Morgan Stanley

Basel III Pillar 3 Disclosures Report

For the Quarterly Period Ended June 30, 2014

Morgan Stanley

BASEL III PILLAR 3 DISCLOSURES REPORT

For the quarterly period ended June 30, 2014

Table of Contents | Page

		Page
1	Morgan Stanley	1
2	Capital Adequacy of Bank Holding Companies	1
3	Capital Structure	1
4	Capital Adequacy	2
5	Credit Risk	3
5.1	Credit Risk: General Disclosures	3
5.2	Credit Risk: General Disclosure for Impaired Loans	5
5.3	Portfolios Subject to Internal Ratings-Based Risk-Based Capital Formulas	6
5.4	General Disclosure for Wholesale Counterparty Credit Risk of Derivative Contracts, Repo-Style Transactions and Margin Lending	9
5.5	Credit Risk Mitigation	12
6	Securitization	13
6.1	Securitization Activities	14
6.2	Accounting and Valuation	15
6.3	Banking Book Securitization Exposures	15
6.4	Credit and Market Risk Related to Securitization	17
7	Operational Risk	18
8	Equities Not Subject to Market Risk Capital Rule	18
9	Interest Rate Risk for Non-trading Activities	19

MORGAN STANLEY

Basel III Pillar 3 Disclosures Report

For the Quarterly Period Ended June 30, 2014

1 Morgan Stanley

Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Morgan Stanley was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924. The Company is a financial holding company regulated by the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The Company conducts its business from its headquarters in and around New York City, its regional offices and branches throughout the United States of America ("U.S.") and its principal offices in London, Tokyo, Hong Kong and other world financial centers. At June 30, 2014, the Company had 56,142 employees worldwide. Unless the context otherwise requires, the terms "Morgan Stanley" or the "Company" mean Morgan Stanley (the "Parent") together with its consolidated subsidiaries. The basis of consolidation for accounting and regulatory purposes is materially the same. The Federal Reserve establishes capital requirements for the Company, including well-capitalized standards, and evaluates the Company's compliance with such capital requirements. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, National Association ("U.S. Banks"). The Company's insurance subsidiaries surplus capital included in the total capital of the consolidated group was $23 million at June 30, 2014.

2 Capital Adequacy of Bank Holding Companies

In December 2010, the Basel Committee on Banking Supervision ("Basel Committee") established a new risk-based capital, leverage ratio and liquidity framework, known as "Basel III." In July 2013, the U.S. banking regulators issued a final rule to implement many aspects of Basel III ("U.S. Basel III"). Although the Company and its U.S. Banks became subject to U.S. Basel III beginning on January 1, 2014, certain requirements of U.S. Basel III will be phased in over several years. On February 21, 2014, the Federal Reserve and the OCC approved the Company's and its U.S. Banks' completion of the parallel run process for an advanced internal ratings-based approach for calculating credit risk-weighted assets ("RWAs") and advanced measurement approaches for calculating operational RWAs, as supplemented by advanced market RWAs calculated under Basel III (the "Advanced Approach") framework. For a further discussion of the regulatory capital framework applicable to the Company, see "Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")—Liquidity and Capital Resources—Regulatory Requirements" in Part I, Item 2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 ("Form 10-Q").

U.S. Basel III requires banking organizations that calculate risk-based capital ratios using the Advanced Approach ("Advanced Approach banking organizations"), including the Company, to make qualitative and quantitative disclosures regarding their capital and RWAs on a quarterly basis ("Pillar 3 Disclosures"). This report contains the Company's Pillar 3 Disclosures for its credit risk and operational risk for the quarter ended June 30, 2014, in accordance with the U.S. Basel III, 12 C.F.R. § 217.171-173.

The Company's Pillar 3 Disclosures are not required to be, and have not been, audited by the Company's independent registered public accounting firm. The Company's Pillar 3 Disclosures were based on its current understanding of U.S. Basel III and other factors, which may be subject to change as the Company receives additional clarification and implementation guidance from regulators relating to U.S. Basel III, and as the interpretation of the final rule evolves over time. Some measures of exposures contained in this report may not be consistent with accounting principles generally accepted in the United States of America ("U.S. GAAP"), and may not be comparable with measures reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 ("Form 10-K") and the Form 10-Q.

3 Capital Structure

The Company has issued a variety of capital instruments to meet its regulatory capital requirements and to maintain a strong capital base. These capital instruments include common stock that qualifies as Common Equity Tier 1 capital, non-cumulative perpetual preferred stock that qualifies as Additional Tier 1 capital and subordinated debt that qualifies as Tier 2 capital, each under U.S. Basel III. For a discussion of the Company's capital instruments, see Note 9 (Long-Term Borrowings and Other Secured Financings) and Note 13 (Total Equity) to the condensed consolidated financial statements in

Part I, Item 1 as well as "MD&A—Liquidity and Capital Resources—Capital Management" in Part I, Item 2 of the Form 10-Q.[1]

4 Capital Adequacy

Capital strength is fundamental to the Company's operation as a credible and viable market participant. To assess the amount of capital necessary to support the Company's current and prospective risk profile, which ultimately informs the Company's capital distribution capacity, the Company determines its overall capital requirement under normal and stressed operating environments, both on a current and forward-looking basis. For a further discussion on the Company's required capital framework, see "MD&A—Liquidity and Capital Resources—Regulatory Requirements—Required Capital" in Part I, Item 2 of the Form 10-Q.

The following table represents components of the Company's RWAs in accordance with the Advanced Approach, subject to transitional provisions:

Risk-weighted assets by U.S. Basel III exposure class		At June 30, 2014
		(dollars in millions)
Credit risk:		
Wholesale exposures	$	99,730
Retail exposures:		
Residential mortgage		534
Qualifying revolving		-
Other retail		4,619
Securitization exposures:		
Subject to Supervisory Formula Approach		3,421
Subject to Simplified Supervisory Formula Approach		1,586
Subject to 1,250% risk weight		117
Cleared transactions		4,664
Equity exposures:		
Subject to the Simple Risk-Weighted Approach		20,209
Subject to the Alternative Modified Look-Through Approach		5,472
Other assets(1)		22,715
Credit valuation adjustment		19,314
Total credit risk	$	182,381
Total market risk(2)		126,800
Total operational risk		108,873
Total RWAs	$	418,054

(1) Amount reflects assets not in a defined category of $19,703 million, non-material portfolios of exposures of $2,271 million and unsettled transactions of $741 million.
(2) For a further discussion of the Company's market RWAs, see "Market Risk Capital Charge and RWAs" in Part II, Section 2.1 of the Market Risk Capital Disclosures Report for the quarter ended June 30, 2014 ("Market Risk Capital Disclosures Report").

[1] Regulatory requirements, including capital requirements and certain covenants contained in various agreements governing indebtedness of the Company may restrict the Company's ability to access capital from its subsidiaries. For discussions of restrictions and other major impediments to transfer of funds or capital, see "Risk Factors—Liquidity and Funding Risk" in Part I, Item 1A and Note 14 (Regulatory Requirements) to the consolidated financial statements in Part II, Item 8 of the Form 10-K. For further information on the Company's capital structure in accordance with U.S. Basel III, see "MD&A—Liquidity and Capital Resources—Regulatory Requirements" in Part I, Item 2 of the Form 10-Q.

