

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, 2020

Commission File Number 1-11758

Morgan Stanley

(Exact name of Registrant as specified in its charter)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, \$0.01 par value	MS	New York Stock Exchange
Depository Shares, each representing 1/1,000th interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series A, \$0.01 par value	MS/PA	New York Stock Exchange
Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series E, \$0.01 par value	MS/PE	New York Stock Exchange
Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series F, \$0.01 par value	MS/PF	New York Stock Exchange
Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I, \$0.01 par value	MS/PI	New York Stock Exchange
Depository Shares, each representing 1/1,000th interest in a share of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series K, \$0.01 par value	MS/PK	New York Stock Exchange
Depository Shares, each representing 1/1000th interest in a share of 4.875% Non-Cumulative Preferred Stock, Series L, \$0.01 par value	MS/PL	New York Stock Exchange
Global Medium-Term Notes, Series A, Fixed Rate Step-Up Senior Notes Due 2026 of Morgan Stanley Finance LLC (and Registrant's guarantee with respect thereto)	MS/26C	New York Stock Exchange
Morgan Stanley Cushing® MLP High Income Index ETNs due March 21, 2031	MLPY	NYSE Arca, Inc.

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

As of April 30, 2020, there were 1,575,656,380 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

QUARTERLY REPORT ON FORM 10-Q

For the quarter ended March 31, 2020

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Available Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC maintains a website, www.sec.gov, that contains annual, quarterly and current reports, proxy and information statements and other information that issuers file electronically with the SEC. Our electronic SEC filings are available to the public at the SEC's website.

Our website is www.morganstanley.com. 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 website, statements of beneficial ownership of our equity securities filed by our directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

You can access information about our corporate governance at www.morganstanley.com/about-us-governance and our sustainability initiatives at www.morganstanley.com/about-us/sustainability-at-morgan-stanley. Our webpages include:

- 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;
- Environmental and Social Policies; and
- Sustainability Report.

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

Risk Factors

In addition to “Risk Factors” in Part I, Item 1A of the 2019 Form 10-K, please refer to the risk factor under Item 8.01. “Other Matters,” in the Current Report on Form 8-K filed with the SEC on April 16, 2020 and the additional risk factors under “Risk Factors” in the Registration Statement on Form S-4 filed with the SEC on April 17, 2020.

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. See the “Glossary of Common Terms and Acronyms” for the definition of certain terms and acronyms used throughout this Form 10-Q.

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

Institutional Securities provides investment banking, sales and trading, lending and other services to corporations, governments, financial institutions and high to ultra-high net worth clients. Investment banking services consist of capital raising and financial advisory services, including services relating to the underwriting of debt, equity and other securities, as well as advice on mergers and acquisitions, restructurings, real estate and project finance. Sales and trading services include sales, financing, prime brokerage and market-making activities in equity and fixed income products, including foreign exchange and commodities. Lending activities include originating corporate loans and commercial real estate loans, providing secured lending facilities, and extending financing to sales and trading customers. Other activities include Asia wealth management services, 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; stock plan administration services; annuity and insurance products; securities-based lending, residential real estate loans and other lending products; banking; and retirement plan services.

Investment Management provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets to a diverse group of clients across institutional and intermediary channels. Strategies and products, which are offered through a variety of investment vehicles, 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 generally served through intermediaries, including affiliated and non-affiliated distributors.

Management's Discussion and Analysis includes certain metrics which we believe to be useful to us, investors, analysts and other stakeholders by providing further transparency about, or an additional means of assessing, our financial condition and operating results. Such metrics, when used, are defined and may be different from or inconsistent with metrics used by other companies.

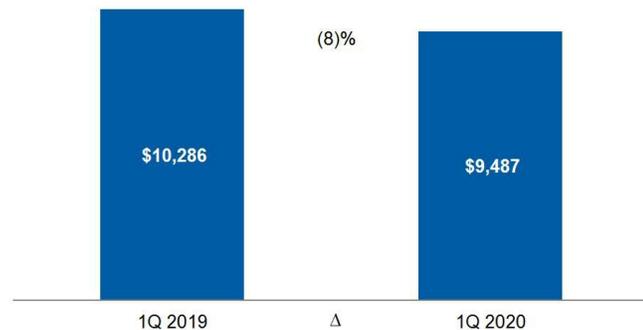
The results of operations in the past have been, and in the future may continue to be, materially affected by: competition; risk factors; legislative, legal and regulatory developments; and other factors. These factors also may have an adverse impact on our ability to achieve our strategic objectives. Additionally, the discussion of our results of operations herein may contain forward-looking statements. These statements, which reflect management's beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect our future results, see “Forward-Looking Statements,” “Business—Competition,” “Business—Supervision and Regulation,” and “Risk Factors” in the 2019 Form 10-K, and “Liquidity and Capital Resources—Regulatory Requirements” herein. In addition, see “Executive Summary” herein and “Risk Factors” for information on the current and possible future effects of the COVID-19 pandemic on our results.

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 further information on basic and diluted EPS, see Note 16 to the financial statements.

We reported net revenues of \$9,487 million in the quarter ended March 31, 2020 (“current quarter,” or “1Q 2020”), compared with \$10,286 million in the quarter ended March 31, 2019 (“prior year quarter,” or “1Q 2019”). For the current quarter, net income applicable to Morgan Stanley was \$1,698 million, or \$1.01 per diluted common share, compared with \$2,429 million or \$1.39 per diluted common share, in the prior year quarter.

See “Coronavirus Disease (COVID-19) Pandemic” herein for information on the current and possible future effects of the COVID-19 pandemic on our results.

Non-interest Expenses¹
(\$ in millions)



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

- Compensation and benefits expenses of \$4,283 million in the current quarter decreased 8% from \$4,651 million in the prior year quarter. The decrease was primarily due to decreases in the fair value of investments to which certain deferred compensation plans are referenced and compensation associated with carried interest, partially offset by increases in discretionary incentive compensation, and the formulaic payout to Wealth Management representatives driven by the mix of revenues.
- Non-compensation expenses of \$3,058 million in the current quarter increased 14% from \$2,680 million in the prior year quarter. The increase was primarily due to higher volume-related expenses and an increase in the provision for credit losses for lending commitments.

Income Taxes

The prior year quarter included intermittent net discrete tax benefits of \$101 million, primarily associated with remeasurement of reserves and related interest as a result of new information pertaining to the resolution of multi-jurisdiction tax examinations. For further information, see “Supplemental Financial Information—Income Tax Matters” herein.

Selected Financial Information and Other Statistical Data

\$ in millions	Three Months Ended March 31,	
	2020	2019
Net income applicable to Morgan Stanley	\$ 1,698	\$ 2,429
Preferred stock dividends	108	93
Earnings applicable to Morgan Stanley common shareholders	\$ 1,590	\$ 2,336
Expense efficiency ratio ¹	77.4%	71.3%
ROE ²	8.5%	13.1%
Adjusted ROE ³	8.3%	12.5%
ROTCE ^{2,3}	9.7%	14.9%
Adjusted ROTCE ³	9.5%	14.2%
Pretax margin ⁴	22.6%	28.7%
Pre-tax margin by segment⁴		
Institutional Securities	19%	31%
Wealth Management	26%	27%
Investment Management	21%	22%

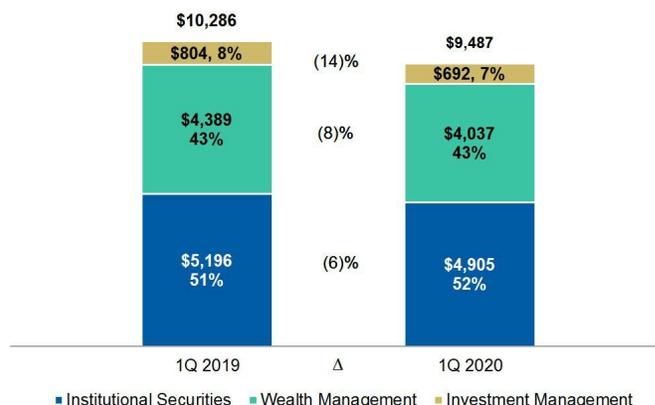
in millions, except per share and employee data	At	At
	March 31, 2020	December 31, 2019
Liquidity resources ⁵	\$ 255,134	\$ 215,868
Loans ⁶	\$ 148,697	\$ 130,637
Total assets	\$ 947,795	\$ 895,429
Deposits	\$ 235,239	\$ 190,356
Borrowings	\$ 194,856	\$ 192,627
Common shares outstanding	1,576	1,594
Common shareholders' equity	\$ 77,340	\$ 73,029
Tangible common shareholders' equity ³	\$ 68,194	\$ 63,780
Book value per common share ⁷	\$ 49.09	\$ 45.82
Tangible book value per common share ^{3,7}	\$ 43.28	\$ 40.01
Worldwide employees	60,670	60,431

Capital ratios ⁸	At	At
	March 31, 2020	December 31, 2019
Common Equity Tier 1 capital	15.2%	16.4%
Tier 1 capital	17.3%	18.6%
Total capital	19.6%	21.0%
Tier 1 leverage	8.1%	8.3%
SLR	6.2%	6.4%

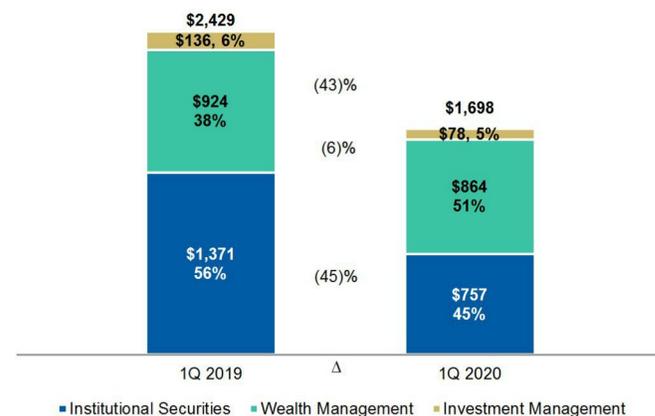
- The expense efficiency ratio represents total non-interest expenses as a percentage of net revenues.
- ROE and ROTCE represent annualized earnings applicable to Morgan Stanley common shareholders as a percentage of average common equity and average tangible common equity, respectively.
- Represents a non-GAAP measure. See "Selected Non-GAAP Financial Information" herein.
- Pre-tax margin represents income from continuing operations before income taxes as a percentage of net revenues.
- For a discussion of Liquidity resources, see "Liquidity and Capital Resources—Liquidity Risk Management Framework—Liquidity Resources" herein.
- Amounts include loans held for investment (net of allowance) and loans held for sale but exclude loans at fair value, which are included in Trading assets in the balance sheets (see Note 9 to the financial statements).
- Book value per common share and tangible book value per common share equal common shareholders' equity and tangible common shareholders' equity, respectively, divided by common shares outstanding.
- At March 31, 2020 and December 31, 2019, our risk-based capital ratios are based on the Advanced Approach and the Standardized Approach rules, respectively. For a discussion of our capital ratios, see "Liquidity and Capital Resources—Regulatory Requirements" herein.

Business Segment Results
Net Revenues by Segment¹

(\$ in millions)


Net Income Applicable to Morgan Stanley by Segment¹

(\$ in millions)

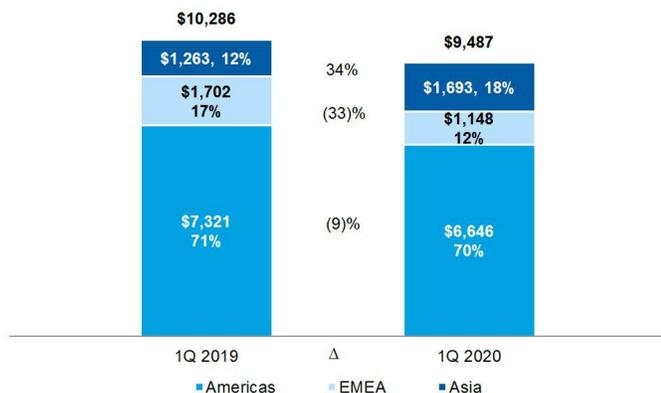


1. The percentages on the bars in the charts represent the contribution of each business segment to the total of the applicable financial category and may not total to 100% due to intersegment eliminations. See Note 19 to the financial statements for details of intersegment eliminations.

- Institutional Securities net revenues of \$4,905 million in the current quarter decreased 6% from \$5,196 million in the prior year quarter primarily reflecting losses on loans and lending commitments held for sale and an increase in the provision for credit losses on loans and lending commitments held for investment, as well as losses related to investments associated with certain employee deferred cash-based compensation plans, partially offset by increases in Fixed Income and Equity sales and trading revenues driven by increased volumes and volatility.
- Wealth Management net revenues of \$4,037 million in the current quarter decreased 8% from \$4,389 million in the prior year quarter, primarily reflecting losses related to investments associated with certain employee deferred cash-based compensation plans, partially offset by higher Asset management revenues and higher commissions driven by market volatility.

- Investment Management net revenues of \$692 million in the current quarter decreased 14% from \$804 million in the prior year quarter, primarily reflecting lower Investments revenues, partially offset by higher Asset management revenues.

Net Revenues by Region^{1,2}
(\$ in millions)



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

Both the 34% increase in revenues in Asia and the 33% decrease in revenues in EMEA were primarily attributable to Equity sales and trading within the Institutional Securities business segment. The Equity sales and trading revenues increase in Asia reflects higher client volumes, while in EMEA market volatility and reduced dividend expectations weighed on revenues in the derivatives and financing businesses. Additionally, EMEA results reflected markdowns of held-for-sale loans and lending commitments.

Coronavirus Disease (COVID-19) Pandemic

The coronavirus disease (“COVID-19”) pandemic and related government-imposed shelter-in-place restrictions have had, and will likely continue to have, a severe impact on global economic conditions and the environment in which we operate our businesses.

In responding to this unprecedented situation, we have taken measures to prioritize the health of our employees and their families, and to be prepared operationally to serve our clients, leveraging our business continuity planning and historical investments in technology. More than 90% of our employees are currently working from home, and to date, we have not experienced any significant loss of operational capability, as we have implemented our pandemic-related responses. We believe we are prepared to continue to operate with the vast majority of our workforce working remotely for as long as health guidelines and prudence require, with limited impact to our operational capabilities.

The coronavirus disease has impacted many people’s health around the world, including many of our employees. Our

Chairman and CEO was diagnosed with the coronavirus in March, but has fully recovered. The rest of the Firm’s Operating Committee remain healthy and are sheltering in place.

With the COVID-19 impacts on individuals, communities and organizations continuing to evolve, governments around the world have reacted to the health crisis caused by the pandemic, and central banks have taken steps to proactively address market disruptions by cutting interest rates and providing liquidity sources and other stimulus programs. See “Regulatory Developments in Response to COVID-19” herein for further details.

We also have taken several direct steps to provide assistance. Our balance sheet has increased as we: support market and client activity; take in increased deposits from our Wealth Management clients; extend credit to our institutional and retail clients to provide them with additional liquidity; and provide financing to support COVID-19 impacted clients across multiple sectors. Along with the seven other U.S. Banks comprising the Financial Services Forum, we voluntarily ceased our Share Repurchase Program to keep this capital available to help clients and took action on the Federal Reserve's encouragement to use its discount window by borrowing from it. We have also taken steps to participate in other Federal Reserve programs, notably the Primary Dealer Credit Facility (“PDCF”).

Our financial condition, balance sheet, capital and liquidity have remained strong. In March 2020, we saw deposit inflows of \$38 billion as customers sought relative safety away from volatile markets, and we raised more than \$5 billion in new long-term debt supplementing our liquidity position.

As further discussed in “Business Segments” herein, towards the end of the current quarter, we observed the impact of the pandemic on our business. The decline of asset prices, reduction in interest rates, widening of credit spreads, borrower and counterparty credit deterioration, market volatility and reduced investment banking activity had the most immediate negative impacts on our current quarter performance. Related to these effects, the Firm experienced mark-to-market losses, net of economic hedges of \$610 million on loans and lending commitments held for sale, provisions of \$407 million for credit losses on loans and lending commitments held for investment, and losses of \$384 million on fund and business-related investments, net of hedges. At the same time, high levels of client trading activity, related to market volatility, significantly increased revenues for global macro products and Commodities in Institutional Securities, and the transactional businesses in Wealth Management.

Though we are unable to estimate the extent of the impact, the continuing pandemic and related global economic crisis will adversely impact our future operating results. Additionally, with the continuance of many of the same negative impacts, without the benefit of higher client trading activity experienced in the

Management's Discussion and Analysis

current quarter, it is uncertain that our financial objectives will be attained within the originally stated two year time frame.

We continue to use the elements of our Enterprise Risk Management framework manage the significant uncertainty in the present economic and market conditions. See "Quantitative and Qualitative Disclosures about Risk" in the 2019 Form 10-K for further information about our Enterprise Risk Management Framework.

In addition, refer to "Risk Factors" herein and Forward Looking Statements in the 2019 Form 10-K.

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, analysts and other stakeholders 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 in the following tables.

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

<i>\$ in millions, except per share data</i>	Three Months Ended March 31,	
	2020	2019
Net income applicable to Morgan Stanley	\$ 1,698	\$ 2,429
Impact of adjustments	(31)	(101)
Adjusted net income applicable to Morgan Stanley—non-GAAP¹	\$ 1,667	\$ 2,328
Earnings per diluted common share	\$ 1.01	\$ 1.39
Impact of adjustments	(0.02)	(0.06)
Adjusted earnings per diluted common share—non-GAAP¹	\$ 0.99	\$ 1.33
Effective income tax rate	17.1%	16.5%
Impact of adjustments	1.4%	3.4%
Adjusted effective income tax rate—non-GAAP¹	18.5%	19.9%

<i>\$ in millions</i>	Average Monthly Balance Three Months Ended March 31,	
	2020	2019
Tangible equity		
Morgan Stanley shareholders' equity	\$ 83,244	\$ 80,115
Less: Goodwill and net intangible assets	(9,200)	(8,806)
Tangible Morgan Stanley shareholders' equity—Non-GAAP	\$ 74,044	\$ 71,309
Common shareholders' equity	\$ 74,724	\$ 71,595
Less: Goodwill and net intangible assets	(9,200)	(8,806)
Tangible common shareholders' equity—Non-GAAP	\$ 65,524	\$ 62,789

<i>\$ in billions</i>	Three Months Ended March 31,	
	2020	2019
Average common equity		
Unadjusted—GAAP	\$ 74.7	\$ 71.6
Adjusted ¹ —Non-GAAP	74.7	71.5
ROE²		
Unadjusted—GAAP	8.5%	13.1%
Adjusted—Non-GAAP ^{1,3}	8.3%	12.5%
Average tangible common equity—Non-GAAP		
Unadjusted	\$ 65.5	\$ 62.8
Adjusted ¹	65.5	62.7
ROTCE²—Non-GAAP		
Unadjusted	9.7%	14.9%
Adjusted ^{1,3}	9.5%	14.2%

Non-GAAP Financial Measures by Business Segment

<i>\$ in billions</i>	Three Months Ended March 31,	
	2020	2019
Average common equity^{4, 5}		
Institutional Securities	\$ 42.8	\$ 40.4
Wealth Management	18.2	18.2
Investment Management	2.6	2.5
Average tangible common equity^{4, 5}		
Institutional Securities	\$ 42.3	\$ 39.9
Wealth Management	10.4	10.2
Investment Management	1.7	1.5
ROE⁶		
Institutional Securities	6.3%	12.9%
Wealth Management	18.5%	19.8%
Investment Management	11.7%	21.9%
ROTCE⁶		
Institutional Securities	6.4%	13.0%
Wealth Management	32.3%	35.6%
Investment Management	18.1%	35.3%

- Adjusted amounts exclude net discrete tax provisions (benefits) that are intermittent and include those that are recurring. Provisions (benefits) related to conversion of employee share-based awards are expected to occur every year and, as such, are considered recurring discrete tax items. For further information on the net discrete tax provisions (benefits), see “Supplemental Financial Information—Income Tax Matters” herein.
- ROE and ROTCE represent annualized earnings applicable to Morgan Stanley common shareholders as a percentage of average common equity and average tangible common equity, respectively. When excluding intermittent net discrete tax provisions (benefits), both the numerator and average denominator are adjusted.
- The calculations used in determining our “ROE and ROTCE Targets” referred to in the following section are the Adjusted ROE and Adjusted ROTCE amounts shown in this table.
- Average common equity and average tangible common equity for each business segment is 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 sums of the segments’ Average common equity and Average tangible common equity do not equal the Consolidated measures due to Parent equity.
- The calculation of ROE and ROTCE by segment uses annualized net income applicable to Morgan Stanley by segment less preferred dividends allocated to each segment as a percentage of average common equity and average tangible common equity, respectively, allocated to each segment.

Return on Tangible Common Equity Target

In January 2020, we established an ROTCE Target of 13% to 15% to be achieved over the next two years.

Our ROTCE Target is a forward-looking statement that was based on a normal market environment and may be materially affected by many factors, including, among other things: macroeconomic and market conditions; legislative and regulatory developments; industry trading and investment banking volumes; equity market levels; interest rate environment; outsized legal expenses or penalties; the ability to maintain a reduced level of expenses; and capital levels.

With the COVID–19 pandemic, and the current global economic crisis that includes negative impacts from many of the aforementioned factors, it is uncertain that the ROTCE Target will be met within the originally stated time frame. See “Coronavirus Disease (COVID–19) Pandemic” herein and “Risk Factors” for further information on market and economic conditions and their effects on our financial results.

For further information on non-GAAP measures (ROTCE excluding intermittent net discrete tax items), see “Selected Non-GAAP Financial Information” herein. For information on the impact of intermittent net discrete tax items, see “Supplemental Financial Information—Income Tax Matters” herein.

Business Segments

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

For an overview of the components of our business segments, net revenues, compensation expense and income taxes, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Business Segments” in the 2019 Form 10-K.

Institutional Securities
Income Statement Information

\$ in millions	Three Months Ended March 31,		
	2020	2019	% Change
Revenues			
Investment banking	\$ 1,144	\$ 1,151	(1)%
Trading	3,416	3,130	9 %
Investments	(25)	81	(131)%
Commissions and fees	874	621	41 %
Asset management	113	107	6 %
Other	(1,079)	222	N/M
Total non-interest revenues	4,443	5,312	(16)%
Interest income	2,423	3,056	(21)%
Interest expense	1,961	3,172	(38)%
Net interest	462	(116)	N/M
Net revenues	4,905	5,196	(6)%
Compensation and benefits	1,814	1,819	— %
Non-compensation expenses	2,141	1,782	20 %
Total non-interest expenses	3,955	3,601	10 %
Income before provision for income taxes	950	1,595	(40)%
Provision for income taxes	151	190	(21)%
Net income	799	1,405	(43)%
Net income applicable to noncontrolling interests	42	34	24 %
Net income applicable to Morgan Stanley	\$ 757	\$ 1,371	(45)%

Results in the Institutional Securities business segment reflect constructive markets in January and February 2020 and the significant effects of COVID-19 on markets in March. In particular, in March:

- Uncertainty, driven by market volatility and the overall environment, resulted in lower activity in Advisory and Equity underwriting.
- Market volumes and volatility were significantly higher than in the prior year quarter resulting in increased client activity across the Sales and Trading businesses and widened bid-offer spreads. Valuations were negatively impacted, and client balances declined significantly in the Equity Financing business.
- Credit deteriorated rapidly, the results of which are reflected in losses on held-for-sale loans and lending commitments recorded in Other revenues, partially offset by positive hedge results in Other Sales and Trading, aggregating to \$610 million for the current quarter; provisions for loan losses recorded in Other revenues, and lending commitments shown in Non-compensation expenses, aggregating to \$388 million for the current quarter; Trading losses in certain Credit

products within Fixed Income; and losses on certain counterparties' failure to meet margin requirements in Equity sales and trading.

These effects, in the context of the full quarter's results, are further discussed herein.

Investment Banking
Investment Banking Revenues

\$ in millions	Three Months Ended March 31,		
	2020	2019	% Change
Advisory	\$ 362	\$ 406	(11)%
Underwriting:			
Equity	336	339	(1)%
Fixed income	446	406	10 %
Total Underwriting	782	745	5 %
Total investment banking	\$ 1,144	\$ 1,151	(1)%

Investment Banking Volumes

\$ in billions	Three Months Ended March 31,	
	2020	2019
Completed mergers and acquisitions ¹	\$ 109	\$ 195
Equity and equity-related offerings ^{2, 3}	13	14
Fixed income offerings ^{2, 4}	82	58

Source: Refinitiv data as of April 1, 2020. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal, change in value or change in timing of certain transactions.

1. Includes transactions of \$100 million or more. Based on full credit to each of the advisors in a transaction.
2. Based on full credit for single book managers and equal credit for joint book managers.
3. Includes Rule 144A issuances and registered public offerings of common stock, convertible securities and rights offerings.
4. Includes Rule 144A and publicly registered issuances, non-convertible preferred stock, mortgage-backed and asset-backed securities, and taxable municipal debt. Excludes leveraged loans and self-led issuances.

Investment banking revenues of \$1,144 million in the current quarter were relatively unchanged from the prior year quarter, reflecting lower results in our advisory business offset by higher results in our fixed income underwriting business.

- Advisory revenues decreased in the current quarter primarily as a result of lower volumes of completed M&A activity, particularly large transactions.
- Equity underwriting revenues were relatively unchanged compared with subdued results in the prior year quarter as lower revenues in secondary block share trades were offset by higher revenues in initial public offerings and follow-on offerings.

- Fixed income underwriting revenues increased in the current quarter primarily due to higher overall volumes compared to the prior year quarter, with higher revenues in investment grade bond and non-investment grade loan issuances, partially offset by lower revenues from investment grade loan issuances.

See "Investment Banking Volumes" herein.

Sales and Trading Net Revenues

By Income Statement Line Item

\$ in millions	Three Months Ended March 31,		% Change
	2020	2019	
Trading	\$ 3,416	\$ 3,130	9%
Commissions and fees	874	621	41%
Asset management	113	107	6%
Net interest	462	(116)	N/M
Total	\$ 4,865	\$ 3,742	30%

By Business

\$ in millions	Three Months Ended March 31,		% Change
	2020	2019	
Equity	\$ 2,422	\$ 2,015	20%
Fixed Income	2,203	1,710	29%
Other	240	17	N/M
Total	\$ 4,865	\$ 3,742	30%

Sales and Trading Revenues—Equity and Fixed Income

\$ in millions	Three Months Ended March 31, 2020			
	Trading	Fees ¹	Net Interest ²	Total
Financing	\$ 1,034	\$ 101	\$ (37)	\$ 1,098
Execution services	579	783	(38)	1,324
Total Equity	\$ 1,613	\$ 884	\$ (75)	\$ 2,422
Total Fixed Income	\$ 1,773	\$ 102	\$ 328	\$ 2,203

\$ in millions	Three Months Ended March 31, 2019			
	Trading	Fees ¹	Net Interest ²	Total
Financing	\$ 1,115	\$ 98	\$ (258)	\$ 955
Execution services	551	553	(44)	1,060
Total Equity	\$ 1,666	\$ 651	\$ (302)	\$ 2,015
Total Fixed Income	\$ 1,727	\$ 78	\$ (95)	\$ 1,710

1. Includes Commissions and fees and Asset management revenues.
2. Includes funding costs, which are allocated to the businesses based on funding usage.

Equity

Equity sales and trading net revenues of \$2,422 million in the current quarter increased 20% from the prior year quarter, reflecting higher results in both our financing and execution services businesses.

- Financing increased from the prior year quarter, primarily due to higher average client balances, partially offset by the impact of reduced dividend expectations on the valuation of certain hedges. Net interest increased reflecting a reduction in funding costs.
- Execution services increased from the prior year quarter, reflecting an increase in market volumes in cash equities resulting in higher Commissions and fees, and higher client trading activity in derivatives products, which was partially offset by the impact of losses on certain counterparties' failure to meet margin requirements and the impact of reduced dividend expectations on derivative valuations.

Fixed Income

Fixed Income sales and trading net revenues of \$2,203 million in the current quarter were 29% higher than the prior year quarter, primarily driven by higher results in global macro products, partially offset by lower results in credit products.

- Global macro products Trading revenues increased primarily due to higher client activity in both foreign exchange and rates products, and the widening of bid-offer spreads from higher market volatility. Higher average balances and lower funding costs contributed to an increase in Net interest revenues.
- Credit products Trading revenues decreased primarily due to the widening of credit spreads which resulted in losses in securitized products and municipal securities, partially offset by increased revenues from client activity in corporate credit products from higher volumes and widening bid-offer spreads. Net interest revenues increased, primarily driven by higher spreads on Agency products and higher average balances in secured lending facilities.
- Trading revenues from Commodities products and Other decreased as a result of lower client structuring activity within derivatives counterparty credit risk management, partially offset by improved inventory management in commodities due to higher market volatility in energy and metals. Net interest revenues increased, reflecting lower funding costs.

Other

- Other sales and trading revenues of \$240 million in the current quarter increased from the prior year quarter reflecting gains on hedges associated with loans and lending commitments compared with losses in the prior year quarter, partially offset by losses related to investments associated with certain employee deferred cash-based compensation plans.

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

- Net investment losses of \$25 million in the current quarter compared to gains in the prior year quarter, were primarily driven by losses in the current quarter on an energy-related investment and lower revenues from fund-related distributions.

Other Revenues

- Other net losses of \$1,079 million in the current quarter were primarily as a result of mark-to-market losses on loans and lending commitments held for sale due to the widening of credit spreads, compared with gains in the prior year quarter, as well as an increase in the provision for credit losses on loans held for investment.

Non-interest Expenses

Non-interest expenses of \$3,955 million in the current quarter increased from the prior year quarter, primarily reflecting a 20% increase in Non-compensation expenses.

- Compensation and benefits expenses remained relatively unchanged in the current quarter as the benefit from a decrease in the fair value of investments to which certain deferred compensation plans are referenced was offset by an increase in discretionary incentive compensation reflecting baseline annual compensation estimates, exclusive of the benefit noted.
- Non-compensation expenses increased in the current quarter primarily due to higher volume-related expenses as well as an increase in the provision for credit losses for lending commitments held for investment.

Income Tax Items

Intermittent net discrete tax benefits of \$101 million were recognized in Provision for income taxes in the prior year quarter. For further information, see "Supplemental Financial Information—Income Tax Matters" herein.

Wealth Management
Income Statement Information

<i>\$ in millions</i>	Three Months Ended March 31,		% Change
	2020	2019	
Revenues			
Investment banking	\$ 158	\$ 109	45 %
Trading	(347)	302	N/M
Investments	—	1	(100)%
Commissions and fees	588	406	45 %
Asset management	2,680	2,361	14 %
Other	62	80	(23)%
Total non-interest revenues	3,141	3,259	(4)%
Interest income	1,193	1,413	(16)%
Interest expense	297	283	5 %
Net interest	896	1,130	(21)%
Net revenues	4,037	4,389	(8)%
Compensation and benefits	2,212	2,462	(10)%
Non-compensation expenses	770	739	4 %
Total non-interest expenses	2,982	3,201	(7)%
Income before provision for income taxes	\$ 1,055	\$ 1,188	(11)%
Provision for income taxes	191	264	(28)%
Net income applicable to Morgan Stanley	\$ 864	\$ 924	(6)%

Results in the Wealth Management business segment reflect the significant effects of COVID-19 on the economy and markets in March 2020. In particular, in March:

- The decline in global asset prices contributed to losses on investments associated with certain employee deferred cash-based compensation plans of \$426 million in the current quarter.
- Already elevated market volumes and volatility compared to the prior year quarter increased further, resulting in increased commissions from client activity.

These effects, in the context of the full quarter's results, are further discussed herein.

Financial Information and Statistical Data

<i>\$ in billions, except employee data</i>	At March 31,		
	2020	At December 31, 2019	
Client assets	\$ 2,397	\$ 2,700	
Fee-based client assets ¹	\$ 1,134	\$ 1,267	
Fee-based client assets as a percentage of total client assets	47%	47%	
Client liabilities ²	\$ 92	\$ 90	
Investment securities portfolio	\$ 75.5	\$ 67.2	
Loans and lending commitments	\$ 95.9	\$ 93.2	
Wealth Management representatives	15,432	15,468	
		Three Months Ended March 31,	
		2020	2019
Per representative:			
Annualized revenues (\$ in thousands) ³	\$ 1,045	\$ 1,118	
Client assets (\$ in millions) ⁴	\$ 155	\$ 158	
Fee-based asset flows (\$ in billions) ⁵	\$ 18.4	\$ 14.8	

1. Fee-based client assets represent the amount of assets in client accounts where the fee for services is calculated based on those assets.
2. Client liabilities include securities-based and tailored lending, residential real estate loans and margin lending.
3. Revenues per representative equal Wealth Management's annualized net revenues divided by the average number of representatives.
4. Client assets per representative equal total period-end client assets divided by period-end number of representatives.
5. For a description of the Inflows and Outflows included within Fee-based asset flows, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Segments—Wealth Management—Fee-Based Client Assets" in the 2019 Form 10-K. Excludes institutional cash management-related activity.

