

Morgan Stanley Bank, N.A.

Annual Report

As of and for the Years Ended December 31, 2023 and 2022

ANNUAL REPORT

*For the year ended December 31, 2023***Morgan Stanley Bank, N.A.**

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Forward-Looking Statements

We have included in or incorporated by reference into this report, certain statements, including, without limitation, those under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures about Risk”, and from time to time may make in our public filings, or in Morgan Stanley’s public filings, press releases or other public statements, certain statements that may constitute “forward-looking statements”. Unless the context otherwise requires, the terms “Morgan Stanley” and “the Firm” mean Morgan Stanley (the “Parent”) together with its consolidated subsidiaries, including Morgan Stanley Bank, N.A. In addition, Morgan Stanley’s or our management may make forward-looking statements to analysts, investors, representatives of the media and others. These forward-looking statements are not historical facts and represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond our control.

The nature of our business makes predicting the future trends of our revenues, expenses, and net income difficult. The risks and uncertainties involved in our businesses could affect the matters referred to in such statements, and it is possible that our actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Important factors that could cause actual results to differ from those in the forward-looking statements made by Morgan Stanley or us include, without limitation:

- the effect of market conditions, particularly in the global credit markets, including corporate, commercial and residential mortgage lending, as well as global equity, fixed income, currency and commodities markets;
- the level of individual investor participation in the global markets, as well as the level and mix of client assets held at Morgan Stanley and placed with us as deposits;
- the level and volatility of interest rates, inflation and currency values, as well as equity, fixed income and commodity prices and other market indices or other market factors, such as market liquidity;
- the availability and cost of both credit and capital, as well as the credit ratings assigned to our unsecured short-term, and long-term debt;
- technological changes instituted by Morgan Stanley or us, Morgan Stanley’s or our competitors or counterparties and technological risks, including risks associated with emerging technologies, business continuity and related operational risks, including breaches or other disruptions of Morgan Stanley’s, our or a third-party’s (or third-parties thereof) operations or systems;
- risk associated with cybersecurity threats, including data protection and cybersecurity risk management;
- Morgan Stanley’s or our ability to effectively manage capital and liquidity;
- the impact of current, pending and future legislation or changes thereto, regulation (including capital, leverage, funding, liquidity, consumer protection and resolution requirements) and Morgan Stanley’s or our ability to address such requirements;
- uncertainty concerning fiscal or monetary policies established by central banks and financial regulators, government shutdowns, debt ceilings or funding;
- changes to global trade policies, tariffs and replacement or reform of certain interest rate benchmarks;
- legal and regulatory actions, including litigation and enforcement, and other non-financial risks in the U.S. and worldwide;
- changes in tax laws and regulations globally;
- the effectiveness of Morgan Stanley’s or our risk management processes and related controls, including climate risk;
- Morgan Stanley’s or our ability to effectively respond to an economic downturn, or other market disruptions;
- the effect of social, economic and political conditions and geopolitical events, including as a result of government shutdowns, changes in U.S. presidential administrations or Congress, sovereign risk, acts of war or aggression, and terrorist activities or military actions;
- the actions and initiatives of current and potential competitors, as well as governments, central banks, regulators and self-regulatory organizations;
- Morgan Stanley’s or our ability to provide innovative products and services and execute strategic initiatives, and costs related thereto, including with respect to the operational or technological integration related to such innovative and strategic initiatives;
- the performance and results of Morgan Stanley’s acquisitions, divestitures, joint ventures, partnerships, minority stakes or strategic alliances, or other strategic arrangements and related integrations;
- investor, consumer and business sentiment and confidence in the financial markets;
- Morgan Stanley’s or our reputation and the general perception of the financial services industry;
- Morgan Stanley’s or our ability to retain, integrate and attract qualified employees or successfully transition key roles;
- climate-related incidents, other environmental and sustainability matters, and global pandemics; and
- other risks and uncertainties detailed under “Business—Competition,” “Business—Supervision and Regulation,” “Risk Factors” and elsewhere throughout this report.

Accordingly, you are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made, whether as a result of new information, future events or otherwise, except as required by applicable law. You should, however, consult future disclosures we may make.

Available Information

This Annual Report is available at www.morganstanley.com/about-us-ir/subsidiaries. In addition, certain of our affiliates, including the Parent, provide annual and periodic reports relating to their businesses and activities, which are available at www.morganstanley.com/about-us-ir. Information contained on such website is not part of, nor is it incorporated by reference into, this Annual Report.

Business

Overview

Morgan Stanley Bank, N.A. (“MSBNA”) is a national bank with its headquarters and main office in Salt Lake City, Utah, and is an indirect, wholly owned subsidiary of the Parent. MSBNA is subject to regulation, supervision and examination by the OCC and its qualifying deposits are insured by the FDIC. MSBNA is registered as a swap dealer with the CFTC and conditionally registered as a security-based swap dealer with the SEC. MSBNA has no branches or automated teller machines (“ATMs”), and it does not engage in retail deposit activities. Unless the context otherwise requires, the terms “Bank”, “us”, “we” and “our” mean Morgan Stanley Bank, N.A. together with its consolidated subsidiaries. See the “Glossary of Common Terms and Acronyms” for the definition of certain terms and acronyms used throughout the 2023 Annual Report.

Financial information concerning the Bank for each of the years ended December 31, 2023 and December 31, 2022 is included in “Financial Statements and Supplementary Data”.

The Parent is a financial holding company regulated by the Board of Governors of the Federal Reserve System (“Federal Reserve”) under the Bank Holding Company Act of 1956, as amended (“BHC Act”), and is subject to comprehensive, consolidated supervision and examination by the Federal Reserve, as its primary regulator.

Business Description

The Bank is primarily a wholesale commercial bank that offers corporate lending and certain retail securities-based lending services in addition to deposit products, which are principally used to fund lending activities and our investment portfolio. The Bank’s activities also include providing certain financing services to our clients active in the equity markets, entering into certain derivative transactions, and maintaining an investment portfolio. Additional information related to our business lines, investment portfolio, deposit taking, and other activities is included under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Competition

All aspects of our businesses are highly competitive, and we expect them to remain so. We compete in the U.S. and globally for clients, market share and human talent. Operating within the financial services industry on a global basis presents, among other things, technological, risk management, regulatory infrastructure and other challenges that require effective resource allocation in order for us to remain competitive. Our competitive position depends on a number of factors, including our reputation, client experience, the quality and consistency of our long-term investment performance, innovation, execution, relative pricing and other factors, including entering into new or expanding current businesses as a result of Morgan Stanley’s acquisitions and other strategic initiatives and the reputation of Morgan Stanley as a whole, as well as the quality and consistency of Morgan Stanley’s long-term financial

performance. Our ability to sustain or improve our competitive position also depends substantially on our and Morgan Stanley’s ability to continue to attract and retain highly qualified employees while managing compensation and other costs. We compete with commercial banks, investment banking firms, brokerage firms and other companies offering lending and deposit products and services in the U.S. and globally, including, in certain instances, through the internet. In addition, restrictive laws and regulations applicable to certain global financial services institutions, which have been increasing in complexity and volume, may prohibit us from engaging in certain transactions, impose more stringent capital and liquidity requirements, and increase costs, and can put us at a competitive disadvantage to competitors in certain businesses not subject to these same requirements. See also “Supervision and Regulation” herein and “Risk Factors.”

It is possible that competition may become even more intense as we continue to compete with financial or other institutions that may be larger, or better capitalized, or may have a stronger local presence and longer operating history in certain geographies or products. Many of these firms have the ability to offer a wide range of products and services through different platforms that may enhance their competitive position and could result in additional pricing pressure on our businesses.

Parent Relationship

Our Relationship with the Parent and our Affiliates

We are an indirect wholly owned insured depository institution (“IDI”) subsidiary of the Parent. We rely on the Parent and our affiliates for business relationships, certain processes, support systems and infrastructure, and financial support. In turn, we provide similar support services to our affiliates. Our affiliates are sources of business for our lending and other business activities, and they often are counterparties to derivatives transactions with us.

Support Services

We receive operational, administrative, and risk management support services from our affiliates including loan origination and servicing, operational and infrastructure services, trade execution, relationship management, risk management and control, and administrative, as well as other miscellaneous support services. All support services we receive from our affiliates are overseen by our direct employees, or employees of our affiliates who are also Bank officers. We also provide certain operational, administrative and risk management support services to our affiliates. The services we receive and provide to our affiliates are governed under master services agreements, and supplemented by task orders (collectively, the “Service Level Agreements”). We benefit from our affiliates’ access to third-party vendors, experience and knowledge, and services provided to us by employees of affiliates. For further information about our relationship with our affiliates, see “Risk Factors—Operational Risk” and Note 11 to the financial statements.

Funding Sources

Deposits are our primary source of funding for our assets. We source deposits through clients of Morgan Stanley's Wealth Management business via affiliated entities, as well as through unaffiliated third parties. Our deposits are sourced primarily through a "sweep" program whereby certain cash balances associated with affiliate and third-party relationships, such as cash balances in accounts of MSSB and MSPBNA customers, or accounts of third-party customers, are swept into DDAs. We also issue time deposits, and accept deposits from the Parent and our affiliates. In addition, we have access to funding facilities primarily from the Parent. See Note 11 to the financial statements for further information about funding facilities with affiliates.

Supervision and Regulation

We are an FDIC-insured depository institution subject to supervision, regulation and examination by the OCC and are subject to the OCC's risk governance guidelines, which establish heightened standards for a large IDI's risk governance framework and the oversight of that framework by the IDI's board of directors. We are also subject to prompt corrective action standards, which require the relevant federal banking regulator to take prompt corrective action with respect to an IDI if that institution does not meet certain capital adequacy standards. Our swap dealer activities are also regulated by the CFTC, and our security-based swap dealer activities are regulated by the SEC. In addition, the Consumer Financial Protection Bureau ("CFPB") has primary rulemaking, enforcement and examination authority over us with respect to federal consumer protection laws, to the extent applicable.

We continue to monitor the changing political, tax and regulatory environment. While it is likely that there will be changes in the way major financial institutions are regulated in the U.S., it remains difficult to predict the exact impact these changes will have on our business, financial condition, results of operations and cash flows for a particular future period. We expect to remain subject to extensive supervision and regulation.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") establishes five capital categories for FDIC-insured banks, such as us: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An IDI may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, as the capital category of an institution declines. Failure to meet the capital requirements could also require an IDI to raise capital. An IDI also is prohibited from accepting, renewing or rolling over deposits by or through a "deposit broker" (as defined in FDICIA) unless the institution is well-capitalized. The FDIC may waive this prohibition if the IDI is adequately capitalized; however, the prohibition cannot be waived if the institution is undercapitalized, significantly undercapitalized or critically

undercapitalized. An IDI also is restricted with respect to the deposit interest rates it may offer if it is not well-capitalized. Ultimately, critically undercapitalized IDIs are subject to the appointment of a receiver or conservator, as described in "Insolvency of an Insured Depository Institution" below. At December 31, 2023 and December 31, 2022 the Bank maintained capital levels in excess of the well-capitalized requirements.

Transactions with Affiliates. We are subject to Sections 23A and 23B of the Federal Reserve Act and their implementing rule, the Federal Reserve's Regulation W, which impose restrictions on certain transactions between us and our affiliates, including any extension of credit to, or purchase of assets from an affiliate. These restrictions limit the total amount of credit exposure that we may have to any one affiliate and to all affiliates in the aggregate and require collateral for covered credit exposures. Section 23B requires affiliate transactions to be on market terms.

Lending and Credit Limits. The OCC imposes lending limits on the Bank (which also take into account credit exposure from derivative transactions and, subject to certain exceptions, securities financing transactions) and other requirements that could impact the manner and scope of our activities.

The Federal Reserve also imposes single-counterparty credit limits for large banking organizations. U.S. G-SIBs, including Morgan Stanley, are subject to a limit of 15% of Tier 1 capital for aggregate net credit exposures to any "major counterparty" (defined to include other U.S. G-SIBs, foreign G-SIBs and non-bank systemically important financial institutions supervised by the Federal Reserve). In addition, Morgan Stanley is subject to a limit of 25% of Tier 1 capital for aggregate net credit exposures to any other unaffiliated counterparty. Unlike the OCC's lending limits, which apply to the Bank on a standalone basis, the limits imposed by the Federal Reserve apply to the Parent and its subsidiaries on a consolidated basis. Accordingly, the application of the consolidated limits could also impact the level of credit exposures of the Bank.

The U.S. federal bank regulatory agencies have issued interagency guidance that focuses on transaction structures and risk management frameworks and that outlines high-level principles for safe-and-sound leveraged lending, including underwriting standards, valuation and stress testing. The agencies have also issued interagency guidance relating to underwriting standards and general risk management standards in the area of commercial real estate addressing the need for prudent risk management practices by financial institutions engaging in commercial real estate lending activity.

Capital Requirements. The OCC establishes minimum capital requirements largely based on the Basel III capital standards established by the Basel Committee on Banking Supervision ("Basel Committee"), including well-capitalized standards.

The Federal Reserve, FDIC and OCC (collectively, "U.S. banking agencies") have proposed a comprehensive set of revisions to their capital requirements based on changes to the Basel III capital standards finalized by the Basel Committee. The impact on us of any revisions to the capital requirements is

uncertain and depends on the adoption of final rulemakings by the U.S. banking agencies.

For more information about the specific capital requirements applicable to us, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Requirements” and Note 15 to the financial statements.

Liquidity Requirements. In addition to capital regulations, the U.S. banking agencies have adopted liquidity and funding standards, including the LCR, the NSFR, liquidity stress testing and associated liquidity reserve requirements.

For more information see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Balance Sheet—Regulatory Liquidity Framework.”

Stress Tests. Under rules adopted by the U.S. federal bank regulatory agencies, implementing 2018 amendments to the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), IDIs with total consolidated assets between \$100 billion and \$250 billion, such as us, are no longer required to conduct annual company run stress tests. We are still required to have our own capital planning process.

Insolvency of an Insured Depository Institution. Under the Federal Deposit Insurance Act of 1950 (“FDIA”), if the FDIC is appointed as conservator or receiver for an IDI such as us, upon the IDI’s insolvency or in certain other events, the FDIC has broad powers, including the power:

- To transfer any of the IDI’s assets and liabilities to a new obligor, including a newly formed “bridge” bank, without the approval of the IDI’s creditors;
- To enforce the IDI’s contracts pursuant to their terms without regard to any provisions triggered by the appointment of the FDIC in that capacity; or
- To repudiate or disaffirm any contract or lease to which the IDI is a party, the performance of which is determined by the FDIC to be burdensome and the repudiation or disaffirmance of which is determined by the FDIC to promote the orderly administration of the IDI.

In addition, the claims of holders of domestic deposit liabilities and certain claims for administrative expenses against an IDI would be afforded a priority over other general unsecured claims, including claims of debtholders of the institution, in the “liquidation or other resolution” of such an institution by any receiver. As a result, whether or not the FDIC ever sought to repudiate any of our debt obligations, the debtholders (other than depositors at U.S. branches) would be treated differently from, and could receive, if anything, substantially less than, our depositors.

As commonly controlled FDIC-insured depository institutions, each of Morgan Stanley’s U.S. bank subsidiaries (MSBNA and MSPBNA) could be responsible for any loss to the FDIC from the failure of the other.

Resolution Planning. We are required to submit once every three years to the FDIC a resolution plan that describes our strategy for a rapid and orderly resolution in the event of material financial distress or failure. In 2021, the FDIC issued guidance for IDI resolution plans which splits the covered IDIs into two groups for purposes of the timing of the resolution plans submissions: we are in the second group and submitted our most recent resolution plan on December 1, 2023. The FDIC announced a proposed rule in August 2023 about potential changes to its current rules on IDI resolution plans, including ours, and a final rule is still pending. Under current rules, the next submission will be due December 1, 2026.

Morgan Stanley is also required to submit once every two years to the Federal Reserve and the FDIC a resolution plan that describes its strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of its material financial distress or failure. Interim updates are required in certain limited circumstances, including material mergers or acquisitions or fundamental changes to our resolution strategy. Morgan Stanley submitted the 2023 full resolution plan on June 30, 2023.

Morgan Stanley’s preferred strategy, which is set out in its most recent resolution plan, is an SPOE strategy, which generally contemplates the provision of adequate capital and liquidity by the Parent to certain of its subsidiaries so that such subsidiaries have the resources necessary to implement the resolution strategy after the Parent has filed for bankruptcy. Within that strategy we, and associated Wealth Management businesses of Morgan Stanley, would be sold. In the event that we file for insolvency under the FDIA, the preferred strategy would be the liquidation of the Bank.

Community Reinvestment Act. The Community Reinvestment Act (“CRA”) requires our primary federal bank regulatory agency, the OCC, to assess our record in meeting the credit needs of the communities we serve, including low- and moderate-income neighborhoods and persons. This assessment is considered for any bank that applies to merge or consolidate with or acquire the assets or assume the liabilities of an IDI, or to open or relocate a branch office. During the most recent CRA evaluation, the OCC rated us as “outstanding,” which is the highest possible rating. In October 2023, the OCC issued a final rule that modernizes the regulation implementing the CRA. It will not be effective until 2026 at the earliest, and we are working to assess the implications of the final rule on MSBNA.

Deposit Insurance. Our deposits have the benefit of FDIC insurance up to the applicable limits. The FDIC’s Deposit Insurance Fund is funded by assessments on IDIs. Our assessment (subject to adjustment by the FDIC) is currently based on our average total consolidated assets less our average tangible equity during the assessment period, our supervisory ratings and specified forward-looking financial measures used to calculate the assessment rate.

Activities Restrictions under the Volcker Rule. The Volcker Rule prohibits banking entities, including us, from engaging in certain proprietary trading activities, as defined in the Volcker Rule, subject to exemptions for underwriting, market-making, risk-mitigating hedging and certain other activities. The Volcker Rule

also prohibits certain investments and relationships by banking entities with covered funds, as defined in the Volcker Rule, subject to a number of exemptions and exclusions.

Derivatives Regulation. We are registered as a swap dealer with the CFTC and conditionally registered with the SEC as a security-based swap dealer and therefore our derivatives business is subject to regulations imposed by the CFTC, the SEC and U.S. banking regulators as applicable, including regulations that impose margin requirements, public and regulatory reporting, central clearing and mandatory trading on regulated exchanges or execution facilities for certain types of swaps and security-based swaps (collectively, “Swaps”).

CFTC and SEC rules require registration of swap dealers and security-based swap dealers, respectively, and impose numerous obligations on such registrants including adherence to business conduct standards for all in-scope Swaps. Swap dealers and security-based swap dealers regulated by a prudential regulator, including us, are subject to uncleared Swap margin requirements and minimum capital requirements established by the prudential regulator.

Cyber and Information Security Risk Management and Protection of Client Information. The financial services industry faces increased regulatory focus regarding cyber and information security risk management practices. Many aspects of our businesses are subject to cybersecurity legal, regulatory and disclosure requirements enacted by U.S. federal and state governments. These requirements are generally aimed at codifying basic cybersecurity protections and mandating data breach notification requirements.

We are also subject to increasing privacy and data protection legal requirements concerning the use and protection of certain personal information with regard to clients, employees and others. These requirements impose mandatory privacy and data protection obligations, including providing for individual rights, enhanced governance and accountability requirements, and significant fines and litigation risk for noncompliance. In addition, several jurisdictions have enacted or proposed personal and other data localization requirements and restrictions on cross-border transfer of personal and other data that may restrict our ability to conduct business in those jurisdictions or create additional financial and regulatory burdens to do so.

Numerous jurisdictions have passed laws, rules and regulations in these areas and many are considering new or updated ones that could impact our businesses, particularly as the application, interpretation and enforcement of these laws, rules and regulations are often uncertain and evolving. Many aspects of our businesses are subject to legal requirements concerning the use and protection of certain customer and other information, as well as the privacy and cybersecurity laws referenced above. We have adopted measures designed to comply with these and related applicable requirements in all relevant jurisdictions.

U.S. Consumer Protection. We are subject to supervision and regulation by the CFPB with respect to U.S. federal consumer protection laws. Federal consumer protection laws to which we are subject include the Gramm-Leach-Bliley Act, Equal Credit

Opportunity Act, Home Mortgage Disclosure Act, Electronic Fund Transfer Act, Fair Credit Reporting Act, Real Estate Settlement Procedures Act, and Truth in Lending Act’s privacy provisions, all of which are enforced by the CFPB. We are also subject to certain federal consumer protection laws enforced by the OCC, including the Service members Civil Relief Act. Furthermore, we are subject to certain state consumer protection laws, and under the Dodd-Frank Act, state attorneys general and other state officials are empowered to enforce certain federal consumer protection laws and regulations. These federal and state consumer protection laws apply to a range of our activities.

Financial Crimes Program. Morgan Stanley’s Financial Crimes program is coordinated and implemented on an enterprise-wide basis and supports our financial crime prevention efforts across all regions and business units. The program includes anti-money laundering, economic sanctions (“Sanctions”), anti-boycott, anti-corruption, anti-tax evasion, and government and political activities compliance programs and aligned business-line risk functions.

In the U.S., the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001, and the Anti-Money Laundering Act of 2020, imposes significant obligations on financial institutions to detect and deter money laundering and terrorist financing activity, including requiring banks, broker-dealers, futures commission merchants, introducing brokers and mutual funds to develop and implement AML programs, verify the identity of customers that maintain accounts, and monitor and report suspicious activity to appropriate law enforcement or regulatory authorities.

We are also subject to Sanctions, such as regulations and economic sanctions programs administered by the U.S. government including the U.S. Treasury Department’s Office of Foreign Assets Control (“OFAC”) and the U.S. Department of State, and similar sanctions programs imposed by foreign governments or global or regional multilateral organizations. In addition, we are subject to anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act. Anti-corruption laws generally prohibit offering, promising, giving or authorizing others to give anything of value, either directly or indirectly, to a government official or private party in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business.

Human Capital

Employees and Culture

As of December 31, 2023, we had 309 direct employees. In addition, 347 employees of our affiliates, who are also officers of the Bank, provide services to us under Service Level Agreements or other cost sharing agreements.

Our employees are our most important asset, whom we depend on to build value for our clients. To facilitate talent attraction and retention, we strive to make the Bank a diverse and inclusive workplace, with a strong culture and opportunities for our employees to grow and develop in their career. We support our

employees with competitive compensation, benefits, and health and wellbeing programs.

The following sections discuss the approach to human capital and related programs at Morgan Stanley, which also apply to employees at the Bank.

Morgan Stanley's core values guide decision-making aligned with the expectations of its employees, clients, shareholders, regulators, directors and the communities in which Morgan Stanley operates. These guiding values—*Put Clients First, Do the Right Thing, Lead with Exceptional Ideas, Commit to Diversity and Inclusion, and Give Back*—are at the heart of Morgan Stanley's workplace culture and underpin its success. Morgan Stanley's Code of Conduct is central to its expectation that employees embody its values. Every new hire and every employee annually is required to certify to their understanding of and adherence to the Code of Conduct. Morgan Stanley also invites employee feedback on its culture and workplace through its ongoing employee engagement surveys.

Diversity and Inclusion

Morgan Stanley believes a diverse and inclusive workforce is important to its continued success and its ability to serve its clients. Morgan Stanley's programming, including the Morgan Stanley Institute for Inclusion, supports its workforce and helps to build a sense of community and belonging for all colleagues. Morgan Stanley has deepened its investments to recruit, advance and retain diverse talent through a holistic approach, focused on professional development, health and wellbeing, benefits, and culture.

Talent Development and Retention

Morgan Stanley is committed to the development of its workforce and supporting mobility and career growth. The Firm's talent development programs are designed to provide employees with the resources to help them achieve their career goals, build management skills and lead their organizations. Morgan Stanley believes supporting employee development and growth contributes to long-term retention.

Morgan Stanley continues to offer leadership programs to support employees as they progress in their career at the Firm.

Compensation, Financial and Employee Wellbeing

Morgan Stanley provides responsible and effective compensation programs that reinforce its values and culture through four key objectives: deliver pay for sustainable performance, attract and retain top talent, align with shareholder interests and mitigate excessive risk taking. In addition to salaries, these programs (which vary by location) include annual bonuses, retirement savings plans with matching contributions, an employee stock purchase plan, student loan refinancing and a financial wellbeing program. To promote equitable rewards for all employees, Morgan Stanley has enhanced its practices to support fair and consistent compensation and reward decisions based on merit, perform ongoing reviews of compensation decisions, and conduct regular assessments of its rewards structure.

Morgan Stanley's employees' health is also central to its ongoing success. Morgan Stanley supports the physical, mental and financial wellbeing of its global workforce and their families by offering programs focusing on awareness, prevention and access. Offerings vary by location and include: health care and insurance benefits, mental health resources, flexible spending and health savings accounts, paid time-off, flexible work schedules, family leave, child and elder care resources, financial help with fertility, adoption and surrogacy, and tuition assistance, among many others. Onsite services in Morgan Stanley's principal locations include health centers, mental health counseling, fitness centers and physical therapy.

In 2023, Morgan Stanley further enhanced its family support, women's health, mental health and wellbeing offerings. Morgan Stanley's Global Wellbeing Board, comprised of senior management across the Firm's businesses and geographies, continues to shape and advance our wellbeing strategy.

Risk Factors

For a discussion of the risks and uncertainties that may affect our future results and strategic objectives, see "Forward-Looking Statements."

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. For more information on how we monitor and manage credit risk, see "Quantitative and Qualitative Disclosures about Risk—Credit Risk."

We are exposed to the risk that third parties that are indebted to us will not perform their obligations.

We incur significant credit risk exposure through a variety of business activities, including, but not limited to: extending credit to clients through various lending commitments; entering into swap or other derivative contracts under which counterparties have obligations to make payments to us; providing short- or long-term funding that is secured by physical or financial collateral, including, but not limited to, real estate and marketable securities, whose value may at times be insufficient to fully cover the loan repayment amount; posting margin and/or collateral and other commitments to clearinghouses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and investing and trading in securities and loan pools, whereby the value of these assets may fluctuate based on realized or expected defaults on the underlying obligations or loans.

Our valuations related to, and reserves for losses on, credit exposures rely on complex models, estimates and subjective judgments about the future. While we believe current valuations and reserves adequately address our perceived levels of risk, future economic conditions, including inflation and changes in real estate and other asset values, that differ from or are more severe than forecast, inaccurate models or assumptions, or external factors such as global pandemics, natural disasters, or

geopolitical events, could lead to inaccurate measurement of or deterioration of credit quality of our counterparties or the value of collateral and result in unexpected losses. We may also incur higher-than-anticipated credit losses as a result of (i) disputes with counterparties over the valuation of collateral or (ii) actions taken by other lenders that may negatively impact the valuation of collateral. In cases where we foreclose on collateral, sudden declines in the value or liquidity of collateral may result in significant losses to us despite our (i) credit monitoring, (ii) over-collateralization, (iii) ability to call for additional collateral or (iv) ability to force repayment of the underlying obligation, especially where there is a single type of collateral supporting the obligation. In addition, in the longer term, climate change may have a negative impact on the financial condition of our clients, which may decrease revenues from those clients and increase the credit risk associated with loans and other credit exposures to those clients.

Although we regularly review our credit exposures, default risk may arise from events or circumstances that are difficult to detect or foresee.

Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, spreads, indices, volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. We have direct exposure to market risk. In addition, market risk may also impact our clients and markets in a manner that may indirectly impact us. For more information on how we monitor and manage market risk, see “Quantitative and Qualitative Disclosures about Risk—Market Risk.”

Our results of operations may be materially affected by market fluctuations and by global financial market and economic conditions and other factors.

Our results of operations have been in the past and may, in the future, be materially affected by global financial market and economic conditions, including in particular by periods of low or slowing economic growth in the United States and other major markets, both directly and indirectly through their impact on client activity levels. These include the level and volatility of equity, fixed income and commodity prices; the level, term structure and volatility of interest rates, inflation and currency values; the level of other market indices, fiscal or monetary policies established by central banks and financial regulators; and uncertainty concerning the future path of interest rates, government shutdowns, debt ceilings or funding, which may be driven by economic conditions, recessionary fears, market uncertainty or lack of confidence among investors and clients due to the effects of widespread events such as global pandemics, natural disasters, climate-related incidents, acts of war or aggression, geopolitical instability, changes in U.S. presidential administration or Congress, changes to global trade policies, supply chain complications and the implementation of tariffs or protectionist trade policies and other factors, or a combination of these or other factors.

The value of our financial instruments may be materially affected by market fluctuations. Market volatility, illiquid market conditions and disruptions in the markets may make it difficult to value and monetize certain of our financial instruments, particularly during periods of market uncertainty or displacement. Subsequent valuations in future periods, in light of factors then prevailing, may result in significant changes in the value of these instruments. In addition, at the time of any sales and settlements of these financial instruments, the price we ultimately realize will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could cause a decline in the value of our financial instruments, which may adversely affect our results of operations in future periods.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, which could lead to increased individual counterparty risk for our businesses. Although our risk management and monitoring processes seek to quantify and mitigate risk to more extreme market moves, severe market events have historically been difficult to predict, and we could realize significant losses if extreme market events were to occur.

A significant portion of our businesses involve transactions with, through, arising from, involving, or otherwise related to the Parent and our affiliates, and any adverse change in the businesses or activity levels of Morgan Stanley more broadly can have an adverse impact on us. Accordingly, we are materially affected by conditions in the global financial markets and economic conditions generally, both directly through their impact on our business levels and indirectly through their impact on the business levels of our affiliates. These conditions can change suddenly and negatively.

Holding large and concentrated positions may expose us to losses.

Concentration of risk may reduce revenues or result in losses in the event of unfavorable market movements. We commit substantial amounts of capital to our lending businesses, which may result in our making large loans to a particular issuer or issuers in a particular industry, country or region. In the event we hold a concentrated position larger than those held by competitors, we may incur larger losses. For further information regarding our country risk exposure, see also “Quantitative and Qualitative Disclosures about Risk—Country Risk.”

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, a reduction in deposit balances, 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, as well as the associated funding risks triggered by the market or idiosyncratic stress events that may negatively affect our liquidity and may impact our ability to raise new funding. For more information on how we monitor and manage liquidity risk, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” and “Quantitative and Qualitative Disclosures about Risk—Liquidity Risk.”

Liquidity is essential to our businesses and we rely on external sources to finance a significant portion of our operations.

Liquidity is essential to our business. Our liquidity could be negatively affected by our inability to attract and retain deposits or raise other sources of funding. We require funding to carry our lending and investment portfolios, to satisfy client drawdowns of our unfunded lending commitments, and to continue to grow our business.

The majority of our funding consists of sweep deposits from customers of our broker-dealer affiliate MSSB, as well as Savings deposits from customers of MSPBNA. The amount of such deposits is not within our control and depends on client growth, client trading activity and market conditions. We also rely on substantial funding through brokered deposits, including brokered sweep deposits sourced from unaffiliated broker-dealers and through brokered CDs.

We compete with banks and other financial services companies for deposits. Competitors may raise the rates they pay on deposits, and we may be required to raise our rates to avoid losing deposits. Our ability to obtain new brokered deposits may be limited if we are, or are perceived to be, in financial distress, and in some cases, existing brokered sweep deposits from unaffiliated parties may be withdrawn if our financial viability is in question. Further, under federal banking law, we may not be able to accept or roll over brokered deposits if we become less than well-capitalized. Our ability to raise funding through any of these sources could be impaired if clients or counterparties develop a negative perception of our long-term or short-term financial prospects due to factors such as an incurrence of large trading, credit or operational losses, a downgrade by the rating agencies, a decline in the level of our business activity, if regulatory authorities take significant action against us or our industry, or if we discover significant employee misconduct or illegal activity.

Other factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, including concerns regarding fiscal matters in the U.S. and other geographic areas, could impair our ability to raise funding through deposits or otherwise and at the same time could increase client demand to draw on our unfunded lending commitments.

If we are unable to raise funding using the methods described above, if we experience significant withdrawals, or we have unexpected client demand to draw on our unfunded lending commitments, for any reason, we would likely need to finance or liquidate unencumbered assets, such as our investment portfolios

or trading assets, to meet maturing liabilities or other obligations. We may be unable to sell some of our assets or we may have to sell assets at a discount to market value, either of which could adversely affect our results of operations, cash flows and financial condition.

Our borrowing costs and access to the debt capital markets depend on our credit ratings.

The cost and availability of unsecured financing generally are impacted by (among other things) our or the Parent’s long-term and short-term credit ratings. The rating agencies continue to monitor certain Firm-specific, Bank-specific and industrywide factors that are important to the determination of our credit ratings. These include governance, capital adequacy, the level and quality of earnings, liquidity and funding, risk appetite and management, asset quality, strategic direction, business mix, regulatory or legislative changes, macroeconomic environment, and perceived levels of support, and it is possible that the rating agencies could downgrade our ratings and those of similar institutions.

Our liquidity and financial condition could be adversely affected by U.S. and international markets and economic conditions.

Our ability to raise funding in the long-term or short-term debt capital markets or to access secured lending markets could be adversely affected by conditions in the U.S. and international markets and economies.

In particular, our cost and availability of funding may be adversely affected by illiquid credit markets, interest rates and wider credit spreads. Significant turbulence in the U.S., the E.U. and other international markets and economies could adversely affect our liquidity and financial condition and the willingness of certain counterparties and customers to do business with us.

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 (e.g., inappropriate or unlawful conduct) or from external events (e.g., cyberattacks or third-party vulnerabilities) that may manifest as, for example, loss of information, business disruption, theft and fraud, legal, regulatory and compliance risks, or damage to physical assets. We may incur operational risk across the full scope of our business activities, including revenue-generating activities and support and control groups (e.g., information technology (“IT”) and trade processing). Legal, regulatory and compliance risk is included in the scope of operational risk and is discussed below under “Legal, Regulatory and Compliance Risk.” For more information on how we monitor and manage operational risk, see “Quantitative and Qualitative Disclosures about Risk—Operational Risk.”

We are subject to operational risks, including a failure, breach or other disruption of our operations or security systems or those of our third parties (or third parties thereof), as well as human error or malfeasance, which could adversely affect our businesses or reputation.

Our business is highly dependent on our and Morgan Stanley's ability to process and report, on a daily basis, a large number of transactions, including to regulators, lending clients, depositors and counterparties. We may introduce new products or services or change processes or reporting, including in connection with new regulatory requirements, resulting in new operational risk that we may not fully appreciate or identify. We rely on the ability of our and our affiliates' employees, consultants, internal systems and systems at technology centers maintained by unaffiliated third parties to operate our different businesses and process a high volume of transactions.