The following table represents the capital ratios for the Company and the Company's U.S. Banks at June 30, 2014. Each ratio represents the lower of the Company's risk-based capital ratios (on a transitional basis) calculated using a U.S. Basel III transitional numerator and RWAs computed under U.S. Basel I as supplemented by Basel 2.5 and under the Advanced Approach. At June 30, 2014, the Company's risk-based capital ratios were lower under the Advanced Approach transitional rules; however, the risk-based capital ratios for the Company's U.S. Banks were lower under U.S. Basel I as supplemented by Basel 2.5.

	At June 30, 2014		
Capital ratios	**Common Equity Tier 1 capital ratio**	**Tier 1 capital ratio**	**Total risk-based capital ratio**
Morgan Stanley	13.9%	15.4%	17.4%
Morgan Stanley Bank, N.A.(1)	13.0%	13.0%	14.8%
Morgan Stanley Private Bank, National Association(1)	22.0%	22.0%	22.1%

(1) At June 30, 2014, ratios calculated using a U.S. Basel III transitional numerator and RWAs computed under the Advanced Approach were as follows: Morgan Stanley Bank, N.A.: Common Equity Tier 1 capital ratio: 24.3%; Tier 1 capital ratio: 24.3% and Total risk-based capital ratio: 27.7%; and Morgan Stanley Private Bank, National Association: Common Equity Tier 1 capital ratio: 41.6%; Tier 1 capital ratio: 41.6% and Total risk-based capital ratio: 41.6%.

Risk Management Objectives, Structure and Policies

For a discussion of the Company's risk management objectives, structure and policies, including its risk management strategies and processes, the structure and organization of its risk management function, the scope and nature of its risk reporting and measurement systems, and its policies for hedging and mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management" in Part II, Item 7A of the Form 10-K.

5 Credit Risk

5.1 Credit Risk: General Disclosures

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations. The Company primarily incurs credit risk exposure to institutions and individual investors mainly through the Institutional Securities and Wealth Management business segments. For a further discussion of the Company's credit risk and credit risk management framework, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk" in Part II, Item 7A of the Form 10-K and "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk" in Part I, Item 3 of the Form 10-Q. For a discussion of the Company's risk governance structure, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Risk Governance Structure" in Part II, Item 7A of the Form 10-K.

The following tables present certain of the Company's on- and off-balance sheet positions for which the Company is subject to credit risk exposure. These amounts do not include the effects of certain credit risk mitigation techniques (*e.g.*, collateral and netting not permitted under U.S. GAAP), equity investments or liability positions that also would be subject to credit risk capital calculations, and amounts related to items that are deducted from regulatory capital.

MORGAN STANLEY

Basel III Pillar 3 Disclosures Report

For the Quarterly Period Ended June 30, 2014

The following tables are presented on a U.S. GAAP basis and reflect amounts by product type, region (based on the legal domicile of the counterparty), counterparty and contractual maturity.

Credit Risk Exposures by Exposure Category and Geographic Region

	At June 30, 2014					
Product Type	**Americas**	**Europe, Middle East and Africa**	**Asia-Pacific**	**Netting**	**Total**	**Quarterly Average(1)**
			(dollars in millions)			
Cash(2)	$ 46,170	$ 23,036	$ 12,320	$ -	$ 81,526	$ 89,639
Derivative and other contracts(3)	155,084	421,430	26,259	(570,807)	31,966	29,665
Available for sale debt securities	65,128	297	30	-	65,455	62,159
Securities financing transactions(3)(4)	208,037	61,264	46,679	(59,558)	256,422	261,923
Loans(5)	83,014	8,374	3,457	-	94,845	90,400
Other(6)	14,942	11,882	8,824	-	35,648	40,185
Total on-balance sheet	$ 572,375	$ 526,283	$ 97,569	$ (630,365)	$ 565,862	$ 573,971
Commitments(7)	$ 80,636	$ 54,483	$ 23,315	$ -	$ 158,434	$ 165,975
Guarantees(8)	8,658	224	-	-	8,882	8,947
Total off-balance sheet	$ 89,294	$ 54,707	$ 23,315	$ -	$ 167,316	$ 174,922

Distribution of Exposures by Exposure Category and Counterparty or Industry Type

	At June 30, 2014					
	Wholesale					
Product Type	**Bank(9)**	**Sovereign**	**Corporate and Other(10)**	**Retail**	**Netting**	**Total**
			(dollars in millions)			
Cash(2)	$ 43,357	$ 20,563	$ 17,606	$ -	$ -	$ 81,526
Derivative and other contracts(3)	255,062	11,558	336,153	-	(570,807)	31,966
Available for sale debt securities	-	57,296	8,159	-	-	65,455
Securities financing transactions(3)(4)	41,166	23,648	251,166	-	(59,558)	256,422
Loans(5)	-	-	44,661	50,184	-	94,845
Other(6)	-	-	35,648	-	-	35,648
Total on-balance sheet	$ 339,585	$ 113,065	$ 693,393	$ 50,184	$ (630,365)	$ 565,862
Commitments(7)	$ 31,877	$ 230	$ 123,039	$ 3,288	$ -	$ 158,434
Guarantees(8)	2	-	8,880	-	-	8,882
Total off-balance sheet	$ 31,879	$ 230	$ 131,919	$ 3,288	$ -	$ 167,316

Remaining Contractual Maturity Breakdown by Exposure Category

	At June 30, 2014				
	Years to Maturity				
Product Type	**Less than 1**	**1-5**	**Over 5**	**Netting**	**Total**
	(dollars in millions)				
Cash(2)	$ 81,526	$ -	$ -	$ -	$ 81,526
Derivative and other contracts(3)	77,728	202,574	322,471	(570,807)	31,966
Available for sale debt securities	169	39,792	25,494	-	65,455
Securities financing transactions(3)(4)	314,294	1,686	-	(59,558)	256,422
Loans(5)	51,170	24,101	19,574	-	94,845
Other(6)	21,299	5,928	8,421	-	35,648
Total on-balance sheet	$ 546,186	$ 274,081	$ 375,960	$ (630,365)	$ 565,862
Commitments(7)	$ 82,734	$ 70,214	$ 5,486	$ -	$ 158,434
Guarantees(8)	2,872	281	5,729	-	8,882
Total off-balance sheet	$ 85,606	$ 70,495	$ 11,215	$ -	$ 167,316

(1) Average balances are calculated based on month-end balances or, where month-end balances are unavailable, quarter-end balances.
(2) Amounts include Cash and due from banks, Interest bearing deposits with banks, and Cash deposited with clearing organizations or segregated under federal and other regulations or requirements, and exclude money market funds.
(3) At June 30, 2014, the amounts related to master netting agreements and collateral agreements, which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance were $6,942 million for derivative and other contracts (bilateral, cleared and exchange-traded) and $239,900 million for Securities financing transactions. For further discussions on master netting agreements and collateral agreements, see Note 6 (Collateralized Transactions) and Note 10 (Derivative Instruments and Hedging Activities) to the condensed consolidated financial statements in Part I, Item 1 of the Form 10-Q.
(4) Amounts reflect Federal funds sold and securities purchased under agreements to resell and Securities borrowed.
(5) Amounts reflect loans held for investment, loans held for sale and banking book loans designated at fair value, as well as margin lending and employee loans.
(6) Amounts primarily reflect Customer receivables and Premises, equipment and software costs.
(7) Amounts reflect Lending commitments and Forward starting reverse repurchase agreements and securities borrowing agreements.
(8) Amounts reflect Standby letters of credit and other financial guarantees issued and Liquidity facilities. For further discussions on the Company's guarantees, see Note 11 (Commitments, Guarantees and Contingencies) to the condensed consolidated financial statements in Part I, Item 1 of the Form 10-Q.
(9) Bank counterparties primarily include banks and depository institutions.
(10) Corporate and Other counterparties include exchanges and clearing houses.