Transactional Revenues

<i>\$ in millions</i>	Three Months Ended March 31,		% Change
	2020	2019	
Investment banking	\$ 158	\$ 109	45 %
Trading	(347)	302	N/M
Commissions and fees	588	406	45 %
Total	\$ 399	\$ 817	(51)%
Transactional revenues as a % of Net revenues	10%	19%	

Management's Discussion and Analysis

Net Revenues

Transactional Revenues

Transactional revenues of \$399 million in the current quarter decreased 51% from the prior year quarter as negative Trading revenues were partially offset by higher Commissions and fees and Investment banking revenues.

- Investment banking revenues increased in the current quarter primarily due to higher revenues from structured products and closed-end fund issuances.
- Trading revenues decreased in the current quarter principally due to losses related to investments associated with certain employee deferred cash-based compensation plans, compared with gains in the prior year quarter.
- Commissions and fees increased in the current quarter primarily due to increased client activity in equities.

Asset Management

Asset management revenues of \$2,680 million in the current quarter increased 14% from the prior year quarter primarily due to higher fee-based assets levels at the beginning of the monthly billing cycles in 2020 due to market appreciation and positive net flows, partially offset by lower average fee rates.

See “Fee-Based Client Assets—Rollforwards” herein.

Other

Other revenues of \$62 million in the current quarter decreased 23% from the prior year quarter primarily due to an increase in the provision for credit losses.

Net Interest

Net interest of \$896 million in the current quarter decreased 21% from the prior year quarter primarily due to lower interest rates on Loans and the investment portfolio, changes in our funding mix, and higher prepayment amortization expense related to mortgage-backed securities. These decreases were partially offset by the impact of lower rates paid on brokerage sweep deposits and higher Loan balances.

Non-interest Expenses

Non-interest expenses of \$2,982 million in the current quarter decreased 7% from the prior year quarter primarily as a result of lower Compensation and benefits expenses, partially offset by higher Non-compensation expenses.

- Compensation and benefits expenses decreased in the current quarter, primarily due to decreases in the fair value of investments to which certain deferred compensation plans are referenced, partially offset by an increase in the formulaic

payout to Wealth Management representatives driven by the mix of revenues.

- Non-compensation expenses increased in the current quarter primarily due to incremental expenses related to Solium Capital, Inc., which was acquired in the second quarter of 2019.

Fee-Based Client Assets

Rollforwards

<i>\$ in billions</i>	At December 31, 2019	Inflows	Outflows	Market Impact	At March 31, 2020
Separately managed ¹	\$ 322	\$ 12	\$ (7)	\$ 2	\$ 329
Unified managed	313	16	(13)	(53)	263
Advisor	155	10	(9)	(25)	131
Portfolio manager	435	27	(18)	(65)	379
Subtotal	\$ 1,225	\$ 65	\$ (47)	\$ (141)	\$ 1,102
Cash management	42	4	(14)	—	32
Total fee-based client assets	\$ 1,267	\$ 69	\$ (61)	\$ (141)	\$ 1,134

<i>\$ in billions</i>	At December 31, 2018	Inflows	Outflows	Market Impact	At March 31, 2019
Separately managed ¹	\$ 279	\$ 14	\$ (5)	\$ (12)	\$ 276
Unified managed	257	13	(11)	24	283
Advisor	137	8	(9)	11	147
Portfolio manager	353	19	(14)	33	391
Subtotal	\$ 1,026	\$ 54	\$ (39)	\$ 56	\$ 1,097
Cash management	20	4	(5)	—	19
Total fee-based client assets	\$ 1,046	\$ 58	\$ (44)	\$ 56	\$ 1,116

Average Fee Rates

<i>Fee rate in bps</i>	Three Months Ended March 31,	
	2020	2019
Separately managed	14	14
Unified managed	99	101
Advisor	85	88
Portfolio manager	94	96
Subtotal	72	74
Cash management	5	6
Total fee-based client assets	71	73

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.

For a description of fee-based client assets and rollforward items in the previous tables, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Business Segments—Wealth Management—Fee-Based Client Assets” in the 2019 Form 10-K.

Investment Management
Income Statement Information

<i>\$ in millions</i>	Three Months Ended March 31,		
	2020	2019	% Change
Revenues			
Trading	\$ (37)	\$ (3)	N/M
Investments	63	191	(67)%
Asset management	665	617	8 %
Other	7	3	133 %
Total non-interest revenues	698	808	(14)%
Interest income	8	4	100 %
Interest expense	14	8	75 %
Net interest	(6)	(4)	(50)%
Net revenues	692	804	(14)%
Compensation and benefits	257	370	(31)%
Non-compensation expenses	292	260	12 %
Total non-interest expenses	549	630	(13)%
Income before provision for income taxes	143	174	(18)%
Provision for income taxes	25	33	(24)%
Net income	118	141	(16)%
Net income applicable to noncontrolling interests	40	5	N/M
Net income applicable to Morgan Stanley	\$ 78	\$ 136	(43)%

Results in the Investment Management business segment reflect the significant effects of COVID-19 on the economy and markets in March 2020. In particular, in March:

- The decline in global asset prices led to losses of \$326 million in the current quarter related to the reversal of accrued carried interest, and losses on investments in certain of our funds, net of economic hedges, and net losses in Trading revenues.

These effects, in the context of the full quarter's results, are further discussed herein.

Net Revenues
Investments

Investments revenues of \$63 million in the current quarter decreased 67% from the prior year quarter primarily as a result of the reversal of accrued carried interest and investment losses in certain private equity, real estate, and infrastructure funds and losses on seed investments in certain funds. Partially offsetting these decreases were higher carried interest and investment gains in an Asia private equity fund, principally driven by gains from an underlying investment, which is subject to certain sales restrictions.

Asset Management

Asset management revenues of \$665 million in the current quarter increased 8% from the prior year quarter primarily as a result of higher average AUM.

See "Assets Under Management or Supervision" herein.

Non-interest Expenses

Non-interest expenses of \$549 million in the current quarter decreased 13% from the prior year quarter primarily as a result of lower compensation and benefits expenses, partially offset by higher non-compensation expenses.

- Compensation and benefits expenses decreased in the current quarter primarily due to lower compensation associated with carried interest and a decrease in the fair value of investments to which certain deferred compensation plans are referenced.
- Non-compensation expenses in the current quarter increased from the prior year quarter primarily as a result of higher fee sharing paid to intermediaries driven by higher average AUM.

Assets Under Management or Supervision
Rollforwards

<i>\$ in billions</i>	At December 31, 2019	Inflows	Outflows	Market Impact	Other	At March 31, 2020
Equity	\$ 138	\$ 14	\$ (12)	\$ (18)	\$ (1)	\$ 121
Fixed income	79	10	(9)	(4)	(1)	75
Alternative/ Other	139	8	(4)	(7)	5	141
Long-term AUM subtotal	356	32	(25)	(29)	3	337
Liquidity	196	446	(395)	1	(1)	247
Total AUM	\$ 552	\$ 478	\$ (420)	\$ (28)	\$ 2	\$ 584
Shares of minority stake assets	6					6

<i>\$ in billions</i>	At December 31, 2018	Inflows	Outflows	Market Impact	Other	At March 31, 2019
Equity	\$ 103	\$ 9	\$ (8)	\$ 16	\$ —	\$ 120
Fixed income	68	6	(7)	1	—	68
Alternative/ Other	128	5	(4)	5	(1)	133
Long-term AUM subtotal	299	20	(19)	22	(1)	321
Liquidity	164	343	(348)	1	(1)	159
Total AUM	\$ 463	\$ 363	\$ (367)	\$ 23	\$ (2)	\$ 480
Shares of minority stake assets	7					6

Average AUM

<i>\$ in billions</i>	Three Months Ended March 31,	
	2020	2019
Equity	\$ 133	\$ 113
Fixed income	79	68
Alternative/Other	139	131
Long-term AUM subtotal	351	312
Liquidity	206	163
Total AUM	\$ 557	\$ 475
Shares of minority stake assets	6	6

Average Fee Rates

<i>Fee rate in bps</i>	Three Months Ended March 31,	
	2020	2019
Equity	77	76
Fixed income	31	32
Alternative/Other	60	68
Long-term AUM	60	63
Liquidity	17	17
Total AUM	44	47

For a description of the asset classes and rollforward items in the previous tables, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Business Segments—Investment Management—Assets Under Management or Supervision” in the 2019 Form 10-K.

Supplemental Financial Information
Income Tax Matters
Effective Tax Rate from Continuing Operations

<i>\$ in millions</i>	Three Months Ended March 31,	
	2020	2019
U.S. GAAP	17.1%	16.5%
Adjusted effective income tax rate— non-GAAP ¹	18.5%	19.9%
Net discrete tax provisions/(benefits)		
Recurring ²	\$ (99)	\$ (107)
Intermittent ³	\$ (31)	\$ (101)

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

The current quarter includes intermittent net discrete tax benefits associated with the remeasurement of prior years' tax liabilities. The prior year quarter includes intermittent net discrete tax benefits primarily associated with remeasurement of reserves and related interest as a result of new information pertaining to the resolution of multi-jurisdiction tax examinations. See Note 18 to the financial statements for further information.

U.S. Bank Subsidiaries

Our U.S. bank subsidiaries, Morgan Stanley Bank N.A. ("MSBNA") and Morgan Stanley Private Bank, National Association ("MSPBNA") (collectively, "U.S. Bank Subsidiaries") accept deposits; provide loans to a variety of customers, from large corporate and institutional clients to high net worth individuals; and invest in securities. Lending activity recorded in the U.S. Bank subsidiaries from the Institutional Securities business segment primarily includes loans and lending commitments to corporate clients. Lending activity recorded in the U.S. Bank subsidiaries from the Wealth Management business segment primarily includes securities-based lending, which allows clients to borrow money against the value of qualifying securities, and residential real estate loans.

For a further discussion of our credit risks, see "Quantitative and Qualitative Disclosures about Risk—Credit Risk." For a further discussion about loans and lending commitments, see Notes 9 and 13 to the financial statements.

U.S. Bank Subsidiaries' Supplemental Financial Information¹

<i>\$ in billions</i>	At March 31, 2020	At December 31, 2019
Assets	\$ 265.4	\$ 219.6
Investment securities portfolio:		
Investment securities—AFS	49.0	42.4
Investment securities—HTM	28.7	26.1
Total investment securities	\$ 77.7	\$ 68.5
Deposits ²	\$ 234.1	\$ 189.3
Wealth Management Loans		
Securities-based lending and other ³	\$ 51.4	\$ 49.9
Residential real estate	31.1	30.2
Total	\$ 82.5	\$ 80.1
Institutional Securities Loans		
Corporate ⁴ :		
Corporate relationship and event-driven lending	\$ 15.4	\$ 5.6
Secured lending facilities	28.4	26.8
Securities-based lending and other	5.1	5.4
Commercial and residential real estate	10.3	12.0
Total	\$ 59.2	\$ 49.8

1. Amounts exclude transactions between the bank subsidiaries, as well as deposits from the Parent Company and affiliates.
2. For further information on deposits, see "Liquidity and Capital Resources—Funding Management—Unsecured Financing" herein.
3. Other loans primarily include tailored lending.
4. For a further discussion of corporate loans in the Institutional Securities business segment, see "Credit Risk—Institutional Securities Corporate Loans" herein.

Other Matters
Planned Acquisition of E*TRADE

On February 20, 2020, we entered into a definitive agreement under which we will acquire E*TRADE Financial Corporation ("E*TRADE") in an all-stock transaction. In the current quarter, we filed our application with the Federal Reserve and in early April the Hart-Scott-Rodino Antitrust waiting period expired. The acquisition is subject to customary closing conditions, including regulatory approvals and approval by E*TRADE shareholders, and we continue to expect the acquisition to close in the fourth quarter of 2020.

Accounting Development Updates

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

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

- *Reference Rate Reform.* This accounting update provides optional accounting relief to entities with contracts, hedge accounting relationships or other transactions that reference LIBOR or other interest rate benchmarks for which the referenced rate is expected to be discontinued or replaced. This optional relief generally allows for contract modifications solely related to the replacement of the reference rate to be accounted for as a continuation of the existing contract instead of as an extinguishment of the contract, and would therefore not trigger certain accounting impacts that would otherwise be required. The relief also allows entities to change certain critical terms of existing hedge accounting relationships that are affected by reference rate reform, and these changes would not require de-designating the hedge accounting relationship. The optional relief can be applied beginning January 1, 2020, and ending December 31, 2022. We plan to apply the accounting relief as relevant contract and hedge accounting relationship modifications are made during the course of the reference rate reform transition period.

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 2019 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 2019 Form 10-K.

Liquidity and Capital Resources

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

Balance Sheet

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

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

Total Assets by Business Segment

\$ in millions	At March 31, 2020			
	IS	WM	IM	Total
Assets				
Cash and cash equivalents	\$ 101,615	\$ 29,803	\$ 91	\$ 131,509
Trading assets at fair value	266,781	389	3,746	270,916
Investment securities	40,662	75,495	—	116,157
Securities purchased under agreements to resell	88,008	16,792	—	104,800
Securities borrowed	71,826	474	—	72,300
Customer and other receivables	58,523	15,216	685	74,424
Loans ¹	66,171	82,516	10	148,697
Other assets ²	13,903	13,139	1,950	28,992
Total assets	\$ 707,489	\$ 233,824	\$ 6,482	\$ 947,795

\$ in millions	At December 31, 2019			
	IS	WM	IM	Total
Assets				
Cash and cash equivalents	\$ 67,657	\$ 14,247	\$ 267	\$ 82,171
Trading assets at fair value	293,477	47	3,586	297,110
Investment securities	38,524	67,201	—	105,725
Securities purchased under agreements to resell	80,744	7,480	—	88,224
Securities borrowed	106,199	350	—	106,549
Customer and other receivables	39,743	15,190	713	55,646
Loans ¹	50,557	80,075	5	130,637
Other assets ²	14,300	13,092	1,975	29,367
Total assets	\$ 691,201	\$ 197,682	\$ 6,546	\$ 895,429

IS—Institutional Securities
 WM—Wealth Management
 IM—Investment Management

1. 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 9 to the financial statements).
2. Other assets primarily includes Goodwill and Intangible assets, premises, equipment and software, ROU assets related to leases, other investments, and deferred tax assets.

A substantial portion of total assets consists of liquid marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities

Management's Discussion and Analysis

business segment. Total assets increased to \$948 billion at March 31, 2020 from \$895 billion at December 31, 2019.

Within Wealth Management, assets increased in the investment portfolio comprising Cash and cash equivalents, Investment securities and Securities purchased under agreements to resell, as a result of significantly higher deposits in this segment, and loans continued to grow.

Institutional Securities' assets were also higher reflecting increases within Cash and cash equivalents, primarily due to higher initial margin related to derivatives; Customer and other receivables, resulting from higher volumes of unsettled transactions in line with market conditions; and loan growth in March in support of client needs. Additionally, within Institutional Securities, Trading assets and Securities borrowed decreased, predominantly driven by corporate equities as the markets declined. The decrease in Trading assets includes a partial offset related to increased derivative exposures related to market volatility.

Liquidity Risk Management Framework

The core components of our Liquidity Risk Management Framework are the Required Liquidity Framework, Liquidity Stress Tests and Liquidity Resources, which support our target liquidity profile. For a further discussion about the Firm's Required Liquidity Framework and Liquidity Stress Tests, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity Risk Management Framework" in the 2019 Form 10-K.

At March 31, 2020 and December 31, 2019, we maintained sufficient liquidity to meet current and contingent funding obligations as modeled in our Liquidity Stress Tests.

Liquidity Resources

We maintain sufficient liquidity resources, which are comprised of HQLA and cash deposits with banks ("Liquidity Resources") to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. The total amount of Liquidity Resources is actively managed by us considering the following components: unsecured debt maturity profile; balance sheet size and composition; funding needs in a stressed environment, inclusive of contingent cash outflows; legal entity, regional and segment liquidity requirements; regulatory requirements; and collateral requirements.

The amount of Liquidity Resources we hold is based on our risk tolerance and is subject to change depending on market and Firm-specific events. The Liquidity Resources are primarily held within the Parent Company and its major operating subsidiaries. The Total HQLA values in the tables immediately following are different from Eligible HQLA which, in

accordance with the LCR rule, also takes into account certain regulatory weightings and other operational considerations.

Liquidity Resources by Type of Investment¹

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Cash deposits with central banks	\$ 60,719	\$ 35,025
Unencumbered HQLA Securities ² :		
U.S. government obligations	95,619	88,754
U.S. agency and agency mortgage-backed securities	58,342	50,732
Non-U.S. sovereign obligations ³	30,255	29,909
Other investment grade securities	700	1,591
Total HQLA²	\$ 245,635	\$ 206,011
Cash deposits with banks (non-HQLA)	9,499	9,857
Total Liquidity Resources	\$ 255,134	\$ 215,868

1. In the first quarter of 2020, we changed our internal measure of liquidity from the Global Liquidity Reserve to Liquidity Resources, which is more closely aligned with the regulatory definition of HQLA. Prior periods have been recast to conform to the current presentation.
2. HQLA is presented prior to applying weightings and includes all HQLA held in subsidiaries.
3. Primarily composed of unencumbered U.K., French, Japanese, and German government obligations.

Liquidity Resources by Bank and Non-Bank Legal Entities¹

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019	Average Daily Balance Three Months Ended March 31, 2020
Bank legal entities			
Domestic	\$ 112,126	\$ 75,894	\$ 83,117
Foreign	5,265	4,049	4,419
Total Bank legal entities	117,391	79,943	87,536
Non-Bank legal entities			
Domestic:			
Parent Company	53,548	53,128	49,284
Non-Parent Company	33,665	28,905	36,295
Total Domestic	87,213	82,033	85,579
Foreign	50,530	53,892	54,333
Total Non-Bank legal entities	137,743	135,925	139,912
Total Liquidity Resources	\$ 255,134	\$ 215,868	\$ 227,448

1. In the first quarter of 2020, we changed our internal measure of liquidity from the Global Liquidity Reserve to Liquidity Resources, which is more closely aligned with the regulatory definition of HQLA. Prior periods have been recast to conform to the current presentation.

Liquidity Resources may fluctuate from period to period based on the overall size and composition of our balance sheet, the maturity profile of our unsecured debt and estimates of funding needs in a stressed environment, among other factors. During the current quarter, cash deposits at central banks have increased, largely driven by an increase in deposits received from customers.

Regulatory Liquidity Framework

Liquidity Coverage Ratio

We and our U.S. Bank Subsidiaries are subject to LCR requirements, including a requirement to calculate each entity’s LCR on each business day. The requirements are designed to ensure that banking organizations have sufficient Eligible HQLA to cover net cash outflows arising from significant stress over 30 calendar days, thus promoting the short-term resilience of the liquidity risk profile of banking organizations. The LCR calculation applies weightings (or asset haircuts) to HQLA and excludes certain HQLA held in subsidiaries.

As of March 31, 2020, we and our U.S. Bank Subsidiaries are compliant with the minimum required LCR of 100%. For further information on regulatory developments that have impacted our LCR, see “Liquidity and Capital Resources—Regulatory Requirements—Regulatory Developments” herein.

Liquidity Coverage Ratio

\$ in millions	Average Daily Balance Three Months Ended	
	March 31, 2020	December 31, 2019
Eligible HQLA¹		
Cash deposits with central banks	\$ 32,778	\$ 29,597
Securities ²	140,336	148,221
Total Eligible HQLA¹	\$ 173,114	\$ 177,818
LCR	127%	134%

1. Under the LCR rule, Eligible HQLA is calculated using weightings and excluding certain HQLA held in subsidiaries.
2. Primarily includes U.S. Treasuries, U.S. agency mortgage-backed securities, sovereign bonds and investment grade corporate bonds.

The reduction in the LCR was driven by lower average Eligible HQLA amounts, which included the removal from Eligible HQLA of certain securities used to secure intraday credit, following a recent regulatory rule clarification.

Net Stable Funding Ratio

The NSFR requires banking organizations to maintain sufficiently stable sources of funding over a one-year horizon. In 2016, the U.S. banking agencies issued a proposal to implement the NSFR in the U.S.; however, a final rule has not yet been issued. For an additional discussion of the NSFR, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Liquidity Framework—Net Stable Funding Ratio” in the 2019 Form 10-K.

Funding Management

We manage our funding in a manner that reduces the risk of disruption to our operations. We pursue a strategy of diversification of secured and unsecured funding sources (by product, investor and region) and attempt to ensure that the tenor

of our liabilities equals or exceeds the expected holding period of the assets being financed.

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

Secured Financing

For a discussion of our secured financing activities, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Funding Management—Secured Financing” in the 2019 Form 10-K.

Collateralized Financing Transactions

\$ in millions	At March 31, 2020	At December 31, 2019
Securities purchased under agreements to resell and Securities borrowed	\$ 177,100	\$ 194,773
Securities sold under agreements to repurchase and Securities loaned	\$ 57,447	\$ 62,706
Securities received as collateral ¹	\$ 4,711	\$ 13,022

\$ in millions	Average Daily Balance Three Months Ended	
	March 31, 2020	December 31, 2019
Securities purchased under agreements to resell and Securities borrowed	\$ 177,971	\$ 210,257
Securities sold under agreements to repurchase and Securities loaned	\$ 61,143	\$ 64,870

1. Included within Trading assets—Corporate equities in the balance sheets.

See “Total Assets by Business Segment” herein for more details on the assets shown in the previous table, Note 2 to the financial statements in the 2019 Form 10-K and Note 8 to the financial statements for more details on collateralized financing transactions.

In addition to the collateralized financing transactions shown in the previous table, we engage in financing transactions collateralized by customer-owned securities, which are segregated in accordance with regulatory requirements. Receivables under these financing transactions, primarily margin loans, are included in Customer and other receivables in the balance sheets, and payables under these financing transactions, primarily to prime brokerage customers, are included in Customer and other payables in the balance sheets. Our risk exposure on these transactions is mitigated by collateral maintenance policies. We also hold related liquidity reserves.

Unsecured Financing

For a discussion of our unsecured financing activities, see “Management’s Discussion and Analysis of Financial Condition

Management's Discussion and Analysis

and Results of Operations—Liquidity and Capital Resources—Funding Management—Unsecured Financing” in the 2019 Form 10-K.

Deposits

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Savings and demand deposits:		
Brokerage sweep deposits ¹	\$ 151,618	\$ 121,077
Savings and other	36,886	28,388
Total Savings and demand deposits	188,504	149,465
Time deposits	46,735	40,891
Total	\$ 235,239	\$ 190,356

1. Amounts represent balances swept from client brokerage accounts.

Deposits are primarily sourced from our Wealth Management clients and are considered to have stable, low-cost funding characteristics. Total deposits at March 31, 2020 significantly increased compared with December 31, 2019, primarily driven by higher brokerage sweep and savings deposits as customers sought relative safety away from volatile markets in March. In addition, total deposits increased as a result of higher time deposits. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary—Coronavirus Disease (COVID-19) Pandemic herein for further information on market and economic conditions.

Borrowings by Remaining Maturity at March 31, 2020¹

<i>\$ in millions</i>	Parent Company	Subsidiaries	Total
Original maturities of one year or less	\$ 8	\$ 2,203	\$ 2,211
Original maturities greater than one year			
2020	\$ 8,264	\$ 2,692	\$ 10,956
2021	19,575	4,099	23,674
2022	16,116	3,045	19,161
2023	15,155	2,938	18,093
2024	15,678	4,809	20,487
Thereafter	79,688	20,586	100,274
Total	\$ 154,476	\$ 38,169	\$ 192,645
Total Borrowings	\$ 154,484	\$ 40,372	\$ 194,856
Maturities over next 12 months ²			\$ 17,153

1. Original maturity in the table is generally based on contractual final maturity. For borrowings with put options, remaining maturity represents the earliest put date.
2. Includes only borrowings with original maturities greater than one year.

Borrowings of \$195 billion as of March 31, 2020 were relatively unchanged when compared with \$193 billion at December 31, 2019.

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

with original maturities greater than one year are generally managed to achieve staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients across regions, currencies and product types.

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

For further information on Borrowings, see Note 12 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 certain OTC derivative transactions. When determining credit ratings, rating agencies consider both company-specific and industry-wide factors. These include regulatory or legislative changes, the macroeconomic environment and perceived levels of support, among other things. See also “Risk Factors—Liquidity Risk” in the 2019 Form 10-K.

Parent Company and U.S. Bank Subsidiaries' Issuer Ratings at April 30, 2020

	Parent Company		
	Short-Term Debt	Long-Term Debt	Rating Outlook
DBRS, Inc.	R-1 (middle)	A (high)	Stable
Fitch Ratings, Inc.	F1	A	Negative
Moody's Investors Service, Inc.	P-2	A3	Ratings Under Review
Rating and Investment Information, Inc.	a-1	A	Stable
S&P Global Ratings	A-2	BBB+	Stable
	MSBNA		
	Short-Term Debt	Long-Term Debt	Rating Outlook
Fitch Ratings, Inc.	F1	A+	Negative
Moody's Investors Service, Inc.	P-1	A1	Ratings Under Review
S&P Global Ratings	A-1	A+	Stable
	MSPBNA		
	Short-Term Debt	Long-Term Debt	Rating Outlook
Moody's Investors Service, Inc.	P-1	A1	Ratings Under Review
S&P Global Ratings	A-1	A+	Stable

On February 21, 2020, Moody's Investors Service, Inc. placed the Parent Company and U.S. Bank Subsidiaries on review for

possible upgrade, changing their outlooks from Positive to Ratings Under Review.

On April 23, 2020, Fitch Ratings, Inc. placed the Parent Company and MSBNA ratings on Negative outlook, a change from Stable, related to their expectation of significant operating environment headwinds due to the disruption to economic activity and financial markets from the COVID-19 pandemic.

Incremental Collateral or Terminating Payments

In connection with certain OTC derivatives and certain other agreements where we are a liquidity provider to certain financing vehicles associated with the Institutional Securities business segment, we may be required to provide additional collateral, immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain clearing organizations in the event of a future credit rating downgrade irrespective of whether we are in a net asset or net liability position. See Note 6 to the financial statements for additional information on OTC derivatives that contain such contingent features.

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

Capital Management

We view capital as an important source of financial strength and actively manage our consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines. In the future, we may expand or contract our capital base to address the changing needs of our businesses.

Common Stock Repurchases

<i>in millions, except for per share data</i>	Three Months Ended March 31,	
	2020	2019
Number of shares	29	28
Average price per share	\$ 46.01	\$ 42.19
Total	\$ 1,347	\$ 1,180

On March 15, 2020, the Financial Services Forum announced that its eight U.S. Bank members, including us, had voluntarily suspended their share repurchase programs. See “Executive Summary—Coronavirus Disease (COVID-19) Pandemic”

herein for information on the current and possible future effects of the COVID-19 pandemic on our results.

For further information on our common stock repurchases, see Note 16 to the financial statements.

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

Common Stock Dividend Announcement

Announcement date	April 16, 2020
Amount per share	\$0.35
Date to be paid	May 15, 2020
Shareholders of record as of	April 30, 2020

Preferred Stock Dividend Announcement

Announcement date	March 16, 2020
Date paid	April 15, 2020
Shareholders of record as of	March 31, 2020

For additional information on common and preferred stock, see Note 16 to the financial statements.

Off-Balance Sheet Arrangements and Contractual Obligations

Off-Balance Sheet Arrangements

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

We utilize SPEs primarily in connection with securitization activities. For information on our securitization activities, see Note 14 to the financial statements.

For information on our commitments, obligations under certain guarantee arrangements and indemnities, see Note 13 to the financial statements. For a further discussion of our lending commitments, see “Quantitative and Qualitative Disclosures about Risk—Credit Risk—Loans and Lending Commitments.”

Contractual Obligations

For a discussion about our contractual obligations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations” in the 2019 Form 10-K.

Regulatory Requirements

Regulatory Capital Framework

We are an FHC under the Bank Holding Company Act of 1956, as amended ("BHC Act"), and are subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for us, including "well-capitalized" standards, and evaluates our compliance with such capital requirements. Regulatory capital requirements established by the Federal Reserve are largely based on the Basel III capital standards established by the Basel Committee and also implement certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). The OCC establishes similar capital requirements and standards for our U.S. Bank Subsidiaries. For us to remain an FHC, we must remain well-capitalized in accordance with standards established by the Federal Reserve and our U.S. Bank Subsidiaries must remain well-capitalized in accordance with standards established by the OCC. For additional information on regulatory capital requirements for our U.S. Bank Subsidiaries, see Note 15 to the financial statements.

Regulatory Capital Requirements

We are required to maintain minimum risk-based and leverage-based capital, and TLAC ratios. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Capital Requirements" in the 2019 Form 10-K. For additional information on TLAC, see "Total Loss-Absorbing Capacity, Long-Term Debt and Clean Holding Company Requirements" herein.

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

In addition to the minimum risk-based capital ratio requirements, we are subject to the following Common Equity Tier 1 buffers:

- A greater than 2.5% capital conservation buffer;
- The G-SIB capital surcharge, currently at 3%; and
- Up to a 2.5% CCyB, currently set by U.S. banking agencies at zero.

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 2019 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") or (ii) the applicable advanced approaches for calculating credit risk, market risk and operational risk RWA ("Advanced Approach"). The credit risk RWA calculations between the two approaches differ in that the Standardized Approach requires calculation of RWA using prescribed risk weights, whereas the Advanced Approach utilizes models to calculate exposure amounts and risk weights. At March 31, 2020 and December 31, 2019, our ratios for determining regulatory compliance are based on the Advanced Approach and the Standardized Approach rules, respectively.

Leverage-Based Regulatory Capital. Minimum leverage-based capital requirements include a Tier 1 leverage ratio and an SLR. We are required to maintain an SLR of 5%, inclusive of an enhanced SLR capital buffer of at least 2%.

As of March 31, 2020, our risk-based and leverage-based capital amounts and ratios, as well as RWA, adjusted average assets and supplementary leverage exposure are calculated excluding the effect of the adoption of CECL based on our election to defer this effect over a five-year transition period. For further information, see "Liquidity and Capital Resources—Regulatory Requirements—Regulatory Developments" herein.

Regulatory Capital Ratios

\$ in millions	At March 31, 2020		
	Required Ratio ¹	Standardized	Advanced
Risk-based capital			
Common Equity Tier 1 capital		\$ 65,195	\$ 65,195
Tier 1 capital		73,896	73,896
Total capital		84,121	83,847
Total RWA		415,002	427,782
Common Equity Tier 1 capital ratio	10.0%	15.7%	15.2%
Tier 1 capital ratio	11.5%	17.8%	17.3%
Total capital ratio	13.5%	20.3%	19.6%

\$ in millions	Required Ratio ¹	At March 31, 2020	
Leverage-based capital			
Adjusted average assets ²			\$ 910,499
Tier 1 leverage ratio	4.0%		8.1%
Supplementary leverage exposure ³			\$ 1,185,734
SLR	5.0%		6.2%

\$ in millions	At December 31, 2019		
	Required Ratio ¹	Standardized	Advanced
Risk-based capital			
Common Equity Tier 1 capital		\$ 64,751	\$ 64,751
Tier 1 capital		73,443	73,443
Total capital		82,708	82,423
Total RWA		394,177	382,496
Common Equity Tier 1 capital ratio	10.0%	16.4%	16.9%
Tier 1 capital ratio	11.5%	18.6%	19.2%
Total capital ratio	13.5%	21.0%	21.5%

\$ in millions	Required Ratio ¹	At December 31, 2019	
Leverage-based capital			
Adjusted average assets ²			\$ 889,195
Tier 1 leverage ratio	4.0%		8.3%
Supplementary leverage exposure ³			\$ 1,155,177
SLR	5.0%		6.4%

1. Required ratios are inclusive of any buffers applicable as of the date presented. 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.
2. Adjusted average assets represents the denominator of the Tier 1 leverage ratio and is composed of the average daily balance of consolidated on-balance sheet assets for the quarters ending on the respective balance sheet dates, reduced by disallowed goodwill, intangible assets, investments in covered funds, defined benefit pension plan assets, after-tax gain on sale from assets sold into securitizations, investments in our own capital instruments, certain deferred tax assets and other capital deductions.
3. Supplementary leverage exposure is the sum of Adjusted average assets used in the Tier 1 leverage ratio and other adjustments, primarily: (i) for derivatives, potential future exposure and the effective notional principal amount of sold credit protection offset by qualifying purchased credit protection; (ii) the counterparty credit risk for repo-style transactions; and (iii) the credit equivalent amount for off-balance sheet exposures.