Unusually high trading volumes or site usage could cause Morgan Stanley's and our systems to operate at an unacceptably slow speed or even fail. Disruptions to, destruction of, instability of or other failure to effectively maintain our IT systems or external technology that allows our clients and customers to use our products and services could harm our business and our reputation.

We also face the risk of operational failure or disruption of any of the clearing agents, exchanges, clearinghouses or other financial intermediaries we use to facilitate our lending, securities and derivatives transactions. In addition, in the event of a breakdown or improper operation or disposal of our or a direct or indirect third-party's systems (or third-parties thereof), processes or information assets, or improper or unauthorized action by third parties, including consultants and subcontractors or Morgan Stanley's or our employees, Morgan Stanley and we have received in the past and may receive in the future regulatory sanctions, and could suffer financial loss, an impairment to our liquidity position, a disruption of our businesses, or damage to our reputation.

In addition, the interconnectivity of multiple financial institutions with central agents, exchanges and clearinghouses, and the increased importance of these entities, increases the risk that an operational failure at one institution or entity may cause an industrywide operational failure that could materially impact our ability to conduct business. Furthermore, the concentration of Morgan Stanley and personal information held by a small number of third parties increases the risk that a breach or disruption at a key third-party may cause an industrywide event that could significantly increase the cost and risk of conducting business. These risks may be heightened to the extent that we rely on third parties that are concentrated in a geographic area.

There can be no assurance that our business contingency and security response plans fully mitigate all potential risks to us. Our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our business and the communities where we are located. This may include a disruption involving physical site access; software flaws and vulnerabilities; cybersecurity incidents; terrorist activities; political unrest; disease pandemics; catastrophic events; climate-

related incidents and natural disasters (such as earthquakes, tornadoes, floods, hurricanes and wildfires); electrical outages; environmental hazards; computer servers; communication platforms or other services Morgan Stanley and we use; new technologies (such as generative artificial intelligence); and Morgan Stanley's or our employees or third parties with whom we conduct business. Although Morgan Stanley and we employ backup systems for our data, those backup systems may be unavailable following a disruption, the affected data may not have been backed up or may not be recoverable from the backup, or the backup data may be costly to recover, which could adversely affect our business.

Notwithstanding evolving technology and technology-based risk and control systems, our businesses ultimately rely on people, including our and our affiliates' employees and those of third parties with whom we conduct business. As a result of human error or engagement in violations of applicable policies, laws, rules or procedures, certain errors or violations are not always discovered immediately by our technological processes or by our controls and other procedures that are intended to prevent and detect such errors or violations. These can include calculation or input errors, inadvertent or duplicate payments, mistakes in addressing emails or other communications, errors in software or model development or implementation, or errors in judgment, as well as intentional efforts to disregard or circumvent applicable policies, laws, rules or procedures. Our use of new technologies may be undermined by such human errors or misconduct due to undetected flaws or biases in the algorithms or data utilized by such technologies. Human errors and malfeasance, even if promptly discovered and remediated, can result in material losses and liabilities for us, and negatively impact our reputation in the future.

We are dependent on the Parent and certain affiliates for client business, various services and capital.

As an indirect wholly owned subsidiary of the Parent, we rely on the Parent and affiliates for various business relationships, including the ability to receive various services, as well as, in part, the capital and liquidity of the Parent. As we are dependent on these relationships, risks that affect these entities could also have a significant impact on us.

As the primary commercial lender of Morgan Stanley, many of the clients to which we lend become our clients based on their other relationships with our affiliates. Similarly, clients of our affiliates, as well as the affiliates themselves, often serve as our counterparties to derivative transactions. We may be materially affected by damage to the reputation of Morgan Stanley, as clients ceasing to do business with our affiliates would result in fewer lending and other business opportunities for us. Any adverse change in the businesses or activity levels of Morgan Stanley more broadly can also have an adverse impact on us. We are therefore, materially affected by both conditions in the global financial markets and economic conditions generally, either through their impact on our business levels or indirectly through their impact on the business levels of our affiliates. These conditions can change suddenly and negatively.

We rely upon certain of our affiliates for various support services, including, but not limited to, loan origination and servicing, operational and infrastructure services, trade execution, relationship management, risk management and other control, administrative and support services. Such services are provided to us pursuant to the Service Level Agreements, which are generally terminable at will by us and only under limited circumstances by the service provider, including material breach of the agreement.

We have also issued a standby letter of credit to an unaffiliated borrower that has been partially participated to an affiliate in an aggregate notional amount of \$1.9 billion. If this standby letter of credit were ever drawn and our affiliate did not fund its participation, we would nevertheless be obligated to fund the draw.

As a consequence of the above, our interest and non-interest revenues may decline, the cost of operating and funding our business may increase and our business, financial condition and earnings may be materially and adversely affected in the event our relationships with our affiliates are not maintained, for any reason, including as a result of possible strategic decisions that Morgan Stanley may make from time-to-time or as a result of material adverse changes in Morgan Stanley's performance.

A cyberattack, information or security breach or a technology failure of Morgan Stanley, ours or a third-party could adversely affect our ability to conduct our business or manage our exposure to risk, or result in disclosure or misuse of personal, confidential or proprietary information and otherwise adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.

Cybersecurity risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies; the use of the internet, mobile telecommunications and cloud technologies to conduct financial transactions; and the increased sophistication and activities of organized crime, hackers, terrorists, nation-states, state-sponsored actors and other parties. Any of these parties may also attempt to fraudulently induce Morgan Stanley's or our employees, customers, clients, vendors or other third parties or users of Morgan Stanley's or our systems to disclose sensitive information in order to gain access to our networks, systems or data or those of our employees or clients, and such parties may see their effectiveness enhanced by the use of artificial intelligence. Global events and geopolitical instability have also led to increased nation-state targeting of financial institutions in the U.S. and abroad.

Information security risks may also derive from human error, fraud or malice on the part of Morgan Stanley's or our employees or third parties, software bugs, server malfunctions, software or hardware failure or other technological failure. For example, human error has led to the loss of our physical data-bearing devices in the past. These risks may be heightened by several factors, including remote work, reliance on new technologies (such as generative artificial intelligence) or as a result of the integration of acquisitions and other strategic initiatives that may subject Morgan Stanley to new technology,

customers or third-party providers. In addition, third parties with whom Morgan Stanley or we do business or share information and each of their service providers, our regulators and the third parties with whom our customers and clients share information used for authentication may also be sources of cybersecurity and information security risks, particularly where activities of customers are beyond Morgan Stanley's and our security and control systems. There is no guarantee that the measures Morgan Stanley and we take will provide absolute security or recoverability given that the techniques used in cyberattacks are complex, frequently change and are difficult to anticipate.

Like other financial services firms, Morgan Stanley and we, and Morgan Stanley's and our third-party providers and clients, continue to be the subject of unauthorized access attacks; mishandling, loss, theft or misuse of information, computer viruses or malware, cyberattacks designed to obtain confidential information, destroy data, disrupt or degrade service, sabotage systems or networks or cause other damage; ransomware; denial of service attacks; data breaches; social engineering attacks; phishing attacks and other events. There can be no assurance that such unauthorized access, mishandling or misuse of information, or cybersecurity incidents will not occur in the future and they could occur more frequently and on a more significant scale.

Morgan Stanley and we maintain a significant amount of personal and confidential information on customers, clients and certain counterparties that we are required to protect under various state, federal and international data protection and privacy laws. These laws may be in conflict with one another or courts and regulators may interpret them in ways that Morgan Stanley and we have not anticipated or that adversely affect our business. A cyberattack, information or security breach, or a technology failure of Morgan Stanley, or of a third-party could jeopardize our or our clients', employees', partners', vendors' or counterparties' personal, confidential, proprietary or other information processed and stored in, and transmitted through, Morgan Stanley's and our, and Morgan Stanley's and our affiliates' and third-parties', computer systems and networks. Furthermore, such events could cause interruptions or malfunctions in Morgan Stanley's and our, and Morgan Stanley's and our clients', employees', partners', vendors', counterparties' or third parties', operations, as well as the unauthorized release, gathering, monitoring, misuse, loss or destruction of personal confidential, proprietary and other information of ours, our employees, our customers or of other third parties. Any of these events could result in reputational damage with Morgan Stanley's and our clients and the market, client dissatisfaction, additional costs to us to maintain and update our operational and security systems and infrastructure, violation of the applicable data protection and privacy laws, regulatory investigations and enforcement actions, litigation exposure, or fines or penalties, any of which could adversely affect our business, financial condition or results of operations.

Given Morgan Stanley's global footprint and the high volume of transactions Morgan Stanley and we process, the large number of clients, partners, vendors and counterparties with which Morgan Stanley and we do business; and the increasing sophistication of cyberattacks, a cyberattack or information or security breach

could occur and persist for an extended period of time without detection. It could take considerable time for Morgan Stanley or us to determine the scope, extent, amount and type of information compromised, and the impact of such an attack may not be fully understood. During such time Morgan Stanley or we would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, if at all, all or any of which would further increase the costs and consequences of a cyberattack, or information security incident.

While many of Morgan Stanley's and our agreements with partners and third-party vendors include indemnification provisions, Morgan Stanley or we may not be able to recover sufficiently, or at all, under such provisions to adequately offset any losses we may incur. In addition, although Morgan Stanley maintains insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber and information security risks, such insurance coverage may be insufficient to cover any or all losses we may incur, and Morgan Stanley cannot be sure that such insurance will continue to be available to it on commercially reasonable terms, or at all, or that our insurers will not deny coverage as to any future claim.

Morgan Stanley and we continue to make investments with a view toward maintaining and enhancing cybersecurity, resilience and information security posture, including investments in technology and associated technology risk management activities. The cost of managing cybersecurity and information security risks and attacks along with complying with new, increasingly expansive and evolving regulatory requirements could adversely affect our results of operations and business.

Legal, Regulatory and Compliance Risk

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions; material financial loss, including fines, penalties, judgments, damages and/or settlements; limitations on our business; or loss to reputation we may suffer as a result of our 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 more information on how we monitor and manage legal, regulatory and compliance risk, see "Quantitative and Qualitative Disclosures about Risk—Legal, Regulatory and Compliance Risk."

The financial services industry is subject to extensive regulation, and changes in regulation will impact our business.

Like other major banks, we are subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges and by regulators and exchanges in major markets where we conduct our business, including an increasing number of complex sanctions and disclosure regimes. These laws and regulations, which continue to increase in volume and complexity, significantly affect the way and costs of doing business and can restrict the scope of our existing businesses and

limit our ability to expand our product offerings and pursue certain investments.

The Bank and its employees are subject to wide-ranging regulation and supervision, which, among other things, subject us to intensive scrutiny of our business and any plans for expansion, limitations on activities, a systemic risk regime that imposes heightened capital and liquidity and funding requirements, resolution regimes and resolution planning requirements, restrictions on activities and investments imposed by the Volcker Rule, comprehensive derivatives regulation, interest rate benchmark requirements, market structure regulation, consumer protection regulation, tax regulations and interpretations, antitrust laws, trade and transaction reporting obligations and disclosure requirements.

New laws, rules, regulations and guidelines, as well as ongoing implementation of our efforts to comply with, and/or changes to laws, rules, regulations and guidelines, including changes in the breadth, application, interpretation or enforcement of laws, rules, regulations and guidelines, could materially impact the profitability of our businesses and the value of assets we hold, impact our income tax provision and effective tax rate, expose us to additional theories of liability and additional costs, require changes to business practices or force us to discontinue businesses or require us to raise capital, including in ways that may adversely impact our creditors.

The application of regulatory requirements and strategies in the U.S. or other jurisdictions to facilitate the orderly resolution of large financial institutions may pose a greater risk of loss for our security holders, and subject us to other restrictions.

Morgan Stanley is required to submit once every two years to the Federal Reserve and the FDIC a resolution plan that describes Morgan Stanley's strategy for a rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure. In addition, provided that certain procedures are met, Morgan Stanley can be subject to a resolution proceeding under the orderly liquidation authority under Title II of the Dodd-Frank Act with the FDIC being appointed as receiver instead of being resolved under the U.S. Bankruptcy Code.

Under Morgan Stanley's most recent resolution plan, the Firm would seek to sell its Wealth Management business, the material operating entity for which is MSSB, along with the Bank and the Parent's other U.S. bank subsidiary, MSPBNA, to a strategic or financial buyer.

We cannot predict the outcome of a Morgan Stanley resolution or whether the sale of the Bank would be successful. Holders of our unsecured debt could be adversely affected even if a sale is successful, and if a sale is delayed or cannot be completed, the FDIC may have to place the Bank into receivership, in which case holders of our unsecured debt would likely bear a substantial or total loss of their investment. The Bank's possible actions in a FDIC receivership scenario are described in the Bank's IDI Resolution Plan.

The financial services industry faces substantial litigation and is subject to extensive regulatory and law enforcement investigations, and we may face damage to our reputation and legal liability.

As a subsidiary of a global financial services firm, we face the risk of investigations and proceedings by governmental or other regulatory agencies in all countries in which we conduct our business. These investigations and proceedings, as well as the amount of penalties and fines sought, continue to impact the financial services industry. Certain U.S. and international governmental entities have brought criminal actions against, or have sought criminal convictions, pleas, deferred prosecution agreements, or non-prosecution agreements from financial institutions. Significant regulatory or law enforcement action against us could materially adversely affect our business, reputation, financial condition or results of operations, and increase our exposure to civil litigation.

Investigations and proceedings initiated by these authorities may result in adverse judgments, settlements, fines, penalties, disgorgement, restitution, forfeiture, injunctions, or other relief, and have included and may in the future include requirements that Morgan Stanley admits certain conduct, which may result in increased exposure to civil litigation. In addition, these measures have caused and may in the future cause collateral consequences. For example, such matters could impact our ability to engage in, or impose limitations on, certain of our businesses.

As part of the resolution of certain investigations and proceedings, Morgan Stanley has been and may in the future be required to undertake certain measures, and failure to do so may result in adverse consequences, such as further investigations or proceedings—both civil and criminal—and additional penalties, fines, judgements, or other relief.

We may be named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, as well as investigations or proceedings brought by regulatory agencies, arising in connection with our activities as a national bank and a subsidiary of a global diversified financial services institution. Certain of the actual or threatened legal or regulatory actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages, or may result in material penalties, fines, or other results adverse to us.

In some cases, including antitrust litigation, we may be subject to claims for joint and several liability with other defendants for treble damages or other relief related to alleged conspiracies involving other institutions. Like any large organization, we are also subject to risk from potential employee misconduct, including noncompliance with policies, laws, rules and regulations, and improper use or disclosure of confidential information, or improper sales practices or other conduct.

A failure to address conflicts of interest appropriately could adversely affect our businesses and reputation.

As a subsidiary of a global financial services firm that provides products and services to a large and diversified group of clients,

including corporations, governments, financial institutions and individuals, we face potential conflicts of interest in the normal course of business. For example, potential conflicts can occur when there is a divergence of interests between us and a client, among clients, between an employee on the one hand and us or a client on the other, or situations in which we may be a creditor of a client.

We have policies, procedures and controls that are designed to identify and address potential conflicts of interest, and we utilize various measures, such as the use of disclosure, to manage these potential conflicts. However, identifying and mitigating potential conflicts of interest can be complex and challenging and can become the focus of media and regulatory scrutiny. Indeed, actions that merely appear to create a conflict can put our reputation at risk even if the likelihood of an actual conflict has been mitigated. It is possible that potential conflicts could give rise to litigation or enforcement actions, which may lead to our clients being less willing to enter into transactions in which a conflict may occur and could adversely affect our businesses and reputation.

Our regulators also have the ability to scrutinize our activities for potential conflicts of interest, including through detailed examinations of specific transactions. For example, our status as a national bank supervised by the OCC subjects us to direct OCC scrutiny with respect to transactions between us and our affiliates or insiders of the Bank.

Risk Management

Our risk management strategies, models and processes may not be fully effective in mitigating our risk exposures in all market environments or against all types of risk, which could result in unexpected losses.

We have devoted significant resources to develop our risk management capabilities and expect to continue to do so in the future. Nonetheless, our risk management strategies, models and processes, including our use of various risk models for assessing market, credit, liquidity and operational exposures and hedging strategies, stress testing and other analysis, may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated.

As our businesses change and grow, including through Morgan Stanley's acquisitions and the introduction and application of new technologies, such as artificial intelligence, and the markets in which we operate evolve, our risk management strategies, models and processes may not always adapt with those changes. Some of our methods of managing risk are based upon our use of observed historical market behavior and management's judgment. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate.

In addition, many models we use are based on assumptions or inputs regarding correlations among prices of various asset classes or other market indicators and, therefore, cannot anticipate sudden, unanticipated, or unidentified market or

economic movements, such as the impact of a pandemic or a sudden geopolitical conflict, which could cause us to incur losses.

Management of market, credit, liquidity, operational, model, legal, regulatory and compliance risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the timing of such outcomes. For example, to the extent that our trading or investing activities involve less liquid trading markets or are otherwise subject to restrictions on sales or hedging, we may not be able to reduce our positions and, therefore, reduce our risk associated with such positions. We may, therefore, incur losses in the course of our trading or investing activities. For more information on how we monitor and manage market and certain other risks and related strategies, models and processes, see “Quantitative and Qualitative Disclosures about Risk—Market Risk.”

Climate change manifesting as physical or transition risks could result in increased costs and risks and adversely affect our operations, businesses and clients.

There continues to be increasing concern over the risks of climate change and related environmental sustainability matters. The physical risks of climate change include harm to people and property arising from acute, climate-related events, such as floods, hurricanes, heatwaves, droughts, and wildfires and chronic, longer-term shifts in climate patterns, such as higher global average temperatures, rising sea levels, and long-term droughts. Such events could disrupt our operations or those of our clients or third parties on which we rely, including through direct damage to physical assets and indirect impacts from supply chain disruption and market volatility. These events could impact the ability of certain of our clients or customers to repay their obligations, reduce the value of collateral, increase costs, including the cost or availability of insurance coverage, and result in other adverse effects.

The transition risks of climate change include policy, legal, technology and market changes. Examples of these transition risks include changes in consumer and business sentiment, related technologies, and any additional regulatory and legislative requirements, including increased disclosure or carbon taxes. These risks could increase our expenses and adversely impact our strategies, including by limiting our ability to pursue certain business activities or offer certain products and services. Negative impacts to certain of our clients, such as decreased profitability and asset write-downs, could also lead to increased credit, counterparty and liquidity risk to us.

In addition, our reputation and client relationships may be adversely impacted as a result of Morgan Stanley’s or our, or our clients’ involvement, in certain practices that may have, or are associated with having, an adverse impact on climate change.

Legislative or regulatory change regarding climate-related risks, including inconsistent requirements and uncertainties, could result in loss of revenue, or increased credit, market, liquidity, regulatory, compliance, reputational and other risks and costs.

Morgan Stanley’s ability to achieve its climate-related targets and commitments and the way Morgan Stanley goes about this could also result in reputational harm as a result of public sentiment, legislative and regulatory scrutiny (including from U.S. federal and state governments and foreign policymakers and regulators), litigation and reduced investor and stakeholder confidence. If Morgan Stanley is unable to achieve its objectives relating to climate change or its current response to climate change is perceived to be ineffective or insufficient, or the way Morgan Stanley responds is perceived negatively, our business and reputation may suffer.

The risks associated with, and the perspective of regulators, governments, shareholders, employees and other stakeholders regarding, climate change, as well as geopolitical events, continue to evolve rapidly, making it difficult to assess the ultimate impact on us of climate-related risks and uncertainties. As climate risk is interconnected with other risks, we have developed and continue to enhance processes to embed climate risk considerations into our risk management practices and governance structures. Despite our risk management practices, the unpredictability surrounding the timing and severity of climate-related events and societal or political changes in reaction to them make it difficult to predict, identify, monitor and mitigate climate risks.

In addition, the methodologies and data used to manage and monitor climate risk continue to evolve. Current approaches utilize information and estimates that have been derived from information or factors released by third-party sources, which may not reflect the latest or most accurate data. Climate-related data, particularly greenhouse gas emissions for clients and counterparties, remains limited in availability and varies in quality. Certain third-party information may also change over time as methodologies evolve and are refined. While we believe this information is the best available at the time, we may only be able to complete limited validation. Furthermore, modeling capabilities and methodologies to analyze climate-related risks, although improving, remain nascent and emerging. These and other factors could cause results to differ materially, which could impact our ability to manage climate-related risks.

Replacement or reform of certain interest rate benchmarks could adversely affect our business, securities, financial condition and results of operations.

Central banks around the world, including the Federal Reserve, have sponsored initiatives in recent years to replace LIBOR and replace or reform certain other interest rate benchmarks (collectively, the “IBORs”). A transition away from use of the IBORs to alternative rates and other potential interest rate benchmark reforms has been underway for a number of years.

These reforms have caused and may in the future cause such rates to perform differently than in the past, or to cease entirely,

or have other consequences that are contrary to market expectations.

The ongoing market transition away from these interest rate benchmarks to alternative reference rates is complex and could have a range of adverse impacts on our business, securities, financial condition and results of operations, including:

- Adversely impacting the pricing, liquidity, value of, return on and trading for a broad array of financial products, including any securities, loans and derivatives that are included in our financial assets and liabilities that are linked to these interest rate benchmarks;
- Inquiries, reviews or other actions from regulators in respect of our (or the market's) preparation, readiness, transition plans and actions regarding the replacement of a legacy interest rate benchmark with one or more alternative reference rates;
- Disputes, litigation or other actions with clients, counterparties and investors in various scenarios, such as regarding the interpretation and enforceability of provisions in IBOR-based products such as fallback language or other related provisions, including in the case of fallbacks to the alternative reference rates, any economic, legal, operational or other impact resulting from the fundamental differences between the IBORs and the various alternative reference rates or regarding the interpretation of applicable legislation, regulations or rules; and
- Causing us to incur additional costs in relation to any of the above factors.

Other factors include the pace of the transition to the alternative reference rates, timing mismatches between cash and derivative markets, the specific terms and parameters for and market acceptance of any alternative reference rate, market conventions for the use of any alternative reference rate in connection with a particular product (including the timing and market adoption of any conventions proposed or recommended by any industry or other group), prices of and the liquidity of trading markets for products based on alternative reference rates, and our ability to further transition and develop appropriate systems and analytics for one or more alternative reference rates.

See also “Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Requirements—Regulatory Developments and Other Matters.”

Competitive Environment

We face strong competition from financial services firms and others, which could lead to pricing pressures that could materially adversely affect our revenues and profitability.

The financial services industry and all aspects of our businesses are intensely competitive, and we expect them to remain so. We compete with commercial banks, brokerage firms, financial technology firms and other companies offering financial and ancillary services in the U.S. and globally, including, in certain instances, through the internet. We compete on the basis of several factors, including transaction execution, capital or access to capital, products and services, innovation, technology, reputation, risk appetite and price.

Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have left businesses, been acquired by or merged into other firms, or have declared bankruptcy. Such changes could result in our remaining competitors gaining greater capital and other resources, such as the ability to offer a broader range of products and services and geographic diversity, or new competitors may emerge.

We have experienced and may continue to experience pricing pressures as a result of these factors and as some of our competitors seek to obtain market share by reducing prices, eliminating commissions or other fees, or providing more favorable terms of business. In addition, certain of our competitors may be subject to different and, in some cases, less stringent, legal and regulatory regimes than we are, thereby putting us at a competitive disadvantage. Some new competitors in the financial technology sector have sought to target existing segments of our businesses that could be susceptible to disruption by innovative or less regulated business models. For more information regarding the competitive environment in which we operate, see “Business—Competition” and “Business—Supervision and Regulation.”

Automated trading markets and the introduction and application of new technologies may adversely affect our business and may increase competition.

Morgan Stanley and we continue to experience price competition in some of our businesses. In particular, the ability to execute derivatives trades electronically on exchanges, swap execution facilities and other automated trading platforms, and the introduction and application of new technologies, including generative artificial intelligence, will likely continue the pressure on revenues. The trend toward direct access to automated, electronic markets will likely continue as additional markets move to more automated trading platforms. Morgan Stanley and we have experienced and will likely continue to experience competitive pressures in these and other areas in the future.

Our ability to retain and attract qualified employees is critical to the success of our business and the failure to do so may materially adversely affect our performance.

Our people are our most important asset. We compete with various other companies in attracting and retaining qualified and skilled personnel. If Morgan Stanley or we are unable to continue to attract, integrate and retain highly qualified employees or successfully transition key roles, or do so at levels or in forms necessary to maintain our competitive position, our performance, including our competitive position and results of operations, could be materially adversely affected. Morgan Stanley's and our ability to attract and retain qualified and skilled personnel depends on numerous factors, some of which are outside of our control.

Compensation costs required to attract and retain employees may increase or the competitive market for talent may further intensify due to factors such as low unemployment, a strong job market and changes in employees' expectations, concerns and preferences. The financial industry has experienced and may

continue to experience more stringent regulation of employee compensation, than other industries, which may or may not impact competitors. These more stringent regulations have shaped Morgan Stanley's and our compensation practices, which could have an adverse effect on Morgan Stanley's or our ability to hire or retain the most qualified employees.

International Risk

We are subject to numerous political, economic, legal, tax, operational, franchise and other risks as a result of our international operations that could adversely impact our businesses in many ways.

Although we are located in the United States and do not have offices abroad, 24% of our credit exposure from funded loans and unfunded commitments was to borrowers located outside the United States at December 31, 2023. We are subject to political, economic, legal, tax, operational, franchise and other risks that are inherent in transacting in many countries, including risks of possible nationalization, expropriation, price controls, capital controls, exchange controls, increased taxes and levies, minimum global tax regimes, cybersecurity, data transfer and outsourcing restrictions, regulatory scrutiny regarding the use of new technologies, prohibitions on certain types of foreign lending and capital market activities, limitations on cross-border listings and other restrictive governmental actions, as well as the outbreak of hostilities or political and governmental instability, including tensions between China and the U.S., the expansion or escalation of hostilities between Russia and Ukraine or in the Middle East or the initiation or escalation of hostilities or terrorist activity around the world and the potential associated impacts on global and local economies and our operations. In many countries, the laws and regulations applicable to the financial services industries and multinational corporations are uncertain, evolving and subject to sudden change or may be inconsistent with U.S. law. It may also be difficult for us to determine the exact requirements of local laws in every market or adapt to changes in law, which could adversely impact our businesses.

Our inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally. We are also subject to the risk that transactions we structure might not be legally enforceable in all cases.

Various emerging market countries have experienced severe political, economic or financial disruptions, including significant devaluations of their currencies, defaults or potential defaults on sovereign debt, capital and currency exchange controls, high rates of inflation and low or negative growth rates in their economies. Crime and corruption, as well as issues of security and personal safety, also exist in certain of these countries. These conditions could adversely impact our businesses and increase volatility in financial markets generally.

A disease pandemic, such as COVID-19 and its variants, or other widespread health emergencies, natural disasters, climate-related incidents, terrorist activities or military actions, or social or political tensions, could create economic and financial disruptions in emerging markets or in other areas of the global

economy that could adversely affect our business, or could lead to operational difficulties, including travel limitations, and supply chain complications, that could impair our ability to manage or conduct our businesses around the world.

As a U.S. company, we are required to comply with the economic sanctions and embargo programs administered by OFAC and similar multinational bodies and governmental agencies worldwide, which may be inconsistent with local law. We are also subject to applicable AML and anti-corruption laws in the U.S., as well as in the jurisdictions in which we operate, including the Bank Secrecy Act, the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. A violation of a sanction, embargo program, AML or anti-corruption law could subject us, and individual employees, to a regulatory enforcement action, as well as significant civil and criminal penalties.

Acquisition, Divestiture and Joint Venture Risk

Morgan Stanley may be unable to fully capture the expected value from acquisitions, divestitures, joint ventures, partnerships, minority stakes or strategic alliances, and certain acquisitions may subject our business to new or increased risk.

In connection with Morgan Stanley's past or future acquisitions, divestitures, joint ventures, partnerships, minority stakes or strategic alliances involving us or our affiliates, there are numerous risks and uncertainties in combining, transferring, separating or integrating the relevant businesses and systems that may present operational and other risks, including the need to combine or separate accounting, data processing and other systems, management controls and legal entities and to integrate relationships with clients, trading counterparties and business partners. Certain of these strategic initiatives, and integration thereof, may cause Morgan Stanley, including us, to incur incremental expenses and may also require incremental financial, management and other resources.

In the case of Morgan Stanley's joint ventures, partnerships and minority stakes, Morgan Stanley is subject to additional risks and uncertainties because it may be dependent upon, and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under Morgan Stanley's control, and conflicts or disagreements between Morgan Stanley and any of its joint venture partners or partners may negatively impact the benefits to be achieved by the relevant joint venture or partnership and have an indirect impact on us.

There is no assurance that any of Morgan Stanley's acquisitions, divestitures or investments will be successfully integrated or disaggregated or yield all of the positive benefits and synergies anticipated. If Morgan Stanley is not able to integrate or disaggregate successfully its past and future acquisitions or dispositions, including aligning the processes, policies and procedures of the acquired entities with its standards, there is a risk that Morgan Stanley's and our results of operations, financial condition and cash flows may be materially and adversely affected.

Certain of our business initiatives, including expansions of existing businesses, may change our client or account profile or bring us into contact, directly or indirectly, with individuals and entities that are not within our traditional client and counterparty base and may expose us to new asset classes, services, competitors and new markets. These business activities expose us to new and enhanced risks, greater regulatory scrutiny of these activities, increased credit-related, sovereign, compliance and operational risks, as well as franchise and reputational concerns regarding the manner in which these assets are being operated or held, or services are being delivered.

For more information regarding the regulatory environment in which we operate, see also “Business—Supervision and Regulation.”

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

Introduction

Morgan Stanley Bank, N.A., an indirect wholly owned subsidiary of the Parent, is primarily a wholesale commercial bank that offers commercial lending products, certain retail securities-based lending products, certain derivative products and deposit products. Unless the context otherwise requires, the terms “Bank,” “MSBNA,” “us,” “we” and “our” mean Morgan Stanley Bank, N.A. together with its consolidated subsidiaries, and “Morgan Stanley” and the “Firm” mean the Parent and its consolidated subsidiaries, including the Bank. See the “Glossary of Common Terms and Acronyms” for the definition of certain terms and acronyms used throughout the 2023 Annual Report.

A description of the business lines, investment portfolio, deposit taking and other activities is as follows:

The Bank's lending activities include lending to corporations for specific purposes, such as financing acquisitions and normal operating activities, secured lending facilities, commercial real estate lending, as well as extending securities-based financing to customers.

The Bank's loan portfolio consists of the types of loans listed below.

Corporate. Corporate loans comprise relationship and event-driven loans and lending commitments supporting general and event-driven financing needs for the Bank's institutional clients, which 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 or hedged. Relationship loans and lending commitments are extended to select institutional clients, primarily for general corporate purposes and generally with the intent to hold for the foreseeable future. Event-driven loans and lending commitments are extended in connection with specific client transactions.

Secured Lending Facilities. Secured lending facilities include loans provided to clients which are collateralized by various assets, including commercial and residential real estate mortgage loans, investor commitments for capital calls, corporate loans and other 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 value. The Bank monitors collateral levels against the requirements of lending agreements.

Commercial Real Estate. Commercial real estate loans are primarily senior, secured by underlying real estate and typically in term loan form. Commercial real estate loans include owner-occupied loans and income-producing loans.

Securities-based lending and Other. Securities-based lending and Other includes loans that allow clients to borrow money against the value of qualifying securities, generally for any suitable purpose other than purchasing, trading, or carrying securities or refinancing margin debt. The majority of these loans are structured as revolving lines of credit. Also included here are Corporate loans purchased in the secondary market.

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 Note 3 to the financial statements.

Equity Financing. We provide financing services to our clients active in the equity markets through products including margin lending and swaps. Results from this business are largely driven by the difference between financing income earned and financing costs incurred, which are reflected in net interest for lending products, and in non-interest revenues for derivative products.

Other Activities. The Bank enters into derivative transactions with external counterparties and affiliates. Derivative transactions with external counterparties are primarily foreign currency and interest rate swap and forward contracts with institutional clients that prefer or are required to face a rated U.S. bank counterparty. The Bank offsets the risk of these transactions by entering into back-to-back “mirror” derivative instruments with affiliates. The Bank also enters into other derivative transactions with affiliates primarily for hedging purposes, and the derivative instruments used for hedging primarily include interest rate and CDS. CDS are used to hedge the credit risk on certain investments, loan portfolios, and letters of credit; the Bank is not a net seller of credit protection. For further information about our derivative instruments, see Note 12 to the financial statements.

Investment Portfolio. The Bank maintains an investment portfolio to serve as a storehouse of liquidity to satisfy the Bank's current, projected, and contingent funding needs; to act as the primary means to manage the Bank's current and projected interest rate risk profile; and to produce interest income, while maintaining acceptable asset quality, diversification and risk profile. The investment portfolio consists of cash, investment securities, and securities held under repurchase agreements. Our investment securities consist primarily of U.S. Treasuries and agency mortgage-backed securities. For further information about our investment portfolio, see Note 5 to the financial statements.

The Bank provides liquidity to clients in fixed income products by purchasing securities under agreements to resell. These securities are principally securitized products and corporate credit securities.

Our trading activities are primarily comprised of certain of the derivatives and Equity Financing services described herein, as

well as Residential Real Estate and Corporate loans purchased in the secondary market.

Deposit Taking. We are one of Morgan Stanley’s primary deposit-taking entities, along with our affiliated U.S. national bank, MSPBNA. Deposits are the primary source of funding for our assets. We source deposits through clients of Morgan Stanley’s Wealth Management business via affiliated entities, as well as through unaffiliated third parties, primarily through “sweep” programs.

We also issue time deposits in the form of brokered CDs, substantially all of which are in FDIC-insurable amounts and distributed through third-party broker-dealers and MS&Co. Most of our CDs carry a fixed rate, and we also issue certain CDs that are structured in nature (e.g., performance may be linked to the performance of certain market indices). Deposits are primarily interest bearing.

For further information about our deposits, including the sources and types of our deposits, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Balance Sheet—Deposits” and Note 9 to the financial statements.

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,” “Risk Factors” and “Liquidity and Capital Resources—Regulatory Requirements” herein.

