MORGAN STANLEY
Form 10-Q
November 04, 2013
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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 September 30, 2013

OR

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

EXCHANGE ACT OF 1934

Commission File Number 1-11758

(Exact Name of Registrant as specified in its charter)

Delaware	**1585 Broadway**	**36-3145972**	**(212) 761-4000**
(State or other jurisdiction of incorporation or organization)	**New York, NY 10036**	(I.R.S. Employer Identification No.)	(Registrant s telephone number, including area code)
	(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 October 31, 2013, there were 1,951,340,420 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 September 30, 2013

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AVAILABLE INFORMATION

Morgan Stanley 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 we file with the SEC at the SEC s public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Morgan Stanley) file electronically with the SEC. Morgan Stanley s electronic SEC filings are available to the public at the SEC s internet site, *www.sec.gov*.

Morgan Stanley s internet site is *www.morganstanley.com*. You can access Morgan Stanley s Investor Relations webpage at *www.morganstanley.com/about/ir*. Morgan Stanley 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. Morgan Stanley also makes available, through its Investor Relations webpage, via a link to the SEC s internet site, statements of beneficial ownership of Morgan Stanley s equity securities filed by its directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

Morgan Stanley has a Corporate Governance webpage. You can access information about Morgan Stanley s corporate governance at *www.morganstanley.com/about/company/governance*. Morgan Stanley posts the following on its Corporate Governance webpage:

- Amended and Restated Certificate of Incorporation;
- Amended and Restated Bylaws;
- Charters for its Audit Committee; Operations and Technology Committee; Compensation, Management Development and Succession Committee; Nominating and Governance 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 Contributions;
- Policy Regarding Shareholder Rights Plan;
- 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. Morgan Stanley 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 Morgan Stanley 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 Financial Condition

(dollars in millions, except share data)

(unaudited)

	September 30, 2013	December 31, 2012
Assets		
Cash and due from banks ($465 and $526 at September 30, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities generally not available to the Company)	$ 14,333	$ 20,878
Interest bearing deposits with banks	43,448	26,026
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	37,392	30,970
Trading assets, at fair value (approximately $150,255 and $147,348 were pledged to various parties at September 30, 2013 and December 31, 2012, respectively; $2,994 and $3,505 related to consolidated variable interest entities, generally not available to the Company at September 30, 2013 and December 31, 2012, respectively)	273,658	267,603
Securities available for sale, at fair value	46,866	39,869
Securities received as collateral, at fair value	16,042	14,278
Federal funds sold and securities purchased under agreements to resell (includes $868 and $621 at fair value at September 30, 2013 and December 31, 2012, respectively)	133,988	134,412
Securities borrowed	139,169	121,701
Customer and other receivables	57,710	64,288
Loans (net of allowances of $166 and $106 at September 30, 2013 and December 31, 2012, respectively)	37,734	29,046
Other investments	5,083	4,999
Premises, equipment and software costs (net of accumulated depreciation of $6,205 and $5,525 at September 30, 2013 and December 31, 2012, respectively) ($213 and $224 at September 30, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities, generally not available to the Company)	6,008	5,946
Goodwill	6,591	6,650
Intangible assets (net of accumulated amortization of $1,509 and $1,250 at September 30, 2013 and December 31, 2012, respectively) (includes $8 and $7 at fair value at September 30, 2013 and December 31, 2012, respectively)	3,514	3,783
Other assets ($523 and $593 at September 30, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities, generally not available to the Company)	10,687	10,511
Total assets	$ 832,223	$ 780,960
Liabilities		
Deposits (includes $1,411 and $1,485 at fair value at September 30, 2013 and December 31, 2012, respectively)	$ 104,807	$ 83,266
Commercial paper and other short-term borrowings (includes $1,623 and $725 at fair value at September 30, 2013 and December 31, 2012, respectively)	2,333	2,138
Trading liabilities, at fair value	122,645	120,122
Obligation to return securities received as collateral, at fair value	20,899	18,226
Securities sold under agreements to repurchase (includes $554 and $363 at fair value at September 30, 2013 and December 31, 2012, respectively)	139,398	122,674
Securities loaned	32,807	36,849
Other secured financings (includes $6,145 and $9,466 at fair value at September 30, 2013 and December 31, 2012, respectively) ($587 and $976 at September 30, 2013 and December 31, 2012, respectively, related to consolidated variable entities and are non-recourse to the Company)	14,528	15,727
Customer and other payables	152,091	127,722
Other liabilities and accrued expenses ($75 and $117 at September 30, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities and are non-recourse to the Company)	16,669	14,928
Long-term borrowings (includes $36,719 and $44,044 at fair value at September 30, 2013 and December 31, 2012, respectively)	157,805	169,571

Total liabilities	763,982	711,223
Commitments and contingent liabilities (see Note 12)		
Redeemable noncontrolling interests (see Notes 3 and 14)		4,309
Equity		
Morgan Stanley shareholders equity:		
Preferred stock	2,370	1,508
Common stock, $0.01 par value:		
Shares authorized: 3,500,000,000 at September 30, 2013 and December 31, 2012;		
Shares issued: 2,038,893,979 at September 30, 2013 and December 31, 2012;		
Shares outstanding: 1,953,350,711 at September 30, 2013 and 1,974,042,123 at December 31, 2012	20	20
Additional Paid-in capital	24,235	23,426
Retained earnings	42,237	39,912
Employee stock trust	1,753	2,932
Accumulated other comprehensive loss	(1,014)	(516)
Common stock held in treasury, at cost, $0.01 par value; 85,543,268 shares at September 30, 2013 and 64,851,856 shares at December 31, 2012	(2,720)	(2,241)
Common stock issued to employee trust	(1,753)	(2,932)
Total Morgan Stanley shareholders equity	65,128	62,109
Nonredeemable noncontrolling interests	3,113	3,319
Total equity	68,241	65,428
Total liabilities, redeemable noncontrolling interests and equity	$ 832,223	$ 780,960

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

Condensed Consolidated Statements of Income

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

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Investment banking	$ 1,160	$ 1,152	$ 3,687	$ 3,319
Trading	2,259	607	7,847	5,478
Investments	728	290	1,254	438
Commissions and fees	1,080	988	3,465	3,205
Asset management, distribution and administration fees	2,390	2,257	7,140	6,677
Other	204	141	700	403
Total non-interest revenues	7,821	5,435	24,093	19,520
Interest income	1,311	1,379	4,131	4,244
Interest expense	1,200	1,534	3,631	4,618
Net interest	111	(155)	500	(374)
Net revenues	7,932	5,280	24,593	19,146
Non-interest expenses:				
Compensation and benefits	3,968	3,928	12,289	11,989
Occupancy and equipment	375	386	1,131	1,152
Brokerage, clearing and exchange fees	416	359	1,300	1,167
Information processing and communications	405	493	1,323	1,439
Marketing and business development	151	138	448	439
Professional services	449	476	1,347	1,365
Other	829	983	2,059	1,939
Total non-interest expenses	6,593	6,763	19,897	19,490
Income (loss) from continuing operations before income taxes	1,339	(1,483)	4,696	(344)
Provision for (benefit from) income taxes	339	(525)	1,226	(247)
Income (loss) from continuing operations	1,000	(958)	3,470	(97)
Discontinued operations:				
Gain (loss) from discontinued operations	16	(11)	(55)	68
Provision for (benefit from) income taxes	(2)	(13)	(25)	43
Net gain (loss) from discontinued operations	18	2	(30)	25
Net income (loss)	$ 1,018	$ (956)	$ 3,440	$ (72)
Net income applicable to redeemable noncontrolling interests		8	222	8
Net income applicable to nonredeemable noncontrolling interests	112	59	370	446

Net income (loss) applicable to Morgan Stanley	$ 906	$ (1,023)	$ 2,848	$ (526)
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 880	$ (1,047)	$ 2,619	$ (599)
Amounts applicable to Morgan Stanley:				
Income (loss) from continuing operations	$ 888	$ (1,008)	$ 2,878	$ (525)
Net gain (loss) from discontinued operations	18	(15)	(30)	(1)
Net income (loss) applicable to Morgan Stanley	$ 906	$ (1,023)	$ 2,848	$ (526)
Earnings (loss) per basic common share:				
Income (loss) from continuing operations	$ 0.45	$ (0.55)	$ 1.39	$ (0.32)
Net gain (loss) from discontinued operations	0.01		(0.02)	
Earnings (loss) per basic common share	$ 0.46	$ (0.55)	$ 1.37	$ (0.32)
Earnings (loss) per diluted common share:				
Income (loss) from continuing operations	$ 0.44	$ (0.55)	$ 1.36	$ (0.32)
Net gain (loss) from discontinued operations	0.01		(0.02)	
Earnings (loss) per diluted common share	$ 0.45	$ (0.55)	$ 1.34	$ (0.32)
Dividends declared per common share	$ 0.05	$ 0.05	$ 0.15	$ 0.15
Average common shares outstanding:				
Basic	1,909,350,788	1,889,300,631	1,906,097,564	1,883,813,883
Diluted	1,964,812,610	1,889,300,631	1,952,146,477	1,883,813,883

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$ 1,018	$ (956)	$ 3,440	$ (72)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments(1)	$ 125	$ 43	$ (321)	$ (88)
Amortization of cash flow hedges(2)	1	2	3	5
Change in net unrealized gains (losses) on securities available for sale(3)	33	62	(336)	84
Pension, postretirement and other related adjustments(4)	4	(4)	15	15
Total other comprehensive income (loss)	$ 163	$ 103	$ (639)	$ 16
Comprehensive income (loss)	$ 1,181	$ (853)	$ 2,801	$ (56)
Net income applicable to redeemable noncontrolling interests		8	222	8
Net income applicable to nonredeemable noncontrolling interests	112	59	370	446
Other comprehensive income (loss) applicable to redeemable noncontrolling interests		(1)		(1)
Other comprehensive income (loss) applicable to nonredeemable noncontrolling interests	8	29	(141)	5
Comprehensive income (loss) applicable to Morgan Stanley	$ 1,061	$ (948)	$ 2,350	$ (514)

(1) Amounts are net of provision for (benefit from) income taxes of $(124) million and $(150) million for the quarters ended September 30, 2013 and 2012, respectively, and $176 million and $26 million for the nine months ended September 30, 2013 and 2012, respectively.
(2) Amounts are net of provision for income taxes of $1 million and $1 million for the quarters ended September 30, 2013 and 2012, respectively, and $2 million and $3 million for the nine months ended September 30, 2013 and 2012, respectively.
(3) Amounts are net of provision for (benefit from) income taxes of $23 million and $46 million for the quarters ended September 30, 2013 and 2012, respectively, and $(230) million and $63 million for the nine months ended September 30, 2013 and 2012, respectively.
(4) Amounts are net of provision for income taxes of $2 million and $8 million for the quarters ended September 30, 2013 and 2012, respectively, and $13 million and $18 million for the nine months ended September 30, 2013 and 2012, respectively.

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

Condensed Consolidated Statements of Cash Flows

(dollars in millions)

(unaudited)

	Nine Months Ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 3,440	$ (72)
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss on equity method investees	(339)	24
Compensation payable in common stock and options	850	898
Depreciation and amortization	1,084	1,218
Gain on business dispositions	(34)	(108)
Gain on sale of securities available for sale	(43)	(53)
Impairment charges	182	224
Provision for credit losses on lending activities	116	127
Other non-cash adjustments to net income	31	1
Changes in assets and liabilities:		
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	(6,422)	607
Trading assets, net of Trading liabilities	(5,944)	31,556
Securities borrowed	(17,468)	(11,471)
Securities loaned	(4,042)	5,458
Customer and other receivables and other assets	6,761	(23,746)
Customer and other payables and other liabilities	21,500	9,765
Federal funds sold and securities purchased under agreements to resell	424	(6,127)
Securities sold under agreements to repurchase	16,724	14,465
Net cash provided by operating activities	16,820	22,766
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (payments for):		
Premises, equipment and software costs	(944)	(865)
Business dispositions, net of cash disposed	569	1,536
Loans, net	(6,046)	(1,739)
Purchases of securities available for sale	(20,497)	(17,492)
Sales, maturities and redemptions of securities available for sale	12,812	8,200
Other investing activities	117	6
Net cash used for investing activities	(13,989)	(10,354)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments for):		
Commercial paper and other short-term borrowings	195	(720)
Noncontrolling interests	(549)	(186)
Other secured financings	(1,395)	(4,291)
Deposits	21,541	5,095
Proceeds from:		
Excess tax benefits associated with stock-based awards	8	42
Derivatives financing activities	244	220
Issuance of Series E Preferred Stock	854	
Issuance of long-term borrowings	24,766	16,196
Payments for:		
Long-term borrowings	(31,084)	(36,386)
Derivatives financing activities	(237)	(118)

Repurchases of common stock	(451)	(222)
Purchase of additional stake in Morgan Stanley Smith Barney Holdings LLC	(4,725)	(1,890)
Cash dividends	(358)	(349)
Net cash provided by (used for) financing activities	8,809	(22,609)
Effect of exchange rate changes on cash and cash equivalents	(298)	(42)
Effect of cash and cash equivalents related to variable interest entities	(465)	(487)
Net increase (decrease) in cash and cash equivalents	10,877	(10,726)
Cash and cash equivalents, at beginning of period	46,904	47,312
Cash and cash equivalents, at end of period	$ 57,781	$ 36,586
Cash and cash equivalents include:		
Cash and due from banks	$ 14,333	$ 18,239
Interest bearing deposits with banks	43,448	18,347
Cash and cash equivalents, at end of period	$ 57,781	$ 36,586

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were $3,372 million and $3,423 million for the nine months ended September 30, 2013 and 2012, respectively.

Cash payments for income taxes were $598 million and $330 million for the nine months ended September 30, 2013 and 2012, respectively.

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

Condensed Consolidated Statements of Changes in Total Equity

Nine Months Ended September 30, 2013

(dollars in millions)

(unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Employee Stock Trust	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Non-redeemable Non-controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2012	$ 1,508	$ 20	$ 23,426	$ 39,912	$ 2,932	$ (516)	$ (2,241)	$ (2,932)	$ 3,319	$ 65,428
Net income applicable to Morgan Stanley				2,848						2,848
Net income applicable to nonredeemable noncontrolling interests									370	370
Dividends				(372)						(372)
Shares issued under employee plans and related tax effects			817		(1,179)		(28)	1,179		789
Repurchases of common stock							(451)			(451)
Foreign currency translation adjustments						(180)			(141)	(321)
Net change in cash flow hedges						3				3
Change in net unrealized losses on securities available for sale						(336)				(336)
Pension, postretirement and other related adjustments						15				15
Issuance of Series E Preferred Stock	862		(8)							854
Morgan Stanley Smith Barney Holdings LLC redemption value adjustment				(151)						(151)
Other net decreases									(435)	(435)
BALANCE AT SEPTEMBER 30, 2013	$ 2,370	$ 20	$ 24,235	$ 42,237	$ 1,753	$ (1,014)	$ (2,720)	$ (1,753)	$ 3,113	$ 68,241

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

Condensed Consolidated Statements of Changes in Total Equity (Continued)

Nine Months Ended September 30, 2012

(dollars in millions)

(unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Employee Stock Trust	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Non-Redeemable Non-controlling Interests	Total Equity
BALANCE AT DECEMBER 31, 2011	$ 1,508	$ 20	$ 22,836	$ 40,341	$ 3,166	$ (157)	$ (2,499)	$ (3,166)	$ 8,029	$ 70,078
Net loss applicable to Morgan Stanley				(526)						(526)
Net income applicable to nonredeemable noncontrolling interests									446	446
Dividends				(374)						(374)
Shares issued under employee plans and related tax effects			473		(187)		495	187		968
Repurchases of common stock							(222)			(222)
Foreign currency translation adjustments						(88)				(88)
Net change in cash flow hedges						5				5
Change in net unrealized gains on securities available for sale						84				84
Pension, postretirement and other related adjustments						10			5	15
Purchase of additional stake in Morgan Stanley Smith Barney Holdings LLC			(107)						(1,718)	(1,825)
Reclassification to redeemable noncontrolling interests									(4,296)	(4,296)
Other net increases									905	905
BALANCE AT SEPTEMBER 30, 2012	$ 1,508	$ 20	$ 23,202	$ 39,441	$ 2,979	$ (146)	$ (2,226)	$ (2,979)	$ 3,371	$ 65,170

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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. The Company, 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.

Effective with the quarter ended June 30, 2013, the Global Wealth Management Group and Asset Management business segments were re-titled Wealth Management and Investment Management, respectively.

A summary of the activities of each of the Company s business segments is as follows:

Institutional Securities provides financial advisory and capital raising services, including advice on mergers and acquisitions, restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity and fixed income securities and related products, including foreign exchange and commodities; and investment activities.

Wealth Management provides brokerage and investment advisory services to individual investors and small-to-medium sized businesses and institutions covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit and other lending products; cash management services; retirement services; and trust and fiduciary services and engages in fixed income trading, which primarily facilitates clients trading or investments in such securities.

Investment Management provides a broad array of investment strategies that span the risk/return spectrum across geographies, asset classes and public and private markets to a diverse group of clients across the institutional and intermediary channels as well as high net worth clients.

Discontinued Operations.

Quilter. On April 2, 2012, the Company completed the sale of Quilter & Co. Ltd. (Quilter), its retail wealth management business in the United Kingdom (U.K.). The results of Quilter are reported as discontinued operations within the Wealth Management business segment for all periods presented.

Saxon. On October 24, 2011, the Company announced that it had reached an agreement to sell Saxon, a provider of servicing and subservicing of residential mortgage loans, to Ocwen Financial Corporation. The transaction, which was restructured as a sale of Saxon s assets during the first quarter of 2012, was substantially completed in the second quarter of 2012. The results of Saxon are reported as discontinued operations within the Institutional Securities business segment for all periods presented.

Prior period amounts have been recast for discontinued operations. See Note 21 for additional information on discontinued operations.

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.), 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 litigation and tax matters, and other matters that affect the condensed consolidated financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of the condensed consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates.

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intercompany balances and transactions have been eliminated.

In the quarter ended March 31, 2013, the Company renamed Principal transactions Trading revenues as Trading revenues and Principal transactions Investments revenues as Investments revenues in the condensed consolidated statements of income, and Financial instruments owned as Trading assets, Financial instruments sold, not yet purchased as Trading liabilities, Receivables as Customer and other receivables Payables as Customer and other payables in the condensed consolidated statements of financial condition.

The condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012 (the Form 10-K). 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 7). For consolidated subsidiaries that are less than wholly owned, the third-party holdings of equity interests are referred to as noncontrolling interests. The portion of net income attributable to noncontrolling interests for such subsidiaries is presented as either Net income (loss) applicable to redeemable noncontrolling interests or Net income (loss) applicable to nonredeemable noncontrolling interests in the condensed consolidated statements of income. The portion of the shareholders equity of such subsidiaries that is redeemable is presented as Redeemable noncontrolling interests outside of the equity section in the condensed consolidated statements of financial condition. The portion of the shareholders equity of such subsidiaries that is nonredeemable is presented as Nonredeemable noncontrolling interests, a component of total equity, in the condensed consolidated statements of financial condition.

For entities where (1) the total equity investment at risk is sufficient to enable the entity to finance its activities without additional support and (2) the equity holders bear the economic residual risks and returns of the entity and have the power to direct the activities of the entity that most significantly affect its economic performance, the Company consolidates those entities it controls either through a majority voting interest or otherwise. For VIEs (*i.e.*, entities that do not meet these criteria), the Company consolidates those entities where the Company has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, except for certain VIEs that are money market funds, investment companies or are entities qualifying for accounting purposes as investment companies. Generally, the Company consolidates those entities when it absorbs a majority of the expected losses or a majority of the expected residual returns, or both, of the entities.

For investments in entities in which the Company does not have a controlling financial interest but has significant influence over operating and financial decisions, the Company generally applies the equity method of accounting with net gains and losses recorded within Other revenues. Where the Company has elected to measure certain eligible investments at fair value in accordance with the fair value option, net gains and losses are recorded within Investments revenues (see Note 4).

Equity and partnership interests held by entities qualifying for accounting purposes as investment companies are carried at fair value.

The Company s significant regulated U.S. and international subsidiaries include Morgan Stanley & Co. LLC (MS&Co.), Morgan Stanley Smith Barney LLC (MSSB LLC), Morgan Stanley & Co. International plc (MSIP), Morgan Stanley MUFG Securities Co., Ltd. (MSMS), Morgan Stanley Bank, N.A. (MSBNA) and Morgan Stanley Private Bank, National Association (MSPBNA).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income Statement Presentation. The Company, 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. In connection with the delivery of the various products and services to clients, the Company manages its revenues and related expenses in the aggregate. As such, when assessing the performance of its businesses, primarily in its 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.

2. Significant Accounting Policies.

For a detailed discussion about the Company s significant accounting policies, see Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K.

During the nine months ended September 30, 2013, no updates were made to the Company s significant accounting policies.

Condensed Consolidated Statements of Cash Flows.

For purposes of the condensed consolidated statements of cash flows, cash and cash equivalents consist of Cash and due from banks and Interest bearing deposits with banks, which are highly liquid investments with original maturities of three months or less, held for investment purposes, and readily convertible to known amounts of cash.