Regulatory Capital

\$ in millions	At March 31, 2020	At December 31, 2019	Change
Common Equity Tier 1 capital			
Common stock and surplus	\$ 3,727	\$ 5,228	\$ (1,501)
Retained earnings	71,718	70,589	1,129
AOCI	2,095	(2,788)	4,883
Regulatory adjustments and deductions:			
Net goodwill	(7,058)	(7,081)	23
Net intangible assets	(1,924)	(2,012)	88
Other adjustments and deductions ¹	(3,363)	815	(4,178)
Total Common Equity Tier 1 capital	\$ 65,195	\$ 64,751	\$ 444
Additional Tier 1 capital			
Preferred stock	\$ 8,520	\$ 8,520	\$ —
Noncontrolling interests	536	607	(71)
Additional Tier 1 capital	\$ 9,056	\$ 9,127	\$ (71)
Deduction for investments in covered funds	(355)	(435)	80
Total Tier 1 capital	\$ 73,896	\$ 73,443	\$ 453
Standardized Tier 2 capital			
Subordinated debt	\$ 9,090	\$ 8,538	\$ 552
Noncontrolling interests	126	143	(17)
Eligible allowance for credit losses	1,013	590	423
Other adjustments and deductions	(4)	(6)	2
Total Standardized Tier 2 capital	\$ 10,225	\$ 9,265	\$ 960
Total Standardized capital	\$ 84,121	\$ 82,708	\$ 1,413
Advanced Tier 2 capital			
Subordinated debt	\$ 9,090	\$ 8,538	\$ 552
Noncontrolling interests	126	143	(17)
Eligible credit reserves	739	305	434
Other adjustments and deductions	(4)	(6)	2
Total Advanced Tier 2 capital	\$ 9,951	\$ 8,980	\$ 971
Total Advanced capital	\$ 83,847	\$ 82,423	\$ 1,424

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

RWA Rollforward

\$ in millions	Three Months Ended March 31, 2020	
	Standardized	Advanced
Credit risk RWA		
Balance at December 31, 2019	\$ 342,684	\$ 228,927
Change related to the following items:		
Derivatives	12,902	31,104
Securities financing transactions	(13,755)	837
Securitized	(768)	(600)
Investment securities	1,626	2,559
Commitments, guarantees and loans	11,162	3,652
Cash	919	591
Equity investments	953	1,003
Other credit risk ¹	4,652	4,925
Total change in credit risk RWA	\$ 17,691	\$ 44,071
Balance at March 31, 2020	\$ 360,375	\$ 272,998
Market risk RWA		
Balance at December 31, 2019	\$ 51,493	\$ 51,597
Change related to the following items:		
Regulatory VaR	1,971	1,971
Regulatory stressed VaR	287	287
Incremental risk charge	1,737	1,737
Comprehensive risk measure	216	112
Specific risk:		
Non-securitization	2,034	2,034
Securitization	(3,111)	(3,111)
Total change in market risk RWA	\$ 3,134	\$ 3,030
Balance at March 31, 2020	\$ 54,627	\$ 54,627
Operational risk RWA		
Balance at December 31, 2019	N/A	\$ 101,972
Change in operational risk RWA	N/A	(1,815)
Balance at March 31, 2020	N/A	\$ 100,157
Total RWA	\$ 415,002	\$ 427,782

Regulatory VaR—VaR for regulatory capital requirements

1. Amounts reflect 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 both the Standardized and Advanced Approaches primarily from an increase in: i) Derivatives exposure, driven by market volatility; ii) Commitments, guarantees and loans, driven by an increase in commitments funded during the current quarter in the Institutional Securities business segment; and iii) Other credit risk, driven by an increase in unsettled transactions. Under the Advanced Approach, the increased exposure in Derivatives and widening credit spreads led to an increase in RWA related to CVA. Partially offsetting the increase in Standardized RWA was a decrease in Securities financing transactions.

Market risk RWA increased in the current quarter under the Standardized Approach and Advanced Approach primarily due to increases in Non-securitization specific risk charges and the Incremental risk charge, both driven by increased exposures in credit products, and an increase in Regulatory VaR mainly as a result of a higher market volatility, partially offset by a decrease

in Securitization specific risk charges due to reduced exposures to mortgage-backed securities.

The decrease in operational risk RWA under the Advanced Approach in the current quarter reflects a decline in the severity of execution-related losses.

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

The Federal Reserve has established external TLAC, long-term debt ("LTD") and clean holding company requirements for top-tier BHCs of U.S. G-SIBs ("covered BHCs"), including the Parent Company. These requirements are designed to ensure that covered BHCs will have enough loss-absorbing resources at the point of failure to be recapitalized through the conversion of eligible LTD to equity or otherwise by imposing losses on eligible LTD or other forms of TLAC where an SPOE resolution strategy is used. The External TLAC amount and ratios as of March 31, 2020 are calculated excluding the effect of the adoption of CECL based on our election to defer this effect over a five-year transition period. Our External TLAC ratios that were calculated including the full effect of the adoption of CECL also exceeded each respective required ratio as of March 31, 2020.

Required and Actual TLAC and Eligible LTD Ratios

\$ in millions	Regulatory Minimum	Required Ratio ¹	Actual Amount/Ratio	
			At March 31, 2020	At December 31, 2019
External TLAC ²			\$ 201,486	\$ 196,888
External TLAC as a % of RWA	18.0%	21.5%	47.1%	49.9%
External TLAC as a % of leverage exposure	7.5%	9.5%	17.0%	17.0%
Eligible LTD ³			\$ 118,778	\$ 113,624
Eligible LTD as a % of RWA	9.0%	9.0%	27.8%	28.8%
Eligible LTD as a % of leverage exposure	4.5%	4.5%	10.0%	9.8%

1. Required ratios are inclusive of applicable buffers. The final rule imposes TLAC buffer requirements on top of both the risk-based and leverage exposure-based external TLAC minimum requirements. The risk-based TLAC buffer is equal to the sum of 2.5%, the covered BHC's Method 1 G-SIB surcharge and the CCyB, if any, as a percentage of total RWA. The leverage exposure-based TLAC buffer is equal to 2% of the covered BHC's total leverage exposure. 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.
2. External TLAC consists of Common Equity Tier 1 capital and Additional Tier 1 capital (each excluding any noncontrolling minority interests), as well as eligible LTD.
3. Consists of TLAC-eligible LTD reduced by 50% for amounts of unpaid principal due to be paid in more than one year but less than two years from each respective balance sheet date.

We are in compliance with all relevant TLAC requirements as of March 31, 2020 and December 31, 2019. For a further discussion of TLAC and related requirements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Requirements—Regulatory Capital Requirements

—Total Loss-Absorbing Capacity, Long-Term Debt and Clean Holding Company Requirements” in the 2019 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 2020 Capital Plan (“Capital Plan”) and company-run stress test results to the Federal Reserve on April 6, 2020. We expect that the Federal Reserve will provide its response to our 2020 Capital Plan and publish summary results of the CCAR and Dodd-Frank Act supervisory stress tests of each large BHC, including us, no later than June 30, 2020. We are required to disclose a summary of the results of our company-run stress tests within 15 days of the date that the Federal Reserve discloses the results of the supervisory stress tests. We may be required to resubmit our Capital Plan under certain circumstances, including in the event of a material change in our risk profile, financial condition or corporate structure. See “Risk Factors” in the 2019 Form 10-K.

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 2019 Form 10-K.

Attribution of Average Common Equity According to the Required Capital Framework

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

The Required Capital framework is a risk-based and leverage use-of-capital measure, which is compared with our regulatory capital to ensure that we maintain an amount of going concern capital after absorbing potential losses from stress events, where applicable, at a point in time. The amount of capital allocated to the business segments is generally set at the beginning of each year and remains fixed throughout the year until the next annual reset unless a significant business change occurs (e.g., acquisition or disposition). We define the difference between our total average common equity and the sum of the average common equity amounts allocated to our business segments as Parent common equity. We generally hold Parent common equity for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

The Required Capital framework is expected to evolve over time in response to changes in the business and regulatory

environment, for example, to incorporate changes in stress testing or enhancements to modeling techniques. We will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

Average Common Equity Attribution¹

<i>\$ in billions</i>	Three Months Ended March 31,	
	2020	2019
Institutional Securities	\$ 42.8	\$ 40.4
Wealth Management	18.2	18.2
Investment Management	2.6	2.5
Parent	11.1	10.5
Total	\$ 74.7	\$ 71.6

1. The attribution of average common equity to the business segments is a non-GAAP financial measure. See “Selected Non-GAAP Financial Information” herein.

Resolution and Recovery Planning

Pursuant to the Dodd-Frank Act, we are required to periodically submit to the Federal Reserve and the FDIC a resolution plan that describes our strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of our material financial distress or failure. Our next resolution plan submission is expected to be a targeted resolution plan in July 2021.

As described in our 2019 resolution plan, which was submitted on June 28, 2019, our preferred resolution strategy is an SPOE strategy. In line with our SPOE strategy, the Parent Company has transferred, and has agreed to transfer on an ongoing basis, certain assets to its wholly owned, direct subsidiary Morgan Stanley Holdings LLC (the “Funding IHC”). In addition, the Parent Company has entered into an amended and restated support agreement with its material entities (including the Funding IHC) and certain other subsidiaries. In the event of a resolution scenario, the Parent Company would be obligated to contribute all of its Contributable Assets to our material entities and/or the Funding IHC. The Funding IHC would be obligated to provide capital and liquidity, as applicable, to our material entities. The combined implication of the SPOE resolution strategy and the requirement to maintain certain levels of TLAC is that losses in resolution would be imposed on the holders of eligible long-term debt and other forms of eligible TLAC issued by the Parent Company before any losses are imposed on the holders of the debt securities of our operating subsidiaries or before putting U.S. taxpayers at risk.

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,” “Risk Factors—Legal, Regulatory and Compliance Risk” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Requirements—Resolution and Recovery Planning” in the 2019 Form 10-K.

Regulatory Developments***Stress Capital Buffer Final Rule***

The Federal Reserve has adopted a final rule to integrate its annual capital planning and stress testing requirements with existing applicable regulatory capital requirements. The final rule, which applies to certain BHCs, including us, introduces a stress capital buffer ("SCB") and related changes to the capital planning and stress testing processes.

The SCB applies only with respect to Standardized Approach risk-based capital requirements and replaces the existing Common Equity Tier 1 capital conservation buffer, which is 2.5%. The SCB is 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 four quarters of planned common stock dividends divided by the projected RWAs from the quarter in which the Firm's projected Common Equity Tier 1 capital ratio reaches its minimum in the supervisory stress test and (ii) 2.5%. Risk-based regulatory capital requirements under the Standardized Approach will include the SCB, as summarized above, as well as our Common Equity Tier 1 GSIB capital surcharge and any applicable Common Equity Tier 1 CCyB.

The final rule makes related changes to capital planning and stress testing processes for BHCs subject to the SCB. In particular, the supervisory stress test will assume that BHCs generally maintain a constant level of assets and RWAs throughout the projection period. In addition, the supervisory stress test will no longer assume that BHCs make all planned capital distributions, although the SCB will incorporate the dollar amount of four quarters of planned common stock dividends, as summarized above.

The final rule does not change regulatory capital requirements under the Advanced Approach, the Tier 1 leverage ratio or the SLR.

The Firm's initial SCB will be based on the results of the 2020 CCAR supervisory stress test which the Federal Reserve is expected to publish by June 30, 2020. The SCB will take effect on October 1, 2020 and will remain in effect until September 30, 2021, and will be updated annually thereafter based on the results of the annual CCAR supervisory stress test, with a revised SCB taking effect on October 1 each year.

Upon receipt of the SCB, we will evaluate whether to update our Required Capital framework to take into account any changes in our risk-based capital requirements that result from the SCB.

The SCB final rule also includes a transitional arrangement for the third quarter of 2020. Between July 1, 2020 and September 30, 2020, the Firm will be authorized to make capital distributions that do not exceed the four-quarter average of

capital distributions for which the Federal Reserve indicated its non-objection in the 2019 capital plan cycle, unless otherwise determined by the Federal Reserve.

Revisions to Definition of Eligible Retained Income

The U.S. banking agencies have adopted an interim final rule amending the definition of eligible retained income in their respective capital rules. As amended, eligible retained income is defined by the Federal Reserve as the greater of (i) net income for the four preceding calendar quarters, net of any distributions and associated tax effects not already reflected in net income, and (ii) the average of net income over the preceding four quarters. This definition applies with respect to any payout restrictions applicable in the event of a breach of any regulatory capital buffers, including any applicable CCyB, G-SIB capital surcharge, capital conservation buffer, the enhanced SLR and, once effective, SCB, which replaces the capital conservation buffer under the Standardized Approach. The interim final rule became effective March 20, 2020.

Separately, the Federal Reserve has adopted an interim final rule amending the definition of eligible retained income under its TLAC rule to be consistent with the revised definition of eligible retained income in the regulatory capital framework, as summarized above. The interim final rule became effective March 26, 2020.

Regulatory Capital and Stress Testing Developments Related to Implementation of CECL

The U.S. banking agencies have adopted an interim final rule altering, for purposes of the regulatory capital and TLAC requirements, the required adoption time period for CECL. Under the interim final rule, banking organizations that implement the new accounting standard before the end of 2020 may elect to follow the three-year transition available under a prior rule or a new five-year transition. This five-year transition involves a two-year delay in recognizing the effects on regulatory capital of the new accounting standard, followed by a three-year transition period during which the electing organization phases out the aggregate capital effects of the two-year delay. The interim final rule became effective March 27, 2020. We have elected to implement the five-year transition for recognizing the potentially adverse effects of the adoption of CECL.

In addition, pursuant to the The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), banking organizations are not required to comply with CECL, for purposes of U.S. GAAP accounting, until the earlier of the end of the COVID-19 national emergency declared by the President of the United States on March 15, 2020 under the National Emergencies Act or December 31, 2020. We have not elected to delay our compliance with CECL for purposes of U.S. GAAP accounting.

Regulatory Developments in Response to COVID-19

In the United States, the Federal Reserve, the other U.S. state and federal financial regulatory agencies and Congress have taken actions to mitigate disruptions to economic activity and financial stability resulting from COVID-19.

Federal Reserve Actions

The Federal Reserve has established, or has taken steps to establish, a range of facilities and programs to support the U.S. economy and U.S. marketplace participants in response to economic disruptions associated with COVID-19. Through these facilities and programs, the Federal Reserve has taken steps to directly or indirectly purchase assets or debt instruments from, or make loans to, U.S. companies, financial institutions, municipalities and other market participants.

In addition, the Federal Reserve has taken a range of other actions to support the flow of credit to households and businesses. For example, on March 15, 2020, the Federal Reserve reduced the target range for the federal funds rate to 0 to 0.25% and announced that it would increase its holdings of U.S. Treasury securities and agency mortgage-backed securities and begin purchasing agency commercial mortgage-backed securities. The Federal Reserve has also encouraged depository institutions to borrow from the discount window and has lowered the primary credit rate for such borrowings by 150 basis points to 0.25% while extending the term of such loans up to 90 days. In addition, effective March 26, 2020, reserve requirements have been reduced to zero.

Acting in concert with the other U.S. banking agencies, the Federal Reserve has also issued statements encouraging banking organizations to use their capital and liquidity buffers as they lend to households and businesses affected by COVID-19. To facilitate banking organizations' use of their capital buffers, the Federal Reserve has revised the definition of eligible retained income applicable in the capital and TLAC frameworks. Additionally, the Federal Reserve has adopted an interim final rule that temporarily excludes U.S. Treasury securities and deposits at Federal Reserve Banks from the calculation of our supplementary leverage exposure used in the SLR. For a further discussion about the revised definition of eligible retained income and changes to the SLR calculation, see "Revisions to Definition of Eligible Retained Income" and "Supplementary Leverage Ratio Interim Final Rule," respectively, herein.

Further, the Federal Reserve along with the other U.S. banking agencies, issued guidance stating that granting certain concessions to borrowers that are current on existing loans, either individually or as part of a program for creditworthy borrowers who are experiencing short-term financial or operational problems as a result of the coronavirus pandemic, generally would not be considered TDRs under applicable U.S. GAAP. This guidance also clarifies that efforts to work with borrowers of one-to-four family residential mortgages impacted

by the COVID-19 pandemic and meeting certain criteria will not result in such loans being deemed restructured or modified for purposes of U.S. Basel III, and will therefore not be subject to higher regulatory capital requirements.

As of March 31, 2020, we have participated in the PDCF, which provides liquidity to primary dealers through a secured lending facility, and, following the Federal Reserve's statement encouraging banks to use its discount window, we have accessed the discount window. While we continue to assess, we may participate in other of these facilities and programs, including on behalf of clients.

Non-U.S. Central Bank Actions

In addition to actions taken by the Federal Reserve, many non-U.S. central banks have announced similar facilities and programs in response to the economic and market disruptions associated with COVID-19. Firm subsidiaries operating in non-U.S. markets may participate, or perform customer facilitation roles, in such non-U.S. facilities or programs.

The CARES Act

The CARES Act was signed into law on March 27, 2020. Pursuant to the CARES Act, the U.S. Treasury has the authority to provide loans, guarantees and other investments in support of eligible businesses, states and municipalities affected by the economic effects of COVID-19. Some of these funds may also be used to support the several Federal Reserve programs and facilities described in "Federal Reserve Actions" previously or additional programs or facilities that are established by the Federal Reserve under its Section 13(3) authority and meet certain criteria. Among other provisions, the CARES Act also includes funding for the Small Business Administration to expand lending, relief from certain U.S. GAAP requirements to allow COVID-19-related loan modifications to not be categorized as TDRs and a range of incentives to encourage deferment, forbearance or modification of consumer credit and mortgage contracts.

The CARES Act also includes several measures that will temporarily adjust existing laws or regulations. These include providing the FDIC with additional authority to guarantee the deposits of solvent insured depository institutions held in non-interest-bearing business transaction accounts to a maximum amount specified by the FDIC, reinstating the FDIC's Temporary Liquidity Guarantee Authority to guarantee debt obligations of solvent insured depository institutions or depository institution holding companies, temporarily allowing the U.S. Treasury to fully guarantee money market mutual funds and granting additional authority to the OCC to provide certain exemptions to the lending limits imposed on national banks.

Supplementary Leverage Ratio Interim Final Rule

In response to the COVID-19 pandemic, the Federal Reserve has adopted an interim final rule that excludes, on a temporary basis, U.S. Treasury securities and deposits at Federal Reserve Banks from our SLR exposure measure from April 1, 2020 to March 31, 2021. This interim final rule does not amend our U.S. Bank Subsidiaries' SLR requirements.

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

On January 31, 2020, the U.K. withdrew from the E.U. under the terms of a withdrawal agreement between the U.K. and the E.U. The withdrawal agreement provides for a transition period to the end of December 2020, during which time the U.K. will continue to apply E.U. law as if it were a member state, and U.K. firms' rights to provide financial services in E.U. member states will continue. Access to the E.U. market after the transition period remains subject to negotiation.

We have prepared the structure of our European operations for a range of potential outcomes, including for the possibility that U.K. financial firms' access to E.U. markets after the transition period is limited, and we expect to be able to continue to serve our clients and customers under each of these potential outcomes.

For more information on the U.K.'s withdrawal from the E.U., our related preparations and the potential impact on our operations, see "Risk Factors—International Risk" in the 2019 Form 10-K. For further information regarding our exposure to the U.K., see also "Quantitative and Qualitative Disclosures about Risk—Country and Other Risks."

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

Central banks around the world, including the Federal Reserve, have commissioned committees and working groups of market participants and official sector representatives to replace LIBOR and replace or reform other interest rate benchmarks (collectively, the "IBORs"). Accordingly, we have established and are undertaking a Firmwide IBOR transition plan to promote the transition to alternative reference rates, which takes into account the considerable uncertainty regarding the availability of LIBOR beyond 2021.

For a further discussion of the expected replacement of the IBORs and/or reform of interest rate benchmarks, and the related risks and our transition plan, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Requirements—Other Matters" and "Risk Factors—Risk Management," respectively, in the 2019 Form 10-K.

Quantitative and Qualitative Disclosures about Risk

Management believes effective risk management is vital to the success of our business activities. For a discussion of our Enterprise Risk Management framework and risk management functions, see “Quantitative and Qualitative Disclosures about Risk—Risk Management” in the 2019 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 non-trading market risk, principally within the Wealth Management and Investment Management business segments. The Wealth Management business segment primarily incurs non-trading market risk from lending and deposit-taking activities. The Investment Management business segment primarily incurs non-trading market risk from capital investments in alternative and other funds. For a further discussion of market risk, see “Quantitative and Qualitative Disclosures about Risk—Market Risk” in the 2019 Form 10-K.

Trading Risks

We are exposed to a wide range of risks related to interest rates, equity prices, foreign exchange rates and commodity prices, and the associated implied volatilities and spreads, related to the global markets in which we conduct our trading activities.

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.

For information regarding our primary risk exposures and market risk management, VaR methodology, assumptions and limitations, see “Quantitative and Qualitative Disclosures about Risk—Market Risk—Trading Risks” in the 2019 Form 10-K.

95%/One-Day Management VaR for the Trading Portfolio

\$ in millions	Three Months Ended			
	March 31, 2020			
	Period End	Average	High ²	Low ²
Interest rate and credit spread	\$ 62	\$ 32	\$ 62	\$ 24
Equity price	22	15	23	12
Foreign exchange rate	11	8	14	5
Commodity price	12	13	19	10
Less: Diversification benefit ¹	(65)	(33)	N/A	N/A
Primary Risk Categories	\$ 42	\$ 35	\$ 52	\$ 28
Credit Portfolio	25	15	25	12
Less: Diversification benefit ¹	(12)	(10)	N/A	N/A
Total Management VaR	\$ 55	\$ 40	\$ 58	\$ 32

\$ in millions	Three Months Ended			
	December 31, 2019			
	Period End	Average	High ²	Low ²
Interest rate and credit spread	\$ 26	\$ 28	\$ 31	\$ 24
Equity price	11	14	18	11
Foreign exchange rate	10	9	13	6
Commodity price	10	17	22	10
Less: Diversification benefit ¹	(27)	(33)	N/A	N/A
Primary Risk Categories	\$ 30	\$ 35	\$ 40	\$ 30
Credit Portfolio	15	15	17	13
Less: Diversification benefit ¹	(10)	(11)	N/A	N/A
Total Management VaR	\$ 35	\$ 39	\$ 43	\$ 33

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.

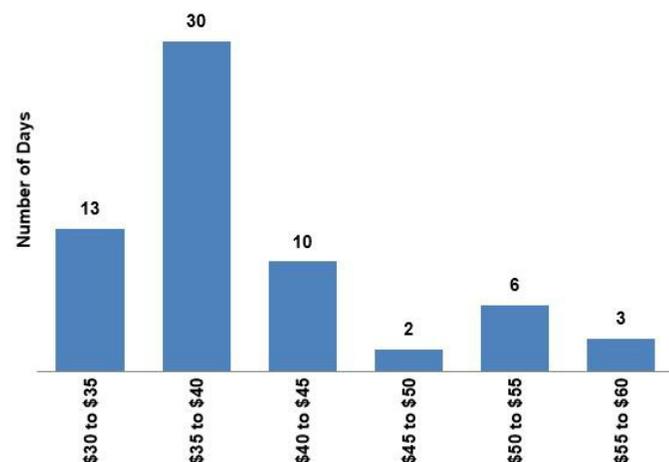
While Average total Management VaR and average Management VaR for the Primary Risk Categories were relatively unchanged from the three months ended December 31, 2019, the period-end balance increased. The increase in period-end VaR resulted primarily from the interest rate and credit spread and equity price risk categories, which were predominantly driven by increased market volatility related to COVID-19, and reflected increased exposures in the Fixed Income and Equity businesses related to client facilitation activity and market movements in March 2020. These increases were partially offset by an increased diversification benefit. For information on the impact of COVID-19 on market and economic conditions and their effect on our financial results, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary—Coronavirus Disease (COVID-19) Pandemic” herein.

Distribution of VaR Statistics and Net Revenues

We evaluate the reasonableness of our VaR model by comparing the potential declines in portfolio values generated by the model with corresponding actual trading results for the Firm, as well as individual business units. For days where losses exceed the VaR statistic, we examine the drivers of trading losses to evaluate the VaR model’s accuracy relative to realized trading results. There were two days with trading losses in the current quarter, one of which exceeded the 95%/one-day Total Management VaR.

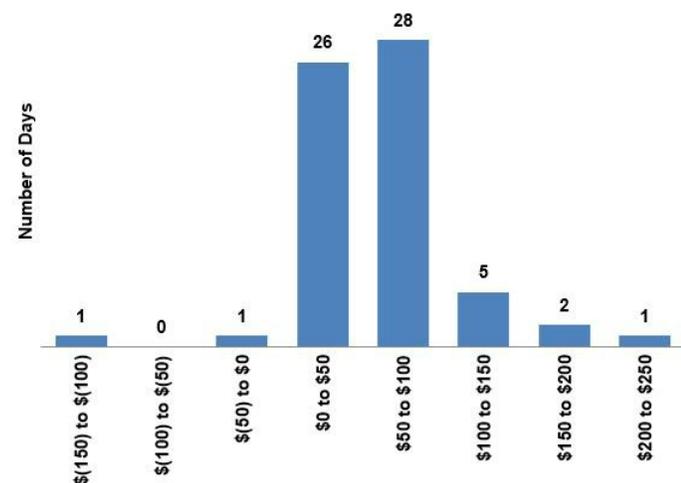
Daily 95%/One-Day Total Management VaR for the Current Quarter

(\$ in millions)



Daily Net Trading Revenues for the Current Quarter

(\$ in millions)



The previous histogram shows the distribution of daily net trading revenues for the current quarter. Daily net trading revenues include profits and losses from Interest rate and credit spread, Equity price, Foreign exchange rate, Commodity price, and Credit Portfolio positions and intraday trading activities for our trading businesses. Certain items such as fees, commissions

and net interest income are excluded from daily net trading revenues and the VaR model. Revenues required for Regulatory VaR backtesting further exclude intraday trading.

Non-Trading Risks

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

Credit Spread Risk Sensitivity¹

\$ in millions	At March 31, 2020	At December 31, 2019
Derivatives	\$ 6	\$ 6
Funding liabilities ²	39	42

- 1. Amounts represent the potential gain for each 1 bps widening of our credit spread.
- 2. Relates to Borrowings carried at fair value.

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

\$ in millions	At March 31, 2020	At December 31, 2019
Basis point change		
+100	\$ 850	\$ 151
-100	(495)	(642)

The previous table presents an analysis of selected instantaneous upward and downward parallel interest rate shocks (subject to a floor of zero percent in the downward scenario) on net interest income over the next 12 months for our U.S. Bank Subsidiaries. These shocks are applied to our 12-month forecast for our U.S. Bank Subsidiaries, which incorporates market expectations of interest rates and our forecasted business activity.

We do not manage to any single rate scenario but rather manage net interest income in our U.S. Bank Subsidiaries to optimize across a range of possible outcomes, including non-parallel rate change scenarios. The sensitivity analysis assumes that we take no action in response to these scenarios, assumes there are no changes in other macroeconomic variables normally correlated with changes in interest rates, and includes subjective assumptions regarding customer and market re-pricing behavior and other factors. The change in sensitivity to interest rates between March 31, 2020 and December 31, 2019 is primarily driven by lower market rates. Given the current rate environment, the correlation between market rate increases and deposit cost increases is low, and therefore provides an incremental benefit in the +100bps scenario.

Investments Sensitivity, Including Related Carried Interest

<i>\$ in millions</i>	Loss from 10% Decline	
	At March 31, 2020	At December 31, 2019
Investments related to Investment Management activities	\$ 327	\$ 367
Other investments:		
MUMSS	173	169
Other Firm investments	197	195

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

We have exposure to public and private companies through direct investments, as well as through funds that invest in these assets. These investments are predominantly equity positions with long investment horizons, a portion of which is for business facilitation purposes. The market risk related to these investments is measured by estimating the potential reduction in net income associated with a 10% decline in investment values and related impact on performance-based fees, as applicable. The change in investments sensitivity related to Investment Management activities between March 31, 2020 and December 31, 2019 is primarily driven by lower valuations in private equity funds, related to the decline of global asset prices due to the effect of COVID-19 on economies and markets around the world. For information on the impact of COVID-19 on market and economic conditions and their effect on our financial results, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary—Coronavirus Disease (COVID-19) Pandemic” herein.

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. For information on the impact of COVID-19 on market and economic conditions and their effect on our financial results, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary—Coronavirus Disease (COVID-19) Pandemic” herein.

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 are primarily exposed to credit risk from institutions and

individuals through our Institutional Securities and Wealth Management business segments. For a further discussion of our credit risks, see “Quantitative and Qualitative Disclosures about Risk—Credit Risk” in the 2019 Form 10-K.

The credit environment deteriorated rapidly towards the end of the current quarter, driven by the effect of COVID-19 on economic and market conditions. Within Institutional Securities the effects were notable, with mark-to-market losses on held-for-sale loans and lending commitments and increased allowances for credit losses related to held-for-investment loans and lending commitments, as discussed in Management’s Discussion and Analysis. The uncertain environment also caused an increase in client requests to draw down on lending commitments and market volatility led to increased counterparty credit exposures, both of which are further discussed herein.

In addition, we have begun to have discussions with and receive requests from certain clients for forbearance, or deferral of their loan payments to us, driven or exacerbated by the economic environment and following in part from the U.S. government’s enactment of the CARES Act. These requests and discussions primarily relate to commercial and residential real estate loans. Certain clients have also requested modifications of covenant terms.

The forbearance process is different based on loan and borrower type, among other factors. In general, qualifying requests for forbearance related to single family residential real estate loans are immediately granted, whereas commercial real estate loan forbearance requires negotiation and approval. Receiving or granting forbearance or modification requests does not necessarily mean that we will incur credit losses. As of April 30, 2020, the principal amount of loans for which forbearance requests are currently active related to near-term payments on commercial real estate loans and residential real estate loans approximated \$2 billion and \$800 million, respectively.

These trends could continue in future periods given the present uncertain global economic and market conditions. See “Executive Summary—Coronavirus Disease (COVID-19) Pandemic,” and “Risk Factors” herein for further information. See also "Forward Looking Statements" in the 2019 10-K.

Loans and Lending Commitments

\$ in millions	At March 31, 2020			
	IS	WM	IM ¹	Total
Loans held for investment, before allowance	\$ 49,358	\$ 82,589	\$ 5	\$ 131,952
Allowance for credit losses	(530)	(87)	—	(617)
Loans held for investment, net of allowance	\$ 48,828	\$ 82,502	\$ 5	\$ 131,335
Loans held for sale	17,343	14	5	17,362
Loans held at fair value	9,573	—	489	10,062
Total loans	\$ 75,744	\$ 82,516	\$ 499	\$ 158,759
Lending commitments ²	92,911	13,366	—	106,277
Total loans and lending commitments²	\$ 168,655	\$ 95,882	\$ 499	\$ 265,036
Total loans, before allowance	\$ 76,274	\$ 82,603	\$ 499	\$ 159,376

\$ in millions	At December 31, 2019			
	IS	WM	IM ¹	Total
Loans held for investment, before allowance	\$ 38,290	\$ 80,114	\$ 5	\$ 118,409
Allowance for credit losses	(297)	(52)	—	(349)
Loans held for investment, net of allowance	\$ 37,993	\$ 80,062	\$ 5	\$ 118,060
Loans held for sale	12,564	13	—	12,577
Loans held at fair value	11,075	—	251	11,326
Total loans	\$ 61,632	\$ 80,075	\$ 256	\$ 141,963
Lending commitments ²	106,886	13,161	21	120,068
Total loans and lending commitments²	\$ 168,518	\$ 93,236	\$ 277	\$ 262,031
Total loans, before allowance	\$ 61,929	\$ 80,127	\$ 256	\$ 142,312

- Investment Management business segment loans are related to certain of our activities as an investment advisor and manager. At March 31, 2020 and December 31, 2019, loans held at fair value are predominantly the result of the consolidation of CLO vehicles, managed by Investment Management, composed primarily of senior secured corporate loans.
- 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.