Executive Summary

Overview of Financial Results

<i>\$ in millions</i>	2023	2022	% Change
Interest income	\$ 9,445	\$ 4,958	91 %
Interest expense	4,299	884	386 %
Net interest	5,146	4,074	26 %
Non-interest revenue			
Fee income	1,044	1,059	(1)%
Gains and losses on financial assets and liabilities ¹	1,156	556	108 %
Other	164	165	(1)%
Total non-interest revenue	2,364	1,780	33 %
Net revenues	7,510	5,854	28 %
Provision for credit losses	354	72	392 %
Non-interest expenses			
Compensation and benefits	112	109	3 %
General and administrative	889	901	(1)%
FDIC and regulatory assessments	233	70	233 %
Total non-interest expenses²	1,234	1,080	14 %
Income before provision for income taxes	5,922	4,702	26 %
Provision for income taxes	1,404	1,081	30 %
Net income	\$ 4,518	\$ 3,621	25 %

1. Includes net gains and losses from trading assets and liabilities, as well as loans and lending commitments, all of which are primarily accounted for at fair value; also includes net gains and losses from the sale of investment securities.
2. Non-interest expenses are primarily influenced by levels of business activity, headcount and compensation. General and administrative expenses include employment related costs of employees of affiliates pursuant to master service level agreements, and supplemented by task orders (collectively, the “Service Level Agreements”). The above item also includes brokerage and clearing fees, and non-compensation expenses charged by affiliates and vendors who provide services to us pursuant to Service Level Agreements.

2023 compared with 2022

Net Income

Net Interest

Net interest revenue of \$5,146 million in 2023 increased 26% compared with the prior year, primarily due to the net effect of higher interest rates, partially offset by changes in deposit mix.

The level and pace of interest rate changes and other macroeconomic factors continue to impact client demand for loans, client preferences for cash allocation to other products and the pace of reallocation of client balances, resulting in changes in the deposit mix and associated interest expense. If these trends persist, net interest income may continue to be impacted in future periods.

Non-interest Revenues

Non-interest revenue of \$2,364 million in 2023 increased 33% compared with the prior year, primarily due to growth in equity derivatives, partially offset by lower revenues earned from affiliated entities to compensate the Bank for relationship priced loans granted to their clients.

Management's Discussion and Analysis

Morgan Stanley Bank, N.A.

Provision for Credit Losses

The Provision for credit losses on loans and lending commitments of \$354 million in 2023 was primarily related to deteriorating conditions in the commercial real estate sector, including provisions for certain specific loans, mainly in the office portfolio, and modest growth in certain other loan portfolios. The Provision for credit losses on loans and lending commitments of \$72 million in 2022 was primarily due to deterioration in macroeconomic outlook.

For further information on the Provision for credit losses, see "Credit Risk" herein.

Non-interest Expenses

Non-interest expenses of \$1,234 million in 2023 increased 14% compared with the prior year, mainly due to the FDIC special assessment.

Economic and Market Conditions

The market environment in 2023 remained mixed, characterized by inflationary pressures and uncertainty regarding the future path of interest rates, which remained persistently high. Towards the end of the year, the market environment improved from prior quarters, with the expectation of lower interest rates going into 2024. However, there is continued uncertainty regarding the timing and pace of these rate reductions along with concerns regarding heightened geopolitical risks that could impact the capital markets in 2024. The market environment impacted our businesses in 2023, as discussed further in "Overview of Financial Results" herein, and, to the extent that it continues to remain uncertain, could adversely impact client confidence and related activity.

For more information on economic and market conditions, and the potential effects of geopolitical events and acts of war or aggression on our future results, refer to "Risk Factors" and "Forward-Looking Statements".

Accounting Development Updates

The Financial Accounting Standards Board has issued certain accounting updates, which we have determined to be either not applicable or to not have a material impact on our financial condition or results of operations upon adoption.

We are currently evaluating the following accounting updates, however, we do not expect a material impact on our financial condition or results of operations upon adoption:

Income Tax Disclosures. This accounting update requires disclosure of additional information in relation to income taxes, including additional disaggregation of the income tax rate reconciliation and income taxes paid. For the income tax rate reconciliation, this update requires (1) disclosure of specific categories of reconciling items; and (2) providing additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying

pre-tax income (or loss) by the applicable statutory income tax rate). For income taxes paid, this update requires disclosure of information including (1) the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes; and (2) the amount of income taxes paid (net of refunds received), disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received). Additionally, the update requires disclosure of (1) income (or loss) before income taxes, disaggregated between domestic and foreign; and (2) income taxes disaggregated by federal, state, and foreign. The accounting update is effective for annual periods beginning January 1, 2025, with early adoption permitted.

Critical Accounting Estimates

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), the following policies involve a higher degree of judgment and complexity.

Allowance for Credit Losses

We estimate and record the expected allowance for credit losses 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) over the entire life of the financial instrument.

We apply judgment based on a variety of factors including 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 Bank uses three forecasts that include assumptions about certain macroeconomic variables including, but not limited to, U.S. gross domestic product ("GDP"), equity market indices and unemployment rates, as well as commercial real estate and home price indices. At the conclusion of the Bank's reasonable and supportable forecast period of 13 quarters, 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 Bank applies a probability of default/loss given default model for instruments that are collectively assessed, under which the ACL is calculated as the product of probability of default, loss given default and exposure at default. These parameters are forecast for each collective group of assets using a scenario-based statistical model.

If the instrument does not share similar risk characteristics with other instruments, including when it is probable that the Bank will be unable to collect the full payment of principal and interest on the instrument when due, the ACL is measured on an

Management's Discussion and Analysis

Morgan Stanley Bank, N.A.

individual basis. The Bank generally applies a discounted cash flow method for instruments that are individually assessed.

The Bank 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 Bank can elect to use an approach to measure the ACL that considers 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 Bank has elected to use this approach for certain securities-based loans, and Securities purchased under agreements to resell.

Credit quality indicators considered in developing the ACL include Corporate loans, Secured lending facilities, Commercial real estate loans and securities, and Other loans: Internal risk ratings developed by the CRM that are refreshed at least annually, and more frequently as necessary. These ratings generally correspond to external ratings published by S&P. The Bank 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 Bank considers property type and location, net operating income and LTV ratios, among other factors, as well as commercial real estate price and credit spread indices and capitalization rates.

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.

Fair Value

Financial Instruments Measured at Fair Value

A significant number of our financial instruments are carried at fair value. The use of fair value to measure financial instruments is fundamental to our risk management practices. We make estimates regarding the valuation of assets and liabilities measured at fair value in preparing the financial statements. These assets and liabilities include, but are not limited to:

- Trading assets and Trading liabilities;
- Investment Securities—AFS;
- Certain Securities purchased under agreements to resell;
- Loans held-for-sale (measured at the lower of amortized cost or fair value);
- Certain Deposits, primarily structured certificates of deposit.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, we use various valuation approaches. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable prices and inputs and minimizes the use of unobservable prices and inputs by requiring that the

relevant observable inputs be used when available. The hierarchy is broken down into three levels, wherein Level 1 represents quoted prices in active markets, Level 2 represents valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, and Level 3 consists of valuation techniques that incorporate significant unobservable inputs and, therefore, require the greatest use of judgment. The fair values for the substantial majority of our financial assets and liabilities carried at fair value are based on observable prices and inputs and are classified in level 1 or 2 of the fair value hierarchy. Level 3 financial assets represented 0.9% and 1.4% of our total assets, as of December 31, 2023 and December 31, 2022, respectively.

In periods of market disruption, the observability of prices and inputs, as well as market liquidity, may be reduced for many instruments, which could cause an instrument to be recategorized from Level 1 to Level 2 or from Level 2 to Level 3. In addition, a downturn in market conditions could lead to declines in the valuation of many instruments carried at fair value. Imprecision in estimating unobservable market inputs or other factors can affect the amount of gain or loss recorded for a particular position. The Bank uses various methodologies and assumptions in the determination of fair value. The use of methodologies or assumptions different than those used by the Bank could result in a different estimate of fair value at the reporting date. For further information on the definition of fair value, Level 1, Level 2, Level 3 and related valuation techniques, and quantitative information about and sensitivity of significant unobservable inputs used in Level 3 fair value measurements, see Notes 2 and 6 to the financial statements.

Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty, concentration risk and funding in order to arrive at fair value. For a further discussion of valuation adjustments that we apply, see Note 2 to the financial statements.

Income Taxes

We are subject to the income tax laws of the U.S., its states and municipalities in which we have business operations. These tax laws are complex and subject to interpretation by the taxpayer and the relevant governmental taxing authorities. We must make judgments and interpretations about the application of these inherently complex tax laws and make estimates about certain items affecting taxable income when determining the provision for income taxes in the various tax jurisdictions.

Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. We periodically evaluate the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years' examinations, and unrecognized tax benefits related to potential losses that may arise from tax audits are established in accordance with the relevant accounting guidance. Once established, unrecognized tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

Management’s Discussion and Analysis

Our provision for income taxes is composed of current and deferred taxes. Current income taxes approximate taxes to be paid or refunded for the current period. Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the applicable enacted tax rates and laws that will be in effect when such differences are expected to reverse.

Our deferred tax balances may also include deferred assets related to tax attribute carryforwards, such as tax credits that will be realized through reduction of future tax liabilities and, in some cases, are subject to expiration if not utilized within certain periods. We perform regular reviews to ascertain whether deferred tax assets are realizable. These reviews include management’s estimates and assumptions regarding future taxable income and incorporate various tax planning strategies, including strategies that may be available to tax attribute carryforwards before they expire.

Once the deferred tax asset balances have been determined, we may record a valuation allowance against the deferred tax asset balances to reflect the amount we estimate is more likely than not to be realized at a future date. Both current and deferred income taxes may reflect adjustments related to our unrecognized tax benefits.

Significant judgment is required in estimating the provision for (benefit from) income taxes, current and deferred tax balances (including valuation allowance, if any), accrued interest or penalties and uncertain tax positions. Revisions in estimates and/or the actual costs of a tax assessment may ultimately be materially different from the recorded accruals and unrecognized tax benefits, if any.

See Note 2 to the financial statements for additional information on our significant assumptions, judgments and interpretations associated with the accounting for income taxes and Note 17 to the financial statements for additional information on our tax examinations.

Liquidity and Capital Resources

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

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, product-specific thresholds, monitoring of product-specific usage versus key performance metrics and new business impact assessments.

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 balance sheet allocations versus performance and business requirements. We also monitor key metrics, including asset and liability size and capital usage.

Total Assets

<i>\$ in millions</i>	At December 31, 2023	At December 31, 2022
Assets		
Cash and cash equivalents	\$ 11,859	\$ 28,457
Trading assets at fair value	22,874	12,975
Investment securities:		
Available for sale securities at fair value	48,050	48,308
Held-to-maturity securities at cost	23,890	25,584
Securities purchased under agreements to resell	17,546	4,488
Loans, before ACL:		
Corporate	10,077	6,949
Secured lending facilities	40,937	37,289
Commercial real estate	8,939	9,782
Residential real estate	2,189	718
Securities-based lending and other	17,984	22,918
Total loans, before ACL	80,126	77,656
Allowance for credit losses	(654)	(468)
Total loans, net of ACL	79,472	77,188
Affordable housing tax credit investments	909	922
Other assets ¹	4,406	3,441
Total assets	\$ 209,006	\$ 201,363

1. Other assets primarily include customer and other receivables, deferred tax assets, loans to affiliate, as well as investments in the Federal Reserve Bank of New York and the Federal Home Loan Bank of New York.

Total assets increased to \$209 billion at December 31, 2023, compared with \$201 billion at December 31, 2022, primarily due to securities purchased under agreements to resell, trading assets, and loans. The above increases were largely offset by a reduction in cash.

Liquidity Risk Management Framework

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

The following principles guide our Liquidity Risk Management Framework:

- Sufficient liquidity resources, which consist of HQLA and cash deposits with banks (“Liquidity Resources”) should be

Management’s Discussion and Analysis

Morgan Stanley Bank, N.A.

maintained to cover maturing liabilities and other planned and contingent outflows;

- Source, counterparty, currency and term of funding should be diversified; and
- Liquidity Stress Tests should anticipate, and account for, periods of limited access to funding.

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.

Required Liquidity Framework

Our Required Liquidity Framework establishes the amount of liquidity we must hold in both normal and stressed environments to ensure that our financial condition and overall soundness are not adversely affected by an inability (or perceived inability) to meet our financial obligations in a timely manner. The Required Liquidity Framework considers the most constraining liquidity requirement to satisfy all regulatory and internal limits at the Bank level.

Liquidity Stress Tests

We use Liquidity Stress Tests to model external and intercompany liquidity flows across multiple scenarios and a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events of different severity and duration. The methodology, implementation, production and analysis of our Liquidity Stress Tests are important components of the Required Liquidity Framework.

The assumptions used in our various Liquidity Stress Test scenarios include, but are not limited to, the following:

- No government support;
- Limited access to unsecured debt markets;
- Repayment of unsecured debt maturing within the stress horizon;
- Higher haircuts for and significantly lower availability of secured funding;
- Additional collateral that would be required by trading counterparties, certain exchanges and clearing organizations related to credit rating downgrades;
- Additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral;
- Drawdowns on lending commitments provided to third parties; and
- Deposit withdrawals both contractual and contingent.

Liquidity Stress Tests are produced and reported by each major operating subsidiary of the Parent. The Liquidity Stress Tests capture specific liquidity requirements and liquidity resources available across Morgan Stanley and include a limited number of asset sales in a stressed environment. The Liquidity Stress Tests assume the Bank will use its own liquidity first to fund its obligations before drawing liquidity from the Parent.

At December 31, 2023 and December 31, 2022, we maintained sufficient Liquidity Resources to meet current and contingent funding obligations as modeled in our Liquidity Stress Tests.

Liquidity Resources

We maintain sufficient Liquidity Resources to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. We actively manage the amount of our Liquidity Resources considering the following components: balance sheet size and composition; funding needs in a stressed environment; liquidity requirements; regulatory requirements; and collateral requirements.

The amount of Liquidity Resources we hold is based on our risk appetite and is calibrated to meet various internal and regulatory requirements and to fund prospective business activities. 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 Investment

\$ in millions	Average Daily Balance Three Months Ended	
	December 31, 2023	September 30, 2023
Cash deposits with central banks	\$ 20,413	\$ 20,419
Unencumbered HQLA securities ¹ :		
U.S. government obligations	34,101	32,525
U.S. agency and agency mortgage-backed securities	29,111	30,406
Total Liquidity Resources	\$ 83,625	\$ 83,350

1. HQLA is presented prior to applying weightings.

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

Regulatory Liquidity Framework

Liquidity Coverage Ratio and Net Stable Funding Ratio

We are required to maintain a minimum LCR and NSFR of 100%.

The LCR rule requires large banking organizations to have sufficient Eligible HQLA to cover net cash outflows arising from significant stress over 30 calendar days, thus promoting the short-term resilience of our liquidity risk profile. In determining Eligible HQLA for LCR purposes, weightings (or asset haircuts) are applied to HQLA.

The NSFR rule requires large banking organizations to maintain an amount of available stable funding, which is their regulatory capital and liabilities subject to standardized weightings, equal to or greater than their required stable funding, which is their projected minimum funding needs, over a one-year time horizon.

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Morgan Stanley Bank, N.A.

As of December 31, 2023 and December 31, 2022, we were compliant with the minimum LCR and NSFR requirements of 100%.

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 retail and wholesale funding sources and attempt to ensure the tenor of our liabilities equals or exceeds the expected holding period of assets being financed. Our goal is to achieve an optimal mix of durable retail and wholesale financing.

We fund our balance sheet through diverse sources. These sources include our equity capital, deposits, bank notes and borrowings. We have active financing programs for both standard and structured products.

We believe that accessing funding through multiple distribution channels helps provide consistent access to the funding markets. In addition, the issuance of time deposits and borrowings with longer dated contractual maturities allows us to manage the maturity profile of these instruments, mitigate liquidity risk and maximize diversification through institutional and retail clients.

Unsecured Financing

We view deposits and borrowings as stable sources of funding. Our unsecured financings include deposits, bank notes and loans from MSPBNA and the Parent. As part of our asset/liability management strategy, when appropriate, we use derivatives to make adjustments to the interest rate risk profile of our borrowings. See Notes 10, 11 and 12 to the financial statements.

Deposits

<i>\$ in millions</i>	At December 31, 2023	At December 31, 2022
Savings and demand deposits:		
Brokerage sweep deposits	\$ 77,196	\$ 100,572
Savings and other ¹	64,574	56,342
Total savings and demand deposits	141,770	156,914
Time deposits ²	34,137	20,442
Total ³	\$ 175,907	\$ 177,356
Annualized weighted average cost of deposits ⁴		
Period end	2.78 %	1.60 %
Period average	2.31 %	0.57 %

- Includes deposits from the Parent and affiliates, see Note 11 to the financial statements.
- Includes Structured CDs at fair value of \$3.9 billion and \$3.2 billion as of December 31, 2023 and December 31, 2022, respectively.
- Total deposits subject to FDIC insurance at December 31, 2023 and December 31, 2022 were \$138.5 billion and \$124.8 billion, respectively.
- Annualized weighted average represents the total annualized weighted average cost of the various deposit products, excluding the effect of related hedging derivatives. The period end cost of deposits is based upon balances and rates as of December 31, 2023 and December 31, 2022. The period average is based on daily balances and rates for the period.

Deposits are primarily sourced through clients of Morgan Stanley’s Wealth Management business via affiliated entities and are considered to have stable, low-cost funding characteristics relative to other sources of funding. Each category of deposits presented above has a different cost profile and clients may

respond differently to changes in interest rates and other macroeconomic conditions. The decrease in total deposits in the current year period was primarily driven by continued reduction in Brokerage sweep deposits, largely due to net outflows to alternative cash equivalent and other products, partially offset by an increase in Time deposits, as well as Savings.

Time Deposits by Remaining Maturity at December 31, 2023

<i>\$ in millions</i>		
2024	\$	16,722
2025		9,331
2026		3,335
2027		2,213
2028		2,206
Thereafter		330
Total	\$	34,137

Time Deposits of \$34 billion as of December 31, 2023 increased from \$20 billion at December 31, 2022 primarily as a result of CD issuances.

For further information on Deposits, see Note 9 to the financial statements.

Borrowings by Remaining Maturity at December 31, 2023¹

<i>\$ in millions</i>	Fixed Rate	Variable Rate	Total
Original maturities greater than one year:			
2024	\$ —	\$ 60	\$ 60
2025	1,202	1,429	2,631
2026	3,141	349	3,490
2027	—	—	—
2028	—	1,124	1,124
Total Borrowings	\$ 4,343	\$ 2,962	\$ 7,305

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

Borrowings of \$7.3 billion as of December 31, 2023 increased from \$0.7 billion at December 31, 2022 primarily due to new issuances.

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 may repurchase our borrowings in the ordinary course of business.

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

Credit Ratings

Our credit ratings are one of the factors in the cost and availability of financing and can have an impact on certain trading income, 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. See also “Risk Factors—Liquidity Risk.”

Management’s Discussion and Analysis

Morgan Stanley Bank, N.A.

MSBNA Issuer Ratings at February 16, 2024

	Short-Term Debt	Long-Term Debt	Rating Outlook
Fitch Ratings, Inc.	F1+	AA-	Stable
Moody’s Investors Service, Inc.	P-1	Aa3	Stable
S&P Global Ratings	A-1	A+	Stable

Capital Management

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

The Bank is subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The OCC is authorized to determine under certain circumstances relating to the financial condition of the Bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. Federal regulatory authorities have indicated that paying dividends that deplete a bank’s capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings.

The Bank may not declare a dividend if the total amount of all dividends, including the proposed dividend, declared by the Bank in any calendar year exceeds the total of the Bank’s retained net income of that year to date, combined with its retained net income of the preceding two years, unless the dividend is approved by the OCC. Federal law also prohibits national banks from paying dividends that would be greater than the bank’s undivided profits.

In 2023 we paid cash dividends to the Parent of \$3.2 billion. There were no cash dividends paid in 2022.

Regulatory Requirements

Regulatory Capital Framework

The OCC establishes capital requirements for us, including “well-capitalized” standards, and evaluates our compliance with such capital requirements. Regulatory capital requirements established by the OCC are largely based on the Basel III capital standards established by the Basel Committee and also implement certain provisions of the Dodd-Frank Act. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank’s financial statements. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) capital adequacy guidelines and regulatory framework for prompt corrective action (the “PCA Framework”), the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities and certain off-balance sheet items

as calculated under regulatory accounting practices. For additional information on our regulatory capital requirements, see Note 15 to the financial statements.

Regulatory Capital Requirements

We are required to maintain minimum risk-based and leverage-based capital.

Risk-Based Regulatory Capital. Risk-based capital ratio requirements apply to Common Equity Tier 1 capital, Tier 1 capital and Total capital (which includes Tier 2 capital), each as a percentage of RWA, and consist of regulatory minimum required ratios plus our capital buffer requirement. Capital requirements require certain adjustments to, and deductions from, capital for purposes of determining these ratios.

Capital Buffer Requirements

The capital buffer requirement represents the amount of Common Equity Tier 1 capital we must maintain above the minimum risk-based capital requirements in order to avoid restrictions on our ability to make capital distributions, including the payment of dividends, and to pay discretionary bonuses to executive officers. Our capital buffer requirements computed under the standardized approaches for calculating credit risk and market risk RWAs (“Standardized Approach”) and computed under the applicable advanced approaches for calculating credit risk, market risk and operational risk RWAs (“Advanced Approach”) is equal to the sum of our 2.5% capital conservation buffer and CCyB. The CCyB can be set up to 2.5% but is currently set by U.S. banking agencies at zero.

Risk-Based Regulatory Capital Ratio Requirements

	Regulatory Minimum	At December 31, 2023 and December 31, 2022	
		Standardized	Advanced
Required ratios¹			
Common Equity Tier 1 capital ratio	4.5 %	7.0 %	7.0 %
Tier 1 capital ratio	6.0 %	8.5 %	8.5 %
Total capital ratio	8.0 %	10.5 %	10.5 %

1. Required ratios represent the regulatory minimum plus the capital buffer requirement.

Risk-Weighted Assets. RWA reflects both our on- and off-balance sheet risk, as well as capital charges attributable to the risk of loss arising from the following:

- Credit risk: The failure of a borrower, counterparty or issuer to meet its financial obligations to us;
- Market risk: Adverse changes in the level of one or more market prices, rates, spreads, indices, volatilities, correlations or other market factors, such as market liquidity; and
- Operational risk: Inadequate or failed processes or systems, from human factors or from external events (e.g., fraud, theft, legal and compliance risks, cyberattacks or damage to physical assets).

Our risk-based capital ratios are computed under each of (i) the Standardized Approach and (ii) the Advanced Approach. The credit risk RWA calculations between the two approaches differ in that the Standardized Approach requires calculation of RWA

Management's Discussion and Analysis

Morgan Stanley Bank, N.A.

using prescribed risk weights and exposure methodologies, whereas the Advanced Approach utilizes models to calculate exposure amounts and risk weights. At December 31, 2023 and December 31, 2022, the differences between the actual and required ratios were lower under the Standardized Approach.

Leverage-Based Regulatory Capital. Leverage-based capital requirements include a minimum Tier 1 leverage ratio of 4% and SLR of 3%.

CECL Deferral. Beginning on January 1, 2020, we elected to defer the effect of the adoption of CECL on our risk-based and leverage-based capital amounts and ratios, as well as our RWA, adjusted average assets and supplementary leverage exposure calculations, over a five-year transition period. The deferral impacts began to phase in at 25% per year from January 1, 2022 and are phased-in at 50% from January 1, 2023. The deferral impacts will become fully phased-in beginning on January 1, 2025.

Well-Capitalized Requirements. FDICIA requires the federal bank regulatory agencies to take prompt corrective action ("PCA") in respect of insured depository institutions ("IDI") that do not meet specified capital requirements. FDICIA establishes five capital categories for FDIC-insured banks: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

In addition, under the PCA Framework applicable to us, we must also meet the quantitative capital ratio requirements for a well-capitalized IDI; these are shown in the table below.

Our capital levels and PCA classification are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors. Failure to comply with the capital requirements, including a breach of the buffers described above, would result in restrictions being imposed by our regulators.

Regulatory Capital Ratios

<i>\$ in millions</i>	Well-Capitalized Requirements ¹	Required Ratio ²	At December 31, 2023	At December 31, 2022
Risk-based capital—Standardized				
Common Equity Tier 1 capital			\$ 21,925	\$ 20,043
Tier 1 capital			21,925	20,043
Total capital			22,833	20,694
Total RWA			101,178	97,931
Common Equity Tier 1 capital ratio	6.5 %	7.0 %	21.7 %	20.5 %
Tier 1 capital ratio	8.0 %	8.5 %	21.7 %	20.5 %
Total capital ratio	10.0 %	10.5 %	22.6 %	21.1 %

<i>\$ in millions</i>	Well-Capitalized Requirements ¹	Required Ratio ²	At December 31, 2023	At December 31, 2022
Risk-based capital—Advanced				
Common Equity Tier 1 capital			\$ 21,925	\$ 20,043
Tier 1 capital			21,925	20,043
Total capital			22,332	20,421
Total RWA			78,887	73,495
Common Equity Tier 1 capital ratio	6.5 %	7.0 %	27.8 %	27.3 %
Tier 1 capital ratio	8.0 %	8.5 %	27.8 %	27.3 %
Total capital ratio	10.0 %	10.5 %	28.3 %	27.8 %

<i>\$ in millions</i>	Well-Capitalized Requirements ¹	Required Ratio ²	At December 31, 2023	At December 31, 2022
Leverage-based capital				
Adjusted average assets ³			\$ 207,653	\$ 197,711
Tier 1 leverage ratio	5.0 %	4.0 %	10.6 %	10.1 %
Supplementary leverage exposure ⁴			\$ 267,812	\$ 248,860
SLR	6.0 %	3.0 %	8.2 %	8.1 %

- The requirements to remain "well-capitalized" under the PCA framework.
- Required ratios are inclusive of any buffers applicable as of the date presented.
- 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 any applicable capital deductions.
- Supplementary leverage exposure is the sum of Adjusted average assets used in the Tier 1 leverage ratio and other adjustments, primarily: (i) the credit equivalent amount for off-balance sheet exposures; (ii) for derivatives, potential future exposure and the effective notional principal amount of sold credit protection offset by qualifying purchased credit protection; and (iii) the counterparty credit risk for repo-style transactions.

Regulatory Capital

<i>\$ in millions</i>	At December 31, 2023	At December 31, 2022	Change
Common Equity Tier 1 Capital			
Common shareholder equity	\$ 21,872	\$ 19,976	\$ 1,896
Regulatory adjustments and deductions			
Impact of CECL transition	27	41	(14)
Other adjustments and deductions ¹	26	26	—
Total Common Equity Tier 1 capital and Total Tier 1 capital	21,925	20,043	\$ 1,882
Standardized Tier 2 capital			
Eligible ACL	908	651	\$ 257
Total Standardized capital	22,833	20,694	\$ 2,139
Advanced Tier 2 capital			
Eligible credit reserves	407	378	\$ 29
Total Advanced capital	\$ 22,332	\$ 20,421	\$ 1,911

- Other adjustments and deductions used in the calculation of Common Equity Tier 1 capital primarily includes net after-tax debt valuation adjustment, credit spread premium over risk-free rate for derivative liabilities and the net after-tax losses on cash flow hedges.

Management's Discussion and Analysis

Morgan Stanley Bank, N.A.

RWA Rollforward

<i>\$ in millions</i>	Standardized	Advanced
Credit risk RWA		
Balance at December 31, 2022	\$ 96,715	\$ 64,154
Change related to the following items		
Derivatives	587	1,792
Securities financing transactions	772	964
Investment securities	(876)	(702)
Commitments, guarantees and loans	3,446	5,739
Equity investments	(96)	(102)
Other credit risk	(345)	(2,058)
Total change in credit risk RWA	\$ 3,488	\$ 5,633
Balance at December 31, 2023	\$ 100,203	\$ 69,787
Market risk RWA		
Balance at December 31, 2022	\$ 1,216	\$ 1,216
Change related to the following items		
Regulatory VaR	—	—
Regulatory stressed VaR	93	93
Specific risk	(334)	(334)
Total change in market risk RWA	\$ (241)	\$ (241)
Balance at December 31, 2023	\$ 975	\$ 975
Operational risk RWA		
Balance at December 31, 2022	N/A	\$ 8,125
Change in operational risk RWA		
Balance at December 31, 2023	\$ —	\$ 8,125
Total RWA	\$ 101,178	\$ 78,887

Regulatory VaR—VaR for regulatory capital requirements

In 2023, Credit risk RWA increased under the Standardized and Advanced Approaches. Under the Standardized Approach, the increase was primarily driven by growth in Corporate lending, securities financing transactions, and derivatives. These increases were partially offset by a decrease in investment securities. Under the Advanced Approach, the increase was primarily driven by growth in Corporate lending, derivatives, and securities financing transactions. These increases were partially offset by a decrease in Other credit risk.

Market risk RWA decreased in 2023 under both the Standardized and Advanced Approaches primarily driven by a reduction in Corporate loans purchased in the secondary market.

Capital Plans and Stress Tests

Our capital planning process and stress tests are designed to identify and measure material risks associated with our business activities, including market risk, credit risk and operational risk. Our capital planning process incorporates an internal capital adequacy assessment to ensure that we are appropriately capitalized relative to the risks in our businesses. Our stress tests incorporate our internally developed severely adverse scenario and are designed to capture our specific vulnerabilities and risks.

We were not required by our primary regulators to conduct the annual company-run stress test under the Dodd-Frank Act in 2023.

Resolution Planning

Morgan Stanley submitted its 2023 full resolution plan to the Federal Reserve and the FDIC in June 2023, in which we were included as a material operating entity.

We are also required to submit an IDI resolution plan to the FDIC. We submitted our IDI resolution plan on December 1, 2023.

For more information about resolution planning requirements and our activities in these areas, including the implications of such activities in a resolution scenario, see “Business—Supervision and Regulation—Resolution Planning” and “Risk Factors—Legal, Regulatory and Compliance Risk”.

Regulatory Developments and Other Matters

Replacement of London Interbank Offered Rate and Replacement or Reform of Other Interest Rate Benchmarks

Central banks around the world, including the Federal Reserve, have sponsored initiatives in recent years to replace LIBOR and replace or reform certain other interest rate benchmarks (collectively, the “IBORs”).

With the cessation of publication of U.S. dollar LIBOR rates on a representative basis as of June 30, 2023, all LIBOR publications have ceased on a representative basis. However, the one, three and six-month U.S. dollar LIBOR and three-month sterling LIBOR rates are being published for a limited period for use in legacy transactions on the basis of a synthetic methodology (known as “synthetic LIBOR”). Publication of the three-month synthetic sterling LIBOR will cease at the end of March 2024 and publication of the one, three and six-month synthetic U.S. dollar LIBOR will cease at the end of September 2024.

As of December 31, 2023, almost all of our U.S. dollar LIBOR-referenced contracts contained fallback provisions or otherwise had a path that allowed for the transition to an alternative reference rate following the cessation of the applicable U.S. dollar LIBOR rate.

We continue to execute against the Morgan Stanley IBOR transition plan to complete the transition in all relevant markets to alternative reference rates.

See also “Risk Factors—Risk Management” for a further discussion of risks related to the planned replacement of the IBORs and/or reform of other interest rate benchmarks and related risks.

FDIC Final Rulemaking on Special Assessment

Following the failures of certain banks and the resulting losses to the FDIC's Deposit Insurance Fund in the first half of 2023, the FDIC adopted a final rule on November 16, 2023 to implement a special assessment to recover the cost associated with protecting uninsured depositors. Under the final rule, the assessment base for the special assessment is equal to an IDI's estimated uninsured deposits reported as of December 31, 2022, adjusted to

exclude the first \$5 billion of uninsured deposits. The \$5 billion exclusion is applied once to the aggregate uninsured deposits of the Bank and our affiliated U.S. national bank, MSPBNA. The final rule provides that, starting in 2024, the FDIC will collect the special assessment at a quarterly rate of 3.36 basis points over eight quarterly assessment periods, subject to change depending on any adjustments to the loss estimate, mergers, failures, or amendments to reported estimates of uninsured deposits. In February 2024, the FDIC notified institutions subject to the special assessment, including the Bank, that the updated estimated loss attributable to the protection of uninsured depositors as of December 31, 2023 was \$20.4 billion, an increase of approximately \$4.1 billion from the original base of \$16.3 billion described in the final rule. Our estimate of the cost of the special assessment for the Bank is approximately \$175 million.

Basel III Endgame Proposal

On July 27, 2023, the U.S. banking agencies proposed revisions to risk-based capital and related standards applicable to us ("Basel III Endgame Proposal"). The proposal would introduce a new measure of RWAs known as "Expanded Total RWAs" (the "Expanded Approach"), reflecting new RWA methodologies that generally align with changes to the global Basel Accord adopted by the Basel Committee. The proposal would eliminate the current capital rule's Advanced Approach and effectively replace it with the Expanded Approach, which more heavily relies on standardized methodologies. As compared with the Standardized Approach, the Expanded Approach includes more granular risk weights for credit risk and introduces a new market risk framework. In addition, unlike the Standardized Approach, the Expanded Approach includes operational risk and credit valuation adjustment RWA components.

The Basel III Endgame Proposal, if adopted as a final rule, would maintain the current capital rule's dual-requirement structure, whereby we would be required to calculate our risk-based capital ratios under both the Expanded Approach and the Standardized Approach. In addition, the proposal would modify the Standardized Approach by requiring that the new market risk standards from the proposal also be applied in the Standardized Approach. The proposal includes a proposed effective date of July 1, 2025, with three-year transition arrangements until revised standards are fully phased in on July 1, 2028.

Quantitative and Qualitative Disclosures about Risk

Risk Management

Overview

Risk is an inherent part of our businesses and activities. We believe effective risk management is vital to the success of our business activities. Accordingly, we have a Risk Governance Framework (“RGF”) to integrate the diverse roles of risk management into a holistic enterprise structure and to facilitate the incorporation of risk assessment into decision-making processes across the Bank.

