Inc.

MUMSS Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

MWh Megawatt hour

N/A Not Applicable

NAV Net asset value

N/M Not Meaningful

Non-GAAP Non-generally accepted accounting principles

NSFR Net stable funding ratio, as proposed by the U.S. banking agencies

OCC Office of the Comptroller of the Currency

OCI Other comprehensive income (loss)

OTC Over-the-counter

PRA Prudential Regulation Authority

RMBS Residential mortgage-backed securities

ROE Return on average common equity

ROTCE Return on average tangible common equity

RSU Restricted stock units

RWA Risk-weighted assets

SEC U.S. Securities and Exchange Commission

SLR Supplementary leverage ratio

S&P Standard & Poor's

SPE Special purpose entity

SPOE Single point of entry

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Glossary of Common Acronyms

TDR Troubled debt restructuring

TLAC Total loss-absorbing capacity

U.K. United Kingdom

UPB Unpaid principal balance

U.S. United States of America

U.S. DOL U.S. Department of Labor

U.S. GAAP Accounting principles generally accepted in the United States of America

VaR Value-at-Risk

VAT Value-added tax

VIE Variable interest entities

WACC Implied weighted average cost of capital

WM Wealth Management

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Other Information

Legal Proceedings

The following new matters and developments have occurred since previously reporting certain matters in the Firm's 2017 Form 10-K. See also the disclosures set forth under "Legal Proceedings" in the 2017 Form 10-K.

Residential Mortgage and Credit Crisis Related Matters

On March 8, 2018, the court denied the Firm's renewed motion to dismiss the notification claims in *Deutsche Bank National Trust Company, as Trustee for the Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC1 v. Morgan Stanley ABS Capital I, Inc.*

On March 8, 2018, the court granted plaintiff's motion to amend its complaint to include failure to notify claims in *Deutsche Bank National Trust Company, solely in its capacity as Trustee for Morgan Stanley ABS Capital I Inc. Trust, Series 2007-NC3 v. Morgan Stanley Mortgage Capital Holdings LLC, as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc.* On March 19, 2018, the Firm filed an answer to plaintiff's amended complaint.

On March 9, 2018, the parties in *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.* entered into agreements to settle the litigation, which are subject to court approval.

On April 4, 2018, the parties in *Deutsche Bank National Trust Company, solely in its capacity as trustee for Morgan Stanley Structured Trust I 2007-1 v. Morgan Stanley Mortgage Capital Holdings LLC* filed a stipulation voluntarily dismissing the action, with prejudice, pursuant to a settlement.

European Matters

On March 30, 2018, the Firm filed its defense to the claim brought by the public prosecutor for the Court of Accounts for the Republic of Italy in the matter styled *Case number 2012/00406/MNV*. A hearing was held on April 19, 2018. The timing of a decision is uncertain.

On March 20, 2018, the hearing on the parties' final submissions in *Banco Popolare Società Cooperativa v. Morgan Stanley & Co. International plc & others* was adjourned to May 17, 2018.

On April 26, 2018, the District Court in Amsterdam issued a decision in matters styled *Case number 15/3637* and *Case number 15/4353* dismissing the Dutch Tax Authority's claims. The Dutch Tax Authority has until June 7, 2018 to file any appeal.

Table of Contents**Unregistered Sales of Equity Securities and Use of Proceeds**

The following table sets forth the information with respect to purchases made by or on behalf of the Firm of its common stock during the current quarter ended March 31, 2018.

Issuer Purchases of Equity Securities

| <i>\$ in millions, except per share data</i> | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ¹ | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs |
|--|--|---------------------------------|---|---|
| Month #1 (January 1, 2018 - January 31, 2018) | | | | |
| Share Repurchase Program ² | 3,466,000 | \$ 57.14 | 3,466,000 | \$ 2,302 |
| Employee transactions ³ | 10,078,944 | \$ 55.81 | | |
| Month #2 (February 1, 2018 - February 28, 2018) | | | | |
| Share Repurchase Program ² | 10,170,000 | \$ 54.81 | 10,170,000 | \$ 1,745 |
| Employee transactions ³ | 838,924 | \$ 56.86 | | |
| Month #3 (March 1, 2018 - March 31, 2018) | | | | |
| Share Repurchase Program ² | 8,691,835 | \$ 56.89 | 8,691,835 | \$ 1,250 |
| Employee transactions ³ | 142,392 | \$ 56.05 | | |
| Quarter ended at March 31, 2018 | | | | |
| Share Repurchase Program ² | 22,327,835 | \$ 55.98 | 22,327,835 | \$ 1,250 |
| Employee transactions ³ | 11,060,260 | \$ 55.89 | | |