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. Loans and lending commitments are either held for investment, held for sale or carried at fair value. For more information on these loan classifications, see Note 2 to the financial statements in the 2019 Form 10-K.

Total loans and lending commitments increased by approximately \$3 billion since December 31, 2019, primarily due to growth in tailored lending and Residential real estate loans within the Wealth Management business segment. In addition, within the Institutional Securities business segment, there was an increase in Corporate relationship and event-driven lending commitments funded during the current quarter.

See Notes 4, 9 and 13 to the financial statements for further information.

Allowance for Credit Losses Rollforward—Loans and Lending Commitments

\$ in millions	
December 31, 2019 ¹	\$ 590
Effect of CECL adoption	(41)
Gross charge-offs	(32)
Provision	407
Other	(3)
March 31, 2020	\$ 921
Allowance for credit losses—Loans	\$ 617
Allowance for credit losses—Lending commitments	304

- At December 31, 2019, the total allowance for credit losses for Loans and Lending commitments was \$349 million and \$241 million, respectively.

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

The aggregate allowance for loans and lending commitments increased in the current quarter, principally reflecting a provision for credit losses within the Institutional Securities business segment resulting from the economic impact of COVID-19. This provision was primarily the result of higher actual and expected future downgrades, an increase in funded balances, principally in Corporate relationship and event-driven loans, as well as revisions to our forecasts in light of current and expected future market and macroeconomic conditions. See Note 2 to the financial statements for a discussion of the Firm's allowance for credit loss methodology under CECL.

Status of Loans Held for Investment

	At March 31, 2020		At December 31, 2019	
	IS	WM	IS	WM
Current	99.5%	99.9%	99.0%	99.9%
Nonaccrual ¹	0.5%	0.1%	1.0%	0.1%

- 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.

Risk Disclosures

Institutional Securities Loans and Lending Commitments¹

\$ in millions	At March 31, 2020					Total
	Contractual Years to Maturity					
	Less than 1	1-3	3-5	Over 5		
Loans						
AA	\$ 59	\$ 47	\$ 14	\$ 5	\$	125
A	931	1,456	554	589		3,530
BBB	3,619	5,872	6,867	574		16,932
BB	12,401	11,430	10,186	1,251		35,268
Other NIG	5,865	5,503	4,313	2,242		17,923
Unrated ²	101	92	286	1,487		1,966
Total loans	22,976	24,400	22,220	6,148		75,744
Lending commitments						
AAA	—	50	—	—		50
AA	2,831	818	2,562	30		6,241
A	3,994	7,477	9,150	279		20,900
BBB	8,407	12,732	15,460	731		37,330
BB	3,635	3,986	7,219	1,067		15,907
Other NIG	2,064	2,754	6,604	1,056		12,478
Unrated ²	3	—	—	2		5
Total lending commitments	20,934	27,817	40,995	3,165		92,911
Total exposure	\$ 43,910	\$ 52,217	\$ 63,215	\$ 9,313		\$ 168,655

\$ in millions	At December 31, 2019					Total
	Contractual Years to Maturity					
	Less than 1	1-3	3-5	Over 5		
Loans						
AA	\$ 7	\$ 50	\$ —	\$ 5	\$	62
A	955	923	516	277		2,671
BBB	2,297	5,589	3,592	949		12,427
BB	9,031	11,189	9,452	1,449		31,121
Other NIG	4,020	5,635	2,595	1,143		13,393
Unrated ²	117	82	131	1,628		1,958
Total loans	16,427	23,468	16,286	5,451		61,632
Lending commitments						
AAA	—	50	—	—		50
AA	2,838	908	2,509	—		6,255
A	6,461	7,287	9,371	298		23,417
BBB	7,548	13,780	20,560	753		42,641
BB	2,464	5,610	8,333	1,526		17,933
Other NIG	2,193	4,741	7,062	2,471		16,467
Unrated ²	—	9	107	7		123
Total lending commitments	21,504	32,385	47,942	5,055		106,886
Total exposure	\$ 37,931	\$ 55,853	\$ 64,228	\$ 10,506		\$ 168,518

NIG—Non-investment grade

- Counterparty credit ratings are internally determined by CRM.
- Unrated loans and lending commitments are primarily trading positions that are measured at fair value and risk-managed as a component of market risk. For a further discussion of our market risk, see “Market Risk” herein.

As a result of the economic impacts of COVID-19, there was an increase in lending commitments funded during the current quarter in the Institutional Securities business segment. The increase was primarily driven by clients with non-investment grade and BBB internal credit ratings, who sought liquidity in

a period where, given the economic backdrop, capital markets alternatives to drawing on lines of credit were less available.

Institutional Securities Loans and Lending Commitments by Industry

\$ in millions	At March 31, 2020	At December 31, 2019
Industry		
Financials	\$ 40,142	\$ 40,992
Real estate	27,190	28,348
Industrials	16,100	13,136
Healthcare	13,582	14,113
Communications services	10,839	12,165
Utilities	10,231	9,905
Information technology	10,019	9,201
Consumer discretionary	9,993	9,589
Energy	9,856	9,461
Consumer staples	9,415	9,724
Materials	5,469	5,577
Insurance	3,961	3,755
Other	1,858	2,552
Total	\$ 168,655	\$ 168,518

The decline in economic activity, driven by the effects of COVID-19, and recent decline in oil prices, have currently impacted borrowers in many industries. The future developments of COVID-19 and its related effect on the economic environment are uncertain and may continue to impact certain sectors and industries, in which we have, or may in the future have, exposure in the form of loans or lending commitments. In addition, refer to “Risk Factors” herein.

The Institutional Securities business segment lending activities include Corporate relationship and event-driven lending, Secured lending facilities, Commercial real estate lending and Securities-based lending and other.

Corporate relationship and event-driven loans and lending commitments typically consist of revolving lines of credit, term loans and bridge loans; 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. For additional information on event-driven loans, see “Institutional Securities Event-Driven Loans and Lending Commitments” herein.

Secured lending facilities include loans provided to clients, which are primarily secured by loans on underlying real estate or other assets. The underlying loans are associated with various types of collateral, including residential real estate, commercial real estate, corporate and financial assets. These facilities generally provide for overcollateralization. Credit risk with respect to these loans and lending commitments arises from the failure of a borrower to perform according to the terms of the loan agreement and/or a decline in the underlying collateral

Risk Disclosures

value. The Firm monitors collateral levels against the requirements of lending agreements.

Commercial real estate loans are primarily senior, secured by underlying real estate and typically in term loan form.

Securities-based lending and other includes financing extended to sales and trading customers and corporate loans purchased in the secondary market.

Institutional Securities Loans¹

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Corporate relationship and event-driven lending	\$ 27,058	\$ 11,638
Secured lending facilities	30,493	29,654
Commercial & residential real estate	11,604	13,198
Securities-based lending and other	7,119	7,439
Total Institutional Securities loans	\$ 76,274	\$ 61,929

1. Amounts include loans held for investment, before the allowance for credit losses, loans held for sale and loans at fair value.

Institutional Securities Event-Driven Loans and Lending Commitments¹

<i>\$ in millions</i>	At March 31, 2020					Total
	Contractual Years to Maturity					
	Less than 1	1-3	3-5	Over 5		
Loans	\$ 3,284	\$ 1,205	\$ 1,527	\$ 1,132	\$ 7,148	
Lending commitments	7,312	2,317	1,921	1,507	13,057	
Total loans and lending commitments	\$ 10,596	\$ 3,522	\$ 3,448	\$ 2,639	\$ 20,205	

<i>\$ in millions</i>	At December 31, 2019					Total
	Contractual Years to Maturity					
	Less than 1	1-3	3-5	Over 5		
Loans	\$ 1,194	\$ 1,024	\$ 839	\$ 390	\$ 3,447	
Lending commitments	7,921	5,012	2,285	3,090	18,308	
Total loans and lending commitments	\$ 9,115	\$ 6,036	\$ 3,124	\$ 3,480	\$ 21,755	

1. Amounts include loans and lending commitments held for investment, before the allowance for credit losses, and held for sale.

Event-driven loans and lending commitments are associated with a particular event or transaction, such as to support client merger, acquisition, recapitalization or project finance activities. Balances may fluctuate as such lending is related to transactions that vary in timing and size from period to period. In the current quarter, credit spreads in the market for these loans and commitments widened significantly, resulting in a substantial slowdown in the volume of sales and syndications, which is a trend that could continue in the future given the current uncertain economic and market conditions. See “Executive Summary—Coronavirus Disease (COVID-19) Pandemic” and “Risk Factors” herein, and Forward Looking Statements in the 2019 Form 10-K.

Institutional Securities Loans and Lending Commitments Held for Investment

<i>\$ in millions</i>	At March 31, 2020		At December 31, 2019	
	Loans	Lending Commitments	Loans	Lending Commitments
Corporate relationship and event-driven lending	\$ 15,457	\$ 55,365	\$ 5,426	\$ 61,716
Secured lending facilities	25,805	5,987	24,502	6,105
Commercial & residential real estate ¹	7,430	730	7,859	425
Securities-based lending and other ²	666	461	503	832
Total, before allowance for credit losses	\$ 49,358	\$ 62,543	\$ 38,290	\$ 69,078
Allowance for credit losses	(530)	(298)	(297)	(236)

1. Amounts principally comprise Commercial real estate loans and lending commitments.
2. Amounts principally comprise Other loans and lending commitments.

Institutional Securities Allowance for Credit Losses Rollforward—Loans

<i>\$ in millions</i>	Corporate relationship and event-driven lending	Secured lending facilities	Commercial & residential real estate	Securities-based lending and other	Total
December 31, 2019	\$ 115	\$ 101	\$ 75	\$ 6	\$ 297
Effect of CECL adoption	(2)	(42)	34	3	(7)
Gross charge-offs	(32)	—	—	—	(32)
Provision	177	29	66	1	273
Other	—	—	(1)	—	(1)
March 31, 2020	\$ 258	\$ 88	\$ 174	\$ 10	\$ 530

Institutional Securities Allowance for Credit Losses Rollforward—Lending Commitments

<i>\$ in millions</i>	Corporate relationship and event-driven lending	Secured lending facilities	Commercial & residential real estate	Securities-based lending and other	Total
December 31, 2019	\$ 201	\$ 27	\$ 7	\$ 1	\$ 236
Effect of CECL adoption	(41)	(11)	1	—	(51)
Provision	91	16	5	3	115
Other	(2)	—	—	—	(2)
March 31, 2020	\$ 249	\$ 32	\$ 13	\$ 4	\$ 298

Risk Disclosures

Institutional Securities HFI Loans—Ratios of Allowance for Credit Losses to Balance Before Allowance

	At March 31, 2020	At December 31, 2019
Corporate relationship and event-driven lending	1.7%	2.1%
Secured lending facilities	0.3%	0.4%
Commercial & residential real estate	2.3%	1.0%
Securities-based lending and other	1.5%	1.2%
Total Institutional Securities loans	1.1%	0.8%

Wealth Management Loans and Lending Commitments

<i>\$ in millions</i>	At March 31, 2020				
	Contractual Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Securities-based lending and other loans	\$ 43,158	\$ 4,709	\$ 2,141	\$ 1,441	\$ 51,449
Residential real estate loans	14	7	—	31,046	31,067
Total loans	\$ 43,172	\$ 4,716	\$ 2,141	\$ 32,487	\$ 82,516
Lending commitments	10,397	2,382	326	261	13,366
Total loans and lending commitments	\$ 53,569	\$ 7,098	\$ 2,467	\$ 32,748	\$ 95,882

<i>\$ in millions</i>	At December 31, 2019				
	Contractual Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total
Securities-based lending and other loans	\$ 41,863	\$ 3,972	\$ 2,783	\$ 1,284	\$ 49,902
Residential real estate loans	13	11	—	30,149	30,173
Total loans	\$ 41,876	\$ 3,983	\$ 2,783	\$ 31,433	\$ 80,075
Lending commitments	10,219	2,564	71	307	13,161
Total loans and lending commitments	\$ 52,095	\$ 6,547	\$ 2,854	\$ 31,740	\$ 93,236

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

Securities-based lending allows clients to borrow money against the value of qualifying securities, generally for any purpose other than purchasing, trading or carrying securities, or refinancing margin debt. For more information about our securities-based lending and residential real estate loans, see “Quantitative and Qualitative Disclosures about Risk—Credit Risk” in the 2019 Form 10-K.

For the current quarter, Loans and Lending commitments associated with the Wealth Management business segment increased primarily due to growth in tailored lending and Residential real estate loans.

Wealth Management Allowance for Credit Losses Rollforward—Loans and Lending Commitments

<i>\$ in millions</i>	
December 31, 2019 ¹	\$ 57
Effect of CECL adoption	17
Provision	19
March 31, 2020	\$ 93
Allowance for credit losses—Loans	\$ 87
Allowance for credit losses—Lending commitments	6

1. At December 31, 2019, the total Allowance for credit losses for Loans and Lending commitments was \$52 million and \$5 million, respectively.

At March 31, 2020, approximately 75% of Wealth Management residential real estate loans were to borrowers with "Exceptional" or "Very Good" FICO scores (*i.e.*, exceeding 740). Additionally, Wealth Management's securities-based lending portfolio remains well-collateralized and subject to daily client margining, which includes requiring customers to deposit additional collateral, or reduce debt positions, when necessary.

Customer and Other Receivables

Margin Loans

<i>\$ in millions</i>	At March 31, 2020		
	IS	WM	Total
Customer receivables representing margin loans	\$ 16,635	\$ 9,546	\$ 26,181

<i>\$ in millions</i>	At December 31, 2019		
	IS	WM	Total
Customer receivables representing margin loans	\$ 22,216	\$ 9,700	\$ 31,916

The Institutional Securities and Wealth Management business segments provide margin lending arrangements, which allow customers to borrow against the value of qualifying securities, primarily for the purpose of purchasing additional securities, as well as to collateralize short positions. Margin lending activities generally have lower credit risk due to the value of collateral held and their short-term nature. Amounts may fluctuate from period to period as overall client balances change as a result of market levels, client positioning and leverage.

Employee Loans

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Currently employed by the Firm	\$ 2,867	N/A
No longer employed by the Firm	150	N/A
Balance	\$ 3,017	\$ 2,980
Allowance for credit losses ¹	(180)	(61)
Balance, net	\$ 2,837	\$ 2,919
Remaining repayment term, weighted average in years	5.0	4.8

1. The change in Allowance for credit losses includes a \$124 million increase due to the adoption of CECL on January 1, 2020.

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Employee loans are granted in conjunction with a program established primarily to recruit certain Wealth Management representatives and are full recourse and generally require periodic repayments. The allowance for credit losses as of March 31, 2020 was calculated under CECL, while the allowance for credit losses at December 31, 2019 was calculated under the prior incurred loss model. The related provision is recorded in Compensation and benefits expense in the income statements. See Note 2 for a description of the CECL allowance methodology, including credit quality indicators, for employee loans. For additional information on employee loans, see Note 9.

Derivatives

Fair Value of OTC Derivative Assets

\$ in millions	Counterparty Credit Rating ¹					Total
	AAA	AA	A	BBB	NIG	
At March 31, 2020						
<1 year	\$ 2,046	\$ 26,829	\$ 55,668	\$ 38,756	\$ 19,369	\$ 142,668
1-3 years	536	6,458	22,788	18,243	13,104	61,129
3-5 years	521	5,952	14,442	10,521	4,718	36,154
Over 5 years	4,257	32,785	93,165	68,387	17,506	216,100
Total, gross	\$ 7,360	\$ 72,024	\$ 186,063	\$ 135,907	\$ 54,697	\$ 456,051
Counterparty netting	(3,472)	(55,991)	(150,333)	(104,343)	(30,638)	(344,777)
Cash and securities collateral	(3,336)	(12,216)	(29,345)	(23,461)	(16,979)	(85,337)
Total, net	\$ 552	\$ 3,817	\$ 6,385	\$ 8,103	\$ 7,080	\$ 25,937

\$ in millions	Counterparty Credit Rating ¹					Total
	AAA	AA	A	BBB	NIG	
At December 31, 2019						
<1 year	\$ 371	\$ 9,195	\$ 31,789	\$ 22,757	\$ 6,328	\$ 70,440
1-3 years	378	5,150	17,707	11,495	9,016	43,746
3-5 years	502	4,448	9,903	6,881	3,421	25,155
Over 5 years	3,689	24,675	70,765	40,542	14,587	154,258
Total, gross	\$ 4,940	\$ 43,468	\$ 130,164	\$ 81,675	\$ 33,352	\$ 293,599
Counterparty netting	(2,172)	(33,521)	(103,452)	(62,345)	(19,514)	(221,004)
Cash and securities collateral	(2,641)	(8,134)	(22,319)	(14,570)	(10,475)	(58,139)
Total, net	\$ 127	\$ 1,813	\$ 4,393	\$ 4,760	\$ 3,363	\$ 14,456

\$ in millions	At March 31, 2020	At December 31, 2019
Industry		
Financials	\$ 8,343	\$ 3,448
Utilities	5,226	4,275
Industrials	2,877	914
Healthcare	1,558	991
Regional governments	1,089	791
Not-for-profit organizations	936	657
Sovereign governments	900	403
Energy	891	524
Materials	826	325
Consumer staples	725	129
Information technology	686	659
Communications services	684	381
Consumer discretionary	463	370
Insurance	391	214
Real estate	215	315
Other	127	60
Total	\$ 25,937	\$ 14,456

1. Counterparty credit ratings are determined internally by CRM.

We are exposed to 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 the current quarter, our exposure to credit risk arising from OTC derivatives has increased, primarily as a function of the effect of market factors and volatility on the valuation of our positions. For more information on derivatives, see “Quantitative and Qualitative Disclosures about Risk—Credit Risk—Derivatives” in the 2019 Form 10-K and Note 6 to the financial statements.

Country Risk

Country risk exposure is the risk that events in, or that affect, a foreign country (any country other than the U.S.) might adversely affect us. We actively manage country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals and allows us to effectively identify, monitor and limit country risk. For a further discussion of our country risk exposure see, “Quantitative and Qualitative Disclosures about Risk—Country and Other Risks” in the 2019 Form 10-K.

Our sovereign exposures consist of financial contracts and obligations entered into with sovereign and local governments. Our non-sovereign exposures consist of financial contracts and obligations entered into primarily with corporations and financial institutions. Index credit derivatives are included in the following country risk exposure table. Each reference entity within an index is allocated to that reference entity’s country of risk. Index exposures are allocated to the underlying reference entities in proportion to the notional weighting of each reference entity in the index, adjusted for any fair value receivable or

Risk Disclosures

payable for that reference entity. Where credit risk crosses multiple jurisdictions, for example, a CDS purchased from an issuer in a specific country that references bonds issued by an entity in a different country, the fair value of the CDS is reflected in the Net Counterparty Exposure row based on the country of the CDS issuer. Further, the notional amount of the CDS adjusted for the fair value of the receivable or payable is reflected in the Net Inventory row based on the country of the underlying reference entity.

Top 10 Non-U.S. Country Exposures at March 31, 2020

United Kingdom

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory ¹	\$ (238)	\$ 1,327	\$ 1,089
Net counterparty exposure ²	88	13,314	13,402
Loans	—	2,822	2,822
Lending commitments	—	6,547	6,547
Exposure before hedges	(150)	24,010	23,860
Hedges ³	(311)	(1,266)	(1,577)
Net exposure	\$ (461)	\$ 22,744	\$ 22,283

Germany

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory ¹	\$ 1,080	\$ 281	\$ 1,361
Net counterparty exposure ²	127	5,539	5,666
Loans	—	1,649	1,649
Lending commitments	—	3,492	3,492
Exposure before hedges	1,207	10,961	12,168
Hedges ³	(285)	(874)	(1,159)
Net exposure	\$ 922	\$ 10,087	\$ 11,009

Japan

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory ¹	\$ 1,501	\$ 431	\$ 1,932
Net counterparty exposure ²	78	4,559	4,637
Loans	—	714	714
Lending commitments	—	3	3
Exposure before hedges	1,579	5,707	7,286
Hedges ³	(92)	(130)	(222)
Net exposure	\$ 1,487	\$ 5,577	\$ 7,064

France

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory ¹	\$ (427)	\$ (476)	\$ (903)
Net counterparty exposure ²	14	3,734	3,748
Loans	—	935	935
Lending commitments	—	2,919	2,919
Exposure before hedges	(413)	7,112	6,699
Hedges ³	(6)	(712)	(718)
Net exposure	\$ (419)	\$ 6,400	\$ 5,981

Canada

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory ¹	\$ 587	\$ 369	\$ 956
Net counterparty exposure ²	57	3,221	3,278
Loans	—	629	629
Lending commitments	—	985	985
Exposure before hedges	644	5,204	5,848
Hedges ³	—	(97)	(97)
Net exposure	\$ 644	\$ 5,107	\$ 5,751

Spain

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory ¹	\$ 360	\$ (139)	\$ 221
Net counterparty exposure ²	3	383	386
Loans	—	3,623	3,623
Lending commitments	—	713	713
Exposure before hedges	363	4,580	4,943
Hedges ³	—	(132)	(132)
Net exposure	\$ 363	\$ 4,448	\$ 4,811

China

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory ¹	\$ (432)	\$ 1,487	\$ 1,055
Net counterparty exposure ²	135	460	595
Loans	—	1,965	1,965
Lending commitments	—	770	770
Exposure before hedges	(297)	4,682	4,385
Hedges ³	(82)	(82)	(164)
Net exposure	\$ (379)	\$ 4,600	\$ 4,221

Australia

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory ¹	\$ 1,464	\$ 359	\$ 1,823
Net counterparty exposure ²	16	1,346	1,362
Loans	—	355	355
Lending commitments	—	647	647
Exposure before hedges	1,480	2,707	4,187
Hedges ³	—	(107)	(107)
Net exposure	\$ 1,480	\$ 2,600	\$ 4,080

Brazil

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory ¹	\$ 2,384	\$ 79	\$ 2,463
Net counterparty exposure ²	—	924	924
Loans	—	237	237
Lending commitments	—	64	64
Exposure before hedges	2,384	1,304	3,688
Hedges ³	(12)	(16)	(28)
Net exposure	\$ 2,372	\$ 1,288	\$ 3,660

Risk Disclosures

India

<i>\$ in millions</i>	Sovereigns	Non-sovereigns	Total
Net inventory ¹	\$ 1,571	\$ 680	\$ 2,251
Net counterparty exposure ²	—	612	612
Loans	—	235	235
Exposure before hedges	1,571	1,527	3,098
Net exposure	\$ 1,571	\$ 1,527	\$ 3,098

1. Net inventory represents exposure to both long and short single-name and index positions (*i.e.*, bonds and equities at fair value and CDS based on a notional amount assuming zero recovery adjusted for the fair value of any receivable or payable).
2. Net counterparty exposure (*e.g.*, repurchase transactions, securities lending and OTC derivatives) is net of the benefit of collateral received and also is net by counterparty when legally enforceable master netting agreements are in place. For more information, see "Additional Information—Top 10 Non-U.S. Country Exposures" herein.
3. Amounts represent net CDS hedges (purchased and sold) on net counterparty exposure and lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures. Amounts are based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable. For further description of the contractual terms for purchased credit protection and whether they may limit the effectiveness of our hedges, see "Quantitative and Qualitative Disclosures about Risk—Credit Risk—Derivatives" in the 2019 Form 10-K.

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

Collateral Held against Net Counterparty Exposure¹

<i>\$ in millions</i>		At March 31, 2020
Counterparty credit exposure	Collateral²	
United Kingdom	U.K., U.S. and Spain	\$ 14,985
Germany	Italy and Germany	13,356
Other	Japan, U.S. and Canada	27,025

1. The benefit of collateral received is reflected in the Top 10 Non-U.S. Country Exposures at March 31, 2020.
2. Collateral primarily consists of cash and government obligations.

Country Risk Exposures Related to the U.K.

At March 31, 2020, our country risk exposures in the U.K. included net exposures of \$22,283 million (as shown in the Top 10 Non-U.S. Country Exposures table) and overnight deposits of \$5,163 million. The \$22,744 million of exposures to non-sovereigns were diversified across both names and sectors and include \$7,253 million to U.K.-focused counterparties that generate more than one-third of their revenues in the U.K., \$5,845 million to geographically diversified counterparties, and \$8,361 million to exchanges and clearinghouses.

Operational Risk

Operational risk refers to the risk of loss, or of damage to our reputation, resulting from inadequate or failed processes or systems, from human factors or from external events (*e.g.*, fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). We may incur operational risk across the full scope of our business activities, including revenue-generating activities (*e.g.*, sales and trading) and support and control groups (*e.g.*, information technology and trade processing). For a further discussion about our operational risk, see "Quantitative

and Qualitative Disclosures about Risk—Operational Risk" in the 2019 Form 10-K. In addition, for further information on market and economic conditions and their effects on risk in general, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary—Coronavirus Disease (COVID-19) Pandemic" and "Risk Factors" herein.

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 our reputation. The risk inherent in a model is a function of the materiality, complexity and uncertainty around inputs and assumptions. Model risk is generated from the use of models impacting financial statements, regulatory filings, capital adequacy assessments and the formulation of strategy. For a further discussion about our model risk, see "Quantitative and Qualitative Disclosures about Risk—Model Risk" in the 2019 Form 10-K.

Liquidity Risk

Liquidity risk refers to the risk that we will be unable to finance our operations due to a loss of access to the capital markets or difficulty in liquidating our assets. Liquidity risk also encompasses our ability (or perceived ability) to meet our financial obligations without experiencing significant business disruption or reputational damage that may threaten our viability as a going concern. For a further discussion about our liquidity risk, see "Quantitative and Qualitative Disclosures about Risk—Liquidity Risk" in the 2019 Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" herein. In addition, for further information on market and economic conditions and their effects on risk in general, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary—Coronavirus Disease (COVID-19) Pandemic" and "Risk Factors" herein.

Legal and Compliance Risk

Legal and compliance risk includes the risk of legal or regulatory sanctions, material financial loss, including fines, penalties, judgments, damages and/or settlements, or loss to reputation that we may suffer as a result of failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with AML, terrorist financing, and anti-corruption rules and regulations. For a further discussion about our legal and compliance risk, see "Quantitative and Qualitative Disclosures about Risk—Legal and Compliance Risk" in the 2019 Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Morgan Stanley:

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated balance sheet of Morgan Stanley and subsidiaries (the “Firm”) as of March 31, 2020, 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, 2020 and 2019, 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, 2019, 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, 2020, 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, 2019 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York

May 5, 2020

Basis for Review Results

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

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

Consolidated Income Statements (Unaudited)

Morgan Stanley

<i>in millions, except per share data</i>	Three Months Ended March 31,	
	2020	2019
Revenues		
Investment banking	\$ 1,271	\$ 1,242
Trading	3,056	3,441
Investments	38	273
Commissions and fees	1,360	966
Asset management	3,417	3,049
Other	(1,011)	301
Total non-interest revenues	8,131	9,272
Interest income	3,503	4,290
Interest expense	2,147	3,276
Net interest	1,356	1,014
Net revenues	9,487	10,286
Non-interest expenses		
Compensation and benefits	4,283	4,651
Brokerage, clearing and exchange fees	740	593
Information processing and communications	563	532
Professional services	449	514
Occupancy and equipment	365	347
Marketing and business development	132	141
Other	809	553
Total non-interest expenses	7,341	7,331
Income before provision for income taxes	2,146	2,955
Provision for income taxes	366	487
Net income	\$ 1,780	\$ 2,468
Net income applicable to noncontrolling interests	82	39
Net income applicable to Morgan Stanley	\$ 1,698	\$ 2,429
Preferred stock dividends	108	93
Earnings applicable to Morgan Stanley common shareholders	\$ 1,590	\$ 2,336
Earnings per common share		
Basic	\$ 1.02	\$ 1.41
Diluted	\$ 1.01	\$ 1.39
Average common shares outstanding		
Basic	1,555	1,658
Diluted	1,573	1,677

**Consolidated Comprehensive Income Statements
(Unaudited)**

Morgan Stanley

<i>\$ in millions</i>	Three Months Ended March 31,	
	2020	2019
Net income	\$ 1,780	\$ 2,468
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(132)	(22)
Change in net unrealized gains (losses) on available-for-sale securities	1,325	429
Pension, postretirement and other	25	1
Change in net debt valuation adjustment	3,803	(620)
Total other comprehensive income (loss)	\$ 5,021	\$ (212)
Comprehensive income	\$ 6,801	\$ 2,256
Net income applicable to noncontrolling interests	82	39
Other comprehensive income (loss) applicable to noncontrolling interests	138	(31)
Comprehensive income applicable to Morgan Stanley	\$ 6,581	\$ 2,248

Consolidated Balance Sheets

Morgan Stanley

<i>\$ in millions, except share data</i>	(Unaudited) At March 31, 2020	At December 31, 2019
Assets		
Cash and cash equivalents	\$ 131,509	\$ 82,171
Trading assets at fair value (\$103,637 and \$128,386 were pledged to various parties)	270,916	297,110
Investment securities (includes \$68,871 and \$62,223 at fair value)	116,157	105,725
Securities purchased under agreements to resell (includes \$5 and \$4 at fair value)	104,800	88,224
Securities borrowed	72,300	106,549
Customer and other receivables	74,424	55,646
Loans:		
Held for investment (net of allowance of \$617 and \$349)	131,335	118,060
Held for sale	17,362	12,577
Goodwill	7,125	7,143
Intangible assets (net of accumulated amortization of \$3,281 and \$3,204)	2,021	2,107
Other assets	19,846	20,117
Total assets	\$ 947,795	\$ 895,429
Liabilities		
Deposits (includes \$4,052 and \$2,099 at fair value)	\$ 235,239	\$ 190,356
Trading liabilities at fair value	142,076	133,356
Securities sold under agreements to repurchase (includes \$775 and \$733 at fair value)	45,816	54,200
Securities loaned	11,631	8,506
Other secured financings (includes \$6,897 and \$7,809 at fair value)	13,058	14,698
Customer and other payables	198,074	197,834
Other liabilities and accrued expenses	19,817	21,155
Borrowings (includes \$57,162 and \$64,461 at fair value)	194,856	192,627
Total liabilities	860,567	812,732
Commitments and contingent liabilities (see Note 13)		
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: 1,575,500,507 and 1,593,973,680	20	20
Additional paid-in capital	23,428	23,935
Retained earnings	71,518	70,589
Employee stock trusts	3,088	2,918
Accumulated other comprehensive income (loss)	2,095	(2,788)
Common stock held in treasury at cost, \$0.01 par value (463,393,472 and 444,920,299 shares)	(19,721)	(18,727)
Common stock issued to employee stock trusts	(3,088)	(2,918)
Total Morgan Stanley shareholders' equity	85,860	81,549
Noncontrolling interests	1,368	1,148
Total equity	87,228	82,697
Total liabilities and equity	\$ 947,795	\$ 895,429

Consolidated Statements of Changes in Total Equity (Unaudited)

Morgan Stanley

<i>\$ in millions</i>	Three Months Ended March 31,	
	2020	2019
Preferred Stock		
Beginning and ending balance	\$ 8,520	\$ 8,520
Common Stock		
Beginning and ending balance	20	20
Additional Paid-in Capital		
Beginning balance	23,935	23,794
Share-based award activity	(507)	(618)
Other net increases	—	2
Ending balance	23,428	23,178
Retained Earnings		
Beginning balance	70,589	64,175
Cumulative adjustments for accounting changes ¹	(100)	63
Net income applicable to Morgan Stanley	1,698	2,429
Preferred stock dividends ²	(108)	(93)
Common stock dividends ²	(561)	(513)
Ending balance	71,518	66,061
Employee Stock Trusts		
Beginning balance	2,918	2,836
Share-based award activity	170	164
Ending balance	3,088	3,000
Accumulated Other Comprehensive Income (Loss)		
Beginning balance	(2,788)	(2,292)
Net change in Accumulated other comprehensive income (loss)	4,883	(181)
Ending balance	2,095	(2,473)
Common Stock Held In Treasury at Cost		
Beginning balance	(18,727)	(13,971)
Share-based award activity	788	1,034
Repurchases of common stock and employee tax withholdings	(1,782)	(1,645)
Ending balance	(19,721)	(14,582)
Common Stock Issued to Employee Stock Trusts		
Beginning balance	(2,918)	(2,836)
Share-based award activity	(170)	(164)
Ending balance	(3,088)	(3,000)
Non-Controlling Interests		
Beginning balance	1,148	1,160
Net income applicable to non-controlling interests	82	39
Net change in Accumulated other comprehensive income (loss)	138	(31)
Ending balance	1,368	1,168
Total Equity	\$ 87,228	\$ 81,892

1. See Notes 2 and 16 for further information regarding cumulative adjustments for accounting changes.

2. See Note 16 for information regarding dividends per share for each class of stock.

**Consolidated Cash Flow Statements
(Unaudited)**

Morgan Stanley

<i>\$ in millions</i>	Three Months Ended March 31,	
	2020	2019
Cash flows from operating activities		
Net income	\$ 1,780	\$ 2,468
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Stock-based compensation expense	154	293
Depreciation and amortization	824	658
Provision for (Release of) credit losses on lending activities	407	36
Other operating adjustments	1,044	(92)
Changes in assets and liabilities:		
Trading assets, net of Trading liabilities	35,079	23,977
Securities borrowed	34,249	(22,578)
Securities loaned	3,125	600
Customer and other receivables and other assets	(23,619)	1,567
Customer and other payables and other liabilities	(4,247)	9,971
Securities purchased under agreements to resell	(16,576)	1,952
Securities sold under agreements to repurchase	(8,384)	(1,811)
Net cash provided by (used for) operating activities	23,836	17,041
Cash flows from investing activities		
Proceeds from (payments for):		
Other assets—Premises, equipment and software, net	(354)	(529)
Changes in loans, net	(13,243)	(1,329)
Investment securities:		
Purchases	(12,924)	(15,895)
Proceeds from sales	3,128	7,875
Proceeds from paydowns and maturities	2,378	2,663
Other investing activities	(93)	(12)
Net cash provided by (used for) investing activities	(21,108)	(7,227)
Cash flows from financing activities		
Net proceeds from (payments for):		
Other secured financings	259	(1,575)
Deposits	44,694	(8,089)
Proceeds from issuance of Borrowings	20,601	8,091
Payments for:		
Borrowings	(14,967)	(11,927)
Repurchases of common stock and employee tax withholdings	(1,782)	(1,645)
Cash dividends	(688)	(663)
Other financing activities	(163)	(56)
Net cash provided by (used for) financing activities	47,954	(15,864)
Effect of exchange rate changes on cash and cash equivalents	(1,344)	(464)
Net increase (decrease) in cash and cash equivalents	49,338	(6,514)
Cash and cash equivalents, at beginning of period	82,171	87,196
Cash and cash equivalents, at end of period	\$ 131,509	\$ 80,682
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	\$ 2,123	\$ 2,896
Income taxes, net of refunds	342	245

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 Terms and Acronyms” for the definition of certain terms and acronyms used throughout this Form 10-Q.

