MORGAN STANLEY
Form 10-Q
May 04, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

OR

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

EXCHANGE ACT OF 1934

Commission File Number 1-11758

(Exact Name of Registrant as specified in its charter)

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

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

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

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

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

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

As of April 29, 2016, there were 1,937,024,359 shares of the Registrant s Common Stock, par value $0.01 per share, outstanding.

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QUARTERLY REPORT ON FORM 10-Q

For the quarter ended March 31, 2016

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Available Information.

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

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

You can access information about the Company s corporate governance at *www.morganstanley.com/about-us-governance.* The Company s Corporate Governance webpage includes:

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

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

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Part I Financial Information.

Item 1. Financial Statements.

MORGAN STANLEY

Condensed Consolidated Statements of Income

(dollars in millions, except share and per share data)

(unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Revenues:		
Investment banking	**$ 1,107**	$ 1,357
Trading	**2,065**	3,650
Investments	**(34)**	266
Commissions and fees	**1,055**	1,186
Asset management, distribution and administration fees	**2,620**	2,681
Other	**80**	171
Total non-interest revenues	**6,893**	9,311
Interest income	**1,747**	1,484
Interest expense	**848**	888
Net interest	**899**	596
Net revenues	**7,792**	9,907
Non-interest expenses:		
Compensation and benefits	**3,683**	4,524
Occupancy and equipment	**329**	342
Brokerage, clearing and exchange fees	**465**	463
Information processing and communications	**442**	415
Marketing and business development	**134**	150
Professional services	**514**	486
Other	**487**	672
Total non-interest expenses	**6,054**	7,052
Income from continuing operations before income taxes	**1,738**	2,855
Provision for income taxes	**578**	387
Income from continuing operations	**1,160**	2,468
Discontinued operations:		
Income (loss) from discontinued operations before income taxes	**(5)**	(8)
Provision for (benefit from) income taxes	**(2)**	(3)

Income (loss) from discontinued operations		**(3)**		(5)
Net income	**$**	**1,157**	$	2,463
Net income applicable to noncontrolling interests		**23**		69
Net income applicable to Morgan Stanley	**$**	**1,134**	$	2,394
Preferred stock dividends and other		**79**		80
Earnings applicable to Morgan Stanley common shareholders	**$**	**1,055**	$	2,314
Earnings per basic common share:				
Income from continuing operations	**$**	**0.56**	$	1.21
Income (loss) from discontinued operations				(0.01)
Earnings per basic common share	**$**	**0.56**	$	1.20
Earnings per diluted common share:				
Income from continuing operations	**$**	**0.55**	$	1.18
Income (loss) from discontinued operations				
Earnings per diluted common share	**$**	**0.55**	$	1.18
Dividends declared per common share	**$**	**0.15**	$	0.10
Average common shares outstanding:				
Basic		**1,883,141,468**		1,924,122,199
Diluted		**1,914,840,943**		1,962,996,441

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

Condensed Consolidated Statements of Comprehensive Income

(dollars in millions)

(unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net income	**$ 1,157**	$ 2,463
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments(1)	**$ 186**	$ (222)
Change in net unrealized gains on available for sale securities(2)	**395**	200
Pension, postretirement and other	**1**	2
Change in net debt valuation adjustments(3)	**203**	
Total other comprehensive income (loss)	**$ 785**	$ (20)
Comprehensive income	**$ 1,942**	$ 2,443
Net income applicable to noncontrolling interests	**23**	69
Other comprehensive income (loss) applicable to noncontrolling interests	**55**	(2)
Comprehensive income applicable to Morgan Stanley	**$ 1,864**	$ 2,376

(1) Amounts include Provision for (benefit from) income taxes of **$(115) million** and $174 million.
(2) Amounts include Provision for (benefit from) income taxes of **$230 million** and $121 million.
(3) Debt valuation adjustments (DVA) represent the change in the fair value resulting from fluctuations in the Company s credit spreads and other credit factors related to liabilities carried at fair value, primarily certain Long-term and Short-term borrowings. Amounts include Provision for (benefit from) income taxes of **$120 million.** See Notes 2 and 14 for further information.

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

Condensed Consolidated Balance Sheet

(dollars in millions, except share data)

(unaudited)

	At March 31, 2016	At December 31, 2015
Assets		
Cash and due from banks	**$ 22,797**	$ 19,827
Interest bearing deposits with banks	**30,841**	34,256
Trading assets, at fair value (**$130,582** and $127,627 were pledged to various parties)	**234,150**	228,280
Investment securities (includes **$68,167** and $66,759 at fair value)	**77,592**	71,983
Securities received as collateral, at fair value	**8,813**	11,225
Securities purchased under agreements to resell (includes **$555** and $806 at fair value)	**98,774**	87,657
Securities borrowed	**140,413**	142,416
Customer and other receivables	**44,762**	45,407
Loans:		
Held for investment (net of allowances of **$330** and $225)	**75,566**	72,559
Held for sale	**13,236**	13,200
Goodwill	**6,586**	6,584
Intangible assets (net of accumulated amortization of **$2,204** and $2,130) (includes **$4** and $5 at fair value)	**2,909**	2,984
Other assets	**51,058**	51,087
Total assets	**$ 807,497**	$ 787,465
Liabilities		
Deposits (includes **$647** and $125 at fair value)	**$ 157,591**	$ 156,034
Short-term borrowings (includes **$697** and $1,648 at fair value)	**1,109**	2,173
Trading liabilities, at fair value	**115,766**	109,139
Obligation to return securities received as collateral, at fair value	**17,984**	19,316
Securities sold under agreements to repurchase (includes **$693** and $683 at fair value)	**41,305**	36,692
Securities loaned	**17,140**	19,358
Other secured financings (includes **$2,623** and $2,854 at fair value)	**9,316**	9,464
Customer and other payables	**194,003**	186,626
Other liabilities and accrued expenses	**13,304**	18,711
Long-term borrowings (includes **$36,008** and $33,045 at fair value)	**162,804**	153,768
Total liabilities	**730,322**	711,281
Commitments and contingent liabilities (see Note 11)		
Equity		
Morgan Stanley shareholders equity:		
Preferred stock (see Note 14)	**7,520**	7,520
Common stock, $0.01 par value:		
Shares authorized: **3,500,000,000**; Shares issued: **2,038,893,979**; Shares outstanding: **1,938,294,368** and 1,920,024,027	**20**	20
Additional paid-in capital	**22,526**	24,153
Retained earnings	**50,272**	49,204
Employee stock trusts	**2,861**	2,409
Accumulated other comprehensive loss	**(1,238)**	(1,656)
Common stock held in treasury, at cost, $0.01 par value (**100,599,611** and 118,869,952 shares)	**(3,090)**	(4,059)
Common stock issued to employee stock trusts	**(2,861)**	(2,409)
Total Morgan Stanley shareholders equity	**76,010**	75,182
Noncontrolling interests	**1,165**	1,002

Total equity		**77,175**		76,184
Total liabilities and equity	**$**	**807,497**	$	787,465

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

Condensed Consolidated Statements of Changes in Total Equity

Three Months Ended March 31, 2016 and 2015

(dollars in millions)

(unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Employee Stock Trusts	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Stock Trusts	Non-controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2015	$ 7,520	$ 20	$ 24,153	$ 49,204	$ 2,409	$ (1,656)	$ (4,059)	$ (2,409)	$ 1,002	$ 76,184
Cumulative adjustment for accounting change related to DVA(1)				**312**		**(312)**				
Net adjustment for accounting change related to consolidation(2)									**106**	**106**
Net income applicable to Morgan Stanley				**1,134**						**1,134**
Net income applicable to non controlling interests									**23**	**23**
Dividends				**(378)**						**(378)**
Shares issued under employee plans and related tax effects			**(1,627)**		**452**		**1,945**	**(452)**		**318**
Repurchases of common stock and employee tax withholdings							**(976)**			**(976)**
Net change in Accumulated other comprehensive income (loss)						**730**			**55**	**785**
Other net decreases									**(21)**	**(21)**
BALANCE AT MARCH 31, 2016	**$ 7,520**	**$ 20**	**$ 22,526**	**$ 50,272**	**$ 2,861**	**$ (1,238)**	**$ (3,090)**	**$ (2,861)**	**$ 1,165**	**$ 77,175**
BALANCE AT DECEMBER 31, 2014	$ 6,020	$ 20	$ 24,249	$ 44,625	$ 2,127	$ (1,248)	$ (2,766)	$ (2,127)	$ 1,204	$ 72,104
Net income applicable to Morgan Stanley				2,394						2,394
Net income applicable to non controlling interests									69	69
Dividends				(279)						(279)
Shares issued under employee plans and related tax effects			(887)		304		1,398	(304)		511
Repurchases of common stock and employee tax withholdings							(839)			(839)
Net change in Accumulated other comprehensive income (loss)						(18)			(2)	(20)
Issuance of preferred stock	1,500		(7)							1,493
Other net increases									33	33
BALANCE AT MARCH 31, 2015	$ 7,520	$ 20	$ 23,355	$ 46,740	$ 2,431	$ (1,266)	$ (2,207)	$ (2,431)	$ 1,304	$ 75,466