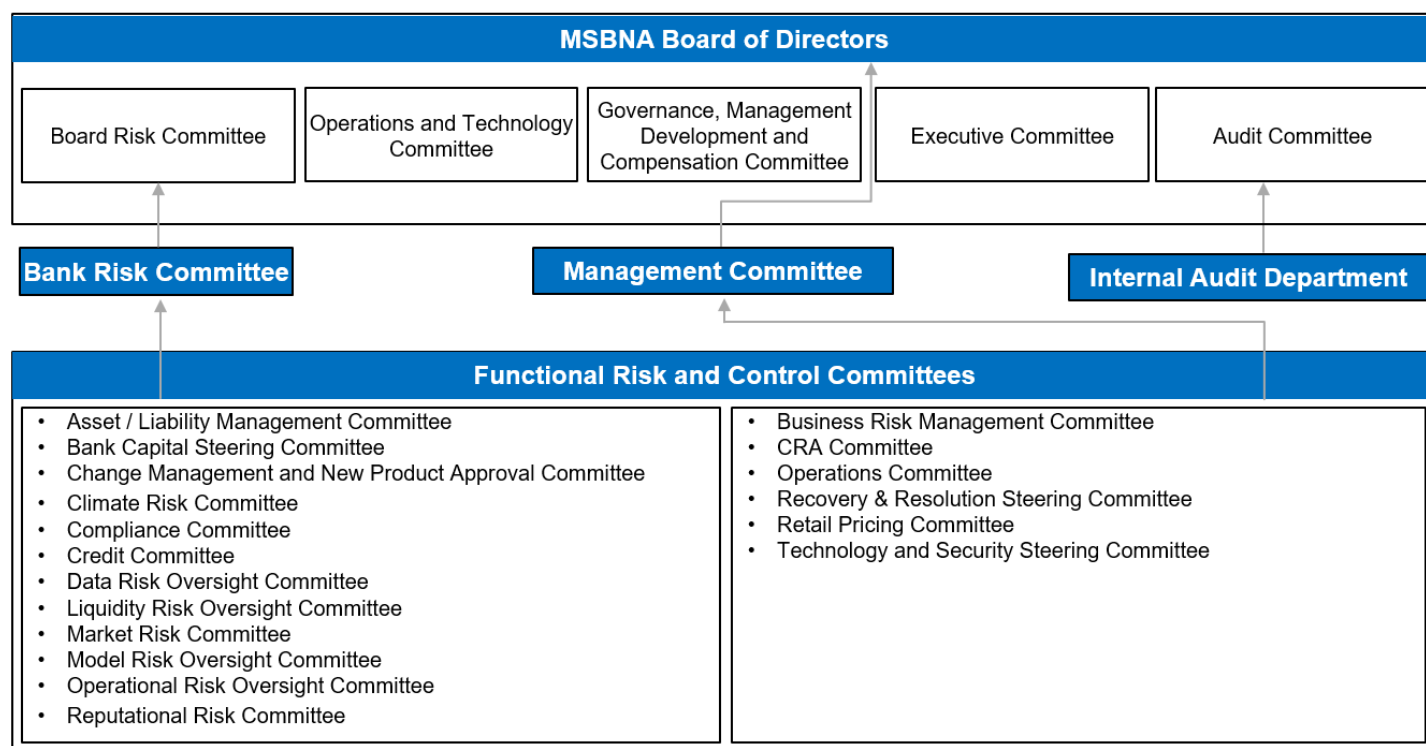
We have policies and procedures in place to identify, measure, monitor, escalate, mitigate and control the principal risks involved in our business activities. Credit risk is the principal risk involved in our business activities. In addition, we are exposed to both financial and non-financial risks including market (including interest rate and price risk), liquidity, model, operational (including cybersecurity), compliance (including conduct), financial crime, strategic and reputational risks. Strategic risk is integrated into our business planning, embedded in the evaluation of all principal risks and overseen by the Board.

The cornerstone of our risk management philosophy is the pursuit of risk-adjusted returns through prudent risk taking that protects our capital base and franchise. This philosophy is implemented through the RGF. Six key principles underlie this philosophy: integrity, consumer oversight and protection, comprehensiveness, independence, accountability and transparency. To help ensure the efficacy of risk management, which is an essential component of our reputation, senior management requires thorough and frequent reporting and the appropriate escalation of risk matters.

The fast-paced, complex and constantly evolving nature of global financial markets requires us to maintain a risk management culture that is incisive, knowledgeable about specialized products and markets, and subject to ongoing review and enhancement.

The Bank’s risk appetite represents the aggregate level and types of risk that the Bank is willing to accept in pursuit of its strategic objectives and business plans, taking into account the safety and soundness of the Bank, the interest of clients and shareholder, and capital and regulatory requirements. This risk appetite is embedded in the Bank’s risk culture and linked to its short-term and long-term strategic, capital and financial plans, as well as compensation programs. This risk appetite and the related Board-level risk limits and risk tolerance statements are reviewed and approved by the BRC on at least an annual basis.

Certain risk management processes as described in the sections below are performed by affiliates of the Bank. These processes are subject to Bank oversight, either pursuant to a Master Services Agreement between us and certain affiliates, or inclusive of Bank activities. References to risk management practices in the sections below encompass both those of the Bank and those provided by affiliates.



Risk Disclosures

Morgan Stanley Bank, N.A.

Risk Governance Structure

Risk management at the Bank requires independent Bank-level oversight, accountability of our business divisions, a strong internal audit function, and effective communication of risk matters across the Bank, to senior management and ultimately to the Board. Our risk governance structure is set forth in the chart above and also includes risk managers, committees, and other groups. The Risk Governance Framework, composed of independent but complementary entities, facilitates efficient and comprehensive supervision of our risk exposures and processes.

Morgan Stanley Bank, N.A.'s Board of Directors

The Board has oversight of the Risk Governance Framework and is responsible for helping to ensure that our risks are managed in a sound manner. The Board has authorized the committees within the risk governance structure to help facilitate our risk oversight responsibilities. As set forth in the Bank's Risk Governance Framework policy, the Board regularly reviews, with the Bank's senior management, the Bank's financial performance, risk profile, strategy and business plans.

Risk Committee of the Board

The BRC assists the Board in its oversight of the Bank's Risk Governance Framework policy, including the Bank's risk appetite statement, risk limits and key risk indicators; the Bank's compliance with legal and regulatory requirements, including with respect to the status of the Bank as a swap dealer registered with the CFTC and as a security-based swap dealer conditionally registered with the SEC; and the independence of the Bank's Chief Risk Officer ("CRO") and the Bank's Chief Compliance Officer and Head of Non-Financial risk ("CCO and Head of NFR", and together with the CRO, the "Chief Risk Executives") and the financial risk and non-financial risk functions. The BRC reports to the board on a regular basis.

Operations and Technology Committee of the Board

The Operations and Technology Committee of the Board ("BOTC") assists the Board in its oversight of the Bank's operations and technology strategy and significant investments in support of such strategy and oversees operations and technology risk. The BOTC reports to the Board on a regular basis.

Governance, Management Development and Compensation Committee of the Board

The Governance, Management Development and Compensation Committee recommends to the Board corporate governance principles applicable to the Bank, oversees plans for management development and succession for the Bank, assesses the compensation framework of the Bank's officers and employees, and oversees the annual Board self-assessment process. The Governance, Management Development and Compensation Committee reports to the Board on a regular basis.

Executive Committee

The Executive Committee is appointed by the Board to provide an efficient means of considering such matters and taking such actions as may require the attention of the Board or the exercise of the Board's powers or authority in the intervals between meetings of the Board. All acts done and powers conferred by the Executive Committee from time to time shall be deemed to be, and may be certified as being, done and conferred under authority of the Board.

Audit Committee of the Board

The Audit Committee ("AC") assists the Board in monitoring the integrity of the Bank's financial statements, the Bank's system of internal controls, the qualifications and independence of the Bank's independent public accountant ("independent auditor") and the performance of the Bank's internal audit department and independent auditor. The AC reports to the Board on a regular basis.

Bank Risk Committee

The Board has also authorized the Bank RC, a management committee chaired by the Chief Risk Officer, which includes the most senior officers of the Bank, from the business, independent risk functions and control groups, to help oversee the Risk Governance Framework. The Bank RC's responsibilities include: oversight of our risk management principles, procedures and limits; the monitoring of capital levels and material market, credit, model, operational liquidity, legal, compliance, reputational and strategic risk matters, and other risks, as appropriate; and the steps management has taken to monitor and manage such risks. The Bank RC also establishes and communicates risk appetite, including aggregate Bank limits and tolerances, as appropriate. The Bank RC reports to the BRC.

Management Committee

The Board has also authorized the MSBNA Management Committee ("MC"), chaired by the Chief Executive Officer ("CEO") and comprised of members of the Bank's senior management, to assist the CEO in the oversight of the Bank's strategic goals. The responsibilities of the MC include: setting the strategic direction of the Bank under the oversight of the Board and CEO; reviewing, on a periodic basis, issues reporting and Internal Audit Department findings regarding the Bank and its activities; reviewing, on a periodic basis, new businesses contemplated for the Bank's Strategic and Business Plan; reviewing findings and feedback from regulatory agencies, excluding those related to the Bank's risk management program, and overseeing the remediation of identified deficiencies. The MC also oversees the committees as outlined in the governance structure.

Functional Risk and Control Committees

Functional risk and control committees and other committees within the Risk Governance Framework facilitate efficient and comprehensive supervision of our risk exposures and processes.

Risk Disclosures

Each risk area has a risk committee as needed that is responsible for helping to adhere to established limits for market, credit, operational and other risks; implements risk measurement, monitoring, and management policies, procedures, controls and systems that are consistent with the risk framework established by the Board; and reviews, on a periodic basis, our aggregate risk exposures, risk exception experience, and the efficacy of our risk identification, measurement, monitoring and management policies and procedures, and related controls.

Chief Risk Officer

The CRO reports to the CEO, the BRC, and the Parent Chief Risk Officer, and manages the Bank's independent risk management functions with the exception of the Non-Financial Risk Management functions. The CRO, working with other Bank officers, is responsible for helping promote a strong, consistent risk culture that is evidenced by a strong "Tone from the Top" and a risk framework that is comprehensive and clearly defines roles and responsibilities, transparency and escalation of risks, as well as a structure of accountability with appropriate incentives.

Chief Compliance Officer and Head of Non-Financial Risk

The CCO and Head of NFR reports to the CEO, the Parent's Chief Compliance Officer and the BRC. The CCO and Head of NFR has primary responsibility for overseeing compliance, operational and reputation risk for the Bank, and together with the CRO as Chief Risk Executives of the Bank (as noted above), provides the CEO, Board, BRC and Bank RC with an aggregated view of the risks related to the Bank's business activities, working to ensure that significant risks are effectively identified, assessed, approved, measured, reported, escalated and managed in accordance with the Bank's Risk Governance Framework.

Independent Risk Management Functions

The Financial Risk Management functions (Market Risk, Credit Risk, Model Risk, Liquidity Risk and Strategic Risk Management Departments) and Non-Financial Risk Management functions (Compliance, Global Financial Crimes, Operational Risk and Reputational Risk Departments) are independent of our business units and report to the CRO and CCO and Head of NFR, as Chief Risk Executives. These functions assist senior management and the Bank RC in monitoring and controlling our risks through a number of control processes. Each function maintains its own risk governance structure with specified individuals and committees responsible for aspects of managing and monitoring risk. Further discussion about the responsibilities of the risk management functions may be found under "Credit Risk", "Market Risk," "Country Risk", "Operational Risk," "Model Risk", "Liquidity Risk", "Legal, Regulatory and Compliance Risk" and "Climate Risk" herein.

Support and Control Groups

Our support and control groups include, but are not limited to, Legal, the Finance Division, Technology Department, the Operations Division, and the Human Capital Management & Global Services Division. Our support and control groups coordinate with the business segment control groups to review

the risk monitoring and risk management policies and procedures relating to, among other things, controls over financial reporting and disclosure; each business segment's market, credit and operational risk profile; liquidity risks; model risks; sales practices; reputational, legal enforceability, compliance and regulatory risks; and technological risks. Participation by the senior officers of the Bank and business segment control groups helps ensure that risk policies and procedures, exceptions to risk limits, new products and business ventures, and transactions with risk elements undergo thorough review.

Internal Audit Department

The Internal Audit Department ("IAD") independently assesses the Bank's risk management processes and controls using methodology developed from professional auditing standards and regulatory guidance. IAD undertakes these responsibilities through periodic reviews of our business activities, operations and systems, as well as special investigations and retrospective reviews that may be specifically requested by the AC or management. The Bank's Chief Audit Executive reports functionally to the AC, and administratively to the CEO and into Morgan Stanley's Chief Audit Officer.

Risk Appetite and Limits Framework

The Bank's Risk Appetite represents the aggregate level and types of risk that the Bank is willing to accept in pursuit of our strategic objectives and business plan, taking into account the safety and soundness of the Bank, the interest of our clients and shareholder, and capital and regulatory requirements. The Bank's Risk Appetite is fundamental to the execution of risk-adjusted returns through prudent risk-taking that is designed to protect the Bank's capital, earnings, liquidity, reputation, and regulatory standing and that informs the strategy and business plan.

Risk limits and KRIs are quantitative metrics that provide the basis for monitoring risk-taking activity and avoiding outsized risk taking, and support and implement our risk appetite statement. Our risk limits support linkages between the overall risk appetite, which is reviewed by the Board, and more granular risk-taking decisions and activities.

Risk limits, once established, are reviewed and updated on at least an annual basis, with more frequent updates as necessary. Board-level risk limits address the most important Bank-wide aggregations of risk. Additional risk limits approved by the Bank RC address more specific types of risk and are bound by the higher-level Board risk limits.

Risk Management Process

In subsequent sections, we discuss our risk management policies and procedures for our primary risks involved in the activities of our corporate lending and related activities and trading activities. These sections and the estimated amounts of our risk exposure generated by our statistical analyses are forward-looking statements. However, the analyses used to assess such risks are not predictions of future events, and actual results may vary significantly from such analyses due to events in the markets in

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which we operate and certain other factors described in the following paragraphs.

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.

We incur credit risk through a variety of activities, including, but not limited to, the following:

- extending credit to clients through loans and lending commitments;
- securities-based lending and other forms of secured loans;
- entering into swap or other derivative contracts under which counterparties may have obligations to make payments to us;
- providing short- or long-term funding that is secured by physical or financial collateral, including, but not limited to, real estate and marketable securities, whose value may at times be insufficient to fully cover the repayment amount;
- investing or trading in securities and loan pools, whereby the value of these assets may fluctuate based on realized or expected defaults on the underlying obligations or loans;
- posting margin and/or collateral to clearinghouses, clearing agencies, exchanges, banks, securities firms and other Morgan Stanley affiliates; and
- placing funds on deposit at other financial institutions to support our clearing and settlement obligations.

Monitoring and Control

The CRM establishes Bank-wide practices to evaluate, monitor and control credit risk at the transaction, obligor and portfolio levels. The CRM approves extensions of credit, evaluates the creditworthiness of the counterparties and borrowers on a regular basis, and helps ensure that credit exposure is actively monitored and managed. The evaluation of counterparties and borrowers includes an assessment of the probability that an obligor will default on its financial obligations and any losses that may occur when an obligor defaults. In addition, credit risk exposure is actively managed by credit professionals and committees within the CRM and through various risk committees, whose membership includes individuals from the CRM. A comprehensive and global Credit Limits Framework is utilized to manage credit risk levels across the Bank. The Credit Limits Framework is calibrated within our risk tolerance and includes single-name limits and portfolio concentration limits by country, industry and product type.

The CRM helps ensure timely and transparent communication of material credit risks, compliance with established limits and escalation of risk concentrations to appropriate senior management, the Credit Committee, the Bank RC, and the BRC. The CRM also works closely with the Market Risk Department and applicable business units to monitor risk exposures and to perform stress tests to identify, analyze and control credit risk concentrations arising from lending activities. The stress tests shock market factors (e.g., interest rates, commodity prices,

credit spreads), risk parameters (e.g., probability of default and loss given default), recovery rates and expected losses in order to assess the impact of stresses on exposures, profit and loss, and our capital position. Stress tests are conducted in accordance with our established policies and procedures.

Credit Evaluation

The evaluation of corporate and institutional counterparties and borrowers includes assigning credit ratings, which reflect an assessment of an obligor's probability of default and loss given default. Credit evaluations typically involve the assessment of financial statements; leverage; liquidity; capital strength; asset composition and quality; market capitalization; access to capital markets; adequacy of collateral, if applicable; and in the case of certain loans, cash flow projections and debt service requirements. The CRM also evaluates strategy, market position, industry dynamics, management and other factors such as country risks and legal and contingent risks that could affect the obligor's risk profile. Additionally, the CRM evaluates the relative position of our exposure in the borrower's capital structure and relative recovery prospects, as well as other structural elements of the particular transaction. The underwriting of commercial real estate loans includes, but is not limited to, review of the property type, LTV ratio, occupancy levels, debt service ratio, prevailing capitalization rates and market dynamics.

The evaluation of consumer borrowers is tailored to the specific type of lending. Securities-based loans are evaluated based on factors that include, but are not limited to, the amount of the loan, and the amount, quality, diversification, price volatility and liquidity of the collateral. Subsequent credit monitoring for individual loans is performed at the portfolio level, and collateral values are monitored on an ongoing basis.

Credit risk metrics assigned to our borrowers during the evaluation process are incorporated into the CRM maintenance of the allowance for credit losses. Such allowance serves as a reserve for expected inherent losses, as well as expected losses related to loans identified as impaired. For more information on the allowance for credit losses, see Notes 2 and 4 to the financial statements.

Risk Mitigation

We may seek to mitigate credit risk from our lending and trading activities in multiple ways, including collateral provisions, guarantees and hedges. At the transaction level, we seek to mitigate risk through management of key risk elements such as size, tenor, financial covenants, seniority and collateral. We actively hedge our lending and derivatives exposures. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (e.g., futures, forwards, swaps, and options). Additionally, we may sell, assign or syndicate loans and lending commitments to other financial institutions in the primary and secondary loan markets.

In connection with our derivatives trading activities, we generally enter into master netting agreements and collateral

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arrangements with counterparties. These agreements provide us with the ability to demand collateral, as well as to liquidate collateral and offset receivables and payables covered under the same master agreement in the event of a counterparty default. A collateral management group monitors collateral levels against requirements and oversees the administration of the collateral function. See Note 8 to the financial statements for additional information about our collateralized transactions.

Loans and Lending Commitments

\$ in millions	At December 31, 2023			
	HFI	HFS	FVO	Total
Corporate	\$ 3,702	\$ 6,375		\$ 10,077
Secured lending facilities	38,961	1,976	—	40,937
Commercial real estate	8,512	161	266	8,939
Residential real estate	—	—	2,189	2,189
Securities-based lending and Other	16,407	2	1,575	17,984
Total loans	67,582	8,514	4,030	80,126
ACL	(654)	—	—	(654)
Total loans, net of ACL	\$ 66,928	\$ 8,514	\$ 4,030	\$ 79,472
Lending Commitments¹				\$ 101,628
Total exposure				\$ 181,100

\$ in millions	At December 31, 2022			
	HFI	HFS	FVO	Total
Corporate	\$ 3,597	\$ 3,352	\$ —	\$ 6,949
Secured lending facilities	35,248	2,041	—	37,289
Commercial real estate	8,493	845	444	9,782
Residential real estate	—	—	718	718
Securities-based lending and Other	19,566	1	3,351	22,918
Total loans	66,904	6,239	4,513	77,656
ACL	(468)	—	—	(468)
Total loans, net of ACL	\$ 66,436	\$ 6,239	\$ 4,513	\$ 77,188
Lending Commitments¹				90,411
Total exposure				\$ 167,599

Total exposure—consists of Total loans, net of ACL, and Lending commitments

1. 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, including large corporate and institutional clients, as well as high to ultra-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 2023, total loans and lending commitments increased by approximately \$13.5 billion, primarily due to an increase in Secured lending facilities.

See Notes 3, 6 and 13 to the financial statements for further information.

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Allowance for Credit Losses—Loans and Lending Commitments

\$ in millions	2023	
ACL—Loans		
Beginning balance	\$	468
Gross charge-offs		(129)
Recoveries		1
Net (charge-offs) recoveries		(128)
Provision for credit losses		310
Other		4
Ending balance	\$	654
ACL—Lending commitments		
Beginning balance	\$	181
Provision for credit losses		44
Other		1
Ending balance	\$	226
Total ending balance	\$	880

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 allowance for credit losses for loans and lending commitments include the borrower's financial strength, industry, facility structure, LTV 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 allowance for credit losses for loans and lending commitments increased in 2023, primarily related to deteriorating conditions in the commercial real estate sector, including provisions for certain specific loans, mainly in the office portfolio, and modest growth in certain other loan portfolios. Charge-offs in 2023 were primarily related to Commercial real estate loans.

The base scenario used in our ACL models as of December 31, 2023 was generated using a combination of consensus economic forecasts, forward rates, and internally developed and validated models, and assumes slow economic growth in 2024, followed by a gradual improvement in 2025. Given the nature of our lending portfolio, the most sensitive model input is U.S. gross domestic product ("GDP").

Forecasted U.S. Real GDP Growth Rates in Base Scenario

	4Q 2024	4Q 2025
Year-over-year growth rate	0.9 %	2.0 %

See Note 3 to the financial statements for further information. See Note 2 to the financial statements for a discussion of the Bank's ACL methodology under CECL.

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Status of Loans Held for Investment

	At December 31, 2023	At December 31, 2022
Accrual	99.3 %	99.5 %
Nonaccrual ¹	0.7 %	0.5 %

1. Nonaccrual loans are loans where principal or interest is not expected when contractually due or are past due 90 days or more. For further information on our nonaccrual policy, see Note 2 to the financial statements.

Net Charge-off Ratios for Loans Held for Investment

<i>\$ in millions</i>	Corporate	Secured Lending Facilities	CRE	SBL and Other	Total
2023					
Net charge-offs ratio ¹	— %	— %	1.51 %	— %	0.19 %
Average Loans	\$ 3,861	\$ 37,216	\$ 8,554	\$ 18,094	\$ 67,725
2022					
Net charge-offs ratio ¹	— %	— %	0.09 %	— %	0.01 %
Average Loans	\$ 3,705	\$ 4,458	\$ 8,214	\$ 48,096	\$ 64,473

CRE—Commercial real estate
SBL—Securities-based lending

1. Net charge-off ratio represents gross charge-offs net of recoveries divided by total average loans held for investment before ACL.

Loans and Lending Commitments by Credit Rating¹

<i>\$ in millions</i>	At December 31, 2023				
	Contractual Years to Maturity				Total ³
	< 1	1-5	5-15	>15	
Loans					
AA	\$ 3	\$ —	\$ 216	\$ —	\$ 219
A	1,046	754	—	—	1,800
BBB	6,984	9,607	1	—	16,592
BB	10,934	14,693	1,741	277	27,645
Other NIG	7,523	8,410	1,009	72	17,014
Unrated ²	2	221	16	2,189	2,428
Total loans, net of ACL	26,492	33,685	2,983	2,538	65,698
Lending commitments					
AAA	—	50	—	—	50
AA	2,410	2,518	154	—	5,082
A	7,318	18,174	427	—	25,919
BBB	7,945	37,147	106	—	45,198
BB	3,742	12,461	1,488	414	18,105
Other NIG	1,316	2,432	830	—	4,578
Unrated ²	2	—	—	—	2
Total lending commitments	22,733	72,782	3,005	414	98,934
Total exposure	\$ 49,225	\$ 106,467	\$ 5,988	\$ 2,952	\$ 164,632

<i>\$ in millions</i>	At December 31, 2022				
	Contractual Years to Maturity				Total ³
	< 1	1-5	5-15	>15	
Loans					
AA	\$ 67	\$ —	\$ 139	\$ —	\$ 206
A	1,316	734	—	—	2,050
BBB	5,364	10,188	114	—	15,666
BB	10,726	17,075	713	157	28,671
Other NIG	4,710	6,566	1,341	215	12,832
Unrated ²	3	349	191	719	1,262
Total loans, net of ACL	22,186	34,912	2,498	1,091	60,687
Lending commitments					
AAA	—	50	—	—	50
AA	2,047	2,245	11	—	4,303
A	4,517	17,183	189	330	22,219
BBB	9,055	30,996	413	—	40,464
BB	2,610	13,833	1,050	96	17,589
Other NIG	562	2,615	49	—	3,226
Unrated ²	—	15	—	—	15
Total lending commitments	18,791	66,937	1,712	426	87,866
Total exposure	\$ 40,977	\$ 101,849	\$ 4,210	\$ 1,517	\$ 148,553

NIG—Non-investment grade

- Counterparty credit ratings are internally determined by the CRM. Primarily includes Corporate, Residential real estate, and Commercial real estate loans and lending commitments.
- Unrated loans and lending commitments are primarily trading positions that are measured at fair value and risk-managed as a component of market risk. For a further discussion of our market risk, see "Quantitative and Qualitative Disclosures about Risk—Market Risk" herein.
- Excludes loans and lending commitments of \$16.5 billion and \$19.0 billion at December 31, 2023 and December 31, 2022, respectively, which are extended to clients of Morgan Stanley's Wealth Management business. The above loans and lending commitments are largely subject to collateral maintenance provisions and predominantly over-collateralized.

Loans and Lending Commitments by Industry¹

<i>\$ In millions</i>	At December 31, 2023	At December 31, 2022
Financials	\$ 52,920	\$ 48,837
Real estate	32,643	30,470
Healthcare	11,287	8,917
Industrials	10,981	8,216
Utilities	9,266	8,464
Consumer staples	8,038	6,482
Information technology	7,780	9,134
Communication services	7,230	6,511
Energy	6,702	5,855
Consumer discretionary	6,681	5,790
Insurance	5,846	5,272
Materials	4,342	4,076
Other	916	529
Total exposure	\$ 164,632	\$ 148,553

1. Excludes loans and lending commitments of \$16.5 billion and \$19.0 billion at December 31, 2023 and December 31, 2022, respectively, which are extended to clients of Morgan Stanley's Wealth Management business.

Risk Disclosures

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Commercial Real Estate Loans and Lending Commitments

By Region

\$ in millions	December 31, 2023			December 31, 2022		
	Loans ¹	LC ¹	Total	Loans ¹	LC ¹	Total
Americas	\$ 5,601	\$ 423	\$ 6,024	\$ 6,474	\$ 489	\$ 6,963
EMEA	2,892	49	2,941	2,907	73	2,980
Asia	485	—	485	445	5	450
Total	\$ 8,978	\$ 472	\$ 9,450	\$ 9,826	\$ 567	\$ 10,393

By Property Type

\$ in millions	December 31, 2023			December 31, 2022		
	Loans ¹	LC ¹	Total	Loans ¹	LC ¹	Total
Office	\$ 3,219	\$ 186	\$ 3,405	\$ 3,861	\$ 301	\$ 4,162
Industrial	2,471	5	2,476	2,519	25	2,544
Multifamily	1,902	208	2,110	2,095	197	2,292
Retail	697	—	697	546	—	546
Hotel	688	73	761	750	44	794
Other	1	—	1	55	—	55
Total	\$ 8,978	\$ 472	\$ 9,450	\$ 9,826	\$ 567	\$ 10,393

LC-Lending Commitments

1. Amounts include HFI, HFS and FVO loans and lending commitments. HFI loans are net of ACL.

The current economic environment and changes in business and consumer behavior have adversely impacted commercial real estate borrowers due to pressure from higher interest rates, tenant lease renewals, and elevated refinancing risks for loans with near-term maturities, among other issues. While we continue to actively monitor all our loan portfolios, the commercial real estate sector remains under heightened focus given the sector's sensitivity to economic and secular factors, credit conditions, and difficulties specific to certain property types, most notably office.

As of December 31, 2023 and December 31, 2022, our direct lending against commercial real estate ("CRE") properties totaled \$9.5 billion and \$10.4 billion, which represents 5.2% and 6.2% of total exposure reflected in the Loans and Lending Commitments table above. Those CRE loans are primarily originated for experienced sponsors and are generally secured by specific institutional CRE properties. In many cases, loans are subsequently syndicated or securitized on a full or partial basis, reducing our ongoing exposure.

In addition to the amounts included in the table above, we provide certain secured lending facilities which are typically collateralized by pooled CRE mortgage loans and are included in Secured lending facilities. These secured lending facilities benefit from structural protections including cross-collateralization and diversification across property types.

Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, spreads, indices, volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

The Bank's principal market risk is non-trading interest rate risk in the banking book (amounts classified for regulatory capital

purposes under the banking book regime), which refers to the exposure that a change in interest rates will result in prospective earnings changes for these assets and liabilities.

Sound market risk management is an integral part of our culture. The various business units are responsible for ensuring that market risk exposures are well-managed and prudent. The control groups help ensure that these risks are measured and closely monitored and are made transparent to senior management. The Market Risk Department is responsible for ensuring the transparency of material market risks, recommending and establishing limits, monitoring compliance with established limits and escalating risk concentrations to appropriate senior management.

To execute these responsibilities, the Market Risk Department monitors our risk against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries, and maintains our scenario analysis systems. Market risk is also monitored through various measures: by use of statistics, by measures of position size and sensitivity, and through routine stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors and scenarios designed by the Market Risk Department in collaboration with the business units. The material risks identified by these processes are summarized in reports produced by the Market Risk Department that are circulated to and discussed with senior management, the Market Risk Committee, the Bank RC, the BRC, and the Board.

Beginning in the fourth quarter of 2023, we started reporting our interest rate risk sensitivities using the Earnings-at-Risk ("EaR") metric. EaR measures the estimated impact of changes in interest rates to our earnings for all positions within our consolidated balance sheet over a defined time horizon.

Earnings-At-Risk Sensitivity Analysis

\$ in millions	At December 31, 2023	At December 31, 2022
Basis point change		
+100	\$ 698	\$ 599
-100	(694)	(637)

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 earnings over the next 12 months for the Bank. These shocks are applied to our 12-month forecast for the Bank, which incorporates market expectations of interest rates and our forecasted business activity, including deposit forecasts as a key assumption.

We do not manage to any single rate scenario but rather manage earnings in the Bank 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.

Risk Disclosures

Our balance sheet is asset sensitive, given assets reprice faster than liabilities, resulting in higher earnings in increasing interest rate scenarios. The level of interest rates may impact the amount of deposits held at the Bank, given competition for deposits from other institutions and alternative cash-equivalent products available to depositors. Further, rising interest rates could also impact client demand for loans. Earnings at risk sensitivity to interest rates at December 31, 2023 increased from December 31, 2022, primarily driven by the effects of changes in the mix of our assets and liabilities.

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 other market fundamentals and allows us to effectively identify, monitor and limit country risk. Country risk exposure before and after hedging is monitored and managed.

Our obligor credit evaluation process defines country of risk as the country that has the largest economic impact on the obligor and may be different from the obligor's country of jurisdiction. An example where this applies may include corporations that are incorporated in one country but that derive the bulk of their revenue from another.

We conduct periodic stress testing that seeks to measure the impact on our credit and market exposures of shocks stemming from negative economic or political scenarios. When deemed appropriate by our risk managers, the stress test scenarios include possible contagion effects and second order risks. This analysis, and results of the stress tests, may result in the amendment of limits or exposure mitigation.

Our 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. Index exposures are allocated to the underlying reference entities in proportion to the notional weighting of the country of each reference entity in the index, adjusted for any fair value receivable or payable for that reference entity. Where credit risk crosses multiple jurisdictions, for example, a CDS purchased from an issuer in a specific country that references bonds issued by an entity in a different country, the fair value of the CDS is reflected in the Net Counterparty Exposure row based on the country of the CDS counterparty. 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 5 Non-U.S. Country Exposures

At December 31, 2023

<i>\$ in millions</i>	United Kingdom	Australia	Germany	Ireland	Canada
Non-sovereigns					
Net inventory ¹	\$ 16	\$ —	\$ 5	\$ 4	\$ —
Net Counterparty Exposure ²	4	—	—	—	1
Loans	7,646	1,571	683	1,121	298
Lending commitments	6,667	954	2,357	425	1,276
Exposure before hedges	14,333	2,525	3,045	1,550	1,575
Hedges ³	(838)	(2)	(662)	—	(57)
Total Net exposure	\$ 13,495	\$ 2,523	\$ 2,383	\$ 1,550	\$ 1,518

1. Net inventory represents exposure to both long and short single-name and index positions (i.e., bonds and CDS based on a notional amount assuming zero recovery adjusted for the fair value of any receivable or payable).
2. Net counterparty exposure is net of the benefit of collateral received and also is net by counterparty when legally enforceable master netting agreements are in place.
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 the fair value of any receivable or payable.

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., cyberattacks or third-party vulnerabilities) that may manifest as, for example, loss of information, business disruption, theft and fraud, legal, regulatory and compliance risks, or damage to physical assets. We may incur operational risk across the full scope of our business activities, including revenue-generating activities and support and control groups (e.g., IT and trade processing).

We have established an operational risk framework to identify, measure, monitor and control risk across the Bank. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory and reputational risks. The framework is continually evolving to account for changes in the Bank and to respond to the changing regulatory and business environment.

We have implemented operational risk data and assessment systems to monitor and analyze internal and external operational risk events, to assess business environment and internal control factors, and to perform scenario analysis. The collected data elements are incorporated in the operational risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

In addition, we employ a variety of risk processes and mitigants to manage our operational risk exposures. These include a governance framework, a comprehensive risk management program and insurance. Operational risks and associated risk exposures are assessed relative to the risk appetite reviewed and confirmed by the Board and are prioritized accordingly.

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The breadth and range of operational risk are such that the types of mitigating activities are wide-ranging. Examples of activities which are performed by the Bank or its affiliates, include: continuous enhancement of defenses against cyberattacks; use of legal agreements and contracts to transfer and/or limit operational risk exposures, due diligence, implementation of enhanced policies and procedures, technology change management controls, exception management processing controls, and segregation of duties.

Primary responsibility for the management of operational risk is with the product owners, control groups, and the business managers therein. The business managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. The Bank has a designated operational risk coordinator. The operational risk coordinator regularly reviews operational risk issues and reports to the Bank's senior management. Each control group also has a designated operational risk coordinator and a forum for discussing operational risk matters with our senior management. Oversight of operational risk is provided by senior management, the Operational Risk Oversight Committee, the Bank RC, and the BRC. In the event of a reorganization, a new product, or a business activity, operational risks are considered, and any necessary changes in processes or controls are implemented.

The Bank Operational Risk Department ("Bank ORD") provides independent oversight of operational risk and assesses, measures and monitors operational risk against appetite. The Bank ORD receives services from the Morgan Stanley Operational Risk Department. The Bank ORD works with the product areas and control groups to embed a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Bank.

The Bank ORD scope includes oversight of technology risk, cybersecurity risk, information security risk, the fraud risk management and prevention program, and third-party risk management (supplier and affiliate risk oversight and assessment), among others.

Cybersecurity

Our cybersecurity and information security policies, procedures and technologies are designed to protect our own, our client and our employee data against unauthorized disclosure, modification or misuse and are also designed to address regulatory requirements. These policies and procedures cover a broad range of areas, including: identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorized activity, incident response and recovery planning.

Bank Resilience

Morgan Stanley's and our critical processes and businesses could be disrupted by events including cyberattacks, failure or loss of access to technology and/or associated data, military conflicts, acts of terror, natural disasters, severe weather events and infectious disease. The Firm and the Bank maintain a resilience program designed to provide for operational resilience and

enable us to respond to and recover critical processes and supporting assets in the event of a disruption impacting our people, technology, facilities and third parties. The key elements of the resilience program include business continuity management, and technology disaster recovery, third-party resilience and key-business-service-resilience. Resilience testing is performed both internally and with critical third parties to validate recovery capability in accordance with business requirements. The resilience program is applied consistently Bank-wide.