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

Institutional Securities provides investment banking, sales and trading, lending and other services to corporations, governments, financial institutions and high to ultra-high net worth clients. Investment banking services consist of capital raising and financial advisory services, including services relating to the underwriting of debt, equity and other securities, as well as advice on mergers and acquisitions, restructurings, real estate and project finance. Sales and trading services include sales, financing, prime brokerage and market-making activities in equity and fixed income products, including foreign exchange and commodities. Lending activities include originating corporate loans and commercial real estate loans, providing secured lending facilities, and extending financing to sales and trading customers. Other activities include Asia wealth management services, 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; stock plan administration services; annuity and insurance products; securities-based lending, residential real estate loans and other lending products; banking; and retirement plan services.

Investment Management provides a broad range of investment strategies and products that span geographies, asset classes, and public and private markets to a diverse group of clients across institutional and intermediary channels. Strategies and products, which are offered through a variety of investment vehicles, 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 generally served through intermediaries, including affiliated and non-affiliated distributors.

Basis of Financial Information

The 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 valuations of goodwill and intangible assets, the outcome of legal and tax matters, deferred tax assets, 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.

Certain reclassifications have been made to prior periods to conform to the current presentation. The Notes are an integral part of the Firm's financial statements. The Firm has evaluated subsequent events for adjustment to or disclosure in these financial statements through the date of this report and has not identified any recordable or disclosable events not otherwise reported in these financial statements or the notes thereto.

The accompanying financial statements should be read in conjunction with the Firm’s financial statements and notes thereto included in the 2019 Form 10-K. Certain footnote disclosures included in the 2019 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 14). Intercompany balances and transactions have been eliminated. For consolidated subsidiaries that are not wholly owned, the third-party holdings of equity interests are referred to as noncontrolling interests. The net income attributable to noncontrolling interests for such subsidiaries is presented as Net income applicable to noncontrolling interests in the 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 balance sheets.

For a discussion of the Firm’s significant regulated U.S. and international subsidiaries and its involvement with VIEs, see Note 1 to the financial statements in the 2019 Form 10-K.

Notes to Consolidated Financial Statements (Unaudited)

2. Significant Accounting Policies

For a detailed discussion about the Firm's significant accounting policies and for further information on accounting updates adopted in the prior year, see Note 2 to the financial statements in the 2019 Form 10-K.

During the three months ended March 31, 2020 ("current quarter"), there were no significant revisions to the Firm's significant accounting policies, other than for the accounting updates adopted.

Accounting Updates Adopted in 2020

See Note 16 for a summary of the Retained earnings impact of this adoption.

Financial Instruments — Credit Losses

The Firm adopted the *Financial Instruments - Credit Losses* accounting update on January 1, 2020.

This accounting update impacted 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 replaced the loss model currently applicable to loans held for investment, HTM securities and other receivables carried at amortized cost, such as employee loans.

The update also eliminated the concept of other-than-temporary impairment for AFS securities and instead requires impairments on AFS securities to be recognized in earnings through an allowance when the fair value is less than amortized cost and a credit loss exists, and through a permanent reduction of the amortized cost basis when the securities are expected to be sold before recovery of amortized cost.

For certain portfolios, we determined that there are *de minimis* or zero expected credit losses; for example, for lending and financing transactions, such as Securities borrowed, Securities purchased under agreements to resell and certain other portfolios where collateral arrangements are being followed. Also, we have zero expected credit losses for certain financial assets based on the credit quality of the borrower or issuer, such as U.S. government and agency securities.

At transition on January 1, 2020, the adoption of this accounting standard resulted in an increase in the allowance for credit losses of \$131 million with a corresponding reduction in Retained earnings of \$100 million, net of tax. The adoption impact was primarily attributable to a \$124 million increase in the allowance for credit losses on employee loans.

The following discussion highlights changes to the Firm's accounting policies as a result of this adoption.

Instruments Measured at Amortized Cost and Certain Off-Balance Sheet Credit Exposures

Allowance for Credit Losses ("ACL")

The ACL for financial instruments measured at amortized cost and certain off-balance sheet exposures (e.g., HFI loans and lending commitments, HTM securities, customer and other receivables and certain guarantees) represents an estimate of expected credit losses over the entire life of the financial instrument.

Factors considered by management when determining the ACL include payment status, fair value of collateral, expected payments of principal and interest, as well as internal or external information relating to past events, current conditions and reasonable and supportable forecasts. The Firm's forecasts include assumptions about certain macroeconomic variables including, but not limited to, U.S. gross domestic product, equity market indices, unemployment rates, as well as commercial real estate and home price indices. At the conclusion of the Firm's reasonable and supportable forecast period of three years, there is a gradual reversion back to historical averages.

The ACL is measured on a collective basis when similar risk characteristics exist for multiple instruments considering all available information relevant to assessing the collectability of cash flows. Generally, the Firm applies a probability of default ("PD")/loss given default ("LGD") model ("PD/LGD model") for instruments that are collectively assessed, under which the ACL is calculated as the product of PD, LGD and exposure at default ("EAD"). These parameters are forecast for each collective group of loans using a scenario-based statistical model and at the conclusion of the Firm's reasonable and supportable forecast period, the parameters gradually revert back to historical averages.

If the instrument does not share similar risk characteristics with other instruments, including when it is probable that the Firm will be unable to collect the full payment of principal and interest on the instrument when due, the ACL is measured on an individual basis. The Firm typically applies a discounted cash flow ("DCF") method for instruments that are individually assessed.

The Firm may also elect to use an approach that considers the fair value of the collateral when measuring the ACL if the loan is collateral dependent (i.e., repayment of the loan is expected to be provided substantially by the sale or operation of the underlying collateral and the borrower is experiencing financial difficulty).

Additionally, the Firm can elect to use an approach to measure the ACL using the fair value of collateral where the borrower is required to, and reasonably expected to, continually adjust and replenish the amount of collateral securing the instrument to reflect changes in the fair value of such collateral. The Firm has

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

elected to use this approach for certain securities-based loans, customer receivables representing margin loans, Securities purchased under agreements to resell and Securities borrowed.

Credit quality indicators considered in developing the ACL include:

- Corporate loans and Commercial real estate loans and securities: Internal risk ratings developed by CRM which are refreshed at least annually, and more frequently as necessary. These ratings generally correspond to external ratings published by S&P. The Firm also considers transaction structure, including type of collateral, collateral terms, and position of the obligation within the capital structure. In addition, for Commercial real estate, the Firm considers property type and location, net operating income, LTV ratios, among others, as well as commercial real estate price and credit spread indices and capitalization rates.
- Residential real estate loans: Loan origination Fair Isaac Corporation (“FICO”) credit scores as determined by independent credit agencies in the United States and loan-to-value (“LTV”) ratios.
- Employee loans: Employment status, which includes those currently employed by the Firm and for which the Firm can deduct any unpaid amounts due to it through certain compensation arrangements; and those no longer employed by the Firm where such compensation arrangements are no longer applicable.

Consumer loans primarily comprise securities-based loans and therefore the Firm generally measures the ACL on such loans based on the fair value of collateral.

Qualitative and environmental factors such as economic and business conditions, the nature and volume of the portfolio, and lending terms and the volume and severity of past due loans are also considered in the ACL calculations.

Recognition. The Firm recognizes its ACL and provision for credit losses in its balance sheets and income statements, respectively, for on- and off-balance sheet instruments as follows.

	ACL	Provision for credit losses
Instruments measured at amortized cost (e.g., HFI loans, HTM securities and customer and other receivables)	Contra asset	Other revenue
Employee loans	Contra asset	Compensation and benefits expense
Off-balance sheet instruments (e.g., HFI lending commitments and certain guarantees)	Other liabilities and accrued expenses	Other expense

Troubled Debt Restructurings (“TDRs”)

The Firm may modify the terms of certain loans for economic or legal reasons related to a borrower’s financial difficulties by granting one or more concessions that the Firm would not

otherwise consider. Such modifications are accounted for and reported as a TDR, except for certain modifications related to the Coronavirus Disease (“COVID-19”) as noted in “Modifications and Nonaccrual Status for Borrowers Impacted by COVID-19” herein. A loan that has been modified in a TDR is generally considered to be impaired and is evaluated individually. TDRs are also generally classified as nonaccrual and may be returned to accrual status only after the Firm expects repayment of the remaining contractual principal and interest and there is sustained repayment performance for a reasonable period.

Nonaccrual

The Firm places financial instruments on nonaccrual status if principal or interest is past due for a period of 90 days or more or payment of principal or interest is in doubt unless the obligation is well-secured and in the process of collection, or in certain cases when related to the Coronavirus Disease (“COVID-19”) as noted in “Modifications and Nonaccrual Status for Borrowers Impacted by COVID-19” herein. For any instrument placed on nonaccrual status, the Firm reverses any unpaid interest accrued with an offsetting reduction to Interest income. Principal and interest payments received on nonaccrual instruments are applied to principal if there is doubt regarding the ultimate collectability of principal. If collection of the principal is not in doubt, interest income is realized on a cash basis. If neither principal nor interest collection is in doubt and the instruments are brought current, instruments are generally placed on accrual status and interest income is recognized using the effective interest method.

Modifications and Nonaccrual Status for Borrowers Impacted by COVID-19

In the first quarter of 2020, the Firm elected to apply the guidance issued by Congress in the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) as well as by the U.S. banking agencies stating that certain concessions granted to borrowers that are current on existing loans, either individually or as part of a program for creditworthy borrowers who are experiencing short-term financial or operational problems as a result of the coronavirus pandemic, generally would not be considered TDRs or nonaccrual.

ACL Write-offs

The Firm writes-off a financial instrument in the period that it is deemed uncollectible and records a reduction in the ACL and the balance of the financial instrument in the balance sheet. However, for accrued interest receivable balances that are separately recorded from the related financial instruments, the Firm’s nonaccrual policy requires that accrued interest receivable be written off against Interest income when the related financial instrument is placed in nonaccrual status. Accordingly, the Firm elected not to measure an ACL for accrued interest receivables.

Notes to Consolidated Financial Statements (Unaudited)

Available-for-Sale (“AFS”) Investment Securities

Unrealized Losses on AFS Securities

AFS securities are analyzed as part of the Firm's periodic assessment of credit losses at the individual security level. When considering if a credit loss exists, the Firm considers relevant information as discussed in Note 2 of the 2019 Form 10-K. Upon the adoption of *Financial Instruments—Credit Losses*, the Firm no longer considers the length of time the fair value has been less than the amortized cost basis in determining whether a credit loss exists.

Recognition. The Firm recognizes its ACL and provision for credit losses for AFS securities in its balance sheets and income statements, respectively, as follows.

	ACL	Provision for credit losses
AFS securities	Contra asset	Other revenue

The Firm recognizes the non-credit loss component of the unrealized loss as an adjustment to the security's asset balance with an offsetting entry to AOCI in the balance sheets.

For AFS securities in an unrealized loss position as of the balance sheet date that the Firm either has the intent to sell or that the Firm is likely to be required to sell before recovery of its amortized cost basis, any allowance for credit losses previously established is written off and the amortized cost basis is written down to the security's fair value with any incremental unrealized losses reported in Other revenues.

Nonaccrual & ACL Write-Offs on AFS Securities

AFS securities follow the same nonaccrual and write-off guidance as discussed in “Instruments Measured at Amortized Cost and Certain Off-Balance Sheet Credit Exposures” herein.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of Cash and due from banks and Interest bearing deposits with banks. Cash equivalents are highly liquid investments with remaining maturities of three months or less from the acquisition date that are readily convertible to cash and are not held for trading purposes.

\$ in millions	At March 31, 2020	At December 31, 2019
Cash and due from banks	\$ 11,570	\$ 6,763
Interest bearing deposits with banks	119,939	75,408
Total Cash and cash equivalents	\$ 131,509	\$ 82,171
Restricted cash	\$ 56,064	\$ 32,512

Cash and cash equivalents also include Restricted cash such as cash in banks subject to withdrawal restrictions, restricted deposits held as compensating balances and cash segregated in

compliance with federal or other regulations, including the minimum reserve requirement set by the Federal Reserve Bank and other central banks.

4. Fair Values

Recurring Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

\$ in millions	At March 31, 2020				Total
	Level 1	Level 2	Level 3	Netting ¹	
Assets at fair value					
Trading assets:					
U.S. Treasury and agency securities	\$ 42,231	\$ 29,105	\$ 99	\$ —	\$ 71,435
Other sovereign government obligations	29,493	5,017	17	—	34,527
State and municipal securities	—	2,226	1	—	2,227
MABS	—	838	483	—	1,321
Loans and lending commitments ²	—	4,082	5,980	—	10,062
Corporate and other debt	—	23,448	1,708	—	25,156
Corporate equities ³	66,409	582	146	—	67,137
Derivative and other contracts:					
Interest rate	14,025	253,646	1,367	—	269,038
Credit	—	12,605	753	—	13,358
Foreign exchange	26	112,711	76	—	112,813
Equity	1,041	93,175	1,560	—	95,776
Commodity and other	1,070	17,813	3,384	—	22,267
Netting ¹	(12,720)	(376,568)	(1,301)	(69,653)	(460,242)
Total derivative and other contracts	3,442	113,382	5,839	(69,653)	53,010
Investments ⁴	562	204	725	—	1,491
Physical commodities	—	960	—	—	960
Total trading assets ⁴	142,137	179,844	14,998	(69,653)	267,326
Investment securities—AFS	35,899	32,972	—	—	68,871
Securities purchased under agreements to resell	—	5	—	—	5
Total assets at fair value	\$ 178,036	\$ 212,821	\$ 14,998	\$ (69,653)	\$ 336,202

Notes to Consolidated Financial Statements (Unaudited)

\$ in millions	At March 31, 2020				
	Level 1	Level 2	Level 3	Netting ¹	Total
Liabilities at fair value					
Deposits	\$ —	\$ 3,935	\$ 117	\$ —	\$ 4,052
Trading liabilities:					
U.S. Treasury and agency securities	13,273	201	16	—	13,490
Other sovereign government obligations	20,273	836	2	—	21,111
Corporate and other debt	—	9,341	6	—	9,347
Corporate equities ³	57,134	85	40	—	57,259
Derivative and other contracts:					
Interest rate	14,655	242,840	494	—	257,989
Credit	—	12,631	555	—	13,186
Foreign exchange	20	112,552	226	—	112,798
Equity	1,090	89,344	2,936	—	93,370
Commodity and other	1,438	15,280	1,535	—	18,253
Netting ¹	(12,720)	(376,568)	(1,301)	(64,138)	(454,727)
Total derivative and other contracts	4,483	96,079	4,445	(64,138)	40,869
Total trading liabilities	95,163	106,542	4,509	(64,138)	142,076
Securities sold under agreements to repurchase	—	775	—	—	775
Other secured financings	—	6,508	389	—	6,897
Borrowings	—	53,164	3,998	—	57,162
Total liabilities at fair value	\$ 95,163	\$ 170,924	\$ 9,013	\$ (64,138)	\$ 210,962

\$ in millions	At December 31, 2019				
	Level 1	Level 2	Level 3	Netting ¹	Total
Assets at fair value					
Trading assets:					
U.S. Treasury and agency securities	\$ 36,866	\$ 28,992	\$ 22	\$ —	\$ 65,880
Other sovereign government obligations	23,402	4,347	5	—	27,754
State and municipal securities	—	2,790	1	—	2,791
MABS	—	1,690	438	—	2,128
Loans and lending commitments ²	—	6,253	5,073	—	11,326
Corporate and other debt	—	22,124	1,396	—	23,520
Corporate equities ³	123,942	652	97	—	124,691
Derivative and other contracts:					
Interest rate	1,265	182,977	1,239	—	185,481
Credit	—	6,658	654	—	7,312
Foreign exchange	15	64,260	145	—	64,420
Equity	1,219	48,927	922	—	51,068
Commodity and other	1,079	7,255	2,924	—	11,258
Netting ¹	(2,794)	(235,947)	(993)	(47,804)	(287,538)
Total derivative and other contracts	784	74,130	4,891	(47,804)	32,001
Investments ⁴	481	252	858	—	1,591
Physical commodities	—	1,907	—	—	1,907
Total trading assets ⁴	185,475	143,137	12,781	(47,804)	293,589
Investment securities—AFS	32,902	29,321	—	—	62,223
Securities purchased under agreements to resell	—	4	—	—	4
Total assets at fair value	\$ 218,377	\$ 172,462	\$ 12,781	\$ (47,804)	\$ 355,816

\$ in millions	At December 31, 2019				
	Level 1	Level 2	Level 3	Netting ¹	Total
Liabilities at fair value					
Deposits	\$ —	\$ 1,920	\$ 179	\$ —	\$ 2,099
Trading liabilities:					
U.S. Treasury and agency securities	11,191	34	—	—	11,225
Other sovereign government obligations	21,837	1,332	1	—	23,170
Corporate and other debt	—	7,410	—	—	7,410
Corporate equities ³	63,002	79	36	—	63,117
Derivative and other contracts:					
Interest rate	1,144	171,025	462	—	172,631
Credit	—	7,391	530	—	7,921
Foreign exchange	6	67,473	176	—	67,655
Equity	1,200	49,062	2,606	—	52,868
Commodity and other	1,194	7,118	1,312	—	9,624
Netting ¹	(2,794)	(235,947)	(993)	(42,531)	(282,265)
Total derivative and other contracts	750	66,122	4,093	(42,531)	28,434
Total trading liabilities	96,780	74,977	4,130	(42,531)	133,356
Securities sold under agreements to repurchase	—	733	—	—	733
Other secured financings	—	7,700	109	—	7,809
Borrowings	—	60,373	4,088	—	64,461
Total liabilities at fair value	\$ 96,780	\$ 145,703	\$ 8,506	\$ (42,531)	\$ 208,458

MABS—Mortgage- and asset-backed securities

- 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 6.
- For a further breakdown by type, see the following Detail of Loans and Lending Commitments at Fair Value table.
- For trading purposes, the Firm holds or sells short equity securities issued by entities in diverse industries and of varying sizes.
- Amounts exclude certain investments that are measured based on NAV per share, which are not classified in the fair value hierarchy. For additional disclosure about such investments, see "Net Asset Value Measurements" herein.

Detail of Loans and Lending Commitments at Fair Value

\$ in millions	At March 31, 2020	At December 31, 2019
Corporate	\$ 7,711	\$ 8,036
Residential real estate	1,154	1,192
Commercial real estate	1,197	2,098
Total	\$ 10,062	\$ 11,326

Unsettled Fair Value of Futures Contracts¹

\$ in millions	At March 31, 2020	At December 31, 2019
Customer and other receivables, net	\$ 935	\$ 365

- 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 2019 Form 10-K. During the current quarter, there were no significant revisions made to the Firm's valuation techniques.

Notes to Consolidated Financial Statements (Unaudited)

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

\$ in millions	Three Months Ended March 31,	
	2020	2019
U.S. Treasury and agency securities		
Beginning balance	\$ 22	\$ 54
Realized and unrealized gains (losses)	5	—
Purchases	85	—
Sales	(21)	(50)
Net transfers	8	3
Ending balance	\$ 99	\$ 7
Unrealized gains (losses)	\$ 5	\$ —
Other sovereign government obligations		
Beginning balance	\$ 5	\$ 17
Realized and unrealized gains (losses)	1	—
Purchases	10	2
Sales	—	(2)
Net transfers	1	(12)
Ending balance	\$ 17	\$ 5
Unrealized gains (losses)	\$ 1	\$ —
State and municipal securities		
Beginning balance	\$ 1	\$ 148
Realized and unrealized gains (losses)	—	1
Purchases	—	10
Sales	—	(44)
Net transfers	—	(103)
Ending balance	\$ 1	\$ 12
Unrealized gains (losses)	\$ —	\$ 1
MABS		
Beginning balance	\$ 438	\$ 354
Realized and unrealized gains (losses)	(89)	(7)
Purchases	158	19
Sales	(140)	(83)
Settlements	—	(3)
Net transfers	116	21
Ending balance	\$ 483	\$ 301
Unrealized gains (losses)	\$ (92)	\$ (14)
Loans and lending commitments		
Beginning balance	\$ 5,073	\$ 6,870
Realized and unrealized gains (losses)	(102)	—
Purchases and originations	1,952	1,255
Sales	(529)	(108)
Settlements	(1,387)	(820)
Net transfers ¹	973	(854)
Ending balance	\$ 5,980	\$ 6,343
Unrealized gains (losses)	\$ (101)	\$ (7)

\$ in millions	Three Months Ended March 31,	
	2020	2019
Corporate and other debt		
Beginning balance	\$ 1,396	\$ 1,076
Realized and unrealized gains (losses)	(92)	43
Purchases	585	204
Sales	(177)	(127)
Settlements	—	(3)
Net transfers	(4)	(132)
Ending balance	\$ 1,708	\$ 1,061
Unrealized gains (losses)	\$ (90)	\$ 41
Corporate equities		
Beginning balance	\$ 97	\$ 95
Realized and unrealized gains (losses)	(60)	6
Purchases	22	51
Sales	(40)	(9)
Net transfers	127	9
Ending balance	\$ 146	\$ 152
Unrealized gains (losses)	\$ (54)	\$ 7
Investments		
Beginning balance	\$ 858	\$ 757
Realized and unrealized gains (losses)	(63)	10
Purchases	15	10
Sales	(8)	(4)
Net transfers	(77)	201
Ending balance	\$ 725	\$ 974
Unrealized gains (losses)	\$ (64)	\$ 14
Net derivatives: Interest rate		
Beginning balance	\$ 777	\$ 618
Realized and unrealized gains (losses)	156	(48)
Purchases	61	24
Issuances	(7)	(19)
Settlements	(42)	(12)
Net transfers	(72)	(12)
Ending balance	\$ 873	\$ 551
Unrealized gains (losses)	\$ 111	\$ (43)
Net derivatives: Credit		
Beginning balance	\$ 124	\$ 40
Realized and unrealized gains (losses)	131	162
Purchases	26	26
Issuances	(21)	(442)
Settlements	(24)	(33)
Net transfers	(38)	(14)
Ending balance	\$ 198	\$ (261)
Unrealized gains (losses)	\$ 123	\$ 167

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

<i>\$ in millions</i>	Three Months Ended March 31,	
	2020	2019
Net derivatives: Foreign exchange		
Beginning balance	\$ (31)	\$ 75
Realized and unrealized gains (losses)	(62)	(113)
Purchases	3	1
Issuances	(8)	—
Settlements	(8)	8
Net transfers	(44)	34
Ending balance	\$ (150)	\$ 5
Unrealized gains (losses)	\$ (164)	\$ 3
Net derivatives: Equity		
Beginning balance	\$ (1,684)	\$ (1,485)
Realized and unrealized gains (losses)	635	(191)
Purchases	97	34
Issuances	(144)	(193)
Settlements	(167)	139
Net transfers	(113)	(64)
Ending balance	\$ (1,376)	\$ (1,760)
Unrealized gains (losses)	\$ 566	\$ (203)
Net derivatives: Commodity and other		
Beginning balance	\$ 1,612	\$ 2,052
Realized and unrealized gains (losses)	75	43
Purchases	3	5
Issuances	(3)	(1)
Settlements	157	(81)
Net transfers	5	88
Ending balance	\$ 1,849	\$ 2,106
Unrealized gains (losses)	\$ 22	\$ (25)
Deposits		
Beginning balance	\$ 179	\$ 27
Realized and unrealized losses (gains)	(6)	6
Issuances	12	24
Settlements	(5)	(1)
Net transfers	(63)	43
Ending balance	\$ 117	\$ 99
Unrealized losses (gains)	\$ (6)	\$ 6
Nonderivative trading liabilities		
Beginning balance	\$ 37	\$ 16
Realized and unrealized losses (gains)	(43)	(1)
Purchases	(82)	(6)
Sales	52	23
Net transfers	100	11
Ending balance	\$ 64	\$ 43
Unrealized losses (gains)	\$ (43)	\$ (1)
Other secured financings		
Beginning balance	\$ 109	\$ 208
Realized and unrealized losses (gains)	(12)	4
Issuances	2	—
Settlements	(115)	(7)
Net transfers	405	(52)
Ending balance	\$ 389	\$ 153
Unrealized losses (gains)	\$ (12)	\$ 4

<i>\$ in millions</i>	Three Months Ended March 31,	
	2020	2019
Borrowings		
Beginning balance	\$ 4,088	\$ 3,806
Realized and unrealized losses (gains)	(897)	287
Issuances	701	264
Settlements	(234)	(115)
Net transfers	340	(467)
Ending balance	\$ 3,998	\$ 3,775
Unrealized losses (gains)	\$ (895)	\$ 276
Portion of Unrealized losses (gains) recorded in OCI—Change in net DVA	(398)	59

1. Net transfers in the current quarter include the transfer of \$857 million of equity margin loans from Level 2 to Level 3 as the unobservable input became significant.

Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. The realized and unrealized gains (losses) for assets and liabilities within the Level 3 category presented in the previous tables do not reflect the related realized and unrealized gains (losses) on hedging instruments that have been classified by the Firm within the Level 1 and/or Level 2 categories.

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

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

Notes to Consolidated Financial Statements (Unaudited)

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

Valuation Techniques and Unobservable Inputs

\$ in millions, except inputs	Balance / Range (Average) ¹	
	At March 31, 2020	At December 31, 2019
Assets Measured at Fair Value on a Recurring Basis		
U.S. Treasury and agency securities	\$ 99	\$ 22
Comparable pricing:		
Bond price	18 to 117 points (86 points)	N/M
MABS	\$ 483	\$ 438
Comparable pricing:		
Bond price	0 to 87 points (43 points)	0 to 96 points (47 points)
Loans and lending commitments	\$ 5,980	\$ 5,073
Margin loan model:		
Discount rate	1% to 10% (2%)	1% to 9% (2%)
Volatility skew	13% to 89% (58%)	15% to 80% (28%)
Credit Spread	12 to 109 bps (41 bps)	9 to 39 bps (19 bps)
Comparable pricing:		
Loan price	71 to 100 points (92 points)	69 to 100 points (93 points)
Corporate and other debt	\$ 1,708	\$ 1,396
Comparable pricing:		
Bond price	10 to 108 points (85 points)	11 to 108 points (84 points)
Discounted cash flow:		
Recovery rate	51% to 62% (54% / 51%)	35%
Option model:		
At the money volatility	21%	21%
Corporate equities	\$ 146	\$ 97
Comparable pricing:		
Equity price	100%	100%
Investments	\$ 725	\$ 858
Discounted cash flow:		
WACC	11% to 16% (14%)	8% to 17% (15%)
Exit multiple	7 to 17 times (12 times)	7 to 16 times (11 times)
Market approach:		
EBITDA multiple	7 to 22 times (9 times)	7 to 24 times (11 times)
Comparable pricing:		
Equity price	50% to 100% (99%)	75% to 100% (99%)
Net derivative and other contracts:		
Interest rate	\$ 873	\$ 777
Option model:		
IR volatility skew	2% to 183% (68% / 70%)	24% to 156% (63% / 59%)
IR curve correlation	46% to 88% (71% / 73%)	47% to 90% (72% / 72%)
Bond volatility	6% to 35% (25% / 25%)	4% to 15% (13% / 14%)
Inflation volatility	24% to 63% (44% / 41%)	24% to 63% (44% / 41%)
IR curve	0%	1%

\$ in millions, except inputs	Balance / Range (Average) ¹	
	At March 31, 2020	At December 31, 2019
Credit	\$ 198	\$ 124
Credit default swap model:		
Cash-synthetic basis	6 points	6 points
Bond price	0 to 98 points (52 points)	0 to 104 points (45 points)
Credit spread	20 to 488 bps (114 bps)	9 to 469 bps (81 bps)
Funding spread	204 to 278 bps (267 bps)	47 to 117 bps (84 bps)
Correlation model:		
Credit correlation	40% to 78% (50%)	29% to 62% (36%)
Foreign exchange²	\$ (150)	\$ (31)
Option model:		
IR - FX correlation	21% to 58% (38% / 38%)	32% to 56% (46% / 46%)
IR volatility skew	2% to 183% (68% / 70%)	24% to 156% (63% / 59%)
IR curve	10%	10% to 11% (10% / 10%)
Contingency probability	95%	85% to 95% (94% / 95%)
Equity²	\$ (1,376)	\$ (1,684)
Option model:		
At the money volatility	17% to 78% (45%)	9% to 90% (36%)
Volatility skew	-4% to 0% (-1%)	-2% to 0% (-1%)
Equity correlation	5% to 96% (76%)	5% to 98% (70%)
FX correlation	-79% to 55% (-39%)	-79% to 60% (-37%)
IR correlation	-7% to 44% (19% / 18%)	-11% to 44% (18% / 16%)
Commodity and other	\$ 1,849	\$ 1,612
Option model:		
Forward power price	\$1 to \$137 (\$26) per MWh	\$3 to \$182 (\$28) per MWh
Commodity volatility	8% to 145% (18%)	7% to 183% (18%)
Cross-commodity correlation	5% to 99% (93%)	43% to 99% (93%)
Liabilities Measured at Fair Value on a Recurring Basis		
Deposits	\$ 117	\$ 179
Option Model:		
At the money volatility	7% to 24% (7%)	16% to 37% (20%)
Other secured financings	\$ 389	\$ 109
Discounted cash flow:		
Funding spread	106 to 161 bps (121 bps)	111 to 124 bps (117 bps)
Comparable pricing:		
Loan price	30 to 101 points (86 points)	N/M
Borrowings	\$ 3,998	\$ 4,088
Option model:		
At the money volatility	5% to 55% (31%)	5% to 44% (21%)
Volatility skew	-2% to 0% (0%)	-2% to 0% (0%)
Equity correlation	39% to 98% (81%)	38% to 94% (78%)
Equity - FX correlation	-75% to 17% (-32%)	-75% to 26% (-25%)
IR - FX Correlation	-27% to 7% (-5% / -5%)	-26% to 10% (-7% / -7%)

Notes to Consolidated Financial Statements (Unaudited)

\$ in millions, except inputs	Balance / Range (Average) ¹	
	At March 31, 2020	At December 31, 2019
Nonrecurring Fair Value Measurement		
Loans	\$ 3,901	\$ 1,500
Corporate loan model:		
Credit spread	44 to 600 bps (367 bps)	69 to 446 bps (225 bps)
Warehouse model:		
Credit spread	159 to 743 bps (313 bps)	287 to 318 bps (297 bps)

Points—Percentage of par

IR—Interest rate

FX—Foreign exchange

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

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

The previous tables provide information on the valuation techniques, significant unobservable inputs, and the 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 of financial instruments. 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. There are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique.