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

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

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

Condensed Consolidated Statements of Cash Flows

(dollars in millions)

(unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 1,157**	$ 2,463
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Income from equity method investments	**(15)**	(38)
Compensation payable in common stock and options	**217**	295
Depreciation and amortization	**415**	321
Net gain on sale of available for sale securities	**(12)**	(25)
Impairment charges	**8**	21
Provision for credit losses on lending activities	**128**	63
Other operating adjustments	**93**	56
Changes in assets and liabilities:		
Trading assets, net of Trading liabilities	**5,814**	11,414
Securities borrowed	**2,003**	(13,657)
Securities loaned	**(2,218)**	308
Customer and other receivables and other assets	**899**	(5,990)
Customer and other payables and other liabilities	**2,153**	8,052
Securities purchased under agreements to resell	**(11,117)**	(7,944)
Securities sold under agreements to repurchase	**4,613**	(8,394)
Net cash provided by (used for) operating activities	**4,138**	(13,055)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (payments for):		
Other assets Premises, equipment and software, net	**(315)**	(320)
Changes in loans, net	**(3,505)**	(2,666)
Investment securities:		
Purchases	**(15,211)**	(15,067)
Proceeds from sales	**8,515**	13,810
Proceeds from paydowns and maturities	**1,536**	1,290
Other investing activities	**(136)**	48
Net cash used for investing activities	**(9,116)**	(2,905)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments for):		
Short-term borrowings	**(1,064)**	618
Noncontrolling interests	**(5)**	(2)
Other secured financings	**(329)**	399
Deposits	**1,557**	2,271
Proceeds from:		
Excess tax benefits associated with stock-based awards	**39**	173
Derivatives financing activities		226
Issuance of preferred stock, net of issuance costs		1,493
Issuance of long-term borrowings	**13,183**	11,339
Payments for:		
Long-term borrowings	**(7,961)**	(5,334)
Derivatives financing activities	**(120)**	(83)
Repurchases of common stock and employee tax withholdings	**(976)**	(839)

Cash dividends		**(436)**		(310)
Net cash provided by financing activities		**3,888**		9,951
Effect of exchange rate changes on cash and cash equivalents		**645**		(682)
Net decrease in cash and cash equivalents		**(445)**		(6,691)
Cash and cash equivalents, at beginning of period		**54,083**		46,984
Cash and cash equivalents, at end of period	**$**	**53,638**	$	40,293
Cash and cash equivalents include:				
Cash and due from banks	**$**	**22,797**	$	19,683
Interest bearing deposits with banks		**30,841**		20,610
Cash and cash equivalents, at end of period	**$**	**53,638**	$	40,293

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were **$613 million** and $580 million.

Cash payments for income taxes, net of refunds, were **$122 million** and $119 million.

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Introduction and Basis of Presentation.

The Company.

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

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

Basis of Financial Information.

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

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

Consolidation.

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

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

Condensed Consolidated Statements of Income Presentation.

The Company, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients. In connection with the delivery of these various products and services, the Company manages its revenues and related expenses in the aggregate. As such, when assessing the performance of its businesses, primarily in the Institutional Securities business segment, the Company considers its trading, investment banking, commissions and fees, and interest income, along with the associated interest expense, as one integrated activity.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Condensed Consolidated Statements of Cash Flows Presentation.

The adoption of the accounting update, *Amendments to the Consolidation Analysis* (see Note 2), resulted in a net noncash increase in total assets of $126 million.

2. Significant Accounting Policies.

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

During the quarter ended March 31, 2016, other than the following, there were no significant updates made to the Company s significant accounting policies.

Accounting Standards Adopted.

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

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

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

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

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

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

Simplifying the Accounting for Measurement-Period Adjustments.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

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

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

3. Fair Values.

Fair Value Measurements.

For a description of the valuation techniques applied to the Company s major categories of assets and liabilities measured at fair value on a recurring basis, see Note 3 to the consolidated financial statements in the 2015 Form 10-K. During the quarter ended March 31, 2016, there were no significant updates made to the Company s valuation techniques.

Assets and Liabilities Measured at Fair Value on a Recurring Basis.

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting	Balance at March 31, 2016
			(dollars in millions)		
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 23,545	$	$	$	$ 23,545
U.S. agency securities	1,004	20,662	8		21,674
Total U.S. government and agency securities	24,549	20,662	8		45,219
Other sovereign government obligations	15,835	8,232	8		24,075
Corporate and other debt:					
State and municipal securities		1,832	5		1,837
Residential mortgage-backed securities		1,337	292		1,629
Commercial mortgage-backed securities		1,029	59		1,088
Asset-backed securities		335	4		339
Corporate bonds		9,955	224		10,179
Collateralized debt and loan obligations		295	348		643
Loans and lending commitments(1)		3,640	6,185		9,825

Other debt		1,358	527		1,885
Total corporate and other debt		19,781	7,644		27,425
Corporate equities(2)	95,676	366	430		96,472
Derivative and other contracts:					
Interest rate contracts	507	424,488	1,170		426,165
Credit contracts		19,563	738		20,301
Foreign exchange contracts	77	73,019	224		73,320
Equity contracts	768	43,027	735		44,530
Commodity contracts	2,925	10,648	4,045		17,618
Other		19			19
Netting(3)	(3,517)	(477,187)	(3,606)	(61,800)	(546,110)
Total derivative and other contracts	760	93,577	3,306	(61,800)	35,843
Investments(4):					
Principal investments	22	20	743		785
Other	166	324	179		669
Total investments	188	344	922		1,454
Physical commodities		274			274
Total trading assets(4)	137,008	143,236	12,318	(61,800)	230,762
AFS securities	32,731	35,436			68,167
Securities received as collateral	8,811	2			8,813
Securities purchased under agreements to resell		555			555
Intangible assets			4		4
Total assets measured at fair value	$ 178,550	$ 179,229	$ 12,322	$ (61,800)	$ 308,301

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting	Balance at March 31, 2016
			(dollars in millions)		
Liabilities at Fair Value					
Deposits	$	$ 624	$ 23	$	$ 647
Short-term borrowings		697			697
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	10,553				10,553
U.S. agency securities	304	162			466
Total U.S. government and agency securities	10,857	162			11,019
Other sovereign government obligations	12,961	3,554			16,515
Corporate and other debt:					
Corporate bonds		6,517	6		6,523
Lending commitments		2	1		3
Other debt		31	4		35
Total corporate and other debt		6,550	11		6,561
Corporate equities(2)	48,183	60	31		48,274
Derivative and other contracts:					
Interest rate contracts	655	397,394	1,001		399,050
Credit contracts		19,806	1,461		21,267
Foreign exchange contracts	49	76,895	98		77,042
Equity contracts	487	44,825	2,567		47,879
Commodity contracts	2,493	9,401	2,845		14,739
Other		116			116
Netting(3)	(3,517)	(477,187)	(3,606)	(42,386)	(526,696)
Total derivative and other contracts	167	71,250	4,366	(42,386)	33,397
Total trading liabilities	72,168	81,576	4,408	(42,386)	115,766
Obligation to return securities received as collateral	17,980	3	1		17,984
Securities sold under agreements to repurchase		542	151		693
Other secured financings		2,169	454		2,623
Long-term borrowings		34,210	1,798		36,008
Total liabilities measured at fair value	$ 90,148	$ 119,821	$ 6,835	$ (42,386)	$ 174,418