5.2 Credit Risk: General Disclosure for Impaired Loans

The Company provides loans or lending commitments within the Institutional Securities and the Wealth Management business segments. The Company accounts for loans based on the following categories: loans held for investment, loans held for sale and loans at fair value. An allowance for loan losses is estimated for inherent losses in the portfolio of loans held for investment as well as for probable losses related to held for investment loans identified for impairment. For a further discussion of the Company's credit risks, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk" in Part II, Item 7A of the Form 10-K. For a discussion of the Company's allowance for loan losses, impaired loans, reconciliation of changes in allowance for loan losses, credit quality indicators, determination of past due or delinquency status, placing of loans on nonaccrual status, returning of loans to accrual status, identification of impaired loans for financial accounting purposes, methodology for estimating its allowance for loan losses, and charge-offs of uncollectible amounts, see Note 2 (Significant Accounting Policies) and Note 8 (Financing Receivables and Allowance for Credit Losses) to the consolidated financial statements in Part II, Item 8 of the Form 10-K and Note 8 (Financing Receivables and Allowance for Credit Losses) to the condensed consolidated financial statements in Part I, Item 1 of the Form 10-Q.

The following tables are presented on a U.S. GAAP basis and reflect details on impaired and past due loans along with allowances and charge-offs for the Company's loans held for investment. The tables also include loans held for sale and loans held in the banking book designated at fair value.

	At June 30, 2014				
	Bank(1)	Sovereign	Corporate and Other(2)	Retail	Total
	(dollars in millions)				
Impaired loans with allowance	$ -	$ -	$ 5	$ -	$ 5
Impaired loans without allowance(3)	-	-	6	10	16
Past due 90 days loans and on nonaccrual	-	-	25	12	37
Past due 90 days loans and still accruing	-	-	1	-	1
Allowance for loan losses	-	-	130	8	138
Charge-offs in six months ended June 30, 2014	-	-	3	-	3

(1) Bank counterparties primarily include banks and depository institutions.
(2) Corporate and Other counterparties include exchanges and clearing houses.
(3) At June 30, 2014, no allowance was outstanding for these loans as the fair value of the collateral held exceeded or equaled the carrying value.

	At June 30, 2014			
	Americas	Europe, Middle East and Africa	Asia-Pacific	Total
	(dollars in millions)			
Impaired loans	$ 21	$ -	$ -	$ 21
Past due 90 days loans	20	18	-	38
Allowance for loan losses	107	25	6	138

Loans Past Due by Counterparty or Industry Type

	At June 30, 2014			
Counterparty Type	90 - <120 Days	120 - <180 Days	180 Days or more	Total
	(dollars in millions)			
Bank	$ -	$ -	$ -	$ -
Sovereign	-	-	-	-
Corporate and other	2	-	24	26
Retail	-	-	12	12
Total	$ 2	$ -	$ 36	$ 38

5.3 Portfolios Subject to Internal Ratings-Based Risk-Based Capital Formulas

The Company utilizes its internal ratings system in the calculation of RWAs for the purpose of determining Basel III regulatory capital requirements for wholesale and retail exposures, as well as other internal risk management processes such as determining credit limits.

Internal Ratings System Design

As a core part of its responsibility for the independent management of credit risk, the Company's Credit Risk Management Department maintains a control framework to evaluate the risk of obligors and the structure of credit facilities (for loans, derivatives, securities financing transactions, etc.), both at inception and periodically thereafter. For both wholesale and retail exposures, the Company has an internal ratings system that assigns a Probability of Default and a Loss Given Default. These risk parameters, along with Exposure at Default, are combined to estimate credit RWAs. Internal credit ratings are the basis for a comprehensive limits framework used to control credit risk and serve as the Company's Credit Risk Management Department's independent assessment of credit risk. To monitor the credit risk of the portfolio, the Company uses

quantitative models and expert judgment to estimate the various risk parameters related to each obligor and/or credit facility. Internal ratings procedures, methodologies, models and limits frameworks are all independently and formally governed, and models are reviewed by an independent oversight function.

The Probability of Default represents an estimated likelihood of default of an obligor. The Loss Given Default is an estimate of the economic loss incurred by the Company in the event of default by an obligor, expressed as a percentage of Exposure at Default, which includes unpaid fees and interest, credit workout and collection costs, and offsetting recoveries (adjusted for the time value of money). Exposure at Default is the estimated amount due at the time of default. Exposure at Default for certain products may be reduced by certain credit risk mitigants. Contingent liabilities, such as undrawn commitments and standby letters of credit, may be considered in Exposure at Default.

Internal Ratings System Process

The performance of the internal ratings system is monitored on a quarterly basis. This involves a review of key performance measures that include rating overrides, accuracy ratio and comparison of internal ratings versus applicable agency ratings. The review is performed by an independent group, and the results and conclusions are reported to a credit risk governance committee. The overall effectiveness of the internal ratings system is assessed annually and the evaluation results go through a rigorous challenge process by various governance committees before it is presented to the Company’s Board of Directors.

Credit Limits Framework

The Company employs an internal comprehensive and global Credit Limits Framework as one of the primary tools used to evaluate and manage credit risk levels across the Company. The Credit Limits Framework includes single-name limits and portfolio concentration limits by country, industry and product type. The limits within the Credit Limits Framework are calibrated to the Company’s risk tolerance and reflect factors that include the Company’s capital levels and the risk attributes of the exposures managed by the limits. Credit exposure is actively monitored against the relevant credit limits, and excesses are escalated in accordance with established governance thresholds. In addition, credit limits are evaluated and reaffirmed at least annually or more frequently as necessary.

Wholesale Exposures

Wholesale exposures are credit risk exposures to institutions and individual investors that may arise from a variety of business activities, including, but not limited to, entering into swap or other derivative contracts under which counterparties have obligations to make payments to the Company; extending credit to clients through various lending commitments; providing short-term or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the loan repayment amount; and posting margin and/or collateral to clearing houses, clearing agencies, exchanges, banks, securities companies and other financial counterparties.

The Company’s Credit Risk Management Department evaluates the creditworthiness of a wholesale obligor (company, individual, sovereign entity or other government entity) by assigning it an internal credit rating, under which obligors are rated based on their ability to perform over a wide range of economic, business and industry conditions. Internal credit ratings include an obligor rating (Probability of Default), outlook and Loss Given Default, and are used to establish exposure limits.

The Company’s Credit Risk Management Department rates wholesale counterparties based on an analysis of the obligor and industry- or sector-specific qualitative and quantitative factors. The ratings process typically includes an analysis of the obligor’s financial statements, evaluation of its market position, strategy, management, legal and environmental issues; and consideration of industry dynamics affecting its performance. The Company’s Credit Risk Management Department also considers security prices and other financial data reflecting a market view of the obligor and carries out due diligence with the obligor’s management as needed. The Company’s Credit Risk Management Department collects relevant information to rate an obligor. If the available information on an obligor is limited, a conservative rating is assigned to reflect uncertainty arising from the limited information.