1. Share purchases under publicly announced programs are made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices the Firm deems appropriate and may be suspended at any time. As previously announced, on April 18, 2018, the Firm entered into a sales plan with Mitsubishi UFJ Financial Group, Inc. (MUFG) and Morgan Stanley & Co. LLC (MS&Co.) whereby MUFG will sell shares of the Firm's common stock to the Firm, through its agent MS&Co., as part of the Company's share repurchase program (as defined below). The sales plan is only intended to maintain MUFG's ownership percentage below 24.9% in order to comply with MUFG's passivity commitments to

the Federal Reserve and will have no impact on the strategic alliance between MUFG and the Firm, including the joint venture in Japan.

2. The Firm's Board of Directors has authorized the repurchase of the Firm's outstanding stock under a share repurchase program (the Share Repurchase Program). The Share Repurchase Program is a program for capital management purposes that considers, among other things, business segment capital needs, as well as equity-based compensation and benefit plan requirements. The Share Repurchase Program has no set expiration or termination date. Share repurchases by the Firm are subject to regulatory approval. On June 28, 2017, the Board of Governors of the Federal Reserve System (the Federal Reserve) announced that they did not object to our 2017 capital plan, which included a share repurchase of up to \$5.0 billion of the Firm's outstanding common stock during the period beginning July 1, 2017 through June 30, 2018. During the quarter ended March 31, 2018, the Firm repurchased approximately \$1.25 billion of the Firm's outstanding common stock as part of its Share Repurchase Program. For further information, see Liquidity and Capital Resources Capital Management.
3. Includes shares acquired by the Firm in satisfaction of the tax withholding obligations on stock-based awards granted under the Firm's stock-based compensation plans.

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Controls and Procedures

Under the supervision and with the participation of the Firm's management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the Firm's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

No change in the Firm's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, the Firm's internal control over financial reporting.

Exhibits

An exhibit index has been filed as part of this Report on page E-1.

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Exhibit Index

Morgan Stanley

Quarter Ended March 31, 2018

| Exhibit No. | Description |
|--------------------|---|
| 10.1 | <u>Amended and Restated Trust Agreement dated as of January 1, 2018 by and between Morgan Stanley and State Street Bank and Trust Company.</u> |
| 12 | <u>Statement Re: Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends (unaudited).</u> |
| 15 | <u>Letter of awareness from Deloitte & Touche LLP, dated May 4, 2018, concerning unaudited interim financial information.</u> |
| 31.1 | <u>Rule 13a-14(a) Certification of Chief Executive Officer.</u> |
| 31.2 | <u>Rule 13a-14(a) Certification of Chief Financial Officer.</u> |
| 32.1 | <u>Section 1350 Certification of Chief Executive Officer.</u> |
| 32.2 | <u>Section 1350 Certification of Chief Financial Officer.</u> |
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T (unaudited): (i) the Consolidated Income Statements Three Months Ended March 31, 2018 and 2017, (ii) the Consolidated Comprehensive Income Statements Three Months Ended March 31, 2018 and 2017, (iii) the Consolidated Balance Sheets at March 31, 2018 and December 31, 2017, (iv) the Consolidated Statements of Changes in Total Equity Three Months Ended March 31, 2018 and 2017, (v) the Consolidated Cash Flow Statements Three Months Ended March 31, 2018 and 2017, and (vi) Notes to Consolidated Financial Statements. |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MORGAN STANLEY

(Registrant)

By: */s/ JONATHAN PRUZAN*
Jonathan Pruzan

Executive Vice President and

Chief Financial Officer

By: */s/ PAUL C. WIRTH*
Paul C. Wirth

Deputy Chief Financial Officer

Date: May 4, 2018

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