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Level 1	Level 2	Level 3 (dollars in millions)	Counterparty and Cash Collateral Netting	Balance at December 31, 2015
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 17,658	$	$	$	$ 17,658
U.S. agency securities	797	17,886			18,683
Total U.S. government and agency securities	18,455	17,886			36,341
Other sovereign government obligations	13,559	7,400	4		20,963
Corporate and other debt:					
State and municipal securities		1,651	19		1,670
Residential mortgage-backed securities		1,456	341		1,797
Commercial mortgage-backed securities		1,520	72		1,592
Asset-backed securities		494	25		519
Corporate bonds		9,959	267		10,226
Collateralized debt and loan obligations		284	430		714
Loans and lending commitments(1)		4,682	5,936		10,618
Other debt		2,263	448		2,711
Total corporate and other debt		22,309	7,538		29,847
Corporate equities(2)	106,296	379	433		107,108
Derivative and other contracts:					
Interest rate contracts	406	323,586	2,052		326,044
Credit contracts		22,258	661		22,919
Foreign exchange contracts	55	64,608	292		64,955
Equity contracts	653	38,552	1,084		40,289
Commodity contracts	3,140	10,654	3,358		17,152
Other		219			219
Netting(3)	(3,840)	(380,443)	(3,120)	(55,562)	(442,965)
Total derivative and other contracts	414	79,434	4,327	(55,562)	28,613
Investments(4):					
Principal investments	20	44	486		550
Other	163	310	221		694
Total investments	183	354	707		1,244
Physical commodities		321			321
Total trading assets(4)	138,907	128,083	13,009	(55,562)	224,437
AFS securities	34,351	32,408			66,759
Securities received as collateral	11,221	3	1		11,225
Securities purchased under agreements to resell		806			806
Intangible assets			5		5
Total assets measured at fair value	$ 184,479	$ 161,300	$ 13,015	$ (55,562)	$ 303,232
Liabilities at Fair Value					

Deposits	$	$ 106	$ 19	$	$ 125
Short-term borrowings		1,647	1		1,648
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	12,932				12,932
U.S. agency securities	854	127			981
Total U.S. government and agency securities	13,786	127			13,913
Other sovereign government obligations	10,970	2,558			13,528
Corporate and other debt:					
Commercial mortgage-backed securities		2			2
Corporate bonds		5,035			5,035
Lending commitments		3			3
Other debt		5	4		9
Total corporate and other debt		5,045	4		5,049
Corporate equities(2)	47,123	35	17		47,175
Derivative and other contracts:					
Interest rate contracts	466	305,151	1,792		307,409
Credit contracts		22,160	1,505		23,665
Foreign exchange contracts	22	65,177	151		65,350
Equity contracts	570	42,447	3,115		46,132
Commodity contracts	3,012	9,431	2,308		14,751
Other		43			43
Netting(3)	(3,840)	(380,443)	(3,120)	(40,473)	(427,876)
Total derivative and other contracts	230	63,966	5,751	(40,473)	29,474
Total trading liabilities	72,109	71,731	5,772	(40,473)	109,139
Obligation to return securities received as collateral	19,312	3	1		19,316
Securities sold under agreements to repurchase		532	151		683
Other secured financings		2,393	461		2,854
Long-term borrowings		31,058	1,987		33,045
Total liabilities measured at fair value	$ 91,421	$ 107,470	$ 8,392	$ (40,473)	$ 166,810

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

AFS Available for sale

(1) At March 31, 2016, Loans and lending commitments held at fair value consisted of $7,455 million of corporate loans, $1,727 million of residential real estate loans and $643 million of wholesale real estate loans. At December 31, 2015, Loans and lending commitments held at fair value consisted of $7,286 million of corporate loans, $1,885 million of residential real estate loans and $1,447 million of wholesale real estate loans.
(2) For trading purposes, the Company holds or sells short equity securities issued by entities in diverse industries and of varying sizes.
(3) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled Counterparty and Cash Collateral Netting. For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that shared level. For further information on derivative instruments and hedging activities, see Note 4.
(4) Amounts exclude certain investments that are measured at fair value using the net asset value (NAV) per share, which are not classified in the fair value hierarchy. At March 31, 2016 and December 31, 2015, the fair value of these investments was $3,388 million and $3,843 million, respectively. For additional disclosure about such investments, see Fair Value of Investments Measured at Net Asset Value herein.

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

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters ended March 31, 2016 and 2015, respectively. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities within the Level 3 category presented in the tables below do not reflect the related realized and unrealized gains (losses) on hedging instruments that have been classified by the Company within the Level 1 and/or Level 2 categories.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

	Beginning Balance at December 31, 2015	Total Realized and Unrealized Gains (Losses)	Purchases (1)	Sales	Issuances	Settlements	Net Transfers	Ending Balance at March 31, 2016	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at March 31, 2016
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$	$ 5	$	$	$	$	$ 3	$ 8	$ 5
Other sovereign government obligations	4			(2)			6	8	
Corporate and other debt:									
State and municipal securities	19			(15)			1	5	
Residential mortgage-backed securities	341	(24)	19	(67)			23	292	(17)
Commercial mortgage-backed securities	72	(9)		(15)			11	59	(9)
Asset-backed securities	25	(1)	1	(17)			(4)	4	
Corporate bonds	267	44	17	(98)			(6)	224	28
Collateralized debt and loan obligations	430	(14)	114	(113)			(69)	348	(4)
Loans and lending commitments	5,936	(60)	952	(319)		(351)	27	6,185	(64)
Other debt	448	5	75	(9)			8	527	5
Total corporate and other debt	7,538	(59)	1,178	(653)		(351)	(9)	7,644	(61)
Corporate equities	433	11	78	(44)			(48)	430	6
Net derivative and other contracts(2):									
Interest rate contracts	260	470	5		(14)	(30)	(522)	169	411
Credit contracts	(844)	28				67	26	(723)	24
Foreign exchange contracts	141	(61)				(105)	151	126	(38)
Equity contracts(3)	(2,031)	(135)	137		(128)	294	31	(1,832)	(12)
Commodity contracts	1,050	73	9		(61)	(57)	186	1,200	68
Total net derivative and other contracts	(1,424)	375	151		(203)	169	(128)	(1,060)	453
Investments:									
Principal investments	486	(43)	365	(29)		(41)	5	743	(43)
Other	221	12		(25)			(29)	179	12
Total investments	707	(31)	365	(54)		(41)	(24)	922	(31)
Securities received as collateral	1			(1)					
Intangible assets	5			(1)				4	(1)
Liabilities at Fair Value									
Deposits	$ 19	$ (2)	$	$	$ 2	$	$	$ 23	$ (2)
Short-term borrowings	1					(1)			
Trading liabilities:									
Corporate and other debt:									
Corporate bonds		(4)	(2)	9			(5)	6	(4)

Lending commitments		(1)						1	(1)
Other debt	4	7		7				4	7
Total corporate and other debt	4	2	(2)	16			(5)	11	2
Corporate equities	17	(4)	(15)	13			12	31	(4)
Obligation to return securities received as collateral	1							1	
Securities sold under agreements to repurchase	151							151	
Other secured financings	461	(18)			47	(22)	(50)	454	(18)
Long-term borrowings	1,987	(46)			72	(79)	(228)	1,798	(45)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Beginning Balance at December 31, 2014	Total Realized and Unrealized Gains (Losses)	Purchases (1)	Sales	Issuances	Settlements	Net Transfers	Ending Balance at March 31, 2015	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at March 31, 2015
				(dollars in millions)					
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 41	$ 1	$ 2	$ (32)	$	$	$ (1)	$ 11	$ 1
Corporate and other debt:									
Residential mortgage-backed securities	175	17	58	(40)			86	296	12
Commercial mortgage-backed securities	96	(2)	96	(10)				180	(2)
Asset-backed securities	76	(2)	57	(29)			(35)	67	3
Corporate bonds	386	38	129	(141)			12	424	38
Collateralized debt and loan obligations	1,152	79	241	(397)		(253)		822	2
Loans and lending commitments	5,874	41	914	(213)		(1,807)	(20)	4,789	40
Other debt	285	(10)	68	(1)		(5)	149	486	2
Total corporate and other debt	8,044	161	1,563	(831)		(2,065)	192	7,064	95
Corporate equities	272	19	30	(98)			7	230	12
Net derivative and other contracts(2):									
Interest rate contracts	(173)	128	6		(11)	65	(511)	(496)	119
Credit contracts	(743)	(247)	14		(30)	7	15	(984)	(252)
Foreign exchange contracts	151	62				97	(13)	297	62
Equity contracts(3)	(2,165)	(273)	33		(176)	(54)	163	(2,472)	(324)
Commodity contracts	1,146	295				(37)	(59)	1,345	262
Total net derivative and other contracts	(1,784)	(35)	53		(217)	78	(405)	(2,310)	(133)
Investments:									
Principal investments	835	17	11	(34)				829	9
Other	323	(12)	2	(5)			83	391	(10)
Total investments	1,158	5	13	(39)			83	1,220	(1)
Securities received as collateral			33					33	
Intangible assets	6					(1)		5	
Liabilities at Fair Value									
Trading liabilities:									
Corporate and other debt:									
Corporate bonds	$ 78	$ (4)	$ (1)	$ 8	$	$	$ (66)	$ 23	$ (4)
Lending commitments	5	5							5
Other debt	38	6	(11)	5			(3)	23	6
Total corporate and other debt	121	7	(12)	13			(69)	46	7
Corporate equities	45	1		7			(1)	50	1
Obligation to return securities received as collateral				33				33	
Securities sold under agreements to repurchase	153	(1)						154	(1)
Other secured financings	149	(8)				(24)		133	1

Long-term borrowings	1,934	17			115	(142)	(152)	1,738	10

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

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

(3) Net liability Level 3 derivative equity contracts increased by $785 million to correct the fair value level assigned to these contracts at December 31, 2014. The total amount of derivative equity contracts remained unchanged at December 31, 2014.

Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

	Balance at March 31, 2016 (dollars in millions)	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Assets at Fair Value				
Trading assets:				
Corporate and other debt:				
Residential mortgage-backed securities	$ 292	Comparable pricing:		
		Comparable bond price / (A)	0 to 79 points	27 points
Commercial mortgage-backed securities	59	Comparable pricing:		
		Comparable bond price / (A)	0 to 9 points	1 point
Corporate bonds	224	Comparable pricing(3):		
		Comparable bond price / (A)	3 to 118 points	63 points
		Comparable pricing:		
		EBITDA multiple / (A)	5 to 10 times	7 times
Collateralized debt and loan obligations	348	Comparable pricing(3):		
		Comparable bond price / (A)	55 to 100 points	66 points
		Correlation model:		
		Credit correlation / (B)	27% to 60%	37%
Loans and lending commitments	6,185	Corporate loan model:		
		Credit spread / (C)	323 to 989 bps	581 bps
		Margin loan model(3):		
		Credit spread / (C)(D)	30 to 101 bps	74 bps
		Volatility skew / (C)(D)	19% to 53%	29%
		Discount rate / (C)(D)	1% to 9%	2%
		Option model:		
		Volatility skew / (C)	-1%	-1%
		Comparable pricing:		
		Comparable loan price / (A)	38 to 100 points	90 points
		Expected recovery:		
		Asset coverage / (A)	48% to 100%	91%
		Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	6% to 7%	7%
		Capitalization rate / (C)(D)	4% to 10%	4%
Other debt	527	Comparable pricing:		
		Comparable loan price / (A)	4 to 87 points	65 points
		Comparable pricing:		
		Comparable bond price / (A)	7 points	7 points
		Option model:		
		At the money volatility / (C)	16% to 53%	53%
		Margin loan model(3):		
		Discount rate / (C)	1% to 2%	2%
Corporate equities	430	Comparable pricing:		
		Comparable price / (A)	46% to 59%	54%

		Comparable pricing(3):		
		Comparable equity price / (A)	100%	100%
Net derivative and other contracts(4):				
Interest rate contracts	169	Option model:		
		Interest rate volatility concentration liquidity multiple / (C)(D)	2 times	2 times
		Interest rate Foreign exchange correlation / (C)(D)	25% to 56%	42% /43%(5)
		Interest rate volatility skew / (A)(D)	31% to 116%	66% / 66%(5)
		Interest rate quanto correlation / (A)(D)	-9% to 35%	5% / -7%(5)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Balance at March 31, 2016 (dollars in millions)	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
		Interest rate curve correlation / (C)(D)	27% to 96%	69% / 75%(5)
		Inflation volatility / (A)(D)	58% to 60%	59% / 59%(5)
		Interest rate-Inflation correlation / (A)(D)	-40% to 42%	-41% / -41%(5)
Credit contracts	(723)	Comparable pricing:		
		Cash synthetic basis / (C)(D)	5 to 12 points	10 points
		Comparable bond price / (C)(D)	0 to 75 points	24 points
		Correlation model(3):		
		Credit correlation / (B)	29% to 90%	42%
Foreign exchange contracts(6)	126	Option model:		
		Interest rate - Foreign exchange correlation / (C)(D)	25% to 56%	42% / 43%(5)
		Foreign exchange volatility skew / (C)(D)	-11% to 4%	0% /0%(5)
		Interest rate volatility skew / (A)(D)	31% to 116%	66% / 66%(5)
		Interest rate curve / (A)(D)	0%	0% / 0%(5)
Equity contracts(6)	(1,832)	Option model:		
		At the money volatility / (A)(D)	7% to 86%	33%
		Volatility skew / (C)(D)	-5% to 0%	-1%
		Equity-Equity correlation / (A)(D)	40% to 97%	78%
		Equity-Foreign exchange correlation / (C)(D)	-60% to -21%	-36%
		Equity-Interest rate correlation / (C)(D)	-29% to 50%	17% / 8%(5)
Commodity contracts	1,200	Option model:		
		Forward power price / (C)(D)	$1 to $93 per megawatt hour	$31 per megawatt hour
		Commodity volatility / (A)(D)	7% to 55%	17%
		Cross commodity correlation / (C)(D)	43% to 99%	93%
Investments:				
Principal investments	743	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	12% to 17%	14%
		Exit multiple / (A)(D)	8 to 14 times	8 times
		Market approach(3):		
		EBITDA multiple / (A)(D)	6 to 26 times	11 times
		Forward capacity price / (A)(D)	$5 to $9	$7
		Comparable pricing:		
		Comparable equity price / (A)	43% to 100%	81%
Other	179	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	9%	9%
		Exit multiple / (A)(D)	13 times	13 times
		Market approach:		
		EBITDA multiple / (A)(D)	6 to 14 times	12 times
		Comparable pricing(3):		
		Comparable equity price / (A)	100%	100%
Liabilities at Fair Value				
Securities sold under agreements to repurchase	151	Discounted cash flow:		
		Funding spread / (A)	104 to 130 bps	120 bps
Other secured financings	454	Option model:		

Volatility skew / (C)	-1%	-1%
Discounted cash flow(3):		
Discount rate / (C)	4% to 14%	5%
Discounted cash flow:		
Funding spread / (A)	94 to 130 bps	112 bps

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Balance at March 31, 2016 (dollars in millions)	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Long-term borrowings	1,798	Option model(3):		
		At the money volatility / (C)(D)	6% to 55%	28%
		Volatility skew / (C)(D)	-2% to 0%	-1%
		Equity-Equity correlation / (C)(D)	40% to 97%	73%
		Equity-Foreign exchange correlation / (A)(D)	-60% to -13%	-28%
		Option model:		
		Interest rate volatility skew / (A)(D)	25% to 50%	38%
		Equity volatility discount / (C)(D)	10% to 20%	15%
		Option model:		
		Interest rate-Foreign exchange correlation / (A)(D)	25% to 56%	42% / 43%(5)
		Correlation model:		
		Credit correlation / (B)	29% to 60%	42%
		Comparable pricing:		
		Comparable equity price / (A)	100%	100%

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

Option model:		
Volatility skew / (C)	-1%	-1%
Comparable pricing:		
Comparable loan price / (A)	35 to 100 points	88 points
Discounted cash flow:		
Implied weighted average cost of capital / (C)(D)	6% to 8%	7%
Capitalization rate / (C)(D)	4% to 10%	4%

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Balance at December 31, 2015 (dollars in millions)	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Other debt	448	Comparable pricing:		
		Comparable loan price / (A)	4 to 84 points	59 points
		Comparable pricing:		
		Comparable bond price / (A)	8 points	8 points
		Option model:		
		At the money volatility / (C)	16% to 53%	53%
		Margin loan model(3):		
		Discount rate / (C)	1%	1%
Corporate equities	433	Comparable pricing:		
		Comparable price / (A)	50% to 80%	72%
		Comparable pricing(3):		
		Comparable equity price / (A)	100%	100%
		Market approach:		
		EBITDA multiple / (A)	9 times	9 times
Net derivative and other contracts(4):				
Interest rate contracts	260	Option model:		
		Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 3 times	2 times
		Interest rate - Foreign exchange correlation / (C)(D)	25% to 62%	43% / 43%(5)
		Interest rate volatility skew / (A)(D)	29% to 82%	43% / 40%(5)
		Interest rate quanto correlation / (A)(D)	-8% to 36%	5% / -6%(5)
		Interest rate curve correlation / (C)(D)	24% to 95%	60% / 69%(5)
		Inflation volatility / (A)(D)	58%	58% / 58%(5)
		Interest rate - Inflation correlation / (A)(D)	-41% to -39%	-41% / -41%(5)
Credit contracts	(844)	Comparable pricing:		
		Cash synthetic basis / (C)(D)	5 to 12 points	9 points
		Comparable bond price / (C)(D)	0 to 75 points	24 points
		Correlation model(3):		
		Credit correlation / (B)	39% to 97%	57%
Foreign exchange contracts(6)	141	Option model:		
		Interest rate - Foreign exchange correlation / (C)(D)	25% to 62%	43% / 43%(5)
		Interest rate volatility skew / (A)(D)	29% to 82%	43% / 40%(5)
		Interest rate curve / (A)(D)	0%	0% / 0%(5)
Equity contracts(6)	(2,031)	Option model:		
		At the money volatility / (A)(D)	16% to 65%	32%
		Volatility skew / (A)(D)	-3% to 0%	-1%
		Equity - Equity correlation / (C)(D)	40% to 99%	71%
		Equity - Foreign exchange correlation / (A)(D)	-60% to -11%	-39%
		Equity - Interest rate correlation / (C)(D)	-29% to 50%	16% / 8%(5)
Commodity contracts	1,050	Option model:		
		Forward power price / (C)(D)	$3 to $91 per megawatt hour	$32 per megawatt hour
		Commodity volatility / (A)(D)	10% to 92%	18%
		Cross commodity correlation / (C)(D)	43% to 99%	93%