Third-Party Risk Management

In connection with our ongoing operations, we utilize the services of third-party suppliers, including our affiliates, which we anticipate will continue and may increase in the future. These services include, for example, outsourced processing and support functions and other professional services. Our risk-based approach to managing exposure to these services includes the performance of due diligence, implementation of service-level and other contractual agreements, consideration of operational risks and ongoing monitoring of third-party suppliers' performance. We maintain and continue to enhance our third-party risk management program, which is designed to align with our risk tolerance and meet regulatory requirements. The program includes appropriate governance, policies, procedures and enabling technology. The third-party risk management program includes the adoption of appropriate risk management controls and practices throughout the third-party management life cycle to manage risk of service failure, risk of data loss and reputational risk, among others.

Model Risk

Model risk refers to the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model risk can lead to financial loss, poor business and strategic decision-making or damage to the Bank's reputation. The risk inherent in a model is a function of the materiality, complexity and uncertainty around inputs and assumptions.

Model risk is generated from the use of models impacting financial statements, regulatory filings, capital adequacy assessments and the formulation of strategy.

Sound model risk management is an integral part of our Risk Management Framework. The Model Risk Management Department ("MRM") is a distinct department in Risk Management responsible for the oversight of model risk.

The MRM establishes a model risk tolerance in line with our risk appetite. The tolerance is based on an assessment of the materiality of the risk of financial loss or reputational damage due to errors in design, implementation and/or inappropriate use of models. The tolerance is monitored through model-specific and aggregate business-level assessments, which are based upon qualitative and quantitative factors.

The effective challenge of models consists of critical analysis by objective, informed parties who can identify model limitations

Risk Disclosures

and assumptions and drive appropriate changes. The MRM provides effective challenge of models, independently validates and approves models for use, annually recertifies models, periodically revalidates, identifies and tracks remediation plans for model limitations and reports on model risk metrics. The Bank maintains a comprehensive model inventory and a governance process to monitor and manage model risk. The key governance forums responsible for managing model risk within the Bank include the Model Risk Oversight Committee, the Bank RC, and the BRC.

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, a reduction in deposit balances, 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. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may negatively affect our liquidity and may impact our ability to raise new funding. Generally, we incur liquidity and funding risk as a result of our lending, trading and investing activities.

Our Liquidity Risk Management Framework is critical to helping ensure that we maintain sufficient liquidity reserves and durable funding sources to meet our daily obligations and to withstand unanticipated stress events. The Liquidity Risk Department is a distinct area in Risk Management responsible for the oversight and monitoring of liquidity risk. The Liquidity Risk Department ensures transparency of material liquidity and funding risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management.

To execute these responsibilities, the Liquidity Risk Department establishes limits in line with our risk appetite, identifies and analyzes emerging liquidity and funding risks to ensure such risks are appropriately mitigated, monitors and reports risk exposures against metrics and limits, and reviews the methodologies and assumptions underpinning our Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios. The liquidity and funding risks identified by these processes are summarized in reports produced by the LRD that are circulated to and discussed with senior management, the Liquidity Risk Committee, the Bank RC, and the BRC, as appropriate.

The Treasury Department and applicable business units have primary responsibility for evaluating, monitoring and controlling the liquidity and funding risks arising from our business activities and for maintaining processes and controls to manage the key risks inherent in their respective areas. The Liquidity Risk Department coordinates with the Treasury Department and these business units to help ensure a consistent and comprehensive framework for managing liquidity and funding risk across Morgan Stanley. See also “Management’s Discussion

Morgan Stanley Bank, N.A.

and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” herein.

Legal, Regulatory and Compliance Risk

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss, including fines, penalties, judgments, damages and/or settlements, limitations on our business, or loss of 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 BSA/AML and OFAC rules and requirements, terrorist financing, and anti-corruption rules and regulations. We are generally subject to extensive regulation in the different jurisdictions in which we conduct our business (see also “Business—Supervision and Regulation” and “Risk Factors”).

We have established procedures based on legal and regulatory requirements that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that our policies relating to business conduct, ethics and practices are followed. In addition, we have established procedures to mitigate the risk that a counterparty’s performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The heightened legal and regulatory focus on the financial services and banking industries globally presents a continuing business challenge for us.

Climate Risk

Climate change manifests as physical and transition risks. The physical risks of climate change include harm to people and property arising from acute climate-related events, such as floods, hurricanes, heatwaves, droughts and wildfires, and chronic, longer-term shifts in climate patterns, such as higher global average temperatures, rising sea levels and long-term droughts. The transition risk of climate change include policy, legal, technology, and market changes. Examples of these transition risks include changes in consumer behavior and business sentiment, related technologies and any additional regulatory and legislative requirements, including increased disclosure or carbon taxes.

Climate risk, which is not expected to have a significant effect on our results of operations or financial condition in the near term, is an overarching risk that can impact other categories of risk. Physical risk may lead to increased credit risk by diminishing borrowers’ repayment capacity or impacting the value of collateral. In addition, physical risk could pose increased operational risk to our facilities and people. The impacts of transition risk may lead to and amplify credit, market or liquidity risk by reducing our customers’ operating income or the value of their assets, as well as exposing us to reputational, compliance

Risk Disclosures

Morgan Stanley Bank, N.A.

and/or litigation risk due to increased legal and regulatory scrutiny or negative public sentiment.

As climate risk is interconnected with other risk types, we have developed and continue to enhance processes to embed climate risk considerations into our risk management practices and governance structures. The BRC oversees Bank wide risks, which include climate risk, and, as part of its oversight, receives updates on our risk management approach to climate risk, including our approaches toward scenario analysis and integration of climate risk into our existing risk management processes.

Morgan Stanley Bank, N.A.

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Morgan Stanley Bank, N.A.

MANAGEMENT'S ASSERTION

March 7, 2024

To the Board of Directors and Shareholder of Morgan Stanley Bank, N.A.:

Financial Statements

The management of Morgan Stanley Bank, N.A. (the "Bank") is responsible for the preparation, integrity and fair presentation of the Bank's annual financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and, as such, include amounts based on informed judgments and estimates made by management.

Internal Control

The Bank's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with GAAP and the Federal Financial Institutions Examination Council instructions for Consolidated Reports of Condition and Income (the "Call Report Instructions"). A bank's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the bank are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the bank's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, misstatements may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management has assessed the effectiveness of the Bank's internal control over financial reporting, including controls over the preparation of financial statements in accordance with GAAP and of regulatory financial statements in accordance with the Call Report Instructions, as of December 31, 2023, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013). Based on this assessment, management has concluded that the Bank maintained effective internal control over financial reporting, including safeguarding of assets, presented in conformity with GAAP, as well as the Call Report instructions as of December 31, 2023.

Compliance with Laws and Regulations

Management is also responsible for ensuring compliance with federal laws and regulations pertaining to insider loans and the federal (and, if applicable, state) laws and regulations pertaining to dividend restrictions.

Management assessed its compliance with federal laws and regulations pertaining to insider loans and the federal (and, if applicable, state) laws and regulations pertaining to dividend restrictions for the year ended December 31, 2023. Based on this assessment, management has concluded that the Bank has complied with federal laws and regulations pertaining to insider loans and the federal (and, if applicable, state) laws and regulations pertaining to dividend restrictions for the year ended December 31, 2023.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of
Morgan Stanley Bank, N.A.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Morgan Stanley Bank, N.A. (the "Bank") as of December 31, 2023, based on the criteria established in the Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the criteria established in the Internal Control — Integrated Framework (2013) issued by COSO relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of FDICIA.

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the consolidated financial statements as of and for the year ended December 31, 2023 of the Bank, and our report dated March 7, 2024, expressed an unmodified opinion on those financial statements.

Basis for Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for Internal Control over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Assertion.

Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of FDICIA, our audit of the Bank's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the controls over the preparation of schedules equivalent to basic financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (Call Report Instructions) (for Schedules RC, RI, and RI-A). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Other Matter

We did not perform auditing procedures on management's statement referring to compliance with laws and regulations, and accordingly, we do not express an opinion or provide any assurance on it.

Deloitte + Touche LLP

March 7, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of
Morgan Stanley Bank, N.A.

Opinion

We have audited the consolidated financial statements of Morgan Stanley Bank, N.A. (the "Bank"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated income statements, comprehensive income statements, cash flow statements, and statements of changes in shareholder's equity for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Bank's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of FDICIA and our report dated March 7, 2024 expressed an unmodified opinion on the Bank's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Deloitte + Touche LLP

March 7, 2024

Consolidated Income Statement

Morgan Stanley Bank, N.A.

<i>\$ in millions</i>	2023	2022
Revenues		
Interest income	\$ 9,445	\$ 4,958
Interest expense	4,299	884
Net interest	5,146	4,074
Non-interest revenues		
Fee income	1,044	1,059
Gains and losses on financial assets and liabilities	1,156	556
Other	164	165
Total non-interest revenues	2,364	1,780
Net revenues	7,510	5,854
Provision for credit losses	354	72
Non-interest expenses		
Compensation and benefits	112	109
General and administrative	889	901
FDIC and regulatory assessments	233	70
Total non-interest expenses	1,234	1,080
Income before provision for income taxes	5,922	4,702
Provision for income taxes	1,404	1,081
Net income	\$ 4,518	\$ 3,621

Consolidated Comprehensive Income Statement

<i>\$ in millions</i>	2023	2022
Net income	\$ 4,518	\$ 3,621
Other comprehensive income (loss), net of tax:		
Change in net unrealized gains (losses) on available-for-sale securities	573	(2,521)
Change in net debt valuation adjustment	9	(9)
Net change in cash flow hedges	20	(4)
Total other comprehensive income (loss) ¹	\$ 602	\$ (2,534)
Comprehensive income	\$ 5,120	\$ 1,087

1. Amounts are net of (provision)/benefit for income taxes of \$(187) million and \$772 million for 2023 and 2022, respectively.

Consolidated Balance Sheet

Morgan Stanley Bank, N.A.

<i>\$ in millions</i>	At December 31, 2023	At December 31, 2022
Assets		
Cash and cash equivalents	\$ 11,859	\$ 28,457
Trading assets at fair value	22,874	12,975
Investment securities:		
Available-for-sale at fair value (amortized cost of \$50,356 and \$51,366)	48,050	48,308
Held-to-maturity at cost (fair value of \$20,688 and \$21,935)	23,890	25,584
Securities purchased under agreements to resell	17,546	4,488
Loans:		
Held for investment (net of allowance for credit losses of \$654 and \$468)	66,928	66,436
Held for sale (lower of cost or fair value)	8,514	6,239
Fair value	4,030	4,513
Loans to affiliate	469	447
Interest receivable	894	751
Affordable housing tax credit investments	909	922
Deferred taxes	818	884
Other assets	2,225	1,359
Total assets	\$ 209,006	\$ 201,363
Liabilities		
Deposits (includes \$3,903 and \$3,178 at fair value)	\$ 175,907	\$ 177,356
Trading liabilities at fair value	282	197
Payable to affiliates	573	577
Other Secured Financings at fair value	872	241
Accrued interest payable	619	188
Affordable housing tax credit investment commitments	311	374
Other liabilities and accrued expenses	1,265	1,760
Borrowings (includes \$1,124 at fair value)	7,305	693
Total liabilities	187,134	181,386
Shareholder's equity		
Common stock, \$1 par value:		
Shares authorized: 50,000; Shares issued: 100; Shares outstanding: 100	—	—
Additional paid-in capital	8,005	8,005
Retained earnings	15,634	14,341
Accumulated other comprehensive income (loss)	(1,767)	(2,369)
Total shareholder's equity	21,872	19,977
Total liabilities and shareholder's equity	\$ 209,006	\$ 201,363

Statement of Changes in Shareholder's Equity**Morgan Stanley Bank, N.A.**

<i>\$ in millions</i>	2023	2022
Common Stock		
Beginning and ending balance	\$ —	\$ —
Additional Paid-in Capital		
Beginning and ending balance	8,005	8,005
Retained Earnings		
Beginning balance	14,341	10,720
Net income	4,518	3,621
Dividends to Parent	(3,225)	—
Ending balance	15,634	14,341
Accumulated Other Comprehensive Income (Loss)		
Beginning balance	(2,369)	165
Net change in Accumulated other comprehensive income (loss) ¹	602	(2,534)
Ending balance	(1,767)	(2,369)
Total Shareholder's Equity	\$ 21,872	\$ 19,977

1. Amounts are net of (provision)/benefit for income taxes of \$(187) million and \$772 million for 2023 and 2022, respectively.

Consolidated Cash Flow Statement

Morgan Stanley Bank, N.A.

<i>\$ in millions</i>	2023	2022
Cash flows from operating activities		
Net income	\$ 4,518	\$ 3,621
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	53	(25)
Provision for credit losses	354	72
Deferred income taxes, net	(122)	(3)
Other operating adjustments	40	396
Changes in assets and liabilities:		
Trading assets, net of Trading liabilities	(10,413)	2,041
Loans at fair value with intent to sell	60	1,328
Loans held for sale	(2,410)	865
Securities purchased under agreements to resell	(2,052)	(679)
Net receivable from / (payable to) affiliates	(147)	559
Accrued expenses and other liabilities	309	454
Other assets	255	(660)
Net cash (used for) provided by operating activities	(9,555)	7,969
Cash flows from investing activities		
Proceeds from (payments for):		
AFS securities:		
Purchases	(12,554)	(22,188)
Proceeds from sales	4,792	1,572
Proceeds from paydowns and maturities	8,077	7,491
HTM securities:		
Purchases	—	(1,002)
Proceeds from paydowns and maturities	1,760	2,341
Securities purchased under agreements to resell	(11,006)	—
Changes in loans at fair value with intent to hold, net	(43)	833
Changes in loans held for investment, net	44	(6,458)
Other investing activities	(78)	—
Net cash used for investing activities	(9,008)	(17,411)
Cash flows from financing activities		
Net proceeds from (payments for):		
Deposits	(1,652)	13,335
Other secured financings	197	—
Proceeds from issuance of Borrowings	6,645	(5,533)
Payments for:		
Borrowings	(4)	—
Cash dividends	(3,225)	—
Net cash provided by financing activities	1,961	7,802
Effect of exchange rate changes on cash and cash equivalents	4	(2)
Net decrease in cash and cash equivalents	(16,598)	(1,642)
Cash and cash equivalents, at beginning of period	28,457	30,099
Cash and cash equivalents, at end of period	\$ 11,859	\$ 28,457
Supplemental Disclosures of Cash Flow Information:		
Cash payments/(refunds) for:		
Interest	\$ 3,869	\$ 750
Income taxes	1,342	954
Non-cash transactions:		
Loans transferred into held for sale from held for investment	\$ 368	\$ 347
Beneficial interests obtained in financial assets transferred to an unconsolidated securitization entity	109	161

1. Introduction and Basis of Presentation

The Bank

Morgan Stanley Bank, N.A. is a nationally chartered bank and a wholly owned subsidiary of MSCM. On August 1, 2023, the Bank ceased to be a wholly owned subsidiary of MSDHL (formerly named MSDHI) and became a wholly owned subsidiary of MSCM, which is a direct wholly owned subsidiary of Morgan Stanley. The Bank is regulated by the OCC and its qualifying deposits are insured by the FDIC. The Bank is also registered as a swap dealer with the CFTC and conditionally registered as a security-based swap dealer with the SEC. Unless the context otherwise requires, the term “Bank” means Morgan Stanley Bank, N.A. See the “Glossary of Common Terms and Acronyms” for the definition of certain terms and acronyms used throughout the 2023 Financial Statements.

MSBNA is primarily a wholesale commercial bank that offers commercial lending products, certain retail securities based lending products, certain derivative products, and deposit products. The Bank’s activities also include providing certain financing services to our clients active in the equity markets, entering into certain derivative transactions, and maintaining an investment portfolio.

The Bank’s lending activities include lending to corporations for specific purposes, such as financing acquisitions and normal operating activities, secured lending facilities, commercial real estate lending, as well as extending securities-based financing to customers.

The deposit accounts the Bank accepts are principally used to fund lending activities and the Bank’s investment portfolio. The Bank accepts demand deposits, and issues CDs that are principally used to fund lending and trading activities and invest in securities.

Basis of Financial Information

The financial statements are prepared in accordance with U.S. GAAP, which require the Bank to make estimates and assumptions regarding the valuation of certain financial instruments, the allowance for credit losses, compensation, deferred tax assets, the outcome of legal and tax matters, and other matters that affect the financial statements and related disclosures. The Bank believes that the estimates utilized in the preparation of the financial statements are prudent and reasonable. Actual results could differ materially from these estimates.

The Notes are an integral part of the Bank’s financial statements. The Bank has evaluated subsequent events for adjustment to or disclosure in the financial statements through the date of this report and has not identified any recordable or disclosable events not otherwise reported in the financial statements or the notes thereto.

Consolidation

The financial statements include the accounts of the Bank and its wholly owned subsidiaries, including certain VIEs (see Note 14). Intercompany balances and transactions have been eliminated.

2. Significant Accounting Policies

Loans

The Bank accounts for loans based on the following categories: loans held for investment; loans held for sale; and loans at fair value.

Nonaccrual and ACL Charge-offs on Loans

Loans held for investment follow the charge-off guidance as discussed in “Allowance for Credit Losses” herein. All loan categories described below follow the nonaccrual guidance discussed in “Allowance for Credit Losses” herein.

Loans Held for Investment

Loans held for investment are reported at amortized cost, which consists of the outstanding principal balance adjusted for any charge-offs, the allowance for credit losses, any unamortized deferred fees or costs for originated loans, and any unamortized premiums or discounts for purchased loans.

Interest Income. Interest income on performing loans held for investment is accrued and recognized as interest income at the contractual rate of interest. Purchase price discounts or premiums, as well as net deferred loan fees or costs, are amortized into interest income over the life of the loan to produce a level rate of return.

Lending Commitments. The Bank records the liability and related expense for the credit exposure related to commitments to fund loans. The liability is recorded in Other liabilities and accrued expenses in the balance sheet and the expense is recorded in Provision for credit losses in the income statement. For more information regarding commitments, contingencies and guarantees, see Note 13.

For more information regarding allowance for credit losses, refer to “Allowance for Credit Losses” herein.

Loans Held for Sale

Loans held for sale are measured at the lower of amortized cost or fair value with valuation changes recorded in Non-interest revenue—Gains and losses on financial assets and liabilities in the income statement. The Bank determines the valuation allowance on an individual loan basis. Any decreases in fair value below the initial carrying amount and any recoveries in fair value up to the initial carrying amount are recorded in Non-interest revenue—Gains and losses on financial assets and liabilities. Increases in fair value above initial carrying value are not recognized.

Interest Income. Interest income on HFS loans is accrued and recognized based on the contractual rate of interest and included in Interest income in the income statement. Loan origination fees

Notes to Consolidated Financial Statements

Morgan Stanley Bank, N.A.

or costs and purchase price discounts or premiums are deferred as an adjustment to the loan's cost basis until the related loan is sold and as such, are included in the periodic determination of the lower of cost or fair value adjustments and the gain or loss recognized at the time of sale.

Lending Commitments. The Bank records the liability and related expense for the fair value exposure (if the fair value is below the cost) related to commitments to fund loans that will be held for sale in Other liabilities and accrued expenses in the balance sheet with an offset to Other non-interest revenue in the income statement.

Because loans and lending commitments held for sale are recognized at the lower of cost or fair value, the allowance for credit losses and charge-off policies do not apply to these loans.

Loans at Fair Value

Loans for which the fair value option is elected are carried at fair value, with changes in fair value recognized in the current period in Non-interest revenue as Gains and losses on financial assets and liabilities in the income statement. The fair value of these loans is based on observable market data where possible. When no such information is available, fair value is determined by using various valuation approaches (see Note 6). Loans carried at fair value are not evaluated for purposes of recording an allowance for credit losses.

Lending Commitments The Bank records the liability and related expense for the fair value exposure related to commitments to fund loans that will be measured at fair value. The liability is recorded in Trading liabilities, at fair value in the balance sheet, and the expense is recorded in Other non-interest revenue in the income statement.

Because such loans and lending commitments are reported at fair value, the allowance for credit losses and charge-off policies do not apply to these loans.

For further information on loans, see Note 3. For more information regarding loan commitments, standby letters of credit and financial guarantees, see Note 13.

Allowance for Credit Losses

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 Bank uses three forecasts that include assumptions about certain macroeconomic variables including, but not limited to, U.S. gross domestic product ("GDP"), equity market indices, as well as commercial real estate and home price indices. At the conclusion of the

Bank's reasonable and supportable forecast period of 13 quarters, 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 Bank applies a probability of default/loss given default model for instruments that are collectively assessed, under which the ACL is calculated as the product of probability of default, loss given default and exposure at default. These parameters are forecast for each collective group of assets using a scenario-based statistical model.

If the instrument does not share similar risk characteristics with other instruments, including when it is probable that the Bank 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 Bank generally applies a discounted cash flow method for instruments that are individually assessed.

The Bank 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 Bank can elect to use an approach to measure the ACL that considers 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 Bank has elected to use this approach for certain securities-based loans, and Securities purchased under agreements to resell.

Credit quality indicators considered in developing the ACL include Corporate loans, Secured lending facilities, Commercial real estate loans and securities, and Other loans: Internal risk ratings developed by the CRM that are refreshed at least annually, and more frequently as necessary. These ratings generally correspond to external ratings published by S&P. The Bank 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 Bank considers property type and location, net operating income and LTV ratios, among other factors, as well as commercial real estate price and credit spread indices and capitalization rates.

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.

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Presentation of ACL and Provision for Credit Losses

	ACL	Provision for Credit Losses
Held for investment loans	Contra asset	Provision for credit losses
Other instruments measured at amortized cost (e.g., HTM securities)	Contra asset	Other non-interest revenue
Held for investment lending commitments	Other liabilities and accrued expenses	Provision for credit losses
Other off-balance sheet instruments (e.g., certain guarantees)	Other liabilities and accrued expenses	General and administrative expense

Nonaccrual

The Bank places financial instruments on nonaccrual status if principal or interest is not expected when contractually due or is past due for a period of 90 days or more unless the obligation is well secured and is in the process of collection.

For any instrument placed on nonaccrual status, the Bank 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 the instrument is brought current and neither principal nor interest collection is in doubt, instruments can generally return to accrual status, and interest income can be recognized.

ACL Charge-offs

The principal balance of a financial instrument is charged off in the period it is deemed uncollectible, resulting in a reduction in the ACL and in the balance of the financial instrument in the balance sheet. Accrued interest receivable balances that are separately recorded from the related financial instruments are charged off against Interest income when the related financial instrument is placed on nonaccrual status. Accordingly, the Bank elected not to measure an ACL for accrued interest receivables.

AFS Investment Securities

AFS securities are reported at fair value in the balance sheet. Interest income, including amortization of premiums and accretion of discounts, is included in Interest income in the income statement. Unrealized gains are recorded in OCI and unrealized losses are recorded either in OCI or in Non-interest revenue as described below.

AFS securities in an unrealized loss position are first evaluated to determine whether there is an intent to sell or it is more likely than not the Bank will be required to sell before recovery of the amortized cost basis. If so, the amortized cost basis is written down to the fair value of the security such that the entire unrealized loss is recognized in Non-interest revenue and any previously established ACL is written off.

For all other AFS securities in an unrealized loss position, any portion of unrealized losses representing a credit loss is recognized in Non-interest revenue and as an increase to the ACL for AFS securities, with the remainder of unrealized losses recognized in OCI. A credit loss exists if the Bank does not

expect to recover the amortized cost basis of the security. When considering whether a credit loss exists, the Bank considers relevant information, including:

- guarantees (implicit or explicit) by the U.S. Government;
- the extent to which the fair value has been less than the amortized cost basis;
- adverse conditions specifically related to the security, its industry or geographic area;
- changes in the financial condition of the issuer of the security, or, in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors;
- the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future;
- failure of the issuer of the security to make scheduled interest or principal payments;
- the current rating and any changes to the rating of the security by a rating agency.

If a credit loss exists, the Bank measures the credit loss as the difference between the present value of cash flows expected to be collected (discounted at the implicit interest rate at acquisition of the security or discounted at the effective yield for securities that incorporate changes in prepayment assumptions) and the amortized cost basis of the security. Changes in prepayment assumptions alone are not considered to result in a credit loss. When estimating the present value of expected cash flows, information utilized includes the remaining payment terms of the security, prepayment speeds, financial condition of the issuer, expected defaults and the value of any underlying collateral.

Presentation of ACL and Provision for Credit Losses

	ACL	Provision for Credit Losses
AFS securities	Contra investment securities	Other revenue

Nonaccrual & ACL Charge-offs on AFS Securities

AFS securities follow the same nonaccrual and charge-off guidance as discussed in “Allowance for Credit Losses” herein.

HTM Securities

HTM securities are reported at amortized cost, net of any ACL, in the balance sheet. Refer to “Allowance for Credit Losses” herein for guidance on the ACL determination. Interest income, including amortization of premiums and accretion of discounts on HTM securities, is included in Interest income in the income statement.

Fair Value of Financial Instruments

Instruments within Trading assets and Trading liabilities are measured at fair value, either as required or allowed by accounting guidance. These financial instruments primarily represent the Bank's trading and investment positions and include both cash and derivative products. In addition, securities classified as AFS are measured at fair value.

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Gains and losses on instruments carried at fair value are reflected in Non-interest revenue—Gains and losses on financial assets and liabilities in the income statement.

Interest income and interest expense for fair valued financial instruments are recorded within the income statement as interest income or interest expense, respectively.

The fair value of OTC financial instruments, including derivative contracts related to financial instruments, is presented in the accompanying balance sheet on a net-by-counterparty basis, when appropriate. Additionally, the Bank nets the fair value of cash collateral paid or received against the fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting agreement.

Fair Value Option

The Bank has elected to measure certain eligible instruments at fair value, including Loans and lending commitments, letters of credit, Deposits, Borrowings and Other secured financings.

Fair Value Measurement-Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Bank believes market participants would use in pricing the asset or liability at the measurement date. Where the Bank manages a group of financial assets, financial liabilities, and nonfinancial items accounted for as derivatives on the basis of its net exposure to either market risks or credit risk, the Bank measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

In determining fair value, the Bank uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Bank. Unobservable inputs are inputs that reflect assumptions the Bank believes other market participants would use in pricing the asset or liability that are developed based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

Level 1. Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Valuation adjustments, block discounts and discounts for entity-specific and contractual restrictions that would not

transfer to market participants are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2. Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, significant market inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.

Level 3. Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Bank in determining fair value is greatest for instruments categorized in Level 3 of the fair value hierarchy.

The Bank considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3 of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the total fair value amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of the asset or liability.

Valuation Techniques

Many cash instruments and OTC derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. The Bank carries positions at the point within the bid-ask range that meets its best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs, including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Bank, option volatility and currency rates.

Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty, and concentration risk and

funding in order to arrive at fair value. Adjustments for liquidity risk adjust model-derived mid-market amounts of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions.

The Bank applies credit-related valuation adjustments to its Borrowings for which the fair value option was elected and to OTC derivatives. The Bank considers the impact of changes in its own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for Borrowings.

For OTC derivatives, which are recognized in Trading assets at fair value in the balance sheet, the impact of changes in both the Bank's and the counterparty's credit rating is considered when measuring fair value. In determining the expected exposure, the Bank simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party CDS spread data. Where CDS spread data are unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that reference a comparable counterparty may be utilized. The Bank also considers collateral held and legally enforceable master netting agreements that mitigate its exposure to each counterparty.

Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible.

The Bank may apply concentration adjustments to certain of its OTC derivative portfolios to reflect the additional cost of closing out a particularly large risk exposure. Where possible, these adjustments are based on observable market information, but in many instances, significant judgment is required to estimate the costs of closing out concentrated risk exposures due to the lack of liquidity in the marketplace.

The Bank applies an FVA in the fair value measurements of OTC uncollateralized or partially collateralized derivatives and in collateralized derivatives where the terms of the agreement do not permit the reuse of the collateral received. In general, FVA reflects a market funding risk premium inherent in the noted derivative instruments. The methodology for measuring FVA leverages the Bank's existing credit related valuation adjustment calculation methodologies, which apply to both assets and liabilities.

See Note 6 for a description of valuation techniques applied to the major categories of financial instruments measured at fair value.

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

Certain of the Bank's assets and liabilities are measured at fair value on a non-recurring basis. The Bank incurs losses or gains for any adjustments of these assets or liabilities to fair value.

For assets and liabilities measured at fair value on a non-recurring basis, fair value is determined by using various valuation approaches. The same hierarchy for inputs as described above, which requires that observable inputs be used when available, is used in measuring fair value for these items.

For further information on financial assets and liabilities that are measured at fair value on a recurring and non-recurring basis, see Note 6.

Hedge Accounting

The Bank applies hedge accounting using various derivative financial instruments for the following types of hedges: hedges of changes in the fair value of assets and liabilities due to the risk being hedged (fair value hedges); and hedges of variability in forecasted cash flows from floating-rate assets due to contractually specified interest rates (cash flow hedges). These financial instruments are included within Trading assets or Trading liabilities in the balance sheet. For hedges where hedge accounting is being applied, the Bank performs effectiveness testing and other procedures. The change in the fair value of the designated portion of the hedging instrument should be highly correlated, between 80 and 125 percent of the change in fair value, cash flows, or carrying value (due to translation gains or losses) of the hedged item attributable to the risk being hedged. The Bank considers the impact of valuation adjustments related to counterparty credit spreads and its own credit spreads to determine whether they would cause the hedging relationship to be ineffective.

Fair Value Hedges—Interest Rate Risk

The Bank's designated fair value hedges consist of interest rate swaps designated as hedges of changes in the benchmark interest rate of certain fixed rate AFS securities. The Bank also designates interest rate swaps as fair value hedges of changes in the benchmark interest rate of certain fixed rate deposits. The Bank is permitted to hedge the full, or part of the, contractual term of the hedged instrument. The Bank uses regression analysis to perform ongoing prospective and retrospective assessments of the effectiveness of these hedging relationships.

For qualifying fair value hedges of benchmark interest rates, the change in the fair value of the derivative, offset by the change in the fair value attributable to the change in the benchmark interest rate risk of the hedged asset (liability), is recognized in earnings each period as a component of Interest income (expense). For AFS securities, the change in fair value of the hedged item due to changes other than the risk being hedged will continue to be reported in OCI. When a derivative is de-designated as a hedge, any basis adjustment remaining on the hedged asset (liability) is amortized to Interest income (expense) over the remaining life of the asset (liability) using the effective interest method.

Cash Flow Hedges—Interest Rate Risk

The Bank's designated cash flow hedges consist of interest rate derivatives designated as hedges of variability in forecasted cash flows from floating-rate assets due to changes in the contractually specified interest rates. The Bank uses regression analysis to perform an ongoing prospective and retrospective assessment of the effectiveness of these hedging relationships.

The objective of this strategy is to hedge the risk of changes in the hedged item's cash flows attributable to changes in the contractually specified interest rate. For qualifying cash flow hedges of contractually specified interest rates, changes in the fair value of the derivative are recorded in OCI and subsequently reclassified to earnings in the same periods when the hedged item affects earnings. If cash flow hedge accounting is discontinued, AOCI is released into earnings immediately if the cash flow of the hedged item is probable of not occurring. Otherwise the amount in AOCI is released into earnings as the forecasted transaction affects earnings.

Other Hedges

In addition to hedges that are designated and qualify for hedge accounting, the Bank uses derivatives to economically hedge credit risk associated with certain held-for-sale and held-for-investment corporate loans and lending commitments, and the related gains and losses are reported within Non-interest revenue—Gains and losses on financial assets and liabilities.

For further information on derivative instruments and hedging activities, see Note 12.

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.

Cash and cash equivalents also include Restricted cash, such as cash segregated in compliance with federal or other regulations, including the Bank's initial margin deposited with clearing organizations.

Trading Assets and Liabilities

Trading assets and liabilities primarily include equity securities, debt securities and foreign exchange currency derivative contracts. Trading assets and liabilities are reported at fair value. Fair value is determined by using various valuation approaches (see Note 7). Trading gains (losses) include realized and unrealized gains (losses) from the financial instruments designated as trading in the period that fair value changes. Such gains (losses) are reported as Gains and losses on financial assets and liabilities in the income statement.

Investment in Federal Reserve Bank of New York ("FRB")

As a member of the FRB of New York, the Bank is required to own shares of FRB capital stock. This requirement is based upon

a percentage of the Bank's capital and surplus. The FRB capital stock is a restricted security and is reported at cost and periodically reviewed for impairment. Impairment testing as of December 31, 2023 did not indicate any impairment. Dividend income associated with the FRB capital stock is recognized as Interest income in the income statement.

Investment in Federal Home Loan Bank ("FHLB")

As a member of the FHLB of New York, the Bank is required to own shares of FHLB capital stock. This requirement is based upon the amount of either eligible collateral or advances outstanding from the FHLB. FHLB capital stock is a restricted security and is reported at cost and is periodically reviewed for impairment. Impairment testing as of December 31, 2023 did not indicate any impairment. Dividend income associated with the FHLB capital stock is recognized as Interest income in the income statement.

Affordable Housing Tax Credit Investments

The Bank invests in qualified affordable housing projects in which it elects to account for investments using the proportional amortization method; under this method, the initial investment is amortized in proportion to the tax credits and other tax benefits received and the net investment performance is recognized in the income statement as a component of income tax expense. In addition, under the proportional amortization method, the value of the unfunded commitments to fund qualified affordable housing projects is included in Affordable housing tax credit investments on the Balance Sheet and a liability is recorded for the unfunded portion.

Securities Purchased Under Agreements to Resell ("Reverse Repurchase Agreements")

Securities purchased under agreements to resell are principally investment grade ABS that are carried on the balance sheet at the amounts of cash paid plus accrued interest.

Deposits

The Bank's deposits primarily consist of DDAs and CDs. DDA deposits are primarily interest-bearing accounts that have no maturity. Interest on these accounts accrues daily which is included in interest expense in the income statement.

CDs are recorded on a settlement date basis and accrue interest daily. Structured CDs are recorded at fair value under the fair value option election. Guaranteed coupon payments are recorded as interest expense in the income statement. Other realized and unrealized gains and losses related to CDs at fair value are reported as Other non-interest revenue in the income statement. Realized and unrealized gains and losses related to interest rate swaps and other equity derivative contracts used to hedge the interest rate and market risks for CDs that are not designated as accounting hedges are recorded in Other non-interest revenue in the income statement.