In the nine months ended September 30, 2012, the Company s significant non-cash activities included approximately $1.1 billion of net assets received from Citigroup, Inc. (Citi) related to Citi s required equity contribution in connection with the Morgan Stanley Smith Barney Holdings LLC (Wealth Management JV) platform integration (see Notes 3 and 14).

Accounting Developments.

Disclosures about Offsetting Assets and Liabilities. In January 2013, the Financial Accounting Standards Board (the FASB) issued an accounting update that clarified the intended scope of the new balance sheet offsetting disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent that they are either offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement. These disclosure requirements became effective for the Company beginning on January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption has not affected the Company s condensed consolidated statements of income or financial condition (see Notes 6 and 11).

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. In February 2013, the FASB issued an accounting update that created new disclosure requirements requiring entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. The disclosure requirements became effective for the Company beginning on January 1, 2013. Since these amended principles require only additional disclosures concerning amounts reclassified out of accumulated other comprehensive income, adoption has not affected the Company s condensed consolidated statements of comprehensive income or notes to the condensed consolidated financial statements (see Note 14).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. In July 2013, the FASB issued an accounting update that included amendments permitting the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate (LIBOR). The amendments also removed the restriction on using different benchmark rates for similar hedges. The amendments became effective for the Company for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this accounting guidance did not have a material impact on the Company s condensed consolidated financial statements.

3. Morgan Stanley Smith Barney Holdings LLC.

On May 31, 2009, the Company and Citi consummated the combination of each institution s respective wealth management business. The combined businesses operated as the Wealth Management JV through June 2013.

Prior to September 2012, the Company owned 51% and Citi owned 49% of the Wealth Management JV. On September 17, 2012, the Company purchased an additional 14% stake in the Wealth Management JV from Citi for $1.89 billion, increasing the Company s interest from 51% to 65%. In addition, in September 2012, the terms of the Wealth Management JV agreement regarding the purchase of the remaining 35% interest were amended, which resulted in a reclassification of approximately $4.3 billion from nonredeemable noncontrolling interests to redeemable noncontrolling interests during the third quarter of 2012. Prior to September 17, 2012, Citi s results related to its 49% interest were reported in net income (loss) applicable to nonredeemable noncontrolling interests in the condensed consolidated statements of income. Subsequent to the purchase of the additional 14% stake, Citi s results related to its 35% interest were reported in net income (loss) applicable to redeemable noncontrolling interests in the condensed consolidated statements of income. In connection with the Company s acquisition of the additional 14% stake in the Wealth Management JV and pursuant to an amended deposit sweep agreement between Citi and the Company, in October 2012 $5.4 billion of deposits held by Citi relating to customer accounts were transferred to the Company s depository institutions at no premium based on a valuation agreement reached between Citi and the Company, and as such were no longer swept to Citi.

In June 2013, the Company received final regulatory approval to acquire the remaining 35% stake in the Wealth Management JV. On June 28, 2013, the Company purchased the remaining 35% interest for $4.725 billion, increasing the Company s interest from 65% to 100%. The Company recorded a negative adjustment to retained earnings of approximately $151 million (net of tax) to reflect the difference between the purchase price for the 35% interest in the Wealth Management JV and its carrying value. This adjustment negatively impacted the calculation of basic and diluted earnings per share for the nine months ended September 30, 2013 (see Note 15).

Additionally, in conjunction with the purchase of the remaining 35% interest, in June 2013 the Company redeemed all of the Class A Preferred Interests in the Wealth Management JV owned by Citi and its affiliates for approximately $2.028 billion and repaid to Citi $880 million in senior debt.

Concurrent with the acquisition of the remaining 35% stake in the Wealth Management JV, the deposit sweep agreement between Citi and the Company was terminated. During the quarter ended September 30, 2013, approximately $21 billion of deposits held by Citi relating to customer accounts were transferred to the Company s depository institutions. At September 30, 2013, approximately $35 billion of deposits will be transferred to the Company s depository institutions on an agreed upon basis through June 2015 (see Note 22).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Fair Value Disclosures.

Fair Value Measurements.

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 follows.

Trading Assets and Trading Liabilities.

U.S. Government and Agency Securities.

U.S. Treasury Securities. U.S. Treasury securities are valued using quoted market prices. Valuation adjustments are not applied. Accordingly, U.S. Treasury securities are generally categorized in Level 1 of the fair value hierarchy.

U.S. Agency Securities. U.S. agency securities are composed of three main categories consisting of agency-issued debt, agency mortgage pass-through pool securities and collateralized mortgage obligations. Non-callable agency-issued debt securities are generally valued using quoted market prices. Callable agency-issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of agency mortgage pass-through pool securities is model-driven based on spreads of the comparable To-be-announced (TBA) security. Collateralized mortgage obligations are valued using quoted market prices and trade data adjusted by subsequent changes in related indices for identical or comparable securities. Actively traded non-callable agency-issued debt securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency-issued debt securities, agency mortgage pass-through pool securities and collateralized mortgage obligations are generally categorized in Level 2 of the fair value hierarchy.

Other Sovereign Government Obligations.

Foreign sovereign government obligations are valued using quoted prices in active markets when available. These bonds are generally categorized in Level 1 of the fair value hierarchy. If the market is less active or prices are dispersed, these bonds are categorized in Level 2 of the fair value hierarchy.

Corporate and Other Debt.

State and Municipal Securities. The fair value of state and municipal securities is determined using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy.

Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS) and other Asset-Backed Securities (ABS). RMBS, CMBS and other ABS may be valued based on price or spread data obtained from observed transactions or independent external parties such as vendors or brokers. When position-specific external price data are not observable, the fair value determination may require benchmarking to similar instruments and/or analyzing expected credit losses, default and recovery rates, and/or applying discounted cash flow techniques. In evaluating the fair value of each security, the Company considers security collateral-specific attributes, including payment priority, credit enhancement levels, type of collateral, delinquency rates and loss severity. In addition, for RMBS borrowers, Fair Isaac Corporation (FICO) scores and the level of documentation for the loan are also

considered. Market standard models, such as Intex, Trepp or others, may be deployed to model the specific collateral composition and cash flow structure of each transaction. Key inputs to these models are market spreads, forecasted credit losses, default and prepayment rates for each asset category. Valuation levels of RMBS and CMBS indices are also used as an additional data point for benchmarking purposes or to price outright index positions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

RMBS, CMBS and other ABS are generally categorized in Level 2 of the fair value hierarchy. If external prices or significant spread inputs are unobservable or if the comparability assessment involves significant subjectivity related to property type differences, cash flows, performance and other inputs, then RMBS, CMBS and other ABS are categorized in Level 3 of the fair value hierarchy.

Corporate Bonds. The fair value of corporate bonds is determined using recently executed transactions, market price quotations (where observable), bond spreads, credit default swap spreads, at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments. The spread data used are for the same maturity as the bond. If the spread data do not reference the issuer, then data that reference a comparable issuer are used. When position-specific external price data are not observable, fair value is determined based on either benchmarking to similar instruments or cash flow models with yield curves, bond or single-name credit default swap spreads and recovery rates as significant inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where prices, spreads or any of the other aforementioned key inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

Collateralized Debt Obligation (CDO). The Company holds cash CDOs that typically reference a tranche of an underlying synthetic portfolio of single name credit default swaps collateralized by corporate bonds (credit-linked notes) or cash portfolio of asset-backed securities (asset-backed CDOs). Credit correlation, a primary input used to determine the fair value of credit-linked notes, is usually unobservable and derived using a benchmarking technique. The other credit-linked note model inputs such as credit spreads, including collateral spreads, and interest rates are typically observable. Asset-backed CDOs are valued based on an evaluation of the market and model input parameters sourced from similar positions as indicated by primary and secondary market activity. Each asset-backed CDO position is evaluated independently taking into consideration available comparable market levels, underlying collateral performance and pricing, and deal structures, as well as liquidity. Cash CDOs are categorized in Level 2 of the fair value hierarchy when either the credit correlation input is insignificant or comparable market transactions are observable. In instances where the credit correlation input is deemed to be significant or comparable market transactions are unobservable, cash CDOs are categorized in Level 3 of the fair value hierarchy.

Corporate Loans and Lending Commitments. The fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, and market observable credit default swap spread levels obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments, along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable. The fair value of contingent corporate lending commitments is determined by using executed transactions on comparable loans and the anticipated market price based on pricing indications from syndicate banks and customers. The valuation of loans and lending commitments also takes into account fee income that is considered an attribute of the contract. Corporate loans and lending commitments are categorized in Level 2 of the fair value hierarchy except in instances where prices or significant spread inputs are unobservable, in which case they are categorized in Level 3 of the fair value hierarchy.

Mortgage Loans. Mortgage loans are valued using observable prices based on transactional data or third-party pricing for identical or comparable instruments, when available. Where position-specific external prices are not observable, the Company estimates fair value based on benchmarking to prices and rates observed in the primary market for similar loan or borrower types or based on the present value of expected future cash flows using its best estimates of the key assumptions, including forecasted credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks involved

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

or a methodology that utilizes the capital structure and credit spreads of recent comparable securitization transactions. Mortgage loans valued based on observable market data for identical or comparable instruments are categorized in Level 2 of the fair value hierarchy. Where observable prices are not available, due to the subjectivity involved in the comparability assessment related to mortgage loan vintage, geographical concentration, prepayment speed and projected loss assumptions, mortgage loans are categorized in Level 3 of the fair value hierarchy. Mortgage loans are presented within Loans and lending commitments in the fair value hierarchy table.

Auction Rate Securities (ARS). The Company primarily holds investments in Student Loan Auction Rate Securities (SLARS) and Municipal Auction Rate Securities (MARS) with interest rates that are reset through periodic auctions. SLARS are ABS backed by pools of student loans. MARS are municipal bonds often wrapped by municipal bond insurance. ARS were historically traded and valued as floating rate notes, priced at par due to the auction mechanism. Beginning in fiscal 2008, uncertainties in the credit markets have resulted in auctions failing for certain types of ARS. Once the auctions failed, ARS could no longer be valued using observations of auction market prices. Accordingly, the fair value of ARS is determined using independent external market data where available and an internally developed methodology to discount for the lack of liquidity and non-performance risk.

Inputs that impact the valuation of SLARS are independent external market data, the underlying collateral types, level of seniority in the capital structure, amount of leverage in each structure, credit rating and liquidity considerations. Inputs that impact the valuation of MARS are recently executed transactions, the maximum rate, quality of underlying issuers/insurers and evidence of issuer calls/prepayment. ARS are generally categorized in Level 2 of the fair value hierarchy as the valuation technique relies on observable external data. SLARS and MARS are presented within Asset-backed securities and State and municipal securities, respectively, in the fair value hierarchy table.

Corporate Equities.

Exchange-Traded Equity Securities. Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied, and they are categorized in Level 1 of the fair value hierarchy; otherwise, they are categorized in Level 2 or Level 3 of the fair value hierarchy.

Unlisted Equity Securities. Unlisted equity securities are valued based on an assessment of each underlying security, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors. These securities are generally categorized in Level 3 of the fair value hierarchy.

Fund Units. Listed fund units are generally marked to the exchange-traded price or net asset value (NAV) and are categorized in Level 1 of the fair value hierarchy if actively traded on an exchange or in Level 2 of the fair value hierarchy if trading is not active. Unlisted fund units are generally marked to NAV and categorized as Level 2; however, positions which are not redeemable at the measurement date or in the near future are categorized in Level 3 of the fair value hierarchy.

Derivative and Other Contracts.

Listed Derivative Contracts. Listed derivatives that are actively traded are valued based on quoted prices from the exchange and are categorized in Level 1 of the fair value hierarchy. Listed derivatives that are not actively traded are valued using the same approaches as those applied to over-the-counter (OTC) derivatives; they are generally categorized in Level 2 of the fair value hierarchy.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

OTC Derivative Contracts. OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices.

Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modeled using a series of techniques and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, certain option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. A substantial majority of OTC derivative products valued by the Company using pricing models fall into this category and are categorized in Level 2 of the fair value hierarchy.

Other derivative products, including complex products that have become illiquid, require more judgment in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs. This includes certain types of interest rate derivatives with both volatility and correlation exposure and credit derivatives including credit default swaps on certain mortgage-backed or asset-backed securities, basket credit default swaps and CDO-squared positions (a CDO-squared position is a special purpose vehicle that issues interests, or tranches, that are backed by tranches issued by other CDOs) where direct trading activity or quotes are unobservable. These instruments involve significant unobservable inputs and are categorized in Level 3 of the fair value hierarchy.

Derivative interests in credit default swaps on certain mortgage-backed or asset-backed securities, for which observability of external price data is limited, are valued based on an evaluation of the market and model input parameters sourced from similar positions as indicated by primary and secondary market activity. Each position is evaluated independently taking into consideration available comparable market levels as well as cash-synthetic basis, or the underlying collateral performance and pricing, behavior of the tranche under various cumulative loss and prepayment scenarios, deal structures (*e.g.*, non-amortizing reference obligations, call features, etc.) and liquidity. While these factors may be supported by historical and actual external observations, the determination of their value as it relates to specific positions nevertheless requires significant judgment.

For basket credit default swaps and CDO-squared positions, the correlation input between reference credits is unobservable for each specific swap or position and is benchmarked to standardized proxy baskets for which correlation data are available. The other model inputs such as credit spread, interest rates and recovery rates are observable. In instances where the correlation input is deemed to be significant, these instruments are categorized in Level 3 of the fair value hierarchy; otherwise, these instruments are categorized in Level 2 of the fair value hierarchy.

The Company trades various derivative structures with commodity underlyings. Depending on the type of structure, the model inputs generally include interest rate yield curves, commodity underlier price curves, implied volatility of the underlying commodities and, in some cases, the implied correlation between these inputs. The fair value of these products is determined using executed trades and broker and consensus data to provide values for the aforementioned inputs. Where these inputs are unobservable, relationships to observable commodities and data points, based on historic and/or implied observations, are employed as a technique to estimate the model input values. Commodity derivatives are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

For further information on derivative instruments and hedging activities, see Note 11.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investments.

The Company s investments include direct investments in equity securities as well as investments in private equity funds, real estate funds and hedge funds, which include investments made in connection with certain employee deferred compensation plans. Direct investments are presented in the fair value hierarchy table as Principal investments and Other. Initially, the transaction price is generally considered by the Company as the exit price and is the Company s best estimate of fair value.

After initial recognition, in determining the fair value of non-exchange-traded internally and externally managed funds, the Company generally considers the NAV of the fund provided by the fund manager to be the best estimate of fair value. For non-exchange-traded investments either held directly or held within internally managed funds, fair value after initial recognition is based on an assessment of each underlying investment, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors. Exchange-traded direct equity investments are generally valued based on quoted prices from the exchange.

Exchange-traded direct equity investments that are actively traded are categorized in Level 1 of the fair value hierarchy. Non-exchange-traded direct equity investments and investments in private equity and real estate funds are generally categorized in Level 3 of the fair value hierarchy. Investments in hedge funds that are redeemable at the measurement date or in the near future are categorized in Level 2 of the fair value hierarchy; otherwise, they are categorized in Level 3 of the fair value hierarchy.

Physical Commodities.

The Company trades various physical commodities, including crude oil and refined products, natural gas, base and precious metals, and agricultural products. Fair value for physical commodities is determined using observable inputs, including broker quotations and published indices. Physical commodities are categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

Securities Available for Sale.

Securities available for sale are composed of U.S. government and agency securities (*e.g.*, U.S. Treasury securities, agency-issued debt, agency mortgage pass-through securities and collateralized mortgage obligations), CMBS, Federal Family Education Loan Program (FFELP) student loan asset-backed securities, auto loan asset-backed securities, corporate bonds and equity securities. Actively traded U.S. Treasury securities, non-callable agency-issued debt securities and equity securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency-issued debt securities, agency mortgage pass-through securities, collateralized mortgage obligations, CMBS, FFELP student loan asset-backed securities, auto loan asset-backed securities and corporate bonds are generally categorized in Level 2 of the fair value hierarchy. For further information on securities available for sale, see Note 5.

Deposits.

Time Deposits. The fair value of certificates of deposit is determined using third-party quotations. These deposits are generally categorized in Level 2 of the fair value hierarchy.

Commercial Paper and Other Short-Term Borrowings/Long-Term Borrowings.

Structured Notes. The Company issues structured notes that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. Fair value of structured

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

notes is determined using valuation models for the derivative and debt portions of the notes. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency, commodity or equity prices. Independent, external and traded prices for the notes are considered as well. The impact of the Company s own credit spreads is also included based on the Company s observed secondary bond market spreads. Most structured notes are categorized in Level 2 of the fair value hierarchy.

Securities Purchased under Agreements to Resell and Securities Sold under Agreements to Repurchase.

The fair value of a reverse repurchase agreement or repurchase agreement is computed using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks, interest rate yield curves and option volatilities. In instances where the unobservable inputs are deemed significant, reverse repurchase agreements and repurchase agreements are categorized in Level 3 of the fair value hierarchy; otherwise, they are categorized in Level 2 of the fair value hierarchy.

The following fair value hierarchy tables present information about the Company s assets and liabilities measured at fair value on a recurring basis at September 30, 2013 and December 31, 2012.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2013.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at September 30, 2013
			(dollars in millions)		
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 38,453	$ 8	$	$	$ 38,461
U.S. agency securities	2,030	21,381			23,411
Total U.S. government and agency securities	40,483	21,389			61,872
Other sovereign government obligations	24,605	7,076	2		31,683
Corporate and other debt:					
State and municipal securities		1,580			1,580
Residential mortgage-backed securities		2,525	90		2,615
Commercial mortgage-backed securities		1,343	150		1,493
Asset-backed securities		875	99		974
Corporate bonds		16,862	537		17,399
Collateralized debt obligations		263	1,380		1,643
Loans and lending commitments		9,364	4,098		13,462
Other debt		5,669	21		5,690
Total corporate and other debt		38,481	6,375		44,856
Corporate equities(1)	86,385	1,199	243		87,827
Derivative and other contracts:					
Interest rate contracts	2,129	585,689	2,880		590,698
Credit contracts		46,729	2,942		49,671
Foreign exchange contracts	21	55,992	129		56,142
Equity contracts	1,254	53,406	1,448		56,108
Commodity contracts	2,886	12,197	2,264		17,347
Other		36			36
Netting(2)	(5,321)	(664,134)	(5,657)	(59,452)	(734,564)
Total derivative and other contracts	969	89,915	4,006	(59,452)	35,438
Investments:					
Private equity funds		1	2,449		2,450
Real estate funds		6	1,523		1,529
Hedge funds		373	431		804
Principal investments	29	672	2,338		3,039
Other	187	71	494		752
Total investments	216	1,123	7,235		8,574
Physical commodities		3,408			3,408

Total trading assets	152,658	162,591	17,861	(59,452)	273,658
Securities available for sale	19,854	27,012			46,866
Securities received as collateral	15,981	61			16,042
Federal funds sold and securities purchased under agreements to resell		868			868
Intangible assets(3)			8		8
Total assets measured at fair value	$ 188,493	$ 190,532	$ 17,869	$ (59,452)	$ 337,442

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at September 30, 2013
			(dollars in millions)		
Liabilities at Fair Value					
Deposits	$	$ 1,411	$	$	$ 1,411
Commercial paper and other short-term borrowings		1,620	3		1,623
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	16,432				16,432
U.S. agency securities	3,041	127			3,168
Total U.S. government and agency securities	19,473	127			19,600
Other sovereign government obligations	21,468	2,375			23,843
Corporate and other debt:					
State and municipal securities		32			32
Residential mortgage-backed securities			4		4
Commercial mortgage-backed securities		4			4
Corporate bonds		8,191	5		8,196
Collateralized debt obligations		6			6
Unfunded lending commitments		154	4		158
Other debt		277	9		286
Total corporate and other debt		8,664	22		8,686
Corporate equities(1)	31,842	496	10		32,348
Derivative and other contracts:					
Interest rate contracts	2,527	560,796	2,570		565,893
Credit contracts		45,344	2,232		47,576
Foreign exchange contracts	9	56,668	164		56,841
Equity contracts	893	59,261	3,079		63,233
Commodity contracts	3,236	12,505	1,409		17,150
Other		203	1		204
Netting(2)	(5,321)	(664,134)	(5,657)	(37,617)	(712,729)
Total derivative and other contracts	1,344	70,643	3,798	(37,617)	38,168
Total trading liabilities	74,127	82,305	3,830	(37,617)	122,645
Obligation to return securities received as collateral	20,829	70			20,899
Securities sold under agreements to repurchase		404	150		554
Other secured financings		5,885	260		6,145
Long-term borrowings		34,406	2,313		36,719
Total liabilities measured at fair value	$ 94,956	$ 126,101	$ 6,556	$ (37,617)	$ 189,996

(1) The Company holds or sells short for trading purposes equity securities issued by entities in diverse industries and of varying size.
(2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled Counterparty and Cash Collateral Netting. For contracts with the same counterparty, counterparty netting among positions classified within the same level is included within that level. For further information on derivative instruments and hedging activities, see Note 11.
(3) Amount represents mortgage servicing rights (MSR) accounted for at fair value. See Note 7 for further information on MSRs.

Transfers Between Level 1 and Level 2 During the Quarter and Nine Months Ended September 30, 2013.