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Balance at December 31, 2015 (dollars in millions)	Valuation Technique(s) / Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Averages(2)
Investments:				
Principal investments	486	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	16%	16%
		Exit multiple / (A)(D)	8 to 14 times	9 times
		Capitalization rate / (C)(D)	5% to 9%	6%
		Equity discount rate / (C)(D)	20% to 35%	26%
		Market approach(3):		
		EBITDA multiple / (A)(D)	8 to 20 times	11 times
		Forward capacity price / (A)(D)	$ 5 to $9	$ 7
		Comparable pricing:		
		Comparable equity price / (A)	43% to 100%	81%
Other	221	Discounted cash flow:		
		Implied weighted average cost of capital / (C)(D)	10%	10%
		Exit multiple / (A)(D)	13 times	13 times
		Market approach:		
		EBITDA multiple / (A)	7 to 14 times	12 times
		Comparable pricing(3):		
		Comparable equity price / (A)	100%	100%
Liabilities at Fair Value				
Securities sold under agreements to repurchase	$ 151	Discounted cash flow:		
		Funding spread / (A)	86 to 116 bps	105 bps
Other secured financings	461	Option model:		
		Volatility skew / (C)	-1%	-1%
		Discounted cash flow(3):		
		Discount rate / (C)	4% to 13%	4%
		Discounted cash flow:		
		Funding spread / (A)	95 to 113 bps	104 bps
Long-term borrowings	1,987	Option model(3):		
		At the money volatility / (C)(D)	20% to 50%	29%
		Volatility skew / (A)(D)	-1% to 0%	-1%
		Equity - Equity correlation / (A)(D)	40% to 97%	77%
		Equity - Foreign exchange correlation / (C)(D)	-70% to -11%	-39%
		Option model:		
		Interest rate volatility skew / (A)(D)	50%	50%
		Equity volatility discount / (A)(D)	10%	10%
		Correlation model:		
		Credit correlation / (B)	40% to 60%	52%
		Comparable pricing:		
		Comparable equity price / (A)	100%	100%

bps Basis points.

EBITDA Earnings before interest, taxes, depreciation and amortization.

(1) The range of significant unobservable inputs is represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 79 points would be 79% of par. A basis point equals 1/100th of 1%; for example, 989 bps would equal 9.89%.
(2) Amounts represent weighted averages except where simple averages and the median of the inputs are provided (see footnote 5 below). Weighted averages are calculated by weighting each input by the fair value of the respective financial instruments except for collateralized debt and loan obligations, principal investments, other debt, corporate bonds, long-term borrowings and derivative instruments where some or all inputs are weighted by risk.
(3) This is the predominant valuation technique for this major asset or liability class.
(4) Credit valuation adjustments (CVA) and funding valuation adjustments (FVA) are included in the balance but excluded from the Valuation Technique(s) and Significant Unobservable Input(s) in the table above. CVA is a Level 3 input when the underlying counterparty credit curve is unobservable. FVA is a Level 3 input in its entirety given the lack of observability of funding spreads in the principal market.
(5) The data structure of the significant unobservable inputs used in valuing interest rate contracts, foreign exchange contracts and certain equity contracts may be in a multi-dimensional form, such as a curve or surface, with risk distributed across the structure. Therefore, a simple average and median, together with the range of data inputs, may be more appropriate measurements than a single point weighted average.
(6) Includes derivative contracts with multiple risks (*i.e.,* hybrid products).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

(A) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.
(B) Significant changes in credit correlation may result in a significantly higher or lower fair value measurement. Increasing (decreasing) correlation drives a redistribution of risk within the capital structure such that junior tranches become less (more) risky and senior tranches become more (less) risky.
(C) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.
(D) There are no predictable relationships between the significant unobservable inputs.

For a description of the Company s significant unobservable inputs included in the March 31, 2016 and December 31, 2015 tables above for all major categories of assets and liabilities, see Note 3 to the consolidated financial statements in the 2015 Form 10-K. The following provides a description of an update to significant unobservable inputs included in the 2015 Form 10-K.

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

During the quarter ended March 31, 2016, there were no other significant updates made to the Company s significant unobservable inputs.

Fair Value of Investments Measured at Net Asset Value.

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

Investments in Certain Funds Measured at NAV per Share.

	At March 31, 2016		At December 31, 2015	
	Fair Value	Commitment	Fair Value	Commitment
	(dollars in millions)			
Private equity funds	$ 1,768	$ 467	$ 1,917	$ 538
Real estate funds	1,274	113	1,337	128
Hedge funds:				
Long-short equity hedge funds	193		422	
Fixed income/credit-related hedge funds	52		71	
Event-driven hedge funds	2		2	
Multi-strategy hedge funds	99	4	94	4

Total	$ 3,388	$ 584	$ 3,843	$ 670

Private Equity Funds and Real Estate Funds.

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

Fair Value of Certain Funds by Projected Liquidation Timing.

	At March 31, 2016			
Fund Type	**Less than 5 years**	**5-10 years**	**Over 10 years**	**Total**
	(dollars in millions)			
Private equity funds	$ 141	$ 926	$ 701	$ 1,768
Real estate funds	97	708	469	1,274

Hedge Funds.

Investments in hedge funds may be subject to initial period lock-up restrictions or gates. A hedge fund lock-up provision is a provision that provides that, during a certain initial period, an investor may not make a withdrawal from the fund. The purpose of a gate is to restrict the level of redemptions that an investor in a particular hedge fund can demand on any redemption date.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Fixed income/credit-related hedge funds, event-driven hedge funds and multi-strategy hedge funds are redeemable at least on a three-month period basis, primarily with a notice period of 90 days or less. At March 31, 2016, approximately 34% of the fair value amount of long-short equity hedge funds was redeemable at least quarterly, 33% is redeemable every six months and 33% of these funds have a redemption frequency of greater than six months. At December 31, 2015, approximately 34% of the fair value amount of long-short equity hedge funds was redeemable at least quarterly, 51% is redeemable every six months and 15% of these funds have a redemption frequency of greater than six months. The notice period for long-short equity hedge funds at March 31, 2016 and December 31, 2015 was primarily greater than six months.

Lock-up Restrictions and Gates by Hedge Fund Type.

	At March 31, 2016		
	Fair Value	Gate Restrictions	Remaining Exit Restriction Period
	(dollars in millions)		
Long-short equity	$ 193	26%	Indefinite
Fixed income/credit-related	52	73%	Indefinite
Event-driven	2	N/A	N/A
Multi-strategy(1)	99	N/A	N/A

(1) Approximately 21% of the fair value of multi-strategy investments is subject to lock-up restrictions, which have remaining periods primarily over three years at March 31, 2016.

Fair Value Option.

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

Impact on Earnings of Transactions Under the Fair Value Option Election.

	Trading Revenues	Interest Income (Expense)	Gains (Losses) Included in Net Revenues
		(dollars in millions)	
Three Months Ended March 31, 2016			
Securities purchased under agreements to resell	$	$ 2	$ 2
Deposits(1)	(2)		(2)

Short-term borrowings(1)	45		45
Securities sold under agreements to repurchase(1)	(9)	(2)	(11)
Long-term borrowings(1)	(965)	(139)	(1,104)
Three Months Ended March 31, 2015			
Securities purchased under agreements to resell	$ (1)	$	$ (1)
Short-term borrowings(2)	(40)		(40)
Securities sold under agreements to repurchase(2)	(2)	(1)	(3)
Long-term borrowings(2)	937	(132)	805

(1) Gains (losses) are mainly attributable to changes in foreign currency rates or interest rates or movements in the reference price or index for short-term and long-term borrowings before the impact of related hedges. In accordance with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, unrealized DVA gains of $323 million are recorded within OCI in the condensed consolidated statements of comprehensive income and not included in the above table for the quarter ended March 31, 2016. See Notes 2 and 14 for further information.

(2) Gains (losses) recorded in Trading revenues for the quarter ended March 31, 2015 are attributable to DVA and the respective remainder is attributable to changes in foreign currency rates or interest rates or movements in the reference price or index for structured notes before the impact of related hedges.