Receivable from Affiliates and Payable to Affiliates

Affiliate payable and receivable balances are reported net on a legal entity basis in the balance sheet.

Fee Income

Driven by transaction based fees the Bank receives pursuant to agreements with affiliates and unaffiliated third parties related to loans and lending commitments transacted by the Bank. Fees from affiliates compensate the Bank for relationship priced loans granted to clients of the affiliate. Such fees are reported as Non-interest revenues—Fee Income in the income statement, see Note 11.

Derivative Contracts

The Bank enters into certain derivative financial instruments for non-trading purposes. The Bank uses interest rate swaps primarily to manage interest rate risk arising from certain AFS securities and deposits. The Bank uses CDS to manage its earnings exposure to future changes in credit quality for a portion of its loan portfolio, including lending-related commitments. The Bank also uses equity derivative contracts to hedge its market risk exposure to structured CDs it has issued. The Bank recognizes all derivatives as either assets or liabilities at fair value. Realized and unrealized gains and losses related to derivative financial instruments that do not qualify for hedge accounting are recorded in Non-interest revenue—Gains and losses on financial assets and liabilities in the income statement.

Offsetting of Derivative Instruments

In connection with its derivative activities, the Bank generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Bank with the right, in the event of a default by the counterparty, to net a counterparty's rights and obligations under the agreement and to liquidate and set off cash collateral against any net amount owed by the counterparty. Derivatives with enforceable master netting agreements are reported net of cash collateral received and posted.

However, in certain circumstances, the Bank may not have such an agreement in place; the relevant insolvency regime may not support the enforceability of the master netting agreement or collateral agreement; or the Bank may not have sought legal advice to support the enforceability of the agreement. In cases where the Bank has not determined an agreement to be enforceable, the related amounts are not offset (see Note 12).

The Bank's policy is generally to receive cash and/or securities posted as collateral (with rights of rehypothecation) in connection with derivative transactions, irrespective of the enforceability determination regarding the master netting and collateral agreement. In certain cases, the Bank may agree for such collateral to be posted by the counterparty to a third-party custodian under a control agreement that enables it to take control of such collateral in the event of a counterparty default. The enforceability of the master netting agreement is taken into account in the Bank's risk management practices and application of counterparty credit limits.

For information related to offsetting of derivatives, see Note 12.

Letters of Credit

Certain of the Bank's letters of credit are fair valued under the fair value option. The fair value is based on reliable, observable market sources where possible. When there is no recent trading activity, fair value is determined by using various valuation approaches. Certain letters of credit of the Bank are recorded by recognizing an asset or liability for the estimated fair value of the obligation undertaken upon issuance of the guarantee.

Income Taxes

Deferred tax assets and liabilities are recorded based upon the temporary differences between the financial statement and income tax bases of assets and liabilities using currently enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income tax expense (benefit) in the period that includes the enactment date. Such effects are recorded in Provision for income taxes regardless of where deferred taxes were originally recorded.

The Bank recognizes net deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Bank considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and results of recent operations. When performing the assessment, the Bank considers all types of deferred tax assets in combination with each other, regardless of the origin of the underlying temporary difference. If a deferred tax asset is determined to be unrealizable, a valuation allowance is established. If the Bank subsequently determines that it would be able to realize deferred tax assets in excess of their net recorded amount, it would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

Uncertain tax positions are recorded on the basis of a two-step process whereby (i) the Bank determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position, and (ii) for those tax positions that meet this threshold, the Bank recognizes the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with the related tax authority. Interest and penalties related to unrecognized tax benefits are recognized as a component of the provision for income taxes.

Accounting Update Adopted in 2023***Financial Instruments-Credit Losses***

The Bank adopted the *Financial Instruments-Credit Losses* accounting update on January 1, 2023, with no impact on the Bank's financial condition or results of operations upon adoption.

This accounting update eliminates the accounting guidance for troubled debt restructurings and requires new disclosures regarding certain modifications of financing receivables (i.e.,

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principal forgiveness, interest rate reductions, other than insignificant, payment delays and term extensions) to borrowers experiencing financial difficulty. The update also requires disclosure of current period gross charge-offs by year of origination for financing receivables measured at amortized cost. Refer to Note 3, Loans, Lending Commitments and Related Allowance for Credit Losses, for the new disclosures.

Accounting Update Adopted in 2022

Reference Rate Reform

The Bank has adopted the Reference Rate Reform accounting update, which extends the period of time entities can utilize the reference rate reform relief guidance from December 31, 2022 to December 31, 2024. The relief provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions that reference LIBOR or other interest rate benchmarks for which the referenced rate is expected to be discontinued or replaced. The Bank is applying the accounting relief as relevant contract and hedge accounting relationship modifications are made during the course of the reference rate reform transition period. There was no impact to the Bank's financial statements upon issuance of this accounting standard update.

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

The Bank's loan portfolio consists of the following types of loans:

- *Corporate.* Corporate loans comprise relationship and event-driven loans and lending commitments supporting general and event-driven financing needs for the Bank's institutional clients, which 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 or hedged. Relationship loans and lending commitments are extended to select institutional clients, primarily for general corporate purposes and generally with the intent to hold for the foreseeable future. Event-driven loans and lending commitments are extended in connection with specific client transactions.
- *Secured Lending Facilities.* Secured lending facilities include loans provided to clients, which are collateralized by various assets, including commercial and residential real estate mortgage loans, investor commitments for capital calls, corporate loans and other assets. These facilities generally provide for over-collateralization. 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 value. The Bank monitors collateral levels against the requirements of lending agreements.
- *Commercial Real Estate.* Commercial real estate loans are primarily senior, secured by underlying real estate and typically in term loan form. Commercial real estate loans include owner-occupied loans and income-producing loans.

- *Residential Real Estate.* As part of its trading activities, the Bank holds residential real estate loans.
- *Securities-based lending and Other.* Securities-based lending and Other includes loans that allow clients to borrow money against the value of qualifying securities, generally for any suitable purpose other than purchasing, trading, or carrying securities or refinancing margin debt. The majority of these loans are structured as revolving lines of credit. Also included here are Corporate loans purchased in the secondary market.

Loans by Type

\$ in millions	At December 31, 2023			
	HFI Loans	HFS Loans	Loans at Fair Value	Total Loans
Corporate	\$ 3,702	\$ 6,375	\$ —	\$ 10,077
Secured lending facilities	38,961	1,976	—	40,937
Commercial real estate	8,512	161	266	8,939
Residential real estate	—	—	2,189	2,189
Securities-based lending and Other loans	16,407	2	1,575	17,984
Total loans	67,582	8,514	4,030	80,126
ACL	(654)	—	—	(654)
Total loans, net	\$ 66,928	\$ 8,514	\$ 4,030	\$ 79,472
Loans to non-U.S. borrowers, net	15,399	3,396	—	\$ 18,795

\$ in millions	At December 31, 2022			
	HFI Loans	HFS Loans	Loans at Fair Value	Total Loans
Corporate	\$ 3,597	\$ 3,352	\$ —	\$ 6,949
Secured lending facilities	35,248	2,041	—	37,289
Commercial real estate	8,493	845	444	9,782
Residential real estate	—	—	718	718
Securities-based lending and Other loans	19,566	1	3,351	22,918
Total loans	66,904	6,239	4,513	77,656
ACL	(468)	—	—	(468)
Total loans, net	\$ 66,436	\$ 6,239	\$ 4,513	\$ 77,188
Loans to non-U.S. borrowers, net	12,028	2,921	—	\$ 14,949

Loans by Interest Rate Type

\$ in millions	At December 31, 2023		At December 31, 2022	
	Fixed Rate	Floating or Adjustable Rate	Fixed Rate	Floating or Adjustable Rate
Corporate	\$ —	\$ 10,077	\$ —	\$ 6,949
Secured lending facilities	—	40,937	—	37,289
Commercial real estate	141	8,532	205	9,133
Securities-based lending and Other loans	3,516	12,893	4,755	14,812
Total loans, before ACL	\$ 3,657	\$ 72,439	\$ 4,960	\$ 68,183

See Note 6 for further information regarding Loans and lending commitments held at fair value. See Note 13 for details of current commitments to lend in the future.

Credit Quality

The Bank's CRM evaluates new obligors before credit transactions are initially approved and at least annually thereafter for corporate and commercial real estate loans. For Corporate, Secured lending facilities and Other loans, credit evaluations typically involve the evaluation of financial statements,

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assessment of leverage, liquidity, capital strength, asset composition and quality, market capitalization and access to capital markets, cash flow projections and debt service requirements, and the adequacy of collateral, if applicable. The Bank's CRM also evaluates strategy, market position, industry dynamics, obligor's management and other factors that could affect an obligor's risk profile.

For Commercial real estate loans, the credit evaluation is focused on property and transaction metrics, including property type, LTV ratio, occupancy levels, debt service ratio, prevailing capitalization rates, and market dynamics.

For Securities-based loans, the initial credit evaluation typically includes but is not limited to, review of the obligor's income, net worth, liquidity, collateral, LTV ratio, and credit bureau information. Subsequent credit monitoring for residential real estate loans is performed at the portfolio level. Securities-based loan collateral values are monitored on an ongoing basis.

For information related to credit quality indicators, considered in developing the ACL, see Note 2.

Loans Held for Investment before Allowance by Origination Year

\$ in millions	At December 31, 2023			At December 31, 2022		
	Corporate					
	IG	NIG	Total	IG	NIG	Total
Revolving	\$ 2,000	\$ 1,572	\$ 3,572	\$ 2,251	\$ 1,258	\$ 3,509
2023	—	69	69	—	—	—
2022	—	2	2	6	—	6
2021	5	—	5	—	24	24
2020	29	25	54	—	58	58
2019	—	—	—	—	—	—
Prior	—	—	—	—	—	—
Total	\$ 2,034	\$ 1,668	\$ 3,702	\$ 2,257	\$ 1,340	\$ 3,597

\$ in millions	At December 31, 2023			At December 31, 2022		
	Secured Lending Facilities					
	IG	NIG	Total	IG	NIG	Total
Revolving	\$ 9,494	\$ 22,192	\$ 31,686	\$ 9,445	\$ 21,142	\$ 30,587
2023	1,535	1,436	2,971	—	—	—
2022	392	2,141	2,533	1,135	1,337	2,472
2021	—	365	365	254	208	462
2020	—	80	80	—	98	98
2019	60	137	197	60	254	314
Prior	296	833	1,129	215	1,100	1,315
Total	\$ 11,777	\$ 27,184	\$ 38,961	\$ 11,109	\$ 24,139	\$ 35,248

\$ in millions	At December 31, 2023			At December 31, 2022		
	Commercial Real Estate					
	IG	NIG	Total	IG	NIG	Total
Revolving	\$ —	\$ 171	\$ 171	\$ —	\$ 204	\$ 204
2023	251	1,055	1,306	—	—	—
2022	284	1,900	2,184	379	2,201	2,580
2021	348	1,371	1,719	217	1,609	1,826
2020	—	756	756	—	728	728
2019	195	1,369	1,564	659	1,152	1,811
Prior	—	812	812	211	1,133	1,344
Total	\$ 1,078	\$ 7,434	\$ 8,512	\$ 1,466	\$ 7,027	\$ 8,493

\$ in millions	At December 31, 2023			
	Securities-based Lending ¹	Other		Total
		IG	NIG	
Revolving	\$ 13,516	\$ 47	\$ 113	\$ 13,676
2023	983	—	27	1,010
2022	1,063	—	95	1,158
2021	165	—	163	328
2020	—	11	107	118
2019	—	—	32	32
Prior	—	—	85	85
Total	\$ 15,727	\$ 58	\$ 622	\$ 16,407

\$ in millions	At December 31, 2022			
	Securities-based Lending ¹	Other		Total
		IG	NIG	
Revolving	\$ 16,573	\$ 17	\$ 94	\$ 16,684
2022	1,365	233	42	1,640
2021	725	—	120	845
2020	—	12	186	198
2019	—	—	77	77
Prior	—	—	122	122
Total	\$ 18,663	\$ 262	\$ 641	\$ 19,566

IG—Investment Grade

NIG—Non-investment Grade

1. Securities-based loans are subject to collateral maintenance provisions, and at December 31, 2023 and December 31, 2022, these loans are predominantly over-collateralized. For more information on the ACL methodology related to securities-based loans, see Note 2.

Past due loans held for investment before allowance were comprised of Commercial real estate of \$185 million and Secured lending facilities of \$85 million at December 31, 2023 and December 31, 2022, respectively. The majority of the amounts are past due for a period of less than 90 days as of December 31, 2023. The majority of the amounts are 90 days or more past due as of December 31, 2022.

Nonaccrual Loans Held for Investment before Allowance¹

\$ in millions	At December 31, 2023	At December 31, 2022
	Corporate	\$ —
Secured lending facilities	80	85
Commercial real estate	426	209
Securities-based lending and other loans	—	2
Total	\$ 506	\$ 316
Nonaccrual loans without an ACL	\$ —	\$ 2

1. There were no loans held for investment that were 90 days or more past due and still accruing as of December 31, 2023 and December 31, 2022. For further information on the Bank's nonaccrual policy, see Note 2 to the financial statements.

The Bank may modify the terms of certain loans for economic or legal reasons related to a borrower's financial difficulties, and these modifications include interest rate reductions, principal forgiveness, term extensions and other-than-insignificant payment delays or a combination of these aforementioned modifications. Modified loans are typically evaluated individually for allowance for credit losses. As of December 31, 2023, there were no loans held for investment modified in the current year with subsequent default.

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Modified Loans Held for Investment

Modified during the year ended December 31, 2023¹

\$ in millions	At December 31, 2023	
	Amortized Cost	% of Total Loans ²
	Term Extension	
Corporate	\$ 13	0.4 %
Commercial real estate	199	2.3 %
Total loans	\$ 212	—
	Combination-Multiple Modifications³	
Commercial real estate	\$ 24	0.3 %

1. Lending commitments to borrowers for which the bank had modified terms of the receivable were \$270 million as of December 31, 2023.
2. Percentage of total loans represents the percentage of modified loans to total loans held for investment by loan type.
3. Combination-Multiple Modifications includes loans with Term extension and Other-than-insignificant payment delay.

Financial Impact on Modified Loans Held for Investment

Modified during the year ended December 31, 2023¹

	At December 31, 2023	
	Term Extension ²	Combination-Multiple Modifications
Corporate	Added 1 year and 3 months to the life of the modified loan(s).	
Commercial Real Estate	Added 4 years and 2 months to the life of the modified loan(s).	
Commercial Real Estate		Added 7 months of Term extension and 6 months of Other-than-insignificant payment delay to the life of the modified loan(s).

1. Loans held for investment that were modified during the current year.
2. In instances where more than one loan was modified, modification impact is presented on a weighted-average basis.

Past Due Status for Loans Held for Investment Modified in the Last 12 months

\$ in millions	At December 31, 2023		
	30-89 Days Past Due	90+ days Past Due	Total
Commercial real estate	24	21	45
Total	24	21	45

Gross Charge-offs by Origination Year

\$ in millions	Year Ended December 31, 2023	
	Revolving	CRE
2019	\$ —	(85)
Prior	—	(44)
Total	\$ —	(129)

Allowance for Credit Losses Rollforward and Allocation—Loans and Lending Commitments

\$ in millions	Year Ended December 31, 2023				
	Corporate	Secured Lending Facilities	CRE	SBL and Other	Total
ACL—Loans					
Beginning balance	\$ 27	\$ 149	\$ 274	\$ 18	\$ 468
Gross charge-offs	—	—	(129)	—	(129)
Recoveries	1	—	—	—	1
Net (charge-offs) Recoveries	1	—	(129)	—	(128)
Provision (release)	(1)	(8)	313	6	310
Other	—	1	3	—	4
Ending balance	\$ 27	\$ 142	\$ 461	\$ 24	\$ 654
Percentage of loans to total loans ¹	5 %	58 %	13 %	24 %	100 %
ACL—Lending commitments					
Beginning balance	\$ 103	\$ 51	\$ 15	\$ 12	\$ 181
Provision (release)	16	18	11	(1)	44
Other	1	1	—	(1)	1
Ending balance	\$ 120	\$ 70	\$ 26	\$ 10	\$ 226
Total ending balance	\$ 147	\$ 212	\$ 487	\$ 34	\$ 880

\$ in millions	Year Ended December 31, 2022				
	Corporate	Secured Lending Facilities	CRE	SBL and Other	Total
ACL—Loans					
Beginning balance	\$ 27	\$ 156	\$ 206	\$ 11	\$ 400
Gross charge-offs	—	—	(7)	—	(7)
Recoveries	—	—	—	—	—
Net (charge-offs) Recoveries	—	—	(7)	—	(7)
Provision (release)	—	(6)	80	6	80
Other	—	(1)	(5)	1	(5)
Ending balance	\$ 27	\$ 149	\$ 274	\$ 18	\$ 468
Percentage of loans to total loans ¹	5%	53%	13%	29%	100%
ACL—Lending commitments					
Beginning balance	\$ 119	\$ 41	\$ 20	\$ 11	\$ 191
Provision (release)	(15)	10	(5)	2	(8)
Other	(1)	—	—	(1)	(2)
Ending balance	\$ 103	\$ 51	\$ 15	\$ 12	\$ 181
Total ending balance	\$ 130	\$ 200	\$ 289	\$ 30	\$ 649

CRE—Commercial real estate
SBL—Securities-based lending

1. Percentage of loans to total loans represents loans held for investment by loan type to total loans held for investment.

Provision for credit losses

\$ in millions	2023	2022
Loans	\$ 310	\$ 80
Lending commitments	\$ 44	\$ (8)

The allowance for credit losses for loans and lending commitments increased in 2023, primarily due to deteriorating conditions in the commercial real estate sector including provisions for certain specific loans, mainly in the office portfolio, and modest growth in certain other loan portfolios. Charge-offs for the year ended December 31, 2023 were related to Commercial real estate. The base scenario used in our ACL

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models as of December 31, 2023 was generated using a combination of consensus economic forecasts, forward rates, and internally developed and validated models, and assumes slow economic growth in 2024 followed by a gradual improvement in 2025. Given the nature of our lending portfolio, the most sensitive model input is U.S. GDP.

See Note 2 for a description of the ACL calculated under the CECL methodology, including credit quality indicators used for held-for-investment loans.

Selected Credit Ratios

	At December 31, 2023	At December 31, 2022
ACL for loans to total HFI loans	1.0 %	0.7 %
Nonaccrual HFI loans to total HFI loans	0.7 %	0.5 %
ACL for loans to nonaccrual HFI loans	129.1 %	147.7 %

4. Interest Income and Interest Expense

<i>\$ in millions</i>	2023	2022
Interest income		
Cash and cash equivalents	\$ 1,360	\$ 380
Investment securities	2,126	1,473
Securities purchased under agreements to resell	337	139
Loans, including fees and Other ¹	5,622	2,966
Total interest income	\$ 9,445	\$ 4,958
Interest expense		
Deposits and Other ²	\$ 4,129	\$ 875
Borrowings	170	9
Total interest expense	\$ 4,299	\$ 884
Net interest	\$ 5,146	\$ 4,074

1. Other includes the impact of certain trading activities, loans to affiliate, and dividends on FRB and FHLB capital stock.
2. Other primarily includes the impact of net advances from and payables to the Parent.

5. Investment Securities

AFS and HTM Securities

<i>\$ in millions</i>	At December 31, 2023			
	Amortized Cost ¹	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS securities				
U.S. Treasury securities	\$ 27,754	\$ 9	\$ 400	\$ 27,363
U.S. agency securities ²	18,621	2	1,741	16,882
Agency CMBS	2,314	—	203	2,111
State and municipal securities	1,133	45	5	1,173
FFELP Student loan ABS ³	534	—	13	521
Total AFS securities	50,356	56	2,362	48,050
HTM securities				
U.S. Treasury securities	8,640	—	614	8,026
U.S. agency securities ²	14,009	—	2,451	11,558
Non-agency CMBS	1,241	2	139	1,104
Total HTM securities	23,890	2	3,204	20,688
Total investment securities	\$ 74,246	\$ 58	\$ 5,566	\$ 68,738

<i>\$ in millions</i>	At December 31, 2022			
	Amortized Cost ¹	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS securities				
U.S. Treasury securities	\$ 29,607	\$ 17	\$ 950	\$ 28,674
U.S. agency securities ²	16,173	—	1,888	14,285
Agency CMBS	2,347	—	239	2,108
State and municipal securities	2,599	70	42	2,627
FFELP student loan ABS ³	640	—	26	614
Total AFS securities	51,366	87	3,145	48,308
HTM securities				
U.S. Treasury securities	9,235	—	773	8,462
U.S. agency securities ²	15,171	—	2,732	12,439
Non-agency CMBS	1,178	—	144	1,034
Total HTM securities	25,584	—	3,649	21,935
Total investment securities	\$ 76,950	\$ 87	\$ 6,794	\$ 70,243

1. Amounts are net of ACL.
2. U.S. agency securities consist mainly of agency mortgage pass-through pool securities, CMOs and agency-issued debt.
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.

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AFS Securities in an Unrealized Loss Position

\$ in millions	At December 31, 2023		At December 31, 2022	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities				
Less than 12 months	\$ 7,523	\$ 15	\$ 23,104	\$ 799
12 months or longer	13,631	385	5,302	151
Total	21,154	400	28,406	950
U.S. agency securities				
Less than 12 months	4,109	40	8,710	704
12 months or longer	12,501	1,701	5,276	1,184
Total	16,610	1,741	13,986	1,888
Agency CMBS				
Less than 12 months	—	—	1,940	217
12 months or longer	2,111	203	169	22
Total	2,111	203	2,109	239
State and municipal securities				
Less than 12 months	524	3	2,106	40
12 months or longer	35	2	65	2
Total	559	5	2,171	42
FFELP student loan ABS				
Less than 12 months	32	1	215	8
12 months or longer	415	12	399	18
Total	447	13	614	26
Total AFS securities in an unrealized loss position				
Less than 12 months	12,188	59	36,075	1,768
12 months or longer	28,693	2,303	11,211	1,377
Total	\$ 40,881	\$ 2,362	\$ 47,286	\$ 3,145

For AFS securities, the Bank believes there are no securities in an unrealized loss position that have credit losses after performing the analysis described in Note 2. Additionally, the Bank does not intend to sell these securities and is not likely to be required to sell these securities prior to recovery of the amortized cost basis. As of December 31, 2023 and December 31, 2022, the securities in an unrealized loss position are predominantly investment grade.

The HTM securities net carrying amounts at December 31, 2023 and December 31, 2022 reflect an ACL of \$44 million and \$34 million, respectively, related to Non-agency CMBS. See Note 2 for a description of the ACL methodology used for HTM Securities. As of December 31, 2023 and December 31, 2022, Non-agency CMBS HTM securities were predominantly on accrual status and 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.

Investment Securities by Contractual Maturity

\$ in millions	At December 31, 2023		
	Amortized Cost ¹	Fair Value	Annualized Average Yield ^{2,3}
AFS securities			
U.S. Treasury securities:			
Due within 1 year	\$ 7,144	\$ 7,035	1.1 %
After 1 year through 5 years	19,072	18,794	2.7 %
After 5 years through 10 years	1,538	1,534	4.0 %
Total	27,754	27,363	
U.S. agency securities:			
After 1 year through 5 years	314	297	1.8 %
After 5 years through 10 years	324	300	1.9 %
After 10 years	17,983	16,285	3.7 %
Total	18,621	16,882	
Agency CMBS:			
After 1 year through 5 years	1,132	1,063	2.3 %
After 5 years through 10 years	976	872	2.5 %
After 10 years	206	176	1.8 %
Total	2,314	2,111	
State and municipal securities:			
Due within 1 year	27	28	5.2 %
After 1 year through 5 years	185	184	4.7 %
After 5 years through 10 years	7	9	4.1 %
After 10 years	914	952	4.2 %
Total	1,133	1,173	
FFELP student loan ABS:			
After 1 year through 5 years	78	75	6.1 %
After 5 years through 10 years	94	90	6.0 %
After 10 years	362	356	6.2 %
Total	534	521	
Total AFS securities	50,356	48,050	2.9 %

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\$ in millions	At December 31, 2023		
	Amortized Cost ¹	Fair Value	Annualized Average Yield ²
HTM securities			
U.S. Treasury securities:			
Due within 1 year	\$ 1,448	\$ 1,432	2.4 %
After 1 year through 5 years	4,514	4,272	1.9 %
After 5 years through 10 years	1,599	1,509	2.6 %
After 10 years	1,079	813	2.5 %
Total	8,640	8,026	
U.S. agency securities:			
After 1 year through 5 years	6	6	1.8 %
After 5 years through 10 years	271	255	2.0 %
After 10 years	13,732	11,297	1.9 %
Total	14,009	11,558	
Non-agency CMBS:			
Due within 1 year	208	186	4.0 %
After 1 year through 5 years	342	322	4.6 %
After 5 years through 10 years	642	549	3.7 %
After 10 years	49	47	5.7 %
Total	1,241	1,104	
Total HTM securities	23,890	20,688	2.1 %
Total Investment securities	\$ 74,246	\$ 68,738	2.7 %

1. Amounts are net of ACL.

2. Annualized average yield is computed using the effective yield, weighted based on the amortized cost of each security. The effective yield is shown pre-tax and excludes the effect of related hedging derivatives.

3. At December 31, 2023, the annualized average yield, including the interest rate swap accrual of related hedges, was 1.3% for AFS securities contractually maturing within 1 year and 3.9% for all AFS securities.

Gross Realized Gains (Losses) on Sales of AFS Securities

\$ in millions	2023	2022
Gross realized gains	\$ 70	\$ 52
Gross realized (losses)	(21)	(8)
Total¹	\$ 49	\$ 44

1. Gross realized gains and losses are recognized in Non-interest revenues—Gains and losses on financial assets and liabilities in the income statement.

Changes in Accumulated Other Comprehensive Income (Loss) by component, net of tax:

\$ in millions	Changes in Net Unrealized Gains (Losses) on AFS Securities	
	2023	2022
Beginning Balance	\$ (2,338)	\$ 183
Other comprehensive income (loss) before reclassifications	610	(2,487)
Amounts reclassified from AOCI	(37)	(34)
Net other comprehensive income (loss) during the period	573	(2,521)
Ending Balance	\$ (1,765)	\$ (2,338)

6. Fair Values

Recurring Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

\$ in millions	At December 31, 2023				
	Level 1	Level 2	Level 3	Netting	Total
Assets at fair value					
Trading assets:					
State and municipal securities	\$ —	\$ 237	\$ —	\$ —	\$ 237
Corporate and other debt ¹	—	4,417	33	—	4,450
Corporate equity	16,405	—	—	—	16,405
Derivative contracts:					
Foreign exchange	—	810	1	—	811
Interest rate	7	1,700	2	—	1,709
Credit	—	64	145	—	209
Equity and other	—	899	205	—	1,104
Netting ²	(5)	(3,063)	(54)	(355)	(3,477)
Total derivative contracts	2	410	299	(355)	356
Total trading assets³	16,407	5,064	332	(355)	21,448
Investment securities—AFS					
U.S. Treasury securities	27,363	—	—	—	27,363
U.S. agency securities	—	16,882	—	—	16,882
MABS	—	2,632	—	—	2,632
State and municipal securities	—	1,173	—	—	1,173
Total Investment securities —AFS	27,363	20,687	—	—	48,050
Loans at fair value	—	3,290	740	—	4,030
Total assets at fair value	\$ 43,770	\$ 29,041	\$ 1,072	\$ (355)	\$ 73,528

\$ in millions	At December 31, 2023				
	Level 1	Level 2	Level 3	Netting	Total
Liabilities at fair value					
Interest-bearing deposits	\$ —	\$ 3,870	\$ 33	\$ —	\$ 3,903
Trading liabilities:					
Corporate equity	—	—	—	—	—
Derivative contracts:					
Foreign exchange	—	1,163	—	—	1,163
Interest rate	26	1,330	—	—	1,356
Credit	—	533	90	—	623
Equity and other	—	652	167	—	819
Netting ²	(5)	(3,063)	(54)	(557)	(3,679)
Total trading liabilities	21	615	203	(557)	282
Other secured financings	—	872	—	—	872
Borrowings	—	1,124	—	—	1,124
Total liabilities at fair value	\$ 21	\$ 6,481	\$ 236	\$ (557)	\$ 6,181

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\$ in millions	At December 31, 2022				
	Level 1	Level 2	Level 3	Netting	Total
Assets at fair value					
Trading assets:					
State and municipal securities	\$ —	\$ 55	\$ 13	\$ —	\$ 68
Corporate and other debt ¹	—	3,226	33	—	3,259
Corporate equity	7,824	—	—	—	7,824
Derivative contracts:					
Foreign exchange	—	432	—	—	432
Interest rate	3	1,855	—	—	1,858
Credit	—	67	160	—	227
Equity and other	—	1,156	—	—	1,156
Netting ²	—	(1,880)	—	(1,453)	(3,333)
Total derivative contracts	3	1,630	160	(1,453)	340
Total trading assets ³	7,827	4,911	206	(1,453)	11,491
Investment securities—AFS					
U.S. Treasury securities	28,674	—	—	—	28,674
U.S. agency securities	—	14,285	—	—	14,285
MABS	—	2,722	—	—	2,722
State and municipal securities	—	2,592	35	—	2,627
Total Investment securities—AFS	\$ 28,674	\$ 19,599	\$ 35	\$ —	\$ 48,308
Loans at fair value	—	3,636	877	—	4,513
Total assets at fair value	\$ 36,501	\$ 28,146	\$ 1,118	\$ (1,453)	\$ 64,312

\$ in millions	At December 31, 2022				
	Level 1	Level 2	Level 3	Netting	Total
Liabilities at fair value					
Interest-bearing deposits	\$ —	\$ 3,157	\$ 20	\$ —	\$ 3,177
Trading liabilities					
Corporate equity	1	—	—	—	1
Derivative contracts:					
Foreign exchange	—	803	—	—	803
Interest rate	—	1,273	48	—	1,321
Credit	—	268	88	—	356
Equity and other	—	299	10	—	309
Netting ²	—	(1,880)	—	(713)	(2,593)
Total trading liabilities	\$ 1	\$ 763	\$ 146	\$ (713)	\$ 197
Other secured financings	—	241	—	—	241
Total liabilities at fair value	\$ 1	\$ 4,161	\$ 166	\$ (713)	\$ 3,615

1. Includes equity contracts with financing features, and MABS.
2. 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, see Note 12.
3. 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.

Valuation Techniques for Assets and Liabilities Measured at Fair Value on a Recurring Basis

State and Municipal Securities

Valuation Techniques:

- Fair value is determined using recently executed transactions, market price quotations or pricing models that factor in, where applicable, interest rates, bond or CDS spreads, adjusted for any basis difference between cash and derivative instruments.

Valuation Hierarchy Classification:

- Level 2—if value based on observable market data supported by market liquidity for comparable instruments.
- Level 3—in instances where market data are not observable or supported by market liquidity.

Corporate and Other Debt

Corporate Bonds

Valuation Techniques:

- Fair value is determined using recently executed transactions, market price quotations, bond spreads and CDS spreads obtained from independent external parties, such as vendors and brokers, adjusted for any basis difference between cash and derivative instruments.
- The spread data used are for the same maturity as the bond. If the spread data do not reference the issuer, then data that reference comparable issuers are used. When position-specific external price data are not observable, fair value is determined based on either benchmarking to comparable instruments or cash flow models with yield curves, bond or single-name CDS spreads and recovery rates or loss given default as significant inputs.

Valuation Hierarchy Classification:

- Level 2—if value based on observable market data for comparable instruments.
- Level 3—in instances where prices or significant spread inputs are unobservable or if the comparability assessment involves significant subjectivity.

Corporate Equities

Valuation Techniques:

- Exchange-traded equity securities are generally valued based on quoted prices from the exchange.

Valuation Hierarchy Classification:

- Level 1—actively traded exchange-traded securities and fund units.

Derivative and Other Contracts

OTC Derivative Contracts

Valuation Techniques:

- OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices.
- Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgment since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, many equity, commodity and foreign currency option contracts, and certain CDS. In the case of more established derivative products, the pricing models used by the Bank are widely accepted by the financial services industry.
- More complex OTC derivative products are typically less liquid and require more judgment in the implementation of the valuation technique since direct trading activity or quotes are unobservable. This includes certain types of interest rate

derivatives with both volatility and correlation exposure, equity, commodity or foreign currency derivatives that are either longer-dated or include exposure to multiple underlyings, and credit derivatives, including CDS on certain mortgage- or asset-backed securities and basket CDS. Where required inputs are unobservable, relationships to observable data points, based on historical and/or implied observations, may be employed as a technique to estimate the model input values. For further information on the valuation techniques for OTC derivative products, see Note 2.

Valuation Hierarchy Classification:

- Level 1—when actively traded
- Level 2—when valued using observable inputs supported by market liquidity or where the unobservable input is not deemed significant.
- Level 3—when value using observable inputs with limited market liquidity or if an unobservable input is deemed significant.

Equity Contracts with Financing Features

Valuation Techniques:

- Fair value of certain equity contracts, which are not classified as OTC derivatives because they do not meet the net investment criteria, is determined by discounting future interest cash flows, inclusive of the estimated value of the embedded optionality. The valuation uses the same derivative pricing models and valuation techniques as described under “OTC Derivative Contracts” herein.

Valuation Hierarchy Classification:

- Level 2—when the contract is valued using observable inputs or where the unobservable input is not deemed significant.
- Level 3—when the contract is valued using an unobservable input that is deemed significant.

Investment Securities—AFS Securities

Valuation Techniques:

- AFS securities are composed of U.S. government and agency securities (e.g., U.S. Treasury securities, agency-issued debt, agency mortgage pass-through securities and CMOs), CMBS, ABS, state and municipal securities, and corporate bonds. For further information on the determination of fair value, refer to the corresponding asset/liability Valuation Technique described herein for the same instruments.

Valuation Hierarchy Classification:

- For further information on the determination of valuation hierarchy classification, see the corresponding Valuation Hierarchy Classification described herein.

U.S. Treasury and Agency Securities

U.S. Treasury Securities

Valuation Technique:

- Fair value is determined using quoted market prices.

Valuation Hierarchy Classification:

- Level 1—as inputs are observable and in an active market.

U.S. Agency Securities

Valuation Techniques:

- The fair value of agency mortgage pass-through pool securities is model-driven based on spreads of comparable to-be-announced securities.

- CMOs are generally valued using quoted market prices and trade data adjusted by subsequent changes in related indices for comparable instruments.

Valuation Hierarchy Classification:

- Level 2—all other agency issued debt securities, agency mortgage pass-through pool securities and CMOs if actively traded and inputs are observable.