For assets and liabilities that were transferred between Level 1 and Level 2 during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

In the quarter and nine months ended September 30, 2013, there were no material transfers between Level 1 and Level 2.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2012.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2012
			(dollars in millions)		
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 24,662	$ 14	$	$	$ 24,676
U.S. agency securities	1,451	27,888			29,339
Total U.S. government and agency securities	26,113	27,902			54,015
Other sovereign government obligations	37,669	5,487	6		43,162
Corporate and other debt:					
State and municipal securities		1,558			1,558
Residential mortgage-backed securities		1,439	45		1,484
Commercial mortgage-backed securities		1,347	232		1,579
Asset-backed securities		915	109		1,024
Corporate bonds		18,403	660		19,063
Collateralized debt obligations		685	1,951		2,636
Loans and lending commitments		12,617	4,694		17,311
Other debt		4,457	45		4,502
Total corporate and other debt		41,421	7,736		49,157
Corporate equities(1)	68,072	1,067	288		69,427
Derivative and other contracts:					
Interest rate contracts	446	819,581	3,774		823,801
Credit contracts		63,234	5,033		68,267
Foreign exchange contracts	34	52,729	31		52,794
Equity contracts	760	37,074	766		38,600
Commodity contracts	4,082	14,256	2,308		20,646
Other		143			143
Netting(2)	(4,740)	(883,733)	(6,947)	(72,634)	(968,054)
Total derivative and other contracts	582	103,284	4,965	(72,634)	36,197
Investments:					
Private equity funds			2,179		2,179
Real estate funds		6	1,370		1,376
Hedge funds		382	552		934
Principal investments	185	83	2,833		3,101
Other	199	71	486		756
Total investments	384	542	7,420		8,346
Physical commodities		7,299			7,299
Total trading assets	132,820	187,002	20,415	(72,634)	267,603
Securities available for sale	14,466	25,403			39,869

Securities received as collateral	14,232	46			14,278
Federal funds sold and securities purchased under agreements to resell		621			621
Intangible assets(3)			7		7
Total assets measured at fair value	$ 161,518	$ 213,072	$ 20,422	$ (72,634)	$ 322,378

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance at December 31, 2012
			(dollars in millions)		
Liabilities at Fair Value					
Deposits	$	$ 1,485	$	$	$ 1,485
Commercial paper and other short-term borrowings		706	19		725
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	20,098	21			20,119
U.S. agency securities	1,394	107			1,501
Total U.S. government and agency securities	21,492	128			21,620
Other sovereign government obligations	27,583	2,031			29,614
Corporate and other debt:					
State and municipal securities		47			47
Residential mortgage-backed securities			4		4
Corporate bonds		3,942	177		4,119
Collateralized debt obligations		328			328
Unfunded lending commitments		305	46		351
Other debt		156	49		205
Total corporate and other debt		4,778	276		5,054
Corporate equities(1)	25,216	1,655	5		26,876
Derivative and other contracts:					
Interest rate contracts	533	789,715	3,856		794,104
Credit contracts		61,283	3,211		64,494
Foreign exchange contracts	2	56,021	390		56,413
Equity contracts	748	39,212	1,910		41,870
Commodity contracts	4,530	15,702	1,599		21,831
Other		54	7		61
Netting(2)	(4,740)	(883,733)	(6,947)	(46,395)	(941,815)
Total derivative and other contracts	1,073	78,254	4,026	(46,395)	36,958
Total trading liabilities	75,364	86,846	4,307	(46,395)	120,122
Obligation to return securities received as collateral	18,179	47			18,226
Securities sold under agreements to repurchase		212	151		363
Other secured financings		9,060	406		9,466
Long-term borrowings		41,255	2,789		44,044
Total liabilities measured at fair value	$ 93,543	$ 139,611	$ 7,672	$ (46,395)	$ 194,431

(1) The Company holds or sells short for trading purposes equity securities issued by entities in diverse industries and of varying size.

(2) For positions with the same counterparty that cross over the levels of the fair value hierarchy, both counterparty netting and cash collateral netting are included in the column titled Counterparty and Cash Collateral Netting. For contracts with the same counterparty, counterparty netting among positions

classified within the same level is included within that level. For further information on derivative instruments and hedging activities, see Note 11.

(3) Amount represents MSRs accounted for at fair value. See Note 7 for further information on MSRs.

Transfers Between Level 1 and Level 2 During the Quarter Ended September 30, 2012.

Trading assets Derivative and other contracts and Trading liabilities Derivative and other contracts. During the quarter ended September 30, 2012, the Company reclassified approximately $1.2 billion of derivative assets and approximately $1.5 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange. Also during the quarter ended September 30, 2012, the Company reclassified approximately $0.5 billion of derivative assets and approximately $0.5 billion of derivative liabilities from Level 1 to Level 2 as transactions in these contracts did not occur with sufficient frequency and volume to constitute an active market.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Transfers Between Level 1 and Level 2 During the Nine Months Ended September 30, 2012.

Trading assets Derivative and other contracts and Trading liabilities Derivative and other contracts. During the nine months ended September 30, 2012, the Company reclassified approximately $2.7 billion of derivative assets and approximately $2.6 billion of derivative liabilities from Level 2 to Level 1 as these listed derivatives became actively traded and were valued based on quoted prices from the exchange. Also during the nine months ended September 30, 2012, the Company reclassified approximately $0.3 billion of derivative assets and approximately $0.3 billion of derivative liabilities from Level 1 to Level 2 as transactions in these contracts did not occur with sufficient frequency and volume to constitute an active market.

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 and nine months ended September 30, 2013 and 2012, 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 (*e.g.*, changes in market interest rates) and unobservable (*e.g.*, changes in unobservable long-dated volatilities) inputs.

For assets and liabilities that were transferred into Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred into Level 3 at the beginning of the period; similarly, for assets and liabilities that were transferred out of Level 3 during the period, gains (losses) are presented as if the assets or liabilities had been transferred out at the beginning of the period.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Quarter Ended September 30, 2013.

	Beginning Balance at June 30, 2013	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2013	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2013(2)
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 4	$	$ 2	(4)	$	$	$	$ 2	$
Corporate and other debt:									
Residential mortgage-backed securities	19	(2)	72	(3)			4	90	(3)
Commercial mortgage-backed securities	181	(2)	39	(61)			(7)	150	5
Asset-backed securities	108		13	(23)			1	99	
Corporate bonds	509	43	76	(79)			(12)	537	36
Collateralized debt obligations	1,333	60	269	(206)		(55)	(21)	1,380	28
Loans and lending commitments	5,243	(72)	530	(112)		(1,279)	(212)	4,098	(111)
Other debt	12		14	(5)				21	
Total corporate and other debt	7,405	27	1,013	(489)		(1,334)	(247)	6,375	(45)
Corporate equities	256	(25)	38	(20)			(6)	243	(3)
Net derivative and other contracts(3):									
Interest rate contracts	16	262	4		(72)	11	89	310	111
Credit contracts	685	(259)	41		(46)	(146)	435	710	(448)
Foreign exchange contracts	(96)	6				61	(6)	(35)	6
Equity contracts	(1,284)	(309)	102		(190)	39	11	(1,631)	(429)
Commodity contracts	781	45	4		(1)	23	3	855	73
Other	(6)					5		(1)	(2)
Total net derivative and other contracts	96	(255)	151		(309)	(7)	532	208	(689)
Investments:									
Private equity funds	2,286	213	24	(74)				2,449	163
Real estate funds	1,422	159	18	(76)				1,523	196
Hedge funds	407	5	7	(17)			29	431	5
Principal investments	2,822	84	10	(125)			(453)	2,338	71
Other	385	16	3				90	494	16
Total investments	7,322	477	62	(292)			(334)	7,235	451
Intangible assets	9					(1)		8	
Liabilities at Fair Value									
	$	$	$	$	$	$	$ 3	$ 3	$

Commercial paper and other short-term borrowings									
Trading liabilities:									
Corporate and other debt:									
Residential mortgage-backed securities	4							4	
Corporate bonds	42	(15)	(64)	26			(14)	5	(17)
Unfunded lending commitments	8	4						4	4
Other debt	11	1	(1)					9	
Total corporate and other debt	65	(10)	(65)	26			(14)	22	(13)
Corporate equities	16	(5)	(19)	8				10	(9)
Securities sold under agreements to repurchase	148	(2)						150	(2)
Other secured financings	256	(5)				(1)		260	(5)
Long-term borrowings	2,705	(98)			188	(344)	(334)	2,313	(89)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the condensed consolidated statements of income except for $477 million related to Trading assets Investments, which is included in Investments revenues.

(2) Amounts represent unrealized gains (losses) for the quarter ended September 30, 2013 related to assets and liabilities still outstanding at September 30, 2013.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) 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 11.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2013.

	Beginning Balance at December 31, 2012	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2013	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2013(2)
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 6	$	$ 3	$ (8)	$	$	$ 1	$ 2	$
Corporate and other debt:									
Residential mortgage-backed securities	45	29	85	(45)			(24)	90	8
Commercial mortgage-backed securities	232	6	78	(166)				150	7
Asset-backed securities	109	1	4	(15)				99	
Corporate bonds	660	64	327	(462)		(12)	(40)	537	15
Collateralized debt obligations	1,951	276	612	(1,405)		(53)	(1)	1,380	118
Loans and lending commitments	4,694	(308)	1,607	(316)		(1,838)	259	4,098	(306)
Other debt	45	(3)	15	(36)				21	1
Total corporate and other debt	7,736	65	2,728	(2,445)		(1,903)	194	6,375	(157)
Corporate equities	288	(36)	142	(164)			13	243	(4)
Net derivative and other contracts(3):									
Interest rate contracts	(82)	237	10		(86)	185	46	310	157
Credit contracts	1,822	(1,133)	184		(278)	(369)	484	710	(1,187)
Foreign exchange contracts	(359)	117				215	(8)	(35)	106
Equity contracts	(1,144)	(293)	123	(1)	(232)	(156)	72	(1,631)	(369)
Commodity contracts	709	90	40		(19)	36	(1)	855	124
Other	(7)	(4)				10		(1)	(6)
Total net derivative and other contracts	939	(986)	357	(1)	(615)	(79)	593	208	(1,175)
Investments:									
Private equity funds	2,179	432	96	(258)				2,449	409
Real estate funds	1,370	287	61	(195)				1,523	402
Hedge funds	552	5	46	(154)			(18)	431	6
Principal investments	2,833	96	106	(286)			(411)	2,338	63
Other	486	36	3	(30)			(1)	494	37

Total investments	7,420	856	312	(923)			(430)	7,235	917
Intangible assets	7	7				(6)		8	3

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Beginning Balance at December 31, 2012	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2013	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2013(2)
					(dollars in millions)				
Liabilities at Fair Value									
Commercial paper and other short-term borrowings	$ 19	$	$	$	$	$ (1)	$ (15)	$ 3	$
Trading liabilities:									
Corporate and other debt:									
Residential mortgage-backed securities	4							4	
Corporate bonds	177	(5)	(154)	76			(99)	5	(5)
Unfunded lending commitments	46	42						4	42
Other debt	49	13	(31)	2			2	9	6
Total corporate and other debt	276	50	(185)	78			(97)	22	43
Corporate equities	5	(1)	(19)	24			(1)	10	(10)
Securities sold under agreements to repurchase	151	1						150	1
Other secured financings	406	23			13	(136)		260	16
Long-term borrowings	2,789	(87)			875	(468)	(970)	2,313	(89)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the condensed consolidated statements of income except for $856 million related to Trading assets Investments, which is included in Investments revenues.

(2) Amounts represent unrealized gains (losses) for the nine months ended September 30, 2013 related to assets and liabilities still outstanding at September 30, 2013.

(3) 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 11.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for Quarter Ended September 30, 2012.

	Beginning Balance at June 30, 2012	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2012	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2012(2)
	(dollars in millions)								
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 1	$	$ 1	$	$	$	$ 1	$ 3	$
Corporate and other debt:									
State and municipal securities	3	1		(2)				2	
Residential mortgage-backed securities	24	1	1	(4)			(2)	20	(1)
Commercial mortgage-backed securities	256	13	7	(54)		(99)	3	126	8
Asset-backed securities	9	1						10	1
Corporate bonds	745	50	86	(157)			33	757	51
Collateralized debt obligations	1,457	92	569	(200)			113	2,031	127
Loans and lending commitments	7,794	183	1,098	(366)		(674)	(210)	7,825	148
Other debt	13		12	(2)			(12)	11	
Total corporate and other debt	10,301	341	1,773	(785)		(773)	(75)	10,782	334
Corporate equities	482	9	48	(95)			(73)	371	9
Net derivative and other contracts(3):									
Interest rate contracts	(172)	(282)	5		(10)	187	173	(99)	(76)
Credit contracts	3,842	(791)	22		(17)	(266)	(167)	2,623	(870)
Foreign exchange contracts	(224)	(101)				(12)	(74)	(411)	(102)
Equity contracts	(1,173)	(2)	126	(12)	(57)	32	(249)	(1,335)	(8)
Commodity contracts	937	(84)	11		(3)	(5)	(88)	768	(28)
Other	(27)					6	18	(3)	
Total net derivative and other contracts	3,183	(1,260)	164	(12)	(87)	(58)	(387)	1,543	(1,084)
Investments:									
Private equity funds	2,005	162	127	(48)				2,246	153
Real estate funds	1,326	44	20	(36)				1,354	30
Hedge funds	533	19	42	(46)			16	564	14
Principal investments	3,047	1	33	(50)			(5)	3,026	3
Other	543	4	11	(9)			(73)	476	5
Total investments	7,454	230	233	(189)			(62)	7,666	205
Securities received as collateral							4	4	
Intangible assets	8					(2)		6	

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Beginning Balance at June 30, 2012	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2012	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2012(2)
					(dollars in millions)				
Liabilities at Fair Value									
Commercial paper and other short-term borrowings	$ 2	$	$	$	$	$	$ 12	$ 14	$
Trading liabilities:									
Corporate and other debt:									
Residential mortgage-backed securities	4							4	
Corporate bonds	127	(26)	(116)	56			(2)	91	(45)
Collateralized debt obligations	1			1			(1)	1	
Unfunded lending commitments	51	(11)						62	(11)
Other debt	63	2	(6)					55	2
Total corporate and other debt	246	(35)	(122)	57			(3)	213	(54)
Corporate equities	47	26	(21)				12	12	(3)
Obligation to return securities received as collateral							20	20	
Securities sold under agreements to repurchase	185	(13)						198	(13)
Other secured financings	470	(22)				(76)		416	(22)
Long-term borrowings	2,210	(215)			259	(223)	(7)	2,454	(231)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the condensed consolidated statements of income except for $230 million related to Trading assets Investments, which is included in Investments revenues.

(2) Amounts represent unrealized gains (losses) for the quarter ended September 30, 2012 related to assets and liabilities still outstanding at September 30, 2012.

(3) 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 11.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2012.

	Beginning Balance at December 31, 2011	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2012	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2012(2)
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$ 8	$	$	$ (7)	$	$	$ (1)	$	$
Other sovereign government obligations	119		2	(118)				3	
Corporate and other debt:									
State and municipal securities		2		(3)			3	2	
Residential mortgage-backed securities	494	(24)	4	(267)			(187)	20	(36)
Commercial mortgage-backed securities	134	36	123	(65)		(100)	(2)	126	28
Asset-backed securities	31	1	9	(31)				10	
Corporate bonds	675	8	367	(314)			21	757	(1)
Collateralized debt obligations	980	193	1,215	(321)			(36)	2,031	147
Loans and lending commitments	9,590	54	2,592	(2,205)		(2,019)	(187)	7,825	(144)
Other debt	128	15	8	(140)				11	9
Total corporate and other debt	12,032	285	4,318	(3,346)		(2,119)	(388)	10,782	3
Corporate equities	417	(2)	153	(184)			(13)	371	3
Net derivative and other contracts(3):									
Interest rate contracts	420	(338)	98		(15)	7	(271)	(99)	(85)
Credit contracts	5,814	(1,733)	46		(421)	(533)	(550)	2,623	(2,048)
Foreign exchange contracts	43	(163)				(142)	(149)	(411)	(221)
Equity contracts	(1,234)	156	272	(5)	(122)	(205)	(197)	(1,335)	143
Commodity contracts	570	152	17		(8)	29	8	768	145
Other	(1,090)	59				238	790	(3)	56
Total net derivative and other contracts	4,523	(1,867)	433	(5)	(566)	(606)	(369)	1,543	(2,010)
Investments:									
Private equity funds	1,936	176	271	(138)			1	2,246	134
Real estate funds	1,213	107	137	(104)			1	1,354	179
Hedge funds	696	26	61	(135)			(84)	564	19
Principal investments	2,937	25	267	(199)			(4)	3,026	(6)
Other	501	(16)	40	(10)			(39)	476	(15)

Total investments	7,283	318	776	(586)		(125)	7,666	311
Physical commodities	46				(46)			
Securities received as collateral						4	4	
Intangible assets	133	(40)		(83)	(4)		6	(6)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Beginning Balance at December 31, 2011	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at September 30, 2012	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at September 30, 2012(2)
	(dollars in millions)								
Liabilities at Fair Value									
Commercial paper and other short-term borrowings	$ 2	$ (2)	$	$	$	$ (2)	$ 12	$ 14	$ (1)
Trading liabilities:									
Other sovereign government obligations	8		(8)						
Corporate and other debt:									
Residential mortgage-backed securities	355	(4)	(355)					4	(4)
Corporate bonds	219	(44)	(254)	119			(37)	91	(53)
Collateralized debt obligations				1				1	
Unfunded lending commitments	85	23						62	23
Other debt	73	3		40		(55)		55	5
Total corporate and other debt	732	(22)	(609)	160		(55)	(37)	213	(29)
Corporate equities	1	2	(22)	15			20	12	(2)
Obligation to return securities received as collateral							20	20	
Securities sold under agreements to repurchase	340	(10)					(152)	198	(10)
Other secured financings	570	(33)			55	(220)	(22)	416	(33)
Long-term borrowings	1,603	(444)			585	(181)	3	2,454	(429)

(1) Total realized and unrealized gains (losses) are primarily included in Trading revenues in the condensed consolidated statements of income except for $318 million related to Trading assets Investments, which is included in Investments revenues.

(2) Amounts represent unrealized gains (losses) for the nine months ended September 30, 2012 related to assets and liabilities still outstanding at September 30, 2012.

(3) 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 11.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Quantitative Information about and Sensitivity of Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements at September 30, 2013 and December 31, 2012.

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.

At September 30, 2013.

	Balance at September 30, 2013 (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					
Trading assets:					
Corporate and other debt:					
Residential mortgage-backed securities	$ 90	Comparable pricing	Comparable bond price /(A)	40 to 100 points	89 points
Commercial mortgage-backed securities	150	Comparable pricing	Comparable bond price / (A)	40 to 96 points	72 points
Asset-backed securities	99	Discounted cash flow	Discount rate / (C)	32%	32%
Corporate bonds	537	Comparable pricing	Comparable bond price /(A)	2 to 151 points	68 points
Collateralized debt obligations	1,380	Comparable pricing(6)	Comparable bond price /(A)	18 to 97 points	68 points
		Correlation model	Credit correlation / (B)	28 to 50%	45%
Loans and lending commitments	4,098	Corporate loan model	Credit spread / (C)	42 to 905 basis points	268 basis points
		Margin loan model	Credit spread / (C)(D)	16 to 300 basis points	197 basis points
			Volatility skew / (C)(D)	-2%	-2%
			Comparable bond price /(A)(D)	80 to 120 points	100 points
		Option model	At the money volatility /(A)	31%	31%
		Comparable pricing(6)	Comparable loan price /(A)	0 to 158 points	76 points
Corporate equities(3)	243	Net asset value(6)	Discount to net asset value /(C)	0 to 93%	49%
		Comparable pricing	Comparable equity price /(A)	0 to 100%	50%
		Comparable pricing	Comparable price / (A)	0 to 100 points	44 points
		Market approach	EBITDA multiple / (A)	5 to 9 times	7 times
Net derivative and other contracts:					
Interest rate contracts	310	Option model	Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 7 times	2 times

			Comparable bond price / (A)(D)	5 to 99 points	52 points / 52 points(4)
			Interest rate - Foreign exchange correlation / (A)(D)	2 to 63%	37% /44%(4)
			Interest rate volatility skew / (A)(D)	24 to 51%	43% /35%(4)
			Interest rate quanto correlation /(A)(D)	-22 to 33%	-4% /-17%(4)
			Interest rate curve correlation /(A)(D)	35 to 92%	72% /79%(4)
			Inflation volatility / (A)(D)	77 to 83%	80% /79%(4)
Credit contracts	710	Comparable pricing	Cash synthetic basis / (C)(D)	2 to 5 points	4 points
			Comparable bond price / (C)(D)	0 to 80 points	24 points
		Correlation model(6)	Credit correlation / (B)	27 to 91%	52%
Foreign exchange contracts(5)	(35)	Option model	Comparable bond price / (A)(D)	5 to 99 points	52 points / 52 points(4)
			Interest rate quanto correlation /(A)(D)	-22 to 33%	-4% /-17%(4)
			Interest rate curve correlation /(A)(D)	35 to 92%	72% /79%(4)
			Interest rate - Foreign exchange correlation /(A)(D)	2 to 63%	37% /44%(4)
			Interest rate volatility skew / (A)(D)	24 to 51%	43% /35%(4)
			Interest rate curve / (A)(D)	1%	1% / 1%(4)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Balance at September 30, 2013 (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)
Equity contracts(5)	(1,631)	Option model	At the money volatility / (A)(D)	18 to 44%	31%
			Volatility skew / (C)(D)	-2 to 0%	-1%
			Equity - Equity correlation / (C)(D)	40 to 99%	71%
			Equity - Foreign exchange correlation / (C)(D)	-50 to -11%	-22%
			Equity - Interest rate correlation / (C)(D)	3 to 70%	40%/36%(4)
Commodity contracts	855	Option model	Forward power price / (C)(D)	$10 to $108 per Megawatt hour	$38 per Megawatt hour
			Commodity volatility / (A)(D)	11 to 28%	13%
			Cross commodity correlation / (C)(D)	43 to 98%	97%
Investments(3):					
Principal investments	2,338	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	9 to 12%	11%
			Exit multiple / (A)(D)	7 to 9 times	8 times
		Discounted cash flow(6)	Capitalization rate / (C)(D)	6 to 11%	7%
			Equity discount rate / (C)(D)	10 to 30%	22%
		Market approach	EBITDA multiple / (A)	4 to 16 times	9 times
Other	494	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	10%	10%
			Exit multiple / (A)(D)	7 times	7 times
		Market approach(6)	EBITDA multiple / (A)	8 to 9 times	9 times
Liabilities					
Trading liabilities:					
Securities sold under agreements to repurchase	$ 150	Discounted cash flow	Funding spread / (A)	134 to 136 basis points	135 basis points
Other secured financings	260	Comparable pricing(6)	Comparable bond price / (A)	99 to 102 points	99 points
		Discounted cash flow	Funding spread / (A)	136 basis points	136 basis points
Long-term borrowings	2,313	Option model	At the money volatility / (A)(D)	22 to 33%	27%
			Volatility skew / (A)(D)	-1 to 0%	0%
			Equity - Equity correlation / (A)(D)	50 to 97%	68%
			Equity - Foreign exchange correlation / (A)(D)	-70 to 17%	-17%

EBITDA - Earnings before interest, taxes, depreciation and amortization

(1) The ranges of significant unobservable inputs are represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 96 points would be 96% of par. A basis point equals 1/100th of 1%; for example, 905 basis points would equal 9.05%.
(2) Amounts represent weighted averages except where simple averages and the median of the inputs are provided (see footnote 4 below). Weighted averages are calculated by weighting each input by the fair value of the respective financial instruments except for long-term borrowings and derivative instruments where inputs are weighted by risk.
(3) Investments in funds measured using an unadjusted NAV are excluded.
(4) 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.
(5) Includes derivative contracts with multiple risks (*i.e.,* hybrid products).
(6) This is the predominant valuation technique for this major asset or liability class.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (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.