For a description of the Firm's significant unobservable inputs and qualitative information about the effect of hypothetical changes in the values of those inputs, see Note 3 to the financial statements in the 2019 Form 10-K. During the current quarter, there were no significant revisions made to the descriptions of the Firm's significant unobservable inputs.

Net Asset Value Measurements

Fund Interests

\$ in millions	At March 31, 2020		At December 31, 2019	
	Carrying Value	Commitment	Carrying Value	Commitment
Private equity	\$ 2,219	\$ 557	\$ 2,078	\$ 450
Real estate	1,280	147	1,349	150
Hedge ¹	91	—	94	4
Total	\$ 3,590	\$ 704	\$ 3,521	\$ 604

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-based 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 the fund investments are accounted for under the equity method or fair 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 2019 Form 10-K.

See Note 13 for information regarding general partner guarantees, which include potential obligations to return performance fee distributions previously received. See Note 19 for information regarding unrealized carried interest at risk of reversal.

Nonredeemable Funds by Contractual Maturity

\$ in millions	Carrying Value at March 31, 2020	
	Private Equity	Real Estate
Less than 5 years	\$ 1,409	\$ 431
5-10 years	759	173
Over 10 years	51	676
Total	\$ 2,219	\$ 1,280

Nonrecurring Fair Value Measurements

Carrying and Fair Values

\$ in millions	At March 31, 2020		
	Fair Value		
	Level 2	Level 3 ¹	Total
Assets			
Loans	\$ 5,823	\$ 3,901	\$ 9,724
Liabilities			
Other liabilities and accrued expenses—Lending commitments	\$ 321	\$ 247	\$ 568

\$ in millions	At December 31, 2019		
	Fair Value		
	Level 2	Level 3 ¹	Total
Assets			
Loans	\$ 1,543	\$ 1,500	\$ 3,043
Other assets—Other investments	\$ —	\$ 113	\$ 113
Total	\$ 1,543	\$ 1,613	\$ 3,156
Liabilities			
Other liabilities and accrued expenses—Lending commitments	\$ 132	\$ 69	\$ 201
Total	\$ 132	\$ 69	\$ 201

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.

Notes to Consolidated Financial Statements (Unaudited)

Gains (Losses) from Fair Value Remeasurements¹

\$ in millions	Three Months Ended March 31,	
	2020	2019
Assets		
Loans ²	\$ (713)	\$ 36
Other assets—Other investments ³	—	(5)
Other assets—Premises, equipment and software ⁴	(3)	(2)
Total	\$ (716)	\$ 29
Liabilities		
Other liabilities and accrued expenses—Lending commitments ²	\$ (316)	\$ 67
Total	\$ (316)	\$ 67

- Gains and losses for Loans and Other assets—Other investments are classified in Other revenues. For other items, gains and losses are recorded in Other revenues if the item is held for sale; otherwise, they are recorded in Other expenses.
- 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—Other investments were determined using techniques that included discounted cash flow models, methodologies that incorporate multiples of certain comparable companies and recently executed transactions.
- Losses related to Other assets—Premises, equipment and software generally include write-offs related to the disposal of certain assets.

Financial Instruments Not Measured at Fair Value

\$ in millions	At March 31, 2020				
	Carrying Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and cash equivalents	\$ 131,509	\$ 131,509	\$ —	\$ —	\$ 131,509
Investment securities—HTM	47,286	32,207	17,149	777	50,133
Securities purchased under agreements to resell	104,795	—	103,451	1,426	104,877
Securities borrowed	72,300	—	72,303	—	72,303
Customer and other receivables ¹	69,923	—	67,086	2,852	69,938
Loans ²	148,697	—	32,529	114,841	147,370
Other assets	461	—	461	—	461
Financial liabilities					
Deposits	\$ 231,187	\$ —	\$ 231,555	\$ —	\$ 231,555
Securities sold under agreements to repurchase	45,041	—	45,077	—	45,077
Securities loaned	11,631	—	11,633	—	11,633
Other secured financings	6,161	—	6,167	—	6,167
Customer and other payables ¹	195,211	—	195,211	—	195,211
Borrowings	137,694	—	135,148	10	135,158
	Commitment Amount				
Lending commitments ³	\$ 105,466	\$ —	\$ 1,668	\$ 1,089	\$ 2,757

\$ in millions	At December 31, 2019				
	Carrying Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and cash equivalents	\$ 82,171	\$ 82,171	\$ —	\$ —	\$ 82,171
Investment securities—HTM	43,502	30,661	12,683	789	44,133
Securities purchased under agreements to resell	88,220	—	86,794	1,442	88,236
Securities borrowed	106,549	—	106,551	—	106,551
Customer and other receivables ¹	51,134	—	48,215	2,872	51,087
Loans ²	130,637	—	22,293	108,059	130,352
Other assets	495	—	495	—	495
Financial liabilities					
Deposits	\$ 188,257	\$ —	\$ 188,639	\$ —	\$ 188,639
Securities sold under agreements to repurchase	53,467	—	53,486	—	53,486
Securities loaned	8,506	—	8,506	—	8,506
Other secured financings	6,889	—	6,800	92	6,892
Customer and other payables ¹	195,035	—	195,035	—	195,035
Borrowings	128,166	—	133,563	10	133,573
	Commitment Amount				
Lending commitments ³	\$ 119,004	\$ —	\$ 748	\$ 338	\$ 1,086

- Accrued interest and dividend receivables and payables have been excluded. Carrying value approximates fair value for these receivables and payables. As of March 31, 2020 and December 31, 2019, accrued interest receivable was \$2.4 billion and \$1.7 billion, respectively.
- Amounts include loans measured at fair value on a nonrecurring basis.
- Represents Lending commitments accounted for as Held for Investment and Held for Sale. For a further discussion on lending commitments, see Note 13.

The previous tables exclude certain financial instruments such as equity method investments and all non-financial assets and liabilities such as the value of the long-term relationships with the Firm's deposit customers.

Notes to Consolidated Financial Statements (Unaudited)

5. Fair Value Option

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

Borrowings Measured at Fair Value on a Recurring Basis

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Business Unit Responsible for Risk Management		
Equity	\$ 25,089	\$ 30,214
Interest rates	25,195	27,298
Commodities	4,681	4,501
Credit	1,179	1,246
Foreign exchange	1,018	1,202
Total	\$ 57,162	\$ 64,461

Net Revenues from Borrowings under the Fair Value Option

<i>\$ in millions</i>	Three Months Ended March 31,	
	2020	2019
Trading revenues	\$ 3,447	\$ (2,903)
Interest expense	83	93
Net revenues¹	\$ 3,364	\$ (2,996)

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

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

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

<i>\$ in millions</i>	Three Months Ended March 31,			
	2020		2019	
	Trading Revenues	OCI	Trading Revenues	OCI
Borrowings	\$ (5)	\$ 4,948	\$ (4)	\$ (816)
Loans and other debt ¹	(281)	—	93	—
Lending commitments	2	—	(1)	—
Deposits	—	72	—	(4)

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Cumulative pre-tax DVA gain (loss) recognized in AOCI	\$ 3,022	\$ (1,998)

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

Difference Between Contractual Principal and Fair Value¹

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Loans and other debt ²	\$ 13,654	\$ 13,037
Nonaccrual loans ²	11,014	10,849
Borrowings ³	798	(1,665)

1. Amounts indicate contractual principal greater than or (less than) fair value.
2. The majority of the difference between principal and fair value amounts for loans and other debt relates to distressed debt positions purchased at amounts well below par.
3. Excludes borrowings where the repayment of the initial principal amount fluctuates based on changes in a reference price or index.

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

Fair Value Loans on Nonaccrual Status

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Nonaccrual loans	\$ 1,150	\$ 1,100
Nonaccrual loans 90 or more days past due	\$ 262	\$ 330

Notes to Consolidated Financial Statements (Unaudited)

6. Derivative Instruments and Hedging Activities

Fair Values of Derivative Contracts

At March 31, 2020

\$ in millions	Assets			Total
	Bilateral OTC	Cleared OTC	Exchange-Traded	
Designated as accounting hedges				
Interest rate	\$ 1,295	\$ 7	\$ —	\$ 1,302
Foreign exchange	152	83	—	235
Total	1,447	90	—	1,537
Not designated as accounting hedges				
Interest rate	252,956	13,730	1,050	267,736
Credit	10,204	3,154	—	13,358
Foreign exchange	109,212	3,191	175	112,578
Equity	44,289	—	51,487	95,776
Commodity and other	17,778	—	4,489	22,267
Total	434,439	20,075	57,201	511,715
Total gross derivatives	\$ 435,886	\$ 20,165	\$ 57,201	\$ 513,252
Amounts offset				
Counterparty netting	(328,104)	(16,673)	(54,079)	(398,856)
Cash collateral netting	(59,531)	(1,855)	—	(61,386)
Total in Trading assets	\$ 48,251	\$ 1,637	\$ 3,122	\$ 53,010
Amounts not offset¹				
Financial instruments collateral	(23,868)	—	—	(23,868)
Other cash collateral	(83)	—	—	(83)
Net amounts	\$ 24,300	\$ 1,637	\$ 3,122	\$ 29,059
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				\$ 3,984

\$ in millions	Liabilities			Total
	Bilateral OTC	Cleared OTC	Exchange-Traded	
Designated as accounting hedges				
Interest rate	\$ —	\$ —	\$ —	\$ —
Foreign exchange	54	2	—	56
Total	54	2	—	56
Not designated as accounting hedges				
Interest rate	245,978	10,698	1,313	257,989
Credit	9,556	3,630	—	13,186
Foreign exchange	109,225	3,336	181	112,742
Equity	39,606	—	53,764	93,370
Commodity and other	13,661	—	4,592	18,253
Total	418,026	17,664	59,850	495,540
Total gross derivatives	\$ 418,080	\$ 17,666	\$ 59,850	\$ 495,596
Amounts offset				
Counterparty netting	(328,104)	(16,673)	(54,079)	(398,856)
Cash collateral netting	(55,307)	(564)	—	(55,871)
Total in Trading liabilities	\$ 34,669	\$ 429	\$ 5,771	\$ 40,869
Amounts not offset¹				
Financial instruments collateral	(8,357)	—	(3,825)	(12,182)
Other cash collateral	(34)	(37)	—	(71)
Net amounts	\$ 26,278	\$ 392	\$ 1,946	\$ 28,616
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				5,601

At December 31, 2019

\$ in millions	Assets			Total
	Bilateral OTC	Cleared OTC	Exchange-Traded	
Designated as accounting hedges				
Interest rate	\$ 673	\$ —	\$ —	\$ 673
Foreign exchange	41	1	—	42
Total	714	1	—	715
Not designated as accounting hedges				
Interest rate	179,450	4,839	519	184,808
Credit	4,895	2,417	—	7,312
Foreign exchange	62,957	1,399	22	64,378
Equity	27,621	—	23,447	51,068
Commodity and other	9,306	—	1,952	11,258
Total	284,229	8,655	25,940	318,824
Total gross derivatives	\$ 284,943	\$ 8,656	\$ 25,940	\$ 319,539
Amounts offset				
Counterparty netting	(213,710)	(7,294)	(24,037)	(245,041)
Cash collateral netting	(41,222)	(1,275)	—	(42,497)
Total in Trading assets	\$ 30,011	\$ 87	\$ 1,903	\$ 32,001
Amounts not offset¹				
Financial instruments collateral	(15,596)	—	—	(15,596)
Other cash collateral	(46)	—	—	(46)
Net amounts	\$ 14,369	\$ 87	\$ 1,903	\$ 16,359
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				\$ 1,900

\$ in millions	Liabilities			Total
	Bilateral OTC	Cleared OTC	Exchange-Traded	
Designated as accounting hedges				
Interest rate	\$ 1	\$ —	\$ —	\$ 1
Foreign exchange	121	38	—	159
Total	122	38	—	160
Not designated as accounting hedges				
Interest rate	168,597	3,597	436	172,630
Credit	4,798	3,123	—	7,921
Foreign exchange	65,965	1,492	39	67,496
Equity	30,135	—	22,733	52,868
Commodity and other	7,713	—	1,911	9,624
Total	277,208	8,212	25,119	310,539
Total gross derivatives	\$ 277,330	\$ 8,250	\$ 25,119	\$ 310,699
Amounts offset				
Counterparty netting	(213,710)	(7,294)	(24,037)	(245,041)
Cash collateral netting	(36,392)	(832)	—	(37,224)
Total in Trading liabilities	\$ 27,228	\$ 124	\$ 1,082	\$ 28,434
Amounts not offset¹				
Financial instruments collateral	(7,747)	—	(287)	(8,034)
Other cash collateral	(14)	—	—	(14)
Net amounts	\$ 19,467	\$ 124	\$ 795	\$ 20,386
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable				\$ 3,680

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

See Note 4 for information related to the unsettled fair value of futures contracts not designated as accounting hedges, which are excluded from the previous tables.

Notes to Consolidated Financial Statements (Unaudited)

Notionals of Derivative Contracts

At March 31, 2020

\$ in billions	Assets			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
Designated as accounting hedges				
Interest rate	\$ 10	\$ 144	\$ —	\$ 154
Foreign exchange	5	2	—	7
Total	15	146	—	161
Not designated as accounting hedges				
Interest rate	4,261	8,028	615	12,904
Credit	173	111	—	284
Foreign exchange	3,054	104	10	3,168
Equity	426	—	453	879
Commodity and other	111	—	72	183
Total	8,025	8,243	1,150	17,418
Total gross derivatives	\$ 8,040	\$ 8,389	\$ 1,150	\$ 17,579

\$ in billions	Liabilities			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
Designated as accounting hedges				
Interest rate	\$ —	\$ 43	\$ —	\$ 43
Foreign exchange	6	—	—	6
Total	6	43	—	49
Not designated as accounting hedges				
Interest rate	5,085	8,023	545	13,653
Credit	164	124	—	288
Foreign exchange	2,981	104	9	3,094
Equity	352	—	541	893
Commodity and other	89	—	69	158
Total	8,671	8,251	1,164	18,086
Total gross derivatives	\$ 8,677	\$ 8,294	\$ 1,164	\$ 18,135

At December 31, 2019

\$ in billions	Assets			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
Designated as accounting hedges				
Interest rate	\$ 14	\$ 94	\$ —	\$ 108
Foreign exchange	2	—	—	2
Total	16	94	—	110
Not designated as accounting hedges				
Interest rate	4,230	7,398	732	12,360
Credit	136	79	—	215
Foreign exchange	2,667	91	10	2,768
Equity	429	—	419	848
Commodity and other	99	—	61	160
Total	7,561	7,568	1,222	16,351
Total gross derivatives	\$ 7,577	\$ 7,662	\$ 1,222	\$ 16,461

\$ in billions	Liabilities			
	Bilateral OTC	Cleared OTC	Exchange-Traded	Total
Designated as accounting hedges				
Interest rate	\$ —	\$ 71	\$ —	\$ 71
Foreign exchange	9	2	—	11
Total	9	73	—	82
Not designated as accounting hedges				
Interest rate	4,185	6,866	666	11,717
Credit	153	84	—	237
Foreign exchange	2,841	91	14	2,946
Equity	455	—	515	970
Commodity and other	85	—	61	146
Total	7,719	7,041	1,256	16,016
Total gross derivatives	\$ 7,728	\$ 7,114	\$ 1,256	\$ 16,098

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

For a discussion of the Firm's derivative instruments and hedging activities, see Note 5 to the financial statements in the 2019 Form 10-K.

Notes to Consolidated Financial Statements (Unaudited)

Gains (Losses) on Accounting Hedges

\$ in millions	Three Months Ended	
	March 31,	
	2020	2019
Fair value hedges—Recognized in Interest income		
Interest rate contracts	\$ (64)	\$ (5)
Investment Securities—AFS	65	5
Fair value hedges—Recognized in Interest expense		
Interest rate contracts	\$ 6,667	\$ 1,577
Deposits ¹	(261)	—
Borrowings	(6,432)	(1,621)
Net investment hedges—Foreign exchange contracts		
Recognized in OCI	\$ 410	\$ 64
Forward points excluded from hedge effectiveness testing—Recognized in Interest income	33	35

Fair Value Hedges—Hedged Items

\$ in millions	At	
	March 31, 2020	December 31, 2019
Investment Securities—AFS		
Carrying amount ² currently or previously hedged	\$ 1,969	\$ 917
Basis adjustments included in carrying amount ³	77	14
Deposits¹		
Carrying amount currently or previously hedged	18,335	5,435
Basis adjustments included in carrying amount ³	254	(7)
Borrowings		
Carrying amount currently or previously hedged	\$ 109,810	\$ 102,456
Basis adjustments included in carrying amount ³	9,007	2,593

- The Firm began designating interest rate swaps as fair value hedges of certain Deposits in the fourth quarter of 2019.
- Carrying amount represents amortized cost basis for AFS securities.
- Hedge accounting basis adjustments are primarily related to outstanding hedges.

Net Derivative Liabilities and Collateral Posted

\$ in millions	At	
	March 31, 2020	December 31, 2019
Net derivative liabilities with credit risk-related contingent features	\$ 33,064	\$ 21,620
Collateral posted	28,502	17,392

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

Incremental Collateral and Termination Payments upon Potential Future Ratings Downgrade

\$ in millions	At	
	March 31, 2020	
One-notch downgrade	\$	325
Two-notch downgrade		377
Bilateral downgrade agreements included in the amounts above ¹	\$	614

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

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

Maximum Potential Payout/Notional of Credit Protection Sold¹

\$ in billions	Years to Maturity at March 31, 2020				
	< 1	1-3	3-5	Over 5	Total
Single-name CDS					
Investment grade	\$ 13	\$ 17	\$ 34	\$ 13	\$ 77
Non-investment grade	9	9	16	5	39
Total	\$ 22	\$ 26	\$ 50	\$ 18	\$ 116
Index and basket CDS					
Investment grade	\$ 5	\$ 8	\$ 65	\$ 34	\$ 112
Non-investment grade	7	5	21	17	50
Total	\$ 12	\$ 13	\$ 86	\$ 51	\$ 162
Total CDS sold	\$ 34	\$ 39	\$ 136	\$ 69	\$ 278
Other credit contracts	—	—	—	—	—
Total credit protection sold	\$ 34	\$ 39	\$ 136	\$ 69	\$ 278
CDS protection sold with identical protection purchased					\$ 242

\$ in billions	Years to Maturity at December 31, 2019				
	< 1	1-3	3-5	Over 5	Total
Single-name CDS					
Investment grade	\$ 16	\$ 17	\$ 33	\$ 9	\$ 75
Non-investment grade	9	9	16	1	35
Total	\$ 25	\$ 26	\$ 49	\$ 10	\$ 110
Index and basket CDS					
Investment grade	\$ 4	\$ 7	\$ 46	\$ 11	\$ 68
Non-investment grade	7	4	17	10	38
Total	\$ 11	\$ 11	\$ 63	\$ 21	\$ 106
Total CDS sold	\$ 36	\$ 37	\$ 112	\$ 31	\$ 216
Other credit contracts	—	—	—	—	—
Total credit protection sold	\$ 36	\$ 37	\$ 112	\$ 31	\$ 216
CDS protection sold with identical protection purchased					\$ 187

Notes to Consolidated Financial Statements (Unaudited)

Fair Value Asset (Liability) of Credit Protection Sold¹

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Single-name CDS		
Investment grade	\$ (963)	\$ 1,057
Non-investment grade	(3,350)	(540)
Total	\$ (4,313)	\$ 517
Index and basket CDS		
Investment grade	\$ (693)	\$ 1,052
Non-investment grade	(4,849)	134
Total	\$ (5,542)	\$ 1,186
Total CDS sold	\$ (9,855)	\$ 1,703
Other credit contracts	(4)	(17)
Total credit protection sold	\$ (9,859)	\$ 1,686

1. Investment grade/non-investment grade determination is based on the internal credit rating of the reference obligation. Internal credit ratings serve as the Credit Risk Management Department's assessment of credit risk and the basis for a comprehensive credit limits framework used to control credit risk. The Firm uses quantitative models and judgment to estimate the various risk parameters related to each obligor.

Protection Purchased with CDS

<i>\$ in billions</i>	Notional	
	At March 31, 2020	At December 31, 2019
Single name	\$ 123	\$ 118
Index and basket	153	103
Tranched index and basket	18	15
Total	\$ 294	\$ 236

<i>\$ in millions</i>	Fair Value Asset (Liability)	
	At March 31, 2020	At December 31, 2019
Single name	\$ 4,152	\$ (723)
Index and basket	5,176	(1,139)
Tranched index and basket	699	(450)
Total	\$ 10,027	\$ (2,312)

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

The fair value amounts as shown in the previous tables are prior to cash collateral or counterparty netting. For further information on credit derivatives and other contracts, see Note 5 to the financial statements in the 2019 Form 10-K.

Notes to Consolidated Financial Statements (Unaudited)

7. Investment Securities

AFS and HTM Securities

	At March 31, 2020			
<i>\$ in millions</i>	Amortized Cost ¹	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS securities				
U.S. government and agency securities:				
U.S. Treasury securities	\$ 34,600	\$ 1,298	\$ —	\$ 35,898
U.S. agency securities ²	22,687	717	82	23,322
Total U.S. government and agency securities	57,287	2,015	82	59,220
Corporate and other debt:				
Agency CMBS	4,765	244	8	5,001
Corporate bonds	1,828	16	35	1,809
State and municipal securities	1,453	48	48	1,453
FFELP student loan ABS ³	1,535	—	147	1,388
Total corporate and other debt	9,581	308	238	9,651
Total AFS securities	66,868	2,323	320	68,871
HTM securities				
U.S. government and agency securities:				
U.S. Treasury securities	29,951	2,256	—	32,207
U.S. agency securities ²	16,542	607	—	17,149
Total U.S. government and agency securities	46,493	2,863	—	49,356
Corporate and other debt:				
Non-agency CMBS	793	4	20	777
Total HTM securities	47,286	2,867	20	50,133
Total investment securities	\$ 114,154	\$ 5,190	\$ 340	\$ 119,004

	At December 31, 2019			
<i>\$ in millions</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS securities				
U.S. government and agency securities:				
U.S. Treasury securities	\$ 32,465	\$ 224	\$ 111	\$ 32,578
U.S. agency securities ²	20,725	249	100	20,874
Total U.S. government and agency securities	53,190	473	211	53,452
Corporate and other debt:				
Agency CMBS	4,810	55	57	4,808
Corporate bonds	1,891	17	1	1,907
State and municipal securities	481	22	—	503
FFELP student loan ABS ³	1,580	1	28	1,553
Total corporate and other debt	8,762	95	86	8,771
Total AFS securities	61,952	568	297	62,223
HTM securities				
U.S. government and agency securities:				
U.S. Treasury securities	30,145	568	52	30,661
U.S. agency securities ²	12,589	151	57	12,683
Total U.S. government and agency securities	42,734	719	109	43,344
Corporate and other debt:				
Non-agency CMBS	768	22	1	789
Total HTM securities	43,502	741	110	44,133
Total investment securities	\$ 105,454	\$ 1,309	\$ 407	\$ 106,356

1. Amounts are net of any allowance for credit losses.
2. U.S. agency securities consist mainly of agency-issued debt, agency mortgage pass-through pool securities and CMOs.
3. Underlying loans are backed by a guarantee, ultimately from the U.S. Department of Education, of at least 95% of the principal balance and interest outstanding.

In the current quarter, the Firm transferred certain municipal securities from Trading assets into AFS securities as a result of a change in intent due to the severe deterioration in liquidity for these instruments. At March 31, 2020, these securities had a fair value of \$441 million.

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

<i>\$ in millions</i>	At March 31, 2020					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
AFS securities						
U.S. agency securities	\$ 931	\$ 7	\$ 3,892	\$ 75	\$ 4,823	\$ 82
Corporate and other debt:						
Agency CMBS	30	—	670	8	700	8
Corporate bonds	747	24	58	11	805	35
State and municipal securities	678	48	—	—	678	48
FFELP student loan ABS	349	29	1,038	118	1,387	147
Total corporate and other debt	1,804	101	1,766	137	3,570	238
Total AFS securities	\$ 2,735	\$ 108	\$ 5,658	\$ 212	\$ 8,393	\$ 320
	At December 31, 2019					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	AFS securities					
U.S. government and agency securities:						
U.S. Treasury securities	\$ 4,793	\$ 28	\$ 7,904	\$ 83	\$ 12,697	\$ 111
U.S. agency securities	2,641	20	7,697	80	10,338	100
Total U.S. government and agency securities	7,434	48	15,601	163	23,035	211
Corporate and other debt:						
Agency CMBS	2,294	26	681	31	2,975	57
Corporate bonds	194	1	44	—	238	1
FFELP student loan ABS	91	—	1,165	28	1,256	28
Total corporate and other debt	2,579	27	1,890	59	4,469	86
Total AFS securities	10,013	75	17,491	222	27,504	297
	HTM securities					
U.S. government and agency securities:						
U.S. Treasury securities	6,042	52	651	—	6,693	52
U.S. agency securities	2,524	18	2,420	39	4,944	57
Total U.S. government and agency securities	8,566	70	3,071	39	11,637	109
Corporate and other debt:						
Non-agency CMBS	167	1	65	—	232	1
Total HTM securities	8,733	71	3,136	39	11,869	110
Total investment securities	\$ 18,746	\$ 146	\$ 20,627	\$ 261	\$ 39,373	\$ 407

For AFS securities, the Firm believes there are no securities in an unrealized loss position that have credit losses after performing the analysis described in Note 2. Additionally, the Firm does not intend to sell the securities and is not likely to be required to sell the securities prior to recovery of the amortized cost basis. Furthermore, the securities have not experienced credit losses as they are predominantly investment-grade and the Firm expects to recover the amortized cost basis.

As of March 31, 2020, the HTM securities net carrying amount reflects an amortized cost of \$47,312 million less an allowance for credit losses of \$26 million related to Non-agency CMBS. See Note 2 for a description of the ACL methodology used beginning in 2020 following the Firm's adoption of CECL and see Note 2 to the financial statements in the 2019 Form 10-K for prior period credit loss considerations. There were no securities in an unrealized loss position as of December 31, 2019 that had credit losses. As of March 31, 2020, and December 31, 2019, Non-Agency CMBS HTM securities were all on accrual status and were predominantly investment-grade.

See Note 14 for additional information on securities issued by VIEs, including U.S. agency mortgage-backed securities, non-agency CMBS and FFELP student loan ABS.

Notes to Consolidated Financial Statements (Unaudited)

Investment Securities by Contractual Maturity

\$ in millions	At March 31, 2020		
	Amortized Cost ¹	Fair Value	Annualized Average Yield
AFS securities			
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	\$ 3,728	\$ 3,770	2.0%
After 1 year through 5 years	27,748	28,791	1.7%
After 5 years through 10 years	3,124	3,337	1.6%
Total	34,600	35,898	
U.S. agency securities:			
Due within 1 year	235	236	0.8%
After 1 year through 5 years	78	78	1.4%
After 5 years through 10 years	1,293	1,322	1.8%
After 10 years	21,081	21,686	2.3%
Total	22,687	23,322	
Total U.S. government and agency securities	57,287	59,220	1.9%
Corporate and other debt:			
Agency CMBS:			
After 1 year through 5 years	599	605	1.8%
After 5 years through 10 years	3,273	3,488	2.5%
After 10 years	893	908	2.0%
Total	4,765	5,001	
Corporate bonds:			
Due within 1 year	44	44	2.3%
After 1 year through 5 years	1,439	1,439	2.6%
After 5 years through 10 years	345	326	2.9%
Total	1,828	1,809	
State and municipal securities:			
After 1 year through 5 years	2	2	3.4%
After 5 years through 10 years	139	142	3.1%
After 10 Years	1,312	1,309	2.8%
Total	1,453	1,453	
FFELP student loan ABS:			
After 1 year through 5 years	98	87	0.8%
After 5 years through 10 years	307	270	0.9%
After 10 years	1,130	1,031	1.2%
Total	1,535	1,388	
Total corporate and other debt	9,581	9,651	2.3%
Total AFS securities	66,868	68,871	2.0%

\$ in millions	At March 31, 2020		
	Amortized Cost ¹	Fair Value	Annualized Average Yield
HTM securities			
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	3,282	3,332	2.6%
After 1 year through 5 years	17,769	18,733	2.0%
After 5 years through 10 years	7,818	8,777	2.2%
After 10 years	1,082	1,365	2.5%
Total	29,951	32,207	
U.S. agency securities:			
After 5 years through 10 years	50	51	1.8%
After 10 years	16,492	17,098	2.4%
Total	16,542	17,149	
Total U.S. government and agency securities	46,493	49,356	2.2%
Corporate and other debt:			
Non-agency CMBS:			
Due within 1 year	100	99	4.8%
After 1 year through 5 years	107	104	3.7%
After 5 years through 10 years	549	536	3.9%
After 10 years	37	38	4.4%
Total corporate and other debt	793	777	4.0%
Total HTM securities	47,286	50,133	2.3%
Total investment securities	\$ 114,154	\$ 119,004	2.1%

1. Amounts are net of any allowance for credit losses.

Gross Realized Gains (Losses) on Sales of AFS Securities

\$ in millions	Three Months Ended March 31,	
	2020	2019
Gross realized gains	\$ 49	\$ 19
Gross realized (losses)	(8)	(9)
Total¹	\$ 41	\$ 10

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

Notes to Consolidated Financial Statements (Unaudited)

8. Collateralized Transactions

Offsetting of Certain Collateralized Transactions

\$ in millions	At March 31, 2020				
	Gross Amounts	Amounts Offset	Net Amounts Presented	Amounts Not Offset ¹	Net Amounts
Assets					
Securities purchased under agreements to resell	\$249,124	\$(144,324)	\$ 104,800	\$(98,800)	\$ 6,000
Securities borrowed	76,276	(3,976)	72,300	(67,384)	4,916
Liabilities					
Securities sold under agreements to repurchase	\$189,937	\$(144,121)	\$ 45,816	\$(39,114)	\$ 6,702
Securities loaned	15,810	(4,179)	11,631	(11,241)	390
Net amounts for which master netting agreements are not in place or may not be legally enforceable					
Securities purchased under agreements to resell					\$ 5,403
Securities borrowed					1,010
Securities sold under agreements to repurchase					5,325
Securities loaned					134

\$ in millions	At December 31, 2019				
	Gross Amounts	Amounts Offset	Net Amounts Presented	Amounts Not Offset ¹	Net Amounts
Assets					
Securities purchased under agreements to resell	\$247,545	\$(159,321)	\$ 88,224	\$(85,200)	\$ 3,024
Securities borrowed	109,528	(2,979)	106,549	(101,850)	4,699
Liabilities					
Securities sold under agreements to repurchase	\$213,519	\$(159,319)	\$ 54,200	\$(44,549)	\$ 9,651
Securities loaned	11,487	(2,981)	8,506	(8,324)	182
Net amounts for which master netting agreements are not in place or may not be legally enforceable					
Securities purchased under agreements to resell					\$ 2,255
Securities borrowed					1,181
Securities sold under agreements to repurchase					8,033
Securities loaned					101

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

For further discussion of the Firm's collateralized transactions, see Note 7 to the financial statements in the 2019 Form 10-K. For information related to offsetting of derivatives, see Note 6.