MABS

Valuation Techniques:

- Mortgage- and asset-backed securities, including Federal Family Education Loan Program (FFELP), may be valued based on price or spread data obtained from observed transactions or independent external parties such as vendors or brokers.
- When position-specific external price data are not observable, the fair value determination may require benchmarking to comparable instruments, and/or analyzing expected credit losses, default and recovery rates, and/or applying discounted cash flow techniques. When evaluating the comparable instruments for use in the valuation of each security, security collateral-specific attributes, including payment priority, credit enhancement levels, type of collateral, delinquency rates and loss severity, are considered.
- Market standard cash flow models may be utilized to model the specific collateral composition and cash flow structure of each transaction. Key inputs to these models are market spreads, forecasted credit losses, and default and prepayment rates for each asset category.
- Valuation levels of CMBS indices are used as an additional data point for benchmarking purposes or to price outright index positions.

Valuation Hierarchy Classification:

- Level 2—if value based on observable market data supported by market liquidity for comparable instruments.
- Level 3—if external prices or significant spread inputs are unobservable or not supported by market liquidity or if the comparability assessment involves significant subjectivity related to property type differences, cash flows, performance or other inputs.

Loans and Lending Commitments

Valuation Techniques:

- Fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, market observable CDS spread levels obtained from independent external parties adjusted for any basis difference between cash and derivative instruments, along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable.
- Fair value of mortgage loans is determined using observable prices based on transactional data or third-party pricing for comparable instruments, when available.
- Where position-specific external prices are not observable, fair value is estimated based on benchmarking to prices and rates observed in the primary market for similar loan or borrower types or based on the present value of expected future cash flows using the Bank’s best available estimates of the key assumptions, including forecasted credit losses,

prepayment rates, forward yield curves and discount rates commensurate with the risks involved or a methodology that utilizes the capital structure and credit spreads of recent comparable securitization transactions.

- Fair value of equity margin loans is determined by discounting future interest cash flows, net of potential losses resulting from large downward price movements of the underlying margin loan collateral. The potential losses are modeled using the margin loan rate, which is calibrated from market observable CDS spreads, implied debt yields or volatility metrics of the loan collateral.

Valuation Hierarchy Classification:

- Level 2—if value based on observable market data supported by market liquidity for comparable instruments.
- Level 3—in instances where prices or significant spread inputs are unobservable or not supported by market liquidity or if the comparability assessment involves significant subjectivity.

Deposits

Valuation Techniques:

- The Bank issues FDIC-insured certificates of deposit that pay either fixed coupons or that have repayment terms linked to the performance of debt or equity securities, indices or currencies. The fair value of these certificates of deposit is determined using valuation models that incorporate observable inputs referencing identical or comparable securities, including prices to which the deposits are linked, interest rate yield curves, option volatility and currency rates, equity prices, and the impact of the Bank's own credit spreads, adjusted for the impact of the FDIC insurance, which is based on vanilla deposit issuance rates.

Valuation Hierarchy Classification:

- Level 2—when valuation inputs are observable.
- Level 3—in instances where the unobservable input is deemed significant.

Other Secured Financings

Valuation Techniques:

- Other secured financings are composed of short-dated notes secured by Corporate equities, liabilities related to sales of Loans and lending commitments accounted for as financings and secured contracts that are not classified as OTC derivatives because they fail net investment criteria. For further information on the determination of fair value, refer to the Valuation Techniques described herein for the corresponding instruments, which are the collateral referenced by the other secured financing liability.

Valuation Hierarchy Classification:

- For further information on the determination of valuation hierarchy classification, see the Valuation Hierarchy Classification described herein for the corresponding instruments, which are the collateral referenced by the other secured financing liability.

Borrowings

Valuation Techniques:

- The Bank carries a borrowing at fair value that relates to an unsecured contract which is not classified as an OTC derivative because it failed the initial net investment criteria.

- Fair value is determined using valuation models for the derivative and debt portions of the instruments. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the instruments are linked, interest rate yield curves, option volatility and currency rates, and commodity or equity prices.
- Independent, external and traded prices are considered, as well as the impact of the Bank's own credit spreads, which are based on observed secondary bond market spreads.

Valuation Hierarchy Classification:

- Level 2—when valued using observable inputs or where the unobservable input is not deemed significant.

Notes to Consolidated Financial Statements

Morgan Stanley Bank, N.A.

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

\$ in millions	2023	2022
Trading Assets^{1,3}		
Beginning balance	\$ 46	\$ 37
Realized and unrealized gains (losses)	(13)	(3)
Purchases ⁴	17	12
Sales	(5)	(8)
Net transfers ⁵	(12)	8
Ending balance	\$ 33	\$ 46
Unrealized gains (losses) ⁶	(13)	(6)
Loans²		
Beginning balance	\$ 877	\$ 2,258
Realized and unrealized gains (losses)	10	11
Purchases and originations ⁴	750	171
Sales	\$ (71)	\$ (64)
Settlements	\$ (824)	\$ (1,503)
Net transfers ⁵	\$ (2)	\$ 4
Ending balance	740	877
Unrealized gains (losses) ⁶	7	8
Derivative contracts, net³		
Beginning balance	\$ 14	\$ 110
Realized and unrealized gains (losses)	(113)	(64)
Purchases ⁴	53	—
Issuances	(8)	—
Settlements	90	(32)
Net transfers ⁵	60	—
Ending balance	\$ 96	\$ 14
Unrealized gains (losses) ⁶	(112)	(48)
Investment securities—AFS		
Beginning balance	\$ 35	\$ —
Realized and unrealized gains (losses)	—	(3)
Sales	(32)	—
Net transfers ⁵	(3)	38
Ending balance	\$ —	\$ 35
Unrealized gains (losses) ⁶	—	(3)
Deposits		
Beginning balance	\$ 20	\$ 68
Realized and unrealized gains (losses)	1	—
Issuances	25	11
Settlements	(1)	20
Net transfers ⁵	(12)	(79)
Ending balance	\$ 33	\$ 20
Unrealized gains (losses) ⁶	1	—

- Trading assets include state and municipal securities, and other debt at December 31, 2023 and include other debt at December 31, 2022.
- Realized and unrealized gains (losses) are included in Non-interest revenue—Gain on loans in the income statement.
- Realized and unrealized gains (losses) are included in Non-interest revenue within Gains and losses on financial assets and liabilities in the income statement.
- Loan originations are included in purchases.
- Reclassifications between levels are driven by the unobservable inputs and whether such inputs are significant to the valuation.
- Amounts represent unrealized gains (losses) for the year ended December 31, 2023 and December 31, 2022 related to Level 3 assets and liabilities still held by the Bank at December 31, 2023 and December 31, 2022, respectively.

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

been classified by the Bank 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 unrealized gains (losses) are primarily included in Non-interest revenues within Gains and losses on financial assets and liabilities in the income statement.

Notes to Consolidated Financial Statements

Morgan Stanley Bank, N.A.

Significant Unobservable Inputs Used in Recurring and Non-recurring Level 3 Fair Value Measurements

Valuation Techniques and Unobservable Inputs

\$ in millions, except inputs	Balance / Range (Average ¹)	
	At December 31, 2023	At December 31, 2022
Assets		
Trading assets: Corporate and other debt	\$ 13	\$ 12
Comparable pricing:		
Comparable bond price	0 to 1 points (0.28 points)	0 to 1 point (1 point)
MABS	\$ 20	\$ 22
Comparable pricing:		
Comparable bond pricing	93 to 94 points (94 points)	89 to 92 points (91 points)
Loans	\$ 740	\$ 877
Securities-based lending model:		
Securities-based lending rate	2% to 4% (3%)	2% to 4% (3%)
Comparable pricing:		
Comparable loan price	96 to 100 points (98 points)	96 to 99 points (97 points)
Investment securities—AFS: State and municipal securities	\$ —	\$ 35
Comparable pricing:		
Comparable bond pricing	N/M	92 to 101 points (96 points)
Net Derivative contracts		
Equity	\$ 40	\$ (10)
Option model:		
Equity volatility model	7% to 36% (9%)	7% to 26% (7%)
Equity volatility skew model	-1% to 0% (0%)	-1% to 0% (0%)
Interest Rate	\$ 2	\$ (48)
Option model:		
Interest rate volatility skew	108% to 133% (116%)	124% to 147% (131%)
Credit	\$ 55	\$ 72
ISWAP model:		
Lapse rate	1.75% (1.75%)	1.75% (1.75%)
Liabilities		
Interest-bearing deposits	\$ 33	\$ 20
Option model:		
Equity volatility	7% to 13% (7%)	7% (7%)
Nonrecurring Fair Value Measurement		
Loans	803	1,684
Corporate Loan Model:		
Credit spread	99 bps - 449 bps (257 bps)	126 bps to 764 bps (302 bps)
Warehouse Model:		
Credit spread	115 bps - 268 bps (185 bps)	110 bps to 319 bps (243 bps)

Points—Percentage of par
ISWAP—Insurance Swap

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.

An increase (decrease) to the following significant unobservable inputs would generally result in a higher (lower) fair value.

- *Comparable Bond or Loan Price.* A pricing input used when prices for the identical instrument are not available. Significant subjectivity may be involved when fair value is determined using pricing data available for comparable instruments. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable bond or loan, then adjusting that yield (or spread) to derive a value for the bond or loan. The adjustment to yield (or spread) should account for relevant differences in the bonds or loans, such as maturity or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and the bond or loan being valued in order to establish the value of the bond or loan.

An increase (decrease) to the following significant unobservable inputs would generally result in a lower (higher) fair value.

- *Securities-based Lending.* The annualized rate that reflects the possibility of losses as a result of movements in the price of the underlying margin loan collateral. The rate is calibrated from the discount rate, credit spreads and/or volatility measures.
- *Lapse Rate.* The rate at which life insurance policies are terminated due to failure to pay the insurance premiums. This rate includes voluntary and involuntary stop payments.

An increase (decrease) to the following significant unobservable inputs would generally result in an impact to the fair value, but the magnitude and direction of the impact would depend on whether the Bank is long or short the exposure.

- *Volatility.* The measure of variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option, the tenor and the strike price of the option.
- *Volatility Skew.* The measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes.
- *Credit Spread.* The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk. The credit spread of a particular security is often quoted in relation to the yield on a credit risk-free benchmark security or reference rate.

Notes to Consolidated Financial Statements

Morgan Stanley Bank, N.A.

Net Asset Value Measurements

Fund Interests

\$ in millions	At December 31, 2023		At December 31, 2022	
	Carrying Value	Unfunded Commitments	Carrying Value	Unfunded Commitments
Private equity funds	\$ 130	\$ 82	\$ 100	\$ 101
Real estate funds	1,296	3	1,384	9
Total	\$ 1,426	\$ 85	\$ 1,484	\$ 110

Amounts in the previous table represent the Bank's carrying value of general and limited partnership interests in fund investments, as well as any related performance-based income 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.

Private Equity. Funds that pursue multiple strategies, including leveraged buyouts, venture capital, infrastructure growth capital, distressed investments and mezzanine capital. In addition, the funds may be structured with a focus on specific geographic regions.

Real Estate. Funds that invest in real estate assets such as commercial office buildings, retail properties, multifamily residential properties, developments or hotels. In addition, the funds may be structured with a focus on specific geographic regions.

Investments in private equity and real estate funds generally are not redeemable due to the closed-end nature of these funds. Instead, distributions from each fund will be received as the underlying investments of the funds are disposed and monetized.

Nonredeemable Funds by Contractual Maturity

\$ in millions	Carrying value at December 31, 2023	
	Private Equity	Real Estate
Less than 5 years	\$ 58	\$ 145
5-10 years	72	1,151
Total	\$ 130	\$ 1,296

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

\$ in millions	At December 31, 2023			
	Carrying Value	Level 2	Level 3	Total gains (losses) ¹
Assets				
Loans ¹	\$ 3,189	\$ 2,386	\$ 803	\$ (127)
Liabilities				
Other liabilities and accrued expenses ²	\$ 52	\$ 43	\$ 9	\$ 17

\$ in millions	At December 31, 2022			
	Carrying Value	Level 2	Level 3	Total gains (losses) ¹
Assets				
Loans ¹	\$ 4,017	\$ 2,333	\$ 1,684	\$ (98)
Liabilities				
Other liabilities and accrued expenses ²	\$ 121	\$ 91	\$ 30	\$ (15)

- Gains (losses) are recorded within Gains and losses on financial assets and liabilities in the income statement.
- Non-recurring changes in the fair value of loans and lending commitments, which exclude the impact of related economic hedges, are 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.

Financial Instruments Not Measured at Fair Value

\$ in millions	Carrying Value	At December 31, 2023			
		Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$ 11,859	\$ 11,859	\$ —	\$ —	\$ 11,859
Securities purchased under agreement to resell	17,546	—	15,739	1,835	17,574
Investment securities—HTM	23,890	8,026	11,558	1,104	20,688
Loans ¹					
Held for investment	66,928	—	18,037	49,045	67,082
Held for sale	8,514	—	6,266	2,254	8,520
Affordable housing tax credit investments	909	—	—	774	774
Loans to affiliate	469	—	474	—	474
Accrued Interest Receivable	894	—	894	—	894
Other assets	2,225	—	2,225	—	2,225
Financial liabilities					
Deposits	\$ 172,004	\$ —	\$ 172,050	\$ —	\$ 172,050
Payable to affiliates	573	—	574	—	574
Borrowings	6,181	—	6,258	—	6,258
Affordable housing tax credit investments	311	—	—	311	311
Accrued interest payable	619	—	619	—	619
Other liabilities and accrued expenses	1,024	—	1,024	—	1,024
		Commitment Amount			
Lending commitments ³	\$ 101,183	\$ —	\$ 847	\$ 417	\$ 1,264

Notes to Consolidated Financial Statements

Morgan Stanley Bank, N.A.

\$ in millions	At December 31, 2022				
	Carrying Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and cash equivalents	\$ 28,457	\$ 28,457	\$ —	\$ —	\$ 28,457
Securities purchased under agreement to resell	4,488	—	3,645	843	4,488
Investment securities—HTM	25,584	8,463	12,439	—	20,902
Loans¹					
Held for investment	66,436	—	15,268	51,082	66,350
Held for sale	6,239	—	3,524	2,722	6,246
Affordable housing tax credit investments	922	—	—	779	779
Other assets	1,803	—	1,803	—	1,803
Financial liabilities					
Deposits ²	\$ 177,356	\$ —	\$ 177,356	\$ —	\$ 177,356
Payable to affiliates	577	—	577	—	577
Borrowings	693	—	693	—	693
Other liabilities and accrued expenses	1,944	—	1,570	374	1,944
	Commitment Amount				
Lending commitments ³	\$ 89,857	\$ —	\$ 1,086	\$ 469	\$ 1,555

1. Includes all loans measured at fair value on a non-recurring basis.

2. Includes all deposits.

3. Represents Lending commitments accounted for as Held for Investment and Held for Sale. For a further discussion on lending commitments, see Note 13.

Fair Value Option

The Bank 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. Net (loss) gain due to fair value option was \$(211) million and \$170 million for the years ended December 31, 2023 and December 31, 2022, respectively.

(Losses) due to changes in instrument-specific credit risk were \$(13) million and \$(93) million for years ended December 31, 2023 and December 31, 2022, respectively.

In addition, changes in instrument-specific credit risk increased (decreased) other comprehensive income by \$12 million and \$(13) million for years ended December 31, 2023 and December 31, 2022, respectively.

For certain loans that are classified as Trading Assets—Corporate and other debt, contractual principal amount was higher than fair value by \$11 million and \$182 million as of December 31, 2023 and December 31, 2022, respectively.

7. Cash and Cash Equivalents

\$ in millions	At December 31, 2023	At December 31, 2022
Cash and due from banks	\$ 20	\$ 14
Interest bearing deposits with banks	11,839	28,443
Total Cash and cash equivalents	\$ 11,859	\$ 28,457
Restricted cash	\$ 15	\$ 3

For additional information on cash and cash equivalents, including restricted cash, see Note 2.

8. Collateralized Transactions

The Bank enters into securities purchased under agreements to resell, among other things, in order to maintain a readily available pool of liquidity and enhance the Bank's returns while maintaining acceptable asset quality and risk standards.

The Bank manages credit exposure arising from such transactions by, in appropriate circumstances, entering into master netting agreements and collateral agreements with its counterparties. These agreements provide the Bank with the right, in the event of a default by the counterparty, to net counterparty's rights and obligations under the agreement and to liquidate and set off collateral held by the Bank against the net amount owed by the counterparty.

The Bank's policy is generally to take possession of securities purchased in connection with securities purchased under agreements to resell and to receive securities and cash delivered under securities sold under agreements to repurchase (with rights of rehypothecation). The Bank monitors required margin levels and requires borrowers to deposit additional collateral, or reduce positions, when necessary.

The Bank may also execute secured borrowings with the FRB and FHLB of New York. As of both December 31, 2023 and December 31, 2022, the Bank did not have any outstanding borrowings from the FRB or FHLB.

Offsetting of Certain Collateralized Transactions

\$ in millions	At December 31, 2023				
	Gross Amounts	Amounts Offset	Balance Sheet Net Amounts	Amounts Not Offset ¹	Net Amounts
Assets					
Securities purchased under agreement to resell	\$ 17,746	\$ (200)	\$ 17,546	\$ (17,509)	\$ 37
Liabilities					
Securities sold under agreement to repurchase	\$ 200	\$ (200)	\$ —	\$ —	\$ —
Net amounts for which master netting agreements are not in place or may not be legally enforceable					
Securities purchased under agreements to resell					\$ 37

Notes to Consolidated Financial Statements

Morgan Stanley Bank, N.A.

At December 31, 2022

<i>\$ in millions</i>	Gross Amounts	Amounts Offset	Balance Sheet Net Amounts	Amounts Not Offset ¹	Net Amounts
Assets					
Securities purchased under agreement to resell	\$ 4,488	\$ —	\$ 4,488	\$ (4,463)	\$ 25

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

Fair Value of Collateral Received with Right to Sell or Repledge

At December 31, 2023, and December 31, 2022, the fair value of financial instruments received as collateral where the Bank is permitted to sell or repledge the securities was \$20.6 billion and \$6.7 billion, respectively. No securities had been sold or repledged at either date.

For information related to offsetting of derivatives, see Note 12.

9. Deposits

Deposits

<i>\$ in millions</i>	At December 31, 2023	At December 31, 2022
Savings and demand deposits ¹	\$ 141,770	\$ 156,914
Time deposits ^{2,3}	34,137	20,442
Total deposits	\$ 175,907	\$ 177,356
Deposits subject to FDIC insurance	\$ 138,522	\$ 124,763
Deposits not subject to FDIC insurance	\$ 37,385	\$ 52,593

- Includes deposits from the Parent and affiliates, see Note 11.
- Includes Structured CDs at fair value of \$3.9 billion and \$3.2 billion as of December 31, 2023 and December 31, 2022, respectively.
- The contractual liability to depositors is \$34.1 billion and \$20.4 billion at December 31, 2023 and December 31, 2022, respectively.

Time Deposit Maturities

<i>\$ in millions</i>	At December 31, 2023
2024	\$ 16,722
2025	9,331
2026	3,335
2027	2,213
2028	2,206
Thereafter	330
Total	\$ 34,137

10. Borrowings; and Other Secured Financings

Maturities and Terms of Borrowings^{1,2}

<i>\$ in millions</i>	At December 31, 2023		At December 31, 2022	
	Fixed Rate	Variable Rate ³	Fixed Rate	Variable Rate ³
Original maturities of one year or less:				
Next 12 months	\$ —	\$ —	\$ —	\$ 1
Original maturities greater than one year:				
2024	\$ —	\$ 60	\$ 453	\$ 239
2025	1,202	1,429	—	—
2026	3,141	349	—	—
2027	—	—	—	—
2028	—	1,124	—	—
Total	\$ 4,343	\$ 2,962	\$ 453	\$ 239
Total Borrowings	\$ 4,343	\$ 2,962	\$ 453	\$ 240
Weighted average coupon at period-end ⁴	5.38 %	5.87 %	2.34 %	4.55 %

- Includes only senior debt issued by the Bank; the Bank had no subordinated debt for all periods presented.
- Original maturity in the table is generally based on contractual final maturity. For borrowings with put options, remaining maturity represents the earliest put date.
- Variable rate borrowings bear interest based on SOFR.
- Weighted average coupon rate at period-end excludes borrowings with original maturities of one year or less, and excludes the effect of net advances from and payables to the Parent.

Senior debt also may be structured to be callable or extendible at the option of the Bank.

Included in borrowings is an unsecured contract that is not classified as an OTC derivative because it failed the initial net investment criteria.

The Bank has entered into various swap contracts and purchased options that effectively convert the borrowing costs into floating rates. The swaps and purchased options used to economically hedge the embedded features are derivatives and are carried at fair value. Changes in fair value related to the unsecured contract and economic hedges are reported in Gains and losses on financial assets and liabilities. See Notes 2 and 6 for further information on borrowings carried at fair value.

Rates for Borrowings with Original Maturities Greater than One Year

	At December 31, 2023	At December 31, 2022
Contractual weighted average coupon	5.5 %	2.7 %
Weighted average coupon after swaps ¹	6.0 %	2.7 %

- Certain borrowings were subject to swaps only at December 31, 2023.

The majority of the Bank's assets are financed with a combination of deposits, short-term funding, floating rate long-term debt or fixed rate long-term debt swapped to a floating rate.

The Bank uses interest rate swaps to more closely match these borrowings to the duration, holding period and interest rate characteristics of the assets being funded and to manage interest rate risk. These swaps effectively convert certain of the Bank's fixed rate borrowings into floating rate obligations.

Notes to Consolidated Financial Statements

Morgan Stanley Bank, N.A.

The Bank's use of swaps for asset and liability management affects its effective average borrowing rate.

Other Secured Financings

Other secured financings were \$872 million and \$241 million as of December 31, 2023 and December 31, 2022, respectively; the original maturity of these balances was greater than one year.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as consolidated VIEs where the Bank is deemed to be the primary beneficiary. These liabilities are generally payable from the cash flows of the related assets, which are accounted for as Trading assets, see Note 14.

11. Transactions with Affiliated Companies

Assets and receivables from Parent and affiliated companies

<i>\$ in millions</i>	At December 31, 2023	At December 31, 2022
Trading assets, at fair value	\$ 25	\$ 57
Securities purchased under agreements to resell	11,023	13
Loans to affiliate	469	447
Other assets	150	38
Total	\$ 11,667	\$ 555

Liabilities and payables to Parent and affiliated companies

<i>\$ in millions</i>	At December 31, 2023	At December 31, 2022
Deposits	\$ 4,500	\$ 5,527
Trading liabilities, at fair value	91	116
Payable to affiliates	573	577
Accrued Interest Payable	2	—
Other liabilities and accrued expenses	14	11
Borrowings	690	693
Total	\$ 5,870	\$ 6,924

Revenues and expenses resulting from transactions with Parent and affiliated companies

<i>\$ in millions</i>	2023	2022
Net Revenues		
Interest income	\$ 151	\$ 857
Interest Expense	158	76
Net Interest	(7)	781
Non-interest revenues		
Fee income	960	1,040
Gains and losses on financial assets and liabilities	(1,331)	3,708
Other	—	1
Total Non-interest revenues	\$ (371)	\$ 4,749
Net Revenues	(378)	5,530
Non-interest expenses		
General and administrative	683	651
Compensation and benefits	28	23
Total Non-interest expenses	\$ 711	\$ 674

Assets

Securities purchased under agreement to resell were with MS&Co. For further information, see Note 8.

Loans to affiliate were with MSPBNA in accordance with the U.S. Bank Master Funding Agreement, starting March 23, 2022.

Other assets consisted of receivables from affiliates, primarily driven by intercompany transactions that occurred in the normal course of business.

Trading assets were primarily driven by outstanding derivative contracts in the normal course of business.

Liabilities

Deposits primarily included overnight deposits from the Parent and affiliates of \$3.9 billion and \$5.0 billion as of December 31, 2023, and December 31, 2022, respectively. Additionally, the balance included cash collateral primarily received from the Parent for the purpose of securing credit transactions between the Bank and its affiliates of \$0.6 billion and \$0.5 billion at December 31, 2023, and at December 31, 2022, respectively.

Borrowings primarily consisted of the intercompany loans the Bank received from MSPBNA in accordance with the U.S. Bank Master Funding Agreement, starting October 1, 2021.

Payables to affiliates were primarily driven by intercompany transactions that occurred in the normal course of business. The balance also included taxes payable to Parent of \$262 million and \$170 million at December 31, 2023 and December 31, 2022, respectively.

Trading liabilities were primarily driven by outstanding derivative contracts in the normal course of business.

Interest Income and Interest Expense

Interest income was driven by designated accounting hedges on AFS securities, Securities purchased under agreement to resell with MS&Co., collateral posted to certain affiliates and loans to MSPBNA. Interest expense reflected the cost of overnight deposits from the Parent and affiliates which the Bank started incurring July 1, 2023 onwards, the impact of designated accounting hedges on brokered CDs and Borrowings, as well as the cost of borrowing from the Parent and MSPBNA.

Other Transactions

Fee income primarily consisted of fees earned from MS&Co, and compensates the Bank for relationship priced loans granted to clients of the affiliate.

Gains and losses on financial assets and liabilities were driven by certain of the Bank's lending activities and economic hedges, and were primarily with MSIP, MSCS and MS&Co.

General and administrative expenses primarily consist of the following:

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Morgan Stanley Bank, N.A.

- Service Level Agreements whereby affiliates provided securities and loan processing, credit risk, human resources, finance, tax and other services. The amount of expenses incurred to the Bank for these services was \$398 million and \$343 million in 2023 and 2022, respectively.
- The Bank paid service fees to MSSB and ETS in connection with deposits sourced from clients of those affiliates. The amount of service fees incurred was for \$141 million and \$151 million in 2023 and 2022, respectively.
- Service Level Agreements whereby affiliates provided information technology services, for which the Bank incurred expenses of \$55 million and \$53 million in 2023 and 2022, respectively.
- Service Level Agreements whereby affiliates provided specialized distribution, national sales and business management services, in connection with Securities based lending and other facilities. The amount of expenses incurred for these services was \$44 million and \$54 million in 2023 and 2022, respectively.

The Bank receives operational, administrative, and risk management support services from the Bank's affiliates. Certain affiliates charged the Bank for compensation and benefits related to certain employees who primarily supported the Bank. These amounts are included in Compensation and Benefits.

At both December 31, 2023 and December 31, 2022, \$1.9 billion in a standby letter of credit participated to an affiliate.

At both December 31, 2023 and December 31, 2022, the Bank had a commitment with MS&Co to enter into securities purchased under agreements to resell of \$3.0 billion, on an intra-day basis. The above commitment had a contractual term of 28 days.

12. Derivative Instruments and Hedging Activities

The Bank enters into derivative transactions with external counterparties and affiliates (see Note 11). The Bank trades forward contracts, interest rate swap contracts, as well as equity and foreign currency swap contracts. The Bank manages its trading positions by employing a variety of risk mitigation strategies. These strategies include inter-affiliate trades, diversification of risk exposures, and hedging. Hedging activities consist of the purchase or sale of positions in related derivative products, primarily interest rate swaps. In addition, the Bank accounts for as derivative instruments the liquidity facilities provided to municipal tender option bond trusts (see Note 14), and certain financing transactions.

Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of the contract. The Bank's exposure to credit risk at any point in time is represented by the fair value of the derivative contracts reported as assets.

Fair Values of Derivative Contracts

\$ in millions	Assets at December 31, 2023		
	Bilateral OTC	Exchange-Traded	Total
Designated as accounting hedges			
Interest rate	\$ 687	\$ —	\$ 687
Not designated as accounting hedges			
Economic hedges of loans			
Credit	16	—	16
Other derivatives			
Interest rate	1,020	2	1,022
Credit	193	—	193
Foreign exchange	811	—	811
Equity and other	1,104	—	1,104
Total	3,144	2	3,146
Total gross derivatives	\$ 3,831	\$ 2	\$ 3,833
Amounts offset			
Counterparty netting	(3,114)	—	(3,114)
Cash collateral netting	(363)	—	(363)
Total in Trading assets	\$ 354	\$ 2	\$ 356
Amounts not offset¹			
Financial instruments collateral	(146)	—	(146)
Net amounts	\$ 208	\$ 2	\$ 210
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable			\$ 23

\$ in millions	Assets at December 31, 2022		
	Bilateral OTC	Exchange-Traded	Total
Designated as accounting hedges			
Interest rate	\$ 775	\$ —	\$ 775
Not designated as accounting hedges			
Economic hedges of loans			
Credit	35	—	35
Other derivatives			
Interest rate	1,083	—	1,083
Credit	192	—	192
Foreign exchange	432	—	432
Equity and other	1,156	—	1,156
Total	2,898	—	2,898
Total gross derivatives	\$ 3,673	\$ —	\$ 3,673
Amounts offset			
Counterparty netting	(2,247)	—	(2,247)
Cash collateral netting	(1,086)	—	(1,086)
Total in Trading assets	\$ 340	\$ —	\$ 340
Amounts not offset¹			
Financial instruments collateral	—	—	—
Net amounts	\$ 340	\$ —	\$ 340
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable			\$ 11

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\$ in millions	Bilateral OTC Liabilities	
	At December 31, 2023	At December 31, 2022
Designated as accounting hedges		
Interest rate	\$ 306	\$ 254
Not designated as accounting hedges		
Economic hedges of loans		
Credit	473	231
Other derivatives		
Interest rate	1,050	1,067
Credit	150	125
Foreign exchange	1,163	803
Equity and other	819	309
Total	3,655	2,535
Total gross derivatives	\$ 3,961	\$ 2,789
Amounts offset		
Counterparty netting	(3,114)	(2,247)
Cash collateral netting	(565)	(346)
Total in Trading liabilities	\$ 282	\$ 196
Amounts not offset¹		
Financial instruments collateral	(2)	—
Net amounts	\$ 280	\$ 196
Net amounts for which master netting or collateral agreements are not in place or may not be legally enforceable	\$ 10	\$ 12

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

Notional of Derivative Contracts

\$ in millions	Assets at December 31, 2023		
	Bilateral OTC	Exchange-Traded	Total
Designated as accounting hedges			
Interest rate	\$ 21,555	\$ —	\$ 21,555
Not designated as accounting hedges			
Economic hedges of loans			
Credit	533	—	533
Other derivatives			
Interest rate	26,281	699	26,980
Credit	3,963	—	3,963
Foreign exchange	34,663	—	34,663
Equity and other	17,081	—	17,081
Total	82,521	699	83,220
Total gross derivatives	\$ 104,076	\$ 699	\$ 104,775

\$ in millions	Assets at December 31, 2022		
	Bilateral OTC	Exchange-Traded	Total
Designated as accounting hedges			
Interest rate	\$ 15,446	\$ —	\$ 15,446
Not designated as accounting hedges			
Economic hedges of loans			
Credit	1,953	—	1,953
Other derivatives			
Interest rate	18,777	—	18,777
Credit	3,403	—	3,403
Foreign exchange	12,530	—	12,530
Equity and other	16,302	—	16,302
Total	52,965	—	52,965
Total gross derivatives	\$ 68,411	\$ —	\$ 68,411

\$ in millions	Liabilities at December 31, 2023		
	Bilateral OTC	Exchange-Traded	Total
Designated as accounting hedges			
Interest rate	\$ 18,009	\$ —	\$ 18,009
Not designated as accounting hedges			
Economic hedges of loans			
Credit	16,253	—	16,253
Other derivatives			
Interest rate	24,631	1,113	25,744
Credit	3,682	—	3,682
Foreign exchange	45,280	—	45,280
Equity and other	25,805	—	25,805
Total	115,651	1,113	116,764
Total gross derivatives	\$ 133,660	\$ 1,113	\$ 134,773

\$ in millions	Liabilities at December 31, 2022		
	Bilateral OTC	Exchange-Traded	Total
Designated as accounting hedges			
Interest rate	\$ 8,529	\$ —	\$ 8,529
Not designated as accounting hedges			
Economic hedges of loans			
Credit	10,429	—	10,429
Other derivatives			
Interest rate	14,193	1,041	15,234
Credit	1,598	—	1,598
Foreign exchange	19,077	—	19,077
Equity and other	10,637	—	10,637
Total	55,934	1,041	56,975
Total gross derivatives	\$ 64,463	\$ 1,041	\$ 65,504

The notional amounts of derivative contracts generally overstate the Bank's 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.

Gains (Losses) on Accounting Hedges

\$ in millions	2023	2022
Fair value hedges—Recognized in Interest income		
Interest rate contracts	\$ (311)	\$ 826
Investment Securities—AFS	332	(826)
Fair value hedges—Recognized in Interest expense		
Interest rate contracts	\$ 82	\$ (115)
Deposits	(81)	116
Borrowings	(3)	—
Cash flow hedges—Interest rate contracts¹		
Recognized in OCI	\$ 9	\$ (4)
Less: Realized gains (losses) (pre-tax) reclassified from AOCI to interest income	(16)	—
Net change in cash flow hedges included within AOCI	25	(4)

1. For the year ended 2023, there were no forecasted transactions that failed to occur. The net gains (losses) associated with cash flow hedges expected to be reclassified from AOCI within 12 months as of December 31, 2023 is approximately \$(56) million. The maximum length of time over which forecasted cash flows are hedged is 18 months.

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Changes in Accumulated Other Comprehensive Income (Loss) by component, net of tax:

\$ in millions	Changes in Net Unrealized Gains (Losses) on Cash Flow Hedges	
	2023	2022
Beginning Balance	\$ (4)	\$ —
Other comprehensive income (loss) before reclassifications	8	(4)
Amounts reclassified from AOCI	12	—
Net other comprehensive income (loss) during the period	20	(4)
Ending Balance	\$ 16	\$ (4)

Fair Value Hedges—Hedged Items

\$ in millions	At December 31,	
	2023	2022
Investment securities—AFS		
Amortized cost basis currently or previously hedged	\$ 26,693	\$ 20,252
Basis adjustments included in amortized cost ¹	(280)	(795)
Deposits		
Carrying amount currently or previously hedged	10,352	3,380
Basis adjustments included in carrying amount ¹	\$ (32)	\$ (112)
Borrowings		
Carrying amount currently or previously hedged	\$ 2,698	\$ —
Basis adjustments included in carrying amount ¹	\$ 3	\$ —

1. Hedge accounting basis adjustments are primarily related to outstanding hedges.

Gains (Losses) on Economic Hedges of Loans

\$ in millions	2023	2022
Recognized in Gains and losses on financial assets and liabilities		
Credit ¹	\$ (290)	\$ (28)

1. Amounts related to hedges of certain held-for-investment and held-for-sale loans.

The table below summarizes realized and unrealized gains and losses included in gains or losses on financial assets and liabilities in the income statement. These revenues are related to derivative and non-derivative financial instruments, and primarily result from the Bank's trading activities. Revenues below exclude impacts realized from AFS securities, fund investments, loans, structured CDs, and hedges. The Bank generally utilizes financial instruments across a variety of product types in connection with its market-making and related risk management strategies. Accordingly, the gains and losses presented below are not representative of the manner in which the Bank manages its business activities and are prepared in a manner similar to the presentation of gains and losses from financial assets and liabilities for regulatory reporting purposes.