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MORGAN STANLEY (Continued)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

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

Business Unit Responsible for Risk Management	At March 31, 2016	At December 31, 2015
	(dollars in millions)	
Equity	$ 19,006	$ 17,789
Interest rates	15,657	14,255
Credit and foreign exchange	1,704	2,266
Commodities	338	383
Total	$ 36,705	$ 34,693

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

	Three Months Ended March 31,			
	2016		2015	
	Trading Revenues	OCI	Trading Revenues	OCI
	(dollars in millions)			
Short-term and long-term borrowings(1)	$ 41	$ 319	$ 125	$
Securities sold under agreements to repurchase(1)		4		
Loans and other debt(2)	(100)		77	
Lending commitments(3)	1		9	

(1) In accordance with the early adoption of a provision of the accounting update, *Recognition and Measurement of Financial Assets and Financial Liabilities*, for the quarter ended March 31, 2016 DVA gains (losses) are recorded in OCI when unrealized and in Trading revenues when realized. In the quarter ended March 31, 2015, the realized and unrealized DVA gains (losses) are recorded in Trading revenues. The cumulative impact of changes in the Company s DVA and the pre-tax amount recognized in AOCI is a loss of $138 million at March 31, 2016. See Notes 2 and 14 for further information.
(2) Loans and other debt instrument-specific credit gains (losses) were determined by excluding the non-credit components of gains and losses, such as those due to changes in interest rates.
(3) Gains (losses) on lending commitments were generally determined based on the differential between estimated expected client yields and contractual yields at each respective period-end.

Net Difference of Contractual Principal Amount Over Fair Value.

	At March 31, 2016	At December 31, 2015
	(dollars in millions)	
Loans and other debt(1)	$ 14,353	$ 14,095
Loans 90 or more days past due and/or on nonaccrual status(1)(2)	12,177	11,651
Short-term and long-term borrowings(3)	344	508

(1) The majority of the difference between principal and fair value amounts for loans and other debt emanates from the distressed debt trading business, which purchases distressed debt at amounts well below par.
(2) The aggregate fair value of loans that were in nonaccrual status was $2,267 million and $1,853 million at March 31, 2016 and December 31, 2015, respectively, which includes all loans 90 or more days past due of $887 million and $885 million at March 31, 2016 and December 31, 2015, respectively.
(3) Short-term and long-term borrowings do not include structured notes where the repayment of the initial principal amount fluctuates based on changes in the reference price or index.

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

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

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

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

	Carrying Value at March 31, 2016	Fair Value by Level			Total Gains (Losses) for the Three Months Ended March 31, 2016(1)
		Level 1	Level 2	Level 3	
			(dollars in millions)		
Assets:					
Loans(2)	$ 6,515	$	$ 3,359	$ 3,156	$ (80)
Other assets Other investments(3)	27			27	(3)
Other assets Premises, equipment and software costs(4)					(5)
Total assets	$ 6,542	$	$ 3,359	$ 3,183	$ (88)
Liabilities:					
Other liabilities and accrued expenses(2)	$ 459	$	$ 379	$ 80	$ (20)
Total liabilities	$ 459	$	$ 379	$ 80	$ (20)

	Carrying Value at March 31, 2015	Fair Value by Level			Total Gains (Losses) for the Three Months Ended March 31, 2015(1)
		Level 1	Level 2	Level 3	
			(dollars in millions)		
Assets:					
Loans(2)	$ 3,346	$	$ 2,521	$ 825	$ (24)
Other assets Other investments(3)	35			35	(2)
Other assets Premises, equipment and software costs(4)					(19)
Total assets	$ 3,381	$	$ 2,521	$ 860	$ (45)
Liabilities:					
Other liabilities and accrued expenses(2)	$ 245	$	$ 203	$ 42	$ (7)
Total liabilities	$ 245	$	$ 203	$ 42	$ (7)

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

Other expenses.

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

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

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

Financial Instruments Not Measured at Fair Value.

For a further discussion of financial instruments not measured at fair value, see Note 3 to the consolidated financial statements in the 2015 Form 10-K.

The carrying values of the remaining assets and liabilities not measured at fair value in the tables below approximate fair value due to their short-term nature.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Financial Instruments Not Measured at Fair Value.

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

	At March 31, 2016		Fair Value by Level		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(dollars in millions)		
Financial Assets:					
Cash and due from banks	$ 22,797	$ 22,797	$ 22,797	$	$
Interest bearing deposits with banks	30,841	30,841	30,841		
Investment securities HTM securities	9,425	9,478	1,963	7,515	
Securities purchased under agreements to resell	98,219	98,246		97,727	519
Securities borrowed	140,413	140,416		140,314	102
Customer and other receivables(1)	40,935	40,823		36,227	4,596
Loans(2)	88,802	89,831		21,858	67,973
Other assets Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	31,808	31,808	31,808		
Financial Liabilities:					
Deposits	$ 156,944	$ 158,238	$	$ 158,238	$
Short-term borrowings	412	412		412	
Securities sold under agreements to repurchase	40,612	40,684		38,701	1,983
Securities loaned	17,140	17,160		17,160	
Other secured financings	6,693	6,704		5,355	1,349
Customer and other payables(1)	191,137	191,137		191,137	
Long-term borrowings	126,796	128,520		128,520	

	At December 31, 2015		Fair Value by Level		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(dollars in millions)		
Financial Assets:					
Cash and due from banks	$ 19,827	$ 19,827	$ 19,827	$	$
Interest bearing deposits with banks	34,256	34,256	34,256		
Investment securities HTM securities	5,244	5,188	998	4,190	
Securities purchased under agreements to resell	86,851	86,837		86,186	651
Securities borrowed	142,416	142,414		142,266	148
Customer and other receivables(1)	41,676	41,576		36,752	4,824
Loans(2)	85,759	86,423		19,241	67,182
Other assets Cash deposited with clearing organizations orsegregated under federal and other regulations or requirements	31,469	31,469	31,469		
Financial Liabilities:					
Deposits	$ 155,909	$ 156,163	$	$ 156,163	$
Short-term borrowings	525	525		525	

Securities sold under agreements to repurchase	36,009	36,060		34,150	1,910
Securities loaned	19,358	19,382		19,192	190
Other secured financings	6,610	6,610		5,333	1,277
Customer and other payables(1)	183,895	183,895		183,895	
Long-term borrowings	120,723	123,219		123,219	

HTM Held to maturity.

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

At March 31, 2016 and December 31, 2015, notional amounts of approximately $98.1 billion and $99.5 billion, respectively, of the Company s lending commitments were held for investment and held for sale, which are not included in the above table. The estimated fair value of such lending commitments was a liability of $2,062 million and $2,172 million, respectively, at March 31, 2016 and December 31, 2015. Had these commitments been accounted for at fair value, $1,660 million would have been categorized in Level 2 and $402 million in Level 3 at March 31, 2016, and $1,791 million would have been categorized in Level 2 and $381 million in Level 3 at December 31, 2015.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

4. Derivative Instruments and Hedging Activities.

The Company trades and makes markets globally in listed futures, over-the-counter (OTC) swaps, forwards, options and other derivatives referencing, among other things, interest rates, currencies, investment grade and non-investment grade corporate credits, loans, bonds, U.S. and other sovereign securities, emerging market bonds and loans, credit indices, asset-backed security indices, property indices, mortgage-related and other asset-backed securities, and real estate loan products. For a further discussion of the Company s derivative instruments and hedging activities, see Note 4 to the consolidated financial statements in the 2015 Form 10-K.

Fair Value, Notional and Offsetting of Derivative Instruments.

Fair Value, Notional and Offsetting of Derivative Assets and Liabilities.