Retail Exposures

Retail exposures generally include exposures (other than equity exposures) to an individual and exposures to small businesses that are managed as part of a segment of similar exposures, and not on an individual exposure basis. The Company incurs

retail exposure credit risk within the Wealth Management business segment lending to individual investors, including margin loans collateralized by securities and through single-family residential prime mortgage loans in the form of conforming, nonconforming or home equity lines of credit ("HELOC"). In addition, the Company grants loans to certain Wealth Management employees primarily in conjunction with a program to retain and recruit such employees. The primary source of the Company's retail exposure is concentrated in two of three Basel III retail exposure categories: Residential Mortgages and Other Retail Exposures. The third Basel III retail category, Qualifying Revolving Exposures, is not currently relevant to the Company as it has no assets related to this category.

Retail exposures consist of many small loans, thereby making it generally inefficient to assign ratings to each individual loan. Individual loans, therefore, are segmented and aggregated into pools. The Company's Credit Risk Management Department develops the methodology to assign Probability of Default, Loss Given Default and Exposure at Default estimates to these pools of exposures with similar risk characteristics, using factors that may include the Fair Isaac Corporation ("FICO") scores of the borrowers. Exposure at Default for certain products may be reduced by eligible collateral. Contingent liabilities such as undrawn commitments and standby letters of credit are considered in Exposure at Default.

Internal Ratings System Exposures

The following table provides a summary of the distribution of Internal Ratings Based Advanced Approach risk parameters that the Company uses to calculate RWAs for wholesale and retail exposures. The table also provides average risk weighted values across obligor types and rating grades. The Company currently does not have any high volatility commercial real estate or qualifying revolving exposures.

	At June 30, 2014						
Subcategory	Probability of Default Band (%)	Average Probability of Default (%)(1)	Average Loss Given Default (%)(2)	Undrawn Commitment	Exposure at Default(1)	Average Counterparty Exposure at Default(3)	Average risk weight (%)
				(dollars in millions)			
Wholesale Exposures	0.00 ≤ PD < 0.35	0.08%	44.18%	$ 83,560	$ 251,067	$ 7,270	22.45%
	0.35 ≤ PD < 1.35	0.83%	37.71%	14,073	24,918	443	80.61%
	1.35 ≤ PD < 10.00	4.67%	34.98%	10,725	13,921	93	127.44%
	10.00 ≤ PD < 100.00	26.85%	38.15%	99	2,048	343	225.42%
	100 (Default)	100.00%	N/A	59	909	182	106.00%
Sub-total				$ 108,516	$ 292,863	$ 8,331	
Residential Mortgages	0.00 ≤ PD < 0.15	0.05%	17.87%	$ 244	$ 11,789	$ 1	2.68%
	0.15 ≤ PD < 0.35	0.32%	17.47%	1	722	4	10.29%
	0.35 ≤ PD < 1.35	1.32%	14.95%	-	271	5	23.71%
	1.35 ≤ PD < 10.00	2.15%	13.33%	-	129	1	28.23%
	10.00 ≤ PD < 100.00	25.76%	14.06%	-	35	8	86.75%
	100 (Default)	100.00%	N/A	-	12	4	106.00%
Sub-total				$ 245	$ 12,958	$ 23	
Other Retail Exposures	0.00 ≤ PD < 1.50	0.24%	100.00%	$ 2,929	$ 924	$ 4	44.01%
	1.50 ≤ PD < 3.00	2.21%	100.00%	-	690	15	139.84%
	3.00 ≤ PD < 5.00	3.62%	38.57%	-	1,806	2	58.62%
	5.00 ≤ PD < 8.00	6.63%	50.87%	-	1,813	-	82.27%
	8.00 ≤ PD < 100.00	8.65%	17.30%	-	1,370	-	29.86%
	100 (Default)	100.00%	N/A	-	272	1	106.00%
Sub-total				$ 2,929	$ 6,875	$ 22	
Total				$ 111,690	$ 312,696	$ 8,376	

N/A—Not Applicable

(1) Amounts reflect the effect of collateral, guarantees and credit derivatives.
(2) Under U.S. Basel III, credit risk mitigation in the form of collateral may be applied by reducing Exposure at Default or adjusting the Loss Given Default. The Company may apply one or the other approach depending on product type. When collateral mitigation is applied against the Exposure at Default, the Loss Given Default is set at 100% to avoid duplication.
(3) Average Counterparty Exposure at Default represents the weighted average exposure at default per counterparty within the respective Probability of Default band, weighted by their pro rata Exposure at Default contribution.

5.4 General Disclosure for Wholesale Counterparty Credit Risk of Derivative Contracts, Repo-Style Transactions and Margin Lending

Counterparty Credit Risk Overview

Counterparty credit exposure arises from the risk that parties are unable to meet their payment obligations under derivative contracts, repo-style transactions and wholesale margin loans. Repo-style transactions include repurchase agreements and securities lending transactions. Derivative contracts and security values have a risk of increased potential future counterparty exposure from changes in movements in market prices and other risk factors. Potential future exposure is mitigated by the use of netting and collateral agreements. The Company uses an internal model to estimate potential future exposure that includes the mitigating effects of netting and collateral in valuing over-the-counter ("OTC") and exchange-traded derivative contracts (bilateral and cleared), repo-style transactions and margin lending. The use of netting, collateral, internal models methodology and credit valuation adjustment are discussed further below, in addition to other counterparty credit risk management practices.

Derivative Contracts

The Company actively manages its credit exposure through the application of collateral arrangements and readily available market instruments such as credit derivatives. The use of collateral in managing derivative risk is standard in the market place, and is governed by appropriate documentation such as the Credit Support Annex to the International Swaps and Derivatives Association, Inc. ("ISDA") documentation. In line with these standards, the Company generally accepts only cash, government bonds, corporate debt and main index equities as collateral. The Company has policies and procedures for reviewing the legal enforceability of credit support documents in accordance with applicable rules.

Repo-Style Transactions

The Company engages in funding activities through the use of repurchase agreements and other repo-style transactions. The Company manages credit exposure arising from reverse repurchase agreements, repurchase agreements, securities borrowing and securities lending transactions by, in appropriate circumstances, entering into master netting and collateral agreements with counterparties that provide the Company, in the event of a customer default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities.

Wholesale Margin Lending

The Company also engages in activities to provide additional funding through wholesale margin lending for institutional customers. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. The Company monitors required margin levels and established credit limits daily and, pursuant to such guidelines, requires customers to provide additional collateral or reduce positions, when necessary.

Netting

The Company recognizes netting in its estimation of Exposure at Default for its derivative portfolios (bilateral and cleared) where it has a master netting agreement in place and other relevant requirements are met. The ISDA Master Agreement is an industry-standard master netting agreement that is typically used to document derivative transactions (bilateral and cleared). The Company generally uses the ISDA Master Agreement and similar master netting agreements to document derivative (bilateral and cleared) and repo-style transactions. For a discussion of the Company's master netting agreements, see Note 6 (Collateralized Transactions) and Note 10 (Derivative Instruments and Hedging Activities) to the condensed consolidated financial statements in Part I, Item 1 of the Form 10-Q.

Collateral

The Company may require collateral depending on a credit assessment done for each of the Company's counterparties. There is an established infrastructure to manage, maintain and value collateral on a daily basis. Collateral held is managed in accordance with the Company's guidelines and the relevant underlying agreements.