Gross Secured Financing Balances by Remaining Contractual Maturity

\$ in millions	At March 31, 2020					Total
	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days		
Securities sold under agreements to repurchase	\$ 65,591	\$ 60,940	\$25,746	\$37,660		\$189,937
Securities loaned	6,824	214	2,034	6,738		15,810
Total included in the offsetting disclosure	\$ 72,415	\$ 61,154	\$27,780	\$44,398		\$205,747
Trading liabilities—Obligation to return securities received as collateral	15,270	—	—	—		15,270
Total	\$ 87,685	\$ 61,154	\$27,780	\$44,398		\$221,017

\$ in millions	At December 31, 2019					Total
	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days		
Securities sold under agreements to repurchase	\$ 67,158	\$ 81,300	\$26,904	\$38,157		\$213,519
Securities loaned	2,378	3,286	516	5,307		11,487
Total included in the offsetting disclosure	\$ 69,536	\$ 84,586	\$27,420	\$43,464		\$225,006
Trading liabilities—Obligation to return securities received as collateral	23,877	—	—	—		23,877
Total	\$ 93,413	\$ 84,586	\$27,420	\$43,464		\$248,883

Gross Secured Financing Balances by Class of Collateral Pledged

\$ in millions	At March 31, 2020		At December 31, 2019	
Securities sold under agreements to repurchase				
U.S. Treasury and agency securities	\$ 77,557		\$ 68,895	
State and municipal securities	689		905	
Other sovereign government obligations	88,871		109,414	
ABS	2,278		2,218	
Corporate and other debt	7,369		6,066	
Corporate equities	12,710		25,563	
Other	463		458	
Total	\$ 189,937		\$ 213,519	
Securities loaned				
Other sovereign government obligations	\$ 4,876		\$ 3,026	
Corporate equities	10,277		8,422	
Other	657		39	
Total	\$ 15,810		\$ 11,487	
Total included in the offsetting disclosure	\$ 205,747		\$ 225,006	
Trading liabilities—Obligation to return securities received as collateral				
Corporate equities	\$ 15,263		\$ 23,873	
Other	7		4	
Total	\$ 15,270		\$ 23,877	
Total	\$ 221,017		\$ 248,883	

Notes to Consolidated Financial Statements (Unaudited)

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

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Trading assets	\$ 40,345	\$ 41,201
Loans (before allowance for credit losses)	1,158	750
Total	\$ 41,503	\$ 41,951

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

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

Fair Value of Collateral Received with Right to Sell or Repledge

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Collateral received with right to sell or repledge	\$ 604,450	\$ 679,280
Collateral that was sold or repledged ¹	483,708	539,412

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

Segregated Securities

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Segregated securities ¹	35,491	25,061

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

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

Customer Margin Lending

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Customer receivables representing margin loans	\$ 26,181	\$ 31,916

The Firm provides margin lending arrangements which allow customers to borrow against the value of qualifying securities. Receivables under margin lending arrangements are included

within Customer and other receivables in the balance sheets. Under these agreements and transactions, the Firm receives collateral, which includes 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 7 to the financial statements in the 2019 Form 10-K.

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

9. Loans, Lending Commitments and Related Allowance for Credit Losses

Loans by Type

<i>\$ in millions</i>	At March 31, 2020		
	Loans Held for Investment	Loans Held for Sale	Total Loans
Corporate ¹	\$ 61,474	\$ 15,525	\$ 76,999
Consumer ²	31,948	—	31,948
Residential real estate	31,100	14	31,114
Commercial real estate	7,430	1,823	9,253
Total loans, before allowance	131,952	17,362	149,314
Allowance for credit losses	(617)	—	(617)
Total loans, net	\$ 131,335	\$ 17,362	\$ 148,697
Fixed rate loans, net		\$	25,155
Floating or adjustable rate loans, net			123,542
Loans to non-U.S. borrowers, net			24,633

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

At December 31, 2019

<i>\$ in millions</i>	Loans Held for Investment	Loans Held for Sale	Total Loans
Corporate ¹	\$ 48,756	\$ 10,515	\$ 59,271
Consumer ²	31,610	—	31,610
Residential real estate	30,184	13	30,197
Commercial real estate	7,859	2,049	9,908
Total loans, before allowance	118,409	12,577	130,986
Allowance for credit losses	(349)	—	(349)
Total loans, net	\$ 118,060	\$ 12,577	\$ 130,637
Fixed rate loans, net			\$ 22,716
Floating or adjustable rate loans, net			107,921
Loans to non-U.S. borrowers, net			21,617

- Institutional Securities business segment Corporate loans include relationship and event-driven loans, secured lending facilities and securities-based lending and other loans. Wealth Management business segment Corporate loans include securities-based and other loans, which are classified as Corporate based on the nature of the borrowing entity or the intended use of the loan proceeds.
- Wealth Management business segment Consumer loans include securities-based lending and other loans.

Loans Held for Investment before Allowance by Origination Year

At March 31, 2020

<i>\$ in millions</i>	Corporate					Total
	AA-A	BBB	BB	Other NIG		
Revolving Loans	\$ 3,418	\$ 16,474	\$ 19,772	\$ 8,193	\$ 47,857	
2020 YTD	122	671	456	23	1,272	
2019	631	1,234	1,940	444	4,249	
2018	37	2,083	1,096	493	3,709	
2017	358	639	500	82	1,579	
2016	74	547	505	60	1,186	
Prior	641	311	595	75	1,622	
Total	\$ 5,281	\$ 21,959	\$ 24,864	\$ 9,370	\$ 61,474	

At March 31, 2020

<i>\$ in millions</i>	Consumer ¹
Revolving Loans	\$ 31,362
2020 YTD	62
2019	382
2018	—
2017	16
2016	57
Prior	69
Total	\$ 31,948

- Consumer loans primarily comprise securities-based loans, which are subject to collateral maintenance provisions, and at March 31, 2020, these loans are predominantly over-collateralized. For more information on the ACL methodology related to Consumer loans, see Note 2.

At March 31, 2020

<i>\$ in millions</i>	Residential Real Estate					
	by FICO Scores			by LTV Ratio		Total
	≥ 740	680-739	≤ 679	≤ 80%	> 80%	
Revolving Loans	\$ 103	\$ 40	\$ 6	\$ 149	\$ —	\$ 149
2020 YTD	1,865	369	35	2,143	126	2,269
2019	6,239	1,397	179	7,290	525	7,815
2018	2,699	770	90	3,277	282	3,559
2017	3,248	817	116	3,882	299	4,181
2016	3,924	1,074	152	4,804	346	5,150
Prior	5,659	1,963	355	7,101	876	7,977
Total	\$ 23,737	\$ 6,430	\$ 933	\$ 28,646	\$ 2,454	\$ 31,100

At March 31, 2020

<i>\$ in millions</i>	Commercial Real Estate				
	AA-A	BBB	BB	Other NIG	Total
Revolving Loans	\$ 5	\$ —	\$ —	\$ —	\$ 5
2020 YTD	—	—	167	23	190
2019	—	539	2,056	360	2,955
2018	10	723	764	421	1,918
2017	—	217	577	344	1,138
2016	134	100	352	172	758
Prior	10	—	285	171	466
Total	\$ 159	\$ 1,579	\$ 4,201	\$ 1,491	\$ 7,430

YTD—Year to date

Past Due Status of Loans Held for Investment before Allowance

At March 31, 2020

<i>\$ in millions</i>	Corporate	Consumer	Residential Real Estate	Commercial Real Estate
Current	\$ 61,466	\$ 31,948	\$ 30,883	\$ 7,430
Past due ¹	8	—	217	—
Total	\$ 61,474	\$ 31,948	\$ 31,100	\$ 7,430

- The majority of the amounts are less than 60 days past due as of March 31, 2020.

See Note 2 for a description of the ACL calculated under the CECL methodology, including credit quality indicators, used for HFI loans beginning in 2020.

Loans Held for Investment before Allowance¹

At December 31, 2019

<i>\$ in millions</i>	Corporate	Consumer	Residential Real Estate	Commercial Real Estate	Total
Pass	\$ 47,681	\$ 31,605	\$ 30,060	\$ 7,664	\$ 117,010
Special mention	464	—	28	3	495
Substandard	605	5	96	192	898
Doubtful	6	—	—	—	6
Total	\$ 48,756	\$ 31,610	\$ 30,184	\$ 7,859	\$ 118,409

- There were no loans held for investment considered Loss as of December 31, 2019.

Notes to Consolidated Financial Statements (Unaudited)

Impaired Loans and Lending Commitments before Allowance

\$ in millions	At December 31, 2019				Total
	Corporate	Consumer	Residential Real Estate	Commercial Real Estate	
Loans					
With allowance	\$ 268	\$ —	\$ —	\$ 85	\$ 353
Without allowance ¹	32	5	87	—	124
Total impaired loans	\$ 300	\$ 5	\$ 87	\$ 85	\$ 477
UPB	309	5	90	85	489
Lending commitments					
With allowance	\$ 4	\$ —	\$ —	\$ 14	\$ 18
Without allowance ¹	32	—	—	—	32
Total impaired lending commitments	\$ 36	\$ —	\$ —	\$ 14	\$ 50

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

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

Impaired Loans before Allowance and Total Allowance by Region

\$ in millions	At December 31, 2019			
	Americas	EMEA	Asia	Total
Impaired loans	\$ 392	\$ 85	\$ —	\$ 477
Total Allowance for credit losses	270	76	3	349

Troubled Debt Restructurings

\$ in millions	At March 31, 2020	At December 31, 2019
Loans, before allowance	\$ 132	\$ 92
Lending commitments	33	32
Allowance for credit losses on Loans and Lending commitments	26	16

Troubled debt restructurings typically include modifications of interest rates, collateral requirements, other loan covenants and payment extensions. As of December 31, 2019, impaired loans and lending commitments classified as held for investment within corporate loans include TDRs. See Note 2 for further information on TDR guidance issued by Congress in the CARES Act as well as by the U.S. banking agencies.

For a discussion of the Firm's ACL methodology under the prior incurred loss model, including credit quality indicators, used for HFI loans as of December 31, 2019, and a further discussion of the Firm's loans, including loan types and categories, see Notes 2 and 8 in the 2019 Form 10-K.

Allowance for Credit Losses Rollforward—Loans

\$ in millions	Corporate	Consumer	Residential Real Estate	Commercial Real Estate	Total
December 31, 2019	\$ 241	\$ 8	\$ 25	\$ 75	\$ 349
Effect of CECL adoption	(31)	(6)	21	25	9
Gross charge-offs	(32)	—	—	—	(32)
Provision (release)	215	1	1	75	292
Other	—	—	—	(1)	(1)
March 31, 2020	\$ 393	\$ 3	\$ 47	\$ 174	\$ 617

\$ in millions	Corporate	Consumer	Residential Real Estate	Commercial Real Estate	Total
December 31, 2018	\$ 144	\$ 7	\$ 20	\$ 67	\$ 238
Provision (release)	26	(1)	2	—	27
Other	(6)	—	—	—	(6)
March 31, 2019	\$ 164	\$ 6	\$ 22	\$ 67	\$ 259
Inherent	\$ 150	\$ 6	\$ 22	\$ 67	\$ 245
Specific	14	—	—	—	14

Allowance for Credit Losses Rollforward—Lending Commitments

\$ in millions	Corporate	Consumer	Residential Real Estate	Commercial Real Estate	Total
December 31, 2019	\$ 232	\$ 2	\$ —	\$ 7	\$ 241
Effect of CECL adoption	(53)	(1)	3	1	(50)
Provision (release)	110	—	—	5	115
Other	(1)	—	—	(1)	(2)
March 31, 2020	\$ 288	\$ 1	\$ 3	\$ 12	\$ 304

\$ in millions	Corporate	Consumer	Residential Real Estate	Commercial Real Estate	Total
December 31, 2018	\$ 198	\$ 2	\$ —	\$ 3	\$ 203
Provision (release)	8	—	—	1	9
Other	—	(1)	—	—	(1)
March 31, 2019	\$ 206	\$ 1	\$ —	\$ 4	\$ 211
Inherent	\$ 202	\$ 1	\$ —	\$ 4	\$ 207
Specific	4	—	—	—	4

The aggregate allowance for loans and lending commitments increased in the current quarter, principally reflecting a provision for credit losses within the Institutional Securities business segment resulting from the economic impact of COVID-19. This provision was primarily the result of higher actual and expected future downgrades, an increase in funded balances, principally in Corporate relationship and event-driven loans, as well as revisions to our forecasts in light of current and expected future market and macroeconomic conditions. For a further discussion of the Firm's loans, including loan types and categories, as well as the Firm's allowance methodology prior to the adoption of CECL, refer to Notes 2 and 8 to the financial statements in the 2019 Form 10-K. See Note 4 for further

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

information regarding Loans and lending commitments held at fair value. See Note 13 for details of current commitments to lend in the future.

Employee Loans

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Currently employed by the Firm ¹	\$ 2,867	N/A
No longer employed by the Firm ²	150	N/A
Balance	\$ 3,017	\$ 2,980
Allowance for credit losses ³	(180)	(61)
Balance, net	\$ 2,837	\$ 2,919
Remaining repayment term, weighted average in years	5.0	4.8

1. These loans are predominantly current.

2. These loans are predominantly past due for a period of 90 days or more.

3. The change in Allowance for credit losses includes a \$124 million increase due to the adoption of CECL in the first quarter of 2020.

Employee loans are granted in conjunction with a program established primarily to recruit certain Wealth Management representatives, are full recourse and generally require periodic repayments, and are due in full upon termination of employment with the Firm. These loans are recorded in Customer and other receivables in the balance sheets. The allowance for credit losses as of March 31, 2020 was calculated under the CECL methodology, while the allowance for credit losses at December 31, 2019 was calculated under the prior incurred loss model. The related provision is recorded in Compensation and benefits expense in the income statements. See Note 2 for a description of the CECL allowance methodology, including credit quality indicators, for employee loans.

Notes to Consolidated Financial Statements (Unaudited)

10. Other Assets—Equity Method Investments

Equity Method Investments

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Investments	\$ 2,413	\$ 2,363
	Three Months Ended March 31,	
	2020	2019
Income (loss)	\$ 29	\$ (10)

Equity method investments, other than investments in certain fund interests, are summarized above and are included in Other assets in the balance sheets with related income or loss included in Other revenues in the income statements. See “Net Asset Value Measurements—Fund Interests” in Note 4 for the carrying value of certain of the Firm’s fund interests, which are comprised of general and limited partnership interests, as well as any related carried interest.

Japanese Securities Joint Venture

<i>\$ in millions</i>	Three Months Ended March 31,	
	2020	2019
Income (loss) from investment in MUMSS	\$ 32	\$ 3

The Firm and Mitsubishi UFJ Financial Group, Inc. (“MUFG”) formed a joint venture in Japan comprising their respective investment banking and securities businesses by forming two joint venture companies, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (“MUMSS”) and Morgan Stanley MUFG Securities Co., Ltd. (“MSMS”) (the “Joint Venture”). The Firm owns a 40% economic interest in the Joint Venture and MUFG owns the other 60%.

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

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

11. Deposits

Deposits

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Savings and demand deposits	\$ 188,504	\$ 149,465
Time deposits	46,735	40,891
Total	\$ 235,239	\$ 190,356
Deposits subject to FDIC insurance	\$ 176,034	\$ 149,966
Time deposits that equal or exceed the FDIC insurance limit	\$ 12	\$ 12

Time Deposit Maturities

<i>\$ in millions</i>	At March 31, 2020
2020	\$ 16,656
2021	16,836
2022	4,883
2023	4,070
2024	2,788
Thereafter	1,502
Total	\$ 46,735

12. Borrowings and Other Secured Financings

Borrowings

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Original maturities of one year or less	\$ 2,211	\$ 2,567
Original maturities greater than one year		
Senior	\$ 181,477	\$ 179,519
Subordinated	11,168	10,541
Total	\$ 192,645	\$ 190,060
Total borrowings	\$ 194,856	\$ 192,627
Weighted average stated maturity, in years ¹	7.6	6.9

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

Notes to Consolidated Financial Statements (Unaudited)

Other Secured Financings

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Original maturities:		
One year or less	\$ 7,304	\$ 7,103
Greater than one year	4,682	6,480
Transfers of assets accounted for as secured financings	1,072	1,115
Total	\$ 13,058	\$ 14,698

Other secured financings include the liabilities related to certain ELNs, transfers of financial assets that are accounted for as financings rather than sales, pledged commodities, consolidated VIEs where the Firm is deemed to be the primary beneficiary and other secured borrowings. These liabilities are generally payable from the cash flows of the related assets accounted for as Trading assets. See Note 14 for further information on other secured financings related to VIEs and securitization activities.

For transfers of assets that fail to meet accounting criteria for a sale, the Firm continues to record the assets and recognizes the associated liabilities in the balance sheets.

13. Commitments, Guarantees and Contingencies

Commitments

<i>\$ in millions</i>	Years to Maturity at March 31, 2020					Total
	Less than 1	1-3	3-5	Over 5	Total	
Lending:						
Corporate	\$ 23,055	\$ 28,998	\$ 41,269	\$ 3,174	\$ 96,496	
Consumer	8,112	23	3	—	8,138	
Residential and commercial real estate	163	1,179	49	252	1,643	
Forward-starting secured financing receivables	80,666	219	—	—	80,885	
Central counterparty ¹	300	—	—	12,344	12,644	
Underwriting	206	—	—	—	206	
Investment activities	992	226	58	265	1,541	
Letters of credit and other financial guarantees	174	2	—	2	178	
Total	\$113,668	\$30,647	\$41,379	\$16,037	\$201,731	
Corporate lending commitments participated to third parties						\$ 7,226
Forward-starting secured financing receivables settled within three business days						\$ 71,096

1. Beginning in the first quarter of 2020, commitments to central counterparties are presented separately; these commitments were previously included in Corporate Lending commitments and Forward-starting secured financing receivables depending on the type of agreement. These commitments relate to the Firm's membership in certain clearinghouses and are contingent upon the default of a clearinghouse member or other stress events.

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

For a further description of these commitments, refer to Note 13 to the financial statements in the 2019 Form 10-K.

Guarantees

Maximum Potential Payout/Notional of Obligations under Guarantee Arrangements

<i>\$ in millions</i>	Years to Maturity at March 31, 2020					Total
	Less than 1	1-3	3-5	Over 5	Total	
Credit derivatives	\$ 33,900	\$ 38,934	\$ 136,167	\$ 68,581	\$ 277,582	
Other credit contracts	—	—	—	107	107	
Non-credit derivatives	1,571,566	1,474,498	902,550	769,204	4,717,818	
Standby letters of credit and other financial guarantees issued ¹	1,200	1,006	1,301	3,840	7,347	
Market value guarantees	102	35	—	—	137	
Liquidity facilities	4,047	—	—	—	4,047	
Whole loan sales guarantees	—	—	2	23,193	23,195	
Securitization representations and warranties	—	—	—	68,881	68,881	
General partner guarantees	59	137	12	92	300	
Client clearing guarantees	17	—	—	—	17	

<i>\$ in millions</i>	Carrying Amount Asset (Liability)
Credit derivatives ²	\$ (9,855)
Other credit contracts	(4)
Non-credit derivatives ²	(146,854)
Standby letters of credit and other financial guarantees issued ¹	111
Market value guarantees	—
Liquidity facilities	6
Whole loan sales guarantees	—
Securitization representations and warranties ³	(42)
General partner guarantees	(62)
Client clearing guarantees	—

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. As of March 31, 2020, the carrying amount of standby letters of credit and other financial guarantees issued includes an allowance for credit losses of \$57 million.

2. The carrying amounts of derivative contracts that meet the accounting definition of a guarantee are shown on a gross basis. For further information on derivatives contracts, see Note 6.

3. Primarily related to residential mortgage securitizations.

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

Notes to Consolidated Financial Statements (Unaudited)

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.

Client Clearing Guarantees. In the first quarter of 2020, FICC's sponsored clearing model was updated such that the Firm could be responsible for liquidation of a sponsored member's account and guarantees any resulting loss to the FICC in the event the sponsored member fails to fully pay any net liquidation amount due from the sponsored member to the FICC. Accordingly, the Firm's maximum potential payout amount as of March 31, 2020 reflects the total of the estimated net liquidation amounts for sponsored member accounts.

For more information on the nature of the obligations and related business activities for our guarantees, see Note 13 to the financial statements in the 2019 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 and clearinghouse member guarantees and merger and acquisition guarantees are described in Note 13 to the financial statements in the 2019 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 wholly owned finance subsidiary.

Contingencies

Legal

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

damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or are in financial distress. These actions have included, but are not limited to, residential mortgage and credit crisis-related matters.

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

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

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

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

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

On July 15, 2010, China Development Industrial Bank ("CDIB") filed a complaint against the Firm, styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated et al.*, which is pending in the Supreme Court of the State of New York, New York County ("Supreme Court of

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NY”). The complaint relates to a \$275 million CDS referencing the super senior portion of the STACK 2006-1 CDO. The complaint asserts claims for common law fraud, fraudulent inducement and fraudulent concealment and alleges that the Firm misrepresented the risks of the STACK 2006-1 CDO to CDIB, and that the Firm knew that the assets backing the CDO were of poor quality when it entered into the CDS with CDIB. The complaint seeks compensatory damages related to the approximately \$228 million that CDIB alleges it has already lost under the CDS, rescission of CDIB’s obligation to pay an additional \$12 million, punitive damages, equitable relief, fees and costs. On February 28, 2011, the court denied the Firm’s motion to dismiss the complaint. On December 21, 2018, the court denied the Firm’s motion for summary judgment and granted in part the Firm’s motion for sanctions relating to spoliation of evidence. On January 24, 2019, CDIB filed a notice of appeal from the court’s December 21, 2018 order, and on January 25, 2019, the Firm filed a notice of appeal from the same order. On March 7, 2019, the court denied the relief that CDIB sought in a motion to clarify and resettle the portion of the court’s December 21, 2018 order granting spoliation sanctions. On December 5, 2019, the Appellate Division, First Department (“First Department”) heard the parties’ cross appeals. Based on currently available information, the Firm believes it could incur a loss in this action of up to approximately \$240 million plus pre- and post-judgment interest, fees and costs.

On July 8, 2013, U.S. Bank National Association, in its capacity as trustee, filed a complaint against the Firm styled *U.S. Bank National Association, solely in its capacity as Trustee of the Morgan Stanley Mortgage Loan Trust 2007-2AX (MSM 2007-2AX) v. Morgan Stanley Mortgage Capital Holdings LLC, Successor-by-Merger to Morgan Stanley Mortgage Capital Inc. and GreenPoint Mortgage Funding, Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately \$650 million, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages and interest. On November 24, 2014, the court granted in part and denied in part the Firm’s motion to dismiss the complaint. On April 4, 2019, the court denied the Firm’s motion to renew its motion to dismiss. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately \$240 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands that it did not repurchase, plus pre- and post-judgment interest, fees and costs, but plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On September 23, 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 the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4. The complaint asserts claims for breach of contract and fraudulent inducement and alleges, among other things, that the loans in the trust breached various representations and warranties and defendants made untrue statements and material omissions to induce FGIC to issue a financial guaranty policy on certain classes of certificates that had an original balance of approximately \$876 million. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, compensatory, consequential and punitive damages, attorneys’ fees and interest. On January 23, 2017, the court denied the Firm’s motion to dismiss the complaint. On September 13, 2018, the First Department affirmed in part and reversed in part the lower court’s order denying the Firm’s motion to dismiss. On December 20, 2018, the First Department denied plaintiff’s motion for leave to appeal its decision to the New York Court of Appeals (“Court of Appeals”) or, in the alternative, for re-argument. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately \$277 million, the total original unpaid balance of the mortgage loans for which the Firm received repurchase demands from a certificate holder and FGIC that the Firm did not repurchase, plus pre- and post-judgment interest, fees and costs, as well as claim payments that FGIC has made and will make in the future. In addition, plaintiff is seeking to expand the number of loans at issue and the possible range of loss could increase.

On January 23, 2015, Deutsche Bank National Trust Company, in its capacity as trustee, filed a complaint against the Firm styled *Deutsche Bank National Trust Company solely in its capacity as Trustee of the Morgan Stanley ABS Capital I Inc. Trust 2007-NC4 v. Morgan Stanley Mortgage Capital Holdings LLC as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc., and Morgan Stanley ABS Capital I Inc.*, pending in the Supreme Court of NY. The complaint asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately \$1.05 billion, breached various representations and warranties. The complaint seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, compensatory, consequential, rescissory, equitable and punitive damages, attorneys’ fees, costs and other related expenses, and interest. On December 11, 2015, the court granted in part and denied in part the Firm’s motion to dismiss the complaint. On October 19, 2018, the court granted the Firm’s motion for leave to amend its answer and to stay the case pending resolution of Deutsche Bank National Trust Company’s appeal to the Court of Appeals in another case, styled *Deutsche Bank National Trust Company v. Barclays Bank PLC*, regarding the applicable statute of limitations. On January 17, 2019, the First Department reversed the trial court’s order to the extent that it had granted in part the Firm’s motion to dismiss the complaint. On June 4, 2019, the First Department granted the Firm’s motion for leave

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to appeal to the Court of Appeals. On March 19, 2020, the Firm filed a motion for partial summary judgment. 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.

Tax

In matters styled Case number 15/3637 and Case number 15/4353, the Dutch Tax Authority (“Dutch Authority”) has challenged, in the District Court in Amsterdam, the prior set-off by the Firm of approximately €124 million (approximately \$137 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. On April 26, 2018, the District Court in Amsterdam issued a decision dismissing the Dutch Authority’s claims. On June 4, 2018, the Dutch Authority filed an appeal before the Court of Appeal in Amsterdam in matters re-styled *Case number 18/00318* and *Case number 18/00319*. On June 26 and July 2, 2019, a hearing of the Dutch Authority’s appeal was held. Based on currently available information, the Firm believes that it could incur a loss in this action of up to approximately €124 million (approximately \$137 million) plus accrued interest.

14. Variable Interest Entities and Securitization Activities

Consolidated VIE Assets and Liabilities by Type of Activity

\$ in millions	At March 31, 2020		At December 31, 2019	
	VIE Assets	VIE Liabilities	VIE Assets	VIE Liabilities
OSF	\$ 728	\$ 415	\$ 696	\$ 391
MABS ¹	368	108	265	4
Other ²	934	44	987	66
Total	\$ 2,030	\$ 567	\$ 1,948	\$ 461

OSF—Other structured financings

- Amounts include transactions backed by residential mortgage loans, commercial mortgage loans and other types of assets, including consumer or commercial assets and may be in loan or security form. The value of assets is determined based on the fair value of the liabilities and the interests owned by the Firm in such VIEs as the fair values for the liabilities and interests owned are more observable.
- Other primarily includes operating entities, investment funds and structured transactions.

Consolidated VIE Assets and Liabilities by Balance Sheet Caption

\$ in millions	At March 31, 2020	At December 31, 2019
Assets		
Cash and cash equivalents	\$ 328	\$ 488
Trading assets at fair value	1,234	943
Customer and other receivables	16	18
Intangible assets	107	111
Other assets	345	388
Total	\$ 2,030	\$ 1,948
Liabilities		
Other secured financings	\$ 519	\$ 422
Other liabilities and accrued expenses	48	39
Total	\$ 567	\$ 461
Noncontrolling interests	\$ 245	\$ 192

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

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

Notes to Consolidated Financial Statements (Unaudited)

Non-consolidated VIEs

\$ in millions	At March 31, 2020				
	MABS ¹	CDO	MTOB	OSF	Other ²
VIE assets (UPB)	\$ 124,211	\$ 1,881	\$ 6,585	\$ 2,263	\$ 51,280
Maximum exposure to loss³					
Debt and equity interests	\$ 15,173	\$ 254	\$ 277	\$ 1,086	\$ 10,468
Derivative and other contracts	—	—	4,047	—	3,659
Commitments, guarantees and other	572	—	—	—	334
Total	\$ 15,745	\$ 254	\$ 4,324	\$ 1,086	\$ 14,461
Carrying value of variable interests—Assets					
Debt and equity interests	\$ 15,173	\$ 254	\$ 277	\$ 1,084	\$ 10,468
Derivative and other contracts	—	—	6	—	835
Total	\$ 15,173	\$ 254	\$ 283	\$ 1,084	\$ 11,303
Additional VIE assets owned ⁴					\$ 11,024
Carrying value of variable interests—Liabilities					
Derivative and other contracts	\$ —	\$ —	\$ —	\$ —	\$ 272

\$ in millions	At December 31, 2019				
	MABS ¹	CDO	MTOB	OSF	Other ²
VIE assets (UPB)	\$ 125,603	\$ 2,976	\$ 6,965	\$ 2,288	\$ 51,305
Maximum exposure to loss³					
Debt and equity interests	\$ 16,314	\$ 240	\$ —	\$ 1,009	\$ 11,977
Derivative and other contracts	—	—	4,599	—	2,995
Commitments, guarantees and other	631	—	—	—	266
Total	\$ 16,945	\$ 240	\$ 4,599	\$ 1,009	\$ 15,238
Carrying value of variable interests—Assets					
Debt and equity interests	\$ 16,314	\$ 240	\$ —	\$ 1,008	\$ 11,977
Derivative and other contracts	—	—	6	—	388
Total	\$ 16,314	\$ 240	\$ 6	\$ 1,008	\$ 12,365
Additional VIE assets owned ⁴					\$ 11,453
Carrying value of variable interests—Liabilities					
Derivative and other contracts	\$ —	\$ —	\$ —	\$ —	\$ 444

MTOB—Municipal tender option bonds

1. Amounts include transactions backed by residential mortgage loans, commercial mortgage loans and other types of assets, including consumer or commercial assets, and may be in loan or security form.
2. Other primarily includes exposures to commercial real estate property and investment funds.
3. Where notional amounts are utilized in quantifying the maximum exposure related to derivatives, such amounts do not reflect changes in fair value recorded by the Firm.
4. Additional VIE assets owned represents the carrying value of total exposure to non-consolidated VIEs for which the maximum exposure to loss is less than specific thresholds, primarily interests issued by securitization SPEs. The Firm's primary risk exposure is to the most subordinate class of beneficial interest and maximum exposure to loss generally equals the fair value of the assets owned. These assets are primarily included in Trading assets and Investment securities and are measured at fair value (see Note 3). The Firm does not provide additional support in these transactions through contractual facilities, guarantees or similar derivatives.

The majority of the VIEs included in the previous tables are sponsored by unrelated parties; examples of the Firm's involvement with these VIEs include its secondary market-making activities and the securities held in its Investment securities portfolio (see Note 7).

The Firm's maximum exposure to loss is dependent on the nature of the Firm's variable interest in the VIE and is limited to the notional amounts of certain liquidity facilities and other credit support, total return swaps and written put options, as well as the fair value of certain other derivatives and investments the Firm has made in the VIE.

The Firm's maximum exposure to loss in the previous tables does not include the offsetting benefit of hedges or any reductions associated with the amount of collateral held as part of a transaction with the VIE or any party to the VIE directly against a specific exposure to loss.

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

Detail of Mortgage- and Asset-Backed Securitization Assets

\$ in millions	At March 31, 2020		At December 31, 2019	
	UPB	Debt and Equity Interests	UPB	Debt and Equity Interests
Residential mortgages	\$ 20,460	\$ 3,298	\$ 30,353	\$ 3,993
Commercial mortgages	52,672	3,677	53,892	3,881
U.S. agency collateralized mortgage obligations	45,958	6,257	36,366	6,365
Other consumer or commercial loans	5,121	1,941	4,992	2,075
Total	\$ 124,211	\$ 15,173	\$ 125,603	\$ 16,314

Transferred Assets with Continuing Involvement¹

\$ in millions	At March 31, 2020			
	RML	CML	U.S. Agency CMO	CLN and Other ³
SPE assets (UPB) ⁴	\$ 9,501	\$ 79,516	\$ 15,480	\$ 11,109
Retained interests				
Investment grade	\$ 26	\$ 780	\$ 763	\$ —
Non-investment grade	13	238	—	87
Total	\$ 39	\$ 1,018	\$ 763	\$ 87
Interests purchased in the secondary market				
Investment grade	\$ —	\$ 65	\$ 78	\$ —
Non-investment grade	29	68	—	—
Total	\$ 29	\$ 133	\$ 78	\$ —
Derivative assets	\$ —	\$ —	\$ —	\$ 830
Derivative liabilities	—	—	—	186

Notes to Consolidated Financial Statements (Unaudited)

\$ in millions	At December 31, 2019 ²			
	RML	CML	U.S. Agency CMO	CLN and Other ³
SPE assets (UPB) ⁴	\$ 9,850	\$ 86,203	\$ 19,132	\$ 8,410
Retained interests				
Investment grade	\$ 29	\$ 720	\$ 2,376	\$ 1
Non-investment grade	17	254	—	92
Total	\$ 46	\$ 974	\$ 2,376	\$ 93
Interests purchased in the secondary market				
Investment grade	\$ 6	\$ 197	\$ 77	\$ —
Non-investment grade	75	51	—	—
Total	\$ 81	\$ 248	\$ 77	\$ —
Derivative assets	\$ —	\$ —	\$ —	\$ 339
Derivative liabilities	—	—	—	145

\$ in millions	Fair Value At March 31, 2020		
	Level 2	Level 3	Total
Retained interests			
Investment grade	\$ 790	\$ —	\$ 790
Non-investment grade	7	83	90
Total	\$ 797	\$ 83	\$ 880
Interests purchased in the secondary market			
Investment grade	\$ 141	\$ 2	\$ 143
Non-investment grade	85	12	97
Total	\$ 226	\$ 14	\$ 240
Derivative assets	\$ 820	\$ 10	\$ 830
Derivative liabilities	185	1	186

\$ in millions	Fair Value at December 31, 2019		
	Level 2	Level 3	Total
Retained interests			
Investment grade	\$ 2,401	\$ 4	\$ 2,405
Non-investment grade	6	97	103
Total	\$ 2,407	\$ 101	\$ 2,508
Interests purchased in the secondary market			
Investment grade	\$ 278	\$ 2	\$ 280
Non-investment grade	68	58	126
Total	\$ 346	\$ 60	\$ 406
Derivative assets	\$ 337	\$ 2	\$ 339
Derivative liabilities	144	1	145

RML—Residential mortgage loans

CML—Commercial mortgage loans

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

2. As permitted by applicable guidance, certain transfers of assets where the Firm's only continuing involvement is a derivative are only reported in the following Assets Sold with Retained Exposure table.