Gains and (Losses) on Financial Assets and Liabilities

\$ in millions	2023	2022 ¹
Interest rate	\$ 3	\$ 93
Foreign exchange	(5)	(4)
Equity ²	1,159	418
Credit	37	60
Total	\$ 1,194	\$ 567

1. Also includes a net gain of \$70 million from loans, AFS securities, structured CDs, and hedges.

2. Dividend income is included within equity contracts.

Credit Derivatives

The Bank enters into CDS to hedge the credit risk on certain investments, loan portfolios, and letters of credit. In order to economically hedge loans and lending commitments, the Bank may purchase and sell credit protection with identical underlying references. The Bank does not sell credit protection on an underlying reference unless it has also purchased protection on the underlying reference and does not ever sell protection in excess of the purchased protection on that underlying reference. Thus, where the Bank is a purchaser and seller of protection on an identical underlying reference, the Bank is always a net purchaser of protection.

Protection Purchased with CDS

\$ in millions	Notional	
	At December 31, 2023	At December 31, 2022
Single name	\$ 18,914	\$ 12,212
Index and basket	1,623	1,370
Total	\$ 20,537	\$ 13,582

The fair value amounts as shown in the previous tables are prior to cash collateral or counterparty netting.

\$ in millions	Fair Value Asset (Liability)	
	At December 31, 2023	At December 31, 2022
Single name	\$ (559)	\$ (215)
Index and basket	28	44
Total	\$ (531)	\$ (171)

Maximum Potential Payout/Notional of Credit Protection Sold¹

\$ in millions	Years to Maturity at December 31, 2023				
	< 1	1-3	3-5	Over 5	Total
Index and basket CDS non-investment grade	\$ —	\$ —	\$ 549	\$ 845	\$ 1,394
Other credit contracts	—	—	—	2,499	2,499
Total credit protection sold	\$ —	\$ —	\$ 549	\$ 3,344	\$ 3,893
CDS protection sold with identical protection purchased					\$ 1,394

\$ in millions	Years to Maturity at December 31, 2022				
	< 1	1-3	3-5	Over 5	Total
Index and basket CDS non-investment grade	\$ —	\$ —	\$ —	\$ 715	\$ 715
Other credit contracts	—	—	—	2,487	2,487
Total credit protection sold	\$ —	\$ —	\$ —	\$ 3,202	\$ 3,202
CDS protection sold with identical protection purchased					\$ 715

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

Fair Value Asset (Liability) of Credit Protection Sold^{1,2,3}

<i>\$ in millions</i>	At December 31, 2023	At December 31, 2022
Index and basket CDS non-investment grade	\$ (32)	\$ (38)
Other credit contracts	147	164
Total credit protection sold	115	126
CDS protection sold with identical protection purchased	\$ (32)	\$ (38)

- Investment grade/non-investment grade determination is based on the internal credit rating of the reference obligation. Internal credit ratings serve as the CRM's assessment of credit risk and the basis for a comprehensive credit limits framework used to control credit risk. The Bank uses quantitative models and judgment to estimate the various risk parameters related to each obligor.
- Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.
- Fair value amounts of certain credit default swaps where the Bank sold protection have an asset carrying value because credit spreads of the underlying reference entity or entities tightened during the terms of the contracts.

13. Commitments, Contingencies and Guarantees

Commitments

In the normal course of business, the Bank enters into certain commitments to extend credit. These commitments may expose the Bank to varying degrees of credit risk, interest rate risk, and liquidity risk, and are subject to the same credit and risk limitation reviews as those recorded on the balance sheet. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future funding requirements.

<i>\$ in millions</i>	Years to Maturity at December 31, 2023					Total
	Less than 1	1-3	3-5	Over 5	Total	
Lending:						
Corporate	\$ 14,393	\$ 23,415	\$ 39,197	\$ 622	\$ 77,627	
Secured lending facilities	7,996	5,970	3,499	2,424	19,889	
Commercial and Residential real estate	210	28	28	—	266	
Securities-based lending and Other	2,641	736	91	378	3,846	
Reverse repurchase commitment ¹	3,000	—	—	—	3,000	
Forward-starting secured financing receivables ²	78	—	—	—	78	
Central counterparty	300	—	—	—	300	
Investment activities	276	28	22	—	326	
Total	\$ 28,894	\$ 30,177	\$ 42,837	\$ 3,424	\$105,332	
Lending commitments participated to third parties						\$ 4,689

- For further information, see Note 11.
- Forward-starting secured financing receivables are generally settled within three-business days.

Commitments to extend credit are legally binding, generally have specified rates and maturities, and are for specific purposes. In many instances, the borrower must meet certain conditions before the Bank is required to lend. The Bank manages the credit risk on these commitments by subjecting these commitments to normal credit approval and monitoring processes. For further information on the credit approval and monitoring process, see Note 3.

Types of Commitments

Forward-Starting Secured Financing Receivables. This amount includes securities purchased under agreements to resell that the Bank has entered into prior to the balance sheet date that will settle after the balance sheet date. These transactions are primarily secured by collateral from CMBS when they are funded.

Investment activities. This amount includes capital commitments to private investment funds which qualify as Community Reinvestment Act investments that the Bank is obligated to fund. This amount also includes commitments to purchase additional capital stock of the FRB that is subject to call when deemed necessary by the Board of Governors of the Federal Reserve System.

Contingencies

Legal

In the normal course of business, the Bank may be 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 national banking association and an affiliate of a global diversified financial services institution. Certain of the actual or threatened legal actions may include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the third-party entities that are, or would otherwise be, the primary defendants in such cases are bankrupt, in financial distress, or may not honor applicable indemnification obligations.

The Bank is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental or other regulatory agencies regarding the Bank's business and accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, disgorgement, restitution, forfeiture, injunctions, limitations on our ability to conduct certain business, or other relief.

The Bank 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 Bank can reasonably estimate the amount of that loss or the range of loss, the Bank accrues an estimated loss by a charge to income.

The Bank's legal expenses can, and may in the future, fluctuate from period to period, given the current environment regarding governmental agency investigations and private litigation affecting global financial services firms, including the Bank.

In many legal proceedings and investigations, it is inherently difficult to determine whether any loss is probable or reasonably possible, or to estimate the amount of any loss. In addition, even where the Bank has determined that a loss is probable or reasonably possible or an exposure to loss or range of loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, the Bank is often unable

to reasonably estimate the amount of the loss or range of loss. It is particularly difficult to determine if a loss is probable or reasonably possible, or to estimate the amount of loss, where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, forfeiture, disgorgement or penalties. Numerous issues may need to be resolved in an investigation or proceeding before a determination can be made that a loss or additional loss (or range of loss or range of additional loss) is probable or reasonably possible, or to estimate the amount of loss, including through potentially lengthy discovery or determination of important factual matters, determination of issues related to class certification the calculation of damages or other relief, and consideration of novel or unsettled legal questions relevant to the proceedings or investigations in question.

The Bank identifies any individual proceedings or investigations where the Bank believes a material loss (or where an accrual has occurred, a material loss beyond the amount already accrued) to be reasonably possible. In many legal proceedings in which the Bank has determined that a material loss (or where an accrual has occurred, a material loss beyond the amount already accrued) is reasonably possible, the Bank is unable to reasonably estimate the loss or range of loss. There are other matters in which the Bank has determined a loss or range of loss to be reasonably possible, but the Bank does not believe, based on current knowledge and after consultation with counsel, that such losses could have a material adverse effect on the Bank's financial statements as a whole, although the outcome of such proceedings or investigations may significantly impact the Bank's business or results of operations for any particular reporting period, or cause significant reputational harm. Notwithstanding the foregoing, the Bank has not identified any proceedings or investigations this reporting period for which it believes a material loss is reasonably possible.

While the Bank identifies certain proceedings or investigations that the Bank believes to be material, individually or collectively, there can be no assurance that material losses will not be incurred from claims that have not yet been asserted or those where potential losses have not yet been determined to be probable or reasonably possible.

Guarantees

The Bank provides guarantees to counterparties in the form of structured and standby letters of credit. Structured and standby letters of credit are obligations issued by the Bank to a third-party where the Bank promises to pay the third-party in the event of some defined failure by the Bank's customer. A majority of the Bank's standby and structured letters of credit are provided on behalf of counterparties that are investment grade. The Bank considers each guarantee outstanding as of the day the commitment letter is issued.

The Bank acts as liquidity provider to municipal bond securitization SPEs and for stand-alone municipal bonds in which the holders of beneficial interests issued by these SPEs or the holders of the individual bonds, respectively, have the right to tender their interests for purchase by the trust or a Tender

Agent on specified dates at a specified price. With trusts, the Remarketing Agent is directed to sell all or a portion of the underlying municipal bond in the event of a failed remarketing. The Bank is required to fund any shortfall through a draw on the liquidity facility. In other cases, the Bank may provide municipal liquidity facilities whereby the holders of the securities may put their securities to a Tender Agent, after which the Bank would have to fund the Tender Amount in the event of a failed remarketing. The Bank often may have recourse to make-whole or recourse provisions with the trust's beneficial holders. Primarily all of the underlying assets in the SPEs and standalone bonds are investment grade.

At December 31, 2023					
<i>\$ in millions</i>	Maximum Potential Payout/Notional of Obligations by Years to Maturity				Carrying Amount Asset (Liability)
	Less than 1	1-3	3-5	Over 5	
Letters of credit ¹	\$ 755	\$ 696	\$ 578	\$ 2,624	\$ 147
Liquidity facilities	2,092	—	—	—	(1)
Total	\$ 2,847	\$ 696	\$ 578	\$ 2,624	\$ 146

1. These amounts include certain issued standby letters of credit participated to third parties and affiliates, totaling \$2.6 billion of notional and collateral/recourse, due to the nature of the Bank's obligations under these arrangements. As of December 31, 2023, the carrying amount of standby letters of credit and other financial guarantees issued includes allowance for credit losses of \$8.9 million.

14. Variable Interest Entities

The Bank is involved with various SPEs in the normal course of business. In most cases, these entities are deemed to be VIEs.

The Bank's involvement with VIEs arises primarily from mortgage-backed and asset-backed transactions where the Bank holds securities issued by VIEs within its investment securities portfolio and makes loans to VIEs.

The Bank determines whether it is the primary beneficiary of a VIE upon its initial involvement with the VIE and reassesses whether it is the primary beneficiary on an ongoing basis as long as it has any continuing involvement with the VIE. This determination is based upon an analysis of the design of the VIE, including the VIE's structure and activities, the power to make significant economic decisions held by the Bank and by other parties, and the variable interests owned by the Bank and other parties.

As of December 31, 2023, the Bank consolidated VIEs with assets and liabilities of \$493 million and \$438 million, respectively; as of the prior year end, comparable assets and liabilities were \$255 million and \$241 million, respectively.

The following tables present information about non-consolidated VIEs in which the Bank had variable interests at December 31, 2023 and December 31, 2022. The tables include all VIEs in which the Bank had determined that its maximum exposure to loss is greater than specific thresholds or meet certain other criteria.

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Non-consolidated VIEs

\$ in millions	At December 31, 2023			
	MABS ¹	MTOB	OSF	Other ²
VIE assets (UPB)	\$ 115,565	\$ 3,152	\$ 929	\$ 25,913
Maximum exposure to loss³				
Debt and equity interests	\$ 17,337	\$ —	\$ 964	\$ 4,012
Derivative and other contracts	—	2,092	—	—
Commitments, guarantees and other	3,279	—	—	48
Total	\$ 20,616	\$ 2,092	\$ 964	\$ 4,060
Carrying value of variable interest—Assets				
Debt and equity interests	\$ 17,337	\$ —	\$ 866	\$ 4,012
Derivative and other contracts	—	2	—	—
Total	\$ 17,337	\$ 2	\$ 866	\$ 4,012
Additional VIE assets owned ⁴				\$ 6,610
Carrying value of variable interest—Liabilities				
Derivative and other contracts	\$ —	\$ 3	\$ —	\$ —

MTOB—Municipal tender option bonds
OSF—Other structured financing

- MABS include VIE assets as follows: \$68.5 billion of commercial mortgages; \$30.7 billion of U.S. agency collateralized mortgage obligations; \$6.8 billion of residential mortgages; and \$9.6 billion of other consumer or commercial loans.
MABS include VIE debt and equity interests as follows: \$7.3 billion of commercial mortgages; \$5.1 billion of U.S. agency collateralized mortgage obligations; \$2.7 billion of other consumer or commercial loans; and \$2.2 billion of residential mortgages.
- Amounts primarily include transactions backed by commercial real estate property.
- 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 Bank.
- 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 Bank's maximum exposure to loss generally equals the fair value of the assets owned. These assets are primarily included in investment securities and are measured at fair value (see Note 6). The Bank does not provide additional support in these transactions through contractual facilities, guarantees or similar derivatives.

\$ in millions	At December 31, 2022			
	MABS ¹	MTOB	OSF	Other ²
VIE assets (UPB)	\$ 86,994	\$ 4,632	\$ 893	\$ 27,711
Maximum exposure to loss³				
Debt and equity interests	\$ 9,111	\$ —	\$ 944	\$ 7,162
Derivative and other contracts	—	3,200	—	—
Commitments, guarantees and other	674	—	—	1,404
Total	\$ 9,785	\$ 3,200	\$ 944	\$ 8,566
Carrying value of variable interest—Assets				
Debt and equity interests	\$ 9,111	\$ —	\$ 874	\$ 7,162
Derivative and other contracts	—	3	—	—
Total	\$ 9,111	\$ 3	\$ 874	\$ 7,162
Additional VIE assets owned ⁴				\$ 5,495
Carrying value of variable interest—Liabilities				
Derivative and other contracts	\$ —	\$ 3	\$ —	\$ —

- MABS include VIE assets as follows: \$61.4 billion of commercial mortgages; \$17.9 billion of U.S. agency collateralized mortgage obligations; \$4.7 billion of residential mortgages; and \$3.0 billion of other consumer or commercial loans.
MABS include VIE debt and equity interests as follows: \$3.7 billion of commercial mortgages; \$2.8 billion of U.S. agency collateralized mortgage obligations; \$1.5 billion of other consumer or commercial loans; and \$1.1 billion of residential mortgages.
- Amounts primarily include transactions backed by commercial real estate property.
- 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 Bank.
- 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 Bank's maximum exposure to loss generally equals the fair value of the assets owned. These assets are primarily included in investment securities and are measured at fair value (see Note 6). The Bank does not provide additional support in these transactions through contractual facilities, guarantees or similar derivatives.

The Bank's maximum exposure to loss often differs from the carrying value of the variable interest held by the Bank. The maximum exposure to loss is dependent on the nature of the Bank's variable interest in the VIEs and is limited to the notional

amounts of certain liquidity facilities the Bank has provided to the VIEs. Liabilities issued by VIEs generally are non-recourse to the Bank.

The Bank'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 transaction with the VIE or any party to the VIE directly against a specific exposure to loss.

In all municipal tender option bond transactions, the Bank is protected through over-collateralization (i.e., the fair value of the municipal bond is in excess of the amount of the liquidity facility). The Bank's maximum exposure to loss is not reduced by the amount of the shortfall agreement or any other collateral held as part of a transaction with the VIE. These liquidity facilities are carried at fair value, with changes in fair value reflected in earnings. In the other liquidity or lending facilities, the Bank is protected either through over-collateralization at the borrower or through over-collateralization or other credit enhancement provided in the assets owned by the borrower. In some programs, the Bank provides this liquidity facility.

Transferred Assets with Continuing Involvement¹

\$ in millions	At December 31, 2023		At December 31, 2022	
	RML	CML	RML	CML
SPE assets (UPB)	\$ 989	\$ 67,946	\$ 341	\$ 62,986
Retained interests:				
Investment grade	33	652	17	899
Non-investment grade	16	601	—	272
Total	\$ 49	\$ 1,253	\$ 17	\$ 1,172

RML—Residential mortgage loans
CML—Commercial mortgage loans

- Comprised entirely of Level 2 assets for all periods presented.

15. Regulatory Requirements

Regulatory Capital Framework

The OCC establishes capital requirements for the Bank, including the "well-capitalized" standards, and evaluates the Bank's compliance with such capital requirements. The regulatory capital requirements established by the OCC are largely based on the Basel III capital standards established by the Basel Committee and also implement certain provisions of the Dodd-Frank Act. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under FDICIA capital adequacy guidelines and regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

Regulatory Capital Requirement

The Bank 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 RWAs follows.

Risk-Based Regulatory Capital. Risk-based capital ratio requirements apply to Common Equity Tier 1 capital, Tier 1 capital and Total capital (which includes Tier 2 capital), each as a percentage of RWA, and consist of regulatory minimum required ratios plus the Bank’s capital buffer requirement. Capital requirements require certain adjustments to, and deductions from, capital for purposes of determining these ratios. At December 31, 2023 and December 31, 2022, the difference between the actual and required ratios were lower under the Standardized Approach.

CECL Deferral. Beginning on January 1, 2020, we elected to defer the effect of the adoption of CECL on our risk-based and leverage-based capital amounts and ratios, as well as our RWA, adjusted average assets and supplementary leverage exposure calculations, over a five-year transition period. The deferral impacts began to phase in at 25% per year from January 1, 2022 and are phased in at 50% from January 1, 2023. The deferral impacts will become fully phased-in beginning on January 1, 2025.

Capital Buffer Requirements

The capital buffer requirement represents the amount of Common Equity Tier 1 capital the Bank must maintain above the minimum risk-based capital requirements in order to avoid restrictions on the Bank’s ability to make capital distributions, including the payment of dividends, and to pay discretionary bonuses to executive officers. The capital buffer requirements computed under the standardized approaches for calculating credit risk and market RWA (“Standardized Approach”) and the Bank’s capital buffer requirement computed under the applicable advanced approaches for calculating credit risk, market risk and operational risk RWA (“Advanced Approach”) is equal to the sum of the 2.5% capital conservation buffer and CCyB. The CCyB can be set up to 2.5% but is currently set by U.S. banking agencies at zero.

Risk-Based Regulatory Capital Ratio Requirements

	Regulatory Minimum	At December 31, 2023 and December 31, 2022	
		Standardized	Advanced
Required ratios¹			
Common Equity Tier 1 capital ratio	4.5 %	7.0 %	7.0 %
Tier 1 capital ratio	6.0 %	8.5 %	8.5 %
Total capital ratio	8.0 %	10.5 %	10.5 %

1. Required ratios represent the regulatory minimum plus the capital buffer requirement.

Risk-Weighted Assets

RWA reflects both the Bank’s on- and off-balance sheet risk, as well as capital charges attributable to the risk of loss arising from the following:

- Credit Risk: The failure of a borrower, counterparty or issuer to meet its financial obligations to the Bank;

- Market Risk: Adverse changes in the level of one or more market prices, rates, spreads, indices, volatilities, correlations or other market factors, such as market liquidity; and
- Operational Risk: Inadequate or failed processes or systems, from human factors or from external events (e.g., fraud, theft, legal and compliance risks, cyberattacks or damage to physical assets).

As an Advanced Approach banking organization, the Bank’s risk-based capital ratios are computed under each of (i) the Standardized Approach and (ii) the 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 and exposure methodologies, whereas the Advanced Approach utilizes models to calculate exposure amounts and risk weights. The Bank’s binding risk-based ratios for regulatory purposes are the lower of the capital ratios computed under the Advanced Approach or the Standardized Approach. At December 31, 2023 and December 31, 2022, the difference between the actual and required ratios were lower under the Standardized Approach.

Leverage-Based Regulatory Capital. Leverage-based capital requirements include a minimum Tier 1 leverage ratio of 4% and SLR of 3%.

Well-Capitalized Requirement. Under the regulatory capital requirements adopted by the U.S. federal banking agencies, U.S. IDIs, in order to be considered well-capitalized must maintain certain minimum capital ratios. At December 31, 2023 and December 31, 2022 the Bank maintained capital levels in excess of the well-capitalized requirements. The Bank maintained capital at levels sufficiently in excess of these “well-capitalized” requirements to address any additional needs and requirements identified by the U.S. federal banking regulators.

Regulatory Capital and Capital Ratios

<i>\$ in millions</i>	Well-Capitalized Requirements ¹	Required Ratio ²	At December 31, 2023	At December 31, 2022
Risk-based capital				
Common Equity Tier 1 capital			\$ 21,925	\$ 20,043
Tier 1 capital			21,925	20,043
Total capital			22,833	20,694
Total RWA			101,178	97,931
Common Equity Tier 1 capital ratio	6.5 %	7.0 %	21.7 %	20.5 %
Tier 1 capital ratio	8.0 %	8.5 %	21.7 %	20.5 %
Total capital ratio	10.0 %	10.5 %	22.6 %	21.1 %

Notes to Consolidated Financial Statements

Morgan Stanley Bank, N.A.

<i>\$ in millions</i>	Well-Capitalized Requirements ¹	Required Ratio ²	At December 31, 2023	At December 31, 2022
Leverage-based capital				
Adjusted average assets ³			\$ 207,653	\$ 197,711
Tier 1 leverage ratio	5.0 %	4.0 %	10.6 %	10.1 %
Supplementary leverage exposure ⁴			\$ 267,812	\$ 248,860
SLR	6.0 %	3.0 %	8.2 %	8.1 %

1. The requirements to remain "well-capitalized" under the PCA framework.
2. Required ratios are inclusive of any buffers applicable as of the date presented.
3. 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 any applicable capital deductions.
4. Supplementary leverage exposure is the sum of Adjusted average assets used in the Tier 1 leverage ratio and other adjustments, primarily: (i) the credit equivalent amount for off-balance sheet exposures; (ii) for derivatives, potential future exposure and the effective notional principal amount of sold credit protection offset by qualifying purchased credit protection; and (iii) the counterparty credit risk for repo-style transactions.

Additionally, the Bank is registered as a swap dealer with the CFTC and conditionally registered as a security-based swap dealer with the SEC. However, as we are prudentially regulated as a bank, we continue to be subject to the OCC capital regulations.

16. Employee Benefits and Stock-Based Compensation

Employee Benefit Plans

Certain current and former employees of the Bank participate in employee benefit plans sponsored by MSDHL, formerly known as MSDHL.

The Firm's pension plans generally provide pension benefits that are based on each employee's years of credited service and on compensation levels specified in the plans. The pension plans have generally ceased future benefit accruals. There were no material compensation expenses associated with the pension plans for the years ended December 31, 2023 and December 31, 2022.

U.S. employees of the Bank meeting certain eligibility requirements may participate in the Morgan Stanley 401(k) Plan.

Morgan Stanley 401(k) Plan

Eligible employees receive discretionary 401(k) matching cash contributions as determined annually by the Parent. The Bank generally matched eligible employee contributions up to the Internal Revenue Service ("IRS") limit at 4% or 5% up to a certain compensation level, in 2023 and 2022. Eligible employees with eligible pay less than or equal to \$100,000 also receive a fixed contribution equal to 2% of eligible pay. Compensation expenses associated with the 401(k) plan were \$3 million and \$2 million for the years ended December 31, 2023 and 2022, respectively and are included in Non-interest expense—Compensation and benefits in the income statement.

Employee Stock-Based Compensation Plans

Certain current and former employees of the Bank participate in the Parent's stock-based compensation plans. The compensation expense is recognized over the vesting period relevant to each separately vesting portion of the award. The Bank incurred \$6 million in compensation expense for each of the years ended December 31, 2023 and December 31, 2022, which are included in Non-interest expense—Compensation and benefits in the income statement.

Restricted Stock Units

RSUs are subject to vesting over time, generally one to three years from the date of award, contingent upon continued employment and subject to restrictions on sale, transfer or assignment until conversion to common stock. All or a portion of an award may be forfeited if employment is terminated before the end of the relevant vesting period or cancelled after the relevant vesting period in certain situations. Recipients of RSUs may have voting rights, at the Parent's discretion, and generally receive dividend equivalents if the awards vest. The Parent determines the fair value of RSUs based on the grant date fair value of its common stock, measured as the volume-weighted average price on the date of grant. Certain awards provide the Parent discretion to claw back or cancel all or a portion of the award under specified circumstances.

17. Income Taxes

The Bank is included in the consolidated federal income tax return filed by the Parent. Federal income taxes have generally been provided on a modified separate entity basis. The Bank is included in the combined state and local income tax returns with the Parent and certain other subsidiaries of the Parent. State and local income taxes have been provided on separate entity income at the effective tax rate of the Bank's combined filing group.

In accordance with the terms of the Tax Sharing Agreement, current taxes (federal, combined and unitary states) are settled periodically with the Parent, who pays these taxes on behalf of the Bank.

Components of Provision for (Benefit from) Income Taxes

<i>\$ in millions</i>	2023	2022
Current		
U.S. Federal	\$ 1,253	\$ 948
U.S. State and local	273	136
Total	\$ 1,526	\$ 1,084
Deferred		
U.S. Federal	\$ (92)	\$ (4)
U.S. State and local	(30)	1
Total	\$ (122)	\$ (3)
Provision for income taxes	\$ 1,404	\$ 1,081

Notes to Consolidated Financial Statements

Morgan Stanley Bank, N.A.

Reconciliation of the U.S. Federal Statutory Income Tax Rate to the Effective Income Tax Rate.

	2023	2022
U.S. federal statutory income tax rate	21.0 %	21.0 %
U.S. state and local income taxes, net of U.S. federal income tax benefits	3.2	2.4
Other	(0.5)	(0.4)
Effective income tax rate	23.7 %	23.0 %

Deferred Tax Assets and Liabilities

<i>\$ in millions</i>	At December 31, 2023	At December 31, 2022
Gross deferred tax assets		
Valuation of net trading inventory, investment and receivables	\$ 537	\$ 708
Allowance for credit losses and other reserves	221	162
Interest	42	21
Other	34	8
Total deferred tax assets	\$ 834	\$ 899
Gross deferred tax liabilities		
Flow through investments	16	15
Total deferred tax liabilities	\$ 16	\$ 15
Net deferred tax assets	\$ 818	\$ 884

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the applicable enacted tax rates and laws that will be in effect when such differences are expected to reverse.

The Bank believes the recognized net deferred tax assets of \$818 million at December 31, 2023, are more likely than not to be realized based on expectations as to future taxable income in the jurisdictions in which it operates.

The Bank is subject to the income tax laws of the U.S., and its states and municipalities in which the Bank has business operations. These tax laws are complex and subject to interpretations by the taxpayer and the relevant governmental taxing authorities. The Bank must make judgments and interpretations about the application of these inherently complex tax laws and make estimates about certain items affecting taxable income when determining the provision for income taxes in the various tax jurisdictions.

Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Bank periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years' examinations, and unrecognized tax benefits related to potential losses that may arise from tax audits are established in accordance with the relevant accounting guidance. Once established, unrecognized tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

Rollforward of Unrecognized Tax Benefits

<i>\$ in millions</i>	2023	2022
Balance at beginning of period	\$ 77	\$ 62
Increases based on tax positions related to the current period	44	16
Increases based on tax positions related to prior periods	34	—
Decreases based on tax positions related to prior periods	—	(1)
Decreases related to settlements with taxing authorities	(1)	—
Balance at end of period	\$ 154	\$ 77
Net unrecognized tax benefits ¹	\$ 122	\$ 61

1. Represent ending unrecognized tax benefits adjusted for the impact of the federal benefit of state issues. If recognized, these net benefits would favorably impact the effective tax rate in future periods.

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 Bank's effective tax rate over the next 12 months.

Interest and penalties related to unrecognized tax benefits are recognized as a component of the provision for income taxes. The amount of penalties accrued was not material.

The Bank recognized \$15 million and \$5 million of interest expense (net of federal benefit and state income tax benefits) in the Bank's income statement for the year ended December 31, 2023, and December 31, 2022, respectively.

Earliest Tax Year Subject to Examination in Major Tax Jurisdictions:

Jurisdiction	Tax Year
U.S.	2017
New York State and New York City	2015
California	2015
Utah	2009

The Bank, through its inclusion in the return of the Parent, is routinely under examination by the IRS and other tax authorities in certain states and localities in which the Bank has significant business operations, such as New York.

The Bank 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 statement and on the effective tax rate for any period in which such resolutions occur.

Financial Data Supplement (Unaudited)

Morgan Stanley Bank, N.A.

Average Balances and Interest Rates and Net Interest Income

\$ in millions	2023			2022		
	Average Daily Balance	Interest	Average Rate	Average Daily Balance	Interest	Average Rate
Interest earning assets¹						
Cash and cash equivalents	\$ 26,309	\$ 1,360	5.2 %	\$ 22,469	\$ 380	1.7 %
Investment securities	70,894	2,126	3.0 %	73,445	1,473	2.0 %
Securities purchased under agreements to resell	5,377	337	6.3 %	4,677	139	3.0 %
Loans and Other ²	80,401	5,622	7.0 %	79,080	2,966	3.8 %
Total	\$182,981	\$ 9,445	5.2 %	\$179,671	\$ 4,958	2.8 %
Interest bearing liabilities¹						
Deposits and Other ³	\$176,786	\$ 4,129	2.3 %	\$173,283	\$ 874	0.5 %
Borrowings	2,839	170	6.0 %	793	10	1.3 %
Total	\$179,625	\$ 4,299	2.4 %	\$174,076	\$ 884	0.5 %
Net interest income and net interest rate spread		\$ 5,146	2.8 %		\$ 4,074	2.3 %

Effect of Volume and Rate Changes on Net Interest Income

\$ in millions	2023 versus 2022		
	Increase (Decrease)		
	Due to Change in :		
	Volume	Rate	Net Change
Interest earning assets¹			
Cash and cash equivalents	\$ 65	\$ 915	\$ 980
Investment securities	(51)	704	653
Securities purchased under agreements to resell	21	177	198
Loans and Other	49	2,607	2,656
Change in interest income	\$ 84	\$ 4,403	\$ 4,487
Interest bearing liabilities¹			
Deposits and Other	\$ 18	\$ 3,237	\$ 3,255
Borrowings	26	134	160
Change in interest expense	\$ 44	\$ 3,371	\$ 3,415
Change in net interest income	\$ 40	\$ 1,032	\$ 1,072

1. Amounts include primarily U.S. balances.
2. Interest on other assets includes the impact of certain trading activities, loans to affiliate, and dividends on FRB and FHLB capital stock. The average balance of other interest-earning assets was \$1.2 billion and \$1.1 billion for the current and prior year, respectively.
3. Interest on other liabilities primarily includes the impact of net advances from and payables to the Parent. The average balance of other interest-bearing liabilities was \$0.9 billion and \$0.6 billion for the current and prior year, respectively.

Deposits

\$ in millions	Average Daily Deposits			
	2023		2022	
	Average Amount	Average Rate	Average Amount	Average Rate
Deposits¹				
Savings and demand	\$ 145,716	1.9 %	\$ 161,594	0.4 %
Time	28,449	4.7 %	11,083	3.0 %
Total	\$ 174,165	2.3 %	\$ 172,677	0.5 %

1. The Bank's deposits were primarily held in U.S. offices.

Ratios

	2023	2022
ROE ¹	21.5 %	19.2 %

1. ROE represents net income as a percentage of average equity.

Glossary of Common Terms and Acronyms**Morgan Stanley Bank, N.A.**

ABS	Asset-backed securities	MSDHL	Morgan Stanley Domestic Holdings, LLC
ACL	Allowance for credit losses	MSIP	Morgan Stanley & Co. International plc
AFS	Available-for-sale	MSPBNA	Morgan Stanley Private Bank, National Association
AML	Anti-money laundering	MSSB	Morgan Stanley Smith Barney LLC
AOCI	Accumulated other comprehensive income (loss)	N/A	Not Applicable
Balance sheet	Consolidated balance sheet	N/M	Not Meaningful
BHC	Bank holding company	NAV	Net asset value
bps	Basis points; one basis point equals 1/100th of 1%	NSFR	Net stable funding ratio, as adopted by the U.S. banking agencies
BSA	Bank Secrecy Act	OCC	Office of the Comptroller of the Currency
Cash flow statement	Consolidated cash flow statement	OCI	Other comprehensive income (loss)
CCyB	Countercyclical capital buffer	OFAC	Office of Foreign Assets Control
CDs	Certificates of deposit	OTC	Over-the-counter
CDS	Credit default swaps	MABS	Mortgage and asset-backed securities
CECL	Current Expected Credit Losses, as calculated under the Financial Instruments—Credit Losses accounting update	ROE	Return on average common equity
CFTC	U.S. Commodity Futures Trading Commission	RSU	Restricted stock unit
CMBS	Commercial mortgage-backed securities	RWA	Risk-weighted assets
CMO	Collateralized mortgage obligation(s)	SEC	U.S. Securities and Exchange Commission
CRM	Credit Risk Management Department	SLR	Supplementary leverage ratio
DVA	Debt valuation adjustment	SOFR	Secured Overnight Financing Rate
DDAs	Demand deposit accounts	S&P	Standard & Poor's
EMEA	Europe, Middle East and Africa	SPE	Special purpose entity
ETS	E*TRADE Securities LLC	SPOE	Single point of entry
E.U.	European Union	U.K.	United Kingdom
FDIC	Federal Deposit Insurance Corporation	UPB	Unpaid principal balance
FDICIA	Federal Deposit Insurance Corporation	U.S.	United States of America
FFELP	Federal Family Education Loan Program	U.S. GAAP	Accounting principles generally accepted in the United States of America
Financial statement	Consolidated financial statements	VaR	Value-at-Risk
FVA	Funding valuation adjustment	VIE	Variable interest entity
FVO	Fair value option		
G-SIB	Globally systemically important banks		
HFI	Held-for-investment		
HFS	Held-for-sale		
HTM	Held-to-maturity		
HQLA	High-quality liquid assets		
Income statement	Consolidated income statement		
IRS	Internal Revenue Service		
LCR	Liquidity coverage ratio, as adopted by the U.S. banking agencies		
LIBOR	London Interbank Offered Rate		
LTV	Loan-to-value		
MABS	Mortgage- and Asset-backed securities		
MS&Co.	Morgan Stanley & Co. LLC		
MSCM	Morgan Stanley Capital Management LLC		
MSCS	Morgan Stanley Capital Services LLC		
MSDHI	Morgan Stanley Domestic Holding, Inc.		