For a discussion of the Company's use of collateral as a credit risk mitigant, including with respect to derivatives, repo-style transactions and margin loans, see Note 6 (Collateralized Transactions) and Note 10 (Derivative Instruments and Hedging Activities) to the condensed consolidated financial statements in Part I, Item 1 of the Form 10-Q. For further information on the Company's valuation approaches, including for collateral, see Note 2 (Significant Accounting Policies) to the consolidated financial statements included in Part II, Item 8 of the Form 10-K and Note 4 (Fair Value Disclosures) to the condensed consolidated financial statements included in Part I, Item 1 of the Form 10-Q.

General Disclosure for Counterparty Credit Risk

The following table is presented on a U.S. GAAP basis and reflects the net exposures for derivative and other contracts (bilateral and cleared) and securities financing transactions and the gross notional exposures for wholesale margin lending.

		At June 30, 2014
		(dollars in millions)
Derivative and Other Contracts:		
Gross positive fair value	$	602,773
Counterparty netting benefit		(515,305)
Netted current credit exposure	$	87,468
Securities collateral		(6,881)
Cash collateral		(55,563)
Net exposure (after netting and collateral)	$	25,024
Repo-Style Transactions:		
Gross notional exposure	$	315,980
Net exposure (after netting and collateral)		16,522
Wholesale Margin Lending:		
Gross notional exposure(1)	$	12,178

(1) At June 30, 2014, the fair value of the collateral held exceeded the carrying value of margin loans.

The following table is presented on a U.S. GAAP basis and reflects the notional amount of outstanding credit derivatives at June 30, 2014, used to hedge the Company's own portfolio and those undertaken in connection with client intermediation activities. The Company believes that the notional amounts of the derivative contracts generally overstate its exposure.

	At June 30, 2014			
	Hedge Portfolio		Intermediation Activities	
Credit derivative type	Purchased	Sold	Purchased	Sold
	(dollars in millions)			
Credit derivatives:				
Credit default swaps	$ 55,567	$ 32,891	$ 1,032,891	$ 1,052,205
Total return swaps	-	-	4,145	3,488
Other	1,584	-	22,860	33,751
Total	$ 57,151	$ 32,891	$ 1,059,896	$ 1,089,444

For a further discussion of the Company's credit derivatives, see "Quantitative and Qualitative Disclosures about Market Risk—Credit Risk—Credit Exposure–Derivatives—Credit Derivatives" in Part I, Item 3 and Note 10 (Derivative Instruments and Hedging Activities) to the condensed consolidated financial statements in Part I, Item 1 of the Form 10-Q.

Internal Models Methodology

The Company uses the Internal Models Methodology ("IMM") to estimate counterparty exposure at future time horizons. Under the IMM approach, the Company uses a regulator-approved simulation model to estimate the distribution of counterparty exposures at specified future time horizons. The simulation model projects potential values of various risk factors that affect the Company's counterparty portfolio (*e.g.*, interest rates, equity prices, commodity prices and credit spreads) under a large number of simulation paths, and then determines possible changes in counterparty exposure for each path by re-pricing transactions with that counterparty under the projected risk factor values. A counterparty's expected positive exposure profile is determined from the resulting modeled exposure distribution to estimate Exposure at Default in calculating RWAs for regulatory capital ratio purposes. For a small population of exposures not modeled under this simulation method, the Company calculates Exposure at Default for regulatory capital purposes using a more conservative but less risk-sensitive method. The internal models incorporate the effects of legally enforceable netting and collateral agreements in estimating counterparty exposure.

The table below presents the Exposure at Default used for the Company's determination of regulatory capital for derivative and other contracts and securities financing transactions, including bilateral and cleared transactions, but excluding default fund contributions.

	At June 30, 2014
	Internal Models Methodology
	(dollars in millions)
Derivative and other contracts(1)	$ 74,956
Securities financing transactions	39,126
Other	1,040
Total	$ 115,122

(1) Amount includes client exposures related to the clearing of exchange-traded derivatives.

Other Counterparty Credit Risk Management Practices

Credit Valuation Adjustment

Credit valuation adjustment ("CVA") refers to the fair value adjustment to reflect counterparty credit risk in the valuation of bilateral (*i.e.,* non-cleared) OTC derivative contracts. U.S. Basel III requires the Company to calculate RWAs for CVA.

The Company establishes a CVA for bilateral OTC derivative transactions based on expected credit losses given the probability and severity of a counterparty default. The adjustment is determined by evaluating the credit exposure to the counterparty and by taking into account the market value of a counterparty's credit risk as implied by credit spreads, and the effect of allowances for any credit risk mitigants such as legally enforceable netting and collateral agreements.

CVA is recognized in profit and loss on a daily basis and effectively represents an adjustment to reflect the credit component of the fair value of the derivatives receivable. Given that the previously recognized CVA reduces the potential loss faced in the event of a counterparty default, exposure metrics are reduced for CVA.

Assignment of Economic Capital for Counterparty Credit Exposures

The Company's internal capital assessment and the assignment of counterparty credit risk are based on the Company's required capital framework. The Company's required capital framework is based on the principle that the Company should have adequate capital to meet regulatory requirements even after a severe stress loss. This framework takes into consideration Probability of Default, Loss Given Default, potential exposure and resulting estimated stress losses on counterparty credit exposures. For a further discussion on the Company's required capital framework, see "MD&A—Liquidity and Capital Resources—Regulatory Requirements—Required Capital" in Part I, Item 2 of the Form 10-Q.

Additional Collateral Requirements Due to Credit Rating Downgrade

For a discussion of the additional collateral or termination payments that may be called in the event of a future credit rating downgrade of the Company, see "MD&A—Liquidity and Capital Resources—Credit Ratings" in Part I, Item 2 of the Form 10-Q.

Wrong-Way Risk

The Company incorporates the effect of specific wrong-way risk in its calculation of the counterparty exposure. Specific wrong-way risk arises when a transaction is structured in such a way that the exposure to the counterparty is positively correlated with the Probability of Default of the counterparty; for example, a counterparty writing put options on its own stock or a counterparty collateralized by its own or related party stock. The Company considers specific wrong-way risk when approving transactions. The Company also monitors general wrong-way risk, which arises when the counterparty Probability of Default is correlated with general market or macroeconomic factors. The credit assessment process identifies these correlations and manages the risk accordingly.

5.5 Credit Risk Mitigation

General Overview of Credit Risk Mitigation

In addition to the use of netting and collateral for mitigating counterparty credit risk discussed above, the Company may seek to mitigate credit risk from its lending and derivatives transactions in multiple ways, including through the use of guarantees and hedges. At the transaction level, the Company seeks to mitigate risk through management of key risk elements such as size, tenor, financial covenants, seniority and collateral. The Company actively hedges its lending and derivatives exposure through various financial instruments that may include single-name, portfolio and structured credit derivatives. Additionally, the Company may sell, assign or syndicate funded loans and lending commitments to other financial institutions in the primary and secondary loan market.

In connection with its derivatives activities, the Company generally enters into master netting agreements and collateral arrangements with counterparties. These agreements provide the Company 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 a counterparty default. For further information on the impact of netting on the Company's credit exposures, see "Collateral" in Section 5.4 herein and "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Credit Risk" in Part II, Item 7A of the Form 10-K.