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

4. Amounts include assets transferred by unrelated transferors.

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

these interests is measured using techniques that are consistent with the valuation techniques applied to the Firm's major categories of assets and liabilities as described in Note 2 in the 2019 Form 10-K and Note 4 herein.

Proceeds from New Securitization Transactions and Sales of Loans

\$ in millions	Three Months Ended March 31,	
	2020	2019
New transactions ¹	\$ 8,471	\$ 4,733
Retained interests	4,088	2,887
Sales of corporate loans to CLO SPEs ^{1,2}	66	—

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 13).

Assets Sold with Retained Exposure

\$ in millions	At March 31, 2020	At December 31, 2019
	Gross cash proceeds from sale of assets ¹	\$ 28,213
Fair value		
Assets sold	\$ 28,068	\$ 39,137
Derivative assets recognized in the balance sheets	862	647
Derivative liabilities recognized in the balance sheets	1,004	152

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

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

For a discussion of the Firm's VIEs, the determination and structure of VIEs and securitization activities, see Note 14 to the financial statements in the 2019 Form 10-K.

15. Regulatory Requirements

Regulatory Capital Framework and Requirements

For a discussion of the Firm's regulatory capital framework, see Note 15 to the financial statements in the 2019 Form 10-K.

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

Minimum risk-based capital ratio requirements apply to Common Equity Tier 1 capital, Tier 1 capital and Total capital

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(which includes Tier 2 capital). Capital standards require certain adjustments to, and deductions from, capital for purposes of determining these ratios. At March 31, 2020 and December 31, 2019, the Firm's ratios for determining regulatory compliance are based on the Advanced Approach and the Standardized Approach rules, respectively.

In the current quarter, the U.S. banking agencies have adopted an interim final rule altering, for purposes of the regulatory capital rules, the required adoption time period for CECL. As of March 31, 2020, the risk-based and leverage-based capital amounts and ratios, as well as RWA, adjusted average assets and supplementary leverage exposure are calculated excluding the effect of the adoption of CECL based on our election to defer this effect over a five-year transition period in accordance with the interim final rule.

In addition to the minimum risk-based capital ratio requirements, the Firm is subject to the following Common Equity Tier 1 buffers:

- A greater than 2.5% capital conservation buffer;
- The G-SIB capital surcharge, currently at 3%; and
- Up to a 2.5% CCyB, currently set by U.S. banking agencies at zero.

The Firm's Regulatory Capital and Capital Ratios

\$ in millions	At March 31, 2020		
	Required Ratio ¹	Amount	Ratio
Risk-based capital			
Common Equity Tier 1 capital	10.0%	\$ 65,195	15.2%
Tier 1 capital	11.5%	73,896	17.3%
Total capital	13.5%	83,847	19.6%
Total RWA		427,782	
Leverage-based capital			
Tier 1 leverage	4.0%	\$ 73,896	8.1%
Adjusted average assets ²		910,499	
SLR	5.0%	73,896	6.2%
Supplementary leverage exposure ³		1,185,734	

\$ in millions	At December 31, 2019		
	Required Ratio ¹	Amount	Ratio
Risk-based capital			
Common Equity Tier 1 capital	10.0%	\$ 64,751	16.4%
Tier 1 capital	11.5%	73,443	18.6%
Total capital	13.5%	82,708	21.0%
Total RWA		394,177	
Leverage-based capital			
Tier 1 leverage	4.0%	\$ 73,443	8.3%
Adjusted average assets ²		889,195	
SLR	5.0%	73,443	6.4%
Supplementary leverage exposure ³		1,155,177	

1. Required ratios are inclusive of any buffers applicable as of the date presented. Failure to maintain the buffers would result in restrictions on the Firm's ability to make capital distributions, including the payment of dividends and the repurchase of stock, and to pay discretionary bonuses to executive officers.
2. Adjusted average assets represents the denominator of the Tier 1 leverage ratio and is composed of the average daily balance of consolidated on-balance sheet assets for the quarters ending on the respective balance sheet dates, reduced by disallowed goodwill, intangible assets, investments in covered funds, defined benefit pension plan assets, after-tax gain on sale from assets sold into securitizations, investments in the Firm's own capital instruments, certain defined tax assets and other capital deductions.
3. Supplementary leverage exposure is the sum of Adjusted average assets used in the Tier 1 leverage ratio and other adjustments, primarily: (i) for derivatives, potential future exposure and the effective notional principal amount of sold credit protection offset by qualifying purchased credit protection; (ii) the counterparty credit risk for repo-style transactions; and (iii) the credit equivalent amount for off-balance sheet exposures.

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

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

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

At March 31, 2020 and December 31, 2019, the U.S. Bank Subsidiaries' risk-based capital ratios are based on the Standardized Approach rules. At March 31, 2020, the risk-based

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and leverage-based capital amounts and ratios are calculated excluding the effect of the adoption of CECL based on our election to defer this effect over a five-year transition period.

MSBNA's Regulatory Capital

\$ in millions	At March 31, 2020			
	Well-Capitalized Requirement	Required Ratio	Amount	Ratio
Risk-based capital				
Common Equity Tier 1 capital	6.5%	7.0%	\$ 16,839	18.2%
Tier 1 capital	8.0%	8.5%	16,839	18.2%
Total capital	10.0%	10.5%	17,349	18.7%
Leverage-based capital				
Tier 1 leverage	5.0%	4.0%	\$ 16,839	11.2%
SLR	6.0%	3.0%	16,839	8.8%

\$ in millions	At December 31, 2019			
	Well-Capitalized Requirement	Required Ratio	Amount	Ratio
Risk-based capital				
Common Equity Tier 1 capital	6.5%	7.0%	\$ 15,919	18.5%
Tier 1 capital	8.0%	8.5%	15,919	18.5%
Total capital	10.0%	10.5%	16,282	18.9%
Leverage-based capital				
Tier 1 leverage	5.0%	4.0%	\$ 15,919	11.3%
SLR	6.0%	3.0%	15,919	8.7%

MSPBNA's Regulatory Capital

\$ in millions	At March 31, 2020			
	Well-Capitalized Requirement	Required Ratio ¹	Amount	Ratio
Risk-based capital				
Common Equity Tier 1 capital	6.5%	7.0%	\$ 8,487	22.9%
Tier 1 capital	8.0%	8.5%	8,487	22.9%
Total capital	10.0%	10.5%	8,556	23.0%
Leverage-based capital				
Tier 1 leverage	5.0%	4.0%	\$ 8,487	9.7%
SLR	6.0%	3.0%	8,487	9.3%

\$ in millions	At December 31, 2019			
	Well-Capitalized Requirement	Required Ratio ¹	Amount	Ratio
Risk-based capital				
Common Equity Tier 1 capital	6.5%	7.0%	\$ 7,962	24.8%
Tier 1 capital	8.0%	8.5%	7,962	24.8%
Total capital	10.0%	10.5%	8,016	25.0%
Leverage-based capital				
Tier 1 leverage	5.0%	4.0%	\$ 7,962	9.9%
SLR	6.0%	3.0%	7,962	9.4%

1. Required ratios are inclusive of any buffers applicable as of the date presented. Failure to maintain the buffers would result in restrictions on the U.S. Bank Subsidiaries' ability to make capital distributions, including the payment of dividends.

U.S. Broker-Dealer Regulatory Capital Requirements

MS&Co. Regulatory Capital

\$ in millions	At March 31, 2020	At December 31, 2019
Net capital	\$ 10,887	\$ 13,708
Excess net capital	6,620	10,686

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 Securities Exchange Act of 1934 ("Exchange Act") Rule 15c3-1, Appendix E, 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, 2020 and December 31, 2019, MS&Co. has exceeded its net capital requirement and has tentative net capital in excess of the minimum and notification requirements.

MSSB Regulatory Capital

\$ in millions	At March 31, 2020	At December 31, 2019
Net capital	\$ 2,924	\$ 3,387
Excess net capital	2,774	3,238

MSSB 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 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.

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16. Total Equity

Share Repurchases

<i>\$ in millions</i>	Three Months Ended March 31,	
	2020	2019
Repurchases of common stock under the Firm's Share Repurchase Program	\$ 1,347	\$ 1,180

The Firm's 2019 Capital Plan ("Capital Plan") includes the share repurchase of up to \$6.0 billion of outstanding common stock for the period beginning July 1, 2019 through June 30, 2020. Additionally, the Capital Plan includes quarterly common stock dividends of up to \$0.35 per share, beginning with the common stock dividend announced on July 18, 2019. On March 15, 2020, the Financial Services Forum announced that each of its eight member banks, including the Firm, had voluntarily suspended their share repurchase programs. For information about the Firm's 2019 Capital Plan, see Note 16 to the financial statements in the 2019 Form 10-K.

A portion of common stock repurchases was conducted under a sales plan with MUFG, whereby MUFG sold shares of the Firm's common stock to the Firm, as part of the Firm's Share Repurchase Program. The sales plan is only intended to maintain MUFG's ownership percentage below 24.9% in order to comply with MUFG's passivity commitments to the Board of Governors of the Federal Reserve System and has no impact on the strategic alliance between MUFG and the Firm, including the joint ventures in Japan.

Common Stock Dividends per Share

	Three Months Ended March 31,	
	2020	2019
Dividends declared per common share	\$ 0.35	\$ 0.30

Common Shares Outstanding for Basic and Diluted EPS

<i>in millions</i>	Three Months Ended March 31,	
	2020	2019
Weighted average common shares outstanding, basic	1,555	1,658
Effect of dilutive Stock options, RSUs and PSUs	18	19
Weighted average common shares outstanding and common stock equivalents, diluted	1,573	1,677
Weighted average antidilutive common stock equivalents (excluded from the computation of diluted EPS)	12	6

Preferred Stock

<i>\$ in millions, except per share data</i>	Shares Outstanding		Carrying Value	
	At March 31, 2020	Liquidation Preference per Share	At March 31, 2020	At December 31, 2019
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
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
L	20,000	25,000	500	500
Total			\$ 8,520	\$ 8,520
Shares authorized				30,000,000

- 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 in 2009.

For a description of Series A through Series L preferred stock issuances, see Note 16 to the financial statements in the 2019 Form 10-K. The preferred stock has a preference over the common stock upon liquidation. The Firm's preferred stock qualifies as and is included in Tier 1 capital in accordance with regulatory capital requirements (see Note 15).

Preferred Stock Dividends

<i>\$ in millions, except per share data</i>	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019	
	Per Share ¹	Total	Per Share ¹	Total
Series				
A	\$ 253	\$ 11	\$ 250	\$ 11
C	25	13	25	13
E	445	15	445	15
F	430	14	430	15
G ²	—	—	414	8
H ³	344	18	—	—
I	398	16	398	16
J ⁴	—	—	—	—
K	366	15	366	15
L	305	6	—	—
Total		\$ 108		\$ 93

- Dividends on all series are payable quarterly, unless otherwise noted.
- Series G preferred stock was redeemed during the first quarter of 2020. For further information, see Note 16 to the 2019 Form 10-K.
- Series H was payable semiannually until July 15, 2019, and is now payable quarterly.
- Series J is payable semiannually until July 15, 2020, and then quarterly thereafter.

Notes to Consolidated Financial Statements (Unaudited)

Accumulated Other Comprehensive Income (Loss)¹

\$ in millions	Three Months Ended March 31, 2019				
	CTA	AFS Securities	Pension, Postretirement and Other	DVA	Total
December 31, 2019	\$ (897)	\$ 207	\$ (644)	\$ (1,454)	\$ (2,788)
OCI during the period	(141)	1,325	25	3,674	4,883
March 31, 2020	\$ (1,038)	\$ 1,532	\$ (619)	\$ 2,220	\$ 2,095
December 31, 2018	\$ (889)	\$ (930)	\$ (578)	\$ 105	\$ (2,292)
OCI during the period	(12)	429	1	(599)	(181)
March 31, 2019	\$ (901)	\$ (501)	\$ (577)	\$ (494)	\$ (2,473)

CTA—Cumulative foreign currency translation adjustments

1. Amounts are net of tax and noncontrolling interests.

Components of Period Changes in OCI

\$ in millions	Three Months Ended March 31, 2020				
	Pre-tax Gain (Loss)	Income Tax Benefit (Provision)	After-tax Gain (Loss)	Non- controlling Interests	Net
CTA					
OCI activity	\$ (20)	\$ (112)	\$ (132)	\$ 9	\$ (141)
Reclassified to earnings	—	—	—	—	—
Net OCI	\$ (20)	\$ (112)	\$ (132)	\$ 9	\$ (141)
Change in net unrealized gains (losses) on AFS securities					
OCI activity	\$ 1,773	\$ (416)	\$ 1,357	\$ —	\$ 1,357
Reclassified to earnings	(41)	9	(32)	—	(32)
Net OCI	\$ 1,732	\$ (407)	\$ 1,325	\$ —	\$ 1,325
Pension, postretirement and other					
OCI activity	\$ 25	\$ (4)	\$ 21	\$ —	\$ 21
Reclassified to earnings	5	(1)	4	—	4
Net OCI	\$ 30	\$ (5)	\$ 25	\$ —	\$ 25
Change in net DVA					
OCI activity	\$ 5,015	\$ (1,216)	\$ 3,799	\$ 129	\$ 3,670
Reclassified to earnings	5	(1)	4	—	4
Net OCI	\$ 5,020	\$ (1,217)	\$ 3,803	\$ 129	\$ 3,674

\$ in millions	Three Months Ended March 31, 2019				
	Pre-tax Gain (Loss)	Income Tax Benefit (Provision)	After-tax Gain (Loss)	Non- controlling Interests	Net
CTA					
OCI activity	\$ (4)	\$ (18)	\$ (22)	\$ (10)	\$ (12)
Reclassified to earnings	—	—	—	—	—
Net OCI	\$ (4)	\$ (18)	\$ (22)	\$ (10)	\$ (12)
Change in net unrealized gains (losses) on AFS securities					
OCI activity	\$ 570	\$ (133)	\$ 437	\$ —	\$ 437
Reclassified to earnings	(10)	2	(8)	—	(8)
Net OCI	\$ 560	\$ (131)	\$ 429	\$ —	\$ 429
Pension, postretirement and other					
OCI activity	\$ —	\$ (1)	\$ (1)	\$ —	\$ (1)
Reclassified to earnings	3	(1)	2	—	2
Net OCI	\$ 3	\$ (2)	\$ 1	\$ —	\$ 1
Change in net DVA					
OCI activity	\$ (824)	\$ 201	\$ (623)	\$ (21)	\$ (602)
Reclassified to earnings	4	(1)	3	—	3
Net OCI	\$ (820)	\$ 200	\$ (620)	\$ (21)	\$ (599)

Cumulative Adjustments to Beginning Retained Earnings Related to the Adoption of Accounting Updates

\$ in millions	Three Months Ended March 31, 2020	
Financial Instruments—Credit Losses	\$	(100)

\$ in millions	Three Months Ended March 31, 2019	
Leases	\$	63

Notes to Consolidated Financial Statements (Unaudited)

Morgan Stanley

17. Interest Income and Interest Expense

\$ in millions	Three Months Ended March 31,	
	2020	2019
Interest income		
Investment securities	\$ 445	\$ 475
Loans	1,154	1,195
Securities purchased under agreements to resell and Securities borrowed ¹	398	947
Trading assets, net of Trading liabilities	749	713
Customer receivables and Other ²	757	960
Total interest income	\$ 3,503	\$ 4,290
Interest expense		
Deposits	\$ 406	\$ 462
Borrowings	997	1,380
Securities sold under agreements to repurchase and Securities loaned ³	509	600
Customer payables and Other ⁴	235	834
Total interest expense	\$ 2,147	\$ 3,276
Net interest	\$ 1,356	\$ 1,014

1. Includes fees paid on Securities borrowed.
2. Includes interest from Cash and cash equivalents.
3. Includes fees received on Securities loaned.
4. Includes fees received from prime brokerage customers for stock loan transactions entered into to cover customers' short positions.

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

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 and localities in which it has significant business operations, such as New York.

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

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.

It is reasonably possible that significant changes in the balance of unrecognized tax benefits may 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.

See Note 13 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.

Net Discrete Tax Provisions/(Benefits)

\$ in millions	Three Months Ended March 31,	
	2020	2019
Recurring ¹	\$ (99)	\$ (107)
Intermittent	(31)	(101)

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

The current quarter includes intermittent net discrete tax benefits associated with the remeasurement of prior years' tax liabilities. The prior year quarter includes intermittent net discrete tax benefits primarily associated with remeasurement of reserves and related interest as a result of new information pertaining to the resolution of multi-jurisdiction tax examinations.

19. Segment, Geographic and Revenue Information

Selected Financial Information by Business Segment

\$ in millions	Three Months Ended March 31, 2020				
	IS	WM	IM	I/E	Total
Investment banking	\$ 1,144	\$ 158	\$ —	\$ (31)	\$ 1,271
Trading	3,416	(347)	(37)	24	3,056
Investments	(25)	—	63	—	38
Commissions and fees ¹	874	588	—	(102)	1,360
Asset management ¹	113	2,680	665	(41)	3,417
Other	(1,079)	62	7	(1)	(1,011)
Total non-interest revenues	4,443	3,141	698	(151)	8,131
Interest income	2,423	1,193	8	(121)	3,503
Interest expense	1,961	297	14	(125)	2,147
Net interest	462	896	(6)	4	1,356
Net revenues	\$ 4,905	\$ 4,037	\$ 692	\$ (147)	\$ 9,487
Income before provision for income taxes	\$ 950	\$ 1,055	\$ 143	\$ (2)	\$ 2,146
Provision for income taxes	151	191	25	(1)	366
Net income	799	864	118	(1)	1,780
Net income applicable to noncontrolling interests	42	—	40	—	82
Net income applicable to Morgan Stanley	\$ 757	\$ 864	\$ 78	\$ (1)	\$ 1,698

Notes to Consolidated Financial Statements (Unaudited)

\$ in millions	Three Months Ended March 31, 2019				
	IS	WM	IM	I/E	Total
Investment banking	\$ 1,151	\$ 109	\$ —	\$ (18)	\$ 1,242
Trading	3,130	302	(3)	12	3,441
Investments	81	1	191	—	273
Commissions and fees ¹	621	406	—	(61)	966
Asset management ¹	107	2,361	617	(36)	3,049
Other	222	80	3	(4)	301
Total non-interest revenues	5,312	3,259	808	(107)	9,272
Interest income	3,056	1,413	4	(183)	4,290
Interest expense	3,172	283	8	(187)	3,276
Net interest	(116)	1,130	(4)	4	1,014
Net revenues	\$ 5,196	\$ 4,389	\$ 804	\$ (103)	\$ 10,286
Income before provision for income taxes	\$ 1,595	\$ 1,188	\$ 174	\$ (2)	\$ 2,955
Provision for income taxes	190	264	33	—	487
Net income	1,405	924	141	(2)	2,468
Net income applicable to noncontrolling interests	34	—	5	—	39
Net income applicable to Morgan Stanley	\$ 1,371	\$ 924	\$ 136	\$ (2)	\$ 2,429

I/E—Intersegment Eliminations

1. Substantially all revenues are from contracts with customers.

For a discussion about the Firm's business segments, see Note 21 to the financial statements in the 2019 Form 10-K.

Detail of Investment Banking Revenues

\$ in millions	Three Months Ended March 31,	
	2020	2019
Institutional Securities Advisory	\$ 362	\$ 406
Institutional Securities Underwriting	782	745
Firm investment banking revenues from contracts with customers	89%	85%

Trading Revenues by Product Type

\$ in millions	Three Months Ended March 31,	
	2020	2019
Interest rate	\$ 1,074	\$ 785
Foreign exchange	338	241
Equity security and index ¹	1,072	1,451
Commodity and other	266	422
Credit	306	542
Total	\$ 3,056	\$ 3,441

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

The previous table summarizes realized and unrealized gains and losses, from derivative and non-derivative financial instruments, included in Trading revenues in the income statements. The Firm generally utilizes financial instruments across a variety of product types in connection with its market-making and related risk management strategies. The trading

revenues presented in the table are not representative of the manner in which the Firm manages its business activities and are prepared in a manner similar to the presentation of trading revenues for regulatory reporting purposes.

Investment Management Investments Revenues—Net Cumulative Unrealized Carried Interest

\$ in millions	At March 31, 2020	At December 31, 2019
Net cumulative unrealized performance-based fees at risk of reversing	\$ 714	\$ 774

The Firm's portion of net cumulative performance-based fees in the form of unrealized carried interest (for which the Firm is not obligated to pay compensation) are at risk of reversing when the return in certain funds fall below specified performance targets. See Note 13 for information regarding general partner guarantees, which include potential obligations to return performance fee distributions previously received.

Investment Management Asset Management Revenues—Reduction of Fees Due to Fee Waivers

\$ in millions	Three Months Ended March 31,	
	2020	2019
Fee waivers	\$ 11	\$ 11

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.

Certain Other Fee Waivers

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

Net Revenues by Region

\$ in millions	Three Months Ended March 31,	
	2020	2019
Americas	\$ 6,646	\$ 7,321
EMEA	1,148	1,702
Asia	1,693	1,263
Total	\$ 9,487	\$ 10,286

For a discussion about the Firm's geographic net revenues, see Note 21 to the financial statements in the 2019 Form 10-K.

Notes to Consolidated Financial Statements (Unaudited)

Revenue Recognized from Prior Services

<i>\$ in millions</i>	Three Months Ended March 31,	
	2020	2019
Non-interest revenues	\$ 614	\$ 671

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

Receivables from Contracts with Customers

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Customer and other receivables	\$ 2,199	\$ 2,916

Receivables from contracts with customers, which are included within Customer and other receivables in the balance sheets, arise when the Firm has both recorded revenues and has the right per the contract to bill the customer.

Assets by Business Segment

<i>\$ in millions</i>	At March 31, 2020	At December 31, 2019
Institutional Securities	\$ 707,489	\$ 691,201
Wealth Management	233,824	197,682
Investment Management	6,482	6,546
Total¹	\$ 947,795	\$ 895,429

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

Average Balances and Interest Rates and Net Interest Income

<i>\$ in millions</i>	Three Months Ended March 31,					
	2020			2019		
	Average Daily Balance	Interest	Annualized Average Rate	Average Daily Balance	Interest	Annualized Average Rate
Interest earning assets						
Investment securities ¹	\$ 110,277	\$ 445	1.6%	\$ 94,906	\$ 475	2.0%
Loans ¹	134,441	1,154	3.5	116,698	1,195	4.2
Securities purchased under agreements to resell and Securities borrowed ² :						
U.S.	121,106	378	1.3	141,806	934	2.7
Non-U.S.	56,865	20	0.1	77,256	13	0.1
Trading assets, net of Trading liabilities ³ :						
U.S.	78,771	626	3.2	74,152	631	3.5
Non-U.S.	22,903	123	2.2	11,861	82	2.8
Customer receivables and Other ⁴ :						
U.S.	68,772	555	3.2	63,649	697	4.4
Non-U.S.	60,787	202	1.3	55,142	263	1.9
Total	\$ 653,922	\$ 3,503	2.2%	\$635,470	\$ 4,290	2.7%
Interest bearing liabilities						
Deposits ¹	\$ 199,574	\$ 406	0.8%	\$181,017	\$ 462	1.0%
Borrowings ^{1,5}	192,061	997	2.1	189,181	1,380	3.0
Securities sold under agreements to repurchase and Securities loaned ⁶ :						
U.S.	31,461	328	4.2	26,615	450	6.9
Non-U.S.	29,682	181	2.5	32,350	150	1.9
Customer payables and Other ⁷ :						
U.S.	128,744	109	0.3	117,932	554	1.9
Non-U.S.	63,914	126	0.8	65,498	280	1.7
Total	\$ 645,436	\$ 2,147	1.3%	\$612,593	\$ 3,276	2.2%
Net interest income and net interest rate spread	\$ 1,356		0.9%	\$ 1,014		0.5%

1. Amounts include primarily U.S. balances.
2. Includes fees paid on Securities borrowed.
3. Excludes non-interest earning assets and non-interest bearing liabilities, such as equity securities.
4. Includes Cash and cash equivalents.
5. Includes borrowings carried at fair value, whose interest expense is considered part of fair value and therefore is recorded within Trading revenues.
6. Includes fees received on Securities loaned. The annualized average rate was calculated using (a) interest expense incurred on all securities sold under agreements to repurchase and securities loaned transactions, whether or not such transactions were reported in the balance sheets and (b) net average on-balance sheet balances, which exclude certain securities-for-securities transactions.
7. Includes fees received from prime brokerage customers for stock loan transactions entered into to cover customers' short positions.

Glossary of Common Terms and Acronyms

2019 Form 10-K	Annual report on Form 10-K for year ended December 31, 2019 filed with the SEC	EMEA	Europe, Middle East and Africa
ABS	Asset-backed securities	EPS	Earnings per common share
AFS	Available-for-sale	E.U.	European Union
AML	Anti-money laundering	FDIC	Federal Deposit Insurance Corporation
AOCI	Accumulated other comprehensive income (loss)	FFELP	Federal Family Education Loan Program
AUM	Assets under management or supervision	FFIEC	Federal Financial Institutions Examination Council
Balance sheets	Consolidated balance sheets	FHC	Financial Holding Company
BEAT	Base erosion and anti-abuse tax	FICC	Fixed Income Clearing Corporation
BHC	Bank holding company	FICO	Fair Isaac Corporation
bps	Basis points; one basis point equals 1/100th of 1%	Financial statements	Consolidated financial statements
Cash flow statements	Consolidated cash flow statements	FVA	Funding valuation adjustment
CCAR	Comprehensive Capital Analysis and Review	GILTI	Global Intangible Low-Taxed Income
CCyB	Countercyclical capital buffer	G-SIB	Global systemically important banks
CDO	Collateralized debt obligation(s), including Collateralized loan obligation(s)	HELOC	Home Equity Line of Credit
CDS	Credit default swaps	HQLA	High-quality liquid assets
CECL	Current Expected Credit Losses, as calculated under the Financial Instruments—Credit Losses accounting update	HTM	Held-to-maturity
CFTC	U.S. Commodity Futures Trading Commission	I/E	Intersegment eliminations
CLN	Credit-linked note(s)	IHC	Intermediate holding company
CLO	Collateralized loan obligation(s)	IM	Investment Management
CMBS	Commercial mortgage-backed securities	Income statements	Consolidated income statements
CMO	Collateralized mortgage obligation(s)	IRS	Internal Revenue Service
CVA	Credit valuation adjustment	IS	Institutional Securities
DVA	Debt valuation adjustment	LCR	Liquidity coverage ratio, as adopted by the U.S. banking agencies
EBITDA	Earnings before interest, taxes, depreciation and amortization	LIBOR	London Interbank Offered Rate
ELN	Equity-linked note(s)	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

Glossary of Common Terms and Acronyms

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

Other Information

None.

Legal Proceedings

The following development has occurred since previously reporting certain matters in the Firm’s 2019 Form 10-K. See also the disclosures set forth under “Legal Proceedings” in the 2019 Form 10-K.

Residential Mortgage and Credit Crisis Related Matter

On March 19, 2020, the Firm filed a motion for partial summary judgment in *Deutsche Bank National Trust Company solely in its capacity as Trustee of the Morgan Stanley ABS Capital I Inc. Trust 2007- NC4 v. Morgan Stanley Mortgage Capital Holdings LLC as Successor-by-Merger to Morgan Stanley Mortgage Capital Inc., and Morgan Stanley ABS Capital I Inc.*

Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Three Months Ended March 31, 2020

<i>\$ in millions, except per share data</i>	Total Number of Shares Purchased ¹	Average Price Paid Per Share	Total Shares Purchased as Part of Share Repurchase Program ^{2,3}	Dollar Value of Remaining Authorized Repurchase
January	11,966,543	\$ 55.82	4,860,960	\$ 2,733
February	7,624,176	\$ 52.63	7,135,908	\$ 2,354
March	17,552,911	\$ 40.65	17,278,471	\$ 1,653
Total	37,143,630	\$ 48.00	29,275,339	

- Includes 7,868,291 shares acquired by the Firm in satisfaction of the tax withholding obligations on stock-based awards granted under the Firm’s stock-based compensation plans during the three months ended March 31, 2020.
- Share purchases under publicly announced programs are made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices the Firm deems appropriate and may be suspended at any time. On April 18, 2018, the Firm entered into a sales plan with Mitsubishi UFJ Financial Group, Inc. (“MUFG”). See Note 16 to the financial statements for further information on the sales plan.
- The Firm’s Board of Directors has authorized the repurchase of the Firm’s outstanding stock under a share repurchase program (the “Share Repurchase Program”). The Share Repurchase Program is a program for capital management purposes that considers, among other things, business segment capital needs, as well as equity-based compensation and benefit plan requirements. The Share Repurchase Program has no set expiration or termination date.

Share repurchases by the Firm are subject to regulatory non-objection. On June 27, 2019, the Federal Reserve published summary results of CCAR and the Firm received a non-objection to its 2019 Capital Plan. The Firm’s 2019 Capital Plan includes a share repurchase of up to \$6.0 billion of its outstanding common stock during the period beginning July 1, 2019 through June 30, 2020. On March 15, 2020, the Financial Services Forum announced that each of its eight member banks, including the Firm, had voluntarily suspended their share repurchase programs. For further information, see “Liquidity and Capital Resources—Regulatory Requirements—Capital Plans and Stress Tests.”

Controls and Procedures

Under the supervision and with the participation of the Firm’s management, including the Chief Executive Officer and Chief Financial Officer, the Firm conducted an evaluation of the effectiveness of the Firm’s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Firm’s disclosure controls and procedures were effective as of the end of the period covered by this report.

No change in the Firm’s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, the Firm’s internal control over financial reporting.

Exhibits

Exhibit Index

Exhibit No.	Description
15	Letter of awareness from Deloitte & Touche LLP, dated May 5, 2020, concerning unaudited interim financial information.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.
101	Interactive Data Files pursuant to Rule 405 of Regulation S-T formatted in Inline eXtensible Business Reporting Language (“Inline XBRL”).
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101).

To the Board of Directors and Shareholders of Morgan Stanley:

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited condensed consolidated interim financial statements of Morgan Stanley and subsidiaries (the “Firm”) for the three-month periods ended March 31, 2020 and 2019, as indicated in our report dated May 5, 2020; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, is incorporated by reference in the following Registration Statements of the Firm:

Filed on Form S-3:

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

Filed on Form S-4:

Registration Statement No. 333-25003
 Registration Statement No. 333-237743

Filed on Form S-8:

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

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

/s/ Deloitte & Touche LLP

New York, New York

May 5, 2020

Certification

I, James P. Gorman, certify that:

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

Date: May 5, 2020

/s/ JAMES P. GORMAN

James P. Gorman

Chairman of the Board and Chief Executive Officer

Certification

I, Jonathan Pruzan, certify that:

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

Date: May 5, 2020

/s/ JONATHAN PRUZAN

Jonathan Pruzan

Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of Morgan Stanley (the “Firm”) on Form 10-Q for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James P. Gorman, Chairman of the Board and Chief Executive Officer of the Firm, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ JAMES P. GORMAN

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

Date: May 5, 2020

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

In connection with the Quarterly Report of Morgan Stanley (the “Firm”) on Form 10-Q for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jonathan Pruzan, Executive Vice President and Chief Financial Officer of the Firm, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ JONATHAN PRUZAN

Jonathan Pruzan
Executive Vice President and
Chief Financial Officer

Date: May 5, 2020