At December 31, 2012.

	Balance at December 31, 2012 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Weighted Average
Assets					
Trading assets:					
Corporate and other debt:					
Commercial mortgage-backed securities	$ 232	Comparable pricing	Comparable bond price /(A)	46 to 100 points	76 points
Asset-backed securities	109	Discounted cash flow	Discount rate / (C)	21%	21%
Corporate bonds	660	Comparable pricing	Comparable bond price /(A)	0 to 143 points	24 points
Collateralized debt obligations	1,951	Comparable pricing	Comparable bond price /(A)	15 to 88 points	59 points
		Correlation model	Credit correlation / (B)	15 to 45%	40%
Loans and lending commitments	4,694	Corporate loan model	Credit spread / (C)	17 to 1,004 basis points	281 basis points
		Comparable pricing	Comparable bond price /(A)	80 to 120 points	104 points
		Comparable pricing	Comparable loan price /(A)	55 to 100 points	88 points
Corporate equities(2)	288	Net asset value	Discount to net asset value /(C)	0 to 37%	8%
		Comparable pricing	Discount to comparable equity price /(C)	0 to 27 points	14 points
		Market approach	EBITDA multiple / (A)	6 times	6 times
Net derivative and other contracts:					
Interest rate contracts	(82)	Option model	Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 8 times	See (3)
			Comparable bond price / (A)(D)	5 to 98 points	
			Interest rate - Foreign exchange correlation / (A)(D)	2 to 63%	
			Interest rate volatility skew / (A)(D)	9 to 95%	
			Interest rate quanto correlation / (A)(D)	-53 to 33%	
			Interest rate curve correlation / (A)(D)	48 to 99%	
			Inflation volatility / (A)(D)	49 to 100%	

		Discounted cash flow	Forward commercial paper rate-LIBOR basis /(A)	-18 to 95 basis points	
Credit contracts	1,822	Comparable pricing	Cash synthetic basis / (C)	2 to 14 points	See (4)
			Comparable bond price / (C)	0 to 80 points	
		Correlation model	Credit correlation / (B)	14 to 94%	
Foreign exchange contracts(5)	(359)	Option model	Comparable bond price / (A)(D)	5 to 98 points	See (6)
			Interest rate quanto correlation /(A)(D)	-53 to 33%	
			Interest rate - Credit spread correlation / (A)(D)	-59 to 65%	
			Interest rate - Foreign exchange correlation / (A)(D)	2 to 63%	
			Interest rate volatility skew / (A)(D)	9 to 95%	

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Balance at December 31, 2012 (dollars in millions)	Valuation Technique(s)	Significant Unobservable Input(s) / Sensitivity of the Fair Value to Changes in the Unobservable Inputs	Range(1)	Weighted Average
Equity contracts(5)	(1,144)	Option model	At the money volatility /(C)(D)	7 to 24%	See (7)
			Volatility skew /(C)(D)	-2 to 0%	
			Equity - Equity correlation / (C)(D)	40 to 96%	
			Equity - Foreign exchange correlation / (C)(D)	-70 to 38%	
			Equity - Interest rate correlation / (C)(D)	18 to 65%	
Commodity contracts	709	Option model	Forward power price / (C)(D)	$28 to $84 per Megawatt hour	
			Commodity volatility / (A)(D)	17 to 29%	
			Cross commodity correlation / (C)(D)	43 to 97%	
Investments(2):					
Principal investments	2,833	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	8 to 15%	9%
			Exit multiple / (A)(D)	5 to 10 times	9 times
		Discounted cash flow	Capitalization rate / (C)(D)	6 to 10%	7%
			Equity discount rate / (C)(D)	15 to 35%	23%
		Market approach	EBITDA multiple / (A)	3 to 17 times	10 times
Other	486	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	11%	11%
			Exit multiple / (A)(D)	6 times	6 times
		Market approach	EBITDA multiple / (A)	6 to 8 times	7 times
Liabilities					
Trading liabilities:					
Corporate and other debt:					
Corporate bonds	$ 177	Comparable pricing	Comparable bond price / (A)	0 to 150 points	50 points
Securities sold under agreements to repurchase	151	Discounted cash flow	Funding spread / (A)	110 to 184 basis points	166 basis points
Other secured financings	406	Comparable pricing	Comparable bond price / (A)	55 to 139 points	102 points
		Discounted cash flow	Funding spread / (A)	183 to 186 basis points	184 basis points
Long-term borrowings	2,789	Option model	At the money volatility / (A)(D)	20 to 24%	24%
			Volatility skew / (A)(D)	-1 to 0%	0%
			Equity - Equity correlation / (A)(D)	50 to 90%	77%
			Equity - Foreign exchange correlation / (A)(D)	-70 to 36%	-15%

(1) The ranges of significant unobservable inputs are represented in points, percentages, basis points, times or megawatt hours. Points are a percentage of par; for example, 100 points would be 100% of par. A basis point equals 1/100th of 1%; for example, 1,004 basis points would equal 10.04%.
(2) Investments in funds measured using an unadjusted NAV are excluded.
(3) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K for a qualitative discussion of the wide unobservable input ranges for comparable bond prices, interest rate volatility skew, interest rate quanto correlation and forward commercial paper rate-LIBOR basis.

(4) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K for a qualitative discussion of the wide unobservable input ranges for comparable bond prices and credit correlation.
(5) Includes derivative contracts with multiple risks (*i.e.*, hybrid products).
(6) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K for a qualitative discussion of the wide unobservable input ranges for comparable bond prices, interest rate quanto correlation, interest rate-credit spread correlation and interest rate volatility skew.
(7) See Note 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K for a qualitative discussion of the wide unobservable input range for equity-foreign exchange correlation.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (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.

The following provides a description of significant unobservable inputs included in the September 30, 2013 and December 31, 2012 tables above for all major categories of assets and liabilities:

Comparable bond price - a pricing input used when prices for the identical instrument are not available. Significant subjectivity may be involved when fair value is determined using pricing data available for comparable instruments. Valuation using comparable instruments can be done by calculating an implied yield (or spread over a liquid benchmark) from the price of a comparable bond, then adjusting that yield (or spread) to derive a value for the bond. The adjustment to yield (or spread) should account for relevant differences in the bonds such as maturity or credit quality. Alternatively, a price-to-price basis can be assumed between the comparable instrument and bond being valued in order to establish the value of the bond. Additionally, as the probability of default increases for a given bond (*i.e.*, as the bond becomes more distressed), the valuation of that bond will increasingly reflect its expected recovery level assuming default. The decision to use price-to-price or yield/spread comparisons largely reflects trading market convention for the financial instruments in question. Price-to-price comparisons are primarily employed for CMBS, CDOs, mortgage loans and distressed corporate bonds. Implied yield (or spread over a liquid benchmark) is utilized predominately for non-distressed corporate bonds, loans and credit contracts.

Correlation - a pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (*i.e*., how the change in one variable influences a change in the other variable). Credit correlation, for example, is the factor that describes the relationship between the probability of individual entities to default on obligations and the joint probability of multiple entities to default on obligations.

Credit spread - the difference in yield between different securities due to differences in credit quality. The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk. The credit spread of a particular security is often quoted in relation to the yield on a credit risk-free benchmark security or reference rate, typically either U.S. Treasury or LIBOR.

Volatility skew - the measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes. The implied volatility for an option with a strike price that is above or below the current price of an underlying asset will typically deviate from the implied volatility for an option with a strike price equal to the current price of that same underlying asset.

Volatility - the measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option (*e.g.*, the volatility of a particular underlying equity security may be significantly different from that of a particular underlying commodity index), the tenor and the strike price of the option.

EBITDA multiple / Exit multiple - is the Enterprise Value to EBITDA ratio, where the Enterprise Value is the aggregate value of equity and debt minus cash and cash equivalents. The EBITDA multiple reflects

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the value of the company in terms of its full-year EBITDA, whereas the exit multiple reflects the value of the company in terms of its full year expected EBITDA at exit. Either multiple allows comparison between companies from an operational perspective as the effect of capital structure, taxation and depreciation/amortization is excluded.

Forward commercial paper rate - LIBOR basis the basis added to the LIBOR rate when the commercial paper yield is expressed as a spread over the LIBOR rate. The basis to LIBOR is dependent on a number of factors, including, but not limited to, collateralization of the commercial paper, credit rating of the issuer, and the supply of commercial paper. The basis may become negative, i.e., the return for highly-rated commercial paper, such as asset-backed commercial paper, may be less than LIBOR.

Cash synthetic basis - the measure of the price differential between cash financial instruments (cash instruments) and their synthetic derivative-based equivalents (synthetic instruments). The range disclosed in the table above signifies the number of points by which the synthetic bond equivalent price is higher than the quoted price of the underlying cash bonds.

Interest rate curve - the term structure of interest rates (relationship between interest rates and the time to maturity) and a market s measure of future interest rates at the time of observation. An interest rate curve is used to set interest rate derivative cash flows and is a pricing input used in discounting of any OTC derivative cash flow.

Implied weighted average cost of capital (WACC) - the WACC implied by the current value of equity in a discounted cash flow model. The model assumes that the cash flow assumptions, including projections, are fully reflected in the current equity value while the debt to equity ratio is held constant. The WACC theoretically represents the required rate of return to debt and equity investors, respectively.

Capitalization rate - the ratio between net operating income produced by an asset and its market value at the projected disposition date.

Funding spread - the difference between the general collateral rate (which refers to the rate applicable to a broad class of U.S. Treasury issuances) and the specific collateral rate (which refers to the rate applicable to a specific type of security pledged as collateral, such as a municipal bond). Repurchase agreements are discounted based on collateral curves. The curves are constructed as spreads over the corresponding overnight index swap (OIS)/ LIBOR curves, with the short end of the curve representing spreads over the corresponding OIS curves and the long end of the curve representing spreads over LIBOR.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value of Investments that Calculate Net Asset Value.

The Company s Investments measured at fair value were $8,574 million and $8,346 million at September 30, 2013 and December 31, 2012, respectively. The following table presents information solely about the Company s investments in private equity funds, real estate funds and hedge funds measured at fair value based on NAV at September 30, 2013 and December 31, 2012, respectively.

	At September 30, 2013		At December 31, 2012	
	Fair Value	Unfunded Commitment	Fair Value	Unfunded Commitment
	(dollars in millions)			
Private equity funds	$ 2,450	$ 577	$ 2,179	$ 644
Real estate funds	1,529	149	1,376	221
Hedge funds(1):				
Long-short equity hedge funds	466		475	
Fixed income/credit-related hedge funds	71		86	
Event-driven hedge funds	39		52	
Multi-strategy hedge funds	228	3	321	3
Total	$ 4,783	$ 729	$ 4,489	$ 868

(1) Fixed income/credit-related hedge funds, event-driven hedge funds, and multi-strategy hedge funds are redeemable at least on a six-month period basis primarily with a notice period of 90 days or less. At September 30, 2013, approximately 40% of the fair value amount of long-short equity hedge funds is redeemable at least quarterly, 40% is redeemable every six months and 20% of these funds have a redemption frequency of greater than six months. The notice period for long-short equity hedge funds at September 30, 2013 is primarily greater than six months. At December 31, 2012, approximately 36% of the fair value amount of long-short equity hedge funds is redeemable at least quarterly, 38% is redeemable every six months and 26% of these funds have a redemption frequency of greater than six months. The notice period for long-short equity hedge funds at December 31, 2012 is primarily greater than six months.

Private Equity Funds. Amount includes several private equity funds that pursue multiple strategies including leveraged buyouts, venture capital, infrastructure growth capital, distressed investments, and mezzanine capital. In addition, the funds may be structured with a focus on specific domestic or foreign geographic regions. These investments are generally not redeemable with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. At September 30, 2013, it is estimated that 8% of the fair value of the funds will be liquidated in the next five years, another 57% of the fair value of the funds will be liquidated between five to 10 years and the remaining 35% of the fair value of the funds have a remaining life of greater than 10 years.

Real Estate Funds. Amount includes several real estate funds that invest in real estate assets such as commercial office buildings, retail properties, multi-family residential properties, developments or hotels. In addition, the funds may be structured with a focus on specific geographic domestic or foreign regions. These investments are generally not redeemable with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. At September 30, 2013, it is estimated that 3% of the fair value of the funds will be liquidated within the next five years, another 53% of the fair value of the funds will be liquidated between five to 10 years and the remaining 44% of the fair value of the funds have a remaining life of greater than 10 years.

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.

Long-short Equity Hedge Funds. Amount includes investments in hedge funds that invest, long or short, in equities. Equity value and growth hedge funds purchase stocks perceived to be undervalued and sell

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

stocks perceived to be overvalued. Investments representing approximately 14% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments subject to lock-up restrictions was primarily two years or less at September 30, 2013. Investments representing approximately 19% of the fair value of the investments in long-short equity hedge funds cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was primarily less than one year at September 30, 2013.

Fixed Income/Credit-Related Hedge Funds. Amount includes investments in hedge funds that employ long-short, distressed or relative value strategies in order to benefit from investments in undervalued or overvalued securities that are primarily debt or credit related. At September 30, 2013, there were no restrictions on redemptions.

Event-Driven Hedge Funds. Amount includes investments in hedge funds that invest in event-driven situations such as mergers, hostile takeovers, reorganizations, or leveraged buyouts. This may involve the simultaneous purchase of stock in companies being acquired and the sale of stock in its acquirer, with the expectation to profit from the spread between the current market price and the ultimate purchase price of the target company. At September 30, 2013, there were no restrictions on redemptions.

Multi-strategy Hedge Funds. Amount includes investments in hedge funds that pursue multiple strategies to realize short- and long-term gains. Management of the hedge funds has the ability to overweight or underweight different strategies to best capitalize on current investment opportunities. At September 30, 2013, investments representing approximately 47% of the fair value of the investments in this category cannot be redeemed currently because the investments include certain initial period lock-up restrictions. The remaining restriction period for these investments subject to lock-up restrictions was primarily two years or less at September 30, 2013. Investments representing approximately 9% of the fair value of the investments in multi-strategy hedge funds cannot be redeemed currently because an exit restriction has been imposed by the hedge fund manager. The restriction period for these investments subject to an exit restriction was indefinite at September 30, 2013.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. The following tables present net gains (losses) due to changes in fair value for items measured at fair value pursuant to the fair value option election for the quarters and nine months ended September 30, 2013 and 2012, respectively:

	Trading	Interest Income (Expense)	Gains (Losses) Included in Net Revenues
		(dollars in millions)	
Three Months Ended September 30, 2013			
Federal funds sold and securities purchased under agreements to resell	$ 1	$ 3	$ 4
Deposits	14	(17)	(3)
Commercial paper and other short-term borrowings(1)	(62)	(3)	(65)
Securities sold under agreements to repurchase	(3)	(2)	(5)
Long-term borrowings(1)	(154)	(224)	(378)
Nine Months Ended September 30, 2013			
Federal funds sold and securities purchased under agreements to resell	$	$ 6	$ 6
Deposits	44	(50)	(6)
Commercial paper and other short-term borrowings(1)	118	(5)	113
Securities sold under agreements to repurchase	2	(5)	(3)
Long-term borrowings(1)	1,053	(752)	301
Three Months Ended September 30, 2012			
Federal funds sold and securities purchased under agreements to resell	$ 3	$ 2	$ 5
Deposits	16	(22)	(6)
Commercial paper and other short-term borrowings(2)	(68)		(68)
Securities sold under agreements to repurchase	(13)	(1)	(14)
Long-term borrowings(2)	(3,570)	(348)	(3,918)
Nine Months Ended September 30, 2012			
Federal funds sold and securities purchased under agreements to resell	$ 11	$ 4	$ 15
Deposits	41	(66)	(25)
Commercial paper and other short-term borrowings(2)	14		14
Securities sold under agreements to repurchase	(10)	(3)	(13)
Long-term borrowings(2)	(5,221)	(1,017)	(6,238)

(1) Of the total gains (losses) recorded in Trading revenues for short-term and long-term borrowings for the quarter and nine months ended September 30, 2013, $(171) million and $(313) million, respectively, are attributable to changes in the credit quality of the Company, 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.

(2) Of the total gains (losses) recorded in Trading revenues for short-term and long-term borrowings for the quarter and nine months ended September 30, 2012, $(2,262) million and $(3,890) million, respectively, are attributable to changes in the credit quality of the Company, 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.

In addition to the amounts in the above table, as discussed in Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K, all of the instruments within Trading assets or

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Trading liabilities are measured at fair value, either through the election of the fair value option or as required by other accounting guidance. The amounts in the above table are included within Net revenues and do not reflect gains or losses on related hedging instruments, if any.

The Company hedges the economics of market risk for short-term and long-term borrowings (*i.e.*, risks other than that related to the credit quality of the Company) as part of its overall trading strategy and manages the market risks embedded within the issuance by the related business unit as part of the business unit s portfolio. The gains and losses on related economic hedges are recorded in Trading revenues and largely offset the gains and losses on short-term and long-term borrowings attributable to market risk.

At September 30, 2013 and December 31, 2012, a breakdown of the short-term and long-term borrowings measured at fair value on a recurring basis by business unit responsible for risk-managing each borrowing is shown in the table below:

Business Unit	Short-term and Long-term Borrowings At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Interest rates	$ 17,457	$ 23,330
Equity	17,657	17,326
Credit and foreign exchange	2,688	3,337
Commodities	540	776
Total	$ 38,342	$ 44,769

The following tables present information on the Company s short-term and long-term borrowings (primarily structured notes), loans and unfunded lending commitments for which the fair value option was elected.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in millions)			
Short-term and long-term borrowings(1)	$ (171)	$ (2,262)	$ (313)	$ (3,890)
Loans(2)	35	255	150	429
Unfunded lending commitments(3)	6	319	221	804

(1) The change in the fair value of short-term and long-term borrowings (primarily structured notes) includes an adjustment to reflect the change in credit quality of the Company based upon observations of the Company s secondary bond market spreads.
(2) 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) were generally determined based on the differential between estimated expected client yields and contractual yields at each respective period end.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net Difference between Contractual Principal Amount and Fair Value.

	Contractual Principal Amount Exceeds Fair Value	
	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Short-term and long-term borrowings(1)	$ (1,513)	$ (436)
Loans(2)	17,879	25,249
Loans 90 or more days past due and/or on non-accrual status(2)(3)	16,149	20,456

(1) These amounts do not include structured notes where the repayment of the initial principal amount fluctuates based on changes in the reference price or index.
(2) The majority of this difference between principal and fair value amounts emanates from the Company s distressed debt trading business, which purchases distressed debt at amounts well below par.
(3) The aggregate fair value of loans that were in non-accrual status, which includes all loans 90 or more days past due, was $1,885 million and $1,360 million at September 30, 2013 and December 31, 2012, respectively. The aggregate fair value of loans that were 90 or more days past due was $1,158 million and $840 million at September 30, 2013 and December 31, 2012, respectively.