Loan Collateral Recognition and Management

Collateralizing loans significantly reduces the credit risk to the Company. As part of the credit evaluation process, when possible, the Company's Credit Risk Management Department assesses the ability of obligors to post collateral. The Company's Credit Risk Management Department may consider the posting of collateral as a factor when approving loans, as applicable.

Customer margin accounts, a source of credit exposure, are collateralized in accordance with internal and regulatory guidelines. The Company monitors required margin levels and established credit limits daily and, pursuant to such guidelines, requires customers to provide additional collateral, or reduce positions, when necessary. Factors considered in the review of margin loans are the amount of the loan, the intended purpose, the degree of leverage being employed in the account, and overall evaluation of the portfolio to ensure diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies to reduce risk. Additionally, transactions relating to concentrated or restricted positions require a review of any legal impediments to liquidation of the underlying collateral. Underlying collateral for margin loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluation of industry concentrations.

With respect to first and second mortgages, including HELOC loans, a loan evaluation process is adopted within a framework of the credit underwriting policies and collateral valuation. Loan-to-collateral value ratios are determined based on independent third-party property appraisal/valuations, and the security lien position is established through title/ownership reports.

Guarantees and Credit Derivatives

The Company may accept or request guarantees from related or third parties to mitigate credit risk for wholesale obligors. Such arrangements represent obligations for the guarantor to make payments to the Company if a counterparty fails to fulfill its obligation under a borrowing arrangement or other contractual obligation. The Company typically accepts guarantees from investment grade corporate entities and financial institutions within the Institutional Securities business segment, and individuals and their small- and medium-sized domestic businesses within the Wealth Management business segment. Guarantees are monitored against eligibility requirements on an ongoing basis, and eligible guarantees for wholesale exposures may be recognized when evaluating the internal ratings assignment process and when determining the Company's overall capital requirements. The Company may also hedge certain exposures using credit derivatives. The Company enters into credit derivatives, principally through credit default swaps, under which it receives or provides protection against the risk of default on a set of debt obligations issued by a specified reference entity or entities. A majority of the Company's hedge counterparties are banks, broker-dealers, insurance and other financial institutions.

The Company recognizes certain credit derivatives and third-party guarantees for the reduction of capital requirements under the Advanced Approach. At June 30, 2014, the aggregate Exposure at Default amount of the Company's wholesale exposure hedged by such credit derivatives or third-party guarantees, excluding CVA hedges, was $4,171 million.

6 Securitization

Securitization exposure is defined as a transaction in which:

- The credit risk of the underlying exposures is transferred to third parties, and has been separated into two or more tranches reflecting different levels of seniority;
- The performance of the securitization depends upon the performance of the underlying exposures; and
- All or substantially all of the underlying exposures are financial exposures.

Securitization exposures include on- or off-balance sheet exposures (including credit enhancements) that arise from a securitization or re-securitization transaction; or an exposure that directly or indirectly references a securitization (*e.g.*, a credit derivative). A re-securitization is an exposure based on the performance of more than one underlying exposure and in which one or more of the underlying exposures is itself a securitization exposure.

On-balance sheet exposures include securities, loans and derivatives for which securitization trusts are the counterparty. Off-balance sheet exposures include liquidity commitments, tranched credit derivatives and derivatives for which the reference obligation is a securitization.

Securitization exposures are classified as either traditional or synthetic. In a traditional securitization, the originator establishes a special purpose entity ("SPE") and sells assets (either originated or purchased) off its balance sheet into the SPE, which issues securities to investors. In a synthetic securitization, credit risk is transferred to an investor through the use of credit derivatives or guarantees. In a synthetic securitization, there is no change in accounting treatment for the assets securitized.

The Company does not manage or advise entities that invest in securitizations sponsored by the Company.

Except for (i) its available for sale securities ("AFS Securities") portfolios, for which the Company purchases highly rated tranches of commercial mortgage and other securitizations not sponsored by the Company, and (ii) warehouse loans to client sponsored SPEs, the Company engages in securitizations primarily as a trading activity.

The Company retains securities issued in securitization transactions it sponsors, and it purchases securities issued in securitization transactions sponsored by others as part of its trading inventory. These interests are included in the condensed consolidated statements of financial condition at fair value with mark-to-market changes reported in the trading book.

With the exception of the current year securitization activities, this section includes only securitization exposures that are included in the banking book. Securitization exposures that are included in the trading book are presented in "Correlation Trading Positions and Securitization Exposures in the Trading Book" in Part II, Section 3 of the Market Risk Capital Disclosures Report.

6.1 Securitization Activities

For further information on securitization transactions in which the Company holds any exposure in either the banking book or the trading book, see the tables in “Transfers of Assets with Continuing Involvement” in Note 7 (Variable Interest Entities and Securitization Activities) to the consolidated financial statements in Part II, Item 8 of the Form 10-K and Note 7 (Variable Interest Entities and Securitization Activities) to the condensed consolidated financial statements in Part I, Item 1 of the Form 10-Q.

The following table, which excludes securitization exposures held in the Company’s trading book, represents the total outstanding exposures securitized by the Company as a sponsor for which the Company has retained credit or counterparty exposures at June 30, 2014. Because this excludes securities held in the Company’s trading book, this table includes only transactions in which the Company transferred assets and entered into a derivative transaction with the securitization SPE. For residential mortgage and commercial mortgage transactions, these derivatives are interest rate and/or currency swaps. This table does not include assets transferred by unaffiliated co-depositors into these transactions. Traditional securitization exposures reflect unpaid principal balances of the underlying collateral, and synthetic securitization exposures reflect notional amounts.

	At June 30, 2014		
	Traditional		
Exposure type	Amount Sold by the Company	Amount Sold by Third Parties in Transactions Sponsored by the Company	Synthetic
	(dollars in millions)		
Commercial mortgages	$ 10,185	$ 6,417	$ -
Residential mortgages	1,065	-	-
Corporate debt	367	-	401
Asset-backed securitizations and other	-	-	-
Total	$ 11,617	$ 6,417	$ 401

The following table is presented on a U.S. GAAP basis and reflects a summary of the Company’s securitization activity during 2014, regardless of whether the Company retained credit or counterparty exposure, including the amount of exposures securitized (by exposure type), and the corresponding recognized gain or loss on sale. This table includes assets transferred by unaffiliated co-depositors into these transactions.

	Six Months Ended June 30, 2014		
Exposure type	Amount Sold by the Company(1)	Recognized Gain/(Loss) on Sale	Amount Sold by Third Parties in Transactions Sponsored by the Company
	(dollars in millions)		
Commercial mortgages	$ 1,390	$ 8	$ 2,436
Residential mortgages	380	-	-
Corporate debt	-	-	-
Asset-backed securitizations and other	-	-	-
Total	$ 1,770	$ 8	$ 2,436

(1) Amounts represent notional value of assets which the Company contributed to the securitization.

The following table is presented on a U.S. GAAP basis and reflects a summary of the Company's securitization activity during 2014, for those transactions in which the Company has not retained an interest, including the amount of exposures securitized (by exposure type), and the corresponding recognized gain or loss on sale. This table includes assets transferred by unaffiliated co-depositors into these transactions.