	Derivative Assets at March 31, 2016							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 3,209	$ 2,897	$	$ 6,106	$ 34,259	$ 57,400	$	$ 91,659
Foreign exchange contracts	27			27	1,527			1,527
Total derivatives designated as accounting hedges	3,236	2,897		6,133	35,786	57,400		93,186
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	273,635	146,182	242	420,059	4,254,497	5,634,287	1,243,384	11,132,168
Credit contracts	16,774	3,527		20,301	535,066	157,290		692,356
Foreign exchange contracts	72,794	423	76	73,293	1,900,339	14,915	11,542	1,926,796
Equity contracts	21,174		23,356	44,530	288,517		259,466	547,983
Commodity contracts	13,786		3,832	17,618	67,085		82,933	150,018
Other	19			19	2,111			2,111
Total derivatives not designated as accounting hedges	398,182	150,132	27,506	575,820	7,047,615	5,806,492	1,597,325	14,451,432
Total gross derivatives(2)	$ 401,418	$ 153,029	$ 27,506	$ 581,953	$ 7,083,401	$ 5,863,892	$ 1,597,325	$ 14,544,618
Amounts offset:								

Counterparty netting	(314,379)	(149,342)	(24,456)	(488,177)
Cash collateral netting	(55,371)	(2,562)		(57,933)
Total derivative assets at fair value included in Trading assets	$ 31,668	$ 1,125	$ 3,050	$ 35,843
Amounts not offset(3):				
Financial instruments collateral	(10,299)			(10,299)
Other cash collateral	(13)			(13)
Net exposure	$ 21,356	$ 1,125	$ 3,050	$ 25,531

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Derivative Liabilities at March 31, 2016

	Fair Value				Notional			
	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Foreign exchange contracts	$ 364	$ 28	$	$ 392	$ 8,267	$ 783	$	$ 9,050
Total derivatives designated as accounting hedges	364	28		392	8,267	783		9,050
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	251,687	147,016	347	399,050	3,943,566	5,517,043	903,713	10,364,322
Credit contracts	17,616	3,651		21,267	569,403	144,845		714,248
Foreign exchange contracts	76,098	503	49	76,650	1,960,735	15,602	6,107	1,982,444
Equity contracts	23,973		23,906	47,879	331,715		252,398	584,113
Commodity contracts	11,240		3,499	14,739	62,976		65,323	128,299
Other	116			116	4,858			4,858
Total derivatives not designated as accounting hedges	380,730	151,170	27,801	559,701	6,873,253	5,677,490	1,227,541	13,778,284
Total gross derivatives(2)	$ 381,094	$ 151,198	$ 27,801	$ 560,093	$ 6,881,520	$ 5,678,273	$ 1,227,541	$ 13,787,334
Amounts offset:								
Counter party netting	(314,379)	(149,342)	(24,456)	(488,177)				
Cash collateral netting	(36,868)	(1,651)		(38,519)				
Total derivative liabilities at fair value included in Trading liabilities	$ 29,847	$ 205	$ 3,345	$ 33,397				
Amounts not offset(3):								
Financial instruments collateral	(8,368)		(308)	(8,676)				
Other cash collateral	(4)	(25)		(29)				
Net exposure	$ 21,475	$ 180	$ 3,037	$ 24,692				

Derivative Assets at December 31, 2015

	Fair Value				Notional			
	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
	(dollars in millions)							

Derivatives designated as accounting hedges:								
Interest rate contracts	$ 2,825	$ 1,442	$	$ 4,267	$ 36,999	$ 35,362	$	$ 72,361
Foreign exchange contracts	166	1		167	5,996	167		6,163
Total derivatives designated as accounting hedges	2,991	1,443		4,434	42,995	35,529		78,524
Derivatives not designated as accounting hedges(4):								
Interest rate contracts	220,289	101,276	212	321,777	4,348,002	5,748,525	1,218,645	11,315,172
Credit contracts	19,310	3,609		22,919	585,731	139,301		725,032
Foreign exchange contracts	64,438	295	55	64,788	1,907,290	13,402	7,715	1,928,407
Equity contracts	20,212		20,077	40,289	316,770		229,859	546,629
Commodity contracts	13,114		4,038	17,152	67,449		82,313	149,762
Other	219			219	5,684			5,684
Total derivatives not designated as accounting hedges	337,582	105,180	24,382	467,144	7,230,926	5,901,228	1,538,532	14,670,686
Total gross derivatives(2)	$ 340,573	$ 106,623	$ 24,382	$ 471,578	$ 7,273,921	$ 5,936,757	$ 1,538,532	$ 14,749,210
Amounts offset:								
Counter party netting	(265,707)	(104,294)	(21,592)	(391,593)				
Cash collateral netting	(50,335)	(1,037)		(51,372)				
Total derivative assets at fair value included in Trading assets	$ 24,531	$ 1,292	$ 2,790	$ 28,613				
Amounts not offset(3):								
Financial instruments collateral	(9,190)			(9,190)				
Other cash collateral	(9)			(9)				
Net exposure	$ 15,332	$ 1,292	$ 2,790	$ 19,414				

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Derivative Liabilities at December 31, 2015							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC	Exchange Traded	Total	Bilateral OTC	Cleared OTC	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 20	$ 250	$	$ 270	$ 3,560	$ 9,869	$	$ 13,429
Foreign exchange contracts	56	6		62	4,604	455		5,059
Total derivatives designated as accounting hedges	76	256		332	8,164	10,324		18,488
Derivatives not designated as accounting hedges(4):								
Interest rate contracts	203,004	103,852	283	307,139	4,030,039	5,682,322	1,077,710	10,790,071
Credit contracts	19,942	3,723		23,665	562,027	131,388		693,415
Foreign exchange contracts	65,034	232	22	65,288	1,868,015	13,322	2,655	1,883,992
Equity contracts	25,708		20,424	46,132	332,734		229,266	562,000
Commodity contracts	10,864		3,887	14,751	59,169		62,974	122,143
Other	43			43	4,114			4,114
Total derivatives not designated as accounting hedges	324,595	107,807	24,616	457,018	6,856,098	5,827,032	1,372,605	14,055,735
Total gross derivatives(2)	$ 324,671	$ 108,063	$ 24,616	$ 457,350	$ 6,864,262	$ 5,837,356	$ 1,372,605	$ 14,074,223
Amounts offset:								
Counterparty netting	(265,707)	(104,294)	(21,592)	(391,593)				
Cash collateral netting	(33,332)	(2,951)		(36,283)				
Total derivative liabilities at fair value included in Trading liabilities	$ 25,632	$ 818	$ 3,024	$ 29,474				
Amounts not offset(3):								
Financial instruments collateral	(5,384)		(405)	(5,789)				
Other cash collateral	(5)			(5)				
Net exposure	$ 20,243	$ 818	$ 2,619	$ 23,680				

(1) Notional amounts include gross notionals related to open long and short futures contracts of $967.4 billion and $399.2 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $895 million and $371 million is included in Customer and other receivables and Customer and other payables, respectively, in the condensed consolidated balance sheet.

(2) Amounts include $5.3 billion of derivative assets and $5.8 billion of derivative liabilities at March 31, 2016 and $4.2 billion of derivative assets and $5.2 billion of derivative liabilities at December 31, 2015, which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

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

(4) Notional amounts include gross notionals related to open long and short futures contracts of $1,009.5 billion and $653.0 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $1,145 million and $437 million is included in Customer and other receivables and Customer and other payables, respectively, in the condensed consolidated balance sheet.

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

Gains (Losses) on Fair Value Hedges.

Product Type	Gains (Losses) Recognized in Interest Expense Three Months Ended March 31, 2016	2015
	(dollars in millions)	
Derivatives	$ 2,150	$ 758
Borrowings	(2,289)	(843)
Total	$ (139)	$ (85)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Gains (Losses) on Derivatives Designated as Net Investment Hedges.

Product Type	Gains (Losses) Recognized in OCI (effective portion) Three Months Ended March 31, 2016	2015
	(dollars in millions)	
Foreign exchange contracts(1)	$ (224)	$ 262

(1) Losses of $20 million and $44 million related to the forward points on the hedging instruments were excluded from hedge effectiveness testing and recognized in Interest income during the quarters ended March 31, 2016 and 2015, respectively.

Gains (Losses) on Trading Instruments.

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

Product Type	Gains (Losses) Recognized in Trading Revenues Three Months Ended March 31, 2016	2015
	(dollars in millions)	
Interest rate contracts	$ 306	$ 570
Foreign exchange contracts	237	345
Equity security and index contracts(1)	1,330	1,595
Commodity and other contracts(2)	(144)	676
Credit contracts	336	339
Subtotal	$ 2,065	$ 3,525
Debt valuation adjustments(3)		125
Total trading revenue	$ 2,065	$ 3,650

(1) Dividend income is included within equity security and index contracts.
(2) Other contracts represent contracts not reported as interest rate, foreign exchange, equity security and index or credit contracts.

(3) In accordance with the early adoption of a provision of the accounting update *Recognition and Measurement of Financial Assets and Financial Liabilities*, unrealized DVA gains (losses) in the quarter ended March 31, 2016 are recorded within OCI in the condensed consolidated statements of comprehensive income. In the quarter ended March 31, 2015, the DVA gains (losses) were recorded within Trading revenues in the condensed consolidated statements of income. See Notes 2 and 14 for further information.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

OTC Derivative Products Trading Assets.

Counterparty Credit Rating and Remaining Maturity of OTC Derivative Assets.