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 were measured at fair value on a non-recurring basis and are not included in the tables above. These assets may include loans, other investments, premises, equipment and software costs, and intangible assets.

The following tables present, by caption on the condensed consolidated statements of financial condition, the fair value hierarchy for those assets measured at fair value on a non-recurring basis for which the Company recognized a non-recurring fair value adjustment for the quarters and nine months ended September 30, 2013 and 2012, respectively.

Three and Nine Months Ended September 30, 2013.

		Fair Value Measurements Using:				
	Carrying Value at September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Three Months Ended September 30, 2013(1)	Total Gains (Losses) for the Nine Months Ended September 30, 2013(1)
			(dollars in millions)			
Loans(2)	$ 1,507	$	$ 1,160	$ 347	$ (35)	$ (106)
Other investments(3)(4)	55			55	(5)	(28)

Premises, equipment and software costs(3)(4)					(17)	(23)
Intangible assets(3)(4)						(9)
Total	$ 1,562	$	$ 1,160	$ 402	$ (57)	$ (166)

(1) Fair value adjustments related to Loans and losses related to Other investments are recorded within Other revenues whereas losses related to Premises, equipment and software costs and Intangible assets are recorded within Other expenses in the condensed consolidated statements of income.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Non-recurring changes in the fair value of loans held for investment or 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) Carrying values relate only to those assets that had fair value adjustments during the quarter ended September 30, 2013. These amounts do not include assets that had fair value adjustments during the nine months ended September 30, 2013, unless the assets also had a fair value adjustment during the quarter ended September 30, 2013.
(4) Losses recorded were determined primarily using discounted cash flow models.

There were no liabilities measured at fair value on a non-recurring basis during the quarter and nine months ended September 30, 2013.

Three and Nine Months Ended September 30, 2012.

		Fair Value Measurements Using:				
	Carrying Value at September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Three Months Ended September 30, 2012(1)	Total Gains (Losses) for the Nine Months Ended September 30, 2012(1)
				(dollars in millions)		
Loans(2)	$ 893	$	$ 138	$ 755	$ (10)	$ (30)
Other investments(3)(4)	82			82	(11)	(21)
Premises, equipment and software costs(3)(5)	34			34	(168)	(169)
Intangible assets(3)(4)						(4)
Total	$ 1,009	$	$ 138	$ 871	$ (189)	$ (224)

(1) Losses are recorded within Other expenses in the condensed consolidated statements of income except for fair value adjustments related to Loans and losses related to Other investments, which are included in Other revenues.
(2) Non-recurring changes in the fair value of loans held for investment or 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) Carrying values relate only to those assets that had fair value adjustments during the quarter ended September 30, 2012. These amounts do not include assets that had fair value adjustments during the nine months ended September 30, 2012, unless the assets also had a fair value adjustment during the quarter ended September 30, 2012.
(4) Losses recorded were determined primarily using discounted cash flow models.
(5) Losses were determined using discounted cash flow models and primarily represented the write-off of the carrying value of certain premises and software that were abandoned during the quarter ended September 30, 2012 in association with the Wealth Management JV integration.

In addition to the losses included in the table above, there was a pre-tax gain of approximately $51 million (related to Other assets) included in discontinued operations in the nine months ended September 30, 2012 in connection with the disposition of Saxon (see Notes 1 and 21). This pre-tax gain was primarily due to the subsequent increase in the fair value of Saxon, which had incurred impairment losses of $98 million in the quarter ended December 31, 2011. The fair value of Saxon was determined based on the revised purchase price agreed upon with the buyer.

There were no liabilities measured at fair value on a non-recurring basis during the quarter and nine months ended September 30, 2012.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial Instruments Not Measured at Fair Value.

The tables below present the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value in the condensed consolidated statements of financial condition. 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.

The carrying value of cash and cash equivalents, including Interest bearing deposits with banks, and other short-term financial instruments such as Federal funds sold and securities purchased under agreements to resell, Securities borrowed, Securities sold under agreements to repurchase, Securities loaned, certain Customer and other receivables and Customer and other payables arising in the ordinary course of business, Deposits, Commercial paper and other short-term borrowings and Other secured financings approximate fair value because of the relatively short period of time between their origination and expected maturity.

For longer-dated Federal funds sold and securities purchased under agreements to resell, Securities borrowed, Securities sold under agreements to repurchase, Securities loaned and Other secured financings, fair value is determined using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks and interest rate yield curves.

For consumer and residential real estate loans where position-specific external price data are not observable, the fair value is based on the credit risks of the borrower using a probability of default and loss given default method, discounted at the estimated external cost of funding level. The fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, and market observable credit default swap spread levels along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable.

The fair value of long-term borrowings is generally determined based on transactional data or third party pricing for identical or comparable instruments, when available. Where position-specific external prices are not observable, fair value is determined based on current interest rates and credit spreads for debt instruments with similar terms and maturity.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial Instruments Not Measured at Fair Value at September 30, 2013 and December 31, 2012.

At September 30, 2013.

	At September 30, 2013		Fair Value Measurements Using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(dollars in millions)		
Financial Assets:					
Cash and due from banks	$ 14,333	$ 14,333	$ 14,333	$	$
Interest bearing deposits with banks	43,448	43,448	43,448		
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	37,392	37,392	37,392		
Federal funds sold and securities purchased under agreements to resell	133,120	133,117		132,613	504
Securities borrowed	139,169	139,165		138,836	329
Customer and other receivables(1)	53,636	53,512		47,964	5,548
Loans(2)	37,734	37,697		9,807	27,890
Financial Liabilities:					
Deposits	$ 103,396	$ 103,396	$	$ 103,396	$
Commercial paper and other short-term borrowings	710	710		656	54
Securities sold under agreements to repurchase	138,844	138,882		131,399	7,483
Securities loaned	32,807	32,868		31,999	869
Other secured financings	8,383	8,418		5,944	2,474
Customer and other payables(1)	149,005	149,005		149,005	
Long-term borrowings	121,086	124,727		116,945	7,782

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

The fair value of the Company s unfunded lending commitments, primarily related to corporate lending in the Institutional Securities business segment, that are not carried at fair value at September 30, 2013 was $864 million, of which $787 million and $77 million would be categorized in Level 2 and Level 3 of the fair value hierarchy, respectively. The carrying value of these commitments, if fully funded, would be $71.5 billion.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2012.

	At December 31, 2012		Fair Value Measurements Using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(dollars in millions)				
Financial Assets:					
Cash and due from banks	$ 20,878	$ 20,878	$ 20,878	$	$
Interest bearing deposits with banks	26,026	26,026	26,026		
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	30,970	30,970	30,970		
Federal funds sold and securities purchased under agreements to resell	133,791	133,792		133,035	757
Securities borrowed	121,701	121,705		121,691	14
Customer and other receivables(1)	59,702	59,634		53,532	6,102
Loans(2)	29,046	27,263		5,307	21,956
Financial Liabilities:					
Deposits	$ 81,781	$ 81,781	$	$ 81,781	$
Commercial paper and other short-term borrowings	1,413	1,413		1,107	306
Securities sold under agreements to repurchase	122,311	122,389		111,722	10,667
Securities loaned	36,849	37,163		35,978	1,185
Other secured financings	6,261	6,276		3,649	2,627
Customer and other payables(1)	125,037	125,037		125,037	
Long-term borrowings	125,527	126,683		116,511	10,172

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

The fair value of the Company s unfunded lending commitments, primarily related to corporate lending in the Institutional Securities business segment, that are not carried at fair value at December 31, 2012 was $755 million, of which $543 million and $212 million would be categorized in Level 2 and Level 3 of the fair value hierarchy, respectively. The carrying value of these commitments, if fully funded, would be $50.0 billion.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Securities Available for Sale.

The following tables present information about the Company s available for sale securities:

	At September 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other-than-Temporary Impairment	Fair Value
	(dollars in millions)				
Debt securities available for sale:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 19,856	$ 65	$ 80	$	$ 19,841
U.S. agency securities	14,098	36	174		13,960
Total U.S. government and agency securities	33,954	101	254		33,801
Corporate and other debt:					
Commercial mortgage-backed securities:					
Agency	2,382		76		2,306
Non-Agency	1,179	2	19		1,162
Auto loan asset-backed securities	2,046	1	3		2,044
Corporate bonds	3,562	4	54		3,512
Collateralized debt and loan obligations	1,087		14		1,073
FFELP student loan asset-backed securities(1)	2,950	12	8		2,954
Total Corporate and other debt	13,206	19	174		13,051
Total debt securities available for sale	47,160	120	428		46,852
Equity securities available for sale	15		1		14
Total	$ 47,175	$ 120	$ 429	$	$ 46,866

	At December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other-than-Temporary Impairment	Fair Value
	(dollars in millions)				
Debt securities available for sale:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 14,351	$ 109	$ 2	$	$ 14,458
U.S. agency securities	15,330	122	3		15,449
Total U.S. government and agency securities	29,681	231	5		29,907
Corporate and other debt:					
Commercial mortgage-backed securities:					
Agency	2,197	6	4		2,199
Non-Agency	160				160
Auto loan asset-backed securities	1,993	4	1		1,996

Corporate bonds	2,891	13	3		2,901
FFELP student loan asset-backed securities(1)	2,675	23			2,698
Total Corporate and other debt	9,916	46	8		9,954
Total debt securities available for sale	39,597	277	13		39,861
Equity securities available for sale	15		7		8
Total	$ 39,612	$ 277	$ 20	$	$ 39,869

(1) 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 (Continued)

The tables below present the fair value of investments in securities available for sale that are in an unrealized loss position:

At September 30, 2013	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)					
Debt securities available for sale:						
U.S. government and agency securities:						
U.S. Treasury securities	$ 6,098	$ 80	$	$	$ 6,098	$ 80
U.S. agency securities	7,092	172	241	2	7,333	174
Total U.S. government and agency securities	13,190	252	241	2	13,431	254
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	2,099	62	208	14	2,307	76
Non-Agency	947	18		1	947	19
Auto loan asset-backed securities	1,189	3	65		1,254	3
Corporate bonds	2,708	50	119	4	2,827	54
Collateralized debt and loan obligations	1,073	14			1,073	14
FFELP student loan asset-backed securities	1,251	8	34		1,285	8
Total Corporate and other debt	9,267	155	426	19	9,693	174
Total debt securities available for sale	22,457	407	667	21	23,124	428
Equity securities available for sale	14	1			14	1
Total	$ 22,471	$ 408	$ 667	$ 21	$ 23,138	429

At December 31, 2012	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)					
Debt securities available for sale:						
U.S. government and agency securities:						
U.S. Treasury securities	$ 1,012	$ 2	$	$	$ 1,012	$ 2
U.S. agency securities	1,534	3	27		1,561	3
Total U.S. government and agency securities	2,546	5	27		2,573	5
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	1,057	4			1,057	4
Auto loan asset-backed securities	710	1			710	1
Corporate bonds	934	3			934	3

Total Corporate and other debt	2,701	8			2,701	8
Total debt securities available for sale	5,247	13	27		5,274	13
Equity securities available for sale	8	7			8	7
Total	$ 5,255	$ 20	$ 27	$	$ 5,282	$ 20

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gross unrealized gains and losses are recorded in Accumulated other comprehensive income.

The unrealized losses reported above on debt securities available for sale are due to rising interest rates during the nine months ended September 30, 2013. The Company does not intend to sell these securities or expect to be required to sell these securities prior to recovery of the amortized cost basis. In addition, the Company does not expect the U.S. government and agency securities to experience a credit loss given the explicit and implicit guarantee provided by the U.S. government. The Company believes that the debt securities with an unrealized loss in Accumulated other comprehensive income were not other-than-temporarily impaired at September 30, 2013.

The following table presents the amortized cost and fair value of debt securities available for sale by contractual maturity dates at September 30, 2013.

At September 30, 2013	Amortized Cost	Fair Value (dollars in millions)	Annualized Average Yield
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	$ 3,153	$ 3,159	0.3%
After 1 year through 5 years	16,510	16,489	0.8%
After 5 years through 10 years	193	193	2.0%
Total	19,856	19,841	
U.S. agency securities:			
After 5 years through 10 years	2,396	2,393	1.3%
After 10 years	11,702	11,567	1.3%
Total	14,098	13,960	
Total U.S. government and agency securities	33,954	33,801	0.9%
Corporate and other debt:			
Commercial mortgage-backed securities:			
Agency:			
After 1 year through 5 years	540	534	0.9%
After 5 years through 10 years	530	517	1.0%
After 10 years	1,312	1,255	1.5%
Total	2,382	2,306	
Non-Agency:			
After 1 year through 5 years	114	111	1.1%
After 5 years through 10 years	60	59	1.4%
After 10 years	1,005	992	1.6%
Total	1,179	1,162	
Auto loan asset-backed securities:			

After 1 year through 5 years	1,921	1,919	0.7%
After 5 years through 10 years	125	125	0.8%
Total	2,046	2,044	

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At September 30, 2013	Amortized Cost	Fair Value	Annualized Average Yield
		(dollars in millions)	
Corporate bonds:			
Due within 1 year	111	111	0.6%
After 1 year through 5 years	2,702	2,678	1.2%
After 5 years through 10 years	749	723	2.1%
Total	3,562	3,512	
Collateralized debt and loan obligations:			
After 1 year through 5 years	50	49	1.7%
After 10 years	1,037	1,024	1.4%
Total	1,087	1,073	
FFELP student loan asset-backed securities:			
After 1 year through 5 years	85	85	0.7%
After 5 years through 10 years	610	611	0.9%
After 10 years	2,255	2,258	1.0%
Total	2,950	2,954	
Total Corporate and other debt	13,206	13,051	1.2%
Total debt securities available for sale	$ 47,160	$ 46,852	1.0%

See Note 7 for additional information on securities issued by VIEs, including U.S. agency mortgage-backed securities, non-agency commercial mortgage backed securities, auto loan asset-backed securities, FFELP student loan asset-backed securities and collateralized debt and loan obligations.

The following table presents information pertaining to sales of securities available for sale during the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in millions)			
Gross realized gains	$ 6	$ 31	$ 47	$ 56
Gross realized losses	$ 1	$	$ 4	$ 3

Gross realized gains and losses are recognized in Other revenues in the condensed consolidated statements of income.

6. Collateralized Transactions.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers needs and to finance the Company s inventory positions. The Company manages credit exposure arising from such transactions by, in appropriate circumstances, entering into master netting agreements and collateral agreements with counterparties that provide the Company, in the event of a counterparty default (such as bankruptcy or a counterparty s failure to pay or perform), the right to net a counterparty s rights and obligations under such agreement and liquidate and setoff collateral against the net amount owed by the counterparty. The Company s policy is generally to take possession of securities purchased under agreements to resell and securities borrowed, and to receive securities and cash posted as collateral (with

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

rights of rehypothecation), although in certain cases the Company may agree for such collateral to be posted to a third party custodian under a tri-party arrangement that enables the Company to take control of such collateral in the event of a counterparty default. The Company also monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral as provided under the applicable agreement to ensure such transactions are adequately collateralized. The following tables present information about the offsetting of these instruments and related collateral amounts. For information related to offsetting of derivatives, see Note 11.

	At September 30, 2013				
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Condensed Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Condensed Consolidated Statements of Financial Condition(3)	Net Exposure
	(dollars in millions)				
Assets					
Federal funds sold and securities purchased under agreements to resell	$ 211,457	$ (77,469)	$ 133,988	$ (127,980)	$ 6,008
Securities borrowed	145,647	(6,478)	139,169	(122,345)	16,824
Liabilities					
Securities sold under agreements to repurchase	$ 216,867	$ (77,469)	$ 139,398	$ (105,061)	$ 34,337
Securities loaned	39,285	(6,478)	32,807	(31,857)	950

(1) Amounts include $5.3 billion of Federal funds sold and securities purchased under agreements to resell, $12.5 billion of Securities borrowed and $33.0 billion of Securities sold under agreements to repurchase 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.

(2) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

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

	At December 31, 2012				
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Condensed Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Condensed Consolidated Statements of Financial Condition(3)	Net Exposure
	(dollars in millions)				
Assets					
Federal funds sold and securities purchased under agreements to resell	$ 203,448	$ (69,036)	$ 134,412	$ (126,303)	$ 8,109
Securities borrowed	127,002	(5,301)	121,701	(105,849)	15,852
Liabilities					

Securities sold under agreements to repurchase	$ 191,710	$ (69,036)	$ 122,674	$ (103,521)	$ 19,153
Securities loaned	42,150	(5,301)	36,849	(30,395)	6,454

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Amounts include $7.4 billion of Federal funds sold and securities purchased under agreements to resell, $8.6 billion of Securities borrowed, $17.5 billion of Securities sold under agreements to repurchase and $0.6 billion of Securities loaned 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.
(2) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.
(3) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.

The Company also engages in securities financing transactions for customers through margin lending. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. The Company monitors required margin levels and established credit limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary. Margin loans are extended on a demand basis and are not committed facilities. Factors considered in the review of margin loans are the amount of the loan, the intended purpose, the degree of leverage being employed in the account, and overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral or potential hedging strategies to reduce risk. Additionally, transactions relating to concentrated or restricted positions require a review of any legal impediments to liquidation of the underlying collateral. Underlying collateral for margin loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluation of industry concentrations. For these transactions, adherence to the Company s collateral policies significantly limits the Company s credit exposure in the event of customer default. The Company may request additional margin collateral from customers, if appropriate, and, if necessary, may sell securities that have not been paid for or purchase securities sold but not delivered from customers. At September 30, 2013 and December 31, 2012, there were approximately $21.9 billion and $24.0 billion, respectively, of customer margin loans outstanding.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Company is deemed to be the primary beneficiary, and certain equity-linked notes and other secured borrowings. These liabilities are generally payable from the cash flows of the related assets accounted for as Trading assets (see Notes 7 and 10).

The Company pledges its trading assets to collateralize repurchase agreements and other securities financings. Pledged financial instruments that can be sold or repledged by the secured party are identified as Trading assets (pledged to various parties) in the condensed consolidated statements of financial condition. The carrying value and classification of Trading assets by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge the collateral were as follows:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Trading assets:		
U.S. government and agency securities	$ 19,501	$ 15,273
Other sovereign government obligations	4,047	3,278
Corporate and other debt	13,173	11,980
Corporate equities	10,270	26,377
Total	$ 46,991	$ 56,908

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed and derivative transactions, and customer margin loans. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter into securities lending and derivative transactions or for delivery to counterparties to cover short positions. The Company additionally receives securities as collateral in connection with certain securities-for-securities transactions in which the Company is the lender. In instances where the Company is permitted to sell or repledge these securities, the Company reports the fair value of the collateral received and the related obligation to return the collateral in the condensed consolidated statements of financial condition. At September 30, 2013 and December 31, 2012, the fair value of financial instruments received as collateral where the Company is permitted to sell or repledge the securities was $574 billion and $560 billion, respectively, and the fair value of the portion that had been sold or repledged was $424 billion and $397 billion, respectively.

At September 30, 2013 and December 31, 2012, cash and securities deposited with clearing organizations or segregated under federal and other regulations or requirements were as follows:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	$ 37,392	$ 30,970
Securities(1)	12,922	13,424
Total	$ 50,314	$ 44,394

(1) Securities deposited with clearing organizations or segregated under federal and other regulations or requirements are sourced from Federal funds sold and securities purchased under agreements to resell and Trading assets in the condensed consolidated statements of financial condition.

7. Variable Interest Entities and Securitization Activities.

The Company is involved with various special purpose entities (SPE) in the normal course of business. In most cases, these entities are deemed to be VIEs.

The Company applies accounting guidance for consolidation of VIEs to certain entities in which equity investors do not have the characteristics of a controlling financial interest. Except for certain asset management entities, the primary beneficiary of a VIE is the party that both (1) has the power to direct the activities of a VIE that most significantly affect the VIE s economic performance and (2) has an obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. The Company consolidates entities of which it is the primary beneficiary.

The Company s variable interests in VIEs include debt and equity interests, commitments, guarantees, derivative instruments and certain fees. The Company s involvement with VIEs arises primarily from:

Interests purchased in connection with market-making activities, securities held in its available for sale portfolio and retained interests held as a result of securitization activities, including re-securitization transactions.

Guarantees issued and residual interests retained in connection with municipal bond securitizations.

Servicing of residential and commercial mortgage loans held by VIEs.

Loans made to and investments in VIEs that hold debt, equity, real estate or other assets.

Derivatives entered into with VIEs.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Structuring of credit-linked notes (CLN) or other asset-repackaged notes designed to meet the investment objectives of clients.

Other structured transactions designed to provide tax-efficient yields to the Company or its clients.

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

The power to make the most significant economic decisions may take a number of different forms in different types of VIEs. The Company considers servicing or collateral management decisions as representing the power to make the most significant economic decisions in transactions such as securitizations or CDOs. As a result, the Company does not consolidate securitizations or CDOs for which it does not act as the servicer or collateral manager unless it holds certain other rights to replace the servicer or collateral manager or to require the liquidation of the entity. If the Company serves as servicer or collateral manager, or has certain other rights described in the previous sentence, the Company analyzes the interests in the VIE that it holds and consolidates only those VIEs for which it holds a potentially significant interest of the VIE.