	Six Months Ended June 30, 2014		
Exposure type	**Amount Sold by the Company(1)**	**Recognized Gain/(Loss) on Sale**	**Amount Sold by Third Parties in Transactions Sponsored by the Company**
	(dollars in millions)		
Commercial mortgages	$ 784	$ 9	$ 1,563
Residential mortgages	22	-	-
Corporate debt	-	-	-
Asset-backed securitizations and other	-	-	-
Total	$ 806	$ 9	$ 1,563

(1) Amounts represent notional value of assets which the Company contributed to the securitization.

6.2 Accounting and Valuation

For a discussion of the Company's accounting and valuation techniques related to securitization, see Note 2 (Significant Accounting Policies), Note 4 (Fair Value Measurements) and Note 7 (Variable Interest Entities and Securitization Activities) to the consolidated financial statements in Part II, Item 8 of the Form 10-K and Note 4 (Fair Value Measurements) and Note 7 (Variable Interest Entities and Securitization Activities) to the condensed consolidated financial statements in Part I, Item 1 of the Form 10-Q.

6.3 Banking Book Securitization Exposures

The following tables do not include securities held in the Company's trading book. As a result, these tables include only securities held in its AFS Securities portfolios, warehouse loans made to securitization entities and transactions in which the Company entered into derivative transactions with a securitization issuer.

The Company did not retain any senior or subordinate tranches, nor recognized related credit losses in the banking book. During the quarter ended June 30, 2014, the Company did not have material impaired/past due exposures or losses on securitized assets.

In addition, the Company may enter into derivative contracts, such as interest rate swaps. These derivative transactions generally represent senior obligations of the SPEs, senior to the most senior beneficial interest outstanding in the securitized exposures, and are included in the condensed consolidated statements of financial condition primarily at fair value.

The following table is presented on a U.S. GAAP basis and reflects the outstanding exposures intended to be securitized:

Exposure type	**At June 30, 2014**
	(dollars in millions)
Commercial mortgages	$ 1,736
Residential mortgages	-
Corporate debt	269
Asset-backed securitizations and other	-
Total	$ 2,005

The following table presents the aggregate Exposure at Default amount of the Company's outstanding on-balance sheet and off-balance sheet securitization positions by exposure type:

Exposure type	At June 30, 2014 On-balance sheet	Off-balance sheet	Total
	(dollars in millions)		
Commercial mortgages	$ 1,734	$ 2,021	$ 3,755
Residential mortgages	187	32	219
Corporate debt	1,599	1,458	3,057
Asset-backed securitizations and other(1)	8,479	2,871	11,350
Total	$ 11,999	$ 6,382	$ 18,381

(1) Amounts primarily reflect student loans, auto receivables, servicer advance receivables, municipal bonds and credit card receivables.

The following table presents the aggregate Exposure at Default amount of securitization exposures retained or purchased and the associated RWAs for these exposures, categorized between securitization and re-securitization exposures. In addition, these exposures are further categorized into risk weight bands and by risk-based capital approach. The Company employs the Supervisory Formula Approach and the Simplified Supervisory Formula Approach to calculate counterparty credit capital for securitization exposures in the Company's banking book. The Supervisory Formula Approach uses internal models to calculate the risk weights for securitization exposures. The Simplified Supervisory Formula Approach is a simplified version of the Supervisory Formula Approach under which the risk weights for securitization exposures are determined using supervisory risk weights and other inputs. In those cases where the Company does not apply either of the Supervisory Formula Approach or the Simplified Supervisory Formula Approach, then the securitization exposures will be assigned to the 1,250% risk weight category.

	At June 30, 2014 Securitizations					
	Supervisory Formula Approach		Simplified Supervisory Formula Approach		1,250% Risk Weight Category	
Risk Weight	Exposure at Default Amount	RWAs	Exposure at Default Amount	RWAs	Exposure at Default Amount	RWAs
	(dollars in millions)					
0% - 20%	$ 11,630	$ 2,465	$ 5,588	$ 1,184	$ -	$ -
20% - 100%	778	299	187	187	-	-
100% - 500%	55	165	-	-	-	-
500% - 1,250%	75	492	12	68	-	-
Equal to 1,250%	-	-	-	-	7	98
Total	$ 12,538	$ 3,421	$ 5,787	$ 1,439	$ 7	$ 98

	At June 30, 2014 Re-securitizations					
	Supervisory Formula Approach		Simplified Supervisory Formula Approach		1,250% Risk Weight Category	
Risk Weight	Exposure at Default Amount	RWAs	Exposure at Default Amount	RWAs	Exposure at Default Amount	RWAs
	(dollars in millions)					
0% - 20%	$ -	$ -	$ 15	$ 3	$ -	$ -
20% - 100%	-	-	-	-	-	-
100% - 500%	-	-	20	47	-	-
500% - 1,250%	-	-	12	97	-	-
Equal to 1,250%	-	-	-	-	2	19
Total	$ -	$ -	$ 47	$ 147	$ 2	$ 19

At June 30, 2014, the amount of exposures that was deducted from Tier 1 capital, representing the after-tax gain on sale resulting from securitization was $13 million.

6.4 Credit and Market Risk Related to Securitization

The Company may extend short-term or long-term funding to clients through loans and lending commitments that are secured by assets of the borrower and generally provide for over-collateralization, including commercial real estate, loans secured by loan pools, commercial and industrial company loans, and secured lines of revolving credit. Credit risk with respect to these loans and lending commitments arises from the failure of a borrower to perform according to the terms of the loan agreement or a decline in the underlying collateral value.

Risk Monitoring. The credit risk of the Company's securitizations and re-securitizations is controlled by actively monitoring and managing the associated credit exposures. The Company evaluates collateral quality, credit subordination levels and structural characteristics of securitization transactions at inception and on an ongoing basis, and manages exposures against internal concentration limits.

The Company follows a set of rigorous procedures for risk managing market risk on securitized products, evolving them with changes in market conditions:

- The Company conducts an assessment of risk limits at least once a year, and more often when required. Collateral quality, liquidity and downside risk are important factors for setting market risk limits.
- The Company measures downside risk using various metrics such as Stress Value-at-Risk ("S-VaR"), a proprietary methodology, and many stress scenarios, differentiating products based on collateral, seniority and liquidity.
- The Company includes all of its trading book securitization positions in the Company's Value-at-Risk ("VaR") model.

Re-securitization positions are created from re-packaging of securitization exposures, risk managed by reviewing risk in the underlying collateral. Risk assessments of these positions (for limits, stress test and VaR) are conducted by taking into account the underlying collateral risk.

Analyzing Credit Risk. Credit risk management takes place at the transaction, obligor and portfolio levels. In order to protect the Company from losses resulting from these activities, the Company's Credit Risk Management Department ensures that lending transactions and derivative exposures are analyzed, that the creditworthiness of the Company's counterparties and borrowers are reviewed regularly, and that credit exposure is actively monitored and managed. The Company's Credit Risk Management Department assigns obligor credit ratings to the Company's counterparties and borrowers, which reflect an assessment of an obligor's Probability of Default. Additionally, the Company's Credit Risk Management Department evaluates the relative position of the Company's particular obligation in the borrower's capital structure and relative recovery prospects, as well as collateral (if applicable) and other structural elements of the particular transaction.

The following table presents the aggregate Exposure at Default amount of re-securitization exposures retained or purchased, categorized according to exposures to which credit risk mitigation is applied and those not applied.