	Fair Value at March 31, 2016(1)						
	Contractual Years to Maturity						
Credit Rating(2)	Less than 1	1-3	3-5	Over 5	Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-cash Collateral	Net Exposure Post-collateral(4)
	(dollars in millions)						
AAA	$ 182	$ 567	$ 1,344	$ 4,683	$ (5,272)	$ 1,504	$ 1,425
AA	2,524	1,488	1,750	12,747	(13,148)	5,361	3,045
A	10,143	7,440	4,984	26,567	(38,249)	10,885	7,603
BBB	4,953	4,487	2,246	13,055	(16,119)	8,622	6,426
Non-investment grade	5,065	2,804	1,277	5,024	(7,762)	6,408	3,982
Total	$ 22,867	$ 16,786	$ 11,601	$ 62,076	$ (80,550)	$ 32,780	$ 22,481

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

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

Credit Risk-Related Contingencies.

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

Net Derivative Liabilities and Collateral Posted.

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

	At March 31, 2016 (dollars in millions)
Net derivative liabilities	$ 28,798
Collateral posted	24,146

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Poor s Ratings Services (S&P). The table below shows the future potential collateral amounts and termination payments that could be called or required by counterparties or exchange and clearing organizations in the event of one-notch or two-notch downgrade scenarios based on the relevant contractual downgrade triggers.

Incremental Collateral or Termination Payments upon Potential Future Ratings Downgrade.

	At March 31, 2016(1) (dollars in millions)
One-notch downgrade	$ 1,148
Two-notch downgrade	1,496

(1) Amounts include $1,666 million related to bilateral arrangements between the Company and other parties where upon the downgrade of one party, the downgraded party must deliver collateral to the other party. These bilateral downgrade arrangements are used by the Company to manage the risk of counterparty downgrades.

Credit Derivatives and Other Credit Contracts.

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

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

	At March 31, 2016			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$ 402,123	$ 1,055	$ 387,777	$ (1,100)
Index and basket credit default swaps	214,815	(39)	181,184	(193)
Tranched index and basket credit default swaps	68,229	(1,143)	152,476	2,386
Total	$ 685,167	$ (127)	$ 721,437	$ 1,093

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Credit Ratings of Reference Obligation and Maturities of Credit Protection Sold.

	At March 31, 2016 Maximum Potential Payout/Notional Years to Maturity					Fair Value
	Less than 1	1-3	3-5 (dollars in millions)	Over 5	Total	(Asset)/ Liability(1)
Single name credit default swaps:						
Investment grade	$ 87,072	$ 123,998	$ 57,920	$ 13,162	$ 282,152	$ (1,367)
Non-investment grade	41,992	52,389	22,907	2,683	119,971	2,422
Total	$ 129,064	$ 176,387	$ 80,827	$ 15,845	$ 402,123	$ 1,055
Index and basket credit default swaps:						
Investment grade	$ 32,276	$ 59,013	$ 45,293	$ 19,020	$ 155,602	$ (1,802)
Non-investment grade	53,291	44,154	12,657	17,340	127,442	620
Total	$ 85,567	$ 103,167	$ 57,950	$ 36,360	$ 283,044	$ (1,182)
Total credit default swaps sold	$ 214,631	$ 279,554	$ 138,777	$ 52,205	$ 685,167	$ (127)
Other credit contracts	27	44	5	323	399	(2)
Total credit derivatives and other credit contracts	$ 214,658	$ 279,598	$ 138,782	$ 52,528	$ 685,566	$ (129)

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

Total credit default swaps sold	$ 208,694	$ 298,030	$ 149,171	$ 33,624	$ 689,519	$ 785
Other credit contracts	19	107	2	332	460	(24)
Total credit derivatives and other credit contracts	$ 208,713	$ 298,137	$ 149,173	$ 33,956	$ 689,979	$ 761

(1) Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.

Purchased Credit Protection with Identical Underlying Reference Obligations.

For single name and non-tranched index and basket credit default swaps, the Company has purchased protection with a notional amount of approximately $566.4 billion and $577.7 billion at March 31, 2016 and December 31, 2015, respectively, compared with a notional amount of approximately $614.9 billion and $619.5 billion (included in the tables above) at March 31, 2016 and December 31, 2015, respectively, of credit protection sold with identical underlying reference obligations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

5. Investment Securities.

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

AFS and HTM Securities.

	At March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in millions)			
AFS debt securities:				
U.S. government and agency securities:				
U.S. Treasury securities	$ 31,808	$ 151	$ 1	$ 31,958
U.S. agency securities(1)	21,662	127	35	21,754
Total U.S. government and agency securities	53,470	278	36	53,712
Corporate and other debt:				
Commercial mortgage-backed securities:				
Agency	2,154	4	38	2,120
Non-agency	2,164	23	14	2,173
Auto loan asset-backed securities	2,328	2	1	2,329
Corporate bonds	3,930	47	7	3,970
Collateralized loan obligations	502		10	492
FFELP student loan asset-backed securities(2)	3,489		127	3,362
Total corporate and other debt	14,567	76	197	14,446
Total AFS debt securities	68,037	354	233	68,158
AFS equity securities	15		6	9
Total AFS securities	68,052	354	239	68,167
HTM securities:				
U.S. government securities:				
U.S. Treasury securities	1,953	10		1,963

U.S. agency securities(1)		7,472		44		1		7,515
Total HTM securities		9,425		54		1		9,478
Total Investment securities	$	77,477	$	408	$	240	$	77,645

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

(1) U.S. agency securities consist mainly of agency-issued debt, agency mortgage pass-through pool securities and collateralized mortgage obligations.
(2) FFELP Federal Family Education Loan Program. Amounts are backed by a guarantee from the U.S. Department of Education of at least 95% of the principal balance and interest on such loans.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Investment Securities in an Unrealized Loss Position.

	At March 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(dollars in millions)					
AFS debt securities:						
U.S. government and agency securities:						
U.S. Treasury securities	$ 1,812	$ 1	$	$	$ 1,812	$ 1
U.S. agency securities	5,385	12	2,518	23	7,903	35
Total U.S. government and agency securities	7,197	13	2,518	23	9,715	36
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	328	1	1,206	37	1,534	38
Non-agency	440	1	656	13	1,096	14
Auto loan asset-backed securities	1,003	1	227		1,230	1
Corporate bonds	461	3	388	4	849	7
Collateralized loan obligations			492	10	492	10
FFELP student loan asset-backed securities	1,678	51	1,661	76	3,339	127
Total corporate and other debt	3,910	57	4,630	140	8,540	197
Total AFS debt securities	11,107	70	7,148	163	18,255	233
AFS equity securities	10	6			10	6
Total AFS securities	11,117	76	7,148	163	18,265	239
HTM securities:						
U.S. government and agency securities:						
U.S. agency securities	777	1	393		1,170	1
Total HTM securities	777	1	393		1,170	1
Total Investment securities	$ 11,894	$ 77	$ 7,541	$ 163	$ 19,435	$ 240

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

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

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

For AFS debt securities, the Company does not intend to sell the securities and is not likely to be required to sell the securities prior to recovery of amortized cost basis. For AFS and HTM debt securities, the securities have not experienced credit losses as the net unrealized losses reported in the table above are primarily due to higher interest rates since those securities were purchased. Additionally, the Company does not expect to experience a credit loss based on consideration of the relevant information (as discussed in Note 2 to the consolidated financial statements in the 2015 Form 10-K), including for U.S. government and agency securities, the existence of an explicit and implicit guarantee provided by the U.S. government. The risk of credit loss on securities in an unrealized loss position is considered minimal because all of the Company s agency securities as well as asset-backed securities (ABS), commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLOs) are highly rated and because corporate bonds are all investment grade.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

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

	At March 31, 2016		
	Amortized Cost	Fair Value (dollars in millions)	Annualized Average Yield
AFS debt securities:			
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	$ 5,194	$ 5,198	0.7%
After 1 year through 5 years	25,757	25,885	1.0%
After 5 years through 10 years	857	875	1.8%
Total	31,808	31,958	
U.S. agency securities:			
After 1 year through 5 years	2,774	2,775	0.5%
After 5 years through 10 years	1,534	1,560	1.9%
After 10 years	17,354	17,419	1.7%
Total	21,662	21,754	
Total U.S. government and agency securities	53,470	53,712	1.2%
Corporate and other debt:			
Commercial mortgage-backed securities:			
Agency:			
Due within 1 year	102	102	0.8%
After 1 year through 5 years	461	461	0.9%
After 5 years through 10 years	545	546	1.3%
After 10 years	1,046	1,011	1.6%
Total	2,154	2,120	
Non-agency:			
After 10 years	2,164	2,173	1.9%
Total	2,164	2,173	
Auto loan asset-backed securities:			
Due within 1 year	24	24	0.8%
After 1 year through 5 years	2,146	2,146	1.2%
After 5 years through 10 years	158	159	1.5%
Total	2,328	2,329	

Corporate bonds:			
Due within 1 year	534	535	1.2%
After 1 year through 5 years	2,660	2,678	1.7%
After 5 years through 10 years			