The structure of securitization vehicles and CDOs is driven by several parties, including loan seller(s) in securitization transactions, the collateral manager in a CDO, one or more rating agencies, a financial guarantor in some transactions and the underwriter(s) of the transactions, who serve to reflect specific investor demand. In addition, subordinate investors, such as the B-piece buyer (*i.e.,* investors in most subordinated bond classes) in commercial mortgage-backed securitizations or equity investors in CDOs, can influence whether specific loans are excluded from a CMBS transaction or investment criteria in a CDO.

For many transactions, such as re-securitization transactions, CLNs and other asset-repackaged notes, there are no significant economic decisions made on an ongoing basis. In these cases, the Company focuses its analysis on decisions made prior to the initial closing of the transaction and at the termination of the transaction. Based upon factors, which include an analysis of the nature of the assets, including whether the assets were issued in a transaction sponsored by the Company and the extent of the information available to the Company and to investors, the number, nature and involvement of investors, other rights held by the Company and investors, the standardization of the legal documentation and the level of the continuing involvement by the Company, including the amount and type of interests owned by the Company and by other investors, the Company concluded in most of these transactions that decisions made prior to the initial closing were shared between the Company and the initial investors. The Company focused its control decision on any right held by the Company or investors related to the termination of the VIE. Most re-securitization transactions, CLNs and other asset-repackaged notes have no such termination rights.

Except for consolidated VIEs included in other structured financings and managed real estate partnerships in the tables below, the Company accounts for the assets held by the entities primarily in Trading assets and the liabilities of the entities as Other secured financings in the condensed consolidated statements of financial condition. For consolidated VIEs included in other structured financings, the Company accounts for the assets held by the entities primarily in Premises, equipment and software costs, and Other assets in the condensed consolidated statements of financial condition. For consolidated VIEs included in managed real estate partnerships, the Company accounts for the assets held by the entities primarily in Trading assets in the condensed consolidated statements of financial condition. Except for consolidated VIEs included in other structured financings, the assets and liabilities are measured at fair value, with changes in fair value reflected in earnings.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The assets owned by many consolidated VIEs cannot be removed unilaterally by the Company and are not generally available to the Company. The related liabilities issued by many consolidated VIEs are non-recourse to the Company. In certain other consolidated VIEs, the Company has the unilateral right to remove assets or provides additional recourse through derivatives such as total return swaps, guarantees or other forms of involvement.

As part of the Company s Institutional Securities business segment s securitization and related activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company (see Note 12).

The following tables present information at September 30, 2013 and December 31, 2012 about VIEs that the Company consolidates. Consolidated VIE assets and liabilities are presented after intercompany eliminations and include assets financed on a non-recourse basis:

	At September 30, 2013				
	Mortgage and Asset-Backed Securitizations	Collateralized Debt Obligations	Managed Real Estate Partnerships	Other Structured Financings	Other
			(dollars in millions)		
VIE assets	$ 752	$	$ 2,269	$ 1,187	$ 1,343
VIE liabilities	$ 423	$ 86	$ 59	$ 66	$ 163

	At December 31, 2012				
	Mortgage and Asset-Backed Securitizations	Collateralized Debt Obligations	Managed Real Estate Partnerships	Other Structured Financings	Other
			(dollars in millions)		
VIE assets	$ 978	$ 52	$ 2,394	$ 983	$ 1,676
VIE liabilities	$ 646	$ 16	$ 83	$ 65	$ 313

In general, the Company s exposure to loss in consolidated VIEs is limited to losses that would be absorbed on the VIE s assets recognized in its financial statements, net of losses absorbed by third-party holders of the VIE s liabilities. At September 30, 2013 and December 31, 2012, managed real estate partnerships reflected nonredeemable noncontrolling interests in the Company s condensed consolidated financial statements of $1,742 million and $1,804 million, respectively. The Company also had additional maximum exposure to losses of approximately $68 million and $58 million at September 30, 2013 and December 31, 2012, respectively. This additional exposure related primarily to certain derivatives (*e.g.*, instead of purchasing senior securities, the Company has sold credit protection to synthetic CDOs through credit derivatives that are typically related to the most senior tranche of the CDO) and commitments, guarantees and other forms of involvement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present information about certain non-consolidated VIEs in which the Company had variable interests at September 30, 2013 and December 31, 2012. The tables include all VIEs in which the Company has determined that its maximum exposure to loss is greater than specific thresholds or meets certain other criteria. Most of the VIEs included in the tables below are sponsored by unrelated parties; the Company s involvement generally is the result of the Company s secondary market-making activities and securities held in its available for sale portfolio (see Note 5):

	At September 30, 2013				
	Mortgage and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
	(dollars in millions)				
VIE assets that the Company does not consolidate (unpaid principal balance)(1)	$ 163,017	$ 26,153	$ 3,129	$ 1,802	$ 10,036
Maximum exposure to loss:					
Debt and equity interests(2)	$ 14,257	$ 1,920	$ 21	$ 1,071	$ 2,965
Derivative and other contracts	10	23	1,975		164
Commitments, guarantees and other		142		656	640
Total maximum exposure to loss	$ 14,267	$ 2,085	$ 1,996	$ 1,727	$ 3,769
Carrying value of exposure to loss Assets:					
Debt and equity interests(2)	$ 14,257	$ 1,920	$ 21	$ 670	$ 2,965
Derivative and other contracts	10	4	4		73
Total carrying value of exposure to loss Assets	$ 14,267	$ 1,924	$ 25	$ 670	$ 3,038
Carrying value of exposure to loss Liabilities:					
Derivative and other contracts	$	$ 2	$ 1	$	$ 55
Commitments, guarantees and other				9	
Total carrying value of exposure to loss Liabilities	$	$ 2	$ 1	$ 9	$ 55

(1) Mortgage and asset-backed securitizations include VIE assets as follows: $17.2 billion of residential mortgages; $47.5 billion of commercial mortgages; $56.9 billion of U.S. agency collateralized mortgage obligations; and $41.4 billion of other consumer or commercial loans.

(2) Mortgage and asset-backed securitizations include VIE debt and equity interests as follows: $1.7 billion of residential mortgages; $1.1 billion of commercial mortgages; $7.5 billion of U.S. agency collateralized mortgage obligations; and $4.0 billion of other consumer or commercial loans.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	At December 31, 2012				
	Mortgage and Asset-Backed Securitizations	Collateralized Debt Obligations	Municipal Tender Option Bonds	Other Structured Financings	Other
	(dollars in millions)				
VIE assets that the Company does not consolidate (unpaid principal balance)(1)	$ 251,689	$ 13,178	$ 3,390	$ 1,811	$ 14,029
Maximum exposure to loss:					
Debt and equity interests(2)	$ 22,280	$ 1,173	$	$ 1,053	$ 3,387
Derivative and other contracts	154	51	2,158		562
Commitments, guarantees and other	66			679	384
Total maximum exposure to loss	$ 22,500	$ 1,224	$ 2,158	$ 1,732	$ 4,333
Carrying value of exposure to loss Assets:					
Debt and equity interests(2)	$ 22,280	$ 1,173	$	$ 663	$ 3,387
Derivative and other contracts	156	8	4		174
Total carrying value of exposure to loss Assets	$ 22,436	$ 1,181	$ 4	$ 663	$ 3,561
Carrying value of exposure to loss Liabilities:					
Derivative and other contracts	$ 11	$ 2	$	$	$ 172
Commitments, guarantees and other				12	
Total carrying value of exposure to loss Liabilities	$ 11	$ 2	$	$ 12	$ 172

(1) Mortgage and asset-backed securitizations include VIE assets as follows: $18.3 billion of residential mortgages; $53.8 billion of commercial mortgages; $126.3 billion of U.S. agency collateralized mortgage obligations; and $53.3 billion of other consumer or commercial loans.

(2) Mortgage and asset-backed securitizations include VIE debt and equity interests as follows: $1.0 billion of residential mortgages; $1.5 billion of commercial mortgages; $14.8 billion of U.S. agency collateralized mortgage obligations; and $5.0 billion of other consumer or commercial loans.

The Company s maximum exposure to loss often differs from the carrying value of the variable interests held by the Company. The maximum exposure to loss is dependent on the nature of the Company s variable interest in the VIEs and is limited to the notional amounts of certain liquidity facilities, other credit support, total return swaps, written put options, and the fair value of certain other derivatives and investments the Company has made in the VIEs. Liabilities issued by VIEs generally are non-recourse to the Company. Where notional amounts are utilized in quantifying maximum exposure related to derivatives, such amounts do not reflect fair value writedowns already recorded by the Company.

The Company s maximum exposure to loss does not include the offsetting benefit of any financial instruments that the Company may utilize to hedge these risks associated with the Company s variable interests. In addition, the Company s maximum exposure to loss is not reduced by the amount of collateral held as part of a transaction with the VIE or any party to the VIE directly against a specific exposure to loss.

Securitization transactions generally involve VIEs. Primarily as a result of its secondary market-making activities, the Company owned additional securities issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities totaled $10.2 billion at September 30, 2013. These securities were either retained in connection with transfers of assets by the Company, acquired in connection with secondary market-making activities or held in the Company s available for sale portfolio (see Note 5). Securities issued by securitization SPEs consist of $6.0 billion of securities backed primarily by

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

residential mortgage loans, $0.9 billion of securities backed by U.S. agency collateralized mortgage obligations, $1.0 billion of securities backed by commercial mortgage loans, $0.4 billion of securities backed by collateralized debt obligations or collateralized loan obligations and $1.9 billion backed by other consumer loans, such as credit card receivables, automobile loans and student loans. The Company s primary risk exposure is to the securities issued by the SPE owned by the Company, with the risk highest on the most subordinate class of beneficial interests. These securities generally are included in Trading assets Corporate and other debt or Securities available for sale and are measured at fair value (see Note 4). The Company does not provide additional support in these transactions through contractual facilities, such as liquidity facilities, guarantees or similar derivatives. The Company s maximum exposure to loss generally equals the fair value of the securities owned.

The Company s transactions with VIEs primarily include securitizations, municipal tender option bond trusts, credit protection purchased through CLNs, other structured financings, collateralized loan and debt obligations, equity-linked notes, managed real estate partnerships and asset management investment funds. The Company s continuing involvement in VIEs that it does not consolidate can include ownership of retained interests in Company-sponsored transactions, interests purchased in the secondary market (both for Company-sponsored transactions and transactions sponsored by third parties), derivatives with securitization SPEs (primarily interest rate derivatives in commercial mortgage and residential mortgage securitizations and credit derivatives in which the Company has purchased protection in synthetic CDOs), and as servicer in residential mortgage securitizations in the U.S. and Europe and commercial mortgage securitizations in Europe. Such activities are further described in Note 7 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K.

Transfers of Assets with Continuing Involvement.

The following tables present information at September 30, 2013 regarding transactions with SPEs in which the Company, acting as principal, transferred financial assets with continuing involvement and received sales treatment:

	At September 30, 2013			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other
	(dollars in millions)			
SPE assets (unpaid principal balance)(1)	$ 33,610	$ 54,648	$ 18,348	$ 12,436
Retained interests (fair value):				
Investment grade	$	$ 10	$ 698	$
Non-investment grade	128	226		1,322
Total retained interests (fair value)	$ 128	$ 236	$ 698	$ 1,322
Interests purchased in the secondary market (fair value):				
Investment grade	$ 4	$ 80	$ 27	$ 351
Non-investment grade	82	57		65
Total interests purchased in the secondary market (fair value)	$ 86	$ 137	$ 27	$ 416
Derivative assets (fair value)	$	$ 729	$	$ 123
Derivative liabilities (fair value)	$ 2	$	$	$ 184

(1) Amounts include assets transferred by unrelated transferors.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	At September 30, 2013			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$	$ 708	$	$ 708
Non-investment grade		198	1,478	1,676
Total retained interests (fair value)	$	$ 906	$ 1,478	$ 2,384
Interests purchased in the secondary market (fair value):				
Investment grade	$	$ 454	$ 8	$ 462
Non-investment grade		179	25	204
Total interests purchased in the secondary market (fair value)	$	$ 633	$ 33	$ 666
Derivative assets (fair value)	$	$ 624	$ 228	$ 852
Derivative liabilities (fair value)	$	$ 172	$ 14	$ 186

The following tables present information at December 31, 2012 regarding transactions with SPEs in which the Company, acting as principal, transferred assets with continuing involvement and received sales treatment:

	At December 31, 2012			
	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Agency Collateralized Mortgage Obligations	Credit-Linked Notes and Other
	(dollars in millions)			
SPE assets (unpaid principal balance)(1)	$ 36,750	$ 70,824	$ 17,787	$ 14,701
Retained interests (fair value):				
Investment grade	$ 1	$ 77	$ 1,468	$
Non-investment grade	54	109		1,503
Total retained interests (fair value)	$ 55	$ 186	$ 1,468	$ 1,503
Interests purchased in the secondary market (fair value):				
Investment grade	$ 11	$ 124	$ 99	$ 389
Non-investment grade	113	34		31
Total interests purchased in the secondary market (fair value)	$ 124	$ 158	$ 99	$ 420
Derivative assets (fair value)	$ 2	$ 948	$	$ 177
Derivative liabilities (fair value)	$ 22	$	$	$ 303

(1) Amounts include assets transferred by unrelated transferors.

At December 31, 2012

	Level 1	Level 2	Level 3	Total
		(dollars in millions)		
Retained interests (fair value):				
Investment grade	$	$ 1,476	$ 70	$ 1,546
Non-investment grade		84	1,582	1,666
Total retained interests (fair value)	$	$ 1,560	$ 1,652	$ 3,212
Interests purchased in the secondary market (fair value):				
Investment grade	$	$ 617	$ 6	$ 623
Non-investment grade		139	39	178
Total interests purchased in the secondary market (fair value)	$	$ 756	$ 45	$ 801
Derivative assets (fair value)	$	$ 774	$ 353	$ 1,127
Derivative liabilities (fair value)	$	$ 295	$ 30	$ 325

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Transferred assets are carried at fair value prior to securitization, and any changes in fair value are recognized in the condensed consolidated statements of income. The Company may act as underwriter of the beneficial interests issued by securitization vehicles. Investment banking underwriting net revenues are recognized in connection with these transactions. The Company may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included in the condensed consolidated statements of financial condition at fair value. Any changes in the fair value of such retained interests are recognized in the condensed consolidated statements of income.

Net gains on sales of assets in securitization transactions at the time of the sale were not material in the nine months ended September 30, 2013 and 2012.

During the nine months ended September 30, 2013 and 2012, the Company received proceeds from new securitization transactions of $18.8 billion and $13.7 billion, respectively. During the nine months ended September 30, 2013 and 2012, the Company received proceeds from cash flows from retained interests in securitization transactions of $3.8 billion and $3.2 billion, respectively.

The Company has provided, or otherwise agreed to be responsible for, representations and warranties regarding certain assets transferred in securitization transactions sponsored by the Company (see Note 12).

Failed Sales.

In order to be treated as a sale of assets for accounting purposes, a transaction must meet all of the criteria stipulated in the accounting guidance for the transfer of financial assets. If the transfer fails to meet these criteria, that transfer of financial assets is treated as a failed sale. In such case for transfers to VIEs and securitizations, the Company continues to recognize the assets in Trading assets, and the Company recognizes the associated liabilities in Other secured financings in the condensed consolidated statements of financial condition (see Note 10).

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

The following table presents information about the carrying value (equal to fair value) of assets and liabilities resulting from transfers of financial assets treated by the Company as secured financings:

	At September 30, 2013 Carrying Value of		At December 31, 2012 Carrying Value of	
	Assets	Liabilities	Assets	Liabilities
	(dollars in millions)			
Credit-linked notes	$ 48	$ 41	$ 283	$ 222
Equity-linked transactions	39	35	422	405
Other	360	359	29	28

Mortgage Servicing Activities.

Mortgage Servicing Rights. The Company may retain servicing rights to certain mortgage loans that are sold. These transactions create an asset referred to as MSRs, which totaled approximately $8 million and $7 million at September 30, 2013 and December 31, 2012, respectively, and are included within Intangible assets and carried at fair value in the condensed consolidated statements of financial condition.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SPE Mortgage Servicing Activities. The Company services residential mortgage loans in the U.S. and in Europe and commercial mortgage loans in Europe owned by SPEs, including SPEs sponsored by the Company and SPEs not sponsored by the Company. The Company generally holds retained interests in Company-sponsored SPEs. In some cases, as part of its market-making activities, the Company may own some beneficial interests issued by both Company-sponsored and non-Company sponsored SPEs.

The Company provides no credit support as part of its servicing activities. The Company is required to make servicing advances to the extent that it believes that such advances will be reimbursed. Reimbursement of servicing advances is a senior obligation of the SPE, senior to the most senior beneficial interests outstanding. Outstanding advances are included in Other assets and are recorded at cost, net of allowances. Advances at September 30, 2013 and December 31, 2012 totaled approximately $88 million and $49 million, respectively. There were no allowances at September 30, 2013 and December 31, 2012.

The following tables present information about the Company s mortgage servicing activities for SPEs to which the Company transferred loans at September 30, 2013 and December 31, 2012:

	At September 30, 2013		
	Residential Mortgage Unconsolidated SPEs	Residential Mortgage Consolidated SPEs	Commercial Mortgage Unconsolidated SPEs
	(dollars in millions)		
Assets serviced (unpaid principal balance)	$ 780	$ 818	$ 4,041
Amounts past due 90 days or greater (unpaid principal balance)(1)	$ 75	$ 45	$
Percentage of amounts past due 90 days or greater(1)	9.6%	5.5%	
Credit losses	$ 2	$ 12	$

(1) Amounts include loans that are at least 90 days contractually delinquent, loans for which the borrower has filed for bankruptcy, loans in foreclosure and real estate owned.

	At December 31, 2012		
	Residential Mortgage Unconsolidated SPEs	Residential Mortgage Consolidated SPEs	Commercial Mortgage Unconsolidated SPEs
	(dollars in millions)		
Assets serviced (unpaid principal balance)	$ 821	$ 1,141	$ 4,760
Amounts past due 90 days or greater (unpaid principal balance)(1)	$ 86	$ 43	$
Percentage of amounts past due 90 days or greater(1)	10.4%	3.8%	
Credit losses	$ 3	$ 2	$

(1) Amounts include loans that are at least 90 days contractually delinquent, loans for which the borrower has filed for bankruptcy, loans in foreclosure and real estate owned.

8. Financing Receivables and Allowance for Credit Losses.

Loans held for investment.

The Company s loans held for investment are recorded at amortized cost and classified as Loans in the condensed consolidated statements of financial condition.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s loans held for investment at September 30, 2013 and December 31, 2012 included the following:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Commercial and industrial	$ 11,953	$ 9,449
Consumer loans	10,299	7,618
Residential real estate loans	8,784	6,630
Wholesale real estate loans	2,102	326
Total loans held for investment, gross of allowance for loan losses	33,138	24,023
Allowance for loan losses	(166)	(106)
Total loans held for investment, net of allowance for loan losses	$ 32,972	$ 23,917

The above table does not include loans held for sale of $4,762 million and $5,129 million at September 30, 2013 and December 31, 2012, respectively.

The Company s Credit Risk Management Department evaluates new obligors before credit transactions are initially approved, and at least annually thereafter for consumer and industrial loans. For commercial loans, credit evaluations typically involve the evaluation of financial statements, assessment of leverage, liquidity, capital strength, asset composition and quality, market capitalization and access to capital markets, cash flow projections and debt service requirements, and the adequacy of collateral, if applicable. The Company s Credit Risk Management Department will also evaluate strategy, market position, industry dynamics, obligor s management and other factors that could affect the obligor s risk profile. For residential real estate and consumer loans, the initial credit evaluation includes, but is not limited to, review of the obligor s income, net worth, liquidity, collateral, loan-to-value ratio, and credit bureau information. Subsequent credit monitoring for residential real estate loans is performed at the portfolio level. Consumer loan collateral values are monitored on an ongoing basis.

Commercial and industrial loans of approximately $117 million and wholesale real estate loans of approximately $4 million were impaired, for which there was a related allowance for loan losses of $23 million, at September 30, 2013. Approximately 99% of the Company s loan portfolio was current at September 30, 2013. Commercial and industrial loans of approximately $19 million and residential real estate loans of approximately $1 million were impaired, for which there was a related allowance for loan losses of $2 million, at December 31, 2012. Approximately 99% of the Company s loan portfolio was current at December 31, 2012.

The Company assigned an internal grade of doubtful to certain commercial asset-backed and wholesale real estate loans totaling $21 million and $25 million at September 30, 2013 and December 31, 2012, respectively. Doubtful loans can be classified as current if the borrower is making payments in accordance with the loan agreement. The Company assigned an internal grade of pass to the majority of its remaining loan portfolio.

For a description of the Company s loan portfolio and credit quality indicators utilized in its credit monitoring process, see Note 8 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below summarizes information about the allowance for loan losses, loans by impairment methodology, the allowance for lending-related commitments and lending-related commitments by impairment methodology.