	At June 30, 2014 (dollars in millions)
Re-securitization exposures:	
Re-securitization exposure to which credit risk mitigation is applied	$ -
Re-securitization exposure to which credit risk mitigation is not applied	49
Total re-securitization exposures retained or purchased	$ 49
Total re-securitization exposure to guarantors	$ -
Total re-securitization exposure not to guarantors	49
Total re-securitization exposures retained or purchased	$ 49

7 Operational Risk

Operational risk refers to the risk of loss, or damage to the Company's reputation, resulting from inadequate or failed processes, people, and systems or from external events (*e.g.*, fraud, legal and compliance risks or damage to physical assets). The Company may incur operational risk across the full scope of its business activities, including revenue-generating activities (*e.g.*, sales and trading) and control groups (*e.g.*, information technology and trade processing). Legal, regulatory and compliance risks are included in the scope of operational risk. For a further discussion of operational risk, see "Quantitative and Qualitative Disclosures about Market Risk—Risk Management—Operational Risk" in Part II, Item 7A of the Form 10-K.

The Company has established an advanced measurement approaches framework to identify, measure, monitor and control risk across the Company. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory and reputational risks. The framework is continually evolving to account for changes in the Company and to respond to the changing regulatory and business environment. The Company has implemented operational risk data and assessment systems to monitor and analyze internal and external operational risk events, business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated in the operational risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital models, while external operational incidents and business environment internal control factors are indirect inputs to the model. The Company's ongoing review, update, oversight and validation of its advanced measurement approaches framework are comparable to that of its internal ratings system.

The Company uses the Loss Distribution Approach to model operational risk exposures. In this approach, loss frequency and severity distributions are separately modeled and compounded to produce an Aggregate Loss Distribution at various confidence levels over a one-year period. Operational risk regulatory capital is the VaR at the 99.9% confidence level. This modeling process is performed separately on each of the units of measure. The results are aggregated across all units of measure, taking into account potential risk interaction and diversification, to determine operational risk regulatory capital.

In addition, the Company employs a variety of risk processes and mitigants to manage its operational risk exposures. These include a strong governance framework, a comprehensive risk management program and insurance. The Company continually undertakes measures to improve infrastructure and mitigate operational risk. The goal of the Operational Risk Management Framework is to identify and assess significant operational risks and to ensure that appropriate mitigation actions are undertaken. Mitigation actions are driven by the Operational Risk Framework in that operational risks and associated risk exposures are assessed vis-à-vis the operational risk levels and are prioritized accordingly. The breadth and range of operational risk are such that the types of mitigating activities are wide-ranging. Examples of activities include the use of legal agreements and contracts to transfer and/or limit operational risk exposures; due diligence; implementation of enhanced policies and procedures; exception management processing controls; and authorization and segregation of duties.

See "Capital Adequacy" in Section 4 herein for the Company's operational RWAs at June 30, 2014.

8 Equities Not Subject to Market Risk Capital Rule

Overview

The Company from time to time makes equity investments that may include business facilitation or other investing activities. Such investments are typically strategic investments undertaken by the Company to facilitate core business activities. From time to time, the Company may also make equity investments and capital commitments to public and private companies, funds and other entities. Additionally, the Company sponsors and manages investment vehicles and separate accounts for clients seeking exposure to private equity, infrastructure, mezzanine lending and real estate-related and other alternative investments. The Company may also invest in and provide capital to such investment vehicles.

Valuation and accounting policies for equity investments not subject to market risk capital rule

The Company's equity investments include investments in private equity funds, real estate funds and hedge funds (which include investments made in connection with certain employee deferred compensation plans), as well as direct investments in equity securities, which are recorded at fair value.

The Company applies the Alternative Modified Look-Through Approach to equity exposures to investment funds. Under this approach, the adjusted carrying value of an equity exposure to an investment fund is assigned on a pro rata basis to different risk weight categories based on the information in the fund's prospectus or related documents. For all other equity exposures, the Company applies the Simple Risk-Weight Approach ("SRWA"). Under SRWA, the RWA for each equity exposure is calculated by multiplying the adjusted carrying value of the equity exposure by the applicable regulatory prescribed risk weight.

The following table consists of U.S. GAAP amounts disclosed in the balance sheet of investments and the types and nature of investments, capital requirements by appropriate equity groupings, cumulative realized gains/(losses) from sales and liquidations in the reporting period, and total unrealized gains/(losses) on equity AFS Securities reflected in Accumulated other comprehensive income (loss), net of tax ("AOCI"), including unrecognized gains/(losses) related to investments carried at cost and unrealized gains/(losses) included in Tier 1 and/or Tier 2 capital.

Type of Equity Investments	At June 30, 2014 Total On-balance Sheet(1)	Risk Weight %	RWAs(2)
	(dollars in millions)		
Simple Risk-Weight Approach:			
Exposures in the 0% risk weight category	$ 382	0%	$ -
Exposures in the 20 % risk weight category	39	20%	8
Community development equity exposures	2,146	100%	2,340
Non-significant equity exposures	5,806	100%	6,656
Significant investments in unconsolidated financial institutions(3)	4,981	100%	5,311
Publicly traded equity exposures	-	300%	-
Non-publicly traded equity exposures	-	400%	-
Exposures in the 600% risk weight category	819	600%	5,894
Sub-total	$ 14,173	N/A	$ 20,209
Equity exposures to investment funds:			
Alternative Modified Look-Through Approach	5,023	N/A	5,472
Total Equities Not Subject to Market Risk Capital Rule	$ 19,196	N/A	$ 25,681

Cumulative realized gains/(losses) from sales and liquidations	$ (289)
Total unrealized gains/(losses) on equity AFS Securities reflected in AOCI(4)	(4)
Unrecognized gains/(losses) related to investments carried at cost(4)	20
Unrealized gains/(losses) included in Tier 1 and/or Tier 2 capital	(4)

N/A—Not Applicable

(1) The total on-balance sheet amount reflects $13,035 million and $6,161 million of non-publicly traded and publicly traded investments, respectively, at June 30, 2014. The on-balance sheet amounts reflect approximate fair value of these exposures and are presented on a U.S. GAAP basis, which include investments in the Company's own instruments and investments in the capital instruments of unconsolidated financial institutions that are subject to capital deductions under U.S. Basel III. At June 30, 2014, the amount of Equities Not Subject to Market Risk Capital Rule that were deducted from Total capital was $63 million. For further information on the Company's valuation techniques related to investments, see Note 2 (Significant Accounting Policies) to the consolidated financial statements in Part II, Item 8 of the Form 10-K.

(2) Amounts are presented on a calibrated basis and reflect RWAs for total on- and off-balance sheet equity exposures.

(3) Under the Advanced Approach, significant investments in unconsolidated financial institutions in the form of common stock, which are not deducted from Common Equity Tier 1, are assigned a 250% risk weight. Between 2014 and 2017, under the transitional rules, a 100% risk weight is applied. In 2018, the 250% risk weight comes into effect on a fully phased-in basis.

(4) For the quarter ended June 30, 2014.

9 Interest Rate Risk for Non-trading Activities

The Company believes that interest rate sensitivity analysis is an appropriate representation of the Company's interest rate risk for non-trading activities. For information on the interest rate sensitivity analysis on non-trading activities within the Company's portfolio, see "Quantitative and Qualitative Disclosures about Market Risk—Market Risk—Non-Trading Risks" in Part I, Item 3 of the Form 10-Q.