	Commercial and Industrial	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Allowance for loan losses:					
Balance at December 31, 2012	$ 96	$ 3	$ 5	$ 2	$ 106
Gross charge-offs	(12)		(1)	(2)	(15)
Net charge-offs	(12)		(1)	(2)	(15)
Provision for loan losses(1)	64	(2)		13	75
Balance at September 30, 2013	$ 148	$ 1	$ 4	$ 13	$ 166
Allowance for loan losses by impairment methodology:					
Collectively evaluated for impairment	$ 129	$ 1	$ 4	$ 9	$ 143
Individually evaluated for impairment	19			4	23
Total allowance for loan losses at September 30, 2013	$ 148	$ 1	$ 4	$ 13	$ 166
Loans evaluated by impairment methodology(2):					
Collectively evaluated for impairment	$ 11,826	$ 10,299	$ 8,776	$ 2,092	$ 32,993
Individually evaluated for impairment	127		8	10	145
Total loans evaluated at September 30, 2013	$ 11,953	$ 10,299	$ 8,784	$ 2,102	$ 33,138
Allowance for lending-related commitments:					
Balance at December 31, 2012	$ 90	$	$	$ 1	$ 91
Provision for lending-related commitments(3)	41				41
Other	(10)				(10)
Balance at September 30, 2013	$ 121	$	$	$ 1	$ 122
Allowance for lending-related commitments by impairment methodology:					
Collectively evaluated for impairment	$ 121	$	$	$ 1	$ 122
Individually evaluated for impairment					
Total allowance for lending-related commitments at September 30, 2013	$ 121	$	$	$ 1	$ 122
Lending-related commitments evaluated by impairment methodology:					
Collectively evaluated for impairment	$ 57,137	$ 1,770	$ 1,407	$ 234	$ 60,548
Individually evaluated for impairment					
Total lending-related commitments evaluated at September 30, 2013	$ 57,137	$ 1,770	$ 1,407	$ 234	$ 60,548

(1) The Company recorded $41 million of provision for loan losses within Other revenues for the quarter ended September 30, 2013.
(2) Balances are gross of the allowance and represent recorded investment in the loans.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) The Company recorded $12 million of provision for lending-related commitments within Other non-interest expenses for the quarter ended September 30, 2013.

	Commercial and Industrial	Consumer	Residential Real Estate	Wholesale Real Estate	Total
			(dollars in millions)		
Allowance for loan losses:					
Balance at December 31, 2011	$ 14	$ 1	$ 1	$ 1	$ 17
Gross charge-offs	(12)				(12)
Gross recoveries				11	11
Net charge-offs	(12)			11	(1)
Provision for loan losses(1)	86	6	2	(9)	85
Balance at September 30, 2012	$ 88	$ 7	$ 3	$ 3	$ 101
Allowance for loan losses by impairment methodology:					
Collectively evaluated for impairment	$ 94	$ 3	$ 5	$ 2	$ 104
Individually evaluated for impairment	2				2
Total allowance for loan losses at December 31, 2012	$ 96	$ 3	$ 5	$ 2	$ 106
Loans evaluated by impairment methodology(2):					
Collectively evaluated for impairment	$ 9,419	$ 7,618	$ 6,629	$ 326	$ 23,992
Individually evaluated for impairment	30		1		31
Total loan evaluated at December 31, 2012	$ 9,449	$ 7,618	$ 6,630	$ 326	$ 24,023
Allowance for lending-related commitments:					
Balance at December 31, 2011	$ 19	$ 3	$	$ 2	$ 24
Provision for lending-related commitments(3)	43	(1)			42
Balance at September 30, 2012	$ 62	$ 2	$	$ 2	$ 66
Allowance for lending-related commitments by impairment methodology:					
Collectively evaluated for impairment	$ 86	$	$	$ 1	$ 87
Individually evaluated for impairment	4				4
Total allowance for lending-related commitments at December 31, 2012	$ 90	$	$	$ 1	$ 91
Lending-related commitments evaluated by impairment methodology:					
Collectively evaluated for impairment	$ 44,079	$ 1,406	$ 712	$ 101	$ 46,298
Individually evaluated for impairment	47				47

Total lending-related commitments evaluated at December 31, 2012	$ 44,126	$ 1,406	$ 712	$ 101	$ 46,345

(1) The Company recorded $31 million of provision for loan losses within Other revenues for the quarter ended September 30, 2012.
(2) Balances are gross of the allowance and represent recorded investment in the loans.
(3) The Company recorded $34 million of provision for lending-related commitments within Other non-interest expenses for the quarter ended September 30, 2012.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Employee Loans.

Employee loans are granted primarily in conjunction with a program established in the Wealth Management business segment to retain and recruit certain employees. These loans are recorded in Customer and other receivables in the condensed consolidated statements of financial condition. These loans are full recourse, generally require periodic payments and have repayment terms ranging from one to 12 years. The Company establishes a reserve for loan amounts it does not consider recoverable, which is recorded in Compensation and benefits expense. At September 30, 2013, the Company had $5,533 million of employee loans, net of an allowance of approximately $124 million. At December 31, 2012, the Company had $5,998 million of employee loans, net of an allowance of approximately $131 million.

The Company has also granted loans to other employees primarily in conjunction with certain after-tax leveraged investment arrangements. At September 30, 2013, the balance of these loans was $139 million, net of an allowance of approximately $99 million. At December 31, 2012, the balance of these loans was $172 million, net of an allowance of approximately $108 million. The Company establishes a reserve for non-recourse loan amounts not recoverable from employees, which is recorded in Other expense.

Collateralized Transactions.

In certain instances, the Company enters into reverse repurchase agreements and securities borrowed transactions to acquire securities to cover short positions, to settle other securities obligations and to accommodate customers needs. The Company also engages in securities financing transactions for customers through margin lending (see Note 6).

Servicing Advances.

As part of its servicing activities, the Company may make servicing advances to the extent that it believes that such advances will be reimbursed (see Note 7).

9. Goodwill and Net Intangible Assets.

The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level, which is generally at the level of or one level below its business segments. For both the annual and interim tests, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques the Company believes market participants would use for each of the reporting units.

The estimated fair values are generally determined utilizing methodologies that incorporate price-to-book and price-to-earnings multiples of certain comparable companies. The Company also utilizes a discounted cash flow methodology for certain reporting units.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company completed its annual goodwill impairment testing at July 1, 2013. The Company s testing did not indicate any goodwill impairment as each of the Company s reporting units with goodwill had a fair value that was substantially in excess of its carrying value. Adverse market or economic events could result in impairment charges in future periods. At December 31, 2012, each of the Company s reporting units with goodwill also had a fair value that was substantially in excess of its carrying value.

Goodwill.

Changes in the carrying amount of the Company s goodwill, net of accumulated impairment losses for the nine months ended September 30, 2013, were as follows:

	Institutional Securities(1)	Wealth Management(1)	Investment Management	Total
		(dollars in millions)		
Goodwill at December 31, 2012(2)	$ 337	$ 5,573	$ 740	$ 6,650
Foreign currency translation adjustments and other	(31)			(31)
Goodwill disposed of during the period(3)(4)	(17)	(11)		(28)
Goodwill at September 30, 2013(2)	$ 289	$ 5,562	$ 740	$ 6,591

(1) On January 1, 2013, the International Wealth Management business was transferred from the Wealth Management business segment to the Equity division within the Institutional Securities business segment. Accordingly, prior period amounts have been recast to reflect the International Wealth Management business as part of the Institutional Securities business segment.
(2) The amount of the Company s goodwill before accumulated impairments of $700 million, which included $673 million related to the Institutional Securities business segment and $27 million related to the Investment Management business segment, was $7,291 million and $7,350 million at September 30, 2013 and December 31, 2012, respectively.
(3) In 2011, the Company announced that it had reached an agreement with the employees of its in-house quantitative proprietary trading unit, Process Driven Trading (PDT), within the Institutional Securities business segment, whereby PDT employees will acquire certain assets from the Company and launch an independent advisory firm. This transaction closed on January 1, 2013.
(4) The Wealth Management business segment sold the U.K. operations of Global Stock Plan Services business to Computershare Limited. This transaction closed on May 31, 2013.

Net Intangible Assets.

Changes in the carrying amount of the Company s intangible assets for the nine months ended September 30, 2013 were as follows:

	Institutional Securities	Wealth Management	Investment Management	Total
		(dollars in millions)		
Amortizable net intangible assets at December 31, 2012	$ 175	$ 3,600	$ 1	$ 3,776
Mortgage servicing rights (see Note 7)		7		7
Net intangible assets at December 31, 2012	$ 175	$ 3,607	$ 1	$ 3,783
Amortizable net intangible assets at December 31, 2012	$ 175	$ 3,600	$ 1	$ 3,776
Foreign currency translation adjustments and other	(2)			(2)

Amortization expense	(9)	(250)		(259)
Impairment losses(1)	(2)	(7)		(9)
Amortizable net intangible assets at September 30, 2013	162	3,343	1	3,506
Mortgage servicing rights (see Note 7)		8		8
Net intangible assets at September 30, 2013	$ 162	$ 3,351	$ 1	$ 3,514

(1) Impairment losses are recorded within Other expenses.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Long-Term Borrowings and Other Secured Financings.

The Company s long-term borrowings included the following components:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Senior debt	$ 145,515	$ 158,899
Subordinated debt	7,478	5,845
Junior subordinated debentures	4,812	4,827
Total	$ 157,805	$ 169,571

During the nine months ended September 30, 2013, the Company issued and reissued notes with a principal amount of approximately $25 billion. This amount included the Company s issuances of $2.0 billion in 10 year subordinated debt on May 21, 2013, $3.7 billion in senior unsecured debt on April 25, 2013 and $4.5 billion in senior unsecured debt on February 25, 2013. During the nine months ended September 30, 2013, approximately $31 billion in aggregate long-term borrowings matured or were retired.

The weighted average maturity of the Company s long-term borrowings, based upon stated maturity dates, was approximately 5.3 years at September 30, 2013 and December 31, 2012.

Other Secured Financings.

Other secured financings include the liabilities related to transfers of financial assets that are accounted for as financings rather than sales, consolidated VIEs where the Company is deemed to be the primary beneficiary, pledged commodities, certain equity-linked notes and other secured borrowings. See Note 7 for further information on other secured financings related to VIEs and securitization activities.

The Company s other secured financings consisted of the following:

	At September 30, 2013	At December 31, 2012
	(dollars in millions)	
Secured financings with original maturities greater than one year	$ 10,163	$ 14,431
Secured financings with original maturities one year or less	3,930	641
Failed sales(1)	435	655
Total(2)	$ 14,528	$ 15,727

(1) For more information on failed sales, see Note 7.
(2) Amounts include $6,145 million and $9,466 million at fair value at September 30, 2013 and December 31, 2012, respectively.

11. Derivative Instruments and Hedging Activities.

The Company trades, makes markets and takes proprietary positions globally in listed futures, 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. The Company uses these instruments for trading, foreign currency exposure management and asset and liability management.

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The Company manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (*e.g.*, futures, forwards, swaps and options). The Company manages the market risk associated with its trading activities on a Company-wide basis, on a worldwide trading division level and on an individual product basis.

In connection with its derivative activities, the Company generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Company with the right, in the event of a default by the counterparty (such as bankruptcy or a failure to pay or perform), to net a counterparty s rights and obligations under the agreement and to liquidate and setoff collateral against any net amount owed by the counterparty. However, in certain circumstances: the Company may not have such an agreement in place; the relevant insolvency regime (which is based on the type of counterparty entity and the jurisdiction of organization of the counterparty) may not support the enforceability of the agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the tabular disclosures. The Company s policy is generally to receive securities and cash posted as collateral (with rights of rehypothecation), irrespective of the enforceability determination regarding the master netting and collateral agreement. In certain cases the Company may agree for such collateral to be posted to a third party custodian under a control agreement that enables the Company to take control of such collateral in the event of a counterparty default. The enforceability of the master netting agreement is taken into account in the Company s risk management practices and application of counterparty credit limits. The following tables present information about the offsetting of derivative instruments and related collateral amounts. See information related to offsetting of certain collateralized transactions in Note 6.

	At September 30, 2013					
				Amounts Not Offset in the Condensed Consolidated Statements of Financial Condition(3)		
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Condensed Consolidated Statements of Financial Condition	Financial Instruments Collateral	Other Cash Collateral	Net Exposure
	(dollars in millions)					
Derivative assets						
Bilateral OTC	$ 450,627	$ (422,897)	$ 27,730	$ (8,399)	$ (79)	$ 19,252
Cleared OTC(4)	284,888	(284,147)	741			741
Exchange traded	34,487	(27,520)	6,967			6,967
Total derivative assets	$ 770,002	$ (734,564)	$ 35,438	$ (8,399)	$ (79)	$ 26,960
Derivative liabilities						
Bilateral OTC	$ 427,774	$ (400,382)	$ 27,392	$ (5,873)	$ (151)	$ 21,368
Cleared OTC(4)	285,023	(284,827)	196		(49)	147
Exchange traded	38,100	(27,520)	10,580	(2,395)		8,185
Total derivative liabilities	$ 750,897	$ (712,729)	$ 38,168	$ (8,268)	$ (200)	$ 29,700

(1) Amounts include $10.5 billion of derivative assets and $10.6 billion of derivative liabilities 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. See also Fair Value and Notional of Derivative Instruments for additional disclosure about gross fair values and notionals for derivative instruments by risk type.

(2) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	At December 31, 2012					
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)	Net Amounts Presented in the Condensed Consolidated Statements of Financial Condition	Amounts Not Offset in the Condensed Consolidated Statements of Financial Condition(3) Financial Instruments Collateral	Other Cash Collateral	Net Exposure
	(dollars in millions)					
Derivative assets						
Bilateral OTC	$ 604,713	$ (573,844)	$ 30,869	$ (7,691)	$ (232)	$ 22,946
Cleared OTC(4)	375,233	(374,546)	687			687
Exchange traded	24,305	(19,664)	4,641			4,641
Total derivative assets	$ 1,004,251	$ (968,054)	$ 36,197	$ (7,691)	$ (232)	$ 28,274
Derivative Liabilities						
Bilateral OTC	$ 578,018	$ (547,285)	$ 30,733	$ (7,871)	$ (64)	$ 22,798
Cleared OTC(4)	374,960	(374,866)	94		(23)	71
Exchange traded	25,795	(19,664)	6,131	(1,028)		5,103
Total derivative liabilities	$ 978,773	$ (941,815)	$ 36,958	$ (8,899)	$ (87)	$ 27,972

(1) Amounts include $7.2 billion of derivative assets and $7.3 billion of derivative liabilities 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. See also Fair Value and Notional of Derivative Instruments for additional disclosure about gross fair values and notionals for derivative instruments by risk type.
(2) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance.
(3) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default but where certain other criteria are not met in accordance with applicable offsetting accounting guidance.
(4) Includes OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

The Company incurs credit risk as a dealer in OTC derivatives. Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of the contract. The Company s exposure to credit risk at any point in time is represented by the fair value of the derivative contracts reported as assets. The fair value of a derivative represents the amount at which the derivative could be exchanged in an orderly transaction between market participants and is further described in Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K and Note 4.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tables below present a summary by counterparty credit rating and remaining contract maturity of the fair value of OTC derivatives in a gain position at September 30, 2013 and December 31, 2012, respectively. Fair value is presented in the final column, net of collateral received (principally cash and U.S. government and agency securities):

OTC Derivative Products Trading Assets at September 30, 2013(1)

Credit Rating(2)	Years to Maturity: 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
	(dollars in millions)						
AAA	$ 337	$ 605	$ 1,043	$ 4,305	$ (4,010)	$ 2,280	$ 1,926
AA	2,283	2,015	2,655	10,281	(11,877)	5,357	3,533
A	6,865	9,504	10,419	21,414	(40,171)	8,031	6,367
BBB	2,886	3,498	3,660	15,220	(17,861)	7,403	5,625
Non-investment grade	2,697	3,007	1,672	3,156	(5,211)	5,321	2,542
Total	$ 15,068	$ 18,629	$ 19,449	$ 54,376	$ (79,130)	$ 28,392	$ 19,993

(1) Fair values shown represent the Company s net exposure to counterparties related to the Company s OTC derivative products. Amounts include centrally cleared OTC derivatives. The table does not include exchange-traded derivatives and the effect of any related hedges utilized by the Company.
(2) Obligor credit ratings are determined by the Company s 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.

OTC Derivative Products Trading Assets at December 31, 2012(1)

Credit Rating(2)	Years to Maturity: 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
	(dollars in millions)						
AAA	$ 353	$ 551	$ 1,299	$ 6,121	$ (4,851)	$ 3,473	$ 3,088
AA	2,125	3,635	2,958	10,270	(12,761)	6,227	4,428
A	6,643	9,596	14,228	29,729	(50,722)	9,474	7,638
BBB	2,673	3,970	3,704	18,586	(21,713)	7,220	5,754
Non-investment grade	2,091	2,855	2,142	4,538	(6,696)	4,930	2,725
Total	$ 13,885	$ 20,607	$ 24,331	$ 69,244	$ (96,743)	$ 31,324	$ 23,633

(1)

Fair values shown represent the Company s net exposure to counterparties related to the Company s OTC derivative products. Amounts include centrally cleared OTC derivatives. The table does not include exchange-traded derivatives and the effect of any related hedges utilized by the Company.

(2) Obligor credit ratings are determined by the Company s 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.

Hedge Accounting.

The Company applies hedge accounting using various derivative financial instruments to hedge interest rate and foreign exchange risk arising from assets and liabilities not held at fair value as part of asset and liability management and foreign currency exposure management.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s hedges are designated and qualify for accounting purposes as one of the following types of hedges: hedges of exposure to changes in fair value of assets and liabilities being hedged (fair value hedges) and hedges of net investments in foreign operations whose functional currency is different from the reporting currency of the parent company (net investment hedges).

For all hedges where hedge accounting is being applied, effectiveness testing and other procedures to ensure the ongoing validity of the hedges are performed at least monthly.

Fair Value Hedges Interest Rate Risk. The Company s designated fair value hedges consisted primarily of interest rate swaps designated as fair value hedges of changes in the benchmark interest rate of fixed rate senior long-term borrowings. The Company uses regression analysis to perform an ongoing prospective and retrospective assessment of the effectiveness of these hedging relationships (*i.e.*, the Company applies the long-haul method of hedge accounting). A hedging relationship is deemed effective if the fair values of the hedging instrument (derivative) and the hedged item (debt liability) change inversely within a range of 80% to 125%. The Company considers the impact of valuation adjustments related to the Company s own credit spreads and counterparty credit spreads to determine whether they would cause the hedging relationship to be ineffective.

For qualifying fair value hedges of benchmark interest rates, the changes in the fair value of the derivative and the changes in the fair value of the hedged liability provide offset of one another and, together with any resulting ineffectiveness, are recorded in Interest expense. When a derivative is de-designated as a hedge, any basis adjustment remaining on the hedged liability is amortized to Interest expense over the remaining life of the liability using the effective interest method.

Net Investment Hedges. The Company may utilize forward foreign exchange contracts to manage the currency exposure relating to its net investments in non-U.S. dollar functional currency operations. No hedge ineffectiveness is recognized in earnings since the notional amounts of the hedging instruments equal the portion of the investments being hedged and the currencies being exchanged are the functional currencies of the parent and investee. The gain or loss from revaluing hedges of net investments in foreign operations at the spot rate is deferred and reported within Accumulated other comprehensive income (loss) in Total Equity, net of tax effects. The forward points on the hedging instruments are recorded in Interest income.

In the nine months ended September 30, 2012, the Company recognized an out of period pre-tax gain of approximately $109 million in the Institutional Securities business segment s Other sales and trading net revenues, related to the reversal of amounts recorded in cumulative other comprehensive income due to the incorrect application of hedge accounting on certain derivative contracts previously designated as net investment hedges of certain non-U.S. dollar denominated subsidiaries. The Company has evaluated the effects of the incorrect application of hedge accounting, both qualitatively and quantitatively, and concluded that it did not have a material impact on any prior annual or quarterly consolidated financial statements. Subsequent to the identification of the incorrect application of net investment hedge accounting, the Company has appropriately redesignated the forward foreign exchange contracts and reapplied hedge accounting.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value and Notional of Derivative Instruments. The following tables summarize the fair value of derivative instruments designated as accounting hedges and the fair value of derivative instruments not designated as accounting hedges by type of derivative contract and the platform on which these instruments are traded or cleared on a gross basis. Fair values of derivative contracts in an asset position are included in Trading assets and fair values of derivative contracts in a liability position are reflected in Trading liabilities in the condensed consolidated statements of financial condition (see Note 4):

	Derivative Assets At September 30, 2013							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 5,586	$ 324	$	$ 5,910	$ 58,287	$ 11,440	$	$ 69,727
Foreign exchange contracts	180			180	5,853	137		5,990
Total derivatives designated as accounting hedges	5,766	324		6,090	64,140	11,577		75,717
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	304,345	280,067	376	584,788	6,551,567	12,716,148	1,255,543	20,523,258
Credit contracts	45,312	4,359		49,671	1,397,432	254,921		1,652,353
Foreign exchange contracts	55,800	138	24	55,962	1,844,721	5,719	8,521	1,858,961
Equity contracts	26,375		29,733	56,108	331,139		501,628	832,767
Commodity contracts	12,993		4,354	17,347	166,689		179,290	345,979
Other	36			36	2,432			2,432
Total derivatives not designated as accounting hedges	444,861	284,564	34,487	763,912	10,293,980	12,976,788	1,944,982	25,215,750
Total derivatives	$ 450,627	$ 284,888	$ 34,487	$ 770,002	$ 10,358,120	$ 12,988,365	$ 1,944,982	$ 25,291,467
Cash collateral netting	(53,748)	(2,869)		(56,617)				
Counterparty netting	(369,149)	(281,278)	(27,520)	(677,947)				
Total derivative assets	$ 27,730	$ 741	$ 6,967	$ 35,438	$ 10,358,120	$ 12,988,365	$ 1,944,982	$ 25,291,467

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Liabilities At September 30, 2013

	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 514	$ 405	$	$ 919	$ 2,647	$ 12,454	$	$ 15,101
Foreign exchange contracts	289	1		290	9,563	226		9,789
Total derivatives designated as accounting hedges	803	406		1,209	. 12,210	12,680		24,890
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	284,561	280,055	358	564,974	6,417,090	12,594,699	1,532,970	20,544,759
Credit contracts	43,093	4,483		47,576	1,257,814	244,523		1,502,337
Foreign exchange contracts	56,463	79	9	56,551	1,914,342	4,988	3,297	1,922,627
Equity contracts	30,241		32,992	63,233	337,877		505,050	842,927
Commodity contracts	12,409		4,741	17,150	154,196		159,652	313,848
Other	204			204	6,455			6,455
Total derivatives not designated as accounting hedges	426,971	284,617	38,100	749,688	10,087,774	12,844,210	2,200,969	25,132,953
Total derivatives	$ 427,774	$ 285,023	$ 38,100	$ 750,897	$ 10,099,984	$ 12,856,890	$ 2,200,969	$ 25,157,843
Cash collateral netting	(31,233)	(3,549)		(34,782)				
Counterparty netting	(369,149)	(281,278)	(27,520)	(677,947)				
Total derivative liabilities	$ 27,392	$ 196	$ 10,580	$ 38,168	$ 10,099,984	$ 12,856,890	$ 2,200,969	$ 25,157,843

(1) Notional amounts include gross notionals related to open long and short futures contracts of $411 billion and $915 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $951 million and $51 million is included in Customer and other receivables and Customer and other payables, respectively, on the condensed consolidated statements of financial condition.

(2) Includes OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Derivative Assets At December 31, 2012							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 8,046	$ 301	$	$ 8,347	$ 66,916	$ 8,199	$	$ 75,115
Foreign exchange contracts	367			367	10,291			10,291
Total derivatives designated as accounting hedges	8,413	301		8,714	77,207	8,199		85,406
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	443,523	371,789	142	815,454	8,029,510	10,096,252	776,130	18,901,892
Credit contracts	65,168	3,099		68,267	1,734,907	197,879		1,932,786
Foreign exchange contracts	52,349	44	34	52,427	1,831,385	3,834	5,967	1,841,186
Equity contracts	19,916		18,684	38,600	258,484		329,216	587,700
Commodity contracts	15,201		5,445	20,646	164,842		176,714	341,556
Other	143			143	4,908			4,908
Total derivatives not designated as accounting hedges	596,300	374,932	24,305	995,537	12,024,036	10,297,965	1,288,027	23,610,028
Total derivatives	$ 604,713	$ 375,233	$ 24,305	$ 1,004,251	$ 12,101,243	$ 10,306,164	$ 1,288,027	$ 23,695,434
Cash collateral netting	(68,024)	(1,224)		(69,248)				
Counterparty netting	(505,820)	(373,322)	(19,664)	(898,806)				
Total derivative assets	$ 30,869	$ 687	$ 4,641	$ 36,197	$ 12,101,243	$ 10,306,164	$ 1,288,027	$ 23,695,434

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Derivative Liabilities At December 31, 2012							
	Fair Value				Notional			
	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total	Bilateral OTC	Cleared OTC(2)	Exchange Traded	Total
	(dollars in millions)							
Derivatives designated as accounting hedges:								
Interest rate contracts	$ 167	$ 1	$	$ 168	$ 2,000	$ 660	$	$ 2,660
Foreign exchange contracts	319			319	17,156			17,156
Total derivatives designated as accounting hedges	486	1		487	19,156	660		19,816
Derivatives not designated as accounting hedges(1):								
Interest rate contracts	422,864	370,856	216	793,936	7,726,241	9,945,979	1,994,947	19,667,167
Credit contracts	60,420	4,074		64,494	1,645,464	222,343		1,867,807
Foreign exchange contracts	56,062	29	3	56,094	1,878,597	3,473	4,003	1,886,073
Equity contracts	22,239		19,631	41,870	257,340		329,858	587,198
Commodity contracts	15,886		5,945	21,831	169,189		155,912	325,101
Other	61			61	5,161			5,161
Total derivatives not designated as accounting hedges	577,532	374,959	25,795	978,286	11,681,992	10,171,795	2,484,720	24,338,507
Total derivatives	$ 578,018	$ 374,960	$ 25,795	$ 978,773	$ 11,701,148	$ 10,172,455	$ 2,484,720	$ 24,358,323
Cash collateral netting	(41,465)	(1,544)		(43,009)				
Counterparty netting	(505,820)	(373,322)	(19,664)	(898,806)				
Total derivative liabilities	$ 30,733	$ 94	$ 6,131	$ 36,958	$ 11,701,148	$ 10,172,455	$ 2,484,720	$ 24,358,323

(1) Notional amounts include gross notionals related to open long and short futures contracts of $368 billion and $1,476 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $1,073 million and $24 million is included in Customer and other receivables and Customer and other payables, respectively, on the condensed consolidated statements of financial condition.

(2) Includes OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

The following tables summarize the gains or losses reported on derivative instruments designated and qualifying as accounting hedges for the quarters and nine months ended September 30, 2013 and 2012, respectively.

Derivatives Designated as Fair Value Hedges.

The following table presents gains (losses) reported on derivative instruments and the related hedge item as well as the hedge ineffectiveness included in Interest expense in the condensed consolidated statements of income from interest rate contracts:

	Gains (Losses) Recognized			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Product Type	2013	2012	2013	2012

	(dollars in millions)			
Derivatives	$ (302)	$ 72	$ (3,421)	$ 504
Borrowings	583	17	4,374	(37)
Total	$ 281	$ 89	$ 953	$ 467

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivatives Designated as Net Investment Hedges.

Product Type	Gains Recognized in OCI (effective portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012(1)
	(dollars in millions)			
Foreign exchange contracts(2)	$ (193)	$ (226)	$ 346	$ (76)
Total	$ (193)	$ (226)	$ 346	$ (76)

(1) A gain of $77 million, net of tax, related to net investment hedges was reclassified from other comprehensive income into income during the nine months ended September 30, 2012. The amount primarily related the reversal of amounts recorded in cumulative other comprehensive income due to the incorrect application of hedge accounting on certain derivative contracts (see above for further information).

(2) Losses of $34 million and $103 million were recognized in income related to amounts excluded from hedge effectiveness testing during the quarter and nine months ended September 30, 2013, respectively. Losses of $65 million and $193 million were recognized in income related to amounts excluded from hedge effectiveness testing during the quarter and nine months ended September 30, 2012, respectively.

The table below summarizes gains (losses) on derivative instruments not designated as accounting hedges for the quarters and nine months ended September 30, 2013 and 2012, respectively:

Product Type	Gains (Losses) Recognized in Income(1)(2)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in millions)			
Interest rate contracts	$ (435)	$ 227	$ (676)	$ 977
Credit contracts	(145)	(525)	100	96
Foreign exchange contracts	594	(129)	2,775	310
Equity contracts	(1,580)	(800)	(4,840)	(1,229)
Commodity contracts	104	(136)	1,407	166
Other contracts	(25)	(14)	(69)	10
Total derivative instruments	$ (1,487)	$ (1,377)	$ (1,303)	$ 330

(1) Gains (losses) on derivative contracts not designated as hedges are primarily included in Trading in the condensed consolidated statements of income.

(2) Gains (losses) associated with certain derivative contracts that have physically settled are excluded from the table above. Gains (losses) on these contracts are reflected with the associated cash instruments, which are also included in Trading in the condensed consolidated statements of income.

The Company also has certain embedded derivatives that have been bifurcated from the related structured borrowings. Such derivatives are classified in Long-term borrowings and had a net fair value of $71 million and $53 million at September 30, 2013 and December 31, 2012, respectively and a notional value of $2,146 million and $2,178 million at September 30, 2013 and December 31, 2012, respectively. The Company recognized gains of $13 million related to changes in the fair value of its bifurcated embedded derivatives in both the quarter and nine months ended September 30, 2013. The Company recognized gains of $12 million and $6 million related to changes in the fair value of its bifurcated embedded derivatives in the quarter and nine months ended September 30, 2012, respectively.

At September 30, 2013 and December 31, 2012, the amount of payables associated with cash collateral received that was netted against derivative assets was $56.6 billion and $69.2 billion, respectively, and the amount of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

receivables in respect of cash collateral paid that was netted against derivative liabilities was $34.8 billion and $43.0 billion, respectively. Cash collateral receivables and payables of $204 million and $5 million, respectively, at September 30, 2013 and $158 million and $34 million, respectively, at December 31, 2012, were not offset against certain contracts that did not meet the definition of a derivative.

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 ratings downgrade. At September 30, 2013, the aggregate fair value of OTC derivative contracts that contain credit-risk-related contingent features that are in a net liability position totaled $22,428 million, for which the Company has posted collateral of $19,474 million, in the normal course of business. The long-term credit ratings on the Company by Moody s Investor Services, Inc. (Moody s) and Standard & Poor s Ratings Services (S&P) are currently at different levels (commonly referred to as split ratings). At September 30, 2013, the future potential collateral amounts, termination payments or other contractual amounts that could be called by counterparties in the event of a downgrade of the Company s long-term credit rating under various scenarios are: $284 million (Baa1 Moody s/BBB+ S&P) and $2,994 million (Baa2 Moody s/BBB S&P). Of these amounts, $2,871 million at September 30, 2013 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 a risk management tool used extensively by the Company as credit exposures are reduced if counterparties are downgraded.

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, insurance and other financial institutions, and monoline insurers.

The tables below summarize the notional and fair value of protection sold and protection purchased through credit default swaps at September 30, 2013 and December 31, 2012:

	At September 30, 2013 Maximum Potential Payout/Notional			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$ 889,337	$ (3,488)	$ 847,529	$ 3,121
Index and basket credit default swaps	516,283	205	424,669	(302)
Tranched index and basket credit default swaps	172,166	(1,626)	304,706	(5)
Total	$ 1,577,786	$ (4,909)	$ 1,576,904	$ 2,814

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	At December 31, 2012 Maximum Potential Payout/Notional			
	Protection Sold		Protection Purchased	
	Notional	Fair Value (Asset)/Liability	Notional	Fair Value (Asset)/Liability
	(dollars in millions)			
Single name credit default swaps	$ 1,069,474	$ 2,889	$ 1,029,543	$ (2,456)
Index and basket credit default swaps	551,630	5,664	454,800	(5,124)
Tranched index and basket credit default swaps	272,088	2,330	423,058	(7,076)
Total	$ 1,893,192	$ 10,883	$ 1,907,401	$ (14,656)

The table below summarizes the credit ratings and maturities of protection sold through credit default swaps and other credit contracts at September 30, 2013:

	Protection Sold Maximum Potential Payout/Notional Years to Maturity					Fair Value
Credit Ratings of the Reference Obligation	Less than 1	1-3	3-5	Over 5	Total	(Asset)/ Liability(1)(2)
	(dollars in millions)					
Single name credit default swaps:						
AAA	$ 1,641	$ 7,641	$ 13,025	$ 2,183	$ 24,490	$ (156)
AA	10,016	21,583	27,395	5,350	64,344	(707)
A	55,905	57,731	56,520	6,259	176,415	(2,522)
BBB	119,444	123,063	129,910	23,905	396,322	(1,904)
Non-investment grade	69,370	77,969	71,782	8,645	227,766	1,801
Total	256,376	287,987	298,632	46,342	889,337	(3,488)
Index and basket credit default swaps(3):						
AAA	16,504	34,984	39,470	2,362	93,320	(1,319)
AA	1,190	8,460	9,657	5,877	25,184	(335)
A	1,452	3,609	8,614	23	13,698	(43)
BBB	21,162	64,741	112,188	8,079	206,170	(1,787)
Non-investment grade	58,014	93,750	162,213	36,100	350,077	2,063
Total	98,322	205,544	332,142	52,441	688,449	(1,421)
Total credit default swaps sold	$ 354,698	$ 493,531	$ 630,774	$ 98,783	$ 1,577,786	$ (4,909)
Other credit contracts(4)(5)	$ 376	$ 10	$ 137	$ 1,165	$ 1,688	$ (171)
Total credit derivatives and other credit contracts	$ 355,074	$ 493,541	$ 630,911	$ 99,948	$ 1,579,474	$ (5,080)

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

(2) Fair value amounts of certain credit default swaps where the Company sold protection have an asset carrying value because credit spreads of the underlying reference entity or entities tightened during the terms of the contracts.
(3) Credit ratings are calculated internally.
(4) Other credit contracts include CLNs, CDOs and credit default swaps that are considered hybrid instruments.
(5) Fair value amount shown represents the fair value of the hybrid instruments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below summarizes the credit ratings and maturities of protection sold through credit default swaps and other credit contracts at December 31, 2012:

Credit Ratings of the Reference Obligation	Protection Sold Maximum Potential Payout/Notional Years to Maturity Less than 1	1-3	3-5	Over 5	Total	Fair Value (Asset)/ Liability(1)(2)
	(dollars in millions)					
Single name credit default swaps:						
AAA	$ 2,368	$ 6,592	$ 19,848	$ 5,767	$ 34,575	$ (204)
AA	10,984	16,804	34,280	7,193	69,261	(325)
A	66,635	72,796	67,285	10,760	217,476	(2,740)
BBB	124,662	145,462	142,714	34,396	447,234	(492)
Non-investment grade	91,743	98,515	92,143	18,527	300,928	6,650
Total	296,392	340,169	356,270	76,643	1,069,474	2,889
Index and basket credit default swaps(3):						
AAA	18,652	36,005	45,789	3,240	103,686	(1,377)
AA	1,255	9,479	12,026	8,343	31,103	(55)
A	2,684	5,423	5,440	125	13,672	(155)
BBB	27,720	105,870	143,562	29,101	306,253	(862)
Non-investment grade	97,389	86,703	153,858	31,054	369,004	10,443
Total	147,700	243,480	360,675	71,863	823,718	7,994
Total credit default swaps sold	$ 444,092	$ 583,649	$ 716,945	$ 148,506	$ 1,893,192	$ 10,883
Other credit contracts(4)(5)	$ 796	$ 125	$ 155	$ 1,323	$ 2,399	$ (745)
Total credit derivatives and other credit contracts	$ 444,888	$ 583,774	$ 717,100	$ 149,829	$ 1,895,591	$ 10,138

(1) Fair value amounts are shown on a gross basis prior to cash collateral or counterparty netting.
(2) Fair value amounts of certain credit default swaps where the Company sold protection have an asset carrying value because credit spreads of the underlying reference entity or entities tightened during the terms of the contracts.
(3) Credit ratings are calculated internally.
(4) Other credit contracts include CLNs, CDOs and credit default swaps that are considered hybrid instruments.
(5) Fair value amount shown represents the fair value of the hybrid instruments.

Single Name Credit Default Swaps. A credit default swap protects the buyer against the loss of principal on a bond or loan in case of a default by the issuer. The protection buyer pays a periodic premium (generally quarterly) over the life of the contract and is protected for the period. The Company in turn will have to perform under a credit default swap if a credit event as defined under the contract occurs. Typical credit events include bankruptcy, dissolution or insolvency of the referenced entity, failure to pay and restructuring of the obligations of the referenced entity. In order to provide an indication of the current payment status or performance risk of the credit default swaps, the external credit ratings of the underlying reference entity of the credit default swaps are disclosed.

Index and Basket Credit Default Swaps. Index and basket credit default swaps are credit default swaps that reference multiple names through underlying baskets or portfolios of single name credit default swaps. Generally, in the event of a default on one of the underlying names, the Company will have to pay a pro rata portion of the total notional amount of the credit default index or basket contract. In order to provide an indication of the current payment status or performance risk of these credit default swaps, the weighted average external credit ratings of the underlying reference entities comprising the basket or index were calculated and disclosed.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company also enters into index and basket credit default swaps where the credit protection provided is based upon the application of tranching techniques. In tranched transactions, the credit risk of an index or basket is separated into various portions of the capital structure, with different levels of subordination. The most junior tranches cover initial defaults, and once losses exceed the notional of the tranche, they are passed on to the next most senior tranche in the capital structure.

When external credit ratings are not available, credit ratings were determined based upon an internal methodology.

Credit Protection Sold through CLNs and CDOs. The Company has invested in CLNs and CDOs, which are hybrid instruments containing embedded derivatives, in which credit protection has been sold to the issuer of the note. If there is a credit event of a reference entity underlying the instrument, the principal balance of the note may not be repaid in full to the Company.

Purchased Credit Protection with Identical Underlying Reference Obligations. For single name credit default swaps and non-tranched index and basket credit default swaps, the Company has purchased protection with a notional amount of approximately $1.2 trillion and $1.5 trillion at September 30, 2013 and December 31, 2012, respectively, compared with a notional amount of approximately $1.3 trillion and $1.6 trillion at September 30, 2013 and December 31, 2012, of credit protection sold with identical underlying reference obligations. In order to identify purchased protection with the same underlying reference obligations, the notional amount for individual reference obligations within non-tranched indices and baskets was determined on a pro rata basis and matched off against single name and non-tranched index and basket credit default swaps where credit protection was sold with identical underlying reference obligations.

The purchase of credit protection does not represent the sole manner in which the Company risk manages its exposure to credit derivatives. The Company manages its exposure to these derivative contracts through a variety of risk mitigation strategies, which include managing the credit and correlation risk across single name, non-tranched indices and baskets, tranched indices and baskets, and cash positions. Aggregate market risk limits have been established for credit derivatives, and market risk measures are routinely monitored against these limits. The Company may also recover amounts on the underlying reference obligation delivered to the Company under credit default swaps where credit protection was sold.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Commitments, Guarantees and Contingencies.

Commitments.

The Company s commitments associated with outstanding letters of credit and other financial guarantees obtained to satisfy collateral requirements, investment activities, corporate lending and financing arrangements, mortgage lending and margin lending at September 30, 2013 are summarized below by period of expiration. Since commitments associated with these instruments may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	Total at September 30, 2013
	(dollars in millions)				
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 682	$ 7	$	$ 1	$ 690
Investment activities	690	112	36	257	1,095
Primary lending commitments investment grade(1)	11,384	13,934	34,859	504	60,681
Primary lending commitments non-investment grade(1)	2,684	5,088	9,505	1,836	19,113
Secondary lending commitments(2)	68	32	20	16	136
Commitments for secured lending transactions	964			4	968
Forward starting reverse repurchase agreements and securities borrowing agreements(3)(4)	70,411				70,411
Commercial and residential mortgage-related commitments	1,254	40	309	818	2,421
Underwriting commitments	410				410
Other commitments	2,284	376	206	79	2,945
Total	$ 90,831	$ 19,589	$ 44,935	$ 3,515	$ 158,870

(1) This amount includes $44.9 billion of investment grade and $10.8 billion of non-investment grade unfunded commitments accounted for as held for investment and $5.9 billion of investment grade and $5.1 billion of non-investment grade unfunded commitments accounted for as held for sale at September 30, 2013. The remainder of these lending commitments is carried at fair value.

(2) These commitments are recorded at fair value within Trading assets and Trading liabilities in the condensed consolidated statements of financial condition (see Note 4).

(3) The Company enters into forward starting reverse repurchase and securities borrowing agreements (agreements that have a trade date at or prior to September 30, 2013 and settle subsequent to period-end) that are primarily secured by collateral from U.S. government agency securities and other sovereign government obligations. These agreements primarily settle within three business days and of the total amount at September 30, 2013, $66.5 billion settled within three business days.

(4) The Company also has a contingent obligation to provide financing to a clearinghouse through which it clears certain transactions. The financing is required only upon the default of a clearinghouse member. The financing takes the form of a reverse repurchase facility, with a maximum amount of approximately $1.9 billion.

For further description of these commitments, refer to Note 13 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K.

The Company sponsors several non-consolidated investment funds for third-party investors where the Company typically acts as general partner of, and investment advisor to, these funds and typically commits to invest a minority of the capital of such funds, with subscribing third-party investors contributing the majority. The Company s employees, including its senior officers, as well as the Company s directors, may participate on the same terms and conditions as other investors in certain of these funds that the Company forms primarily for client investment, except that the Company may waive or lower applicable fees and charges for its employees. The Company has contractual capital commitments, guarantees,

lending facilities and counterparty arrangements with respect to these investment funds.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Guarantees.

The table below summarizes certain information regarding the Company s obligations under guarantee arrangements at September 30, 2013:

Type of Guarantee	Maximum Potential Payout/Notional Years to Maturity Less than 1	1-3	3-5	Over 5	Total	Carrying Amount (Asset)/ Liability	Collateral/ Recourse
	(dollars in millions)						
Credit derivative contracts(1)	$ 354,698	$ 493,531	$ 630,774	$ 98,783	$ 1,577,786	$ (4,909)	$
Other credit contracts	376	10	137	1,165	1,688	(171)	
Non-credit derivative contracts(1)	1,423,753	873,318	304,554	507,865	3,109,490	61,134	
Standby letters of credit and other financial guarantees issued(2)(3)	1,258	687	1,309	5,137	8,391	(210)	7,409
Market value guarantees		64	148	504	716	8	111
Liquidity facilities	2,220	148			2,368	(4)	3,143
Whole loan sales representations and warranties				23,803	23,803	69	
Securitization representations and warranties							